



**PRUDENTIAL**

# **Solvency II: the view from 2020**

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## The challenge for Solvency II

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- A view of the EU insurance industry in 2020:
  - strong and resilient; competitive; secure platform for long-term savings of EU citizens
- Solvency II aims:
  - policyholders protection; improve capital allocation; and deepen the Single Market in insurance
- and also need to take into account:
  - global competition; growth in emerging economies; and demographic changes



**How can Solvency II rise to this challenge?**

## Provide proportionate solutions and be truly risk based

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- Balancing Solvency II objectives
  - Solvency II should aim to maintain the aggregate level of capital in the industry
- Align regulatory measures of capital and insurers' own measures of capital:
  - regulatory measures should be based on economic-based approaches
  - capital requirements: need a graduated level of sophistication
  - liability measurement: a best estimate plus a market value margin for uncertainty
    - cost of capital approach: the cost of holding liabilities over the full term
    - arbitrary choice of a predefined confidence level, 75th percentile X
- Promote and encourage good risk management
  - measurement of risks and capital, including diversification benefits
  - risk assessment
  - requirements for risk management and prudent management of assets

## Reflect the diversification that characterises insurance business

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- Diversification is key to management of insurance
  - globalisation → diversification can extend across jurisdictions
- Solvency II should recognise diversification benefits available
  - e.g. incentives for risk management approaches on a group-wide basis
- A vital underpinning:
  - a clear framework for supervisory convergence
    - clear allocation of supervisory responsibilities between national supervisors
  - a proportionate approach to subsidiaries of EU groups outside the EU

## Planned to run for at least a decade

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- Insurance is a long term industry: balance sheets can only be changed over time
  - need to contain the extent of regulatory changes
  
- Lamfalussy approach is key to ensure that Solvency II lasts at least a decade
  - principles rather than rules
  - further benefits:
    - encourage risk management
    - cost-effective solutions for a diverse industry
    - supervisory convergence

## Conclusions

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- Long term view of the EU insurance industry is vital
- Need an enduring Solvency II model:
  - proportionate and truly risk-based
  - reflect diversification of risks that characterises insurance businesses
  - plan to run it at least for a decade

## For more information on Solvency II, contact

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