

Captives – Challenges of Solvency II?

Providing a practical cost effective approach to Solvency II

Mazars has one of the most experienced specialist insurer teams in the UK and Ireland. They have more than 30 years of experience advising boards of some of the world's largest mutual and captive insurers, including modelling solvency and business planning to meet business and regulatory requirements. They understand the culture of delegated insurance business and are experienced in dealing with the regulators in many territories. Their operational and management background includes actuarial, claims, underwriting and project management.

Solvency II

Solvency II is a risk based regulatory regime with a focus on the nature, scale and complexity of risks taken by an underwriting entity. It is driven by risk management at least as much as by risk modelling.

The legislation is complex and is placing increasing demands on the industry. All insurers are experiencing or expecting significant resourcing costs to meet the requirements by 2012. Captives and other specialist insurers are affected by the legislation, but it has not been designed with a focus on them. For many the challenge is to 'see the wood for the trees' and find a workable and efficient solution to Solvency II.

What's different about captives?

Some of the characteristics of captives do not fit easily into Solvency II including:

- Captives are specialist underwriters limiting the risks to those of the owners
- The law of large numbers may not apply to captives where the number of risks is limited
- Policy wordings are often bespoke to the owner
- Investment strategy is often limited to a small number of assets that may also reflect the nature of the ownership
- Many of the operational processes are outsourced; some of the processes differ from those of the traditional market
- They do not always follow the insurance market cycle
- Lack of resource.

The challenges ahead for captives

- How can Solvency II be geared to reflect to the nature, scale and complexity of a captive?
- Cost of resource to meet requirements. Lack of resource cannot be used as an excuse for failing to meet regulatory standards.
- Internal model or standard formula? The choice lies between using the standard formula to calculate the minimum solvency or meeting the challenge of obtaining internal model approval to calculate the minimum. The optimum decision for a captive is not an easy one.
- The impact of Solvency II on the investment strategy of the captive.
- Internal Model Validation. Where a captive has decided on the internal model route there will be a need for a successful approval process with the regulator.
- I'm a board member of the captive, but my background is in the captive owner not the insurance industry. I am expected to understand Solvency II and demonstrate that I understand it.
- How can captives evaluate different reinsurance protections accurately including the impact on capital under different scenarios?
- I am a manager with a portfolio of captives under management. I would like to advise my clients on the impact of QIS5 and how they might formulate an optimum strategy under Solvency II legislation.
- I would like to use an internal model. How can I find one that is suitable for my limited line captive insurer at a competitive price?

Why Mazars?

Mazars have given thorough consideration to the impact of Solvency II on captives and monoline insurers and have developed a bespoke model for this type of business. We can offer a tailored cost-effective approach to address the challenges and deliver a practical business focused solution that will meet the regulations.

Contact us

For more information on how we can help with the challenges for Captives and Solvency II, please contact one of our partners:

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