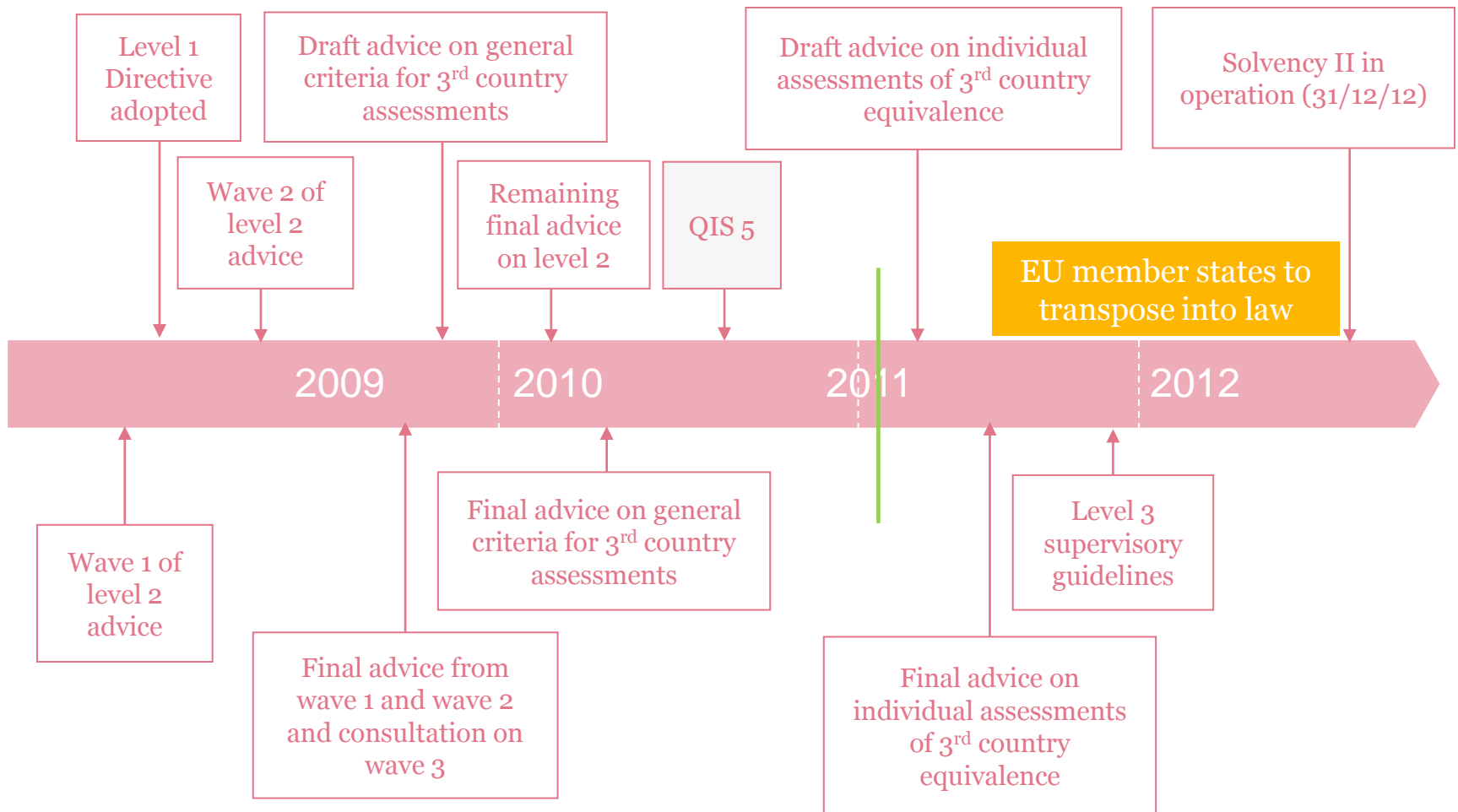


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PwC on Solvency II

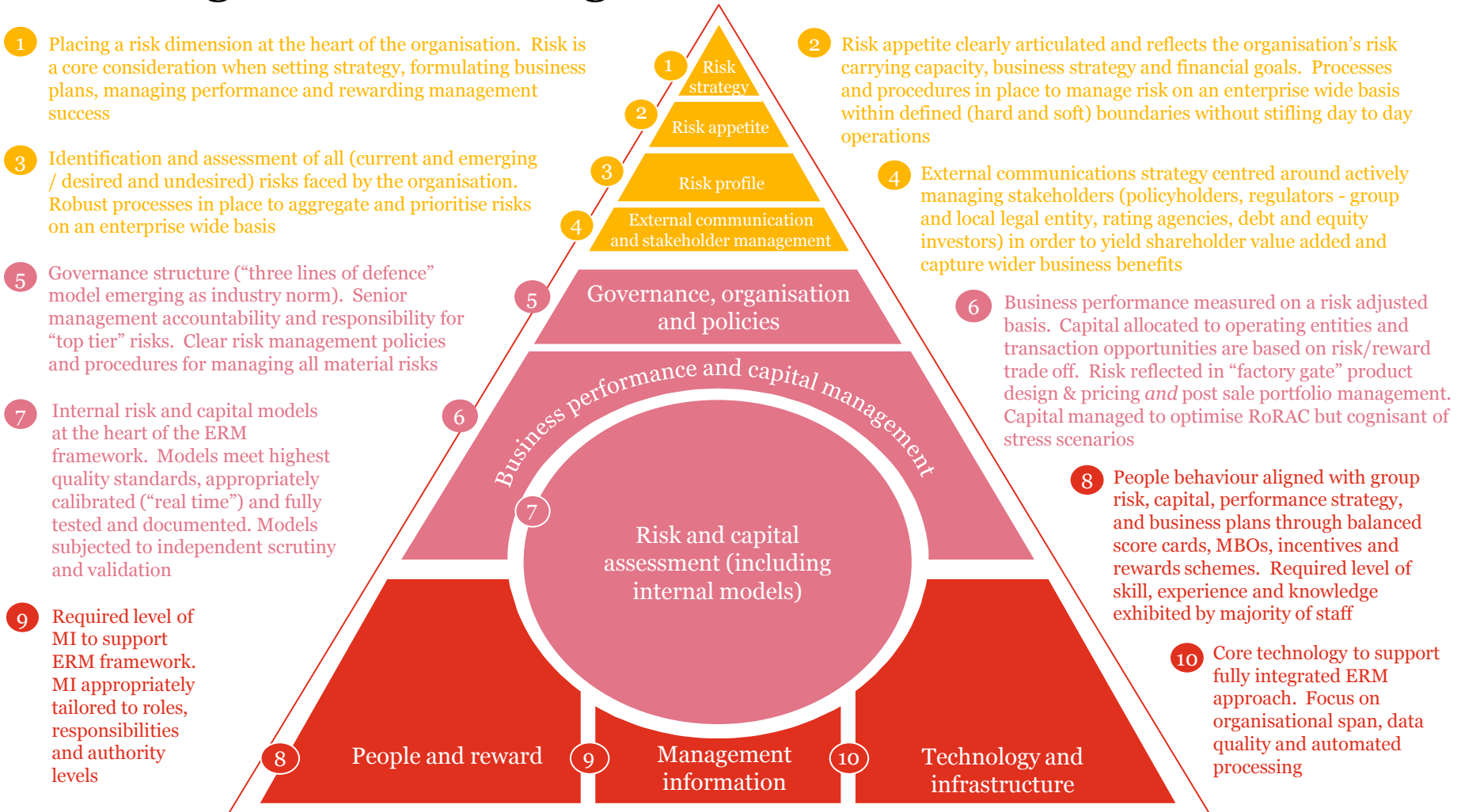
april 2011

Timeline to implementation



PwC approach to Solvency II

an integrated risk management framework



QIS5 Results

European insurance industry remains well capitalised under Solvency II's requirements

Some insurers are underestimating the volume of work required to prepare for Solvency II.

