



INSURANCE

Group supervision and strategy under Solvency II

Institute of Risk Management Seminar

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ADVISORY

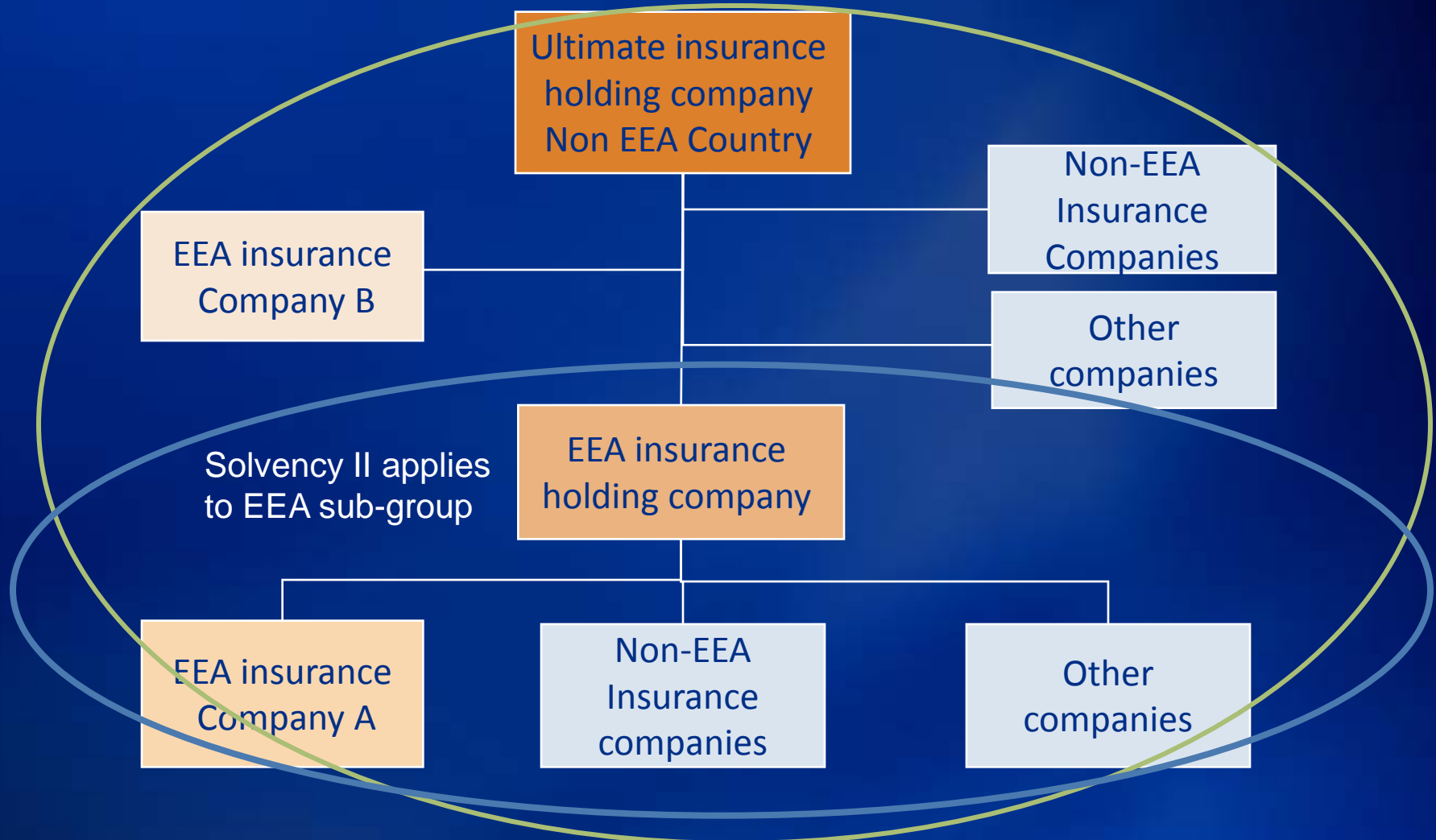
Group supervision under Solvency II

Overview of group supervision

- Designed to address the risks to solo undertakings arising from their membership of a group
 - Financial crisis highlighted the consequences of ineffective management of group risk
- A “group” is a term used to define a set of relationships between legal entities. A group must be identified in order to trigger group supervision
- Under Solvency II, group rules only apply to insurers and reinsurers, but the scope of group supervision is wider than just the regulated insurance entities
 - Lloyds of itself does not trigger the groups requirements but must be included once triggered
- Group supervision is not just a Solvency II issue
 - Regulators worldwide are increasingly focussed on the effective supervision of groups, with significant implications for international groups

