

News

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MOODY'S ANALYTICS SOLVENCY II PRACTITIONER SURVEY

EUROPEAN INSURERS STILL HAVE SUBSTANTIAL WORK TO DO TO COMPLY WITH SOLVENCY II

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LONDON, July 30, 2013 — Moody's Analytics, a leader in risk measurement and management, today published the results of its latest Solvency II practitioner survey. The report provides an update on the progress made by the European insurance industry towards achieving regulatory compliance, evaluates the practical approaches taken and highlights the challenges faced by insurers in implementing their Solvency II programs.

According to the Moody's Analytics survey, only 24.5% of the firms surveyed are currently ready to comply with Solvency II, while 64.5% of survey participants are still developing their solutions to become compliant and 11% of the sample are in the "late" category as they do not have tools in place yet.

The survey shows that many European insurers still have a substantial amount of work to do in order to attain compliance, despite good progress by some market participants. In particular, Moody's Analytics identified three main areas that will need to be addressed, namely: regulatory reporting, insurers' ability to meet Own Risk and Solvency Assessment (ORSA) requirements, and data quality management. In addition to these challenges, embedding the risk culture that Solvency II dictates into insurance business practices is likely to become a major undertaking for many insurers.

"Our survey has revealed that the size of an insurer is a key determinant in relation to the level of effort and investment made, and in relation to the approach taken to address the regulation. At one end of the spectrum, large firms have embraced Solvency II as an opportunity to enhance their risk management capabilities and infrastructure," explains Brian Heale, Senior Director, Business Development at Moody's Analytics.

"However, at the other end of the spectrum, we find firms that are addressing the requirements as a rather superficial regulatory "tick-box" exercise. Hence, these firms are not seizing the opportunity to step beyond compliance in order to build the infrastructure that can help them understand the relationship between risk and capital and consequently make better informed decisions," adds Mr. Heale.

The survey also analysed the progress made by country in the sample and found that, on average, the UK, France and Germany are at more advanced stages of implementation, followed by countries in an intermediate stage, such as the Nordics and Spain.

According to the survey, Solvency II has the potential to yield benefits to the industry, particularly in terms of risk management and data quality. Moreover, 42% of the survey sample (primarily the largest firms) indicated that they already derive business-related benefits from their Solvency II investments.

“Although the first priority for many firms is to attain compliance, our survey suggests that those firms that have fully embraced Solvency II and undertaken long-term strategic investments are more likely to obtain commercial and operational benefits from their investments. In our view, those adopting this approach will be better positioned to deal with future regulatory changes and achieve competitive advantages” says Mr. Heale.

This survey was conducted with 45 insurers of all sizes across Europe, through one-to-one in depth interviews, during the last quarter of 2012 and first quarter of 2013.

The report, "Solvency II: A field of missed opportunities?", is part of Moody's Analytics thought leadership series dedicated to the insurance sector and is now available on <http://www.moodyanalytics.com/2013SolvencyIISurvey>.

Additional articles can be found on moodyanalytics.com.

About Moody's Analytics

Moody's Analytics helps capital markets and risk management professionals worldwide respond to an evolving marketplace with confidence. The company offers unique tools and best practices for measuring and managing risk through expertise and experience in credit analysis, economic research and financial risk management. By providing leading-edge software, advisory services and research, including proprietary analyses from Moody's Investors Service, Moody's Analytics integrates and customizes its offerings to address specific business challenges. Moody's Analytics is a subsidiary of Moody's Corporation (NYSE: MCO), which reported revenue of \$2.7 billion in 2012, employs approximately 6,800 people worldwide and has a presence in 28 countries. Further information is available at www.moodyanalytics.com.

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