

European Solvency II Survey 2014



Building a better
working world

Agenda

- I. Regulatory update
- II. Introduction to survey and findings
- III. Pillar 1 findings – *Eric Brown*
- IV. Pillar 2 findings – *Frank O’Callaghan*
- V. Pillar 3 findings
- VI. IT Readiness – *Hugh Callaghan*
- VII. Summary and conclusions
- VIII. Questions

Regulatory update



Regulatory update

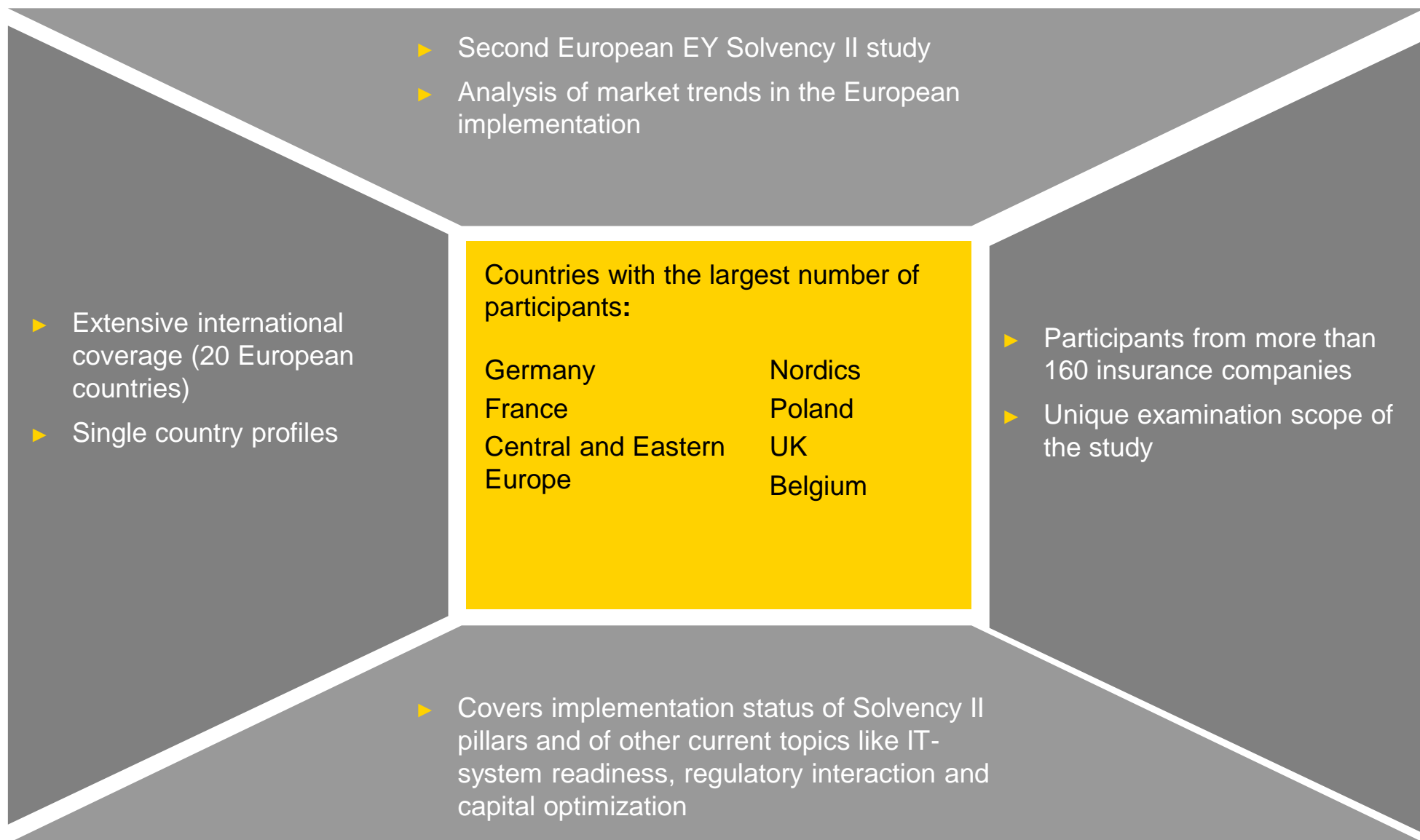
- ▶ Preparation for SII
 - ▶ Locking down the requirements
 - ▶ Driving forward with preparatory requirements
 - ▶ External assurance
- ▶ Comframe field testing
 - ▶ Phase 1 submission deadlines
- ▶ EIOPA stress tests
 - ▶ Technical standards
 - ▶ Core modules
 - ▶ Low interest rates
- ▶ Outcome of CP 73
 - ▶ Reserving requirements for NL, NL Re, Life Re
 - ▶ Guidance on best estimates and margins for uncertainty

