Overview of EY’s insurance capital optimization services
The European insurance landscape is changing as a result of the introduction of Solvency II, the low interest rate environment and shareholders’ expectations for sustained dividend payments.

Drivers

- **Regulatory change**: Solvency II implementation from 1 January 2016 means technical and operational preparations for Solvency II are at an advanced stage across Europe. Capital and balance sheet optimization is now a strategic focus.

- **Macroeconomic conditions**: Low levels of growth, combined with low interest rates, are pressurizing insurers from both solvency and profitability perspectives. This is particularly the case for Continental European traditional profit-sharing life insurance and other guaranteed savings products.

- **Disclosure requirements and investor expectations**: Solvency II introduces greater disclosure for operating entities and pro-cyclicality in solvency, presenting a challenge when communicating underlying trends and strategic execution to investors.

- **Cross-sector interaction**: Other market players (banks, private equity, asset managers, etc.) and regulatory changes in the financial industry (Basel III and CRD IV) are driving interactions with the insurance industry.
### Insurance capital optimization approach

Our capital optimization recommendations cover the key strategic financial and operational drivers of insurers’ capital positions and the associated business processes:

**Assets**
- Yield enhancement
- Strategic Asset Allocation (SAA) optimization under Solvency II
- Diversification into illiquid assets
- Asset-liability management (ALM)
- VIF stabilization and monetization
- Financial risk management
- Data and operational requirements

**Liabilities**
- Restructuring for matching adjustment purposes
- De-risk via reinsurance and other risk transfer solutions
- Policyholder liability management to reduce in-force guarantees

**Corporate structure**
- Internal reinsurance and contingent forms of group support
- Corporate restructuring, including legal entity mergers
- Disposal of blocks of business or subsidiaries
- External capital-raising, including hybrids

**Operations**
- Capital planning and analysis
- Modelling improvements, including management actions
- Governance and process improvement
- Customer data analytics
- Customer-focused actions
- Operational/cost reduction

### Project examples

EY works with leading international insurers on a broad range of commercial, strategic optimization projects:

**Assets**
- Establishing investment capabilities (governance, capital, valuation, processes) for illiquid asset investments
- Refresh of SAA and ALM strategy to be Solvency II efficient
- Restructuring equity release mortgages to be matching adjustment-compliant

**Liabilities**
- Review of strategic options to manage guaranteed life liabilities under Solvency II, including restructure and buy-out
- Reinsurance solutions: property-casualty and life, including longevity and lapse risk
- New product design to improve return on capital and Solvency II efficiency

**Corporate structure**
- Multiple reinsurance mixer feasibility and implementation projects
- Leading a group restructuring project to improve ROE by freeing up capital
- Group capital structure reevaluation including branchification and reinsurance
- Re-examining internal funding structure, including tax and foreign exchange strategy

**Operations**
- Implementing new target operating models and cost efficiency programs
- Working with a range of insurers on back-book optimization and in-force management
- Working with a number of international insurance groups on Solvency II financial disclosure and capital optimization strategies

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Overview of EY’s insurance capital optimization services
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