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Where the local regime has been judged equivalent for the purposes of the consolidation this mea

Solvency II, the imminent new European Union (EU) capital and regulatory regime for insurance and reinsurance, will have many and varied impacts outside the EU. This brochure presents you with an overview of these impacts and attempts to place them in an understandable and practical context.

RGA summarizes the extra-territorial impacts of Solvency II into these four categories:

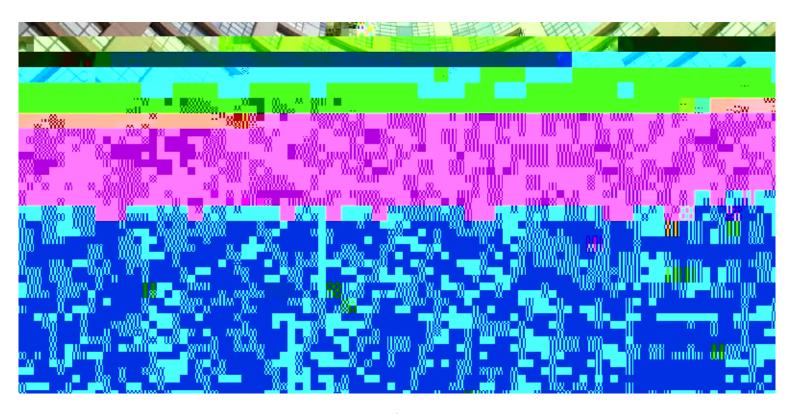
- 1. Non-EU subsidiaries of EU groups
- 2. EU subsidiaries of non-EU groups
- 3. Recognition by EU insurers of reinsurance purchased from non-EU reinsurers
- 4. Non-EU countries that will eventually adopt a new capital and regulatory regime like Solvency II

This is the category with the greatest potential impact. EU groups are required to calculate consolidated Solvency II results covering their global insurance business, including their overseas operations. This requires either (i) the application of all Solvency IIdetailed calculations to that non-EU business or (ii) that the subsidiary be in a jurisdiction whose own regulatory regime has been certifed by the EU to be equivalent to Solvency II. In the latter case, the EU group will be able to use the subsidiary's local capital position.



for its European parent. It will effectively have an





is partly determined by the strength and support of its parent and wider group. In the earlier stages of Solvency II 'negotiation', before pragmatism started to occasionally win out over theoretical correctness, an idea was proposed to require EU companies belonging to non-EU groups to report the position of their whole global group under Solvency II. This 'tail wagging the dog' approach was eventually dropped. EU subsidiaries of non-EU groups are therefore not required to submit global group solvency fgures on a Solvency II basis. For an EU subsidiary that is not the largest part of its own global group this would have created signif cant work outside the EU.

EU operations of non-EU groups are required to submit Solvency II flings in the same way as if they were an EU group headed by the top EU company. This means each entity must submit and satisfy stand-alone ("solo") Solvency II requirements and the group must submit a consolidated fling. When multiple EU entities exist - especially each owned directly from overseas – this requirement can motivate the group to consolidate its EU operations into one EU group, if not one EU legal entity. This is essentially the same motivation faced by EU groups, many of whom are consolidating their legal structures into as few distinct legal entities as possible. Solvency II will defer responsibility for some of its group supervision activities to a non-EU parent if the EU entity belongs to a group that is ultimately domiciled in a jurisdiction whose regulatory regime has been deemed equivalent. These activities include, for example, assessing EU group solvency, risk management practices and intra-group transactions.

A lot of discussion around Solvency II focuses on the quantitative results. These are primarily the Minimum Capital Requirement (MCR) and the Solvency Capital Requirement (SCR) that are calculated under Solvency II's 1st Pillar. The 2nd and 3rd Pillars, covering gualitative supervision and disclosures, respectively, actually contain the more revolutionary and demanding developments. Companies must demonstrate that they have incorporated risk management into their daily management decision-making processes. They must actively share and discuss their risk management results with their regulator and they must disclose materially new and potentially diff cult-to-understand information to the general public. Equivalence with respect to these latter Pillars may be the most diff cult to achieve or to demonstrate.



