

SOLVENCY II: MIND THE GAP

Willis

GCP ALERT

MARCH 2010

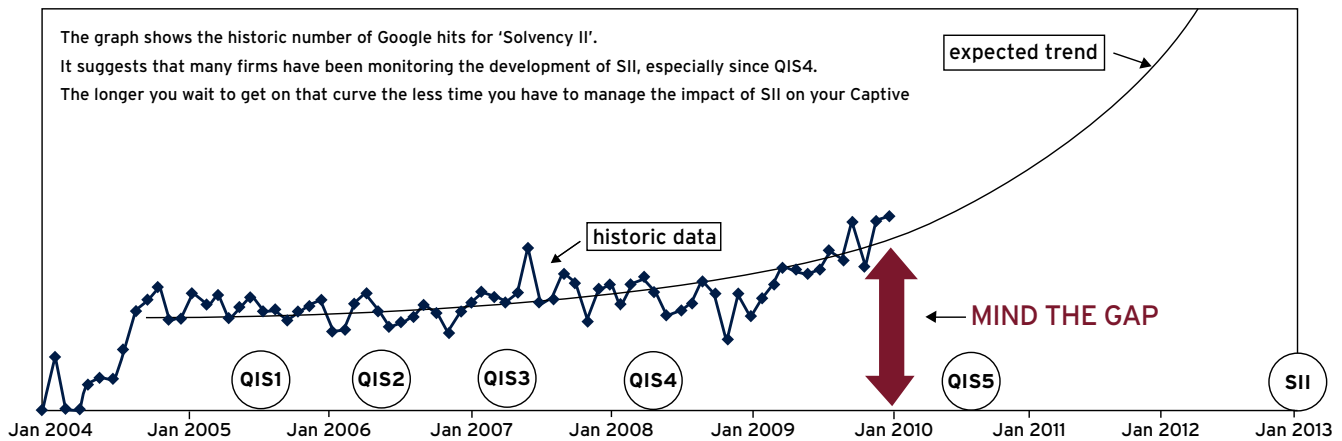
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NOT YET TAKEN FIRST STEPS ON THE SOLVENCY II LADDER? WILLIS CAN HELP YOU!

THE SOLVENCY II PROJECT CONTINUES AT FULL SPEED

Solvency II is a new capital adequacy regime for EU insurers and reinsurers that will take effect in early 2013. It establishes new EU-wide risk-based solvency requirements, valuation techniques and risk management standards that will replace the current Solvency I regime under which EU domiciled insurers and reinsurers now operate.

INDUSTRY PREPARATION FOR SOLVENCY II



MIND THE SOLVENCY II GAP!

- QIS4 was a major step towards the finalisation of the standard formula for Pillar I (Quantitative requirements) and put Solvency II at the forefront of the Insurance industry's agenda
- Don't wait for QIS5 (August) as business decisions taken now will affect your Solvency II capital requirement in 2013

NOT AWARE OF QIS4 AND QIS5? DON'T PANIC!

- QIS studies allow firms to better understand the impact of Solvency II, take actions and benchmark themselves against their peers
- The sooner you understand the data and modelling challenges and their capital implication the easier it will be to manage (review of underwriting decisions and pricing at forthcoming renewals as well as actual need to raise capital)

