

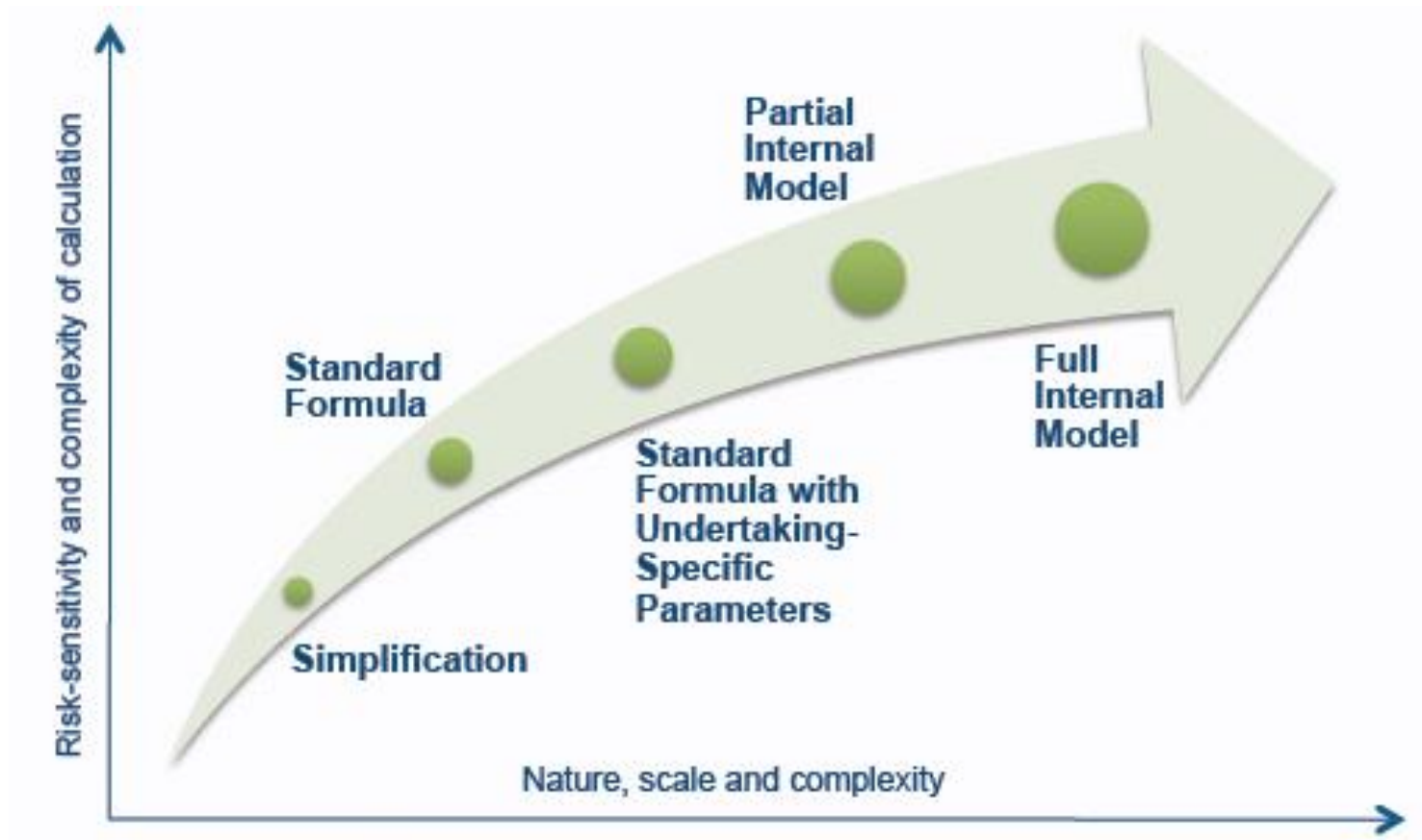
# Jak v Solvency II podpořit/vyvrátit standardní formuli