Group supervision under Solvency II

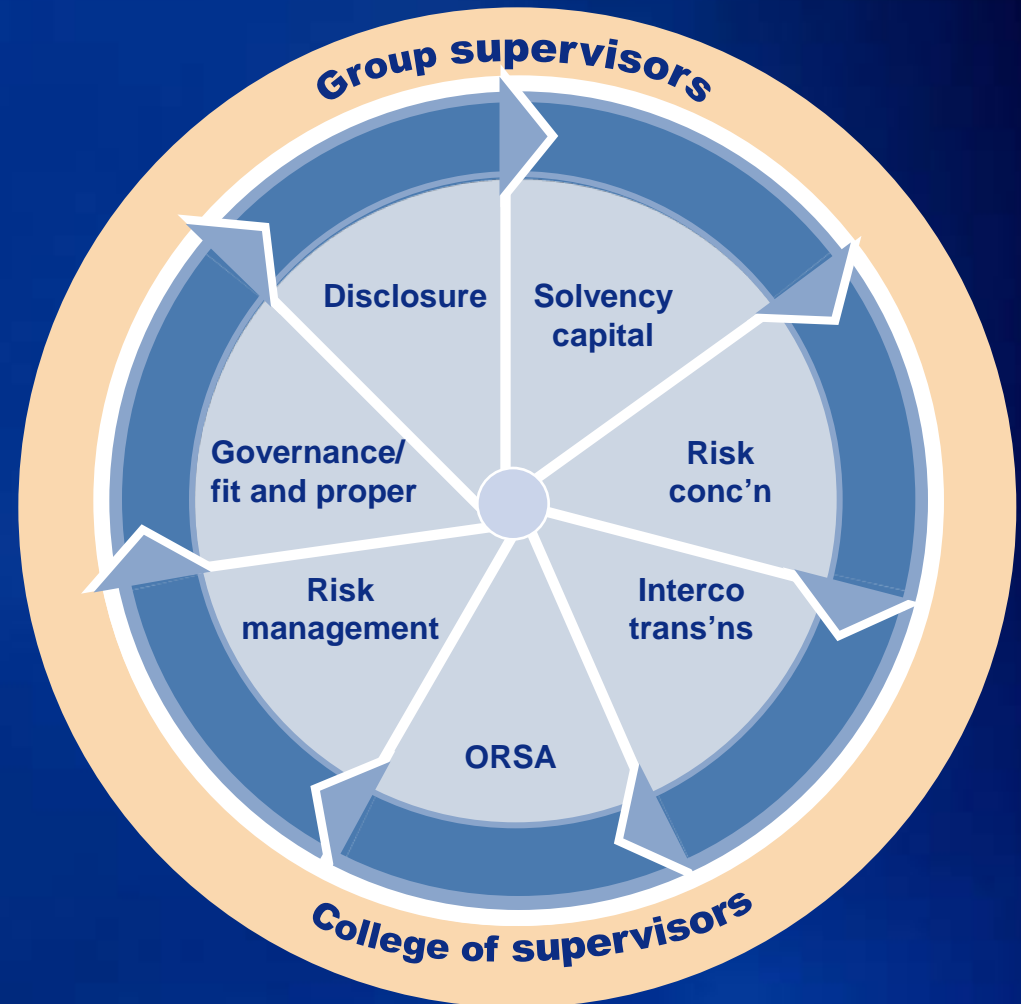
What level will group supervision apply?



