



Group Issues and Internal Models Under Solvency II and QIS 4

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INSURANCE | ASSET MANAGEMENT | BANKING

Allianz 

Key issues for the Allianz / CRO Forum

Key Issue	Allianz Position	Status
1 Group Supervision	<ul style="list-style-type: none"> ▪ One single point of contact for Group issues; ▪ Local Supervisors have to support the Group Supervisor; ▪ Need for cooperation and coordination. 	~
2 Market consistent valuation	<ul style="list-style-type: none"> ▪ Total balance sheet approach, market value where possible, BE + MVM. 	✓
3 Consistent MCR & SCR framework	<ul style="list-style-type: none"> ▪ MCR and SCR should be risk-based; (MCR as percentage of SCR); allow for risk mitigation. 	~
4 Internal Models	<ul style="list-style-type: none"> ▪ Right incentive for using internal models; ▪ Efficient validation process via Group Supervisor; ▪ Use test full buy-in from management needed. 	~
5 Harmonization	<ul style="list-style-type: none"> ▪ Harmonized requirements throughout Europe (reporting / application of tools). 	✓
6 Disclosure	<ul style="list-style-type: none"> ▪ Starting point for disclosure consolidated account; ▪ No disclosure of sensitive information. 	✓

Group supervisor and internal models – one single point of contact for group issues

Group Supervision

- Group supervisor has knowledge of the group at the consolidated level, SRP on group level
- Good coordination amongst the group supervisor and local supervisors is essential
- Reduction of workload in terms of supervisory reporting– currently Allianz deals with over 30 supervisors within Europe
- Proper implementation of a group supervisory system is core for Allianz and internal model application

Group Support

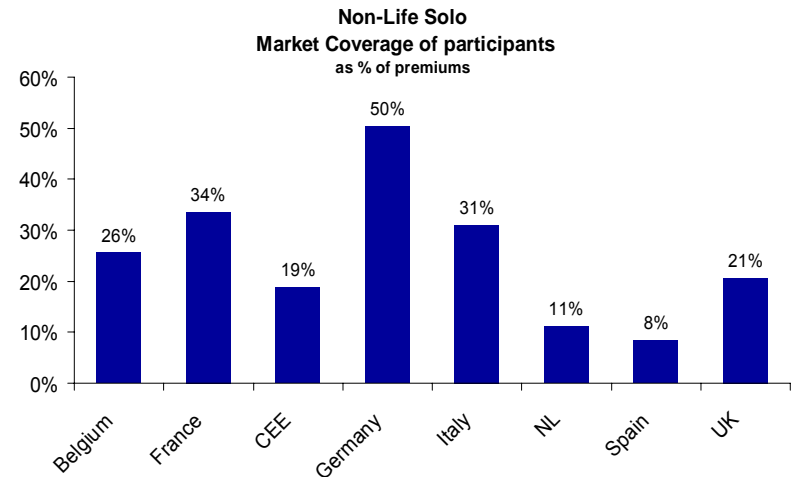
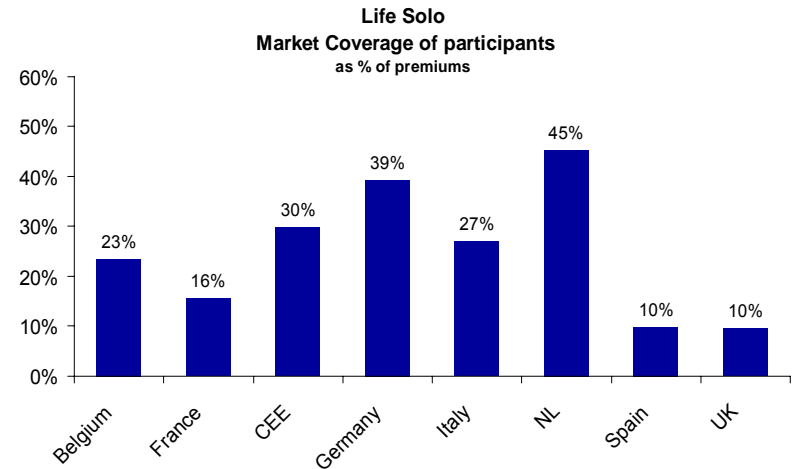
- Absolutely necessary to capture diversification effects and have full economic picture
- At local level, Minimum Capital Requirement (MCR) should be the main control level

Compromises on group support (set transitional limits) as well as possibilities to set capital add-ons - **SII should not be delayed out of unwillingness to cooperate**

QIS4 – CRO Forum Benchmarking Study

- Similar as for QIS3 another benchmarking study was undertaken transmitted to the Austrian FMA for aggregation and further analysis supported by Tillinghast
- Comparison of internal models versus standard models
- Participation: 135 solo entities across 16 countries and 15 Groups
- Besides EEA companies also Non-EEA companies contributed to this exercise

Participation of CRO Forum companies



QIS 4 – Results CRO Forum Benchmarking Study

General

- Limited incentive to implement internal models

Solo level

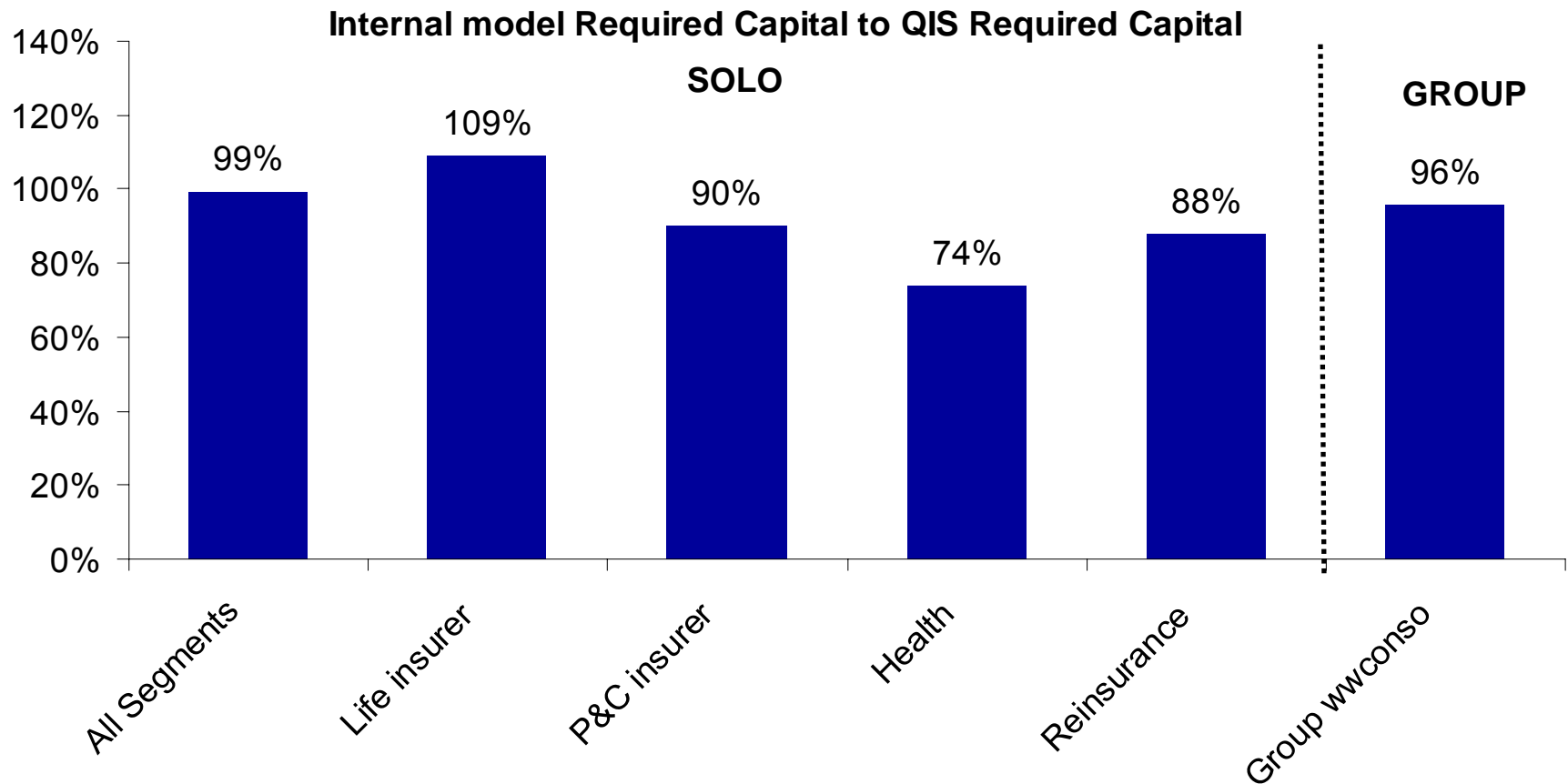
- Calibration of internal models versus standard model is not always consistent (e.g. Higher equity charges in internal models; non-life higher in standard models)
- Risk margins – diversification should be allowed for, lower in internal models
- Standalone operational risk lower in QIS4, but after diversification in internal models similar
- Formulaic approach of MCR not risk based; cap and floor are applied quite frequently

Group level

- Full recognition of diversification between EEA and Non-EEA is the most appropriate
- Huge data requirements and complexity for a standard model

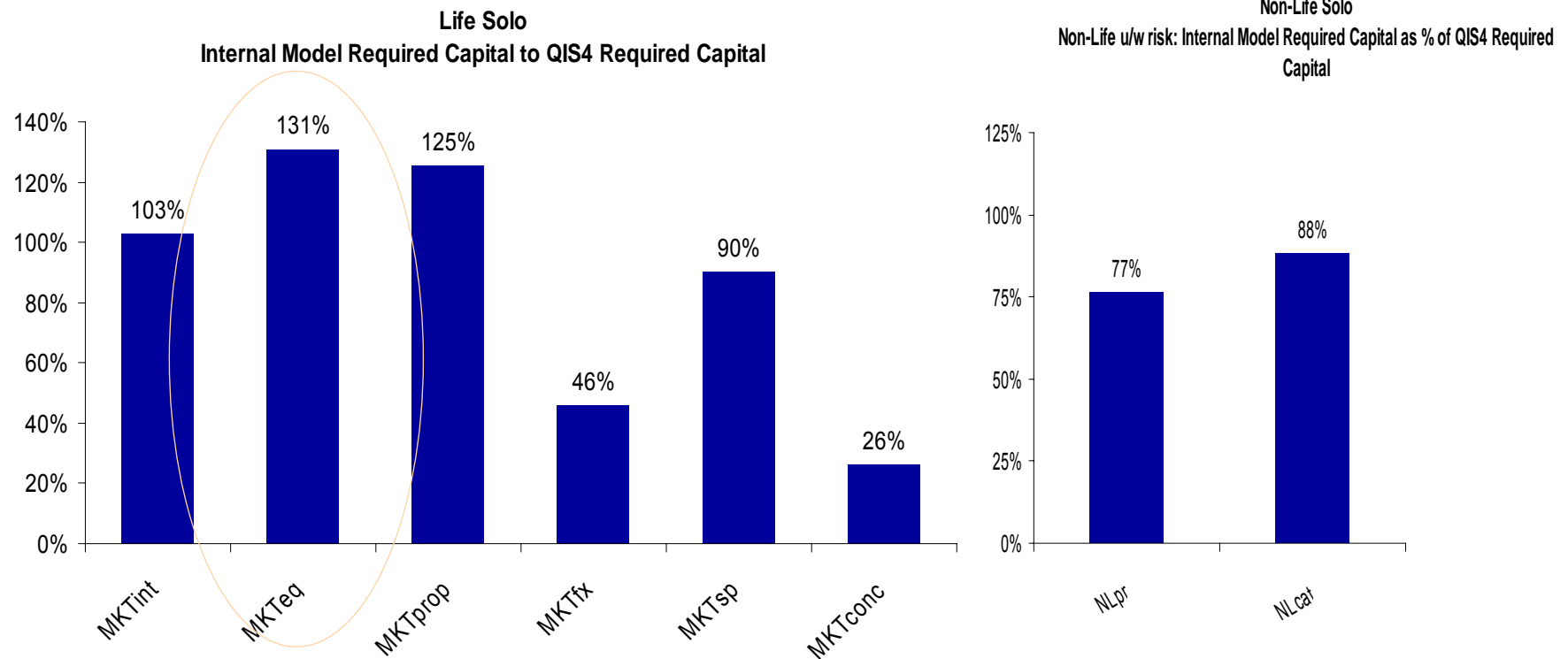
Overview Solo¹ and Group Consolidated - diversified

Internal Model Required Capital to QIS Required Capital



As Group capital requirements are broadly the same in Internal Models and QIS4, there appears to be little incentive for Internal Models with the current QIS4 calibration

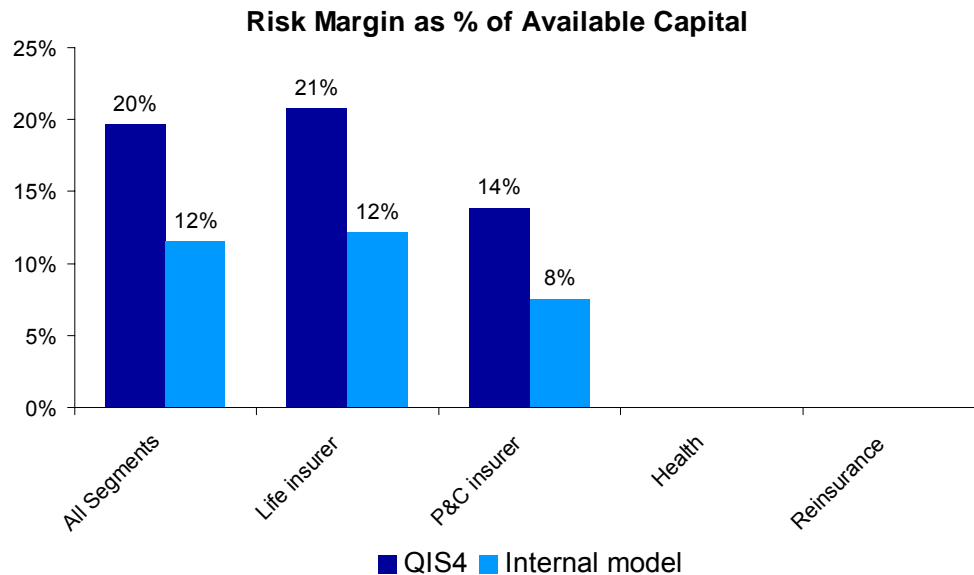
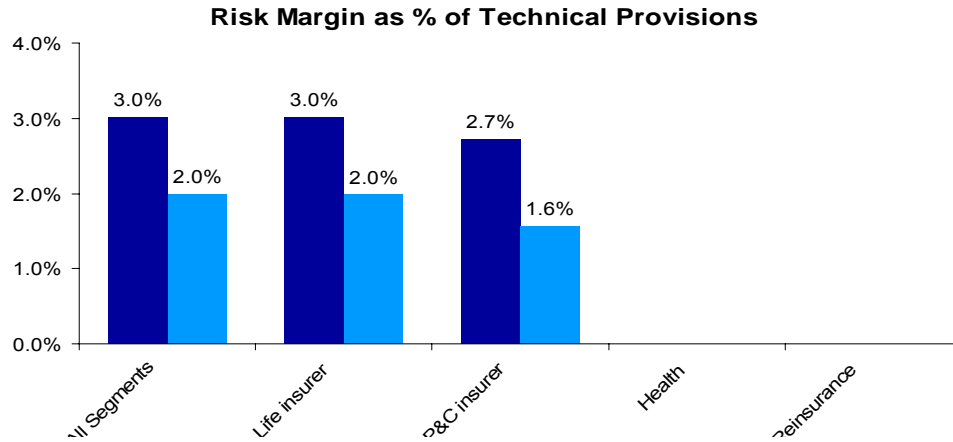
Overview Market risk and Non-life risk



Equity and property risk charges are higher in Internal Models than in QIS4

Capital requirements for Premium and Reserve Risk substantially lower in Internal Models

Risk Margin as % of Technical Provisions and of Available Capital

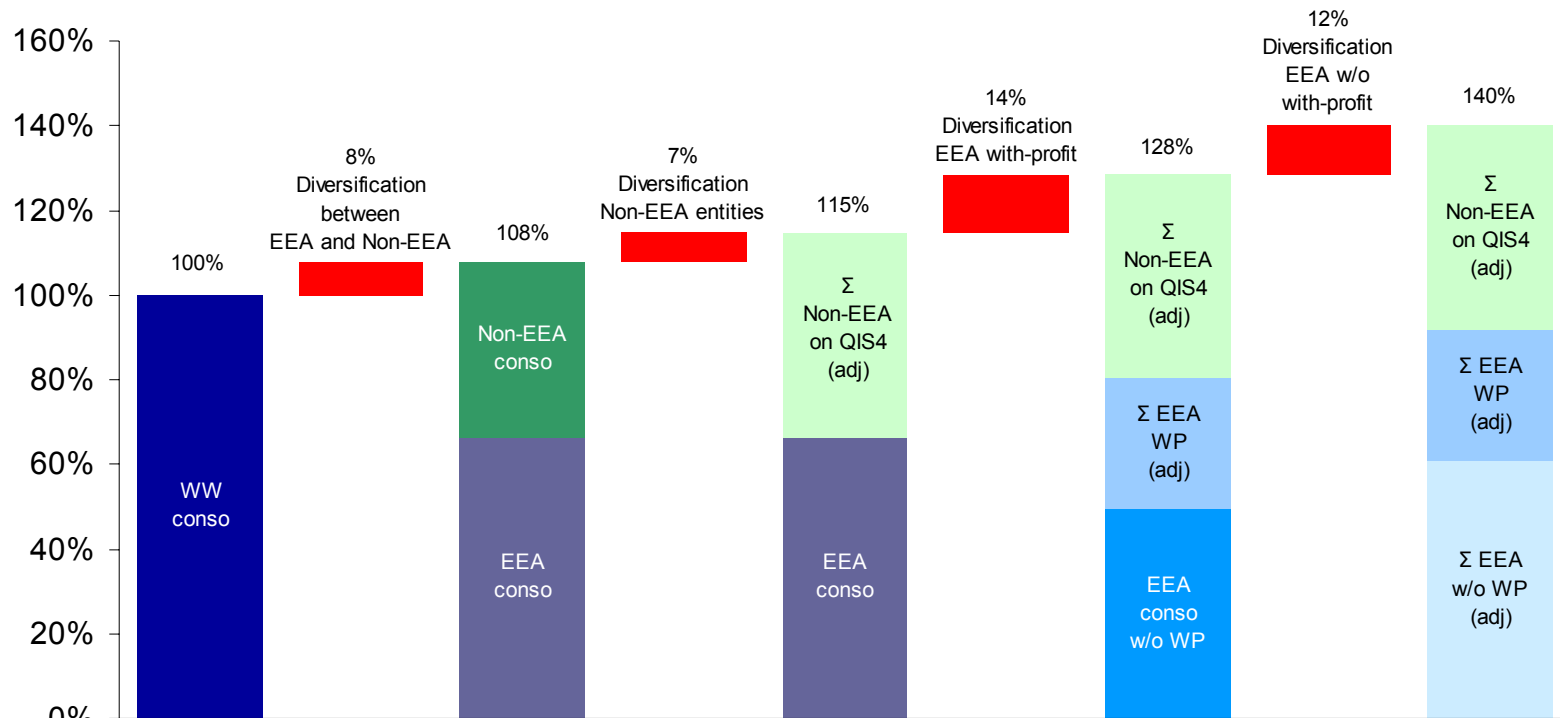


- Risk margins are substantially lower in internal models than in QIS4 This may be due to
 - the lower cost of capital rate in Internal Models,
 - the calibration of underwriting risk capital and
 - the lack of allowance for diversification between products in calculating risk margins.
- This may result in an understatement of Available Capital in QIS4 of up to 10%.

Movement of QIS4 Group Required Capital as % of QIS4 worldwide consolidated Group Required Capital

- Please note that figures do not contain SCRncp and SCRofs as they do not deliver additional information in this exercise.
- The single bars were determined on data from all groups having submitted data both for WWconso and the respective bar.
- Missing data from just one of two different levels of consolidation (e.g. “Non-EEA conso” and “Sum Non-EEA (adj)”) were interpolated by scaling the submitted data by the average relation between those groups having submitted data for both blocks.