Introduction to survey and findings



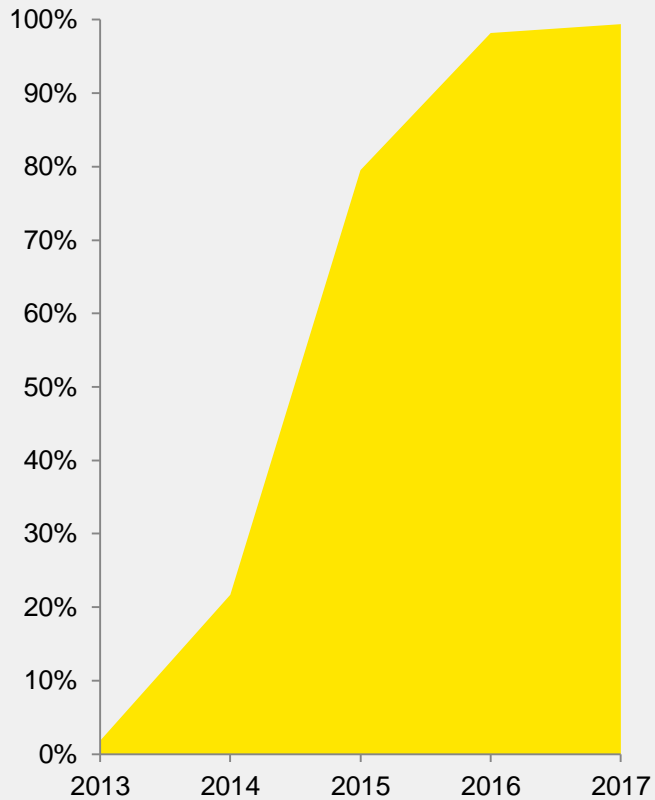
The study design

Participants and features

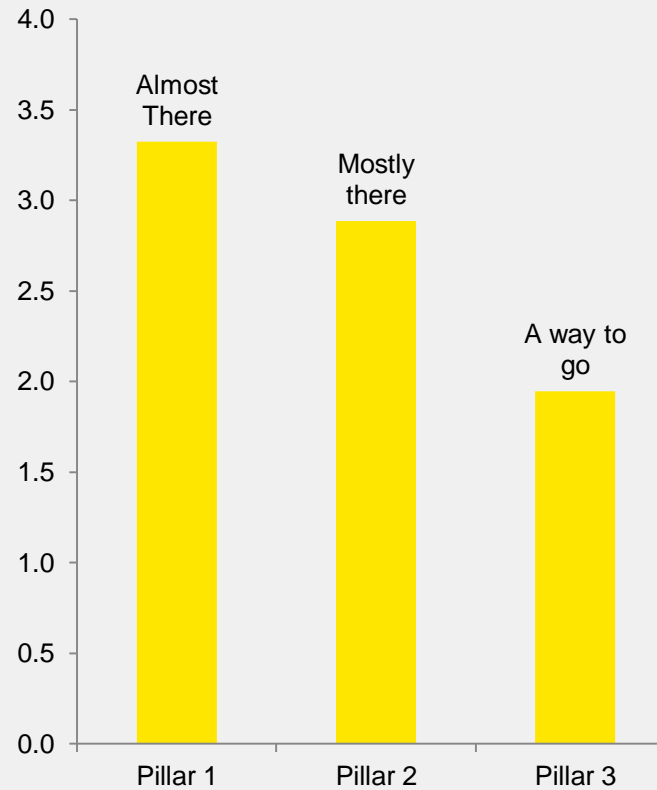


Summary

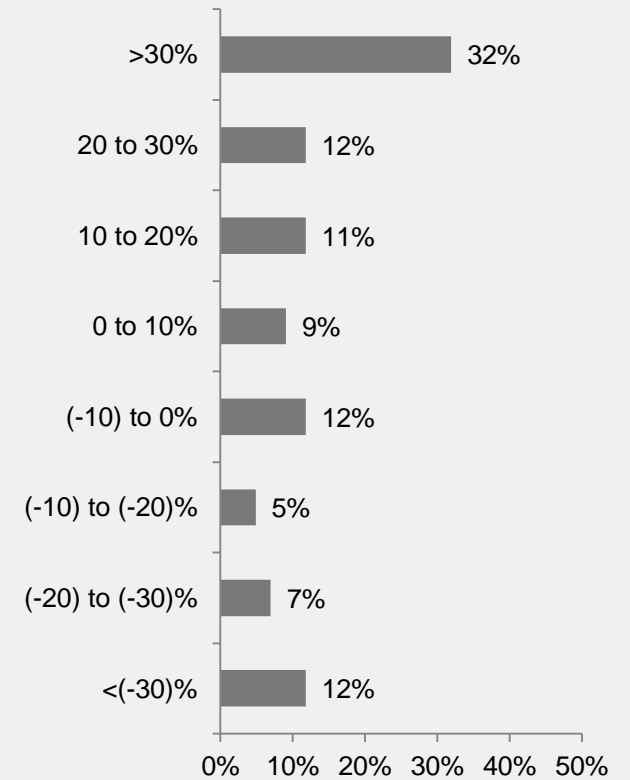
Ready during



Status by pillar



Impact on capital



18 months

P3 Challenges

Impact on capital

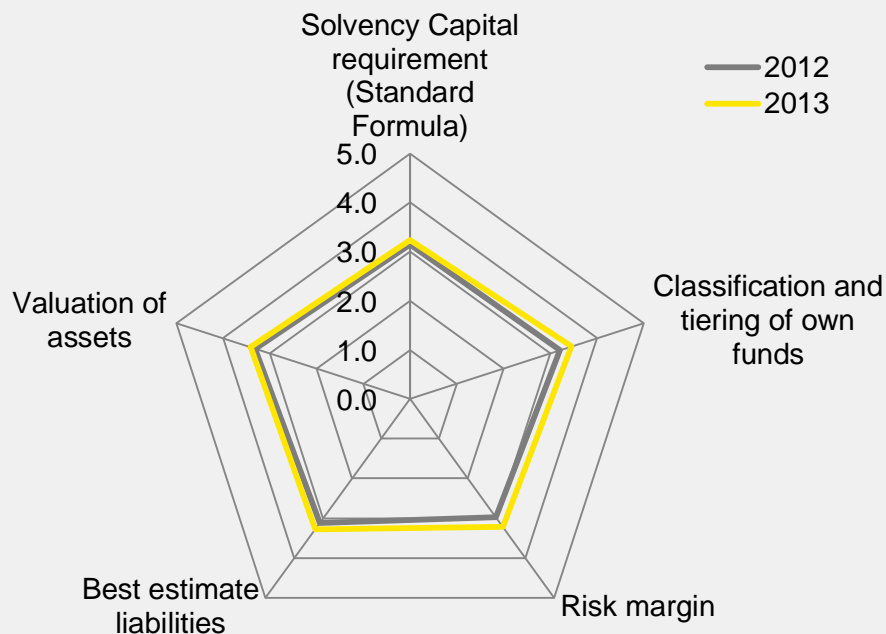
Implementation readiness – Pillar 1



Compliance with Solvency II requirements

Pillar 1 compliance

Focus



Key themes

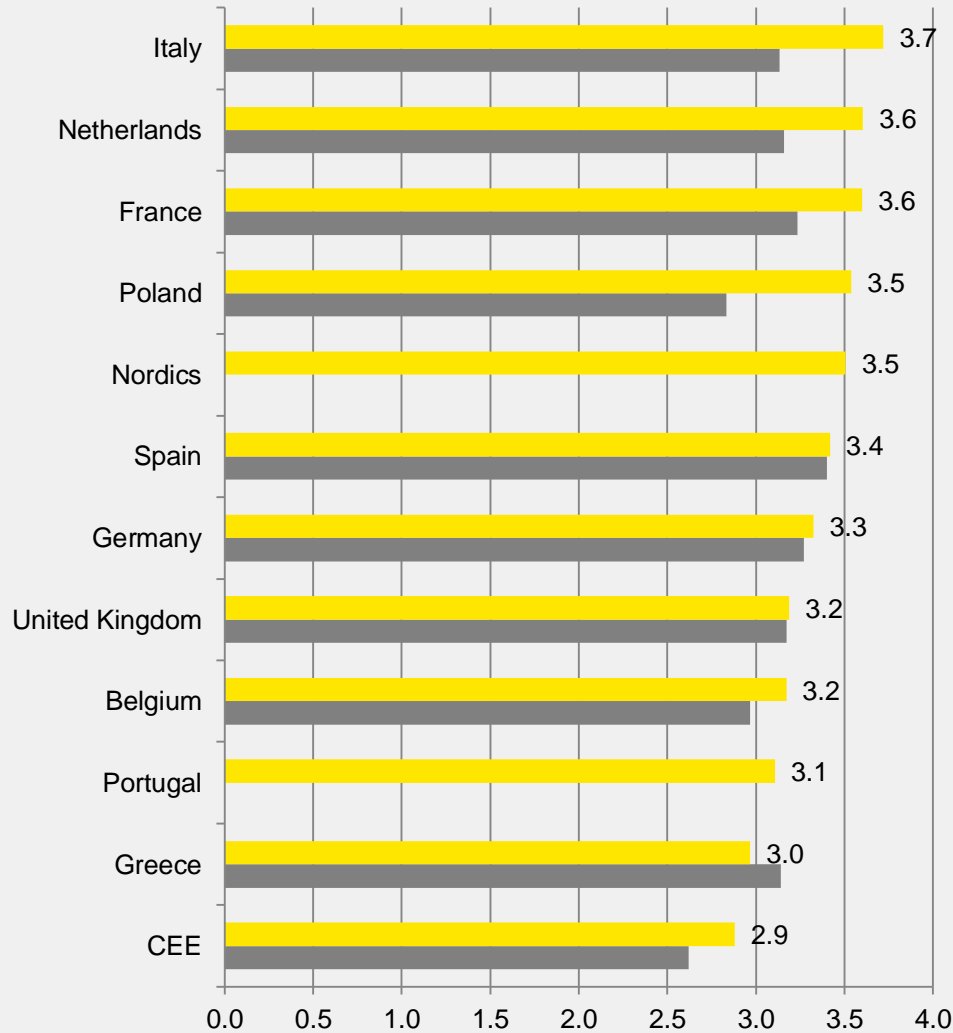
- ▶ Many European insurance companies declare themselves well prepared with regard to the pillar 1 requirements.
- ▶ Acceleration of preparation with publication of draft Delegated Acts in January and Technical Specification 30th April
- ▶ Own funds
- ▶ LTGA compromises
- ▶ Key decisions for undertakings

1 - Requirements not fulfilled
2 - Some requirements fulfilled
3 - Most requirements fulfilled
4 - All requirements fulfilled
5 - Beyond requirements

Compliance with Solvency II requirements

Pillar 1 compliance for other European Countries

Country comparison

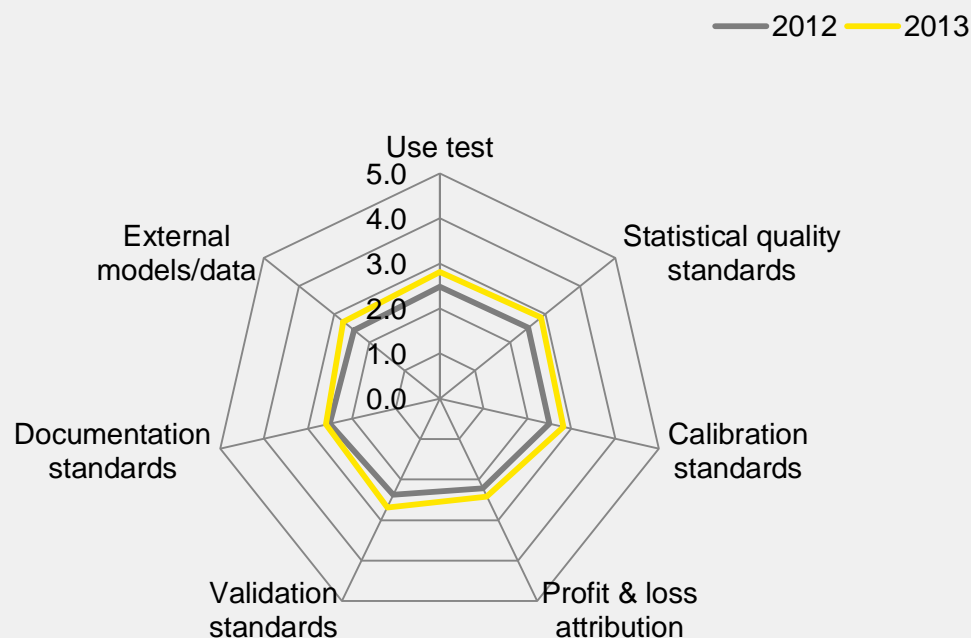


- ▶ Significant improvement for France, Italy and Poland
- ▶ Many countries, amongst others Germany and Spain, report only a marginal improvement in comparison to the results from last year.

Compliance with Solvency II requirements

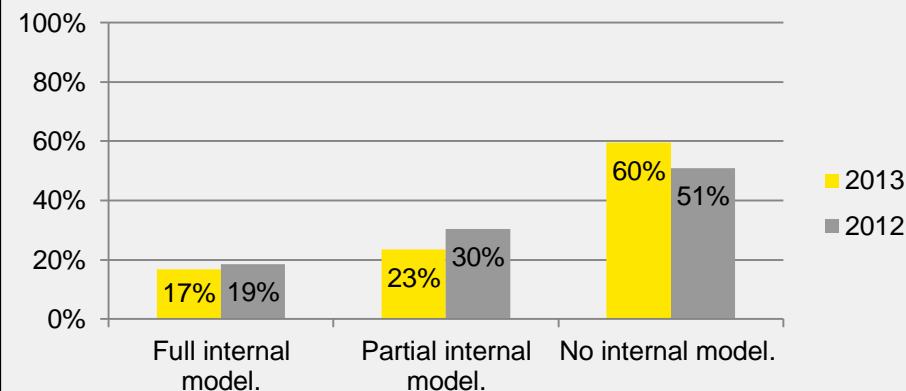
Internal model readiness

Focus



- 1 - Requirements not fulfilled
- 2 - Some requirements fulfilled
- 3 - Most requirements fulfilled
- 4 - All requirements fulfilled
- 5 - Beyond requirements

Internal Model development



Key themes

- ▶ Reduction in number of companies applying for internal model
- ▶ Significant developments made, although a long way to go still
- ▶ 67% of companies expect the Internal model to be ready for 1.1.2016
- ▶ Internal model application ITS sets out detailed requirements for submission