QIS6 is not expected

68%

QIS5 insights

results of QIS5

Overall, QIS5 showed that the financial position of the European (re)insurance sector assessed against the Solvency Capital Requirements (SCR) of the Solvency II directive remains sound.

Danish insurance industry remains well capitalised under Solvency II's requirements

107

out of 121 Danish (re)insurance undertakings fulfill the QIS-5 capital requirement.

Groups need to streamline structure

50%

of the 14 who did not pass are part of large companies.

No firm conclusion can be drawn on internal models

234

undertaking (10%) provided SCR calculations using an internal model

Capital surplus

165%

is the solvency ratio for SCR under Solvency II

Standard formula vs. internal model








- “On average in the figures provided by undertakings the internal model results were very close to those derived by the standard formula; however, there was variation at individual level.”
- Partial internal model: The most common risk modules that undertakings plan to model are non-life underwriting risk, market risk and life underwriting risk.

SCR Internal model to SCR Standard formula

Weighted average	99%
10 th percentile	66%
25 th percentile	83%
50 th percentile	91%
75 th percentile	107%
90 th percentile	121%

Implication of QIS5

subset of problem areas (SCR) identified by QIS5 respondents

Standard formula SCR	Significance	Issue highlighted by respondents
Single equivalent scenario		The single equivalent scenario approach was rejected by the majority of participants and supervisors. It was found to be too complex and the costs of the calculation did not justify the benefits. This is an area where a change of approach might be considered.
Loss absorbency of deferred taxes		The majority of participants reported difficulties with the methodology for calculating the loss absorbency of deferred taxes. Overall, additional guidance on this area was widely requested. Since this adjustment can be material in the context of total SCR, the difficulties of interpretation and inconsistent treatments might have a material impact on the overall capital position of the industry.
Market risk - Look-through approach		Many participants raised concerns about the complexity and cost of applying a look-through approach to structured credit products, collective investment schemes and investment funds. Participants raised issues around availability of information to apply the look-through approach to these products and requested guidance on the application of the proportionality principle to this approach.
Counterparty default risk		Counterparty default risk attracted significant comment on the difficulty of applying the full calculation and whether the methods are proportional to its relative minor impact for many participants. Even the simplifications were found to be too complex by some participants.
Life and non-life lapse risks		Lapse risk caused difficulties for both life and non-life insurers. Life insurers strongly objected to the requirement to model the risk at policy level. Non insurers noted that in many cases they did not have systems and processes in place to model the risk and it was perceived by many as being immaterial and hence the effort involved in calculating the stress was judged to be superfluous.
Non-life CAT risk		Non-life catastrophe topped the list of complaints with comments on methods, calibration, data availability and the effort required to calculate the risk charge EIOPA will carry out further work to address the issues raised.
Market risk - Interest rate risk sub-module		A few participants claimed the design of this sub-module was too penal and others found it was too complex.

Practicability and preparedness from EIOPA announcement on QIS5

- Need for actuarial resources was highlighted
- Training of existing resource an important activity
- Concerns regarding availability of resources
- Pillar II and Pillar III
 - particular ORSA
- A gap analysis / detailed project plan / reporting into line – an important next step
- Improvement to data quality & data management
- Strengthen corporate governance or align it with SII

PwC point of view

What do I need to do?

General

We expect insurers to consider the implications of the QIS5 results on their own capital structures.

We expect insurers to review their investment and debt-financing strategies as certain asset classes and debt instruments will carry higher capital charges or be classified differently under the directive.

Additionally, higher capital charges will mean certain products become unprofitable, leading insurers to stop writing certain classes of business or re-designing some products.

The results may also impact some firms' decision to seek approval for the use of an internal model.

