KPMG

Solvency II update

Gui Iglesias

KPMG in the UK

—

23 June 2016

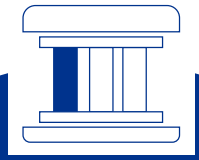
KPMG

What is Solvency II?

Solvency II

New EU Regulation effective 01/01/2016, designed to

- Provide greater protection to policyholders through an enhanced prudential regime
- Better align capital requirements to the firms' asset and liability profiles and enhances the quality of capital
- Improve firms' own risk management with the aim of reducing the probability of firm failure
- Reform the public disclosure about a firm's financial condition, to encourage effective exercise of market discipline



PILLAR 1

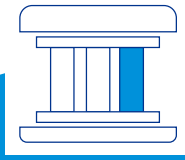
Quantitative requirements

- 'Market-consistent' valuation of assets and liabilities
- Best estimate liabilities plus risk margin
- Capital requirements
  - Minimum (MCR)
  - Solvency (SCR)
- Tiering of own funds
- Group capital requirement

PILLAR 2

System of Governance

- Internal controls and risk management system
- Required functions
- Own risk and solvency assessment (ORSA)
- Supervisory review
- Capital add-ons



PILLAR 3

Market discipline

- Transparency
- Disclosure
  - Quantitative Reporting Templates
  - Regular Supervisory Report (RSR)
  - Solvency and financial condition report (SFCR)
- Solo/Group

