



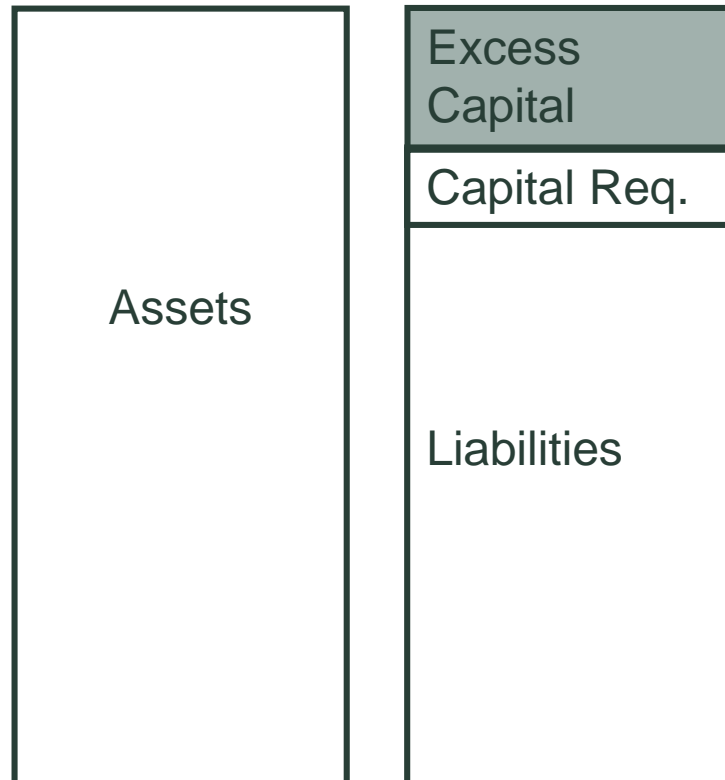
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Introduction to ICA & Solvency II Regime

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Solvency Reporting



Solvency I

■ Concept of 2 Pillars:

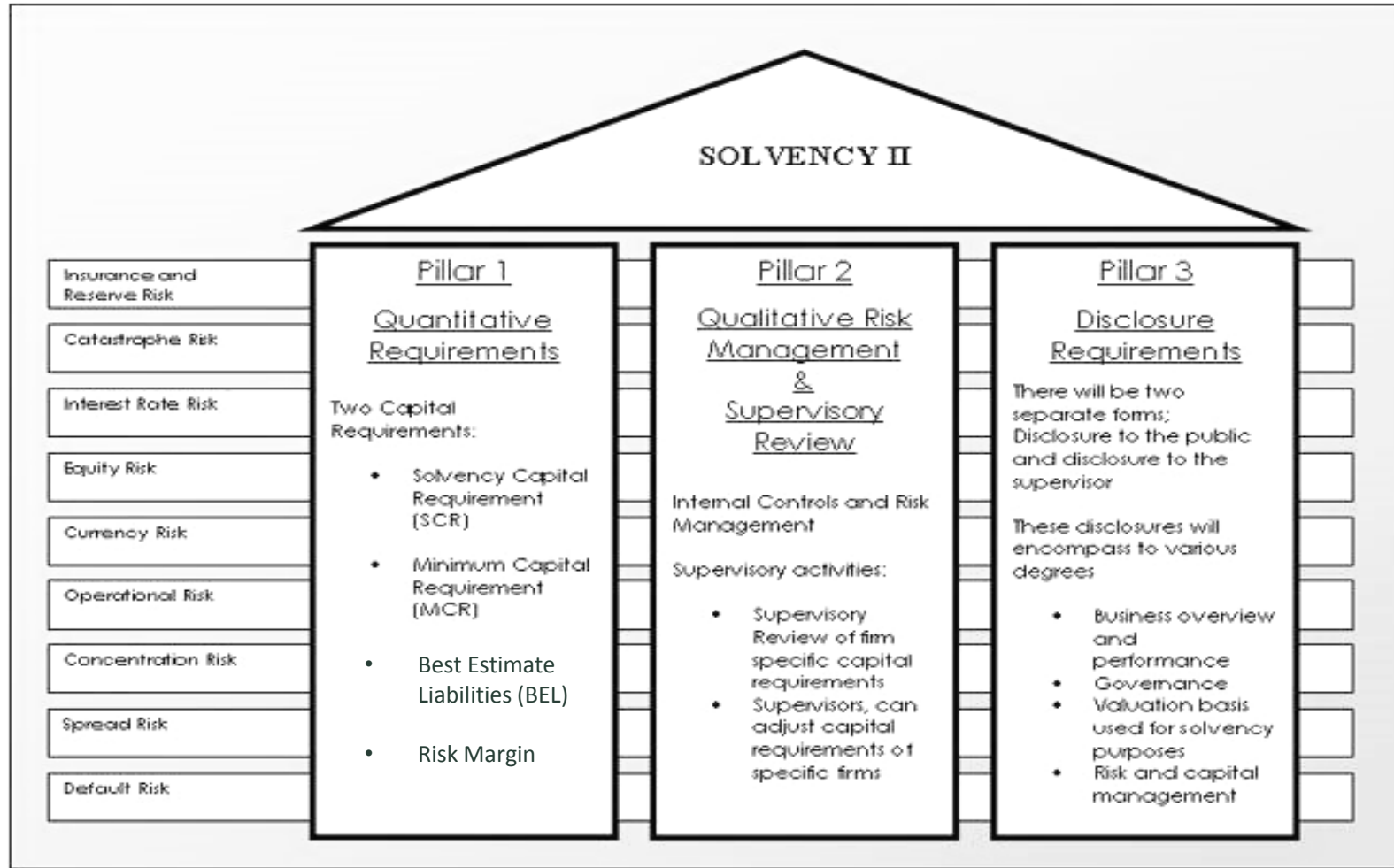
- Pillar 1
 - Present solvency information to the market (FSA Returns)
 - Prescriptive assessment of liabilities
 - Recognised risks set out by regulator
 - Classify firms as Regulatory-basis (Peak1) or Realistic-basis (Peak2)
- Pillar 2
 - Confidential disclosure of solvency assessment to Prudential Regulation Authority (PRA)
 - Liabilities are valued on realistic basis
 - Acknowledge all risks a company is exposed to