Groups

Those groups not already doing so may look to streamline their group structures.

Solvency II presents a real opportunity for companies to:

- reduce capital and compliance costs.
- optimise available capital.
- align their group structures and we expect this to lead to an increase in M&A activity.

Process

Insurers might also wish to reflect on the QIS5 experience as they continue to develop their implementation plans for Solvency II.

They should consider areas in which they encountered difficulties in preparing the required information and consider how process and data might be enhanced to facilitate production of the solvency data in a business as usual environment.

In considering these points insurers should be aware of the areas where further changes in the requirements are likely.

Focus for the next six months

Delivering People and supporting infrastructure

Pillar 2

Confirm target operating model for Solvency II

Design and implement governance bodies

Evaluate current remuneration policies, processes and governance together with remuneration structures against SII requirements and FSA Code.

Identify resource needs, competence of those in key roles, recruitment and retention policies to address gaps

Deliver technical risk and compliance training to senior management and employees

2010



2011

Pillar 3

Perform gap analysis of requirements against existing data, reporting systems and processes. Confirm linkages and dependencies with IFRS Phase 2

Finalise business requirements for all technology components

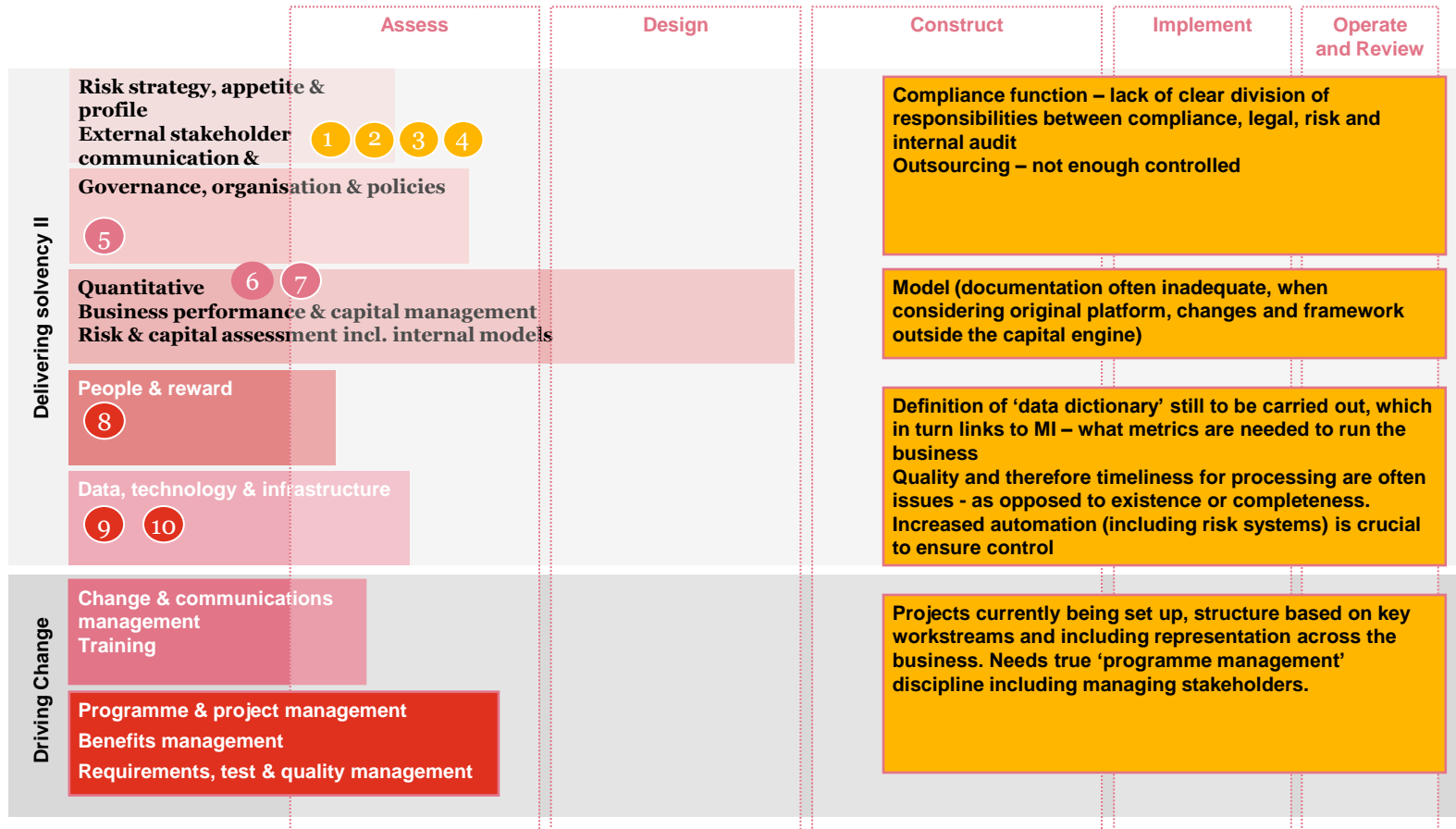
Look at the data – e.g. profiling

Finalise and begin implementation of data workstream plans

Finalise definition of target state architecture and implementation roadmap, including tactical and strategic solutions

Status of implementation

Based on projects & surveys



An Effective Risk Management System Defined - CEIOPS

Clearly defined, documented risk management strategy

Objectives, key principles, risk appetite and assignment of risk management responsibilities

Adequate written policies

Definition and categorization of risks, risk limits, implementation of risk strategy and control mechanisms

Processes and Procedures

Identify, assess, manage, monitor and report risks

Reporting Procedures, Feedback Loops

Ensure information on risk is continuously monitored and managed by management body

Management Reporting

Reports on material risk and effectiveness of risk management function

Suitable ORSA

Process of detailed risk evaluation and assessment of risk management

Continuous process used in implementation of overall strategy, proportionate to scale and complexity of risks in business, and covering all material risks

