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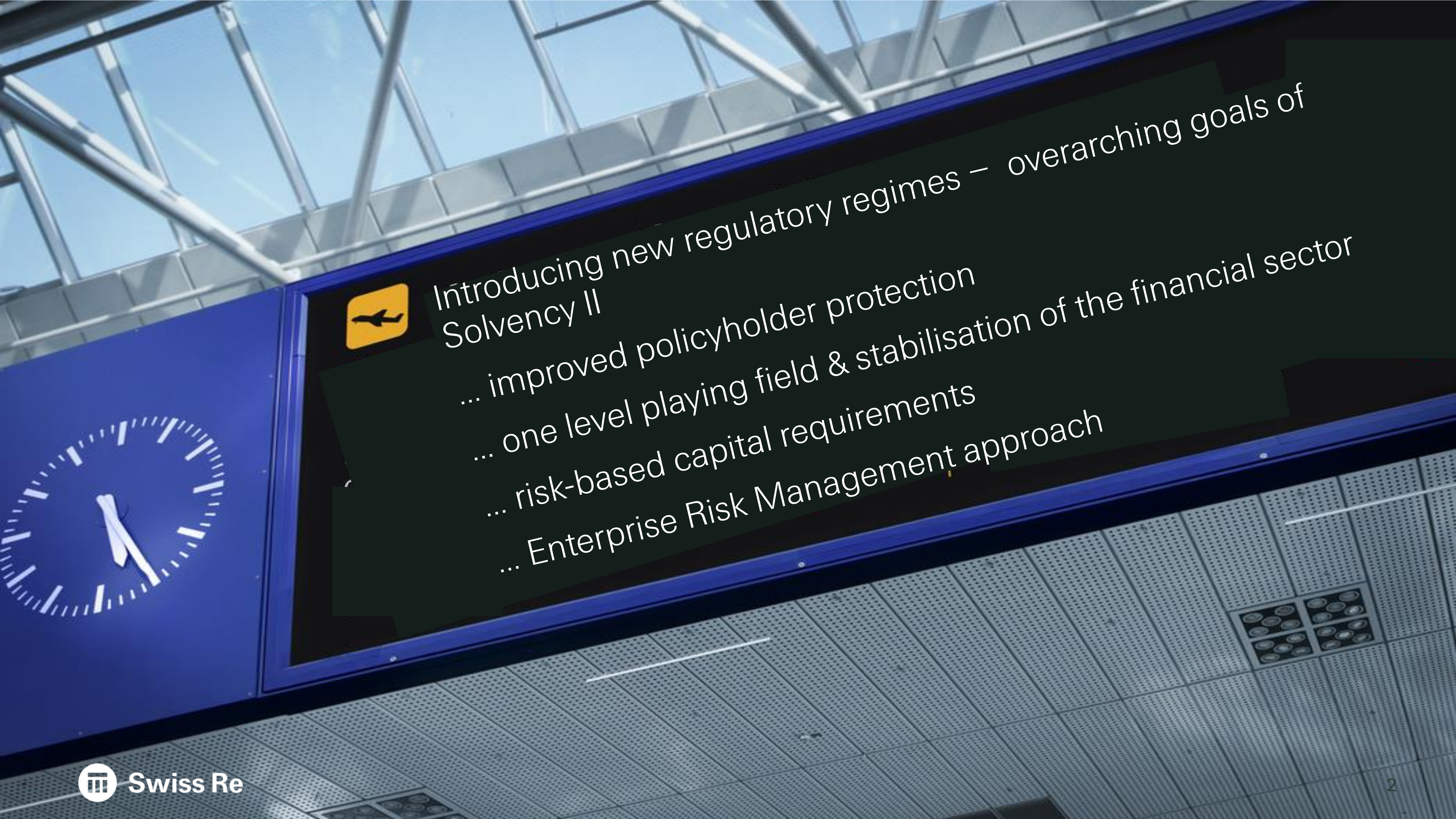
Implementing new solvency regimes – sometimes a bumpy journey but opening a lots of new horizons