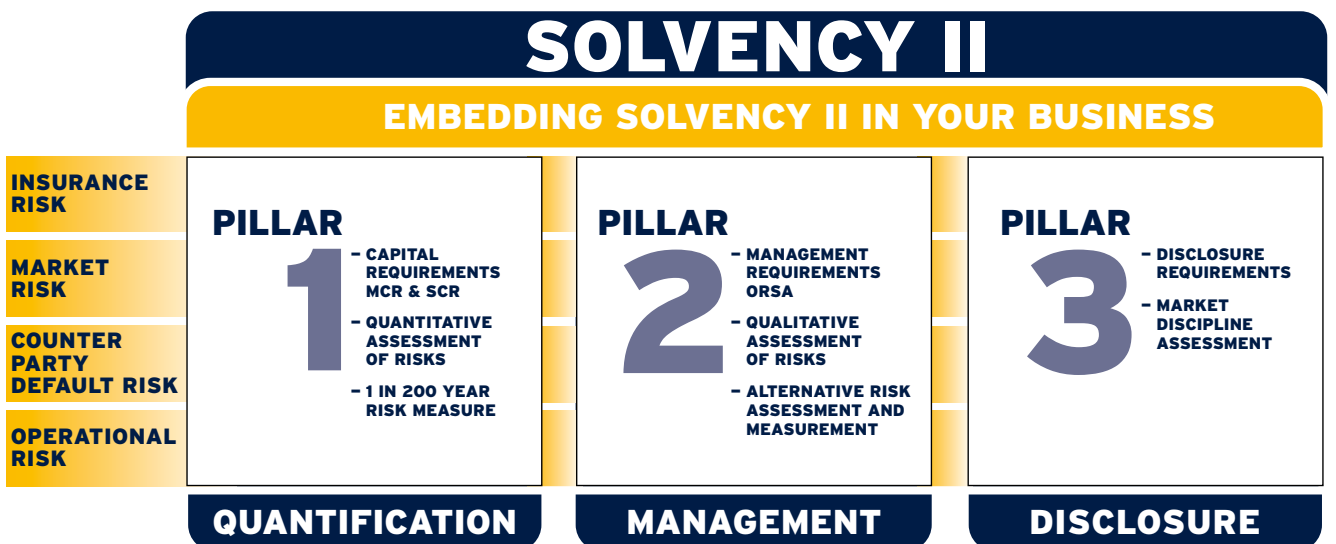
- In our experience Pillar I (Quantitative analysis) and Pillar II (Qualitative analysis) are closely linked and engaging on a QIS exercise will greatly assist stakeholders in understanding the overall implications of SII on their business

HOW WILLIS GLOBAL CAPTIVE PRACTICE CAN HELP

- Willis is involved in Solvency II with its clients and key stakeholders (National regulators, CEIOPS task forces, Industry groups, Rating agencies, etc.)
- With our experience of QIS4 and our monitoring of changes from QIS4 to QIS5 you do not need to wait for QIS5 (August) to get on the Solvency II ladder
- We can deliver a bespoke 'QIS5 preparation' to help you understand the Standard Formula and how it relates to your business model
- We can also perform a gap analysis covering Pillar II to map out an implementation plan for compliance with Solvency II

SOLVENCY II - JARGON BUSTER

Solvency II Pillars	The pillars which represent the structure of Solvency II regulation (see below for a summary of the scope of each)
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors (The European Commission's Insurance Advisors)
MCR	Minimum Capital Requirement is intended to be a safety net and reflects the level of capital below which ultimate supervisory action could be triggered
SCR	Solvency Capital Requirement reflects the level of capital that enables an insurer to absorb significant unforeseen losses and that gives reasonable assurance to policyholders and beneficiaries
ORSA	Own Risk and Solvency Assessment – the entirety of the processes and procedures employed by a (re)insurer to identify, assess, monitor, manage and report the short- and long-term risks it faces and to determine the own funds necessary to ensure that the undertaking's overall solvency needs are met at all times
QIS	Quantitative Impact Studies promulgated by CEIOPS to be undertaken by (re)insurers to assist those in preparing for Solvency II. QIS exercises are also used by CEIOPS to design and calibrate the Standard Formula. 4 QIS have already been undertaken; at least one more will take place in Q3 2010
Standard Formula	European standard formula for a Financial Capital Model allowing a company to calculate its SCR and MCR under Pillar I
Internal Model	A Financial Capital Model developed by the (re)insurer to assess and continually review its own risk and solvency requirements. Internal models must be approved by the regulator
Partial Internal Model	A mixture of the Standard Formula and a full Internal Model



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