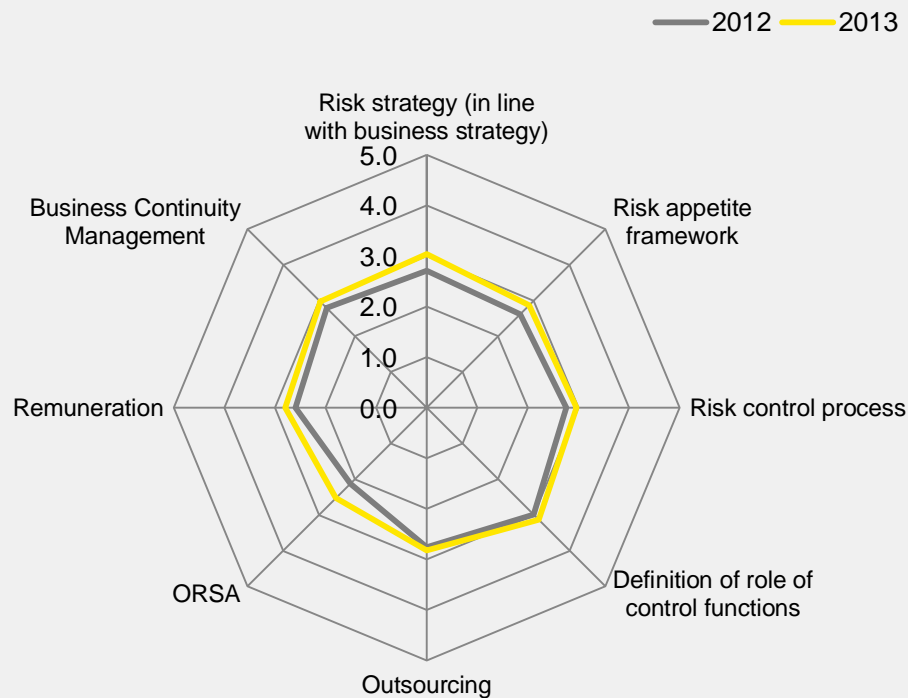
Implementation readiness – Pillar 2



Compliance with Solvency II requirements

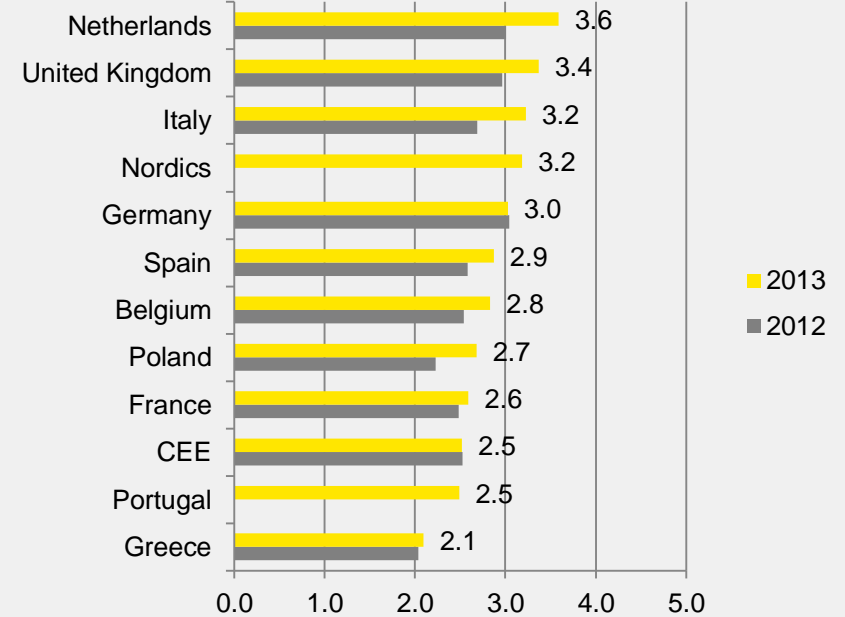
Pillar 2 compliance

Focus



- 1 - Requirements not fulfilled
- 2 - Some requirements fulfilled
- 3 - Most requirements fulfilled
- 4 - All requirements fulfilled
- 5 - Beyond requirements

Country comparison



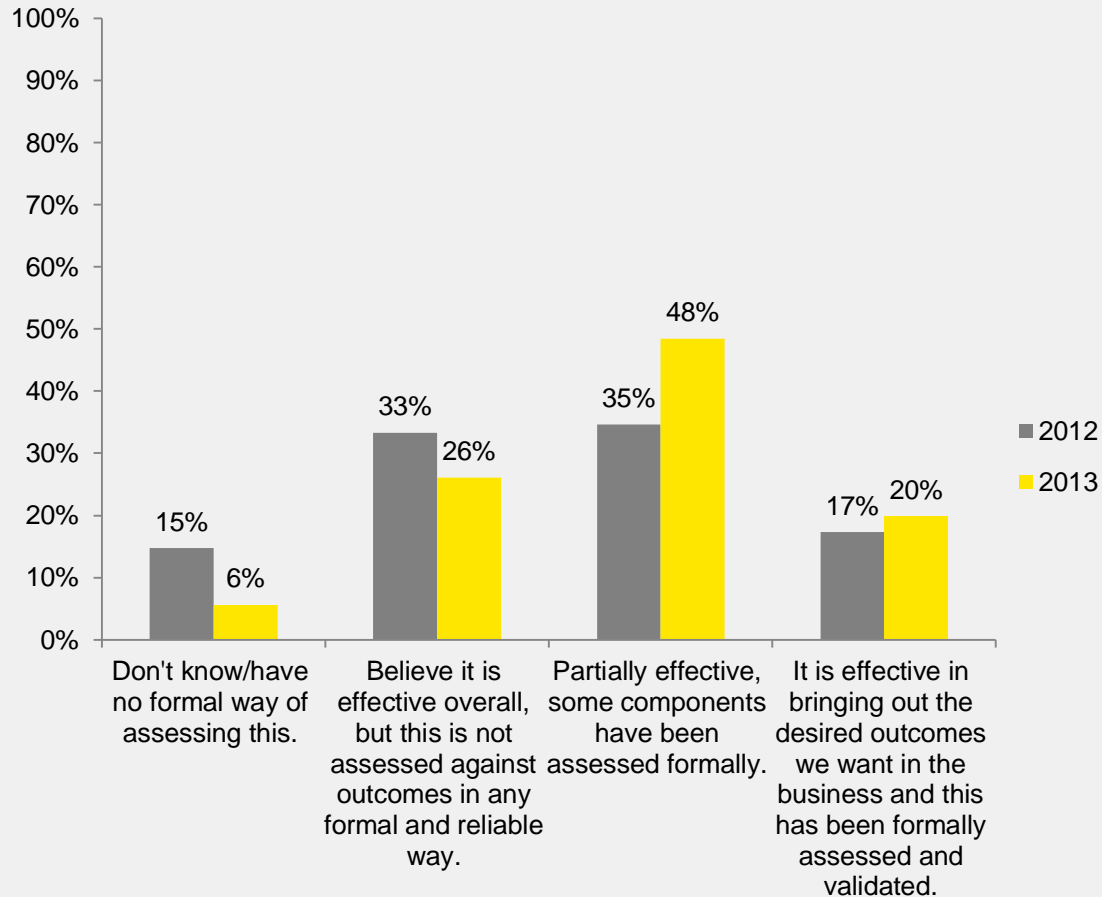
Key themes

- ▶ Progress made but not yet there
- ▶ ORSA has seen most progress
- ▶ EIOPA preparatory guidelines drive agenda

