SOLVENCY II 2015

RISK DIVERSITY
Captives look to mixing lines of risk to achieve capital efficiency

HIDDEN CHALLENGES
New hurdles being discovered for compliance

RAISING THE BAR
Solvency II expected to promote higher global regulatory standards

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Ready or not, here it comes

As the debate around the pros and cons of Solvency II drags on for another year, the conversation has moved on to more micro features of the three pillars' requirements and their impact on the captive community, both inside and outside the EU.

In the *Captive Review* Solvency II report 2015, we analyse the most recent developments in the captive industry as it prepares for the upcoming implementation on 1 January 2016.

Industry figures have begun to dissect the effect on captives' investment strategies that may see a reduction to the growing trend of loan-backs to the parent company as well as the need to diversify your captive's risk portfolio to optimise capital requirements. The inclusion of employee benefits programs into the captive is now seen as the most effective method of achieving this, and *Captive Review* speaks to a variety of leading industry figures who outline the challenges and advantages of pursuing such a strategy.

This report also examines how much specific EU domiciles have achieved in their mission to become 'Solvency II ready' and the issues they have faced along the way.

Many in the captive sector are keen to emphasise that the full effects of this new regulation, and the global trends it may or may not trigger, cannot be fully predicted in advance. However, the majority of those within the captive or wider insurance industry have at least moved on from seeing Solvency II as simply burdensome and costly to now acknowledging its potential to promote best practice throughout the sector. For the individual captive owner the long-term advantages of more educated, data-driven risk management is expected to lead to cost savings that far outweigh the initial investment and reporting burdens.

Solvency II aims to encourage insurers to evolve into a more responsible and efficient version of themselves, rather than overhauling the industry as a whole. However, only time will tell if the captive community will embrace this challenge and the opportunities that come with it.

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SOLVENCY II: REGULATORY PRUDENCE OR SOLVERKILL?

Chairman of ECIROA Guenter Droese outlines whether the captive community is ready for Solvency II and why it's expected to boost formation numbers

Captive Review (CR): How has the European captive industry developed over the past year? What hurdles has the captive community had to clear?

Guenter Droese (GD): As a general comment I guess it is reasonable to say that Solvency II will definitely introduce a regulatory regime which is more professional than its predecessors. The principle based system has been welcomed by all insurance companies.

The big question now is whether the supervisors are really following these principles or how much they predetermine the internal organisation, structure, risk quantification, conduct, reporting and performance of all insurers with such an huge impact that the insurance companies may feel homogenised due to the rules which are now rolled out by EIOPA and transformed into local law by the local supervisor – not principle based but rules based.

This big question mark concerns captives as well as all other insurers – no difference in general but a question of size.

Written by
Guenter Droese

Guenter Droese is chairman of ECIROA (European Captive Insurance and Reinsurance Owners Association) and provides services as an independent consultant around insurance and risk management since April 1, after retirement from Deutsche Bank AG. He is a former managing director of Deutsche Bank AG and Deukona, the in-house broker.

And here the most important influence will have the principle of proportionality (PoP) which has been identified by ECIROA from the very beginning of our discussions with EIOPA as the most important issue for all supervisors and insurers.

CR: Is there significant differences in development between the various EU domiciles?

GD: The application of the PoP and obvious difficulties of supervisors with how to determine it leads to some differences in the regulatory request versus insurers, including captives.

For the time being we cannot precisely compare how big these differences are, but this will only be possible once the new regime has been applied by the supervisors after the first sign off in the captive domiciles.

> "There has been enough time to prepare for the fulfilment of the new requirements. Most of the captives will not have a significant problem with that"

CR: What are the most pressing issue for EU captives at the moment? What challenges are they facing?

GD: Captives have primarily to struggle with the understanding and the application of this PoP on the supervisors' side.

They need a comprehensive understanding of what captives are really doing. We are not convinced that the expertise of all local supervisors is sufficient to judge in a neutral and professional way.

Unfortunately, professional experience to judge on insurers´ management, conduct and performance is rather scarce or underdeveloped and most of the countries need additional workforce that is well trained and experienced; and that will not fall from the sky.

CR: What would you recommend these domiciles do to begin creating this additional work force? How critical is the problem?

GD: All local supervisors need to develop an interpretation of the PoP which in Article 5 (4) of the European Treaty determines

that "draft legislative acts shall take account of the need for any burden, whether financial or administrative, falling upon…, economic operators and citizens, to be minimised and commensurate with the objective to be achieved".

An internal guidance has to be conveyed to auditors which will approve insurers on the basis of this PoP, which has described by the European Court in a ruling as common sense based economic principle. It will be unavoidable to train supervisory employees within the insurance sector to gain the power for serious judgements. This recommendation for more and broader training will help both sides of the game to understand and clarify potential problems.

CR: With Solvency II implementation fast approaching what is the mood like among captive manager and regulators? Are both sides of the industry prepared? If not, why?

GD: There has been enough time to prepare for the fulfilment of the new requirements. Most of the captives will not have a significant problem with that.

Their performance over the years shows how strong they are and how to master a rather critical situation, especially in the case of a high loss/claim frequency or with a peak event. Primarily both sides need more direct contact to understand the actual situation perfectly. Supervisors may adjust their view to the individual situation and captives may adhere to the one or other's advice.

CR: Do you think Solvency II will influence the number of EU captive formations (either positively or negatively)? What other drivers would influence a prospective owners' choice of domicile?

GD: Positively. We have to emphasise that the reason to establish a captive is part of a risk management strategy of its parent company.

Bearing this in mind, captives will not disappear, rather new formations will follow and existing ones will extend the underwriting of their lines. This is also in consent with the perspective of insurers of industrial risks which are recommending to carry part of the risk by the insured themselves.

The choice of the domicile is based on more than just the regulatory regime. Being located in Europe also provides some advantages – the biggest one is that of one market.

CR: Is there further regulation expected on the horizon? If so in what capacity?

GD: We have to wait and see how much of the new regime with this exaggerated rules-based regulation and a huge cost impact on the insurers will deliver a more secure and better performing market.

This additional cost of administration may have an influence on the pricing with increases, which cannot be the target of a supervisor. Today most of the precise requirements are caused by the fear of EIOPA and the European Commission to demand rather too much than too little to avoid an insolvency of an insurer. Please, bear in mind that the financial crisis in `08 and `09 had a tremendous influence during the preparation and drafting of Solvency II.

The stability of the financial market and the fear of a systemic risk triggered by an insurance company gained more recognition than the initial target of consumer protection and they became an end in itself. Consumer protection in Solvency II is a consequence of a high level of financial security. You will not find new or specific rights for the consumer in the Solvency II text.

