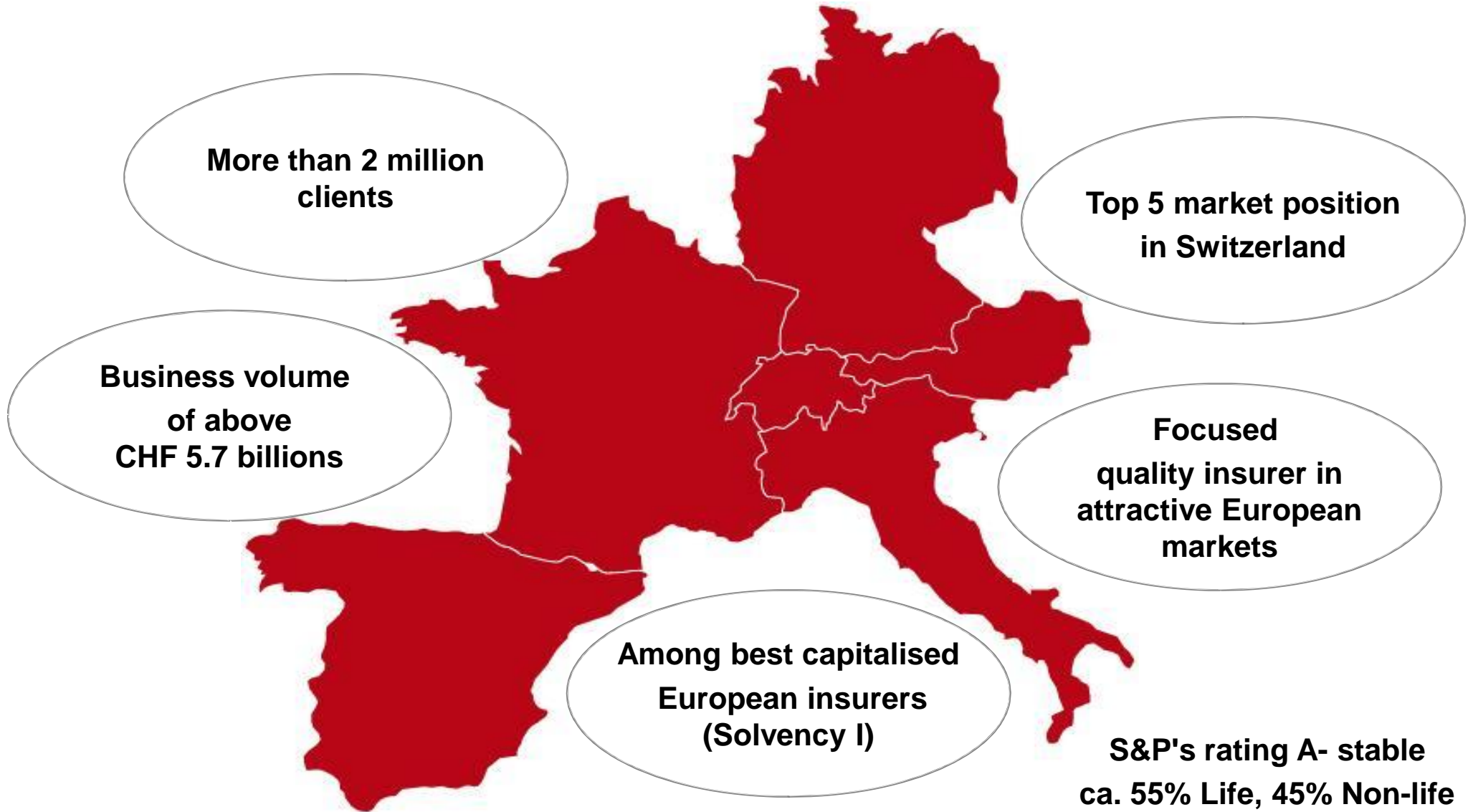


The Group View

Peter Bamert
September 9th 2010
Pillar 1 Community Event



- n Challenges
- n Conclusions
- n Doing
- n Summary

Challenges

Many uncertainties



	2010	2011	2012	2013	2014
Solvency II	QIS 5 (31.12.2009)	Impact Assessment Adoption of implementing measures	Internal processes established	in Force 1.1.2013 (Q1 2013 RTS)	1st publication SFCR 31.12.2013
Equivalence	ongoing modifications to SST ongoing SST internal model approval / development		Scope and practice of equivalence ?		
Swiss Solvency Test	clarification of basis for assessment	Hard capital requirement 1.1.2011			
IFRS 4 Phase II			Internal processes established	Introduced 1.1.2013 opening balance 31.12.2012	1st publication Financial Report 31.12.2013