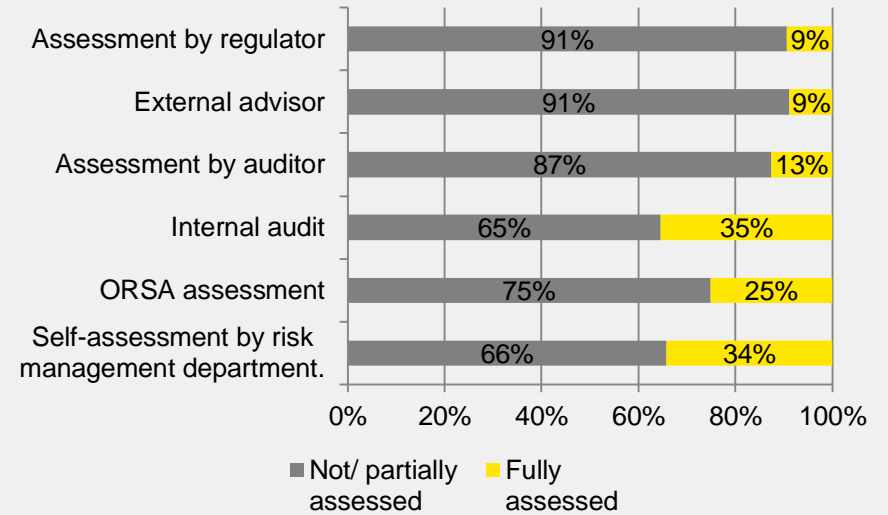
Compliance with Solvency II requirements

Risk management effectiveness

Assessment of the risk management effectiveness



Assessment of risk management system



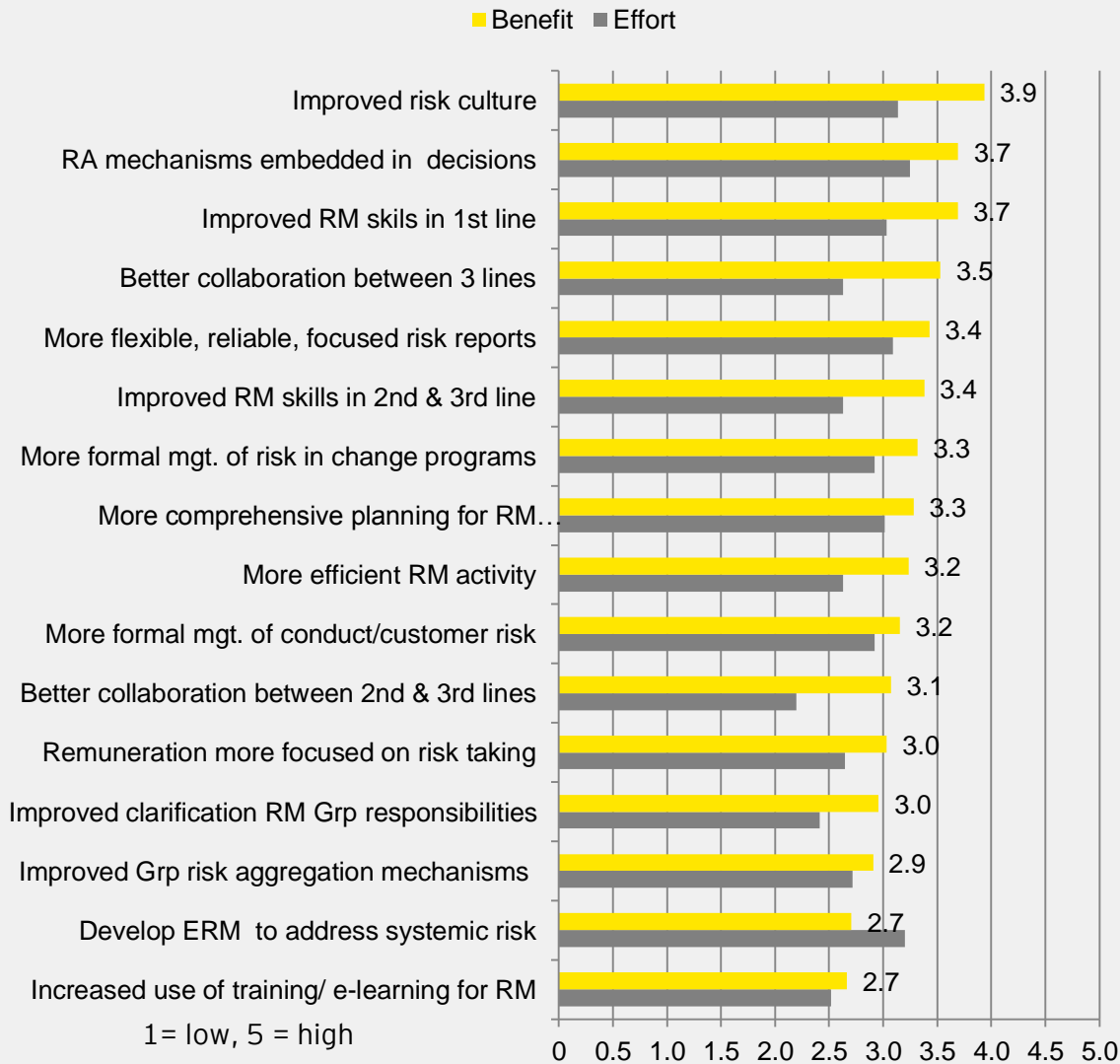
Key themes

- ▶ Solvency II minimum compliance is more than existence
- ▶ Attestation to effectiveness of RMS
- ▶ Progress but still considerable work needed

