

Association of Run-Off Companies:

capital modelling in the legacy market

Rob Collinson presents headline results from a recent Watson Wyatt survey

Watson Wyatt recently conducted a survey of members of the Association of Run-Off Companies, with the intention of gauging current trends in capital modelling in the legacy market. The survey was based on questions completed by delegates of the 2009 ARC Congress who attended the capital modelling session.

The survey showed that the top four issues in the market are as follows:

■ Use of capital models

Whilst 27 per cent of the survey respondents currently use a capital model to help manage their run-off business, an overwhelming majority of 73 per cent do not currently use a model in the day-to-day management of their business.

■ Financial crisis

Over 70 per cent of the respondents felt that the current financial crisis will put greater pressure on companies to use modelling techniques to manage their capital. However, 27 per cent did not think the crisis would have any impact on their use of capital models.

■ Adding value

50 per cent of the respondents believed that a capital model adds most value in managing capital requirements of a run-off business, 33 per cent felt that capital models add most value in the optimisation of business strategies, while 17 per cent thought the area to gain the most value from capital modelling to be the identification of commutation opportunities.

■ Desirable features in a capital model

Of all the features in a capital model, 46 per cent felt that easy-to-interpret results were the most important factor, whilst 33 per cent cited auditability and transparency, 13 per cent thought having a model that was quick to set-up and run and finally, 8 per cent felt that ease of use was the most important factor.

“As the principle of risk-based capital takes root throughout Europe and as shareholders look to improve the efficient management of their capital, companies will increasingly need to create and maintain capital models as part of the daily management of their business.”

Paul Corver, ARC Chairman

insurance matters in the numbers

47

The anticipated role for the Actuarial Function as currently proposed in the Solvency II draft directive is defined in Article 47.

See page 9

2003

The FSA introduced one of the world's first fully risk-based capital regulatory requirements in 2003 with the inception of the ICAS regime.

See page 13

12

‘Long-term’ incentive plans typically relate to a performance period of more than 12 months, with three years being the most common timescale.

See page 17

£4 billion

PPI is a large market with approximately £4 billion of premium written in 2007.

See page 21