This view on the activities of insurers will be adjusted during the next few years. EIOPA is sitting in the chair of this development and the future changes.

CR: How much potential is there for captives in a post-Solvency II environment? Are you optimistic for the future?

GD: I am definitely optimistic. The rationale to establish a captive is based on the risk management strategy of a big enterprise and not on the supervisory regime. It will make a lot of sense to reconsider the performance and the target of existing captives and to embed this type of special purpose vehicle to optimise the parent`s risk policy. This can be done in coordination with all other compliance requirements such as the accounting, tax and corporate law.

HOW TO AVOID EXPENSIVE INVESTMENT MISTAKES

William Dalziel of London & Capital shines a light on the impact of Solvency II on captives' investment strategies

Directors of captive insurers are, and should be, currently asking themselves questions about how Solvency II will affect their operations. Directors have increased responsibilities under Solvency II's three pillars. These cover capital requirements, risk management and reporting and transparency. As far as the asset side of a captive's balance sheet is concerned, each pillar introduces new or enhanced requirements on directors with which they need to quickly become comfortable with.

Solvency II demands that directors demonstrate an understanding of the impact of Solvency II on its current portfolio structure. This includes the asset classes they're investing in, the capital weighting that will apply to the portfolio assets and the overall portfolio's risk positioning, particularly in respect to duration, credit and foreign exchange. In short, the board must be able to show they have a detailed understanding of the risks embedded in their portfolio and have a clear image of how the portfolio will look under the standard model of Solvency II.

In addition, a captive that uses third-parties to outsource responsibilities such as asset management must ensure that contracts are amended to include specific language to address particular regulatory requirements. Finally, the new rules require captives to be able to generate a significant amount of detailed and independently verifiable portfolio data, in a timely and accurate manner and in a variety of reporting formats.

Written by

William Dalziel

William Dalziel is a partner and head of our Institutional division at the firm. He set up the Institutional business in 2006 and under his leadership it has grown rapidly to now approach $1bn of assets under management. A particular focus for the division is investment management services for the Captive insurance sector.

This article seeks to highlight some key issues and challenges to consider under each of the pillars of Solvency II.

Pillar I

Captives are likely to use Solvency II's standard model in order to calculate their capital requirements. Captives will need to understand their neutral portfolio position (i.e. the point of minimum risk where liabilities are matched with assets) and document their investment risk appetite as well as the risks they have chosen to take in the portfolio (e.g. currency mismatching, portfolio credit rating profile, portfolio volatility etc.).

Supervisors have made it clear that, in their view, the standard model is the most appropriate way to model the risks in the business. For supervisors, the standard model will standardise submissions across the industry and allow for streamlined analysis. Directors must now give up any idea that some form of proportionality will be applied to captives insurers, despite the widely accepted fact that captives are very different to traditional insurers. The result is that captives will be penalised disproportionately under the standard model for counter-party risk (which may require captives to hold more capital than necessary), as captives typically have few policyholders and reinsurers. They also typically do not diversify their asset base, often choosing to loan back reserves to their parent company or simply hold cash.

The standard model is not likely to accurately represent the risk profile of a typical captive, since it was developed as a 'one-size-fits-all' model. That said, it is important to understand how it will project the business risk to supervisors.

Pillar II

Pillar II requires insurers to put in place an auditable and documented decision making process in respect of the management of the investment portfolio. Captive directors will need to be able to:

- Recognise, discuss and evidence investment market risk;
- Demonstrate a governance framework over the asset side of the balance sheet;
- Ensure policyholder assets are invested in the interests of policyholders, and
- Satisfy the prudent person principle & outsourcing rules.

Captive directors will also need to agree a process by which investment decisions are made. That process is likely to start with an investment policy statement which has been approved by the board.

Directors responsible for captives must demonstrate that the prudent person principle has been applied. Captives must show their assets have been invested in a 'prudent' manner and that any policy holder reserves, which for most insurance companies represents the bulk of their assets, have been invested in the interest of policy holders. This is a departure from the current status quo. This subtle change could potentially imply a significant shift in investment policy. However, it's yet to be seen how these principles will be enforced in practice.

Marsh's 2014 *Captive Benchmarking Report* showed that 34% of all Captive investments are in parent loan-backs, 31% in fixed income, 30% is retained in cash and the remaining 5% was classified as 'other'. While this data reflects the position of captives worldwide, and not just those captives subject to Solvency II, it is likely that European captives invest similarly. If these findings are true, it could be argued that parental loans are not necessarily the most prudent form of investment or in the interest of policyholders. Prudent investors would avoid adding to enterprise risk and would not invest in the business that is itself the source of the risk that the Captive underwrites.

It is difficult to say with any confidence at this stage whether this rule will cause problems for captives in the future. It is one of many issues which are being raised as the industry picks its way through Solvency II's rules. It certainly has the potential to be disruptive and warrants detailed discussion and understanding.

At the same time, under Pillar II, outsourcing rules impose strict conditions attached to outsourcing investment functions to third-parties. These need to be factored in by insurers that are considering outsourcing any of their key functions. In the case of the investment portfolio, the rules will require the Insurer to contractually commit to providing access for the supervisor to data, persons and premises connected to the management of the investment portfolio. The aim is to ensure the captive's board can demonstrate that the investment activities delegated to any third-party continue to be under their control.

Pillar III

Increasing the transparency of the insurance industry is seen as a key outcome of Solvency II. That transparency will be achieved through standardised reporting across the industry and an emphasis on consistent data. As such, directors will be responsible for ensuring that any data they provide their supervisor is of the required standard, even if the insurer relies on third-parties for that information. As an example, most bond portfolios will be credit rated. In the past that information was held by the investor. Now that information must be visible to the general public and the supervisor. The directors have a responsibility to ensure the data provided is accurate and this adds another layer of operational complexity to the business. Because of this, companies providing market data, like credit rating agencies, will expect insurers to buy a licence directly from them in order to use the data for public reporting purposes.

On top of the cost and complexity of these extra reporting burdens, the reporting timeframes have been tightened. Captives must be able to produce this data accurately and quickly, in multiple formats, for multiple reporting deadlines. As captives typically rely on third-party service providers, this means being able to provide multiple stakeholders with access to the same set of data so that all the required reports still tie-up with each other. Here accuracy, granularity and security of data become business critical.

Like any other insurer, captives will have to provide the regulator with three types of report; firstly, their own risk and solvency assessment, secondly, solvency reporting templates (SRT), a set of private reports to be submitted to the regulator and, thirdly, the public solvency and financial condition report.