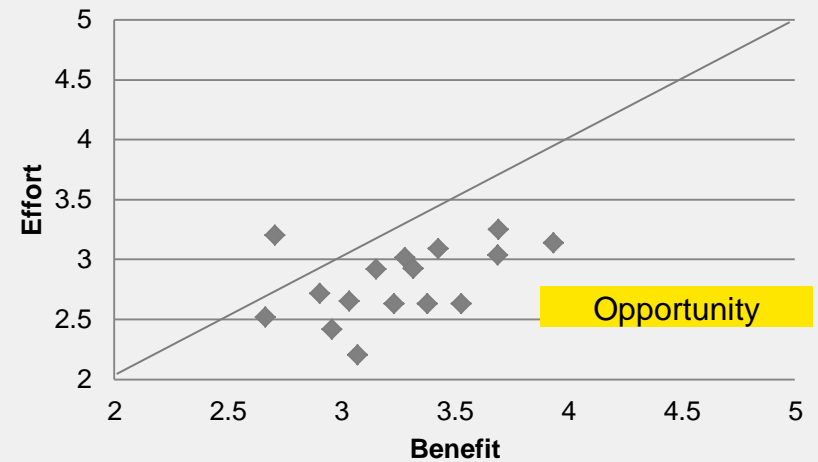
Compliance with Solvency II requirements

Effort and benefit for increasing risk management effectiveness

Effort and benefit for increasing risk management effectiveness



Effort vs Benefit



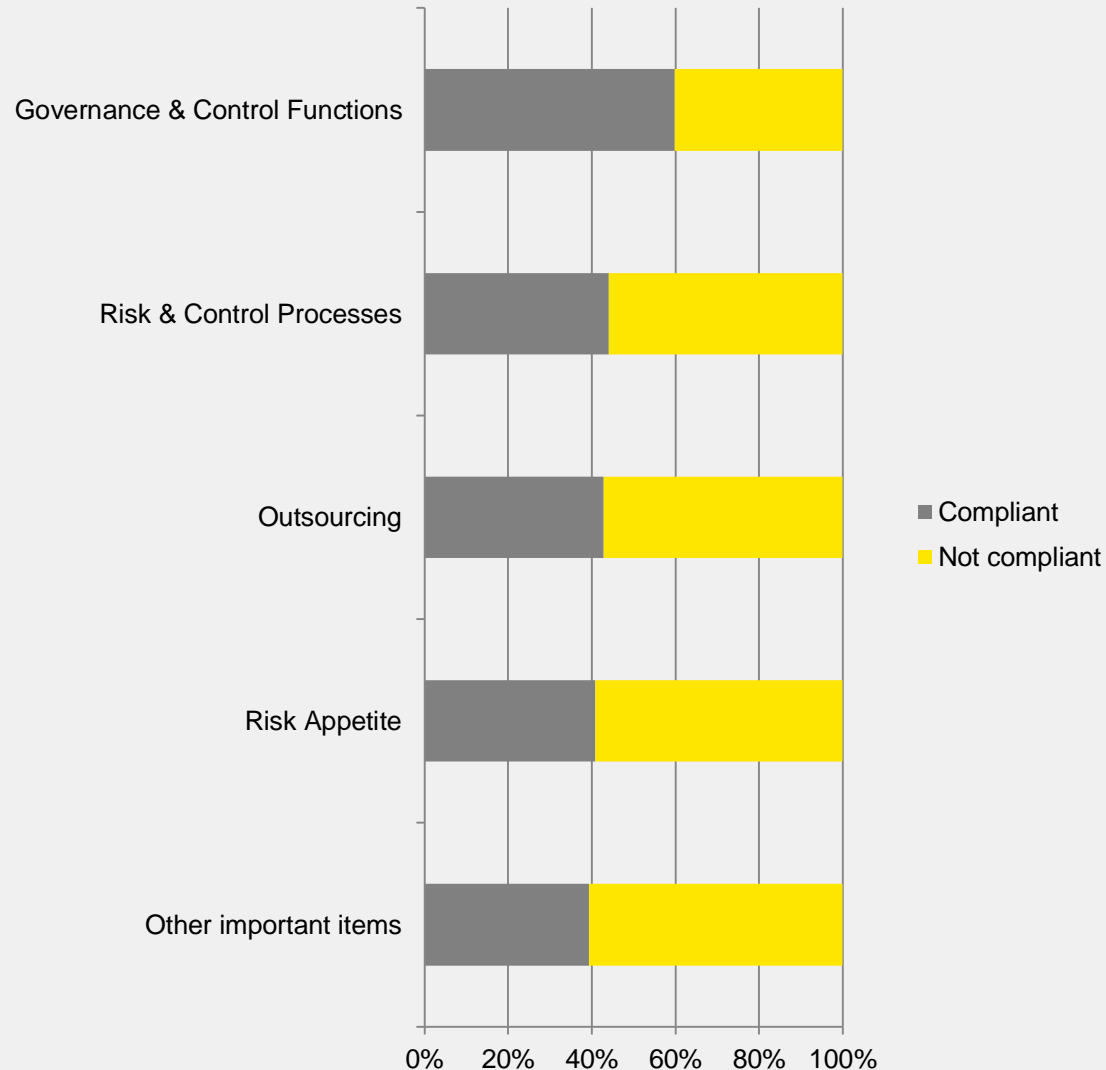
Key themes

- ▶ Benefit outweighs the effort for almost all cases
- ▶ Improving risk culture seen as biggest benefit
- ▶ Better collaboration has a big benefit relative to effort
- ▶ Notable exception would be ERM and systemic risk