- n Current developments require significant implementation efforts by insurance companies
- n Yet the targets of these developments are not yet fully defined.
 - n IFRS 4 Phase II
 - n Solvency II (esp. Pillar 1 and ORSA)
 - n Equivalence between SST and Solvency II – what will it mean in practice?

Challenges

(Too) many metrics

Helvetia is currently / will be using the following capital metrics:

Capital model	Why	Legal entities	Business units	Group
Statutory equity	Statutory law	X		
Tied assets	Supervision: supersenior policyholders	X		
Solvency I (as long as in force)	Supervision: minimal capital coverage	X	X	X
Swiss Solvency Test (SST)	Supervision: risk based capital coverage	X (CH)	X	X
Solvency II	Supervision: risk based capital coverage	X (EU)	?	?
S&P's Capital Adequacy	Rating agencies: risk based capital coverage		X	X
IFRS equity	Stock exchange / investors		X	X

- n Many stakeholders require a view on risk and capital
- n Most require their own metrics, which differs form other views
- n Risk manifests itself in different ways under different metrics (e.g. interest rate sensis)
- n Managing ever more requirements becomes a challenge

Challenges

How to manage the risk profile

Risk and capital behave differently under different metrics. Example ALM:



- n Differences occur between non-fair value and fair value (e.g. IFRS vs. SST)
- n Differences occur between fair value regimes (e.g. QIS vs. internal model)
- n Conflicting goals for risk management (in managing volatility and capital requirements)

Challenges

Managing the company

- n Key management processes and related reporting
 - n Risk Management
 - n Capital Management
 - n Strategy Process
- n need to be designed to handle the complexity and to focus on what is really relevant.
- n The Own Risk and Solvency Assessment (ORSA) of Solvency II specifies this as well:

ORSA
ORSA can be identified as entirety of risk management processes (reporting, mgmt, ...). ORSA ensures that solvency needs are met at all times
Assures materially correct assessment of own funds (in comp. to SM SCR) Internal models should be used to improve Rmgt framework (use test)
Monitoring of capital position between full calculations
Assessment of risks the undertaking faces on the long term (link to financial planning)

Conclusions

What do we have to do?



Many uncertainties

- n **Derive robust conclusions** (must haves) and implement them
 - n Maintain flexibility on the rest

(Too) many metrics

- n **Strive to simplify**
 - n Internally
 - n Lobby for convergence and the abolishment of ancient regulatory tools

How to manage the company and risk profile

- n **Agree (internally) on an economic base view**
- n **Establish targeted controlling system to control all relevant metrics**
- n **Understand and manage risk and capital in the strategic context**

Conclusions

What do we have to do?

Derive robust conclusions

- n **Auditable processes** for risk related information by 2012 the latest
- n **Common risk and valn. system with multiple finishes** for IFRS, SII, SST, MCEV
- n **Stochastic modelling capability** as part of common risk and valuation system

Strive to simplify

- n There is the need to avoid conflicting requirements which in effect render a business hard to manage
- n Verify efficiency of legal Group structure in light of upcoming requirements

Agree on an economic base view

- n Define and internalize fair value
- n Push for approval of internal models for regulatory purposes

