

How will Solvency II affect insurers and their business models?

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15 July 2010

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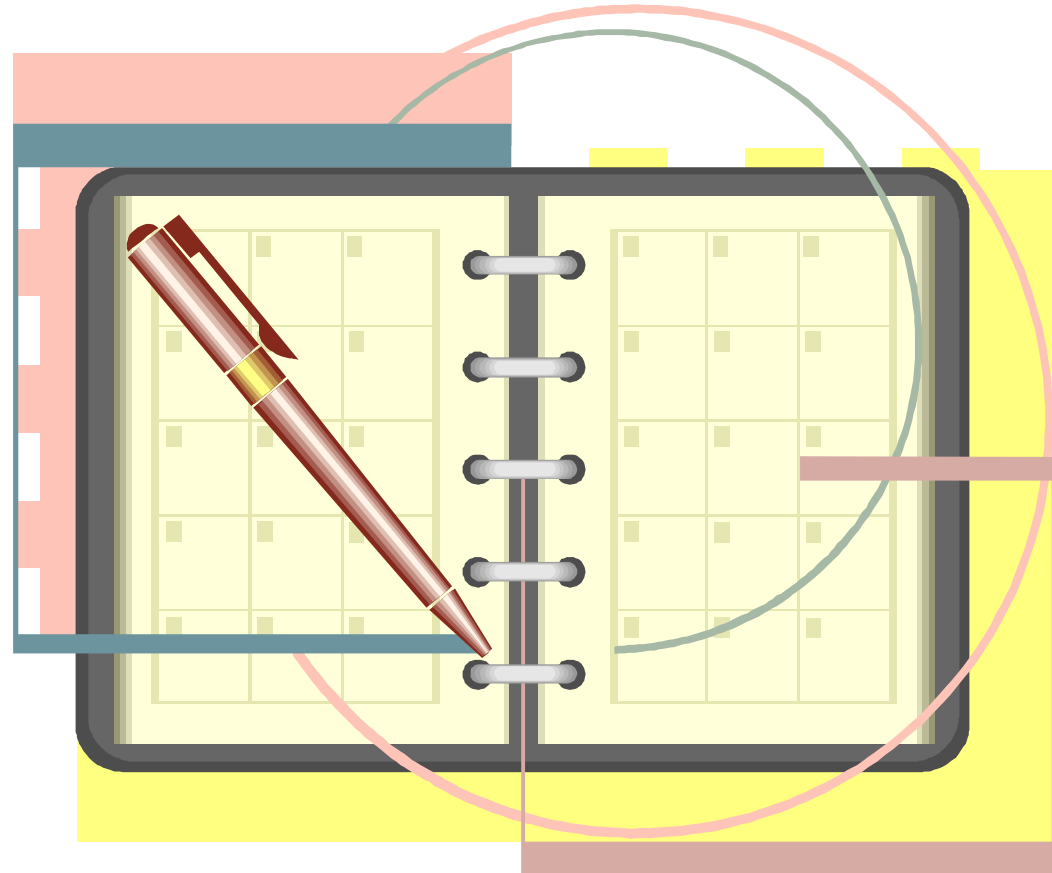
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AGENDA

- Financial impact
- Market impact
- Business impact
- Relationship with regulators
- Impact on internal structure, governance, processes and culture
- Lessons from recent banking experience



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FINANCIAL IMPACT

- Overall expectation of higher aggregate capital requirements
- Exact impact is currently unclear and will move as a result of QIS5
- Impact depends on:
 - Current capital requirements
 - Product line
 - Diversification
 - Internal model or standardised approach
 - Quality of models



MARKET IMPACT

- Increase in M&A activity and portfolio acquisitions
- More focus by investors on risk management
- Higher barriers to entry slow entry to market by new companies
- But competition remains in most markets between existing participants
- Moves to other jurisdictions?
- Increase in innovation