Compliance with Solvency II requirements

Fulfilment of selected pillar 2 requirements

Fulfilment of selected pillar 2 requirements



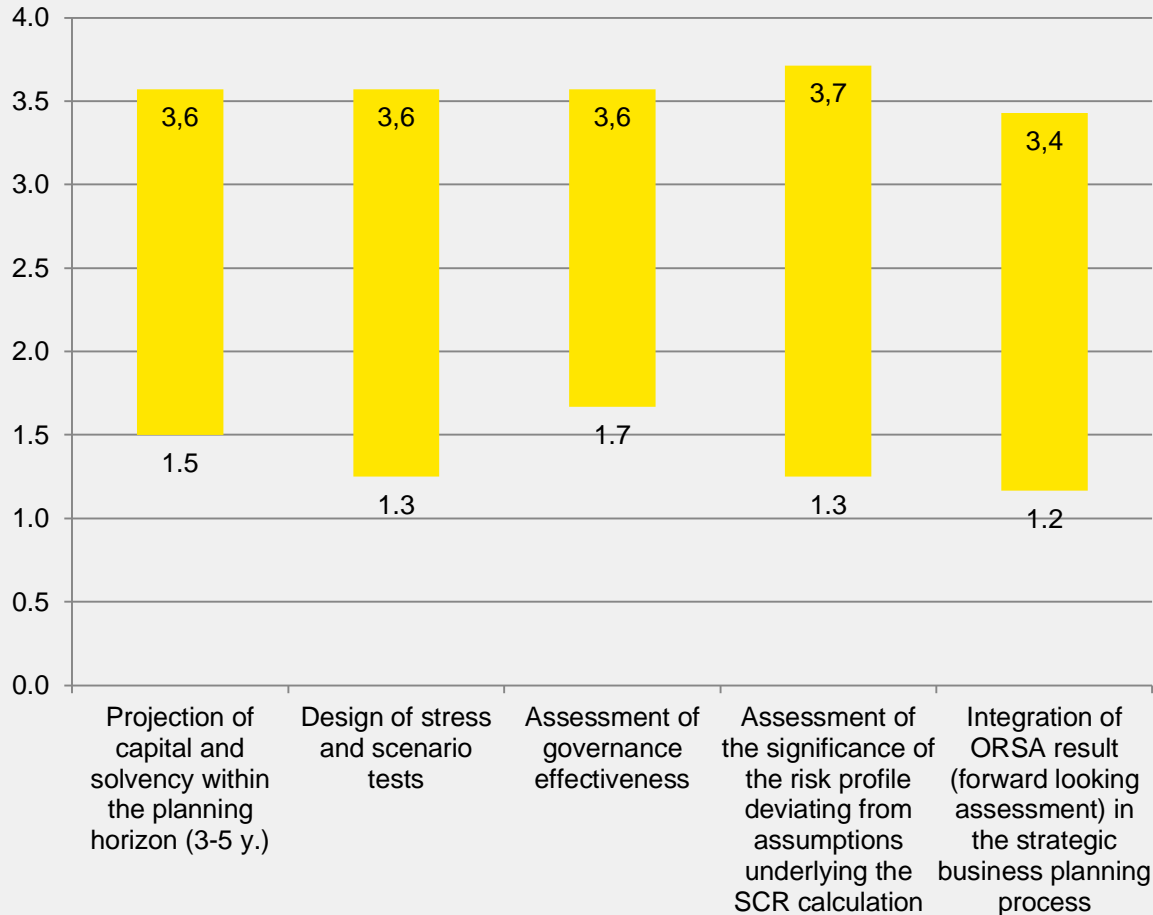
Key themes

- ▶ In most areas, organisations consider not yet reached minimum Solvency II compliance
- ▶ Most advanced on governance and control functions

Compliance with Solvency II requirements

ORSA readiness

ORSA implementation readiness spread



Key themes

- ▶ Wide spread across respondents and at country level
- ▶ Some country views are close to the extremes
- ▶ EIOPA preparatory guidelines drive the agenda

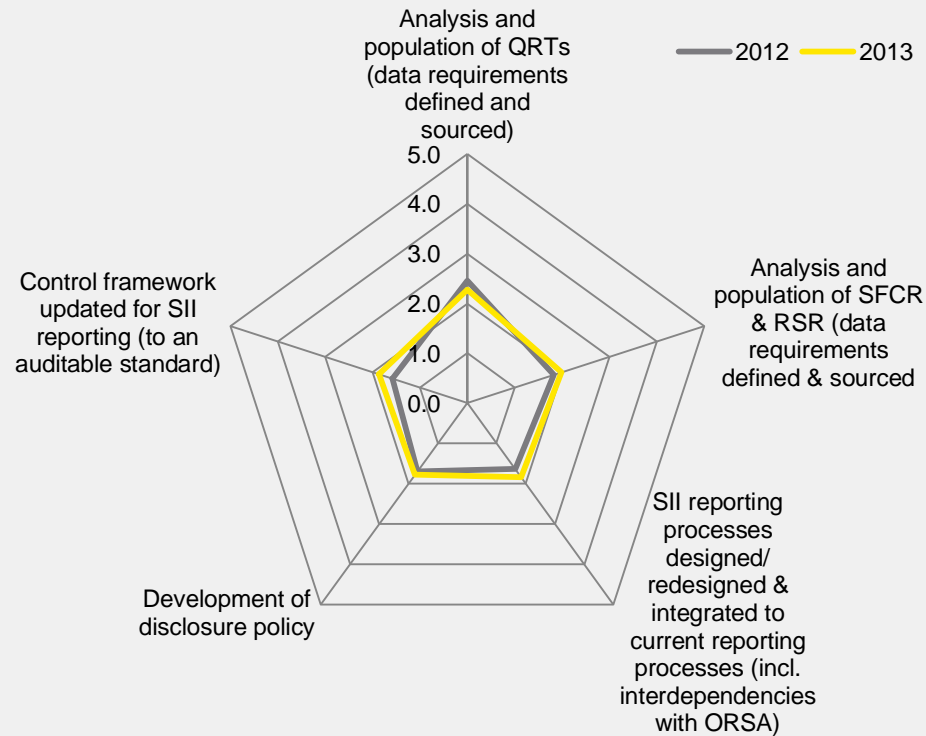
Implementation readiness – Pillar 3



Compliance with Solvency II requirements

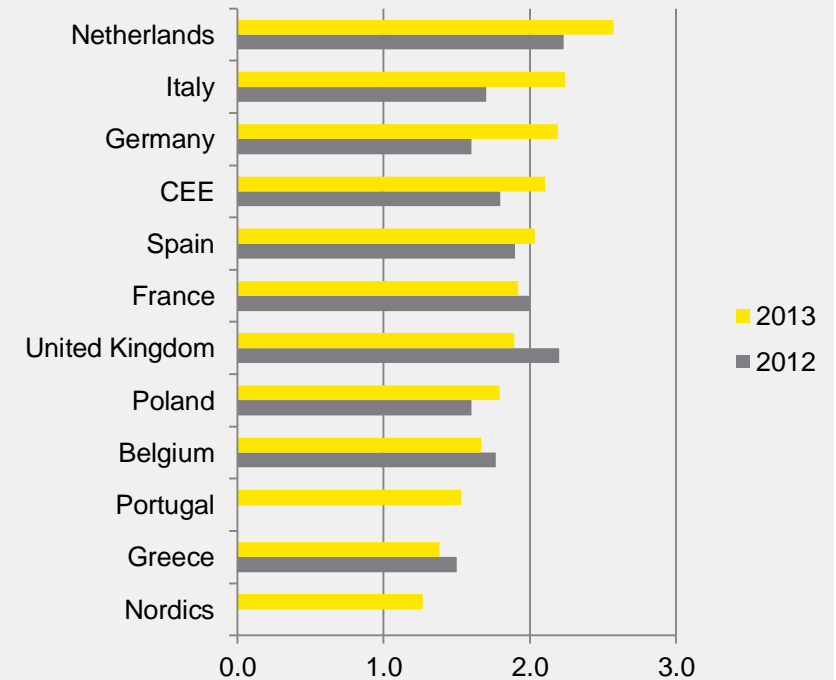
Pillar 3 compliance

Focus



Country comparison

1.13 Implementation of pillar 3 requirements



- ▶ Approximately 76% of European insurers only partially fulfil the respective requirements or do not fulfil any of the requirements yet.
- ▶ The phasing-in planned for 2015 puts additional pressure on the insurance companies
- ▶ Manual solutions by automated and integrated reporting concepts is expected for 2016 and follow-up years.

