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**Solvency II: Strategic Stakes for
the Insurance Industry**

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**Solvency II: Challenging Issues for
Insurance Industry**

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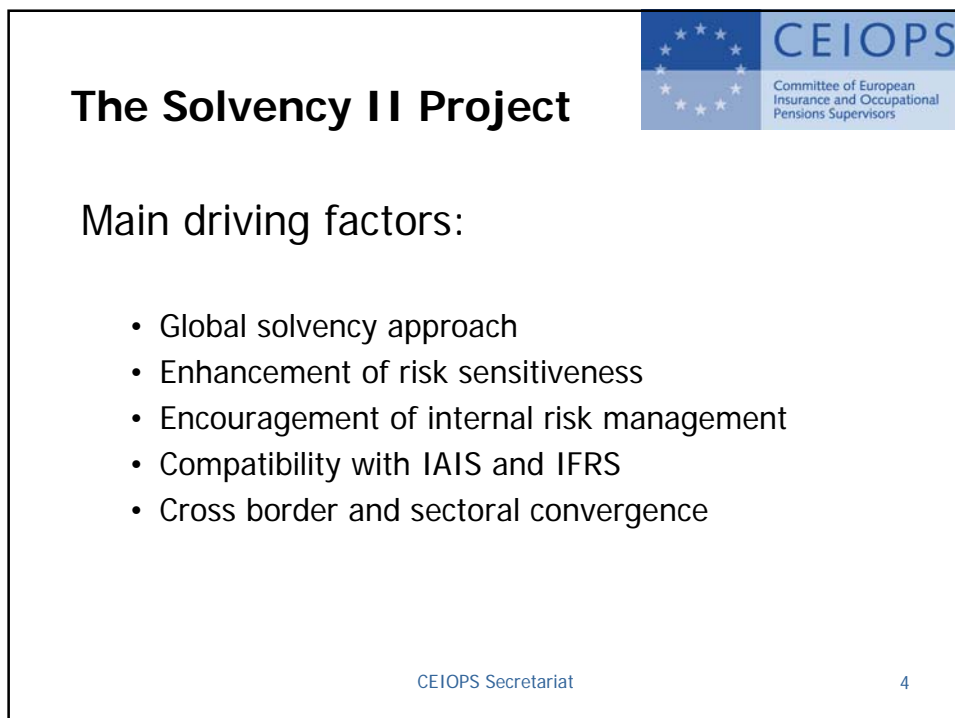
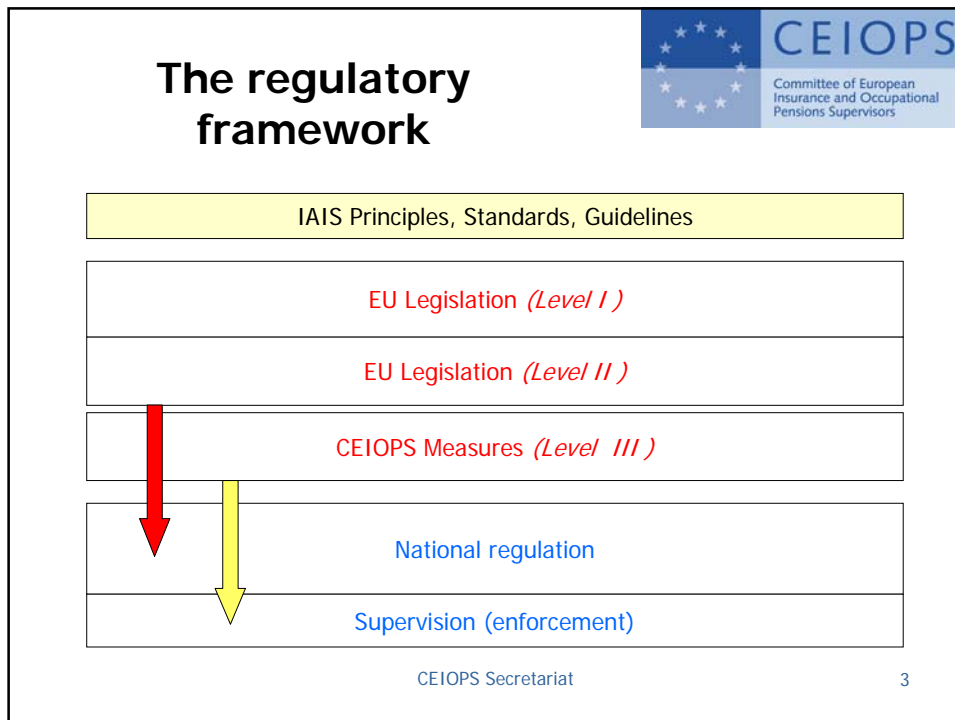
Strategic challenges of Solvency II


Alberto Corinti

Arguments



- The forthcoming regulatory framework
- Work in progress on Solvency II
- Main challenges






The Solvency II Project

The general design (three pillars)

- I. Financial requirements
- II. Internal management and supervisory practices
- III. Supervisory reporting and disclosure requirements

Inspired by, but not necessarily identical to, Basel II

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The Solvency II Project: main lines

The first pillar

- **Capital requirements**
 - Minimum level (safety margin)
 - Objective calculation (e.g. factor-based)
 - Ultimate supervisory intervention
 - Target (economic) capital (SCR)
 - Standard formula (assumptions on quantifiable risks)
 - Use of internal model
 - Link with the supervisory review process (pillar II)
 - » Validation of internal models
 - » Allowed reduction or addition of capital requirement
 - » Solvency control levels

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The Solvency II Project: main lines




The first pillar (continued)

- **Technical provisions**
 - Explicit and harmonized prudential level
- **Investments**
 - “Prudent person - plus” approach:
 - Principles on management
 - Quantitative limits when appropriate
 - Capital requirements on investment risks
 - Also coverage of capital requirement

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The Solvency II Project: main lines



The second pillar

- **Internal management, i.e.:**
 - Governance, internal control and risk management
 - Assessment of risks not included in Pillar I
- **Supervisory process, i.e.:**
 - Process
 - Off-site and on-site reviews
 - Powers of intervention and solvency control levels
 - Transparency
 - Tools
 - Stress tests, Early warning indicators

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The Solvency II Project: main lines



The third pillar

- Public disclosure of financial situation and exposure to risks
- Supervisory reporting

Need of consistency with accounting framework

The Solvency II Project



An horizontal issue: **Group Supervision**

“Old issues”

- Coordination of responsibilities between supervisors
- Adjusted eligible elements of capital

“New Solvency II issues”

- Validation and monitoring of internal models
- Recognition of group's diversification effects in designing the capital requirements

Revision/replacement of IGD and FCD

The Solvency II Project: main trends



- › Focus on “risk management” and governance
- › Enhanced role of capital requirements
- › New instruments and processes both at firm and supervisory level (e.g. internal models)
- › Wider use of “ex ante” tools (e.g. stress analysis)
- › Cross border and sectoral convergence

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Challenges




The rule-making process

- Cost-benefit analysis in advance
- Consultation
- Ex-post evaluation
- Appropriate transposition of EU legislation
- Enforcement of supervisory measures

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Challenges




The prudential regulation

- Risk sensitiveness/Practicability
- Treatment of group structures
- Focus on management
- Worldwide consistency (IAIS)
- Compatibility with accounting framework

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Challenges



The supervision

- Appropriate powers, resources, skills
- Convergent approach, process, tools
- Ways to cooperate
- Transparency of review process

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Challenges



The industry

- Contribution to the rule-making process
- Risk measurement and management
- Internal control systems

- Impacts on capital?

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