NB Peak1 = Reserving, Peak2 = Realistic Balance Sheet

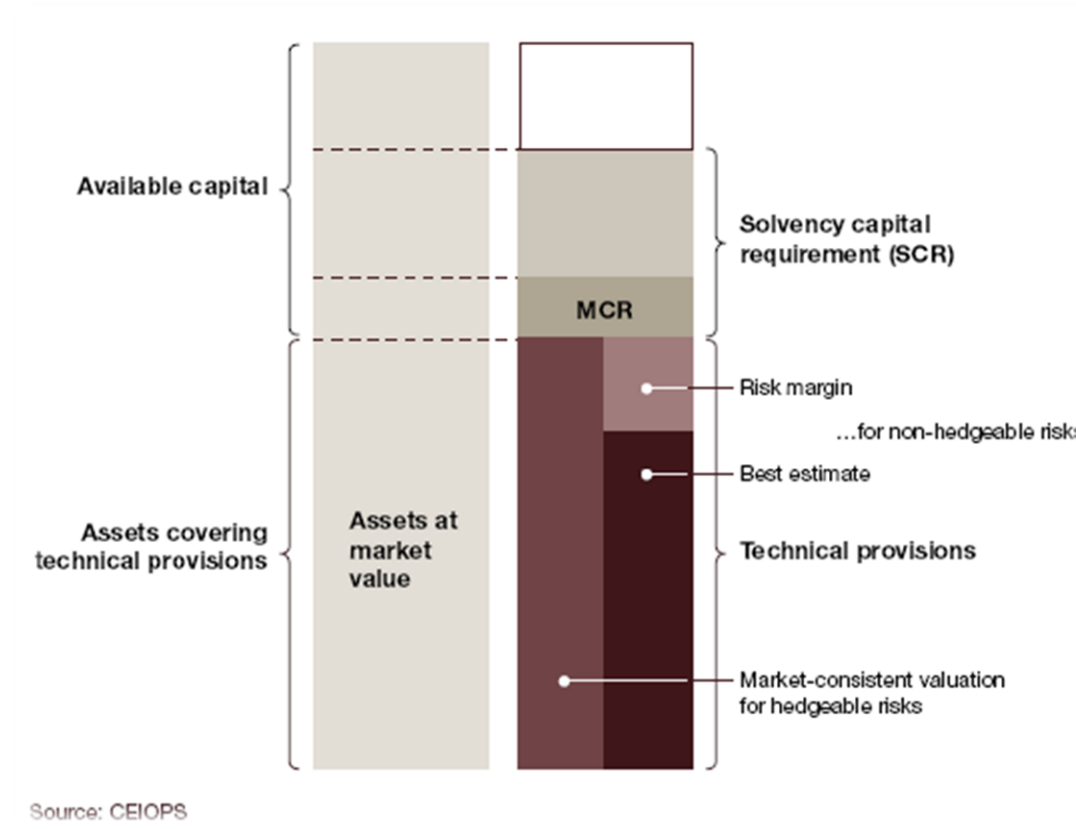
ICA (Individual Capital Assessment)

- Individual Capital Adequacy Standards (ICAS)
- Realistic self- assessment of how much capital a company should hold given the risks that it is exposed to, conducted in accordance with PRA regulations.
- This assessment excludes the value of new business written in the future.
- Under the ICAS framework, companies need to hold an appropriate amount and quality of capital on a continuous basis.
- The required capital is called the ICA and it is capital required to meet risks calculated at 1 in 200 year event level (99.5% confidence interval over 1 year time frame)
- Individual Capital Guidance (ICG) is set by the regulator (PRA) if they are not confident in the SCR calculated.

Solvency 2



Pillar 1 under Solvency 2...



Solvency 1 vs Solvency 2

	Solvency 1 (Peak1)	Solvency 2
Assumptions	Prudent	Realistic (ICA)
Valuation	Deterministic	Market Consistent/Stochastic (SI Pillar 2)
Transparency	Not very transparent	More disclosure to market and PRA
Risks	Not all risks are considered Fully Quantitative	All risks affecting the company are considered Both Qualitative and Quantitative
Comparison Between Companies	Hard to compare companies due to less transparency	Due to greater disclosure to PRA and the market easier to compare companies

Standard Formula vs Internal Model

To calculate Solvency Capital Requirement, a company can use

- A standard formula approach (Prescriptive)
 - Risk parameters specified by the regulator & calibrated to industry experience.

- An internal model developed by the company and approved by the regulator
 - Analyses overall risk position, quantifies risk, and determine the economic capital required to meet risks.
 - AdminRe uses an internal model.

Advantages to an Internal Model

- The company can tailor the model to specific risks which impact it, thus improve the understanding and management of the risks
- Greater capital efficiency – more often, less capital is required than the standard formula approach.
- Reputation risk – major companies are expected to analyse and mitigate their own risk, this can only be done with an internal model.

Example

	YE 2012	YE 2012	YE 2012	YE 2012
	SII	SII	ICA	SI
	Standard Formula	Internal Model		Pillar 1
Available capital (ACR)	975	996	1,204	453.5
Required Capital (SCR)	-587	-354.5	-552	-207.5
ICG			-129	
Excess Assets (Excess Capital)	388	642	523	246
Excess Assets Post Dividend	227	480.5	362	85



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