BUSINESS IMPACT

- Capital raising
- Clearer focus on return on capital drives pricing and cross subsidisation ...
... although full potential may be limited by increased transparency
- Does this mean a wholesale move to less capital intensive products?
- Increased reinsurance...
... at a cost.
- Diversification pays ...
... but has its risks
- Look for opportunity



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RELATIONSHIP WITH REGULATORS

- What and who is the ORSA really for?
- Group supervision and supervisory colleges
- New reporting requirements – public and to supervisors



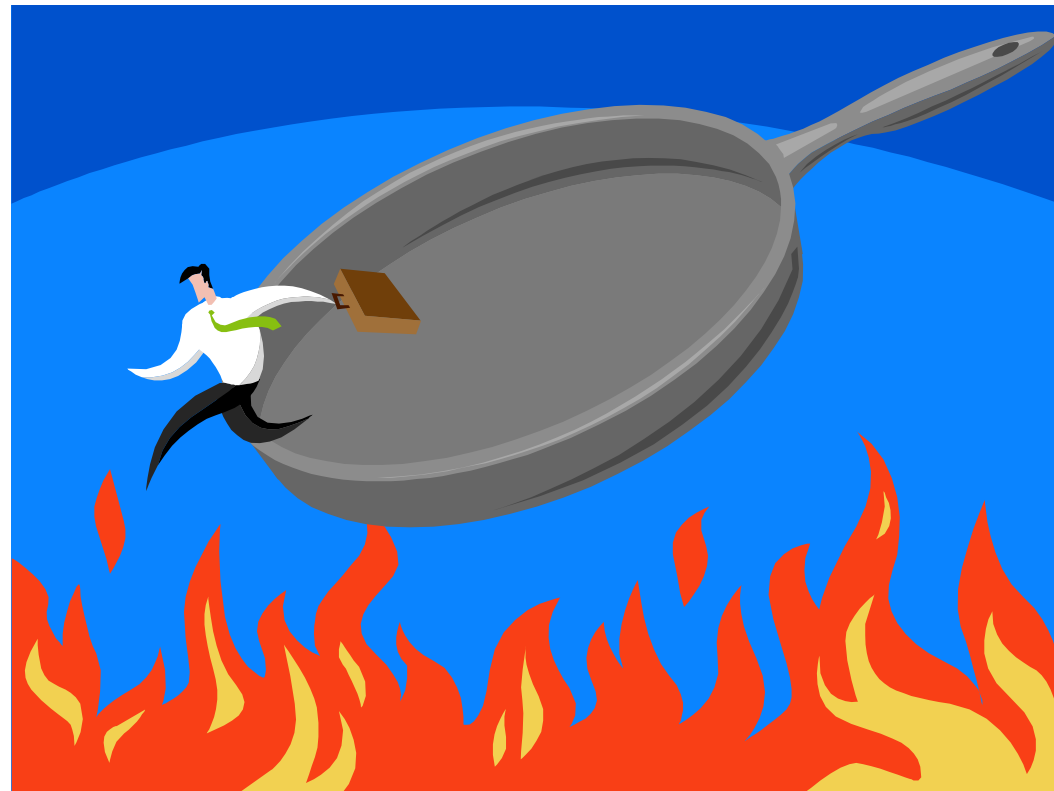
IMPACT ON INTERNAL STRUCTURE, GOVERNANCE, PROCESSES AND CULTURE

- Change in strategy
- Restructuring
- Governance, Board and senior management
- Risk management: more requirements for “quant” skills at a senior level
- Integration of silos, activities, reporting
- Do you have the right people?
- Single platform; integrated systems
- Systems, processes and controls
- Cultural change
- Establish continual improvement



LESSONS FROM RECENT BANKING EXPERIENCE

- Models don't (always) work!
- Data is crucial
- So is documentation
- What on earth is the use test?
- Supervisors will scrutinise you and your models much more than previously
- Don't underestimate the scale of organisational and cultural change. It will change your operations and way of doing business (inc MI/reporting)
- Ensure proper resource (quality and quantity)



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