

OLIVER WYMAN

Financial Services

# Solvency II

Briefing Note



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

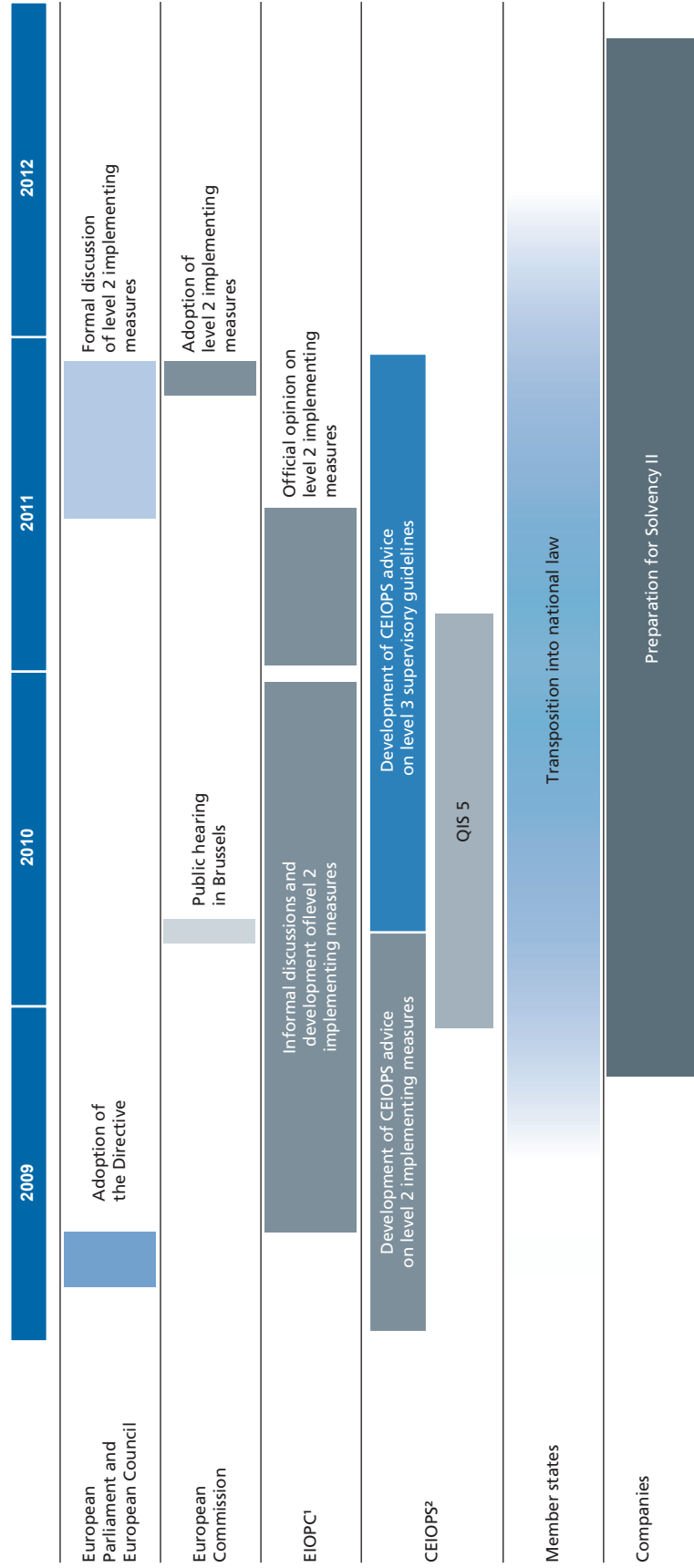
Between March and July 2009, CEIOPS has published a series of consultation papers laying out its draft advice on level 2 implementing measures, ranging from systems of governance to the discount rate to be used in valuing liabilities to the overall approach for individual risk types in the standard formula. These consultation papers have clarified the substance and implications of Solvency II and have, unsurprisingly, stimulated a lively debate within the industry. We highlight two reactions:

- First, in a recent letter to CEIOPS, the European industry association, CEA, has expressed its concern that CEIOPS is moving away from a principles-based regulation. They allege that its stipulations go “far beyond the level which has been politically agreed, fails to encourage sound internal risk management and entails a cost of compliance that would be unreasonable for the whole European industry”. The CEA warns that if the CEIOPS draft advice were implemented, the cost of insurance would rise across Europe, harming European consumers.
- The Association of British Insurers (ABI) has warned Chancellor Alistair Darling that the capital and reserve requirements for UK insurers might rise by around £50 BN. Our own analysis suggests that this is a reasonable estimate. Such significant additional capital and reserve requirements requirements would increase the cost of insurance. We agree with the ABI’s estimate that the cost of annuities could raise by 10-20%. In addition, we expect the proposals will lead to insurers rethinking their investment strategies. In particular, investment in illiquid assets to back illiquid liabilities will become a less attractive strategy. As a consequence, insurers may move out of corporate bonds, for example, and into government bonds.

Although the deadline has passed for comments on the first and second drafts of CEIOPS’ advice, the consultation process has only begun (see timeline below). Level 2 implementing measures will be formally agreed and adopted only towards the end of 2011. Until then, the industry will not know precisely how Solvency II will be implemented. This poses serious challenges for insurers, both in ensuring compliance and in adapting their business models to the new regulatory regime. While trying to influence the outcome of the consultation process, they must simultaneously work towards their best guess at what it will be.

## Exhibit 1: Solvency II timeline

### Solvency II timeline



document2

# OLIVER WYMAN

Oliver Wyman is an international management consulting firm that combines deep industry knowledge with specialised expertise in strategy, operations, risk management, organisational transformation, and leadership development.

For more information please contact the marketing department by email at [info-FS@oliverwyman.com](mailto:info-FS@oliverwyman.com) or by phone at one of the following locations:

## EMEA

+44 20 7333 8333

## North America

+1 212 541 8100

## Asia Pacific

+65 6510 9700

Copyright © 2009 Oliver Wyman Limited. All rights reserved. This report may not be reproduced or redistributed, in whole or in part, without the written permission of Oliver Wyman and Oliver Wyman accepts no liability whatsoever for the actions of third parties in this respect.

The information and opinions in this report were prepared by Oliver Wyman.

This report is not a substitute for tailored professional advice on how a specific financial institution should execute its strategy. This report is not investment advice and should not be relied on for such advice or as a substitute for consultation with professional accountants, tax, legal or financial advisers.

Oliver Wyman has made every effort to use reliable, up-to-date and comprehensive information and analysis, but all information is provided without warranty of any kind, express or implied. Oliver Wyman disclaims any responsibility to update the information or conclusions in this report. Oliver Wyman accepts no liability for any loss arising from any action taken or refrained from as a result of information contained in this report or any reports or sources of information referred to herein, or for any consequential, special or similar damages even if advised of the possibility of such damages.

This report may not be sold without the written consent of Oliver Wyman.



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN