

Solvency II Breakfast Briefing

Update on changes to Wave 3 consultations papers

Presented by
Dermot Corry
Principal

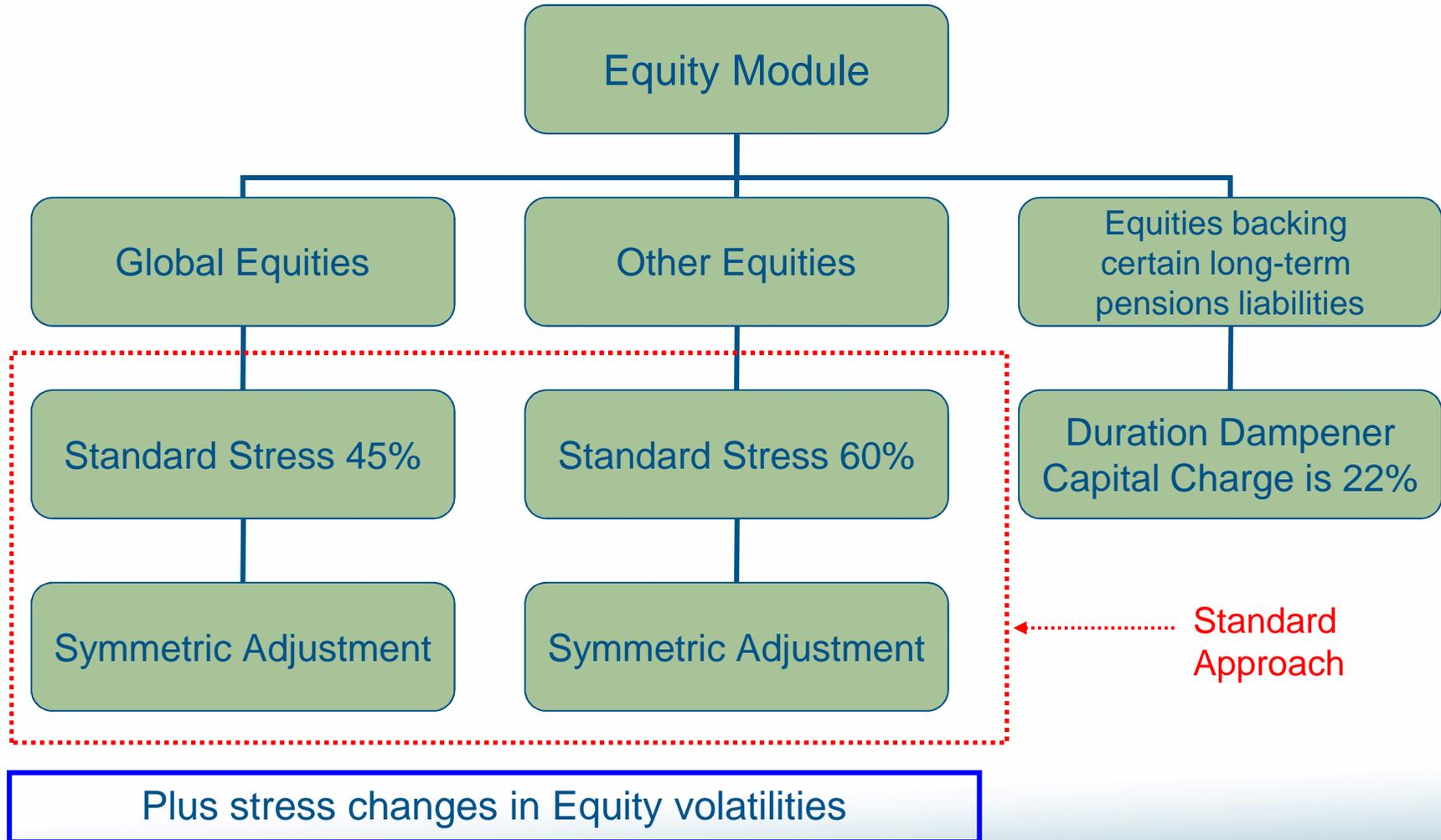
March 2, 2010



Agenda

- Calibration of the Equity Risk module – update to CP69
- Calibration of the Market Risk module – update to CP70
- Correlations between Modules – Update to CP74
- Brief Update on current status

CP69 – Equity Risk Module



Global and Other

Global Equities

- Must be **listed** in either an **EEA** country or an **OECD** country
- Standard stress is 45% (no change from CP69)
- Some CEIOPS members propose 39%, but majority favour 45% (one wants to stay with 32%)

Other Equities

- Standard stress is 55% (compares with 60% in CP69)
- No change to Symmetric Adjustment – i.e. $\pm 10\%$ based on one year performance