Establish targeted controlling system to control all relevant metrics

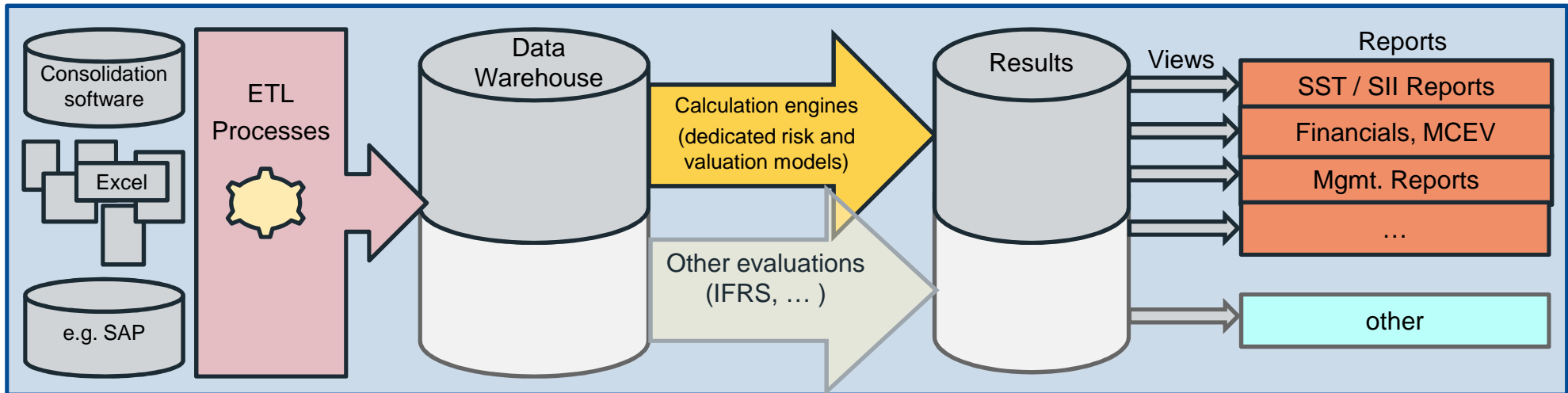
- n **Keep things simple but effective**

Understand and manage risk and capital in the strategic context

- n **Establish link to the strategy process**
-

Doing Common and auditable risk and valuation system

Work towards one core datawarehouse and calculation engine:



- n Establish one common stable data base.
- n Improve process reliability and data quality
 - n Through automatisisation and validation
- n Improve capacity and ability to analyse
- n Create an auditable system

Doing Stochastic modelling capability

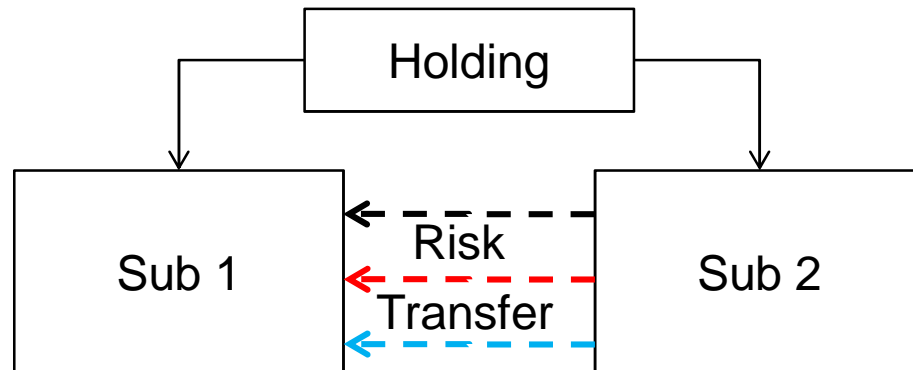
- n Obviously this depends on the existing organisation and set up
- n Generically the question is of centralization vs. decentralization
- n Looking at the example of stochastic valuation and risk capability in life business. This may serves several goals:
 - n IFRS 4 Phase II valuation, Solvency II, SST, internal risk model, MCEV reporting, actuarial controlling process
 - n In either case processes need to be designed, such that weaknesses are compensated

	Centralization	Decentralization
Pros	<ul style="list-style-type: none"> • Centre of competence, Harmonized methodologies • Synergies • Central control / understanding over model and assumptions • better link to actuarial control processes 	<ul style="list-style-type: none"> • local know-how of business • use test (more direct link to local regulator)
Implications	<ul style="list-style-type: none"> • Ensure top-down reporting and local sign-offs of centrally done calculations 	<ul style="list-style-type: none"> • establish strict guidance, reporting formats and control procedures

Doing Keep things simple, but effective

Example: Simple Group, CRTI approach

- n Economic view and statutory view are completely different, but not independent!

