



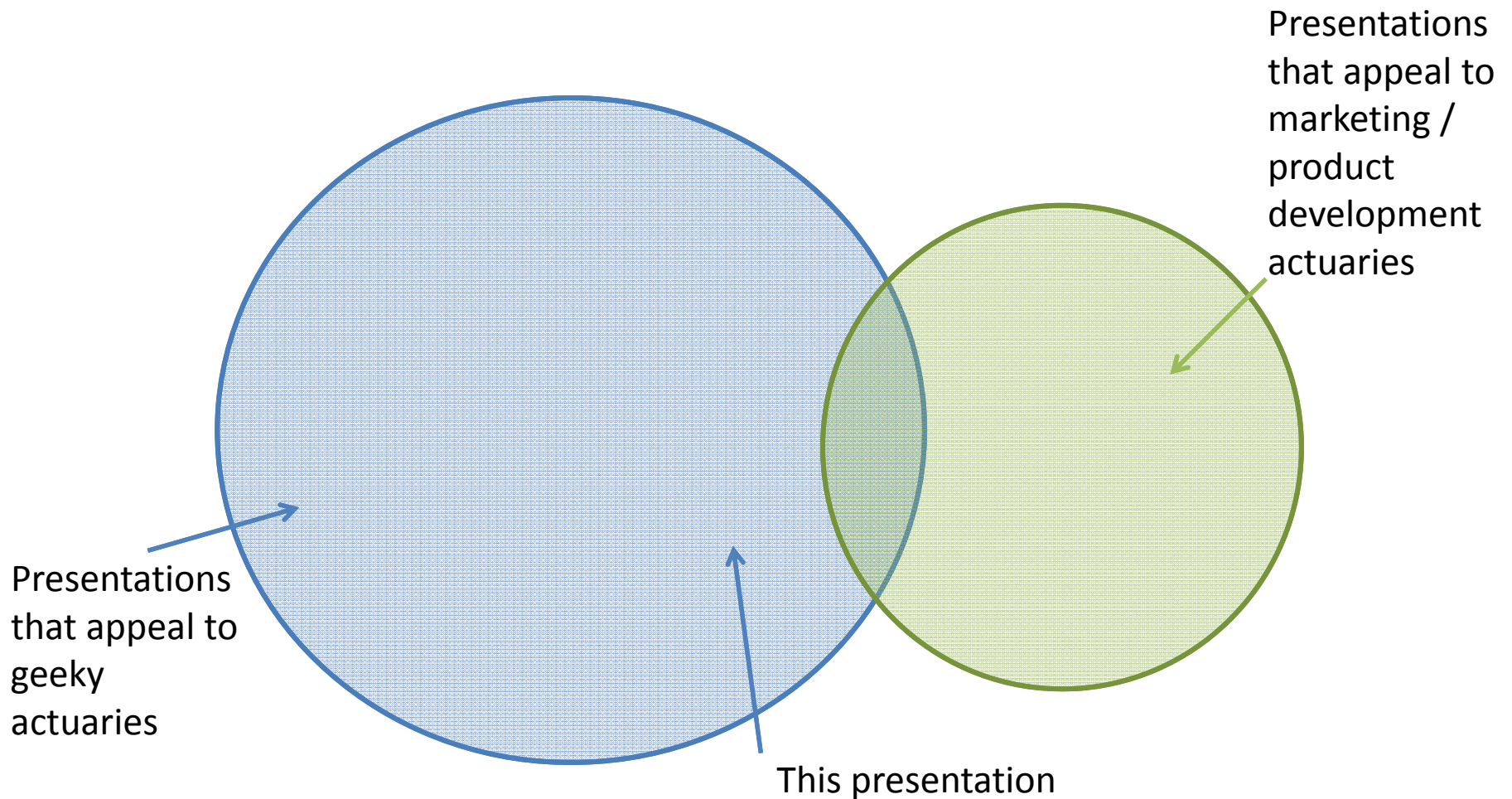
Society of Actuaries in Ireland

Linked Matching Considerations under Solvency II

28.11.13



Why this presentation is really interesting





Linked matching

“the technical provisions in respect of those [linked] benefits must be represented as closely as possible by those units or, in the case where units are not established, by those assets.”

Solvency II directive, Article 132, paragraph 3

“the technical provisions in respect of those [linked] benefits must be represented as closely as possible by those units or, in the case where units are not established, by those assets.”

1994 Framework Regulations, Annex V, 2 (5)



Conclusion

- Nothing has changed
- No need to think about this any further



Wait a second...

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Technical provisions for linked benefits

Solvency I approach

Typically surrender value of units

Solvency II approach?

Surrender value of units?
Allow for expected timing of payment (lapse rates?)
Future management fees?
Expenses?
Interaction with mortality charges etc.
Risk Margin



Why would you?

	Sample 1	Sample 2
UL assets	1,000	950
Cash	0	50
UL surrender value	1,000	1000
BEL	(50)	(50)
Net Asset Value	50	50
SCR Equity risk	20	0
NAV if markets up 20%	60	50
NAV if markets down 20%	40	50



Next steps

- There can be valid risk management reasons why “undermatching” is appropriate.
- Issues not as simple as this little example suggests
- But should be considered further in the context of your business

- Linked Matching Considerations working party of Institute and Faculty of Actuaries – live survey.