Data and IT readiness



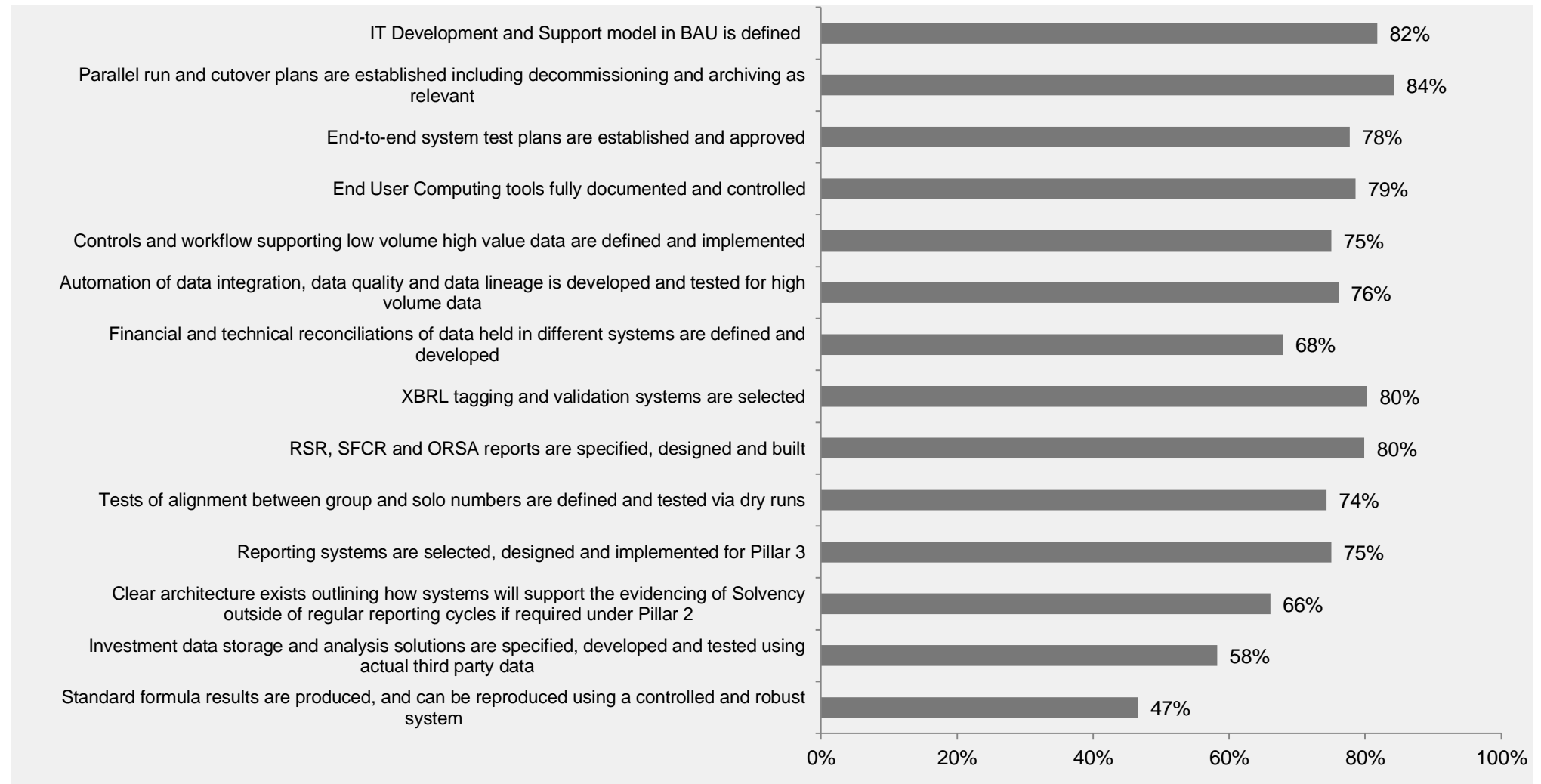
IT and data readiness – some positive progress

- ▶ Significant system investments made, especially on Pillar 1
- ▶ Responses indicate Pillar 2 also well advanced
- ▶ Organisations have made good progress in meeting most of the standard formula requirements
 - 53% now indicating that they can produce standard formula results in a repeatable, controlled and robust manner
 - Just 9% have not met any requirements
- ▶ 42% have met all or most requirements for investment data



Compliance with Solvency II requirements

IT readiness



Step 1 & 2: Requirements are not fulfilled / only some requirements are fulfilled.

IT and data readiness – significant challenges remain

- ▶ Arguably greatest challenge is design of IT infrastructure allowing consistent data exchange across all three pillars
 - ▶ Re-using business rules and sharing common data
 - ▶ Sufficiently flexible and scalable for ad-hoc reporting
 - ▶ Across data integration, quality and control
- ▶ Manual approaches common
 - ▶ Only 24% meeting most or all data requirements through automation
- ▶ 66% of respondents noted for Pillar 2 that data and systems not designed or ready to support ORSA beyond normal reporting cycle
- ▶ 79% of European insurance companies say they have met none or only some of the requirements to document and control end-user computing tools



IT and data readiness – short term horizon

- ▶ Decision to freeze or place programmes into BAU has led to limited progress across all Pillars
- ▶ Overall data and systems readiness for Pillar 3 continues to lag behind Pillars 1 and 2
 - ▶ Only 25% of respondents indicate they had selected and designed a system to meet most or all of the Pillar 3 requirements
 - ▶ Surprising 52% not selected a system to meet mandatory XBRL tagging requirements
- ▶ Significant near-term activity required ... however some lack of forward thinking apparent
 - ▶ 41% without end-to-end test plans
 - ▶ 44% without parallel run and cut-over plans
- ▶ Very significant challenges in reporting and ensuring robust data and IT remain – lots left to do quickly!



Summary and conclusions



Summary and conclusions

- ▶ Push to completion - project management and program governance
- ▶ Pillar 1 - decision making on options and IMAP readiness
- ▶ Pillar 2 - effectiveness is compliance the goal is efficiency
- ▶ Pillar 3 – tactical and strategic options
- ▶ IT and Data Investment – unavoidable
- ▶ Capital optimisation and operational transformation

Questions

<http://eyfsthoughtgallery.ie/>

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