PwC Template - Overview

Our accelerators

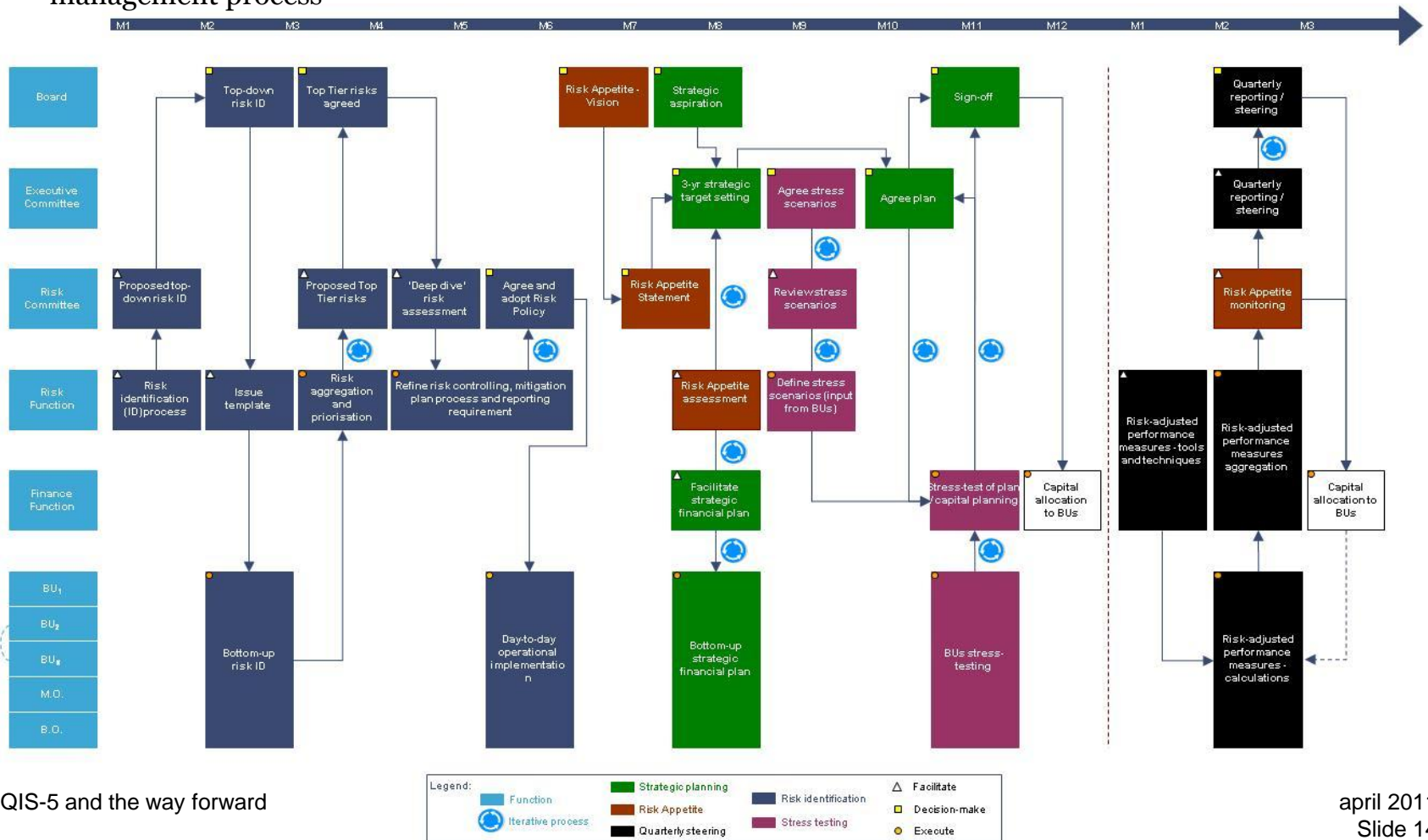
- Based on our extensive experience of Solvency implementations, a best in class ORSA can be expected to contain a number of specific items

1 The ORSA (report) process A description of the governance (challenge, discussion and debate) process surrounding the submission of the report	2 Context and scene setting A summary of the firm's legal and management structure, its core business and the market environment in which it operates	3 Risk management philosophy An outline of the firm's risk management philosophy (i.e. how is the risk dimension used in the business)	4 Risk governance An outline of the firm's risk governance and risk control processes, procedures and policies	5 Risk appetite The firm's risk appetite statement, process for managing within desired parameters and the firm's current profile
6 Risk identification and assessment An overview of the firm's processes and procedures for identifying, assessing and prioritising its key risks	7 Individual Risk Assessment An overview of the firm's individual risk assessments, i.e. market, insurance, counterparty default, operational, liquidity, strategic, etc.	8 P-I-T capital and solvency position The firm's point-in-time capital & solvency position along regulatory and economic dimensions	9 Forecast capital & solvency position The firm's projected capital and solvency position over the plan period (3 to 5 year outlook)	10 Linking Risk and Capital Management An overview of the firm's own view of the risks exposure and capital requirements
11 Stress and scenario testing The firm's future capital / solvency position under a number of reasonably plausible (downside) stress tests and / or scenarios	12 Capital plan The firm's capital plan under the base case and under downside stress tests / scenarios	13 Use test An overview of how the firm's risk and capital management activities are fully integrated into the management process and operations	14 Ad-hoc ORSA re-runs Formal presentation of ad-hoc "event driven" risk, capital and solvency assessments during the reporting period	