Group supervision under Solvency II

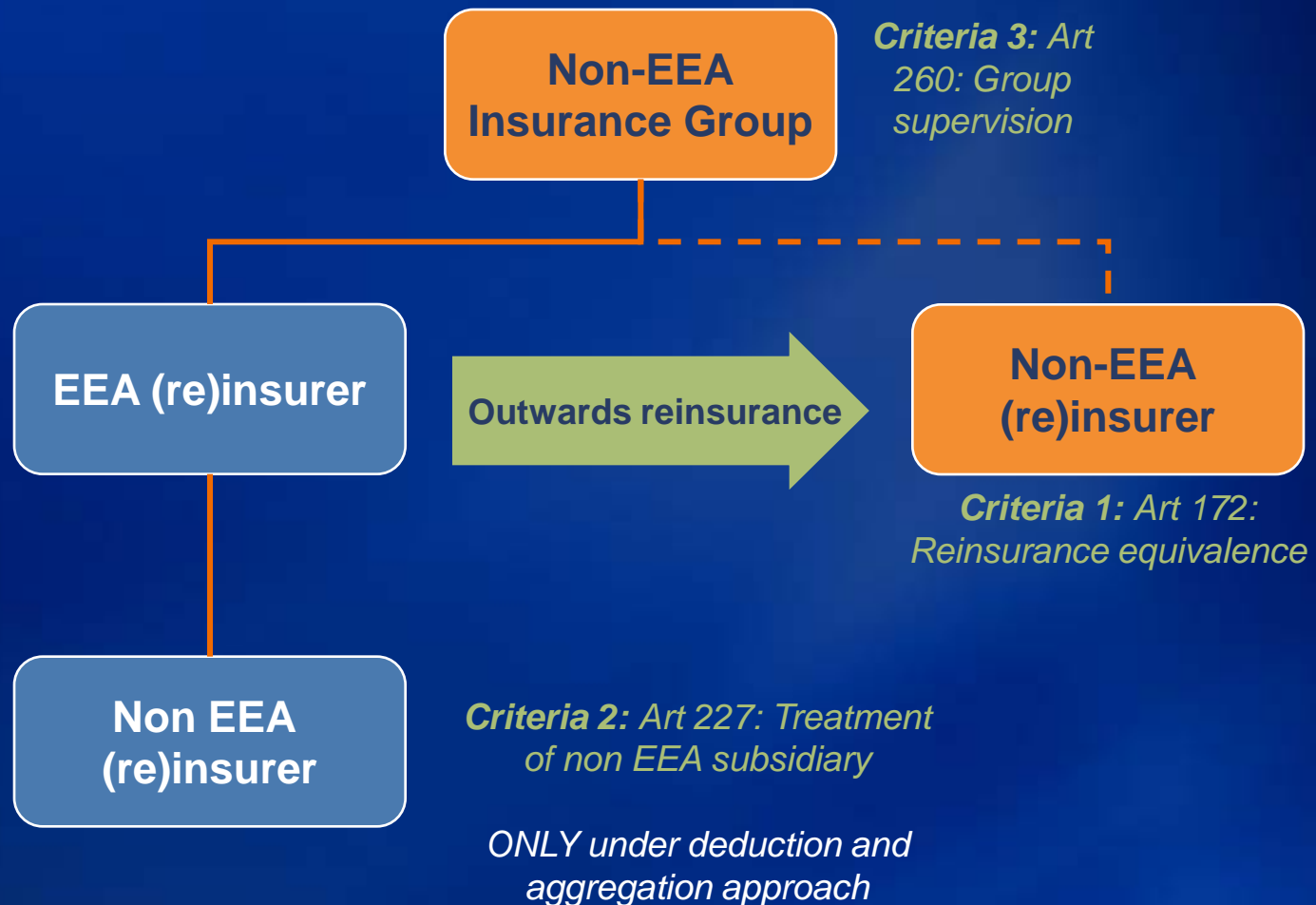
Scope of group supervision

- All three pillars apply
- Pillar 2 aspects include:
 - Fit & Proper (parent Board)
 - Group-wide risk management
 - Group ORSA
- Pillar 3:
 - Annual: 4 weeks extra
- College of supervisors
- Additional requirements
 - Risk concentrations
 - Intra-group transactions



Group supervision under Solvency II

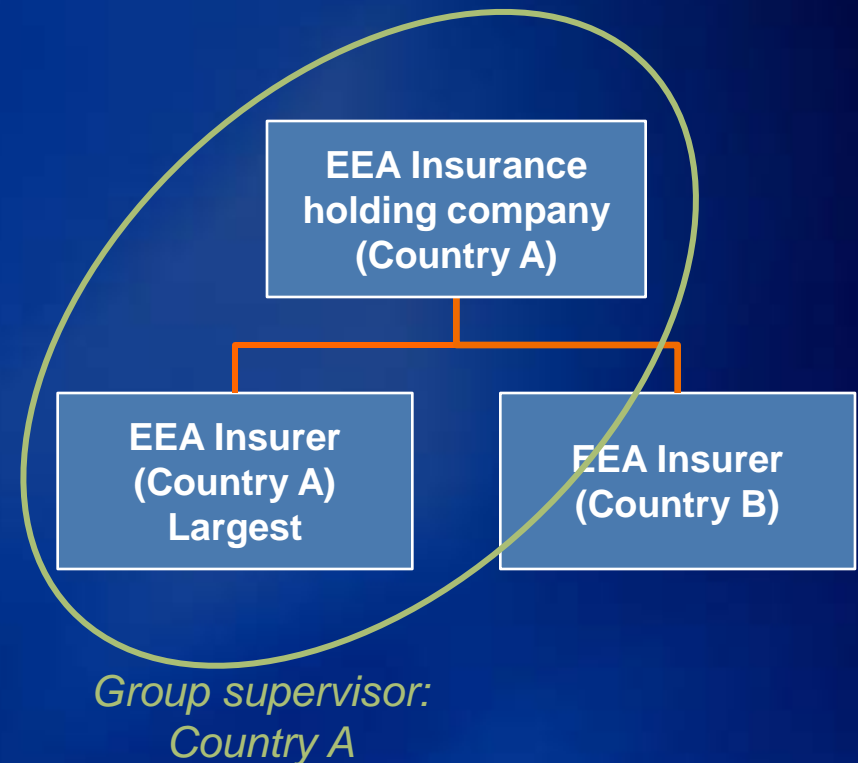
Overview of equivalence articles



Group supervision under Solvency II

Group supervisor & college of supervisors

- Determination of group supervisor is “an art not a science”
- Key factors include:
 - Location and scale of EEA insurance entities
 - Location of EEA insurance holding company
 - Where holding company and largest EEA insurer in same EEA state, group supervisor will tend to be that regulator
- Key tasks of college include:
 - Approval of any group internal model
 - Assessment of compliance with group solvency requirements
 - Assessment of group governance arrangements
 - Agreeing the approach to non EEA insurance entities



Structural aspects and group supervision strategy

Optimising the approach to group supervision: Common themes

- Capital efficiency – group internal model, branch structure?
- A reputable group supervisor?
- Minimise regulatory burden/duplication?
- For non EEA groups, limit application of Solvency II to EEA?
- Address the groups requirements in a business compatible manner – fit with operating/business/model and future plans, compliance evidence drawn from business MI?
- Enhances market positioning?
- Supports good regulator relations?
- For international groups, a single group wide framework for addressing the requirements of multiple regulators?

Given the far reaching implications, optimising the group supervision strategy needs to be considered in the context of the group business strategy and requires a balance to be drawn with other commercial priorities – structure in its widest sense will be key to the approach

Structural aspects and group supervision strategy

Key challenges for EEA and non EEA groups

EEA (Sub) Groups

- For some, clarity of EEA group supervisor
- Different regulator approaches within the college
- Compliance complexity due to structure and nature of operations (consistency)
- Dealing with non EEA entities in the group

Non EEA groups

- Lack of clear, formal group supervisor
- EEA supervisor approach to non equivalence – risk of full application of Solvency II to group?
- Group culture and operating structure generally not designed for Solvency II style regulation – implications for EEA approach

A key challenge for all groups remains what will be the approach by the EC to equivalence, to enable clarity of requirements and hence finalise the practical approach

Structural aspects and group supervision strategy

Restructuring trends

- Restructuring to clarify/deliver (preferred) group supervisor
- Consolidate EEA insurers, legacy business - supercarriers
- Simplification - financial/non financial
- Structure to eliminate EEA national subgroup supervision
- For non EEA groups, consider ringfencing EEA through EEA holding co/sub group – location of Lloyd's
- Non EEA operations
 - Where US & ROW operations dominant - various and radical options
 - Remove non EEA operations from EEA sub group
- Review stacked vs flat structure
- Review internal reinsurance
- Capital assessment/restructure

Wider commercial aspects such as tax and business requirements need to be balanced with regulatory considerations

Structural aspects and group supervision strategy

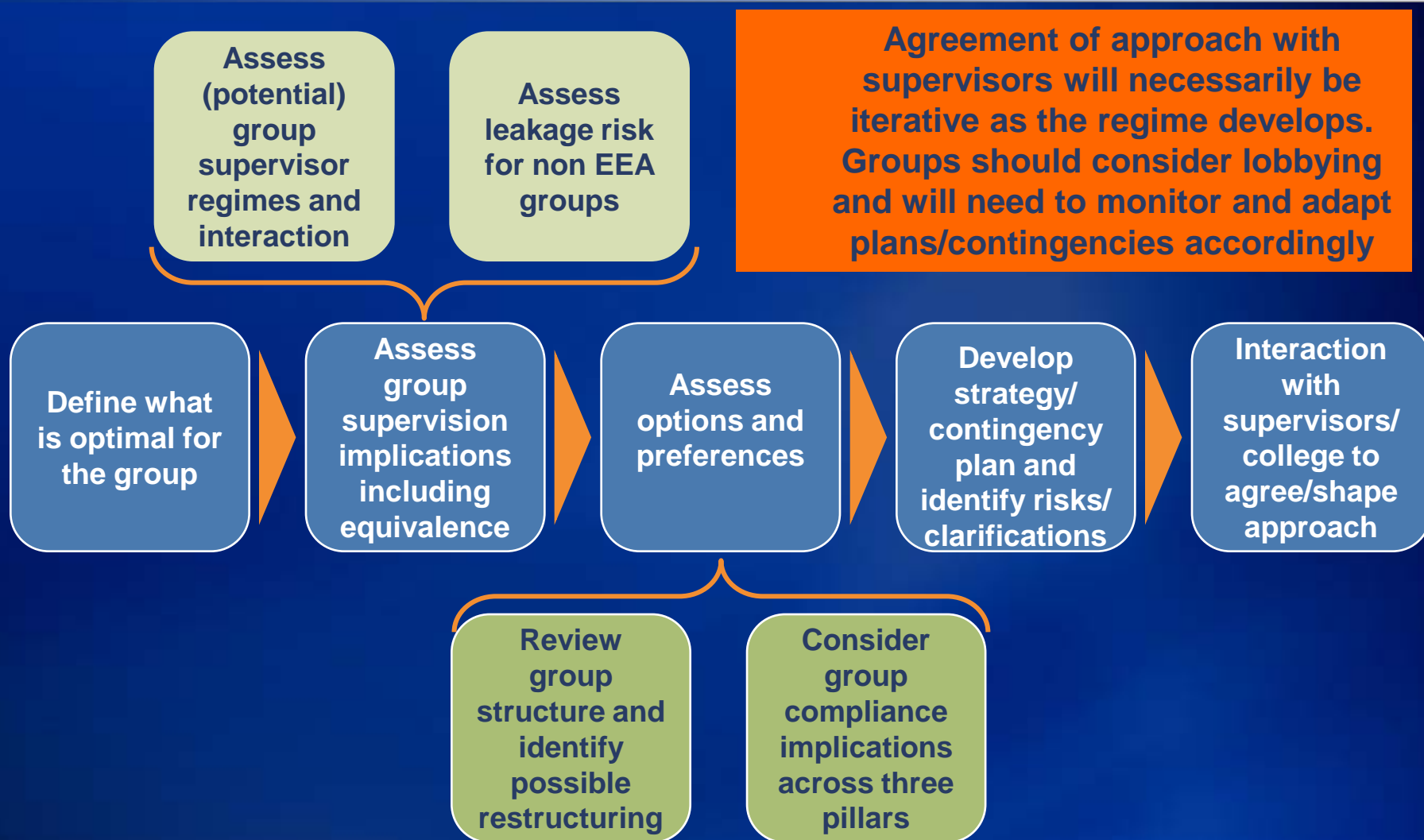
Non EEA groups: Approach to “leakage” - Article 262

- In a Solvency II context, leakage is the risk that, in the event of non equivalence, the EEA supervisor applies full Solvency II to the worldwide group
- Leakage risk assessment involves
 - Identifying the group risks to the EEA including connectivity of EEA operations with group e.g reinsurance, financing, insourcing, functional/skills dependencies
 - Assessing controls and evidence in place to mitigate group risk to EEA entities
- Greater dependency and influence of group, more likely the EEA supervisor will require full Solvency II for the group including supervisory review
- Understanding leakage risk and demonstrating this supports non EEA groups in achieving a balanced response to Solvency II group supervision

For non EEA groups leakage impacts will be key to optimising the group supervision strategy. Early consideration is necessary to prepare for effective engagement with the EEA supervisor to establish the implications and agree a satisfactory approach

Structural aspects and group supervision strategy

Developing a strategy for groups supervision



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