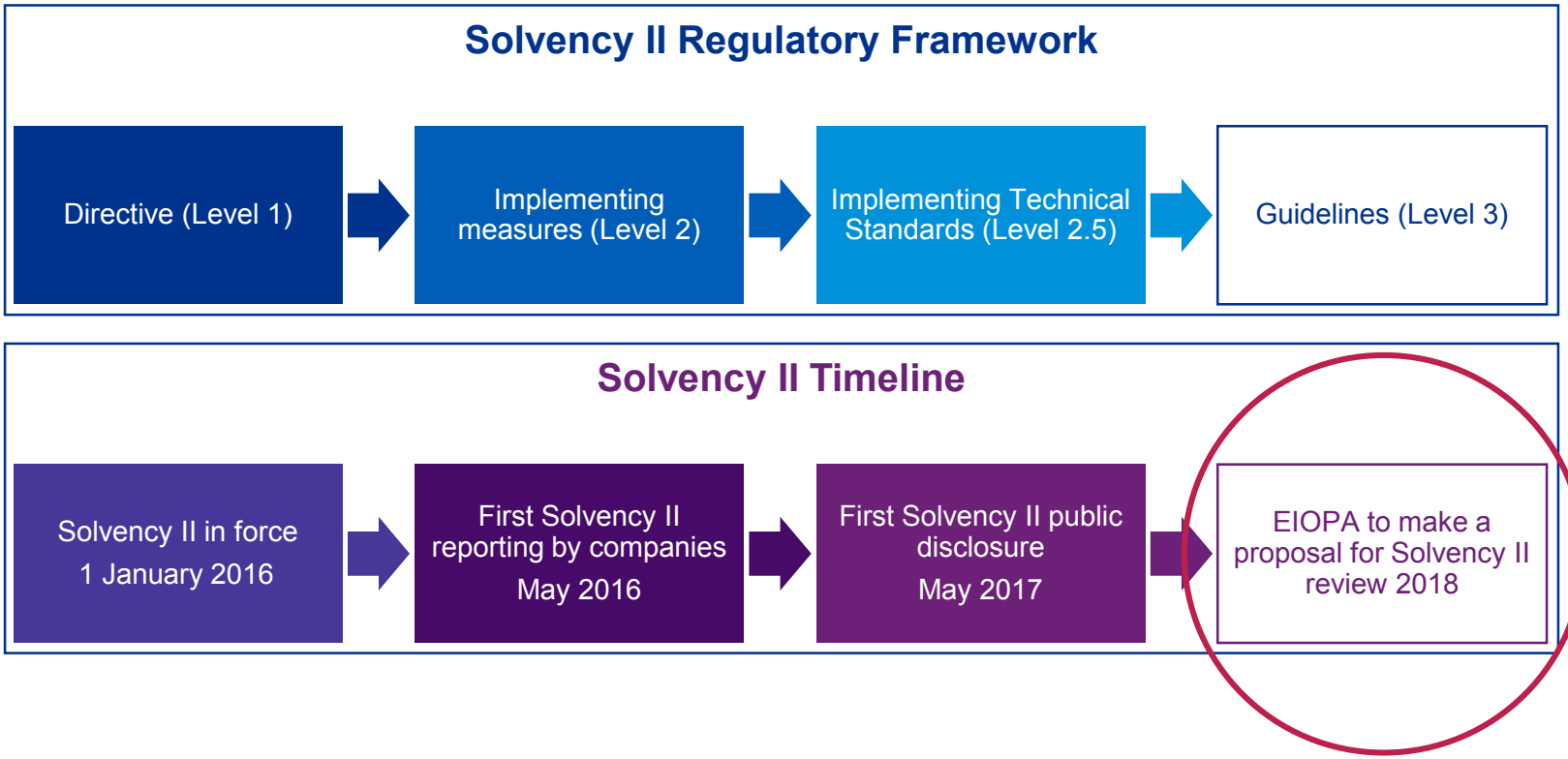
KPMG

© 2016 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

KPMG

Status of regulation

Status of regulation



Source: EIOPA

© 2016 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

KPMG

How Solvency II is impacting the industry

Solvency II - News headlines and market impact

Fitch: Solvency II Ratios Move into the Spotlight

Fitch Ratings – 9 May 2016

UK fears that rules harm insurance competition

Financial Times – 7 February 2016

Offshore Captives Ideal For Longevity Swaps And Reinsurance

Artemis.bm – 28 October 2015

EU watchdog lauds insurer moves to adapt business models

Reuters – 23 May 2016

Axa chief calls for stability after Solvency II introduction

Financial Times – 25 February 2016

© 2016 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

KPMG

Solvency II market disclosures

Extent of Solvency II voluntary disclosures

- All insurers in this sample provided a SII Cover ratio
- All but one provided Own Funds and SCR
- Few insurers presented reconciliation to IFRS and analysis of change

		AEGON	Allianz	Aviva	AXA	CNP	Delta Lloyd	Generali	Hannover Re	L&G	LBG	Munich Re	NN Group	Old Mutual	Phoenix	Prudential	SCOR	Standard Life
Key metrics disclosed	Solvency II cover ratio	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Own funds / SCR	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗	✓	✓	✓	✓	✓	✓	✓
	SCR by risk type	✓	✓	✓	✓	✓	✓	✓	✗	✓	✗	✓	✗	✓	✗	✓	✓	✓
	SCR impact of diversification	✓(a)	✓	✓	✓(d)	✓	✓	✓	✗	✗	✗	✓	✗	✓	✗	✗	✓	✗
Analysis disclosed	Sub group disclosures	✓	✓	✗	✓	✓	✓	✓	✗	✗	✗	✓	✓	✓	✓	✓	✗	✓
	Reconciliation to IFRS	✗(b)	✗	✓	✓	✗	✗	✓	✗	✓	✗	✓	✓	✗	✗	✓	✗	✓
	Reconciliations to MCEV	✗	✗	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	n/a
	Sensitivities	✓	✓	✓	✓	✓	✓	✓	✗	✓	✗	✓	✓	✓	✓	✓	✓	✓
	Analysis of change	✗	✗	✗	✓	✗	✗	✓	✗	✓	✗	✗	✗	✗	✗	✓	✓	✗
	Quality of capital	✓	✗(c)	✗	✓(d)	✓	✓	✓	✗	✓	✗	✓	✓	✓	✗	✓	✗	✓

Note:
(a) AEGON disclose diversification across entities only.
(b) AEGON provide a qualitative commentary on the differences between IFRS and Solvency II but they have no numbers.
(c) Allianz disclose the proportion of asset in various asset classes in their analyst presentation which implies the quality of capital however this is not disclosed in the Solvency II format
(d) AXA disclose diversification benefits across risks and quality of capital, however these were part of their Q3 2015 disclosure