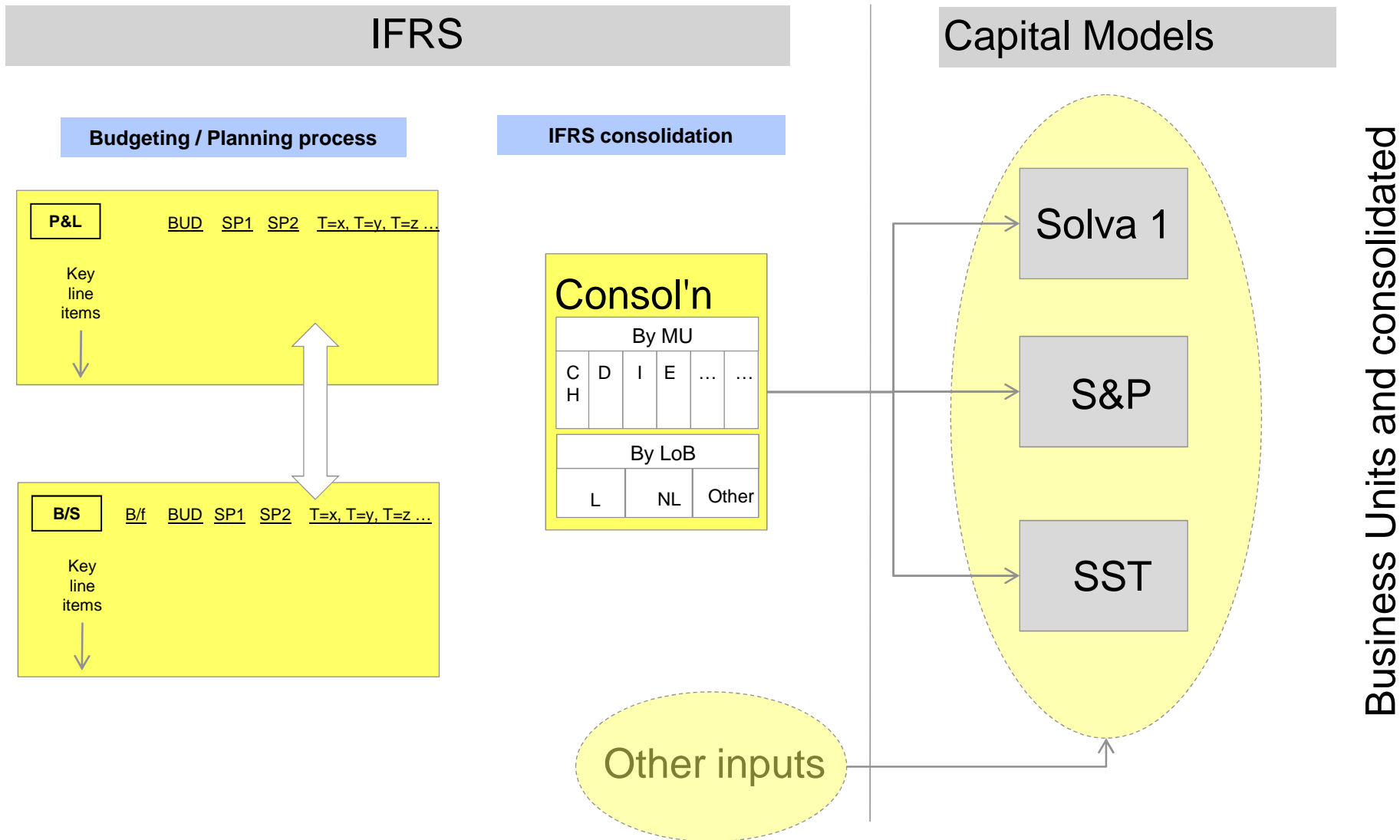


In case risk transfer is triggered:

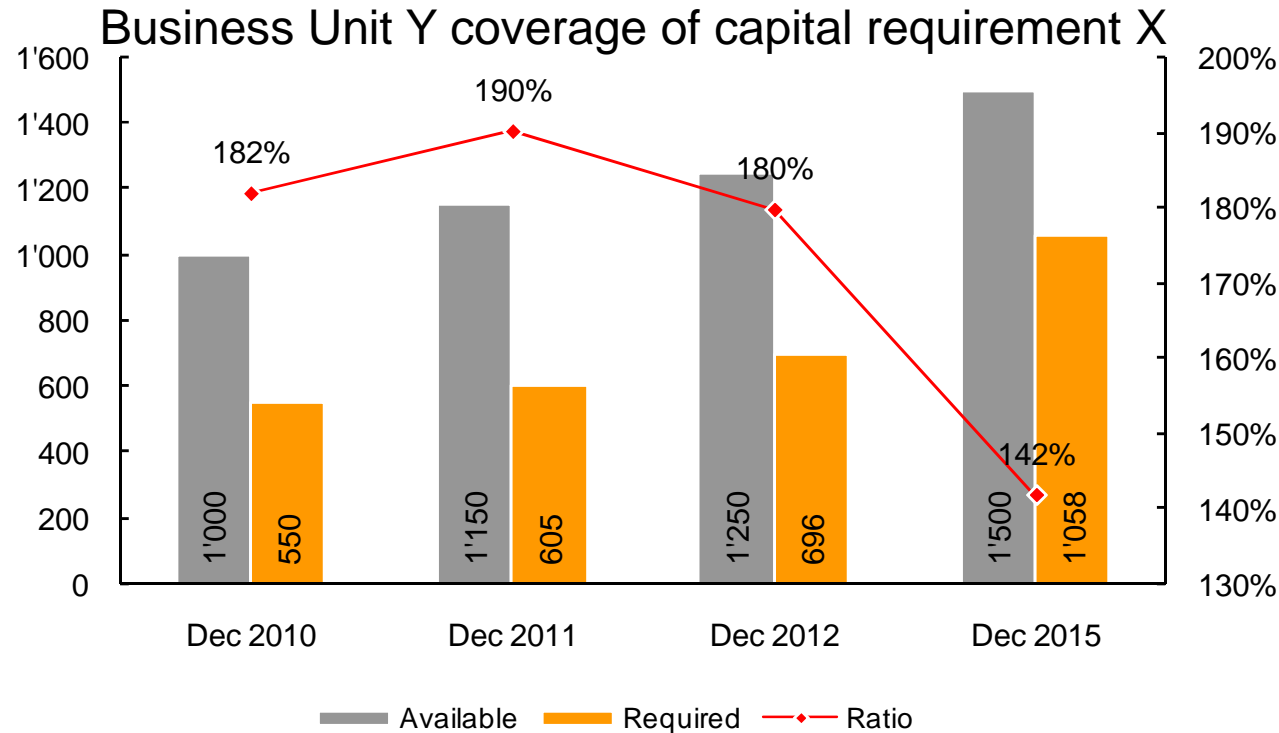
SST:	OK
Statutory/Tax:	not OK
Liquidity:	partially OK

- n An SST analysis of a risk transfer instrument may indicate, that the SST of Sub 2 is OK before and after triggering. Sub 2 is economically OK.
- n However contract fulfilment in case of triggering may be restricted by statutory or liquidity or other limitations.
- n As the statutory view and liquidity is subject to discretionary actions, it is almost impossible to model this over several units (even before proportionality considers.)
- n Model CRTI with clear focus on materiality, analyse limits with add. scenarios
- n Control all factors with effective, targeted reporting (thresholds, sensitivities, ...)

Doing Establish link to the strategy process – possible method



Doing Establish link to the strategy process - result



Dummy numbers

- n Comparing strategic options according to growth, profitability and capital consumption
 - n Better understanding of the interaction between return generation and capital consumption
 - n Allows optimization of growth potential
 - n Assumes fixed scenario of market development -> scenario analysis
- n This is complementary to understanding risks deriving from volatile markets
 - n Use scenario analysis and sensitivities as additional tools

- n The number of stakeholders increases. They will focus on what they need.
 - n There will be resistance to harmonization (SII Pillar 3 and IFRS, Colleges of supervisors, Equivalence, Internal model approval)
- à This will make companies harder to manage and harder to understand
- à There is a need for effective regulation
 - n Transparency to and close interaction with the supervisor
 - n Supervisory requirements in line with management needs (use test) ?!
- n Companies will need to try to simplify - internally
 - n in order to manage the complexity -> targeted and effective controlling system for risk and capital
 - n Systematic link of risk and capital management into the strategy process
- n Companies will need to try to simplify – Externally
 - n in order to avoid conflicting requirements and to improve shareholder value
- n Companies need to define and internalize fair value
 - n ... and the volatility that goes with it
- n Companies need to design processes, systems and governance accordingly

Thank you !

Time for Discussion