



FINANCIAL RISK GROUP

SOLVENCY II: ARE YOU READY?

Solvency II is to insurance companies what Basel II was for banks. It applies to all insurance and reinsurance companies conducting business in the EU with gross premium income exceeding €5 million or gross technical provisions exceeding €25 million. The purpose of the guidelines is to define new EU-wide capital requirements and risk management standard practices aimed at increasing policyholder protection. Similar to Basel II, Solvency II is based on three-pillar structure impacting an insurer's risk-taking activities.

Among the guidelines are:

- A Solvency Capital Requirement (SCR) that is defined as a 99.5% VaR over one year. If unforeseen losses exceed this, the insurer is required to increase the amount of capital back to the SCR level.
- A Minimum Capital Requirement (MCR). If this is breached, the supervisor intervenes and can close the insurer to new business or transfer its portfolio to another company.
- A requirement that insurers apply market-consistent valuation to assets and liabilities in order to capture market, operational, default, actuarial and underwriting risks.
- An Own Risk and Solvency Assessment (ORSA). This must be performed at least annually and must be imbedded in the insurer's risk management process.
- A Supervisory Review Process (SRP), which ensures the insurer's compliance with Solvency II.
- A requirement that these two reports be produced: Report to Supervisor (RTS) and Solvency and Financial Condition Report (SFCR). The former is a private document submitted to the insurer's supervisor; the latter, an annual report available to policyholders, investors, intermediaries, and other third parties.

The European Commission's proposal is for Solvency II to be in place on January 1, 2013.

SOLVENCY II: HOW CAN THE FINANCIAL RISK GROUP HELP YOU?

The Financial Risk Group is a consulting firm that specializes in measuring financial risk and implementing the technology to support that. We cover the risk management process from end to end; data integration, analytics, reporting and user interfaces. To us a successful implementation not only means compliance with regulation, it also means furthering business objectives through best practices in risk management.

We have experience in Basel I and II implementations. As a result, we are familiar with the three-pillar structure of Solvency II and the complexity that is involved in mapping regulatory guidelines into a business's unique framework.



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Solvency II not only concerns the asset side of your balance sheet, but it also impacts the liability side. Therefore, you will need a partner who understands the various risks on both sides of the balance sheet.

We understand that your insurance assets and liabilities may have market-contingent features requiring special techniques (e.g., stochastic Monte-Carlo simulation). For that you will need a partner with financial modeling expertise.

We know that the need that for high-quality, reliable and consistent data is critical in model building and creating your internal experience studies (mortality, laps and expense studies). You will need a partner with expertise in implementing large-scale ETL projects.

Please contact us at (919) 449-6742 or info@frgrisk.com for more information about how we can assist you.

For additional information, the following Websites provide further information on Solvency II:

<http://www.fsa.gov.uk/Pages/About/What/International/solvency/index.shtml>

http://www.fsa.gov.uk/Pages/About/What/International/solvency/solvency_library/index.shtml

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:335:0001:0155:EN:PDF>