KPMG

© 2016 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

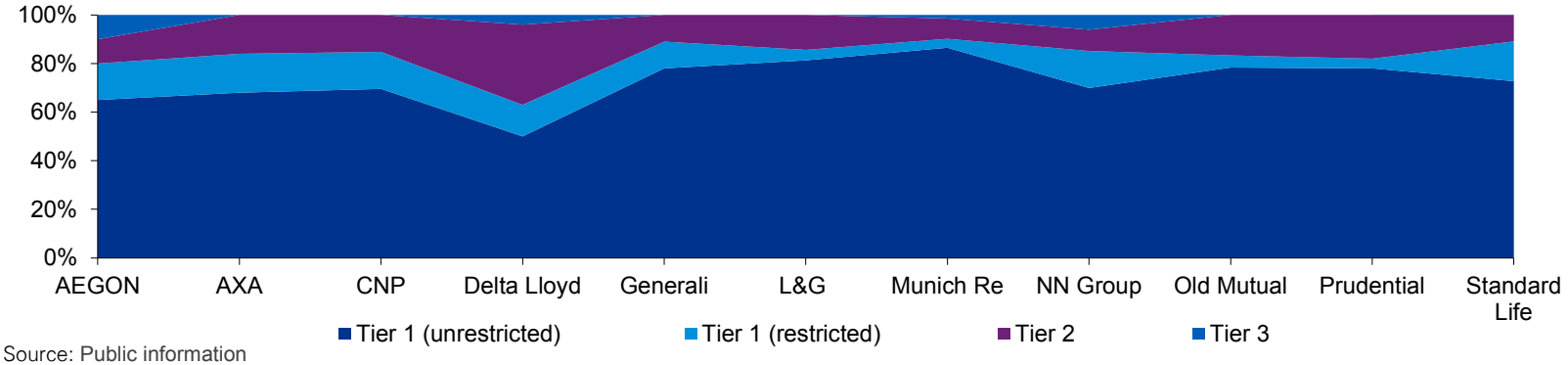
Quality of capital

Quality of capital by Solvency II Tier

(In GBP)	AEGON[d]	AXA[a,d]	CNP	Delta Lloyd[d]	Generali[d]	L&G[b]	Munich Re	NN Group[c,d]	Old Mutual	Prudential	Standard Life
Total of exposure (£m)	14.75	43.7	16.96	2.88	30.46	13.50	30.02	9.82	6.00	20.10	5.50
Tier 1 (unrestricted)	*65%*	*68%*	*70%*	*50%*	*78%*	*81%*	*86%*	*70%*	*78%*	*78%*	*73%*
Tier 1 (restricted)	*15%*	*16%*	*15%*	*13%*	*11%*	*4%*	*4%*	*15%*	*5%*	*4%*	*16%*
Tier 2	*10%*	*16%*	*15%*	*33%*	*11%*	*14%*	*8%*	*9%*	*17%*	*18%*	*11%*
Tier 3	*10%*		*0%*	*4%*	*0%*	*0%*	*1%*	*6%*	*0%*	*0%*	*0%*
Total group SII OF	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***

Note:
(a) This is based on Q3 2015 disclosure
(b) L&G have a deductions line in the their disclosed quality of capital which has been ignored in the analysis.
(c) NN group have a non-SII regulated entities line in their disclosed quality of capital which has also been ignored in the analysis
(d) Please note that the information presented here was disclosed in Euros and converted to GBP at the exchange rate as at 31 Dec 2015

- A fewer subset of companies disclosed a breakdown of capital by tier
- Tier 1 is the highest quality of capital and most companies held between 80% and 90%
- Tier 3 is the lowest quality of capital and no insurer had more than 10%