Swiss Re Reception Russia, September 27, 2018, Susanne Kaske-Taft


Introducing new regulatory regimes – overarching goals of Solvency II
… improved policyholder protection
… one level playing field & stabilisation of the financial sector
… risk-based capital requirements
… Enterprise Risk Management approach

Solvency II – a long journey

2001
European Commission kicked-off the Solvency II process

2001 - 2003
Rather "isolated" development of the Solvency II Directive striving for a 3 Pillar approach

2004 - 2005
Three "Wave of calls for advise" to gather feedback from market participants

2006 - 2011
Five "Test runs" called Quantitative Impact Studies (QIS)

2012 - 2015
Solvency II becomes European & national law

2016 Solvency II goes live!

Solvency II is the most significant regulatory change that the European insurance market has faced in 30 years … is the industry ready?
EY European Solvency II Survey 2012

Solvency II Pillars

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Implementing Solvency II – the major stumbling blocks

- Data, data quality & IT infrastructure
- Costs
- Resources and actuarial know how
- Capital surcharges & shocks scenarios under the Standard Formula
- Development of internal models & approval by the regulator
- Understanding of the framework
- Capital requirements for Life insurance products
- Transition measures
- Regulatory uncertainty

What would be the major challenges implementing Solvency II in Russia?

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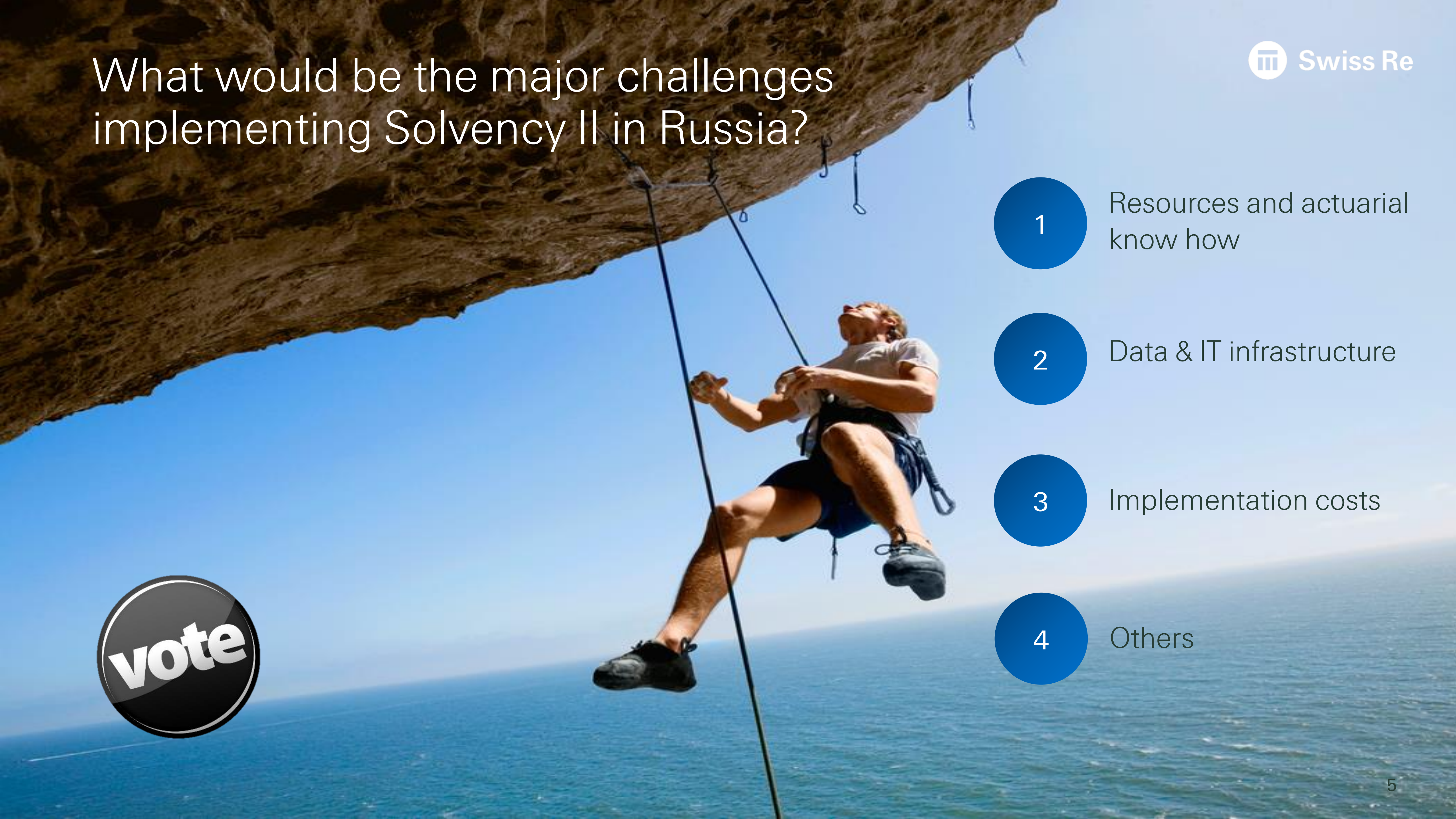
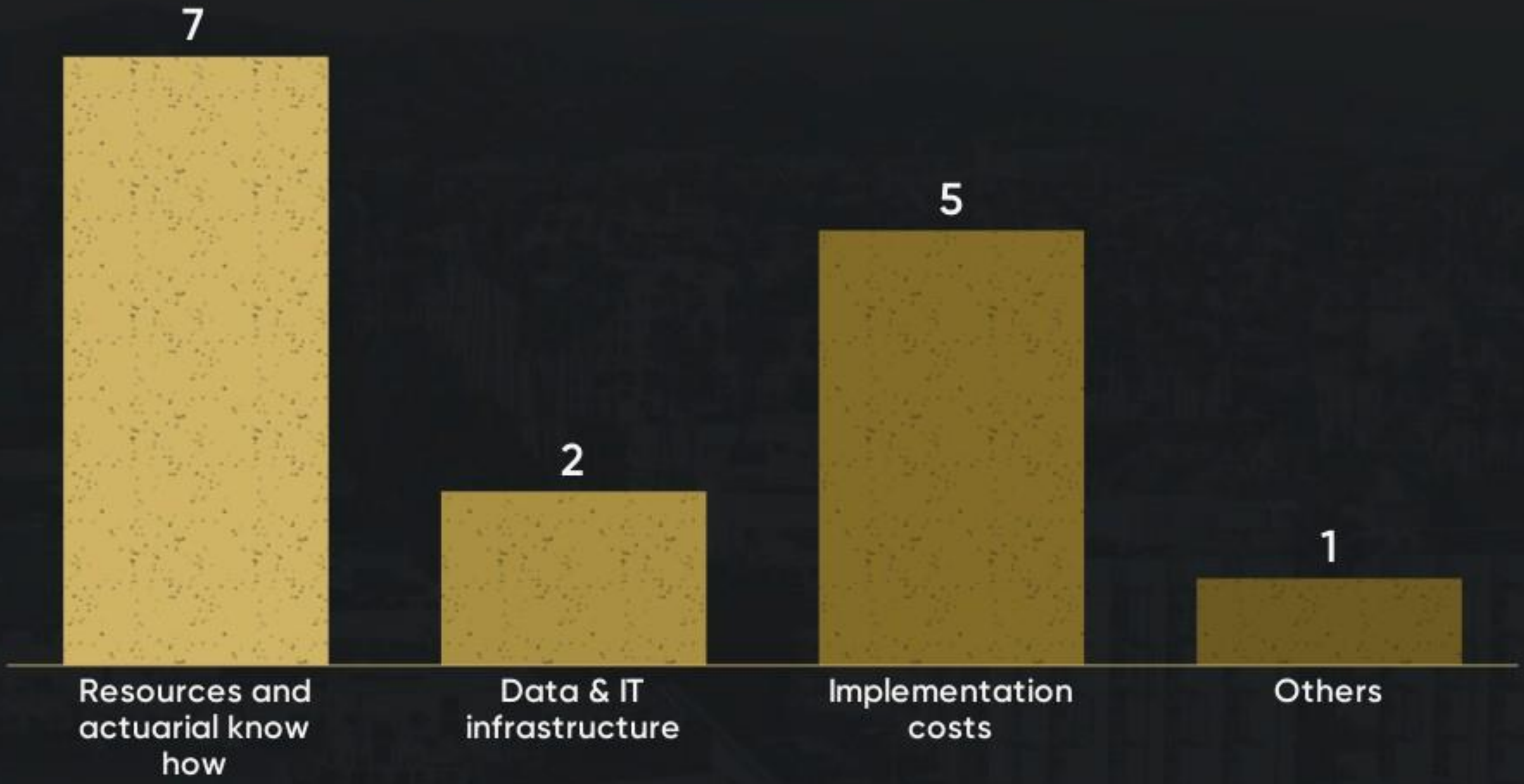