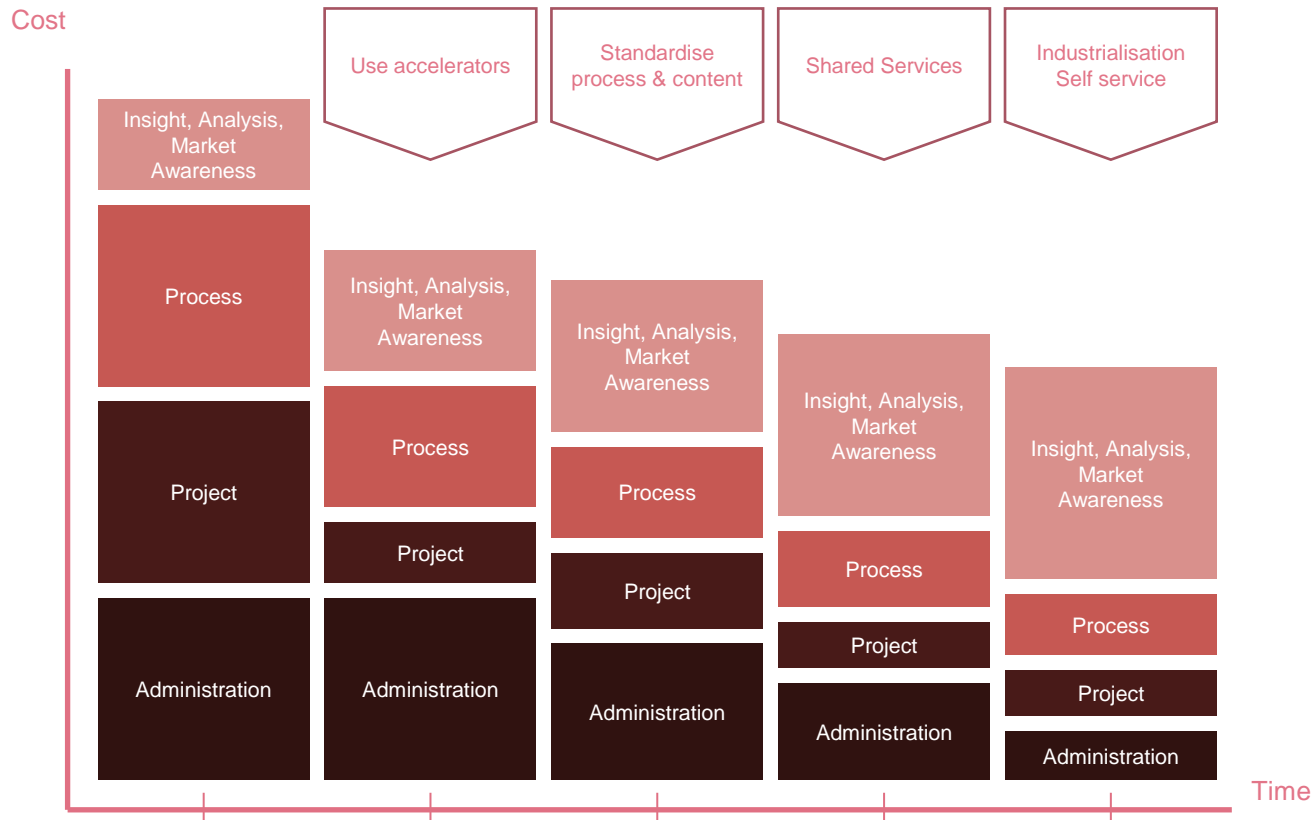
Integrating SII into the management process

Risk Governance

- An overview of how the firm's risk and capital management activities are fully integrated into the management process



Cost Consideration



Thank you ...

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Coming activities

PwC Dialog – Countdown to Solvency

PwC Breakfast Club – starting april 2011

PwC accelerators



Meeting the people test

Instilling risk awareness into the culture and decision making of your organisation.

April 2011

Models don't make decisions, people do. The most critical aspects of the Solvency II use test are the buy-in, understanding and behaviour needed to make sure that risk considerations are at the forefront of decision making – the 'people test'. How can you make sure that your people pass the test?