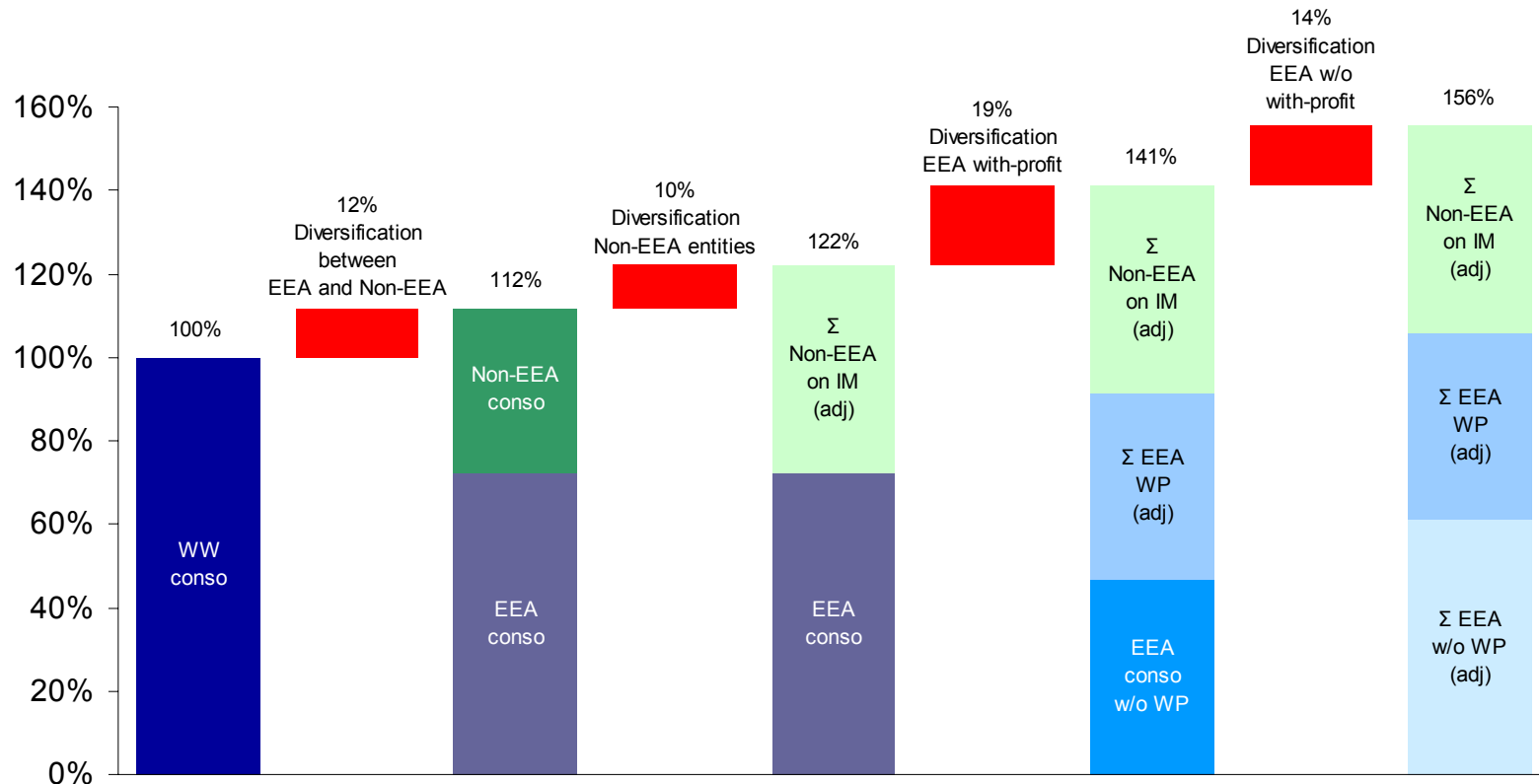
Movement of Total QIS4 Group Required Capital (as % of Total QIS4 Group Required Capital of Default method) - Interpolated



Movement of Internal Model Group Required Capital as % of Internal Model worldwide consolidated Group Required Capital

- Please note that figures do not contain SCRncp and SCRofs as they do not deliver additional information in this exercise.
- The single bars were determined on data from all groups having submitted data both for WWconso and the respective bar.
- Missing data from “EEA conso w/o WP” were interpolated by scaling “Sum EEA w/o WP (adj)” by the average relation between those groups having submitted data for both blocks.

Movement of Total Internal Model Group Required Capital (as % of Total QIS4 Group Required Capital of Default method) - Interpolated





Questions