Equity Volatility

CP69 Recommendation:

- A relative volatility stress of around 60% in the upward direction and around 15% in the downward direction
- Same calibration to apply for global and other

Final Advice:

- A relative volatility stress of 50% in the upward direction and 15% in the downward direction
- Same calibration to apply for global and other
- Undertakings may assume correlation coefficient of 0.75 between equity level and upward equity volatility and 0 between equity level and downward equity volatility

Interest rate risk stresses

Maturity in years	CP70		Final Advice	
	Up	Down	Up	Down
1	94%	-87%	70%	-75%
2	85%	-73%	70%	-65%
3	78%	-63%	64%	-56%
4	70%	-56%	59%	-50%
5	64%	-50%	55%	-46%
10	51%	-34%	42%	-31%
15	44%	-34%	33%	-27%
20	40%	-33%	26%	-29%
25	37%	-49%	26%	-30%
30	37%	-49%	25%	-30%

- Substantial reduction in stress levels from CP70.
- Particularly high reduction at longer durations.
- Revised stresses are below the levels in QIS4 at many durations and equal in others.

Interest Rate Volatility

CP70 proposed

- Relative upwards volatility shock of +95%
- Relative downwards volatility shock of -20%

Final Advice

- Additive stress of +12% or -3% as appropriate
- Avoids very high stresses when volatility is already high
- Correlation between interest rate term structure and volatility set to zero

Property risk

	Final Advice	CP70
City Offices, Retail, Warehouse	25%	30%
Offices other than City Offices	25%	25%
All other Property	25%	25%

- No longer a requirement to consider each category of property separately.

Spread risk

- Changes to the groupings of years and number of rating categories
- Substantial reductions to the charges though still above QIS4

F(ratingdist, tenure)	AAA	AA	A	BBB	BB	B	CCC or lower	Unrated
0-1.9 years	0.8%	1.6%	4.7%	8.1%	20.9%	41.5%	65.9%	9.7%
2-3.9 years	1.6%	3.1%	8.1%	14.7%	34.1%	59.7%	83.3%	17.6%
4-5.9 years	2.3%	5.0%	10.9%	20.2%	43.0%	68.2%	88.4%	24.2%
6-7.9 years	3.5%	7.4%	14.0%	25.2%	50.4%	73.3%	90.7%	30.2%
8+ years	4.7%	9.7%	17.1%	30.2%	56.2%	77.1%	91.9%	36.2%

CP 74 – Correlation Factors - Market Risk

- A number of the correlations have reduced
- Bi-directional parameters for some risks – if exposed to a fall use the higher parameter, if exposed to a rise use the lower

CP74 (QIS4)	interest rate	equity	property	spread	currency	concentration
interest rate	1					
Equity	0.5/0 (0.5)	1				
Property	0.5/0(0.5)	0.5(0.75)	1			
Spread	0.5/0 (0.5)	0.5(0.75)	0.5 (0.75)	1		
currency	0.5 (0.5)	0.5 (0.5)	0.5 (0.5)	0.5 (0.5)	1	
concentration	0.5 (0.75)	0.5 (0.5)	0.5 (0.75)	0.5 (0.5)	0.5 (0,5)	1

- Reductions in the correlation parameters and the Bi-directional factors should lead to a reduction in capital needs

CP69, CP70, CP74

- Overall some scaling back of increases introduced in the Consultation papers
 - Small reduction in impact of equity market risk
 - Change to impact of equity market volatility
 - Substantial change to interest rate shocks and to volatility
 - Marginal change to property stress
 - Very significant changes to Spread Risk
 - Significant changes to market and life correlation matrices

- Capital still higher than QIS4 but lower than implied by consultation papers

Solvency II timetable

2010	2011	2012
<p>January: CEIOPS finalised advice to the Commission.</p>	<p>Q1/2: CEIOPS publishes draft Level 3 supervisory guidelines.</p>	<p>Member states transpose Solvency II into national laws.</p>
<p>Q1: Commission hosts public hearing on Solvency II.</p>	<p>April: CEIOPS publishes QIS5 report.</p>	<p>Solvency II comes into force at start of 2013</p>
<p>Follow-up work on key issues such as illiquidity premium</p>	<p>Q3/Q4: Internal model review/approval process.</p>	
<p>March: CEIOPS provides Commission with draft QIS5 technical specification.</p>	<p>December: CEIOPS publishes final Level 3 supervisory guidelines, including impact analysis.</p>	
<p>Internal model pre-application process.</p>	<p>Level 2 implementing measures in place.</p>	
<p>August-November: QIS5.</p>		
<p>October/November: Commission adopts implementing measures.</p>		

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