Marcela Vítková

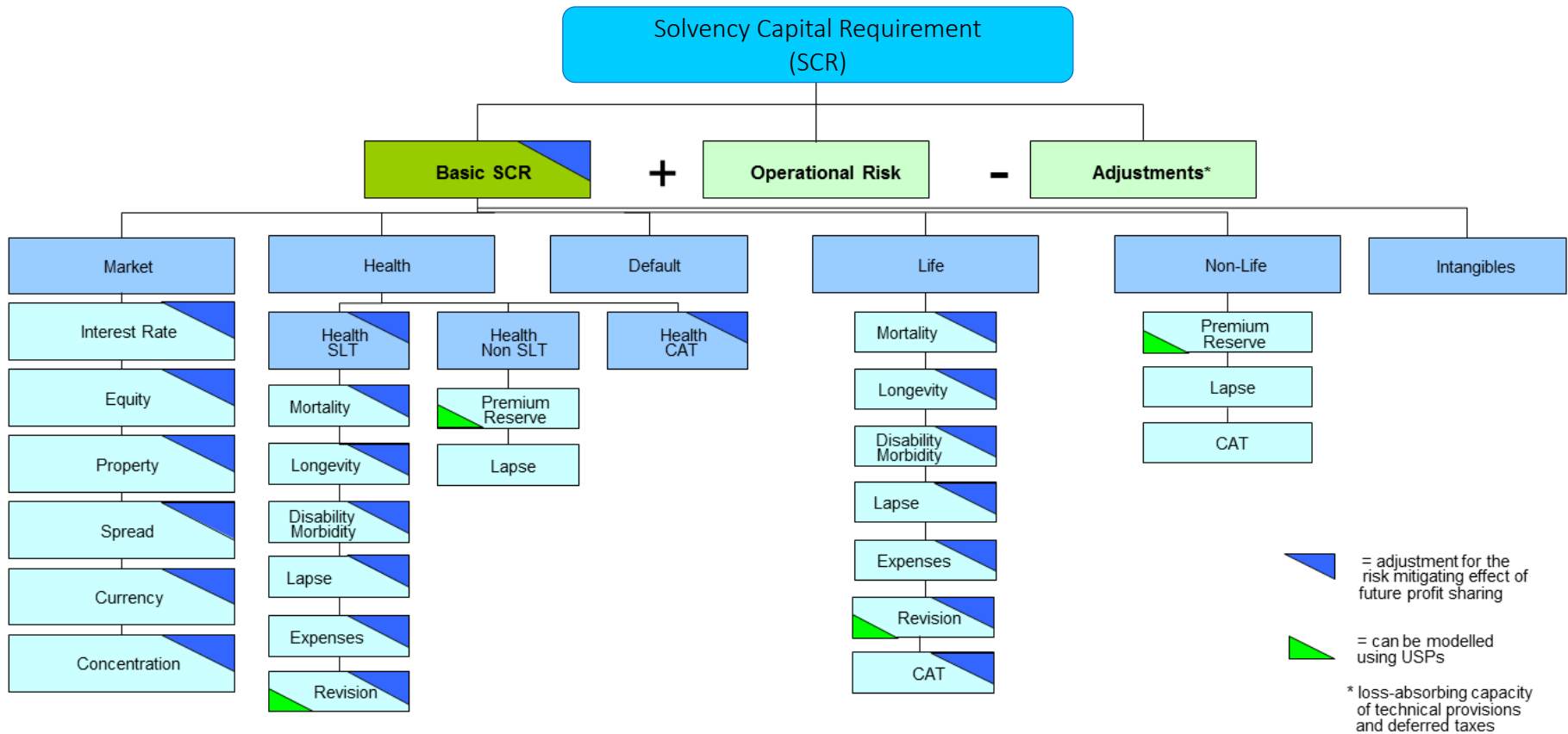
# SOLVENCY II

<b>Pilíř 1</b> Kvantitativní požadavky	<b>Pilíř 2</b> Kvalitativní požadavky	<b>Pilíř 3</b> Reportování
Technické rezervy  Minimální požadovaný kapitál (MCR)  Solventnostní kapitálový požadavek (SCR)	Procesy řízení rizika a interní kontroly  ORSA	Transparentnost  Reporty pro orgán dohledu  Tržní disciplína

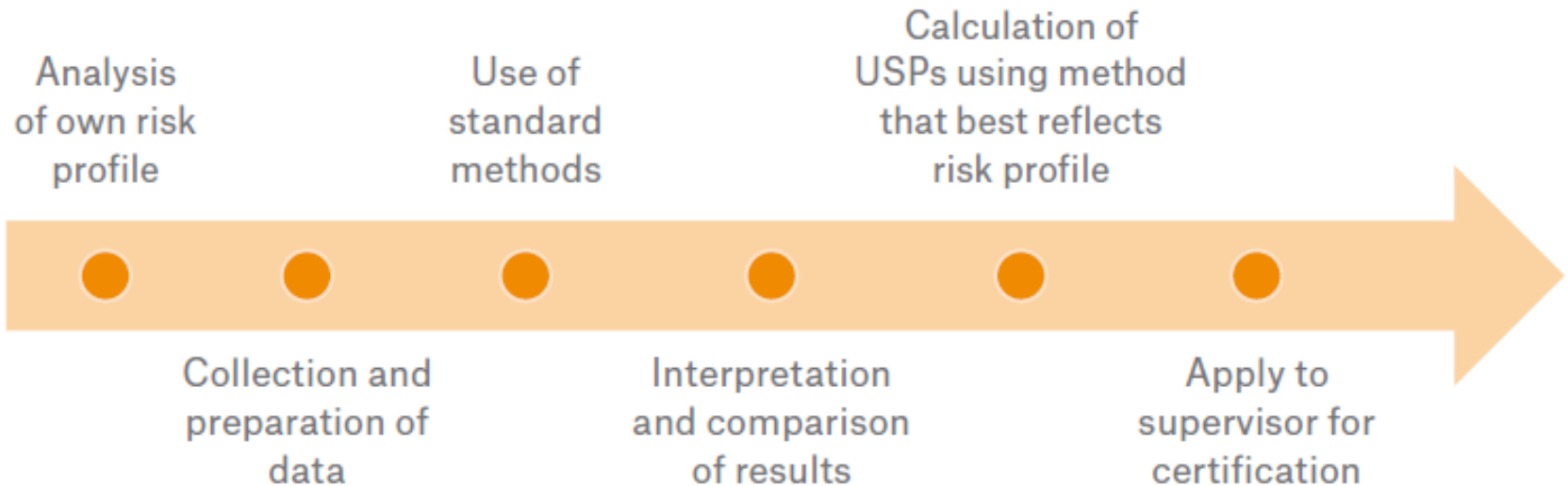
Firms must use appropriate method to determine the SCR



