

Solvency II in the UK Non-life Market

SOLVARA User Forum, Berlin 19-20th May 2014

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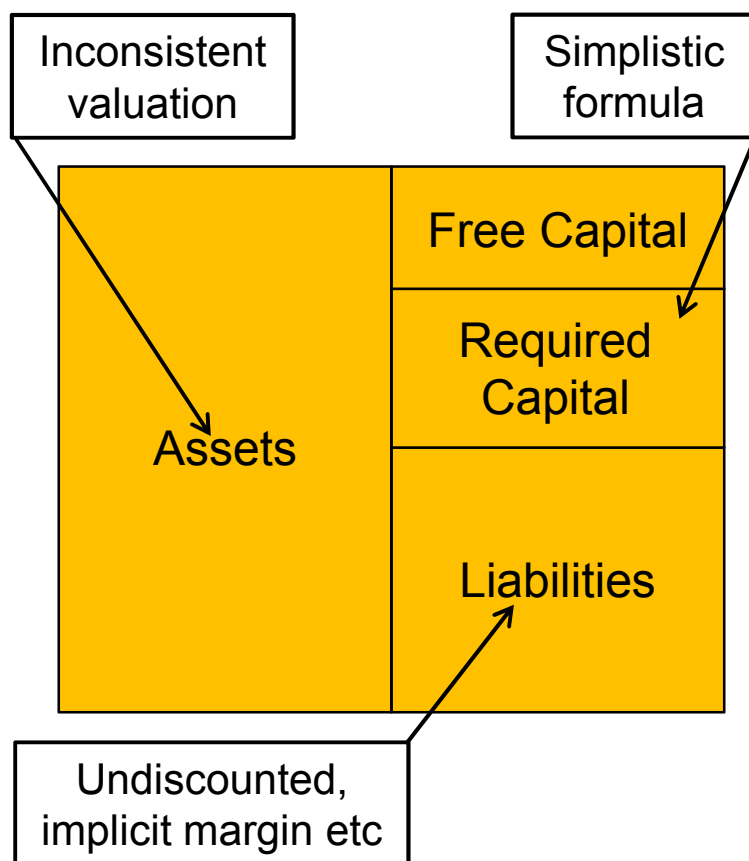
19 May 2014

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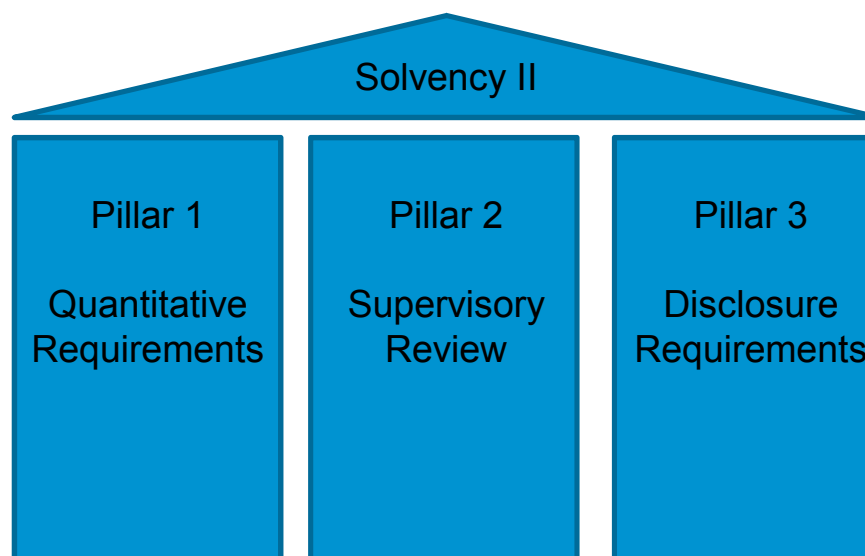
- 1. Background**
- 2. How the UK is preparing for Solvency II**
- 3. How prepared is the UK for Solvency II?**
- 4. Actuarial aspects of Pillar I**
- 5. Conclusions**

1. Background

The traditional Balance Sheet



Solvency II approach



2. How the UK is preparing for SII

Individual Capital Assessment (ICA)

- Annual submission since 2004
- All risks, including:
 - Insurance,
 - Market,
 - Liquidity,
 - Credit,
 - Operational,
 - Group
- 99.5% over one year

Sounds a lot like Pillar 1!

Best Estimate Assets	Free Capital
	ICG
	ICA
	Best Estimate Liabilities

2. How the UK is preparing for SII

- As part of the ICA all material risks need to be:
 - Identified,
 - Classified and
 - Quantified
- Review by the regulator
- The regulator can require an insurer to hold additional capital (ICG)

Sounds a lot like Pillar 2!

