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&

A Reputational Risk Management Framework

Report prepared for The Geneva Association
and Macros Research

by Dr. Riccardo Bigio

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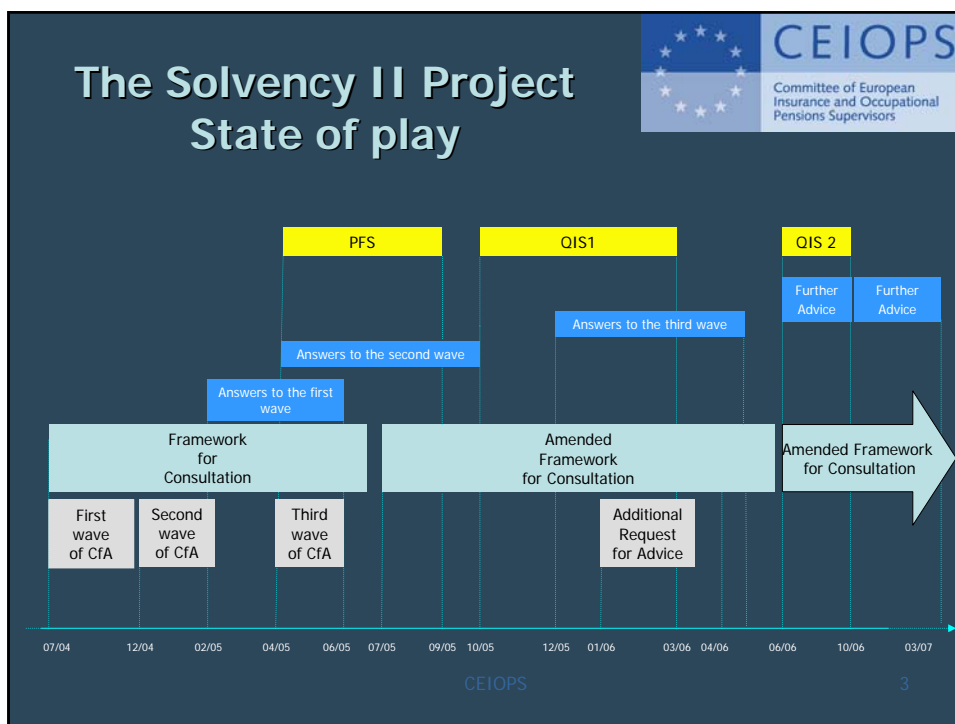
The work of CEIOPS on Solvency II

Alberto Corinti

Outline

- State of play
- Preliminary indications from QIS2
- Highlights of CEIOPS' last draft advice
- Future work





The Solvency II Project State of play

November 2006:

- *Delivering of further advice (CP 13 -14) on*
 - *Firms' Internal risk assessment, supervisory powers and other Pillar II issues*
 - *Group diversification effects, Sub-group supervision and other group issues*
- *Report on QIS2 results (public report ready beginning Dec)*
- *Further Consultation papers on (possible supplement in Dec.)*
 - *Technical provision, SCR, MCR, internal models, capital and other Pillar I issues*
 - *Pillar II issues related to safety measures (including limits on assets), reinsurance, supervisory powers and capital add-on)*
 - *Public disclosure and supervisory reporting*

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The Solvency II Project next steps



March 2007:

- *Delivering of advice on issues included in the October CPs*
- *Further consultation papers on "Solvency Control Levels"*
- *Definition of QIS3 specifications*

April – June 2007: QIS3 executed

October 2007:

- *Further consultation papers on, among other issues, MCR and SCR standard formula (final advice expected in Spring 2008)*

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Preliminary indications from QIS2



- Improved representation;
- Overall solvency resilience under QIS2 valuation principles; Average impact on Solvency as a combination of opposing effects: TP appear to decrease, SCR to increase and eligible capital to increase;
- Apparent slight preference for CoC;
- Useful indication for definition of SCR risk modules and further work on calibration. E.g.:
 - Market interest rate risk
 - Correlation matrix
 - K-factor

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Some highlights of last Pillar I draft advice



- Technical provisions
 - Principle of market consistent valuation
 - For hedgeable risks, market consistent values should be based on deep liquid and transparent markets (Level 3 measures are necessary);
 - For non-hedgeable risks,
 - Best estimate remains central
 - Risk margin should be calculated using the cost of capital approach, under set conditions
 - Supervisors should have the power to require strengthening of TP as part of Pillar II tool kit
- Need of limits on assets for addressing risks which are not captured in SCR formula (concentration and liquidity)

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Some highlights of last Pillar II and III draft advice



- Capital add-on
- Treatment of non EU reinsurers
- Supervisory powers (room for level 3)
- Disclosure of capital requirements

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On going discussion



- Design of SCR standard formula
- Consideration of loss absorbing components
- Design of MCR and relations with SCR
- Group issues

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Future work of CEIOPS: the supervisory measures



Level 1 : Framework principles
(EU legislation)

Level 2: Implementing measures
(EU legislation by a comitology procedure)

Level 3: Actual Implementation
(supervisory measures)

Level 4: Enforcement
(traditional infringement procedure)

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Potential issues in the future Solvency II regime



- *Inconsistent national implementations*
- *Divergent approach and tools in national supervision*
- *Fragmented supervisory process*
- *High cost for compliance*

The legislative framework should set the basis for avoiding or limiting these issues.

But this should be complemented by appropriate actions at level 3. How?

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Level 3 work on Solvency II



Contributing to effective EU regulatory convergence


- *Exchange of information on national interpretation and implementation*
- *Comparisons on national transpositions (also web-based)*
- *Surveys and analysis on any issue or inconsistency*
- *Standards on areas not covered by EU legislation*
- *Recommendations to EU Commission*

Converging supervisory processes and tools

- *Standards on supervisory tool-kit and best practices*
- *Common reporting and sharing of data between supervisors*
- *Supervisory disclosure*
- *Follow up of implementation of CEIOPS standards (peer reviews)*
- *Self-managed system for reconciling, when necessary, any diverging views*

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Level 3 work on Solvency II


Creating common supervisory culture

- *Think-tank and discussion forum*
- *EU-wide training programmes*
- *Platform for exchange of staff of EU Authorities*

Facilitating cooperation in day to day supervision

- *Conclusion and review of agreements (MOUs)*
- *Developing operational networks (groups)*
 - *Streamlined exchange of information*
 - *Common assessment*
 - *Delegation of tasks*
 - *Joint actions (on site inspections)*
 - *Procedures for crisis management*

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Conclusion

- Solvency II is not only a set of rules addressed to firms, but a comprehensive system for carrying out day to day supervision
- Its success will also depend on how CEIOPS will cover its role as a Level 3 Committee, supporting national supervisors
- At the moment CEIOPS is contributing to create the regulatory framework (level 1 and, soon, level 2)
- Actual implementation of Solvency II should rely on advanced and convergent supervisory arrangements and tools at EU level (level 3). CEIOPS is playing a major role here.
- CEIOPS intends to develop its activity accordingly, in cooperation with all stakeholders.

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