# Structure of the SCR standard formula



# Way to get USPs approved



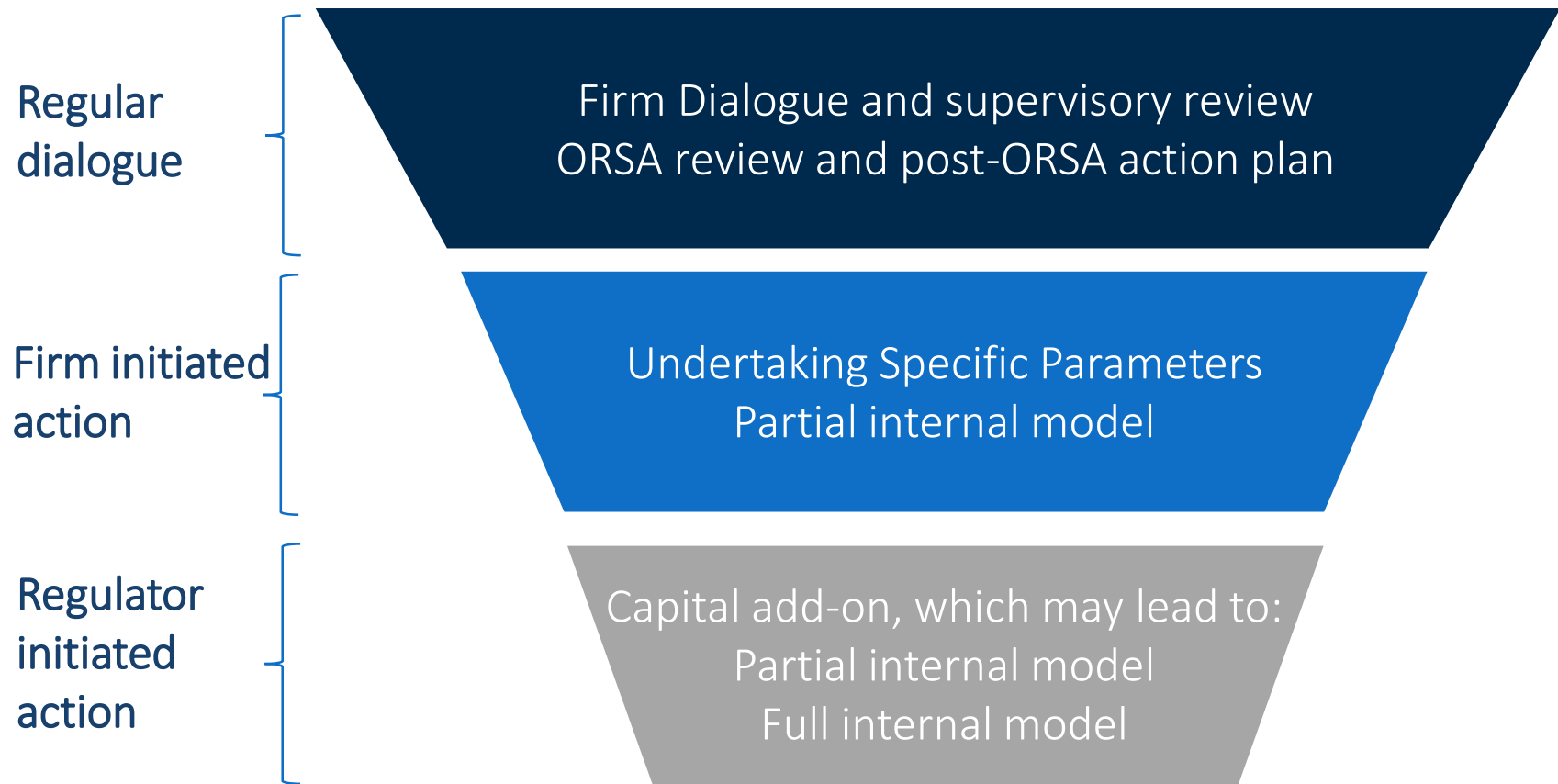
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# Pillar II