To give a sense of the significance of these new regulatory burdens, the Association of British Insurers estimates that the cost of producing these Solvency II compliant reports may be up to £80,000 per year for captives and small insurers.

Lack of industry influence

As previously mentioned, for a long time captive owners and insurance managers were under the impression that there would be concessions for the captive industry from the majority of Solvency II's capital requirements. That has not transpired. Some may be tempted to think that the captive space, within the wider insurance industry, isn't large enough to warrant Brussel's attention when crafting legislation on this scale.

Conclusion

Despite the numerous challenges and increased burdens that Solvency II will create for captives, the flight from European domiciles that was predicted by some has not materialised. Instead, there is a growing appreciation that the benefits to captives from the new regulations outweigh the costs of compliance. Many industry figures expect an increase in formations now that the implementation of Solvency II is going ahead, as this will remove the cloud of uncertainty and allow companies to push on with any captive plans they had as part of their risk management strategies.

The captive industry has an outstanding track record of adapting to challenges and opportunities, and will do so again as Solvency II is implemented. While Solvency II is a current issue, it's not likely to develop into a long-term problem.

> "The captive industry has an outstanding track record of adapting to challenges and opportunities, and will do so again as Solvency II is implemented"

ALM: HARNESSING UNTAPPED VALUE

Zurich's Michael Christen, head of asset liability management and strategic asset allocation, and Paul Woehrmann, head of captive services, global corporate in EMEA, APAC and Latam, introduce Zurich's approach to asset liability management and how captives can benefit from a systematic and holistic management of assets and liabilities. This is particularly relevant in the context of Solvency II and increased capital requirements.

Captive Review (CR): What was the thought process behind the idea of potentially offering asset and liability management service to your largest captive owner clients?

Paul Woehrmann (PW): Back in 2012 Zurich launched a new approach to bring together the life and non-life worlds in a single reinsurance captive to give our customers a diversified portfolio. Following this we discussed internally what further services we could provide our customers based on systems we already have in place for our internal use. We have a large unit in our central office dedicated to managing and optimising our invested asset relative to insurance liabilities. Furthermore, we have a lot of external partners like asset managers who could potentially provide that experience to our largest customers that run captives.

Following this we examined our customers' captive balance sheets. Most of these clients are industrial companies, not banks or insurance companies and their primary investment strategy is an internal loan-back to the parent company.

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Paul Woehrmann has 25 years' experience working in international corporate business at Zurich. With a PhD in economics, he is the author of a large number of specialist publications on the development and structure of alternative risk financing solutions.

Written by
Michael Christen

Michael Christen, head of ALM & Strategic Asset Allocation with Zurich Insurance Group, has more than 15 years of experience in the area of Asset Liability Management and insurance asset management. He graduated from the University of Basel with a Master of Science degree in Business and Economics.

> "Essentially, under Solvency II, captives can benefit from diversifying across risk types and, within market risk, by focusing on rewarded risk taking and optimally using the available liquidity capacity"

Under Solvency II a captive will be required to follow a certain framework of asset investment based on its liabilities, and when you optimise this process you get capital credit under the system. Based on this information we are now considering to approach existing and potential new customers with the offer of leveraging our expertise and experience to help start the optimisation process within the context of Solvency II's capital requirements.

CR: So Solvency II has presented an opportunity to provide a new form of service to your customers?

Michael Christen (MC): We have more than $200bn of assets under management (AuM) and our aim is to achieve superior risk-adjusted returns relative to liabilities; the liabilities are our benchmark and we want to outperform on those on a risk-adjusted basis. The idea is to leverage our in-house expertise and analytics capabilities to enable captives to make more informed investment decisions and to be able to quantify the risk return trade-off between different asset allocations and different ALM strategies in a Solvency II context.

It is key to understand the value of diversification at different levels. As a starting point, the captive can diversify between different risk types, for example by adding to the existing non-life insurance risk some corporate life and pensions business and some investment or market risk. Since those risks do not move in sync, you benefit from diversification in that your total risk is reduced. When it comes to market risk, you have to carefully consider how much market risk you really want to take given Solvency II, other regulatory frameworks and economic risk return relationships. Also within market risk, the aim is to achieve diversification between different market risk drivers, for example equity, credit and sovereign risks; one can optimise the ALM strategy either by maximising return for a given level of risk or by minimising risk for a targeted expected return. For Solvency II specifically it is key to clearly understand what the trade-offs are in terms of risk, return and capital requirements in order to enable captives to make the most informed and risk conscious decision.

CR: How can Zurich's extensive experience in the insurance arena be monetised?

MC: As an insurance company you have to juggle multiple regulatory, accounting and local statutory frameworks so you have to be very clear about your objective. If we look at the economic value creation and focus on maximising the difference between asset return and liability return for a given risk capital then we maximise the economic contributions for Zurich and our shareholders. The same basic approach can be applied to captive insurers to maximise the captive's economic value.

CR: How should captives optimise their market risk-return management?

MC: When it comes to optimising within market risk we believe there are 'rewarded risks', such as equity and credit risk and risk-taking that is not rewarded systematically by the market such as FX or interest rate risks. Naturally, risk-taking must focus on rewarded risks while unrewarded risks should be mitigated to the extent possible. Another source of value is coming from the liquidity structure of the captive. Most captives invest in highly liquid assets while liabilities tend to be less liquid. This liquidity mismatch is not ideal from a risk return point of view. If you have longer-dated liabilities that are expected to stay on your balance sheet, for example if you have taken on some life

business, then you should also invest in less liquid assets, which essentially means that you can benefit from the increased liquidity premium (on real estate and private equity for example) without increasing risk.

Essentially, under Solvency II, captives can benefit from diversifying across risk types and, within market risk, by focusing on rewarded risk taking and optimally using the available liquidity capacity.

CR: How is Zurich managing the 'passive' side of its captive balance sheet to achieve a diversified structure?

PW: We believe that brokers do consult captives on claims returns and they have fantastic actuaries on board who can create calculations to help with this. On the other side, customers from the treasury department of the parent company certainly have access to great asset managers. However, we believe that between the 'passive' and 'active' side of the balance sheet there is a gap and we think a large insurance company is able to exploit this. Considering that everyone in the market already tries to take a piece of this cake, we at Zurich may provide a valuable bridge between the actuary and the investment manager.

MC: In the past few years we have experienced that usually insurance companies as well as captives operate in departmental silos. On the one hand, you have the investment function, and on the other, the actuaries and the underwriting teams. In many instances, other than through the risk manager who may have a degree of overview, they rarely communicate. Our firm belief is that any insurance company (including captives) need to take a holistic approach by looking at assets and liabilities (asset liability management, ALM) to maximise diversification benefits between the assets and the liabilities and thus to optimise the capital at a captive's disposal.

The Zurich approach to ALM is holistic in the sense that assets and liabilities are covered. It involves close interaction with actuaries to understand the liabilities in detail and also which liability information they should provide to serve as a benchmark for the asset management activities. If the asset allocation is such that it matches the liabilities, the expected return relative to liabilities is zero. Depending on how much risk you want to put behind the asset liability 'mismatch', your expected return will increase or reduce.

We implemented this framework ourselves nine years ago and we now have a global team of 370 people who manage more than $200bn invested assets relative to liabilities, not only at the group level but also at the local level, spread over 400 balance sheets across the world.

CR: In terms of the Solvency II calculations, how much consideration needs to be taken and who will conduct them? Is it done by yourself or internally by the captive?

MC: At Zurich we have developed an internal capital model that is used to inform investment and risk management decisions as well as to derive various economic and regulatory risk figures, including Solvency II. The holistic ALM platform at Zurich covers all aspects from risk budgeting to risk measurement to risk management.

PW: Captives are often already partnered with highly skilled business partners but we at Zurich can identify the gaps and quantify them. We can show the framework and our specialists in asset liability management can work as a sparring partner for our customers who have questions about testing how they can optimise their balance sheet. We have valuable experience from which our customers could benefit. We view this as an integral part of our holistic 'customer centricity' strategy.

EMBRACING CHANGE

Tony Silverman and Konstantin Langowski of A.M. Best discuss how Solvency II has already impacted the business models of captives and what factors may cause further changes in the future

Captive Review (CR): Is Solvency II likely to be largely good or bad for captives?

Konstantin Langowski (KL): Initially, it seems that captive owners viewed the Solvency II requirements as an onerous burden. However, A.M. Best believes that captive owners, especially those whose captives are an integrated part of their overall risk management strategy and not just a financing tool, now take a more pragmatic view, especially as Solvency II aims to enhance and incentivise risk management.

We have seen that Solvency II has generally increased captive's risk management awareness. Improvements in the capabilities of captives to identify and quantify risk as well as to understand and manage their risks are positive developments emanating from Solvency II, especially as this has traditionally been a weaker feature of captives. As a rating agency, A.M. Best takes a holistic approach to its analysis, and risk management is one of the cornerstones of its evaluation. A.M. Best's analysis includes the evaluation of a company's balance sheet strength, operating performance and business profile, as well as its enterprise risk management (ERM). Ahead of the implementation deadline for Solvency II, we have seen great progress in ERM which has been previously underdeveloped. Therefore, A.M. Best's view is that Solvency II is a positive development for captives.

CR: What challenges are captives facing? Which features of Solvency II are they finding most burdensome?

KL: Primarily, there is the cost issue. Most captives have few staff and limited resources so most of their governance requirements for risk management are outsourced. When A.M. Best talks to rated captives, although they acknowledge the extra costs, they seem to hold the long-term view that the increased requirements in terms of risk management and governance are offset by the benefits that a better understanding of their risk profile provides. They are able to expand their risk management capabilities, which allow them to offer greater value to their parent companies.

Written by

Tony Silverman

Tony Silverman joined A.M. Best's London office in 2013 as a senior financial analyst, focussing on credit ratings for UK-based insurers. He also comments on sector-wide issues and has authored several A.M. Best Special Reports and Briefings.

Written by

Konstantin Langowski

Konstantin Langowski is a financial analyst at A.M. Best's London office, during which time he has gained substantial market experience and insight covering the captive sector as well as non-life direct and reinsurance companies in Europe.

Tony Silverman (TS): From a wider Solvency II perspective, improved risk management is a positive consequence for the European insurance industry as a whole. The capital requirements aspects of Solvency II, on the other hand, are more of a mixed bag. It can produce potentially reasonable answers overall, but it does have some arguably perverse incentives within its individual areas, some of which will apply to captives.

The Solvency II standard formula doesn't cater well for specialist insurers such as captives. The capital requirements will often seem demanding to insurers that don't generate a large level of diversification benefit in the calculation.

CR: Does the requirement for internal models under Solvency II present any challenges for captives?

TS: For larger insurers, using an internal model provides advantages. On the other hand, almost all captives will use the standard formula and that will carry with it some issues, for example, around limited diversification for specialist insurers. There will be some other limited knock-on effects of using the standard formula as well, as it may not properly reflect their risks and strategies.

Additionally, Solvency II will raise new issues for the board of directors, who have to gain and demonstrate a detailed understanding of the captive's risk profile and what its drivers are. This is a challenge that all EU insurance boards will have to deal with.

CR: Will Solvency II's impacts on captives depend on where they are based?

TS: Although in theory Solvency II will only concern captives based within the European Union (EU), there are in reality knock-on effects that will impact industry practice globally and influence regulators in other regions to adopt Solvency II-style regulatory regimes.

Furthermore, the choice of a captive's domicile within the EU will also be important because each national regulator will implement Solvency II with a degree of discretion over certain issues which, for example, may affect the impact of investment allocation. Sovereign credit risk is one area where national regulators may differ on their treatment within internal models, and that will reflect on how they apply standard formulas. This is because each national regulator will, in general, show a level of consistency towards how they supervise both. Therefore, if they are harsh on sovereign debt in internal models, then that is likely to feed through to their treatment of capital add-ons in the standard formula.

> **"Solvency II will raise new issues for the board of directors, who have to gain and demonstrate a detailed understanding of the captive's risk profile"**

Another example would be public disclosure, where there is currently considerable variety between individual European states. In most continental European territories there is a lower requirement for public disclosure of solvency data compared to the UK, for example.

Once Solvency II is implemented, the public disclosure requirements will be more uniform across the EU and will be somewhere between current continental European and UK standards.

CR: Do you foresee any changes to how captives are managed, once Solvency II comes into force?

KL: Yes, A.M. Best has started to see changes already, for instance in terms of asset allocation. Traditionally, the invested assets of a captive were largely linked to its parent, either through loan-backs, holding parental bonds issues or in a wider sense by being invested in sovereign bonds in the parent's domicile. Furthermore, these investments were usually managed by the investment department of the parent company itself; although this seems to be changing gradually. We see a lot of captives outsourcing their investment management to third-party specialists in order to achieve portfolio optimisation. This is reflected in asset reallocations in order to achieve more diversification and by installing exposure limits with the intention of reducing concentration and hence lowering capital requirements under Solvency II.

A.M. Best notes that a captive's investment strategy is also somewhat related to where it is domiciled. For instance, if a captive has a high level of capital which the parent requires to be loaned back, then the captive is likely to be domiciled outside the Solvency II catchment area. In contrast, for those with a more diverse business portfolio, the impact of Solvency II will be more manageable, so the captive may well choose a European domicile. This feature is not strictly new to Solvency II so most captives will already be domiciled in an EU or non-EU region that best reflects their needs. So far, A.M. Best has not seen any captives re-domiciling as a result of Solvency II.

CR: Does Solvency II impact fronting arrangements?

KL: Under Solvency II the credit risk charge is relatively high if an insurer cedes business to a non-rated entity, which might have an impact on fronting arrangements. In addition, lower credit risk concerns on the part of the fronter will usually reduce the amount of collateral a captive has to post. Solvency II raises ERM standards, which in turn places positive rating implications on a captive's rating with A.M. Best.

CR: Will Solvency II change the future for captives?

KL: When Solvency II was unveiled initially, there was a fear that captives might just view the qualitative and reporting requirements as a box-ticking exercise. However, we have seen captives using the information that they are required to report to improve their risk management and change their strategies accordingly. We have also noted a pragmatic response to mitigate the financial and reporting strain. For instance, parental companies that have more than one captive have considered economic efficiencies by transferring risks to just one captive. We have also seen that captives are considering the acceptance of new risks in order to obtain diversification benefits which would ultimately increase the importance of the captive to its parent.

TS: In addition, this whole process should help captives demonstrate their business case to the parent by proving they add value to the risk management process. The wider financial environment in Europe has shown a trend for falling corporate tax rates which, in addition to a soft insurance market globally, means captives must continually justify their existence.

KL: Captives have always expected that the initial costs attached to Solvency II would be relatively high, but by embracing the process A.M. Best believes that captive owners have increased their intellectual capital and, in the long term, will actually benefit from the new regulations as they are able to better manage their risks.

USING EMPLOYEE BENEFITS TO DIVERSIFY YOUR CAPTIVE

Vittorio Zaniboni, chief technical officer at Generali Employee Benefits, talks to *Captive Review* about how captives can optimise their capital requirements in a Solvency II environment

Captive Review (CR): What features of Solvency II is forcing captives to diversify their risk?

Vittorio Zaniboni (VZ): Solvency II standard formula is based on a modular approach that implies the computation of solvency capital requirements (SCRs) for several risk modules. The basic solvency capital requirement (BSCR) is then computed as the sum of the SCRs for market, counterparty default, life underwriting, health underwriting, P&C underwriting and intangible assets risk sub-modules, reduced by an effect of diversification.

The total SCR is finally calculated as the sum of BSCR and the operational risk SCR along with an adjustment factor. The logic behind the importance of diversification in the calculation of the economic capital is linked with the idea that, by including uncorrelated risks within the same portfolio, the loss volatility of the same portfolio decreases sensibly.

There are many possible ways of achieving risk diversification in a portfolio; one of the most effective is the business lines diversification (mixing P&C business and life business), whose efficacy is due to the very low stochastic correlation between the respective losses.

In practical terms, this is confirmed also by the Fifth Quantitative Impact Study (QIS5) for Solvency II, which showed that the diversification benefit impacted for 32% the BSCR of monoline companies, rising to 46% for group companies.

Written by
Vittorio Zaniboni

Vittorio Zaniboni has been working for Generali for almost 20 years. He started his career as a junior actuary in the Head Office of Generali in Trieste in 1996. He then joined GEB headquarters in Brussels in 1998 where he pursued a successful career as actuary, head of reinsurance, chief actuary, and finally chief technical officer as of 2015.

> **"Solvency II is ultimately an instrument used by regulators to force insurers to increase their levels of risk awareness, and to look at risks with a new level of attention"**

CR: Is this requirement likely to affect a lot of captives? How onerous is it?

VZ: While only about 10% of the roughly 5,000 captives present on the market are EU based, even non-EU based captives are affected by the Solvency II regulations as long as they want to insure or reinsure risks based in the EU.

In this respect the official granting of Solvency II equivalence to seven non-EU countries (Switzerland, Australia, Bermuda, Brazil, Canada, Mexico and the US) is very recent news. Under this ruling "EU insurers can use local rules to report on their operations in third countries, while third country insurers are able to operate in the EU without complying with all EU rules" (European Commission, June 2015). Following this ruling more than 50% of existing captives are based in a Solvency II, or Solvency II equivalent, domicile.

According to the forthcoming Solvency II regulation, captive companies will be impacted according to the principle of proportionality (which states that the Solvency II regulation should be fulfilled considering the nature, size and complexity of the risks undertaken). This principle should allow captives to reduce their solvency capital requirement (SCR) assessment, and, according to the simplified structure and the own-retained risk profile, captive companies should not face the same expensive process as commercial insurers will. For example, being asked for lower reporting documents due to their lack of complexity compared to traditional insurers.

CR: For captive owners that must now diversify their risk under Solvency II, is employee benefits a viable option? What are the advantages?

VZ: Employee benefits is probably an 'ideal candidate' for risk diversification for a portfolio of P&C industrial risks. First of all the likely size of any single claim in the EB space is usually a fraction of the typical P&C industrial claim, and this generates a much lower volatility of the expected loss ratio of the portfolio. Another important aspect is the likely stochastic independence of the EB risk among themselves as well as from the corporate P&C risks.

On top of this, we need to consider that the captive might realistically believe that their parent risk management measures differentiate their loss experience from the one of their peers, therefore allowing the captive to benefit from an advantageous claim experience and reduced exposure to catastrophic risks.

CR: What are the challenges in including employee benefits in a captive initially? What are the common pitfalls?

VZ: Apart from the capital requirement advantages linked with the inclusion of human capital risks in the captive, all the parties involved should not forget that the main purpose of reinsuring EB schemes in the captive is to allow a better and a more efficient management of this schemes from the corporate level.

The captive in this respect is to be seen as a tool and an asset for the parent to improve the effectiveness of their EB solutions. This means that having EB in the captive will require the captive manager to strongly involve the corporate (and local) HR functions in the decision making process, and to develop a strong sensitivity for all the EB related issues. This has to be seen as a joint-venture between HR and the captive, and assuring an early buy-in from the HR functions has proved to be the primary success key.

Another critical area is the level of central control the parent needs to have on the local subsidiaries. In order to facilitate and govern the implementation of the EB reinsurance framework, a solid internal communication and control facility is of fundamental importance.

CR: Is there a minimum headcount above which the inclusion of EB business in the captive becomes economically and strategically convenient?

VZ: In the definition of the minimum critical mass needed to justify the inclusion of EB business in the captive, there are many factors which should be considered. Apart from the most immediate ones (geographical distribution, level of central co-ordination at corporate level, pre-existence of a P&C captive) the level of complexity of the local EB schemes as well as the type of the current local insurance set-up play an important role.