1. Resources and actuarial know how
2. Data & IT infrastructure
3. Implementation costs
4. Others

What would be the major challenges implementing Solvency II in Russia?

Mentimeter



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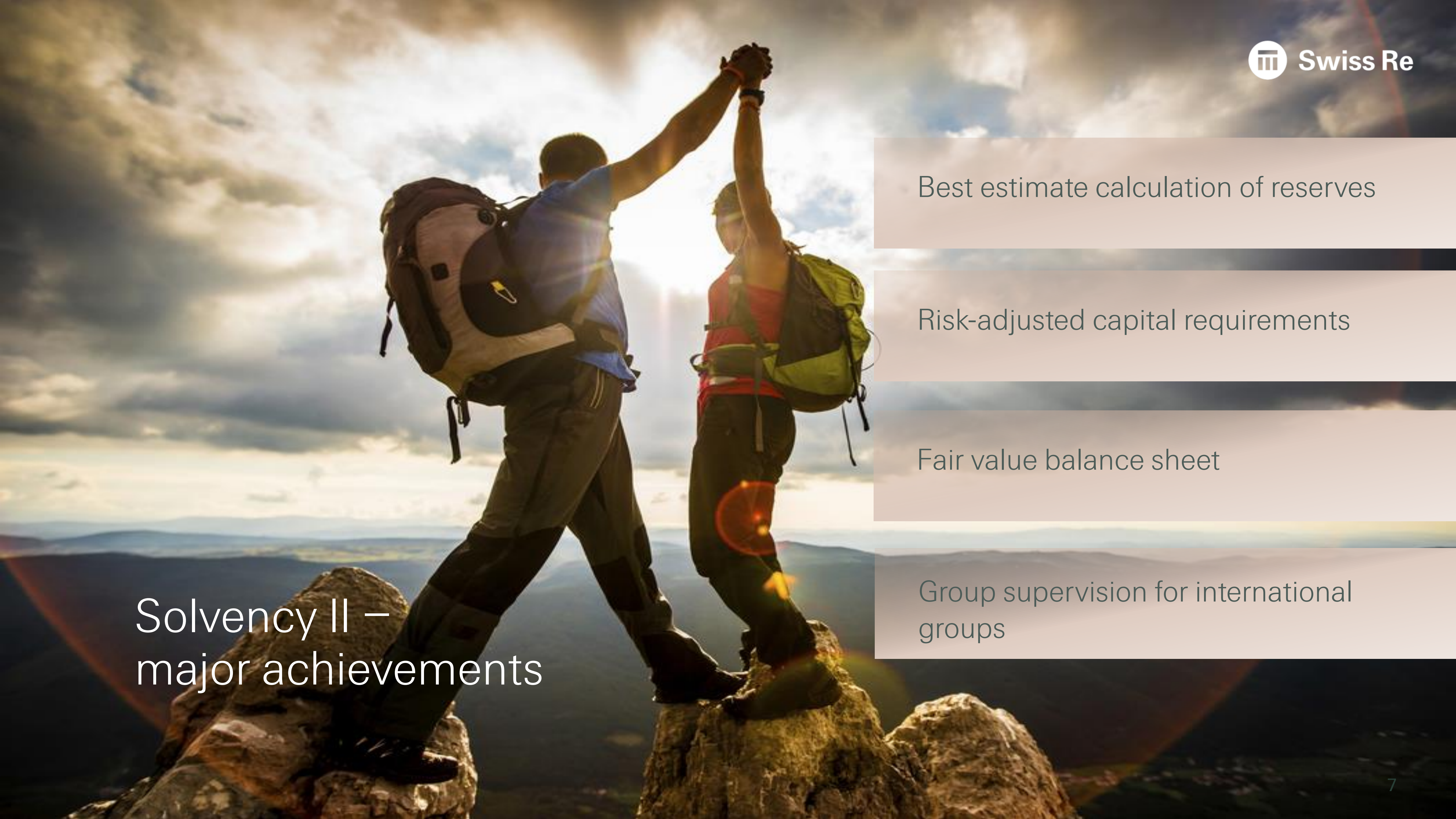