- The Directive **requires** you to identify areas where your business materially deviates from the standard formula SCR assumptions. This is the firm's responsibility
- The ORSA **allows** you to demonstrate assessment of appropriateness

# Options where the standard formula does not capture risk profile





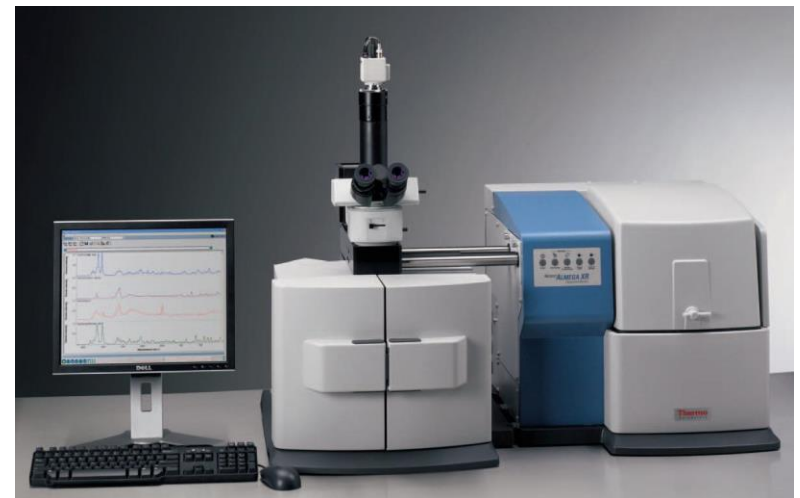
# Company risk profile and SCR by SF

Pillar I  
standardized  
measure

**Standard Formula**



Pillar II  
own analysis with  
appropriate tools  
and methods  
**ORSA**



# There is no EIOPA guideline how to assess appropriateness of SF

EIOPA has stated that it will not prescribe:

- An approach for assessing the significance of the deviation;
- The circumstances under which it would be appropriate for a firm to consider possible deviations of its risk profile from the standard formula assumptions; or
- What should be taken into account in the assessment.

# A risk profile deviation could be identified, for example

- via qualitative assessment;
- via the analysis of ratios;
- via stress tests; or
- via supervisory enquiries.

# Assessment of the significance of risk profiles; for example

- test the effect of recalculation of SCR according to company specific risk in comparison to standard formula result; if the difference is  $>15\%$  it is significant
- analyze the nature and type of deviation
- estimate a likelihood and severity of any adverse impact on policyholders or beneficiaries
- provide a sensitivity analysis of assumptions in the question

# Outputs of the PRA data collection exercise => Standard formula should fit a significant proportion of UK firms

High response rate from data request – over 90% of live writers

## Life insurers

Standard formula firms are reporting a larger decrease in SCR capital requirements than general insurers but only a minor drop in capital resources

Matching adjustment, volatility adjustment and transitionals create significant movement and uncertainty in overall capital position

## General insurers

Standard formula firms capital resources and requirements largely in line with ICG figures under the current regime



# Risk areas for Life firms – PRA focus

Some examples of potential indicators of inappropriateness:

Risk areas that may form part of standard formula reviews

## Longevity:

Firms with particular sector focus where their portfolio might be considered to have unusual concentrations e.g. deferred, enhanced or impaired annuities

## Equity:

Firms pursuing an active investment strategy or with a concentrated equity portfolio

## Credit:

Firms hold a variety of credit risky assets that may not be well represented by the average portfolio of corporate bonds assumed within the Standard Formula

## Operational:

Firms with significant outsourcing arrangements and / or a range of legacy systems

## Pension risk



# Standard formula appropriateness for general insurers

## Potential indicators of inappropriateness:

Risk areas that may form part of a general insurer's standard formula reviews

### Non-Life underwriting risk:

Where deviations from underlying assumptions are significant

### PPOs:

Should be modelled in the life underwriting sub-module (longevity risk). Long term solution may be to consider use of partial internal model – where proportionate to do so

### Cat Risk:

Firms with non-standard portfolios with a large element of non-European economic area (EEA) catastrophe risk or with large deductibles or complex outwards reinsurance programmes

### Credit Risk:

Reinsurance counterparty risk

### Pension Risk