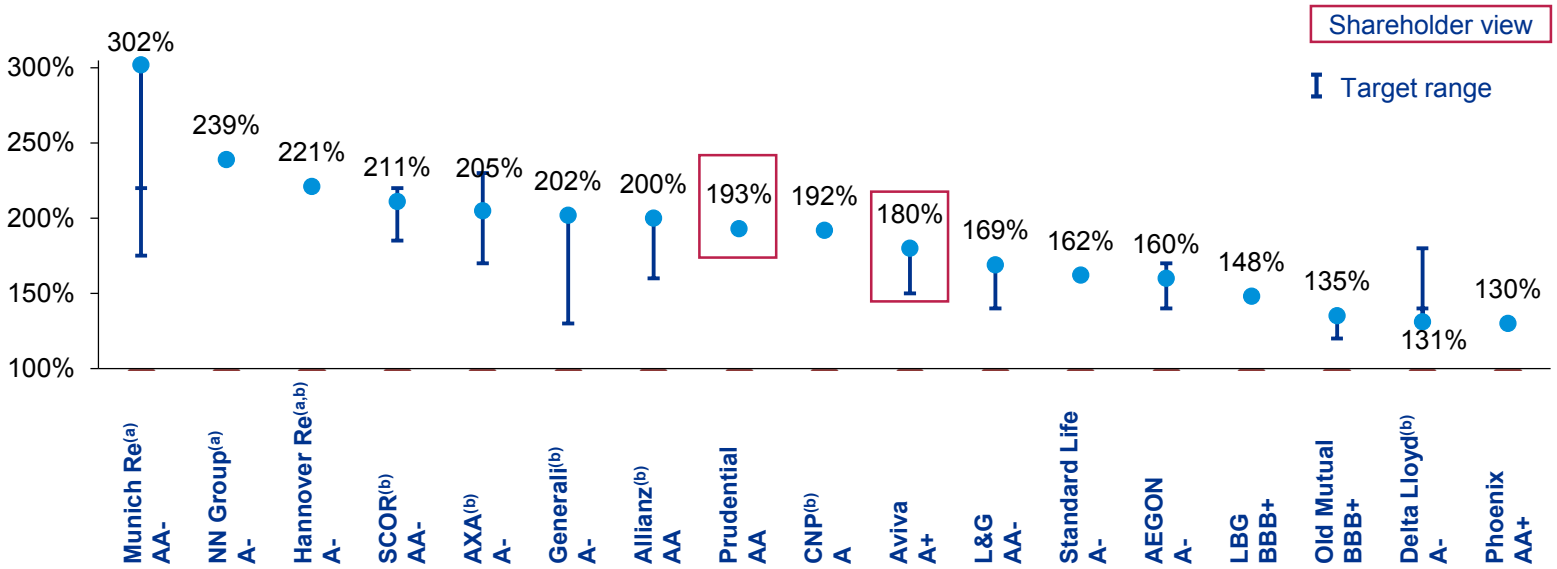
Source: Public information

© 2016 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

Solvency II cover ratios and target ranges

Solvency II cover ratios (Own funds over SCR) ranked by decreasing order, target ranges and credit ratings

FY 2015 Solvency ratios and target ranges



	Munich Re(a) AA-	NN Group(a) A-	Hannover Re(a,b) A-	SCOR(b) AA-	AXA(b) A-	Generali(b) A-	Allianz(b) AA	Prudential AA	CNP(b) A	Aviva A+	L&G AA-	Standard Life A-	AEGON A-	LBG BBB+	Old Mutual BBB+	Delta Lloyd(b) A-	Phoenix AA+
Own funds (bn)	30.0	9.8	9.3	6.8	43.7	30.5	53.6	20.1	17.0	21.8	13.5	5.5	20.0	n/d	6.0	2.9	5.8
SCR (bn)	10.0	4.1	3.8	3.2	21.2	15.1	26.8	10.4	8.9	12.1	8.0	3.4	12.5	n/d	4.4	2.2	4.5
Surplus (bn)	20.1	1.5	5.5	3.5	22.4	15.3	26.8	9.7	8.1	9.7	5.5	2.1	7.5	3.2	1.6	0.7	1.3

Note: (a) Economic Capital Q3 2015 figure

(b) Please note that the information presented here was disclosed in EUR and converted to GBP at the exchange rate as at 31 Dec 2015