There is usually a reasonable consensus on the assumption that the inclusion of EB in the captive starts making economic sense from 5,000 employees worldwide.

CR: Is Solvency II the main driver behind the current trend for employee benefits being included in captives? If not what is?

VZ: The number of captives writing EB business has risen quite steadily in the past years; up to only few years ago, no more than 20 captives on the market had EB business in their portfolios, while in 2015 we reached the considerable level of 85.

Evidently the upcoming implementation of the Solvency II framework, and the corresponding diversification advantages played a big role in this burst of interest, but I believe that more and more corporations are looking at captives as 'business tools' to control, co-ordinate and govern their EB strategy worldwide.

The EB data that captives collect and analyse can be invaluable during harmonisation processes or global EB budgeting and may have a key role in enhancing the engagement of the employees' community. Moreover, managing EB business via their own captive provides corporations the level of flexibility, adaptability and reaction time which often more traditional type of solutions are struggling to offer.

CR: How can EB networks help captives facing the Solvency II challenge?

VZ: Solvency II is ultimately an instrument used by regulators to force insurers to increase their levels of risk awareness, and to look at risks with a new level of attention.

In this perspective, the implementation of Solvency II is a game changer in the insurance industry in the way insurers collect, validate and analyse business data.

In this new regulatory scenario EB networks do play a fundamental role in providing to captives structured access to data and data analytics capabilities, which can enable them to integrate in the most efficient way the EB risks in their portfolio, as well as playing an increasingly important role in the strategic decisions of their parent companies.

EB networks are also often best placed to provide captives with solutions to optimise their risk retention, offering excess capacity to ring-fence their EB risks.

DON'T FALL AT THE LAST HURDLE

Sinéad Kiernan, leader of Deloitte's non-life actuarial & insurance solutions practice, speaks to *Captive Review* about the remaining challenges facing captives looking to achieve Solvency II compliance

Captive Review (CR): Are you finding that some captives are having trouble with operationalising Solvency II?

Sinéad Kiernan (SK): Yes, there are certainly problems with this. For example, captives might not yet have an approach and process for producing the solvency capital requirement (SCR) that is robust, easily followed and that reflects the most recent EIOPA documentation. They might also not yet be prepared to produce quarterly and annual quantitative reporting templates (QRTs) to meet regulatory reporting deadlines. Deloitte has developed a Solvency II tool that spans all three pillars and has been very popular with captives because it helps solve aspects of the embedding issues within their organisation.

The Pillar I component calculates the SCR, minimum capital requirement (MCR) and Solvency II balance sheet in a way that's very easy to use and transparent with strong controls underpinning it. For Pillar II, our tool allows our clients to project their Solvency II balance sheet and profit & loss account over multiple years as well as allowing for stress and scenario testing. Finally there's a Pillar III component which facilitates the QRT reporting requirements of Solvency II.

Written by

Sinéad Kiernan

Sinéad Kiernan is director of Deloitte's non-life actuarial & insurance solutions practice, providing a full range of actuarial and related services including claims reserving, Solvency II, risk and capital management, modelling pricing and analytics. She works with a wide range of clients including several captives.

CR: Across the three pillars of requirements, what are the greatest challenges for captives?

SK: All three pillars can pose challenges for captives. Under Pillar I, some captives could find they have a shortfall in covering their SCR. For example, captives with meaningful exposure to counterparties with lower credit ratings could find that they have significant capital charges as a result. We note that the CAT risk charge calculation as part of the standard formula method in particular poses a challenge to captives. Often this charge can have a significant impact on the overall SCR for captives and they need to ensure that they are appropriately taking account of policy limits and reinsurance arrangements in this calculation, which is not always straightforward. Also, as captives refine their approaches to determining their Solvency II balance sheets and SCR, they might find that simplified assumptions or methods previously employed in preparing for Solvency II are no longer appropriate.

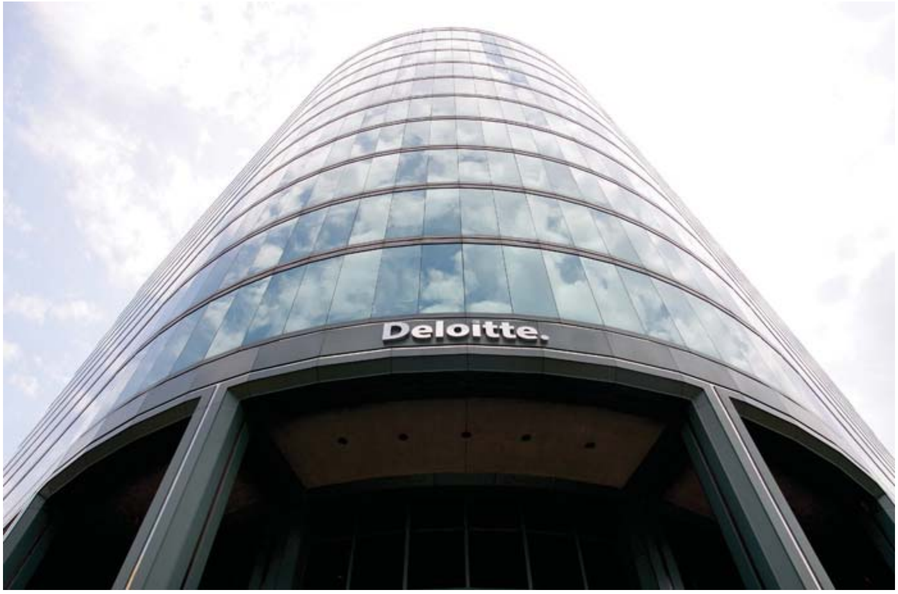
Under Pillar II there is sometimes a considerable gap between the Forward Looking Assessment of Own Risks (FLAOR) completed in 2014 and the requirements of the Own Risk and Solvency Assessment (Orsa), which will apply in 2016. This gap has to be bridged soon. For example it could be that the captive's risk universe isn't appropriately considered in the FLAOR.

In addition we have seen examples of several insurers, not just captives, struggling with assessing the appropriateness of the standard formula. Control functions such as the actuarial, internal audit and risk-management functions all need to be established and operational by the end of 2015. Some captives are only at an early stage of activating these functions.

On the Pillar III side, one of the issues relates to the mapping of data to the QRTs and confirming that all required data is readily available to populate the QRTs. We have also seen that captives have not yet considered how they will produce the narrative reports required under Solvency II.

