

Independent Review

Michael Culligan
Milliman Breakfast Briefing
22 May 2015

Role and responsibility of the Board

- Article 40 of the Solvency II Directive:

“... the administrative, management or supervisory body of the insurance or reinsurance undertaking has the ultimate responsibility for the compliance, by the undertaking concerned, with the laws, regulations and administrative provisions adopted pursuant to this Directive.”
- In other words ...
... Under Solvency II, the Board is responsible for everything!

Role and responsibility of the Board

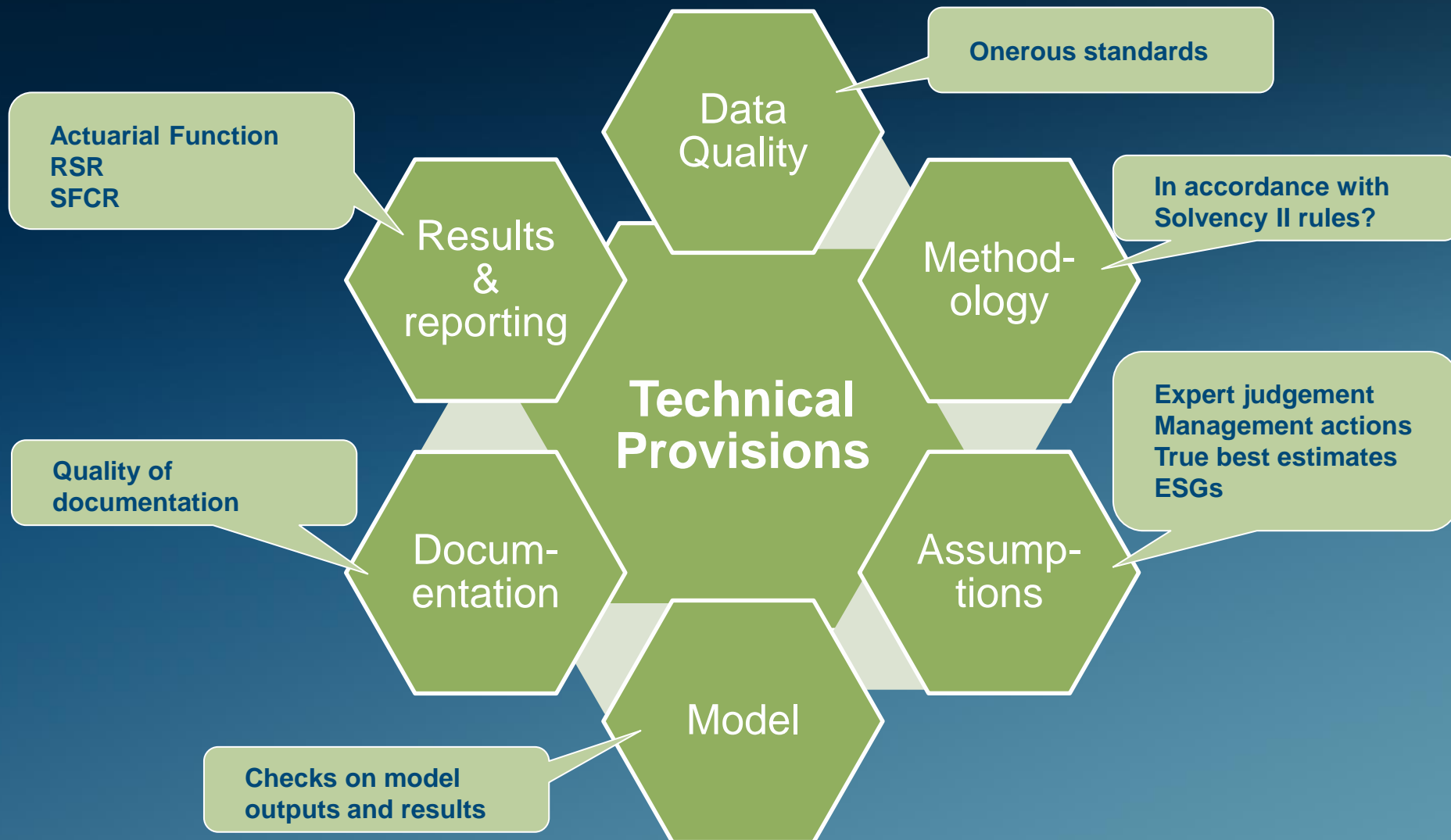
- How does to the Board get comfortable with
 - Pillar 1: Calculation of technical provisions
 - Pillar 1: Calculation of SCR
 - Pillar 2: ORSA
 - Pillar 3: Correctness and completeness of reporting
 - etc. ...
- ... as it needs to accept “ultimate responsibility” for all of these