To be eligible to be refected as a reduction in capital requirements, reinsurance must be with an EU-domiciled reinsurance company, one based in a regime deemed equivalent or at least with a reinsurer that is capitalized to a certain level. For reinsurance with companies under thf s insurances h t nimtimped M d tg mt h° S M es h sser reinsurancl M es h Μ S r h zem zuer th° s ins Fed t r

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One of the key refinements in Solvency II versus the prior regime is that the impact of reinsurance and other risk mitigation techniques is now given full consideration. The prior regime had an oversimplifed and an 'insensitive' treatment of reinsurance, but now companies will face no arbitrary limitations in the beneft resulting from their reinsurance.

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or capital level) could be unable to deliver on its promises when the need arises. The amount of this capital and reserve, however, does vary by the rating of the entity and whether collateral is present.

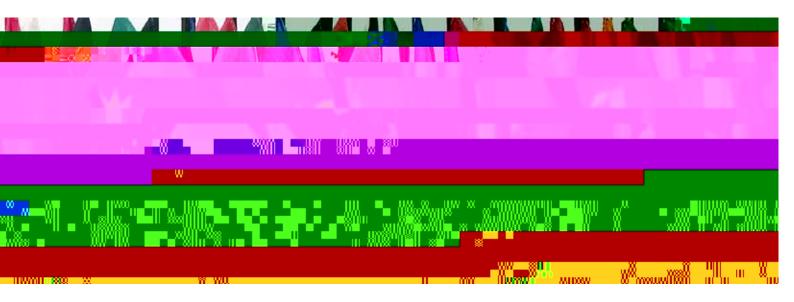
Even in cases where no credit is allowed for reinsurance, cedants still must refect in their capital requirements any risks to them that arise via that reinsurance contract. One potential infuence of Solvency II on reinsurance structures is that swapping of risks might become an alternative to traditional 'one-way' reinsurance transactions. Under such a 'two-way' agreement, the lack of credit for the 'outward' leg does not mean that the 'inward' leg gets ignored.

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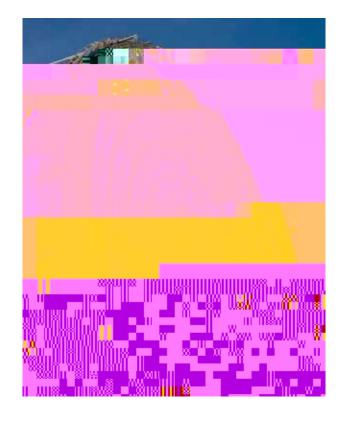
Many countries outside the EU are already talking aaboutMaciojiihad Studwebueydf". This is clearily an / oe oversimplif cation of matters since Solvency II is tailored to match the products and history of the 27 EU states, and another country would need to similarly tailor its 'Solvency II'. In addition, recall that the fnal EU Solvency II regime is the result of extensive debate, compromise and choices, and those same processes in other countries are not certain to come to the same conclusions, even if they start with the same principles. Nonetheless, many countries will be inspired by Solvency II and will adopt new insurance and capital requirements refecting Solvency II principles. Some observations and lessons from Europe are certainly relevant, including the following:

- Applying short-term Value at Risk (VaR) methods and principles to long-term life insurance liabilities is not straightforward.
- Participating and with-prof ts business, where management action can be used to reduce policyholder benef ts in an adverse scenario, is challenging to realistically project but is of profound importance to the solvency assessment.
- The 2008 fnancial crisis highlighted the relative illiquidity of insurance liabilities. Policyholders do not buy and sell/surrender their policies as often or as optimally as they make other fnancial decisions. The protective value of this to insurers is something that should be refected in the capital framework. Solvency II's abandonment of historically common iun





Though Solvency II is a European Union initiative, it will have many very signif cant effects far outside the EU. Like many other aspects of Solvency II, this aspect becomes increasingly complicated as you delve further into the details. This brochure provides an initial overview, but each of the paragraphs here begs as many questions as it answers. RG A, with 27 off ces around the world, including eight in Europe, is well-positioned to explore these issues with you further.



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