Best Estimate Assets	Free Capital
	ICG
	ICA
	Best Estimate Liabilities

2. How the UK is preparing for SII

- Currently no reporting requirements under ICA

Sounds a lot like Pillar 3!
(for now...)

Best Estimate Assets	Free Capital
	ICG
	ICA
	Best Estimate Liabilities

2. How the UK is preparing for SII

- **ICAS+**
 - **PRA focus on:**
 - **Setting ICG**
 - **S2 internal model issues, e.g. validation and documentation**
 - **Review ‘work in progress’ of FLAOR (ORSA)**
 - **Vs formulaic approach in Germany**
- **PRA publications and workshops**
- **Actuarial working parties / IFoA consultation**

3. How prepared is the UK for SII

- **Reaction to the delay announced in 2012**
 - **Direct line (largest Motor insurer)**
 - **Lloyd's**
 - **PRA (FSA as was)**

3. How prepared is the UK for SII

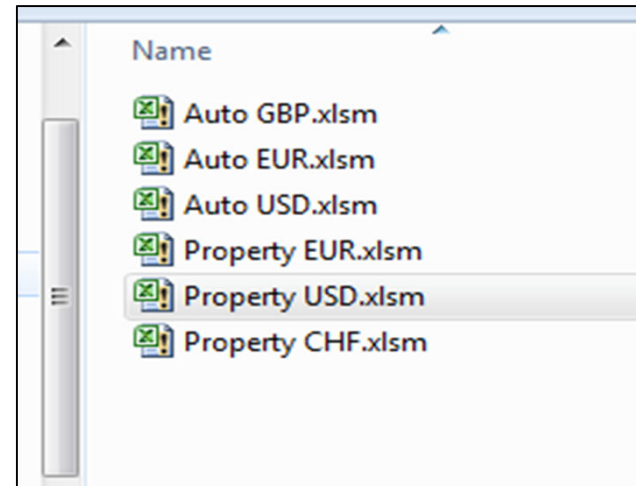
- **Recent survey results**
 - **‘Preparedness’ has reduced**
 - **Only 2% are ready to implement P3**
 - **Technology, data and timeframes are key issues**

4. Actuarial aspects of Pillar I

- **Internal models**
- **Technical Provisions – key issues**
 - **Segmentation**
 - **Calculation of Best Est Cashflows**
 - **Premium provisions**
 - **Reinsurance recoveries**
 - **Expenses**
 - **ENID (Binary Events)**
 - **Risk Margin**
 - **Validation**
 - **Data**
 - **Documentation**

