

### **The Risk Margin Working Party**

- Set up following criticisms of the Risk Margin in the Treasury Select Committee Inquiry into EU Insurance Regulation
- Two main strands:
  - What can be done to fix known issues with the RM, either now or post-Brexit?
  - What should be the purpose of the RM, and how can that purpose best be fulfilled?
- Members:
  - Andy Pelkiewicz (Chair), Waqar Ahmad, Paul Fulcher, Chris Marsh, Stuart Reynolds, Andy Scott
  - Life Research Committee representative: Richard Schneider



#### The Debate

- Today's session is a debate, which we hope will be an interesting and lighthearted means of examining the issues
- Each speaker will argue for a particular position:
  - The Good: Keep the Risk Margin Unchanged
  - The Bad: Change Parameters
  - The Ugly: A Fundamental Overhaul
- We may all be playing devil's advocate!
- · There will be an opportunity for contributions from the floor
- · Each speaker will wind up, and there will be an informal vote



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### **Risk Margin 101**

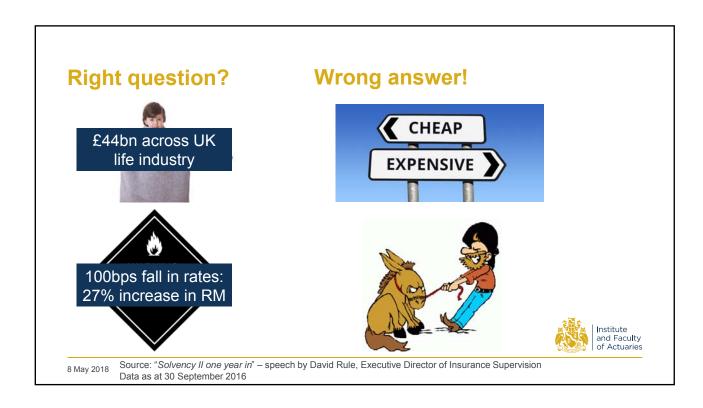
"Non-hedgeable"  $RM = CoC \cdot \sum_{t \geq 0} \frac{SCR(t)}{\left(1 + r(t+1)\right)^{t+1}}$  Swaps

#### Transfer to a "reference undertaking"

- No other business and remains closed
- De-risk assets (as far as possible)
- Assume reinsurance transfers with business
- Future management actions consistent with those of original insurer

#### "Non-hedgeable risks"

- Underwriting
- Residual market risk
- Counterparty default risk
- Operational risk



## The Debate: Keep the Risk Margin unchanged





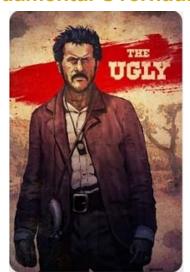
# **The Debate: Change Parameters**





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## The Debate: A Fundamental Overhaul





# **Industry suggestions (EIOPA & TSC)**

Proposal	What needs to change
Lower cost of capital from 6%	Level II Delegated Acts
Management action of reinsurance	PRA acceptance
MA or VA used for SCR	EIOPA Guidelines
Higher discount rate	Level II Delegated Acts
Non-independence of lifetime risks	Level II Delegated Acts (or internal model?)
Diversification (groups, life/non-life)	Level II Delegated Acts
Change method from cost of capital	Level I Directive

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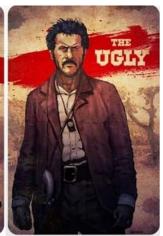
# What do you think?



## **Speakers' Responses**









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### Vote







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