Recent CBI comments

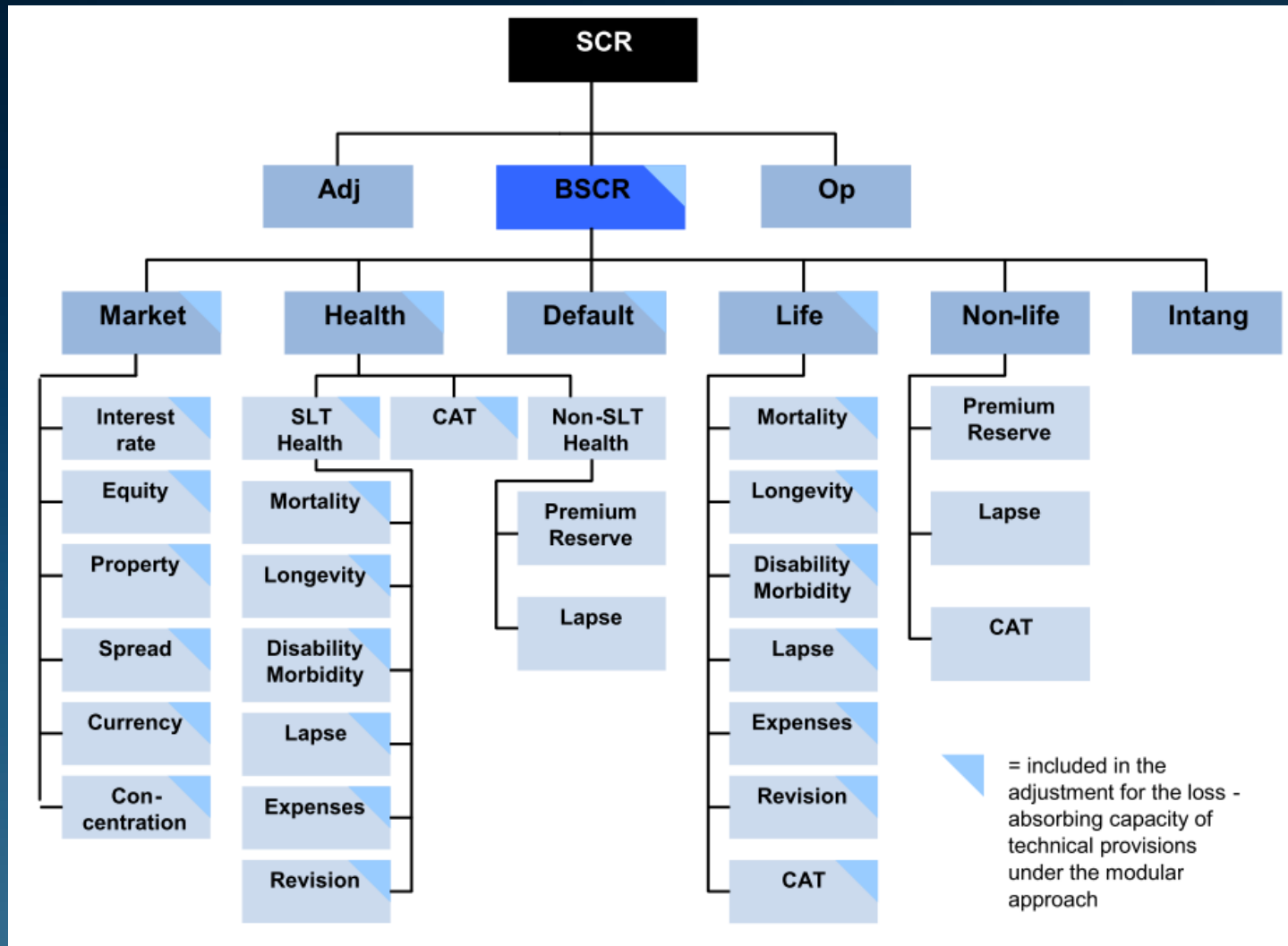
- “The Central Bank ... expects experienced managers and directors to critically review the changes in reserving practices to be brought about by Solvency II.”
- “The assumptions behind the best estimates and the risk margins, including financial assumptions on interest rates and behavioural assumptions such as lapse rates, need to be made very explicit and critically debated within the firms.”

Cyril Roux
13 May 2015

Pillar 1 – Technical Provisions



Pillar 1 – SCR (Standard Formula)



37 modules

Hundreds of pages of formulae / instructions

Many significant areas of judgement

Pillar 2

- ORSA
 - Process
 - Suitability of Standard Formula
 - Evaluation of own solvency capital requirement
 - Choice of stress-testing scenarios
 - Robustness of modelling/projections
 - Quality of documentation and reporting
- Other
 - Overall compliance with all aspects of Solvency II

Summary

- How can the Board get comfortable with crucial components of Solvency II?
 - Technical Provisions
 - SCR
 - ORSA
- Independent review can help
 - Peer review and quality assurance
 - Once-off exercise prior to transition to Solvency II, or ongoing