> **"Captives and their parent companies, like much of the insurance industry, focused their attention elsewhere and now the implementation date is nearly here some have found themselves somewhat unprepared"**

CR: Considering all these issues, do you think that EU captives are, in general, prepared for Solvency II's implementation?



SK: The extent to which a captive is prepared varies across captive managers and captives themselves. It depends in part on the extent to which the parent company and the board is driving Solvency II implementation. If the board and/or the parents were fully behind the process from early on then they will be at a very different stage to those that took a more hands-off approach.

For the boards, specifically having directors that are on other insurance boards and that are seeing Solvency II activity elsewhere helps drive the Solvency II agenda at the captive. A couple of years ago, when the implementation date was delayed, captives and their parent companies, like much of the insurance industry, focused their attention elsewhere and now the implementation date is nearly here some have found themselves somewhat unprepared.

Considering the number of challenges relating to Solvency II that I mentioned earlier, there's quite a lot for captives to do to be ready for implementation.

CR: How have the questions being asked by your clients changed as we draw closer to implementation date?

SK: Their questions have changed in a number of ways. They have become more detailed as captives delve into the practical realities of applying Solvency II. For example, for Pillar I we get questions about how to interpret some of the technical specifications and the delegated acts. This is often driven by a desire from the captive to reduce its SCR and optimise its capital position. We are also asked more about specific aspects of the calculations in relation to the Orsa.

There are also questions around proportionality as there are still some uncertainties around the application of proportionality. Solvency II applies to everyone equally, however the Solvency II principle of proportionality also applies, which means that a captive doesn't have to adopt the requirements in the same way as a large international insurer.

There are queries about whether a captive needs an actuarial function for example, which of course it does. Companies can't 'opt-out' of the requirements of Solvency II on the basis of proportionality but they can take a practical approach to scale their responses to its requirements.

CR: Is there still a significant demand for captives to educate themselves and their parents on Solvency II's requirements?

SK: Yes there is and in fact we have seen increased demand in connection with the previously mentioned theme of captives increasingly focusing on the practical implications of Solvency II. Boards are still coming to terms with the extent of the changes needed and some still need training and education.

For example, there are a number of board requirements in relation to the Orsa. Boards must be aware of all material risks facing the captive and must take an active role in directing and challenging the Orsa process. This can be quite a challenge for some boards, who will have directors that aren't from an insurance or financial services background. Therefore there is a demand for training around the Orsa. We offer workshop sessions to help boards identify key risks and to shape and question the Orsa process.

As another example, the board must have a strong understanding of the standard formula and its implications for the captive in order to comply with EIOPA's Orsa guidelines and also in relation to developing capital optimisation strategies.

Furthermore, regulatory reporting is still an area that some boards are struggling to get to grips with. The Solvency II balance sheet and regulatory reports are quite different to Solvency I so there is a need to expand some boards' knowledge in this area.

> **"The Solvency II balance sheet and regulatory reports are quite different to Solvency I, so there is a need to expand some boards' knowledge in this area"**

Looking at parent companies, they won't typically be insurers themselves and therefore Solvency II won't come up in their day-to-day business or be a natural part of their area of expertise. However, as the parent supports and funds the captive it must have an understanding of Solvency II in order to fulfil this role. It is common for certain functions within the parent's company, such as risk management and internal audit, to support the running of the captive. These functions will also need to understand the implications of the new requirements for their roles in supporting the captive.

SOLVENCY II & CAPTIVES

Marine Charbonnier, head of risk financing solutions at AXA, speaks to *Captive Review* about how Solvency II will affect fronting services

Written by

Marine Charbonnier

Marine Charbonnier joined AXA Corporate Solutions in 2013 as head of risk financing solutions for Group AXA clients. She helps clients to identify financial solutions for their specific risks and create customized solutions.

Captive Review (CR): Are you seeing a significant preparation by captives to meet their obligations?

Marine Charbonnier (MC): Solvency II is already reality for the European insurance and reinsurance market, including captives. In general they shouldn't have problem implementing the new risk-based capital rules that will come into force in January 2016, even if the three pillars create higher capital charges and compliance costs.

Risks managers are aware of these challenges and some captives are already taking steps to reduce them and are now beginning to see the benefits of the new regime.

The entire industry – brokers, associations, captive managers, advisors, fronting companies, reinsurers, actuaries, investment managers and banks – is working to provide these captives with the solutions and expertise they will need.

CR: What are the impacts of Solvency II for insurers and their captive cessions?

MC: Credit risk is one of the five risks the regulation focuses on. The directive and rating agencies require insurers to evaluate the credit risks inherent in cessions including to captives. Fronting insurers under solvency II have less capital requirements in respect of credit risk for higher rated captives. Transparency and information sharing will help the captive optimise its fronting constraints.

Internal credit risk evaluations are using various types of useful information even if all of them are not always available.

Some of the information used by fronters is purely quantitative captive data (its balance sheet, capital and reserves, its last SCR and its variations, rating if any, potential claims, timeframe of recovering them).

Others can be more qualitative i.e. global underwriting policy and retrocession purchase strategy, claims payment experience, investment strategy and/or linked to its parent company; sector, shareholding structure, its group rating.

CR: Are fronters helping captives to respect Solvency II?

MC: For captives, Solvency II requires more knowledge on their underwriting risks in order to complete forward-looking assessments of own risk stress and scenarios based testing. Quality data will help captives to control their underwritings and improve their risk management. As such fronters can help to achieve a more efficient optimisation.

Data on premiums and losses should be detailed and up-to-date. This includes individual claim data such as paid losses, reserved losses, expenses and recoveries and aggregate.

CR: How does the captive's corporate governance impact fronting activity?

MC: Complying with Pillar II requirements should improve the profile of the captive's risk management within the group. Governance must be addressed with processes and controls in order to assess and monitor risks. Captives should set transparent organisational structures, clearly assign the roles and responsibilities, document processes and provide internal audit, control, actuarial, compliance functions and outsourcing policies.

Fronters of solvency II captives appreciate this better understanding in order to:

- Include it in retro planning of renewals taking into account for instance need of technical information, date of underwriting committees, signature procedures,
- Address the right people involved including third parties if legitimate.

CR: In a soft market do you see a greater or lesser involvement of captives?

MC: Captives have been set up to insure risks of its parent company, usually on standard market wordings such as traditional property & casualty risks, marine and financial lines. They can also provide broader guarantees to cover risks that the group is not able to find on the commercial market or where market capacity is restricted with too many constraints – price, capacity, wording and other conditions. Companies that quantify their emerging risks using data and specific analysis use the captive to finance their retained risks and provide customised cover to protect their operational entities.