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Solvency II – major achievements

- Best estimate calculation of reserves
- Risk-adjusted capital requirements
- Fair value balance sheet
- Group supervision for international groups

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Solvency II - the voice of the market[1]

In 2016 Grant Thornton run a survey with companies across Europe to get their view on the implementation of Solvency II. The survey was facilitate around insurers, brokers, Lloyd's Syndicates and reinsurers.

Only 25% of participants believe that Solvency II is clearly the best way to run their business

2/3 of respondents thought Solvency II is too complicated

Only 9% of respondents felt that the costs of Solvency II were reasonable

Less than 20% of respondent had completed the transition of Solvency II into business as usual

Nearly 80% of participants believed that Solvency II had improved the governance of their firm

> 90% of respondents believe that the principles of Solvency II are good but almost 75% think that those principles have been ruined by the implementation

75% thought that the new regime had led to an improvement in their firm's risk management

[1] Grant Thornton, Solvency II – In the brave new world, October 2016

Welcome to the new world – impacts?

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EIOPA Statistics

Solo / Quarterly / 4Q2017 / published 21/06/2018

France	234%
Germany	338%
Italy	204%
Poland	260%
Spain	242%
United Kingdom	154%

Market risk:

Highest impact on Life insurance contracts with high interest rates guarantees

Allianz

L&H Strategy Europe:
Focus on capital light products

Allianz Capital Market Day 2015

AXA

Focus I:
Capital light savings in matured markets

Axa Investors Day 2016

GENERALI

Priority in Life:
further shift towards a capital-light[1] portfolio mix

[1] capital light reserves / new business without garantees or with garantees equal to or lower than 0%

Generali Investors Day 2016

Where do you expects the major impact for Russian insurance companies after the implementation of Solvency II?

