# Capital Optimisation Strategies

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# Agenda

1. Background
2. Capital Optimization Strategies


THE TRI FACTORY
TRI


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# 1

# Background

# Background

## Why is insurer solvency requirement important?

- Determines the amount of money that needs to be invested to sell insurance business
- Impacts Internal Rates of Return
- Affects solvency ratio
- Safety cushion against adverse events

## Solvency I

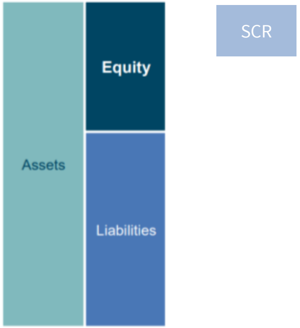
- Factor based “one size fits all” formula
- Capital requirement based on liabilities
- Available capital derived from accounting data (IFRS)
- Simple

## Solvency II

- Principle-based and customizable (internal models)
- Capital requirement based on probabilistic models
- Market consistent valuation of assets and liabilities
- Demanding computationally

# Background

## IFRS Balance Sheet




**Solvency Capital Requirement is a fixed percentage of reserves and sum at risk**

## Solvency II Balance Sheet

## Solvency II Balance Sheet under 1 in 200 years shock


**Solvency II ratio** $= \dfrac{AFR}{SCR} = \dfrac{61}{29} =$ **212%**

2

# Capital Efficiency

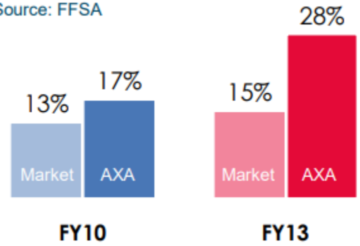
# Capital Optimisation Strategies

# Products

## Diversification towards unit-linked products

Source: FFSA

*Unit-linked share in savings premium*

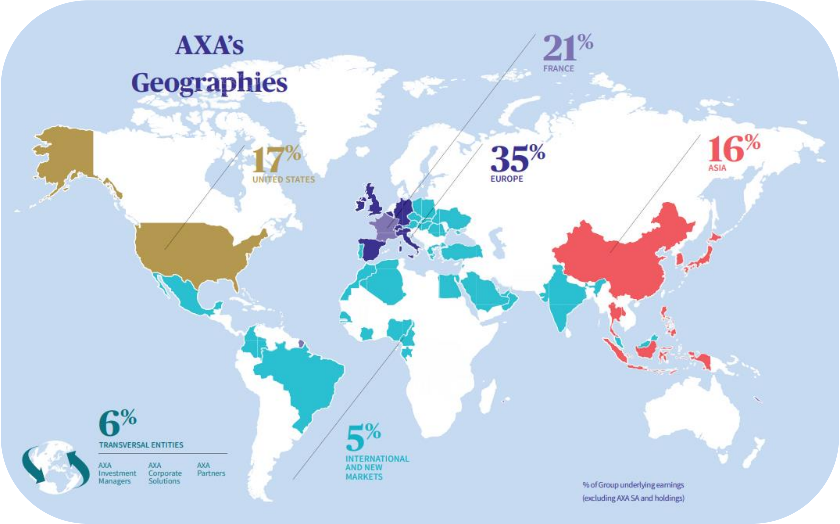



## Business Mix

*Focus on protection products*

| Protection | Health | P&C |
|---|---|---|
| **23**% | **12**% | **39**% |

## Geographic diversification



# Investment

- **Diversification**
- Balance expected return, capital consumption and liquidity


- Asset Liability Management
- **Duration gap** management and **cashflow matching**

# Reinsurance

- Under solvency I recognition of reinsurance is limited
- Attributes of the counterparty do not impact the benefit of reinsurance
- Reinsurance under solvency II became more sophisticated and tailored

| | Solvency 1 | Solvency 2 |
|---|---|---|
| Limits | • S1 restriction on credit taken | • No limit |
| Impact of the reinsurer's rating | • No impact | • Impact on the amount of counterparty risk capital |
| Counterparty risk capital | • No | • Calculation based on LGD<br>• Increases with the duration of the reinsurance contract<br>• Importance of collateral |

## AXA Example

- Due to **diversification benefits**, AXA Italy, Belgium and France were able to reduce reinsurance without having to increase their capital requirement
- There was a need for a **natural catastrophe cover** instead

# Concluding Remarks

## Key takeaways

- **Diversification** is key
- Despite its challenges, solvency II allows a better recognition of actual risks
- Even in a solvency I environment, companies can already adopt **efficient risk management** and governance

# Thank you