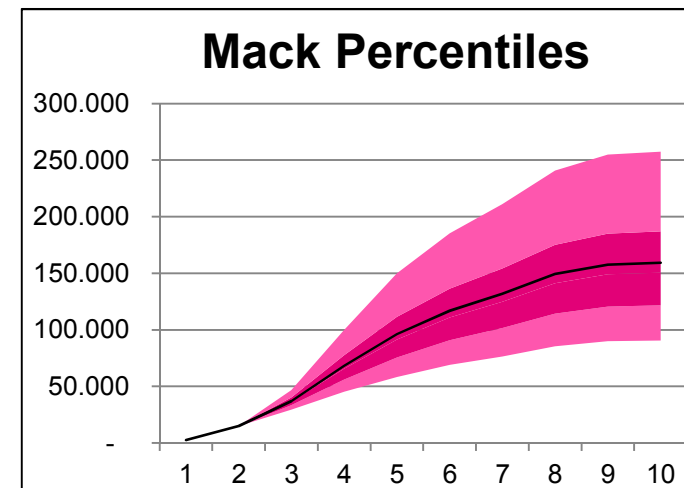
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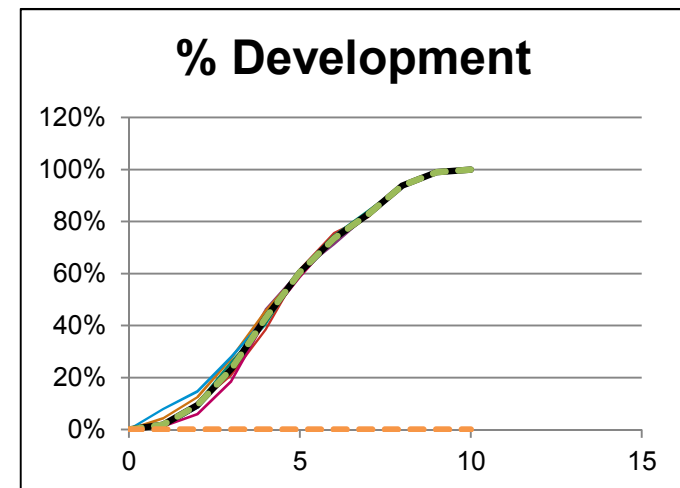
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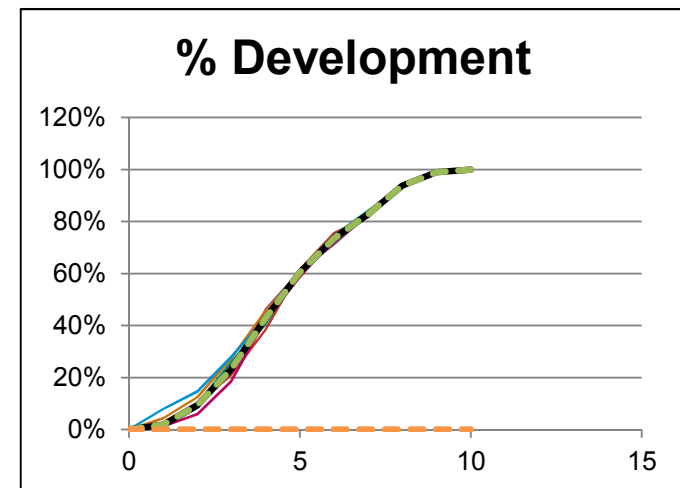
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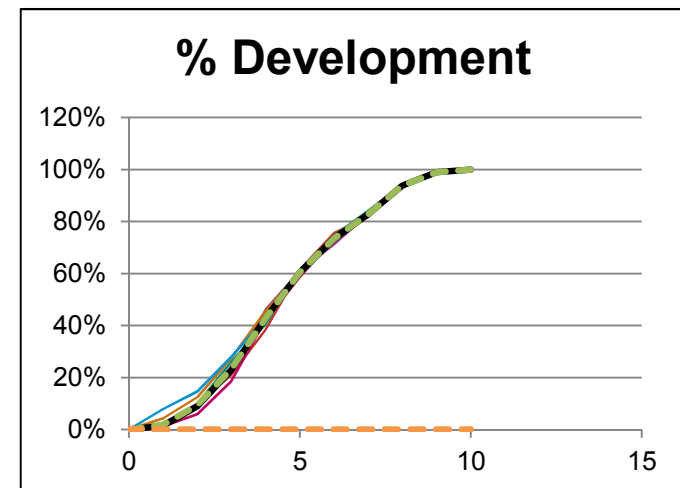
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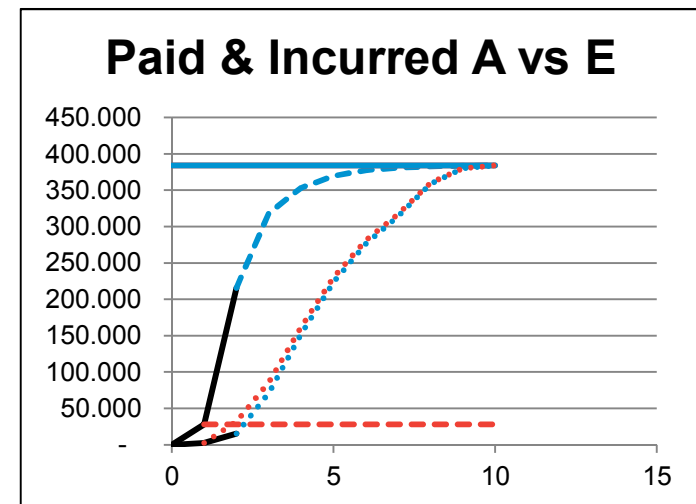
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 - **Documentation**

Notes		2007 looks unusually low, so excluded all factors			
Underwriting year	Include in graph?	Double click on development fa			
		1 - 2	2 - 3	3 - 4	4 - 5
2001	y	9.323	2.756	1.947	1.311
2002	y	10.156	2.130	1.824	1.598
2003	y	10.224	2.631	1.557	1.508
2004	y	4.757	2.705	1.978	1.319
2005	y	4.658	3.128	2.258	1.389
2006	y	2.885	2.189	1.666	1.322
2007	y	1.868	1.907	1.528	
2008	y	7.127	2.322		
2009	y	5.930			
2010	y				

5. Conclusions

Are we there yet?



Regulatory Information

- The information in this presentation is based on our understanding of current taxation law, proposed legislation and HM Revenue & Customs practice, which may be subject to future variation.
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