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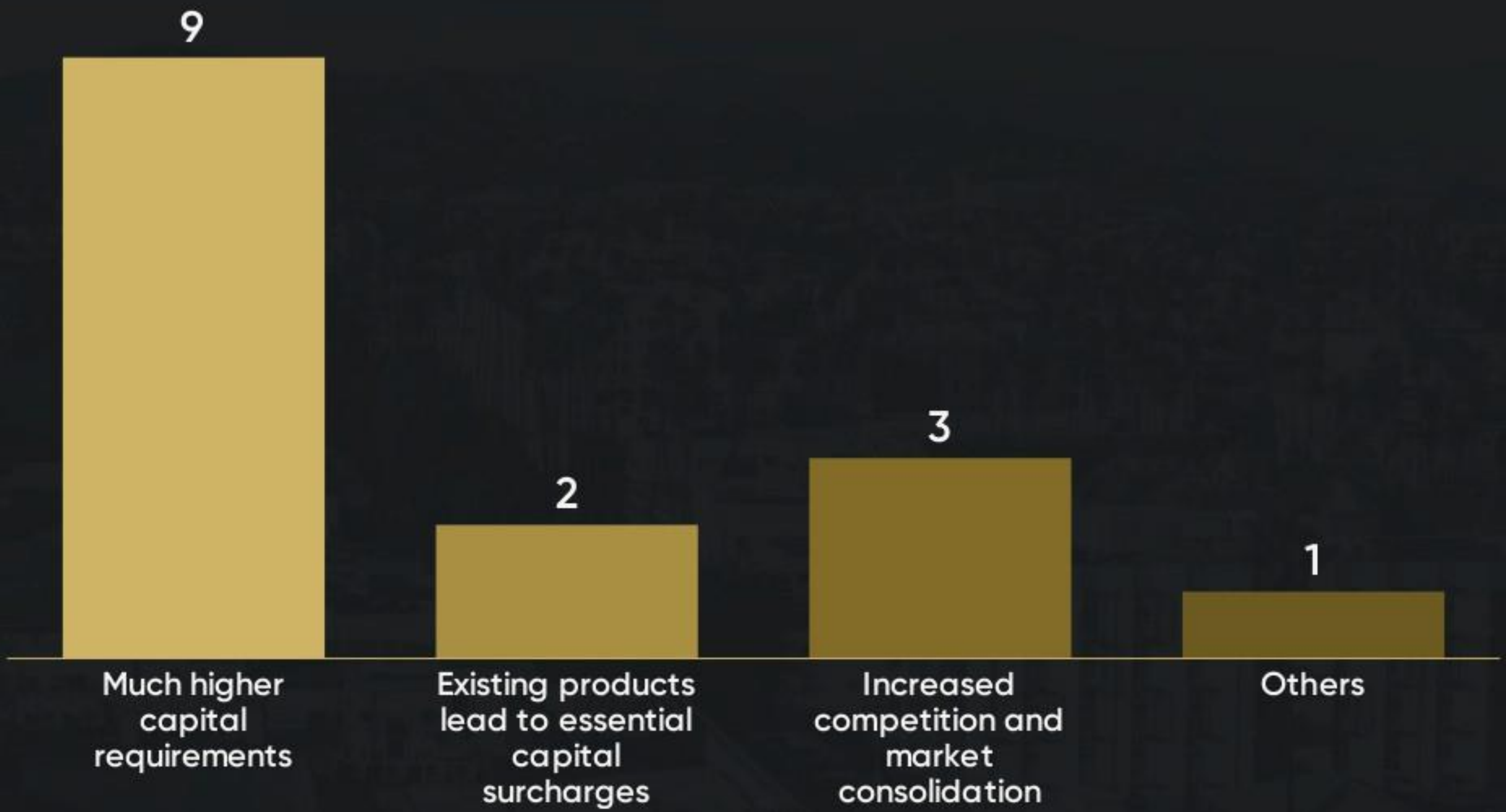
1. Much higher capital requirements
2. Existing products lead to essential capital surcharges
3. Increased competition and market consolidation
4. Others

Where do you expects the major impact for Russian insurance companies after the implementation of Solvency II?



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Smarter together!

How we supported our clients in the context of Solvency II – some reference cases

Variable Quota Share

P&C
Central & Eastern Europe

Client motivation:
Stabilization of the Solvency II ratio in the event of unexpected growth.

Swiss Re's solution:

- Dynamic Quota Share cession linked to Solvency II ratio.
- Reduced reinsurance cash out as cover only scales up when needed.
- Multi-year structure reduced uncertainty in respect of Terms & Conditions

Flexible Sub-Layer & Floating Top-layer

P&C
Central & Eastern Europe

Client motivation:
Securitization of Solvency II Balance Sheet due to rather tight capital base.

Swiss Re's solution:

- Variable Sub-Layer structure linked to the aggregated Cat exposure.
- In addition "floating" Top-Layer to cover exposure increases of the modelled 200y event required by Solvency II.

Mass Lapse Shock cover

L&H
Northern Europe

Client motivation:
Optimization of the Solvency II capital requirements under the SII Standard Formula.

Swiss Re's solution:

- Remote Stop Loss structure covering 20% of the Mass Lapse Shock under the SII Standard Formula.
- Client had to apply a lower stress scenario than the typically required 40%.


How will the journey continue?
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Solvency II review 2018 on **capital calculation under the Standard Formula**
ongoing **improvement of ORSA scenarios & reporting**
Solvency II review 2020 on **long-term garantees & long-term investments**
ongoing **Recovery and Resolution plans**
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Introduction of Solvency II in Russia – Your journey starts soon!

Thanks a lot for your interest and time

Your expectations towards Swiss Re?

The floor is yours!

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