Diversification benefits that Solvency II offers are already used by some captives to underwrite new lines of business such as non-contingent business interruption of supply chain, environmental, trade credit, reputation, political risks, cyber and employee benefit. Well-diversified captives with uncorrelated risks will be subject to lower capital requirements than those that are monoline.

Their new involvement can be managed as incubation before to be able to go to the insurance markets to better understand, evaluate and be able to present them for traditional transfer.

Fronters that understand more complex emerging risks and specific exposures will bring added value helping controlled diversification of the captive portfolio by issuing tailor made insurance policies and being able to handle claims.

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AT THE CUSP OF SOLVENCY II: MALTA'S PERSPECTIVE

Elaine Magri, an associate within GANADO Advocates, explains how Malta has achieved the status of 'Solvency II ready' and other regulatory innovations the island has in its pipeline

Solvency II is no longer fiction and its impending implementation has seen insurance firms gearing up and preparing themselves for the introduction of a regime firmly based on risk and capital management, including the insurance industry in Malta.

Written by
Elaine Magri

Dr Elaine Magri is an associate within GANADO Advocates' insurance and pensions team with particular focus on insurance and re-insurance regulation and corporate matters. Magri regularly advises the firm's clients on regulatory and legal matters in relation to insurance and reinsurance companies, insurance intermediaries and captives.

Solvency II and Malta

Solvency II marks a radical overhaul in the regulatory landscape of insurance firms, with a three pillar system assisting in the adoption of a risk-based approach ensuring that insurance firms are adequately capitalised and that risks are sufficiently measured. The Maltese market has seen major movements in the preparation for Solvency II, both within the insurance firms and within the regulatory environment. The Malta Financial Services Authority has reviewed its approach in relation to regulation and supervision in preparation to the significant changes brought about by Solvency II. It also carried out on-site visits of Maltese insurance companies and reviewed presentations prepared by insurance companies to assess the level of preparedness of these firms. Insurance and reinsurance companies were expected to submit the analysis of the forward-looking assessment of risk, based on their own risk and solvency assessment principles.

Understandably, Pillar I has been the principal focus of the insurance industry, with insurance firms registering a solid progress in their preparations. Maltese firms face the same challenges as their European counterparts and even though economically the Maltese insurance industry is a sound industry, the average size of a Maltese insurance company is somewhat small to medium sized when compared to their counterparts in other member states.

In fact, the concerns commonly raised by insurance firms and their managers have invariably centred around Pillar I solvency capital requirements and the additional financial pressures these conditions would have on the insurance firms. With respect to the calculation of capital requirements we have seen firms, especially smaller ones, adopting the standard formula approach with the main reason being a mitigation of the various costs associated with maintaining the internal model.

Rising interest in PCCs

Because of capital requirement challenges, the insurance industry has seen a growing interest in the protected cell companies (PCC). Currently, Malta is the only EU member state with legislation in place to regulate PCC structures, with the structures seen as providing flexibility, speedier set ups and cost-effective solutions. The regulator felt it imperative to ensure that the PCCs are compliant with the Solvency II regulatory regime and in line with the

"Under Solvency II PCCs will be treated as ring-fenced funds with the PCC required to comply with Solvency II as one entity"

various guidelines issued with respect to Solvency II. The MFSA has issued a guidance note on the solvency requirements in relation to PCCs under Solvency II. The guidance note focuses on the calculation of the solvency capital requirements as well as adjustments of own funds based on the latest developments with respect to the technical specifications for the Solvency II valuation. Under Solvency II PCCs will be treated as ring-fenced funds with the PCC required to comply with Solvency II as one entity. This will ensure proportional treatment for the cells.

The proportionality principle

The concept of proportionality is the cornerstone of Solvency II and it is our view that cell structures offer a valid solution for smaller captives, who are concerned that Solvency II compliance may present onerous obligations for a stand-alone company.

Throughout the interim phase we have seen insurance firms increasing their awareness on the soundness of the firms governance set-up and risk governance. The change from the traditional approach did not only involve an update to the internal structures and governance bodies, but it also triggered a change in mentality with more focus on due process and managing conflicts of interest.

As previously mentioned, the average size of a Maltese insurance company (including captives) is small to medium and this is reflected in the composition of the board of directors and the various committees. This has invariably raised concerns on conflicts of interest, and insurance undertakings had to take the necessary steps and ensure that robust policies are in place to mitigate such conflicts. We have seen a change in insurance firms in bringing about the necessary changes to their committee structures (including creation of new committees), in order to reflect a more formalised approach to the governance system.

Understanding the risk portfolio

One of the major difficulties faced by captive owners and their managers was challenging their own risk culture through self-assessment and the implementation of the risk management function. More often than not, the apprehension with respect to Pillar II was often associated with lack of guidance as to what the principle of proportionality entails. The Malta Financial

"The change from the traditional approach… triggered a change in mentality with more focus on due process and managing conflicts of interest"

Services Authority was at the forefront with respect to internal governance and has issued guidance papers on the risk management systems and systems of governance in preparation for Solvency II. This has invariably assisted insurance firms in their preparations for Solvency II and especially during the past year, we have seen insurance firms moving away from the learning curve and implementing the knowledge gained in the past years in the run up to Solvency II.

Even though no longer an enigma, insurance companies have expressed their concerns on the reporting requirements under Pillar III. In order to assist insurance companies, the Malta Financial Services Authority has issued circulars to address Solvency II reporting requirements during the preparatory phase. During the interim period insurance companies representing 80% of the market share were expected to report annually whilst those undertakings representing 50% of the market share were expected to report on a quarterly basis.

Solvency II ready

The regulator has also initiated a consultation process with the aim of making the necessary changes to the Insurance Business Act, the principal act regulating the authorisation processes and business of insurance, as a consequence of transposing the provisions of the Solvency II Directive. The Malta Financial Services Authority has given license holders the opportunity to present their views and comments on the proposed amendments and it has issued its feedback statement pending implementation. It is safe to say that Malta is now Solvency II ready thanks to the active approach taken by insurance firms in revisiting their internal structure to comply with Solvency II, as well as the stance taken by the regulator in relation to phasing in certain Solvency II requirements. This has invariably increased confidence in the Maltese market which, based on the Malta Financial Services Authority's Annual Report for 2014, registered a growth of 8% in 2013.

Moreover, Malta has not shied away from introducing new concepts in the insurance field, even when the industry was still coming to terms with Solvency II requirements. Only last year the securitisation cell company regulations were enacted, making Malta an ILS domicile with the regulations transposing the provisions of the Solvency II Directive (and its implementing measures). The key to Malta's efforts in implementing Solvency II and reaping its benefits lies within its vision for innovation and willingness to offer the best solutions in a highly regulated industry.

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