

FSA

## Solvency II

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### Solvency II – Pillars 1, 2 and 3

Three-pillar approach

**Pillar 1: Quantitative capital requirements**

- Technical provisions
- Minimum capital requirement (MCR)
- Solvency Capital Requirement (SCR)
- Investment rules

**Pillar 2: Qualitative supervisory review**

- Principles for internal control and risk management
- Supervisory review process

**Pillar 3: Market discipline**

- Transparency
- Disclosure
- Support of risk-based supervision through market mechanisms

**Market-consistent valuation**  
Validation of internal models

**New focus for supervisor**  
Level of harmonisation

**More pressure from capital markets**  
More pressure from rating agencies

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### What Solvency II really means...

- **Look under the hood:**
  - Insurance companies already understand risk
  - Capital is not the only risk mitigant
  - Risk management is more important

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**What Solvency II really means...** 

- **Raise standards**
  - Reflect current best practice
  - Use rules

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**Roles for actuaries** 

- Risk management and articulating risk appetite;
- linking risk and capital;
- improving understanding of uncertainties;
- providing useful information for decision making

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**Actuaries must:** 

- become more risk focussed;
- understand decision making in their firm;
- communicate well;
- think more widely than just numbers;
- help their firms get a competitive edge by using new techniques

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**Actuaries must:** 

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- **Work across practice areas**



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