KPMG

© 2016 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

KPMG

M&A Activities

M&A - News headlines

Solvency II rules set to spark M&A surge in insurance sector

Financial Times – 3 Jan 2016

L&G picks up Aegon's remaining UK annuities business

Reuters – 23 May 2016

Swiss Re acquires Guardian Financial Services for £1.6 billion

Financial Times – 7 February 2016

French insurer AXA sells last UK life and savings business

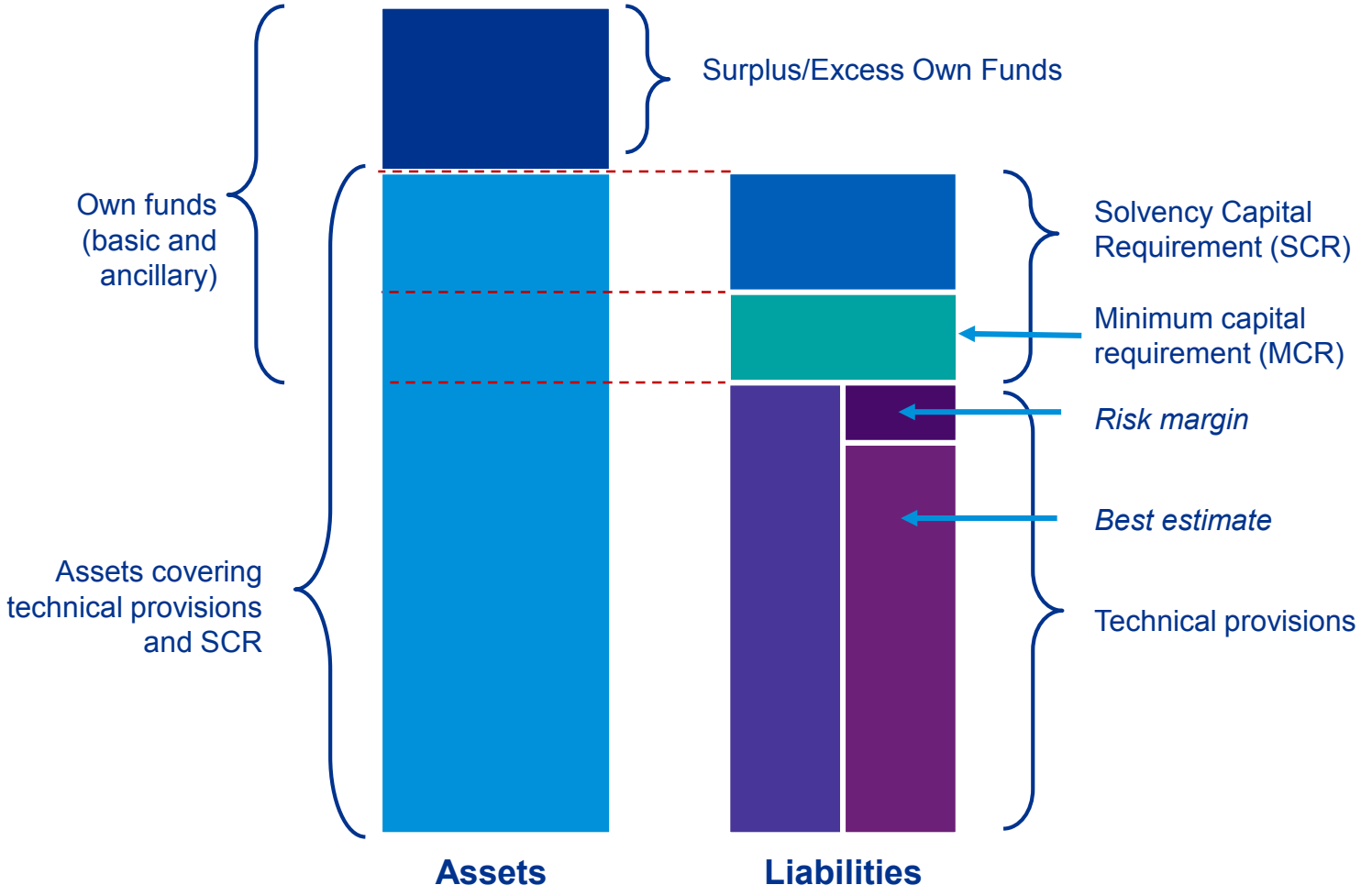
Yahoo – 27 May 2016

© 2016 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

KPMG

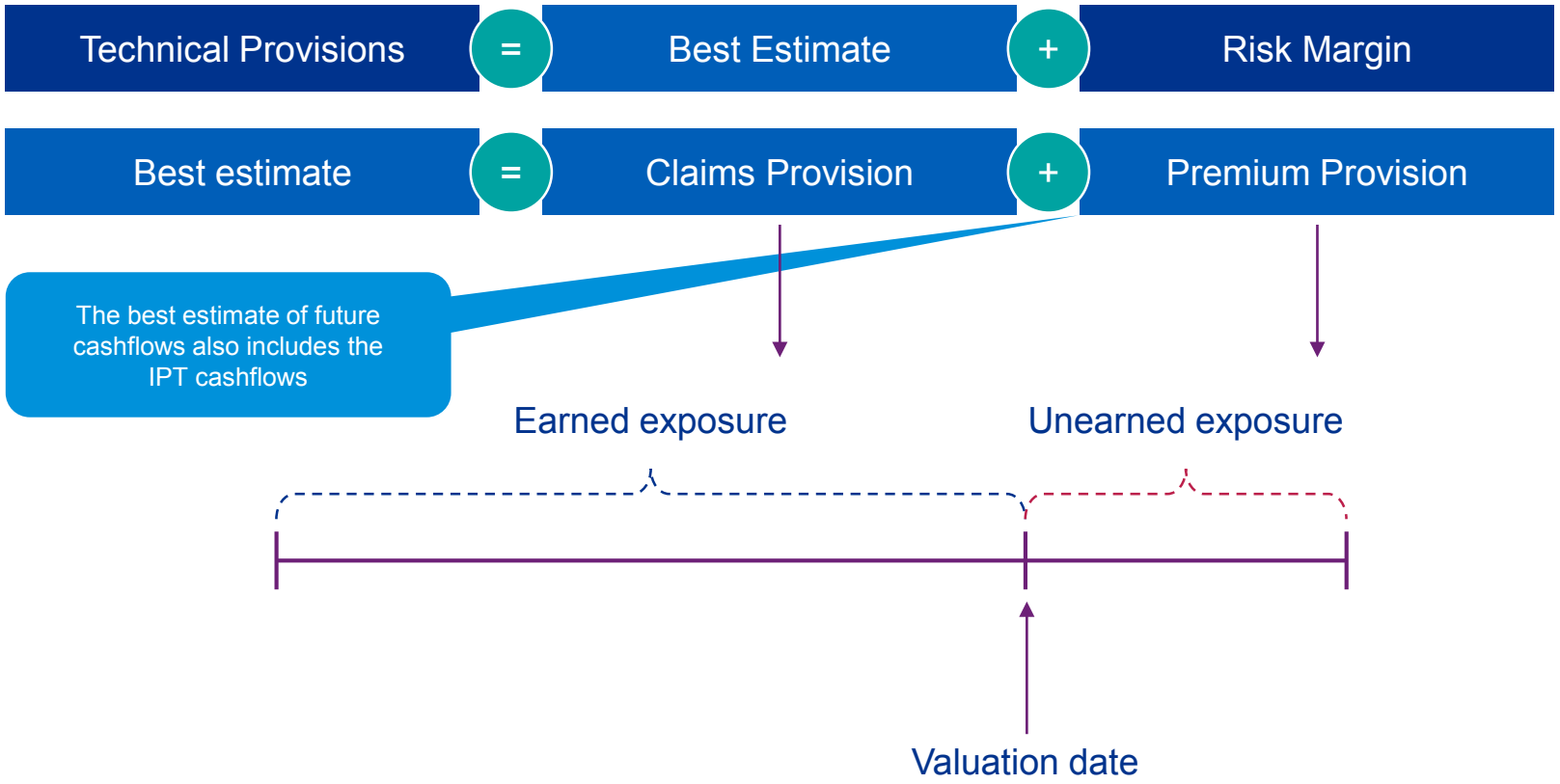
A new reserving model

Solvency II Balance Sheet



© 2016 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

Components of the technical provisions



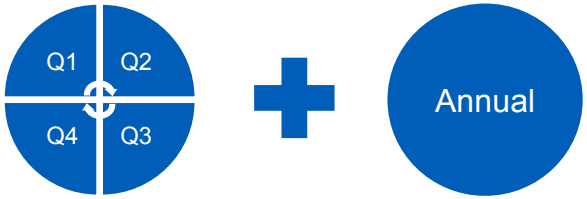
© 2016 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

KPMG

Reporting challenges

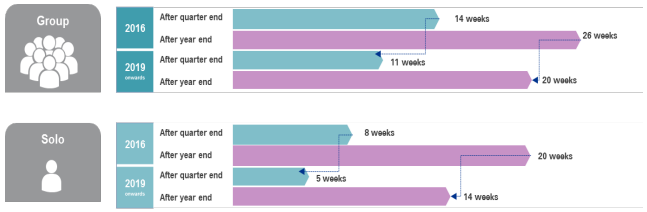
Solvency II reporting challenges

Solvency II reporting is required every quarter and annually



More frequent

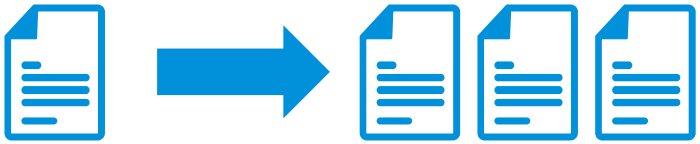
The deadlines for reporting are challenging and get tighter each year during the transition period



Tight deadlines

Increased reporting challenges

The amount of information to be reported under Solvency II is a significant increase from before e.g.. Assets, intragroup transactions, capital requirement, own funds, technical provisions



Greater detail

Narrative reporting

Solvency and Financial Condition Report (SFCR) for the public

Regular Supervisory Report (RSR) for the regulator

KPMG

© 2016 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

KPMG

Thank you

kpmg.com/socialmedia

kpmg.com/app

© 2016 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no services to clients. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.