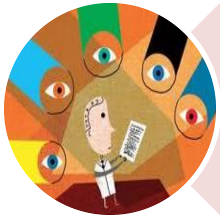
THE MEXICAN SOLVENCY II IMPLEMENTATION

September 2015

Content

1. Solvency II. General Concepts

¿What is Solvency II?



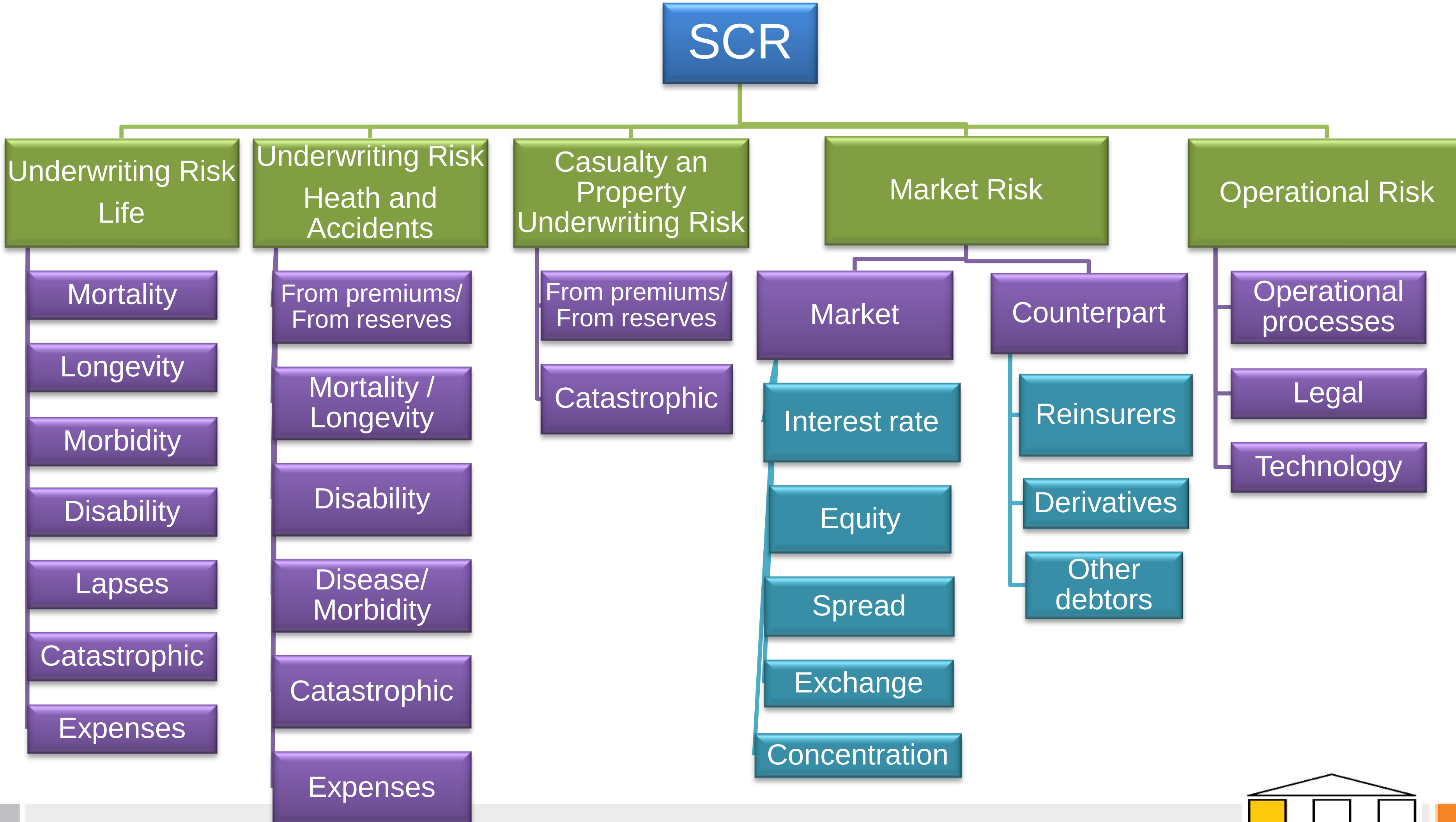
Includes the capital adequacy revision project for the European insurance industry.

It will establish a new set of capital requirements and risk management standards in Europe.

Establishes requirements for reducing insolvency probability of insurers and reinsurers.

It's a strengthened solvency regime that will diminish consumers losses, as well as problems in the insurance market operation.

Pillar I – Risks Included



Pilar II – Supervision Process

Supervision process based on 6 basic principles

- Risk management and monitoring system
- Risk strategy and risk appetite
- Own Risk and Solvency Assessment (ORSA)
- Internal Control Function
- Actuarial Function redefinition
- Outsourcing

Pillar II – Corporate Governance

Accountability of	Responsibilities for
Board of Directors	Investments
Officers	Reinsurance
Internal Control	Retention Levels
Auditors: • External • Internal • Actuarial	Reserves
	Models
	Stress Testing
	Audit
	Compliance

Corporate governance based on autoregulation that guarantees compliance.

Pillar III – Market discipline

Insurance and reinsurance companies must disclose relevant information to all market participants

Information characteristics

- Periodicity: at least once a year
- Policies and processes
- Confidentiality
- Internal and external audit

Information transparency based on:

- Information Policy (approved by the Insurance company officers).
- Quantitative and qualitative reports for the market.
- Disclosure based on pertinence and relevance. To privilege quality over quantity.

Rating

- Insurance company rate provided by a rating agency.

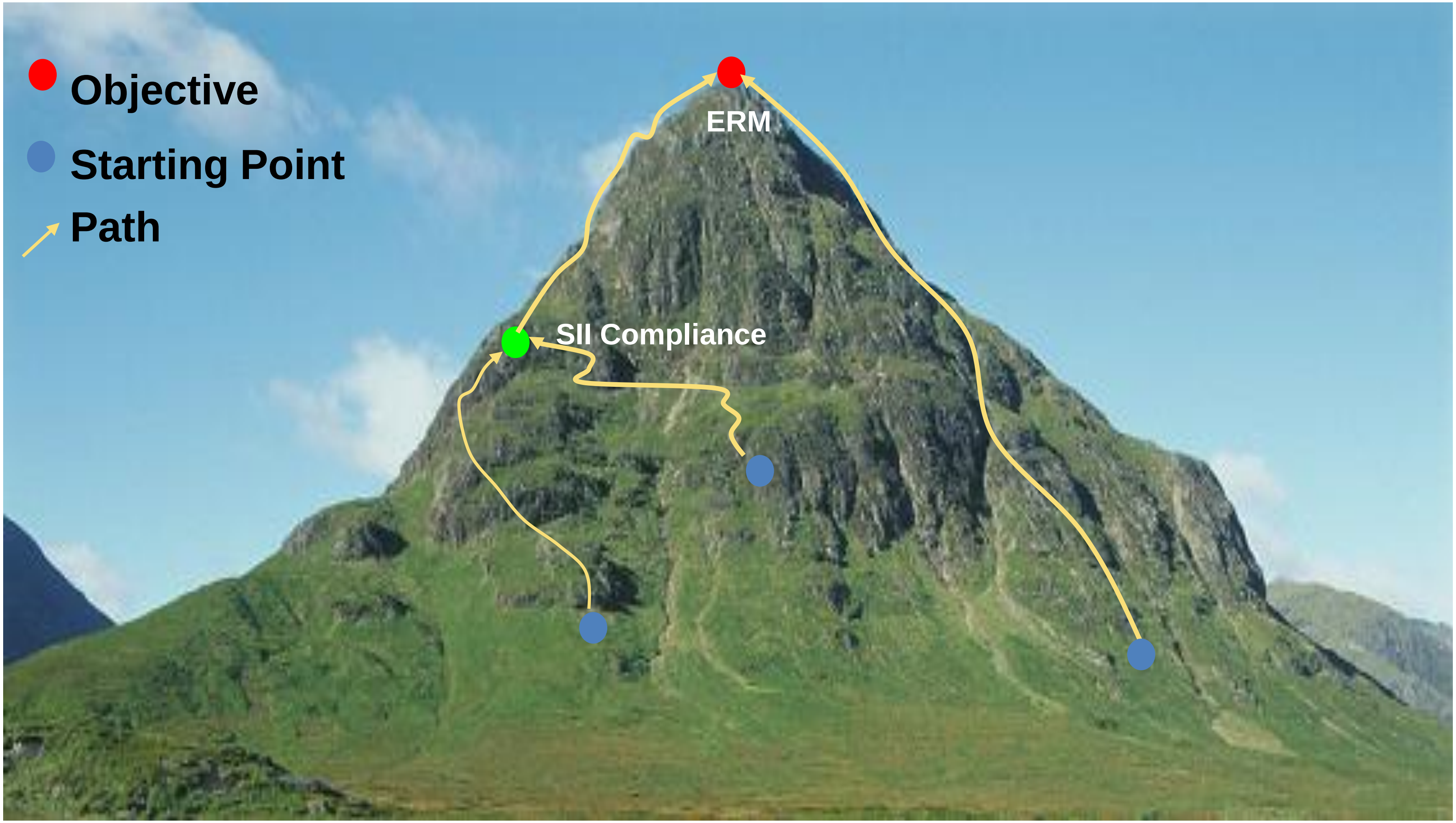
Enterprise Risk Management in Insurance Sector

Enterprise Risk Management (ERM) involves identification, assessment, control and integral management of risks, in more effective ways than traditional risk administration techniques.

Insurers use ERM for improving their performance and managing issues related to risk/yield, but also for supporting the strategic decision making and capital administration.

In the last years because of both new regulatory requirements and market best practices, there has been an increase in the use of ERM in the insurance sector.

The Path for Solvency II and ERM



2. Solvency II in Latin America

Natural Evolution of Regulatory Frameworks

	Solvency I	Transition	Solvency II
Accounting	Statutory	Convergence IASB / NIIF's / Economic Balance	
Risk Models	No	Risk Based Factors	Stochastic Models/ Internal Models
Risks Dependency	No	No	Yes
Risks Measurement	No	VaR (90-97.5%)	Tail VaR / VaR (99.5%)
Financial Risk	No	Yes	
Operative Risks	No	Yes (Life)	Yes
Stress Tests	No	Yes	
Technical Reserves	Retrospective Methods		Prospective Methods
	Unearned Premium % S/ Premium // 365avos	Adequacy Actuarial Models	Best Estimator (BEL) + Risk Margin
Investments	Quantitative Limits		Investment Policy
Reinsurance	No	Credit Qualifications	
ORSA (Self Risk Assessment)	No	Partial	Yes
Corporative Governance	No	Partial	Yes
Information Disclosure	No	Partial	Yes

Solvency II Status / Europe and Latin America

Europe	Latin America				
	Chile	Peru	México	Brazil	Colombia
Solvency II was postponed until January 1st , 2016 due to economic crisis. Long term guarantees issue	Approved by the Senate, in discussion in the the deputy's chamber, CBR Law. Implementation (3 to 5 years). Model´s analysis, 2 QIA studies performed	Advances in risk´s assessment regulation. Gap analysis of insurance sector. Beginning project of SII law	**LISF was approved in 2013 and** entered into force last April 4th. A transitory period was given for methodologies, SCR, BEL and Economic Balance to **January 1st 2016**	Pillar I almost implemented Counterpart Risk´s regulation in process. BEL Reserves in force SUSEP´s Projects for Pillar II and Pillar III	Solvency Capital Calculation for some credit and financial risks. Retrospective Reserves adequacy in force

3. Mexican Experience/ LISF - SII

Mexican Insurance and Surity Law

The LISF´s initiative was dictated by the Finance and Public Credit Commission in the Senate.

A Transitory period for January 1st 2016 was provided for SII methodologies application for SCR, BEL calculation and Economic Balance

December 11th 2012
The Senate voted and approved the Law and sent it to the Deputies Chamber

December 13th 2012

February 28th 2013
Approved in Deputies Chamber

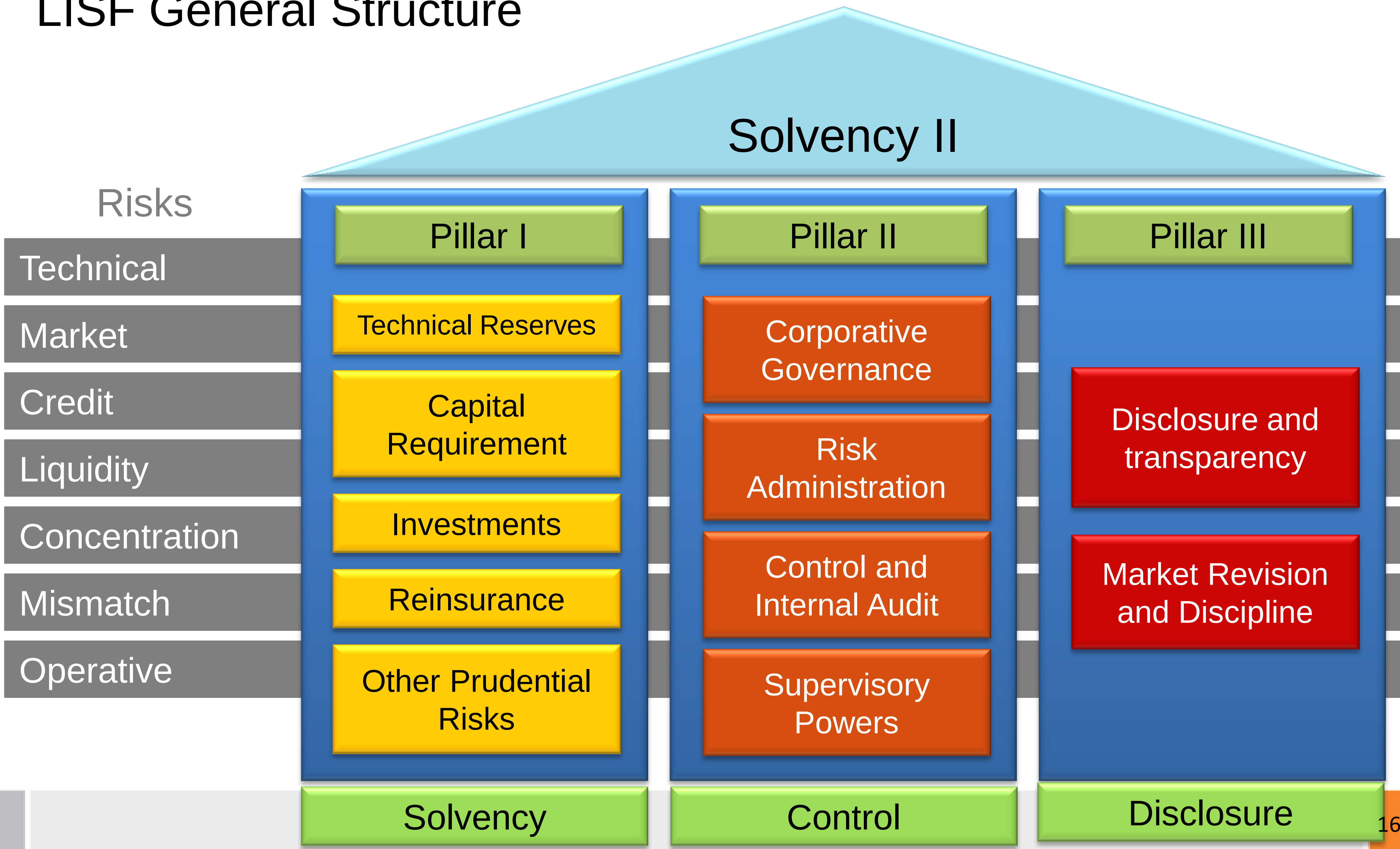
April 4th 2013
Publication in the Official Journal of the Federation

April 4th 2015
Entry in to force

First LISF Project, from August 2018. At that time negotiations started

LISF´s Secondary Level Regulation
Solvency II Pillars

LISF General Structure



LISF Implementation Process

On December 19th 2014, the Integral Insurance and Surety Regulation (*Circular Única de Seguros y Fianzas*, **CUSF**) established the legal framework for the 3 Pillars, which entered into force in April 2015.

The **CUSF consultation process**, which concluded October 2014, implied **three main processes**:

1. **The consultation (negotiation) process for the proposed Secondary Regulation (CUSF) Project issued by the National Insurance and Surety Commission (CNSF)** and that stem from the ***LISF***
2. Carry out **Quantitative Impact Studies**
3. Carry out **Qualitative Impact Studies**

OVERVIEW OF *CUSF* NEGOTIATIONS

1

CUSF Consultation Process
1540 comments & 67 letters

Topics covered in the Three Pillars

- SCR Formula for the three EIQ´s
- Corporate Governance
- Disclosure of Commissions
- Outsourcing
- Investments Rules
- Special Funds of Insurance

2

Identifying Priority Issues to Negotiate with the Ministry of Finance:

- Quantitative requirements (RCS model methodologies and stabilization)
- Accounting Items / Economic Balance
- Commissions Disclosure
- Product Registration (Major Medical Expenses benefit period)
- Transitory periods
- **Insurance Sector Development Agenda**

3

14 additional topics were negotiated with the *CNSF* prior to sending the *CUSF* to *COFEMER*:

Deductibles and copayments in micro-insurance, catastrophic reserves investment, Certification Center of Agents operational issues, process and dates to register products and technical provisions methods.

4

5 additional topics agreed with the *CNSF*:

- Product registration process, among these additional time, until December 2015, to instrument all necessary changes.
- 2 investment topics, the most important of which deals with unsecured loans which are part of the basis for investments up to 10%

Meeting AMIS-SHCP (October 17th 2014)

- ✓ **A transitory period was set to instrument and calibrate quantitative requirements**. Current models will continue to work during 2015, meanwhile the insurance sector will continue analyzing and calibrating models for:
  - SCR
  - Reserves
  - Economic Balance
- ✓ The **SAT (tax collection office) will issue criteria** in order that the surpluses derived from the Economic Balance adoption are **not accumulative for Income Tax purposes**.
- ✓ **Intermediaries Commissions Disclosures will not** be implemented.
- ✓ The **two years minimum mandatory benefits** from the medical insurance was withdrawn from the CUSF.
- ✓ The past 27th April 2015 a **Mexican Insurance Sector Development Agenda (PEM),** was Negotiated with SHCP (Hacienda Minister). **We has been having working meetings** with the **Minister of Finance** to follow up in this development agenda.

5. Quantitative Impact Assessment and Qualitative Impact Assesment

RS-2 Results

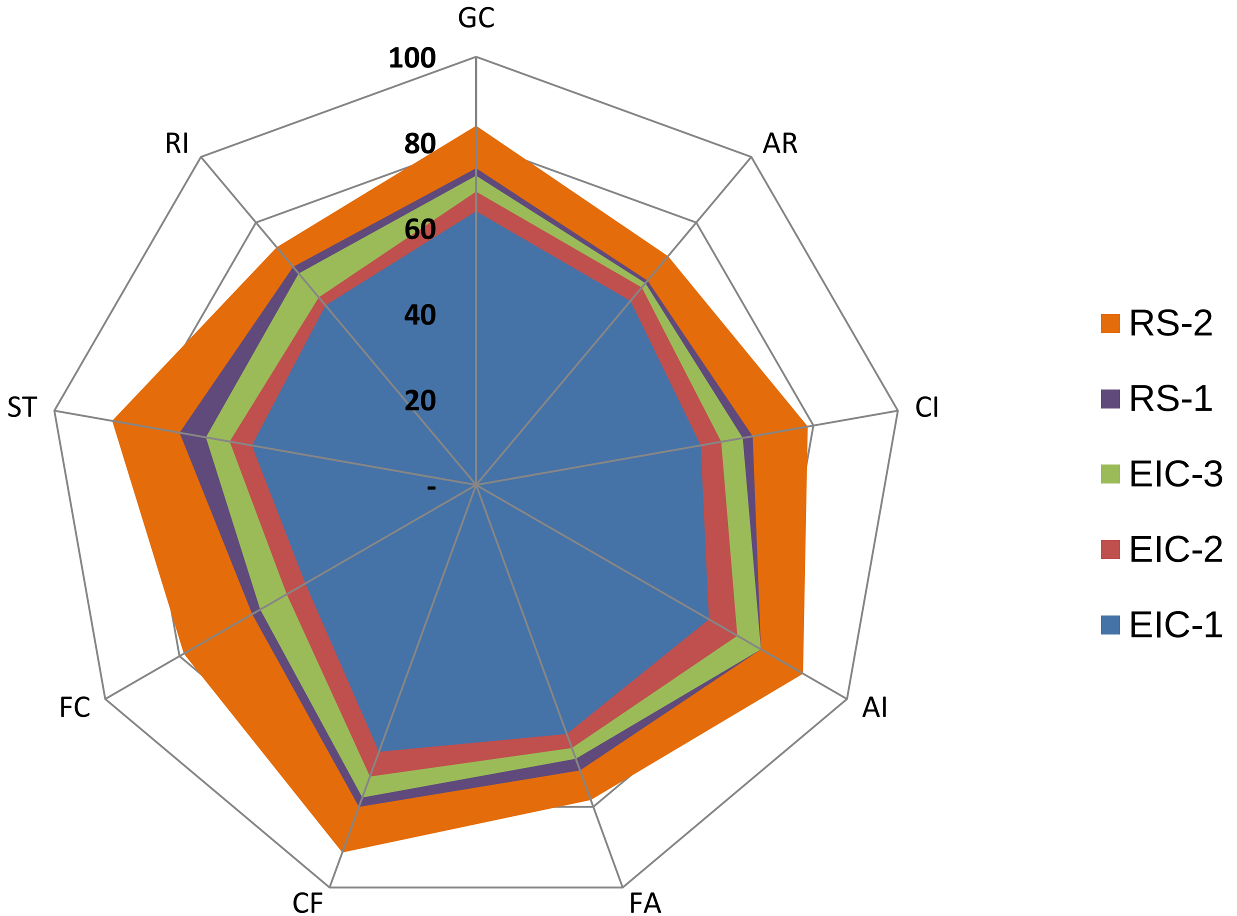
- From 30th January to 17th March 2015 the **Follow Up Report 2 (RS-2), equivalent to the fifth Qualitative Impact Study** was performed. This report´s objective was to assess the grade of implementation of the Pillars II and III of the Solvency regime.

- 60 Associates shared their analysis with AMIS. Of this companies, 5 were big, 10 were medium, 44 were small and 1 was a reinsurer **(96.34% premium market participation)**. The report addressed the following 9 themes:

1. Corporative Governance	**2. Integral Risks Administration**
3-. Internal Control	**4-. Internal Audit**
5-. Actuarial Function	**6-. Board Members and Officers**
7-. Committees Operation	**8-. Third parties sourcing**
9-. Information Disclosure	

Summary by Company´s Size

Implementation Level by Study



Quantitive Impact Studies (EIQ)

For the standard formula testing the CNSF has performed 5 Quantitative Impact Studies (QIS/ we a re currently in the middle of the fifth one).

The CNSF provided methodological notes, manuals for information´s integration, as well as an executable program.

In the beginning the methodological notes sent by CNSF have an academic profile structure.

AMIS performed an exhaustive analysis of this materials and contributed with proposals and comments that have been taken into account by the CNSF during the process of all 5 studies.

Pillar I. SCR Structure- General Formule under the LISF

$$SCR_{inicial} = RC_{TyFS} + RC_{PML} + RC_{TyFP} + RC_{TyFF} + RC_{OC} + RC_{Op}$$

LIABILITIES

Life (RC_{TyFS})

Accidents and Health insurance

P&C: Third Party Insurance, Fire, Surety, Credit, Miscelaneous

Catastrophic Perils

(RC_{PML})

With no changes with regard the current regulation.

Pensions (RC_{TyFP})

It remains equal to the elder regulation

ASSETS

Financial Risk (RC_{TyFF})

* Market (except PML and Pensions)
* Counterparty
* Concentration

Assets and liabilities missmatch

Counterparty (RC_{OC})

Deposits

Lending or credits

Discount and rediscount

Equity lending

Operative (RC_{Op})

Process

Legal

Internal and External events

Qualification

Pillar I. Model´s General Vision (274 submodels)

100,000 simulations required for generating results at 99.5% degree of confidence

SCR	Financial	Debt	Vasicek Model			38 models
		Capital	Vasicek + Lando			
	Technical	Life	Long Term	Multiple Decreases		48 (Long Term)
			Short Term		Poisson Compound Model	18 (Short Term)
		Non Life	Auto	Individual		54 models
				Fleet		
			Damage	Credit		21 models
				Miscellaneous		
				Technical		
				Fire		
				MyT		
				RC		
				Surety		
			AyE	AP		90 models
				MME		
				Health		
		Pensions	Current Methodology			
	Counterpart	Applied on underwriting risk modules				4 models
	Operative	European Solvency II Type Methodology				1 models

Final Test

Previously to the transitory period conclusion, as a final test, a complete exercise of report including figures for Q4 2015 must be performed. This report must consider:

- Technical Reserves Regulatory Report
- Solvency Capital Requirements and Own Funds Report (RR-4)
- Economic Balance Regulatory Report

This Final Test will be mandatory, and performed in Q1 2016, but companies will not be subject to sanctions for deficiencies in their integration, content or results.

6. Three Pillar´s Challenges

Pillar I Challenges. SCR Model

Understand all the model´s components and the way in which the risks interact.

Generate good quality information for the standard formula calibration and for running the model in a monthly basis.

Assess if the model´s calibration represents the company´s risk.

Use the model in the enterprise risk management and decision making process.

Assess the need of developing internal models, total or partial.

Board members' training.

Pillar I Challenges. Technical Reserves

Development of an internal model for reserves calculation under the LISF: BEL and RM.

To develop a methodology for the recognition of the Non Proportional Reassurance in the reserves´ risk transference.

File the Reserves Technical Note (BEL).

Generate good quality information for reserves calculation.

Generate the Regulatory Report 3 (RR-3).

Automatize the process to include two reserves valuation under different financial assumptions with the objective of avoiding the Balance Results volatility.

Pillar I Challenges. Accounting and Investement Issues

AMIS
ASOCIACIÓN MEXICANA DE INSTITUCIONES DE SEGUROS

New accounting rules that do not necessarily are aligned with international standards.

Operation with an Economic Balance that other countries employs for solvency purposes but not for statutory purposes.

New investments rules that appear insufficient for achieving an optimal capital management.

A very short time scope for compliance with the operative administration process of adoption.

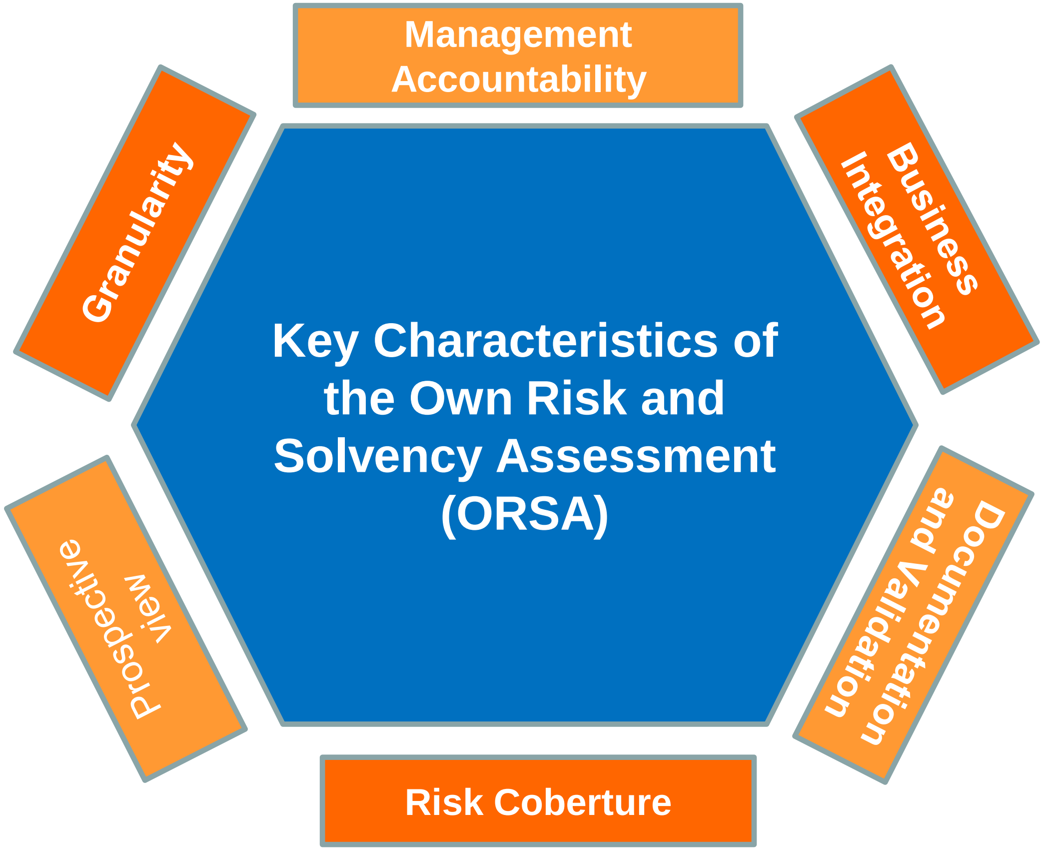
Financial Information Reporting System (SIIF) entirely redesigned.

Pilar II Challenges. Own Risk Assessment and Institutional Solvency (ARSI / ORSA)

I. ORSA requires that the Company assess their own necessary funds for ensuring that the global solvency needs are covered in all moment.

II. Includes all the process and procedures employed in the identification, assessment, control, administration and reporting of the short and long term risks.

III. Should take into account all significant risks, perform prospective analysis and be integrated in the business strategy.



Pillar II Challenges – Internal Audit and Control

Internal Control

- **The General Director will be accountable** for internal control.
- Establishment of an **Internal Control written policy** as well as norms for avoiding **conflicts of interest.**
- Creation of a **control environment.**
- Definition of **institution´s key processes** for a proper implementation (Identify the risks in order to establish the control activities).
- **Semiannual reports,** regarding the **system´s functioning,** should be delivered to the Board in order to assess the **internal and external normative compliance.**

Internal Audit

- **It will be performed by a specific area** that should be part of the institution´s organizational structure.
- **The Board will provide the Internal Audit area the access to all registers,** as well as to inform all areas of any internal control deficiency detected.
- **Revision of the internal and external normative compliance** as well as the functioning of the Internal Control.
- **A semiannual report** of the management results should be delivered to the Audit Committee and to the Board.

Pilar II Challenges

Train the Board members.

Implement the Risk, Actuarial, Internal Control and Internal Audit functions, as well as define the outsourced services.

Elaborate the Risk Manual.

Develop the ORSA test.

Develop the policies needed for LISF´s compliance (including those related with the board´s delegation to committees and/or officers).

Submit for Board´s approval all the policies and manuals included in the LISF.

Challenges related to Pillar III

During the CUSF's consultation process it was agreed an important reduction of the information elements to disclose. **To privilege quality of information over quantity. Pertinence.**

Regardless of the above, some of the information required that prevailed is strategic, and therefore should not be disclosed.

Insurance Companies should redesign their web pages to integrate the content of the information disclosure requirements.

To obtain the company´s financial rate by a recognized rating a agency

7. Final Comments and Reflexions

Tasks done by AMIS (1/2)

In preparation for the implementation of the new regulatory framework, **AMIS has performed the following actions**:

Analysis and negotiation of the Insurance and Surity Institutions and its Secondary Level Regulation (CUSF).

Negotiation processes with SHCP and CNSF.

Perform a Project called Solvency II, in which a detailed analysis of the elements and principles for the execution of a Quantitive Impact Study was done, based in the methodologies of the European Q1S4, in which 16 companies with a market participation of 71% based on premiums were involved.

Tasks done by AMIS (2/2)

In preparation for the implementation of the new regulatory framework, **AMIS has performed the following actions**

A gap analysis at sectorial level that showed the need to have at least 33 months for the implementation process.

Two "Readiness" studies: one general and other regarding Corporative Governance with the E&Y support.

1.Coordination of the analysis of the CUSF's 39 titles, 8 of them with a second round.
2.Standard Formula methodologies´ analysis, development of proposals and negotiation.
3.Continuous support and capacitation to the associates during the five quantitative and qualitative impact assessment studies.
4. Negotiation with authorities (CNSF Government Boddy members and with, SHCP officials).

Potential Strategic Implications

- **Organizational Structure**:
  - ✓ Vacancies/ Eliminated positions.
  - ✓ New and broader responsibilities for officers and board members
  - ✓ “Solvency II” Actuaries

To adopt the new SII regulation as a model of Integral Risk Management

- **Markets and Intermediaries**
  - ✓ New market segments
  - ✓ Price realignment
  - ✓ Requirements for intermediaries

SII regulation models adoption should be a matter of a proper instrumentation, and not of time.

- **New Skills:**
  - ✓ In order to meet their new responsibilities, **Board Members** must develop new skills and participate in many processes through committee-work
  - ✓ Communication regarding **Risk appetite** y and Risks taken by the insurer will compel areas to integrate **new knowledge and develop new skills**
  - ✓ Generate **high quality** information

- **Cultural change will take time** and requires great efforts as it must be integrated as an **Insurance Integral Risk Management System.**

Conclusions and Final Comments

Solvency II will have a great impact on the enterprises´ risk administration.

The Pillar I elements, which are essential for companies to understand their risks´ behavior, will be administrated in the Pillar II

Corporative Governance plays an essential role in this new way of administrating an enterprise

It will be necessary to perform changes in the organizational structure, assign responsibilities and functions.

The standard formula model is a mechanism for starting to understand the companies´ risk behavior, but their real administration can only take place with an internal model that captures the enterprises risk profile.

The Board of Administration and the General Director own the processes of ADR, and the risk capital administration, so it´s fundamental that they understand the Risk Capital Requirement model

Reflections and lessons learned in the process

In the process of instrumentation of any Solvency II initiative, regulators must search a close collaboration with the industry

The training at a sectorial level is indispensable, with an involvement of the insurance association, for helping with the capacitation, enhance in the statistical data, risk administration and corporate governance knowledge. Solvency II must be a risk administration model.

In the same way, any consultation process must consider proper times, because institutions must continue business administration according to the current regulations. Institutions count with limited resources for addressing all the requirement that demand a process with very ambitious terms.

It´s preferable to have a Capital Requirement model that allows the risk administration and favors the strategic discussion within the insurance institutions.

The process must be completely documented and the programs for executing the models must comply with programming standards.

!Molto Obrigado!

¡Gracias!

Thank you for your attention!

CNseg
Confederação Nacional das Empresas de Seguros Gerais, Previdência Privada e Vida, Saúde Suplementar e Capitalização

AMIS
ASOCIACIÓN MEXICANA DE INSTITUCIONES DE SEGUROS

ANEXOS A

Solvency I: Solvency Capital Requirement (SCR)

The **Solvency Capital Requirement (SCR)** is the amount of **funds that institutions are required to hold in order to:**

- **Face exposure to variations in expected loss from the various insurance operations**
- Exposure from losses due to reinsurers' insolvency
- Exposure from adverse fluctuations in value of assets backing the policyholders' obligations
- Assets and liabilities variance

Today's definition is broader regarding causes of variance

Source: Mexico's National Insurance and Surety Bond Commission
Comisión Nacional de Seguros y Fianzas (CNSF), México

Solvency I: Weaknesses

Scarce standardization among EU members

Low adaptation and flexibility to market evolution

Solvency Magnitudes were assessed by parameters that substitute

inadequately underwritting risks

Diversification and certain risk transference tools were not included

Reinsurance credit ratings were not taken into account

Pillar II – Supervision Process

Regulators must:

Supervise insurance and reinsurance companies.

Ensure directive´s requirements compliance

Identify companies with financial and organizational weaknesses that could generate more risks .

Insurance Companies must:

Carry out an efective risks management.

Perform a prospective analysis trough an Own Risk and Solvency Assessment (ORSA).

Status Solvency II / Europe and Latin America

Many Latinamerican countries are performing or have just performed changes to laws regarding insurance regulation

Country	Integral	S II
Brazil	Y	Y
Chile	Y	Y
Colombia	N	Partial
Costa Rica	Y	Partial
El Salvador	Y	Partial
Spain	Y	Y
Bolivia	Y	Partial

Country	Integral	S II
Guatemala	Y	N
Honduras	NO	Y
México	Y	Y
Panamá	Y	N
Perú	Y	Y
Venezuela	Y	N
Nicaragua	Y	Partial

ERM

Risk Appetite Frame
Operative Limits Establishment

““Risk appetite is the quantity of risk that a company is willing to accept in order to be aligned with the strategic objectives to maximize his shareholders value”

It could work as a tool for:

- Unify capital uses and requirements
- Understand key risks for solvency and capital, as well as alternative management methods
- Align risks profile with strategic objectives

Results include:

- Capital allocation
- Risk tolerance and risk limits
- Objectives Measurement

Risk Tolerance

Risk appetite, as has already been said, is related with companies´ strategies, and should translate in levels of risk tolerance for the risk categories relevant for the company (strategic risks, operational, financial and compliance)

Risk tolerance expresses the maximum level of risk that a Company is willing to take in relation to the risk categories that are relevant (in quantitive terms), namely, its concept is more operative than the risk appetite.

For every risk category, the risk tolerance should stay in line with the company´s risk appetite. The risk tolerance requires that the company considers in quantitive terms exactly how much of its capital is willing to put at risk

RS- 2 Results

- In comparison with the RS-I there has been an **advance of 16%** in the implementation grade. Even though, the implementation terms were still greater than the entry into force of the law, which shows that companies used the **transitory period** given for the **Risk Administration and Pillar I**, and for the remaining sections they are planning to comply trough **corrective plans**.

	Grado de Implementación						Plazo para Implementación Total					
Sección	EIC-1	EIC-2	EIC-3	RS-1	RS-2	Avance	EIC-1 p	EIC-2 p	EIC-3 p	RS-1 p	RS-2 p	Diferencia
Gobierno Corporativo	63.91	68.50	72.22	73.97	83.89	13.42%	23.49	15.28	11.63	9.88	7.08	28.31%
Admón. Integral de Riesgos	56.10	60.21	61.52	62.30	69.74	11.95%	24.15	16.48	13.83	11.61	11.03	4.97%
Control Interno	53.26	58.12	63.22	65.58	78.64	19.92%	22.99	14.26	10.47	7.46	5.33	28.51%
Auditoría Interna	62.79	70.43	76.80	76.81	88.16	14.77%	21.14	12.64	9.30	6.39	3.27	48.88%
Función Actuarial	61.88	65.37	68.04	70.93	78.29	10.38%	23.30	15.36	11.85	9.29	7.78	16.22%
Consejeros y Funcionarios	66.30	72.46	77.67	80.00	91.33	14.17%	16.51	8.05	5.60	3.63	0.80	77.96%
Funcionamiento de Comités	46.03	51.05	58.20	60.36	78.80	30.56%	21.66	13.52	9.03	6.02	3.13	47.95%
Servicios Terceros	53.15	58.43	64.07	70.31	86.29	22.73%	21.86	12.69	8.90	6.20	2.97	52.15%
Revelación Información	54.72	57.17	64.45	66.47	72.45	9.00%	24.25	17.02	12.83	10.17	9.00	11.50%

ANEXOS I

¿What should corporative gobernance model consider? Three lines of defense as framework

The model´s three defence lines have been used for illustrating the impact on reassurance traditional functions, per example, provide principles for the risk management frame.

1st Line of defence

- **Daily risk management taking in to account the organization´s risk**
- **The board supported by the CGR has the mayor responsibility in risk management and solvency**

2nd Line of defence

- **Establish risk standard procedures and their vigilance**
- **It´s not clear yet in which of the 3 lines of defence the Risk and Actuarial functions will fit**

3th Line of Defence

- **Assure Independence in the design and effectivity of the risk managment frame.**

Areas Organization

- **Solvency II enhanced process and systems should by administrated by the relevant functions within the three lines of defence. Even though, personnel and outsourcing will be affected.**

Fuente: ICAAP/ORSA to ERM: Governance and Practices

FIDES efforts regarding Solvency II

A Coordinated breaches analysis among the 19 countries members of FIDES was ratified the past 12th November 2014 in FIDES´ General Assembly.

Associates Perspective

Insurers Perspective

Regulators Perspective

Pillar I – Solvency Capital Requirements

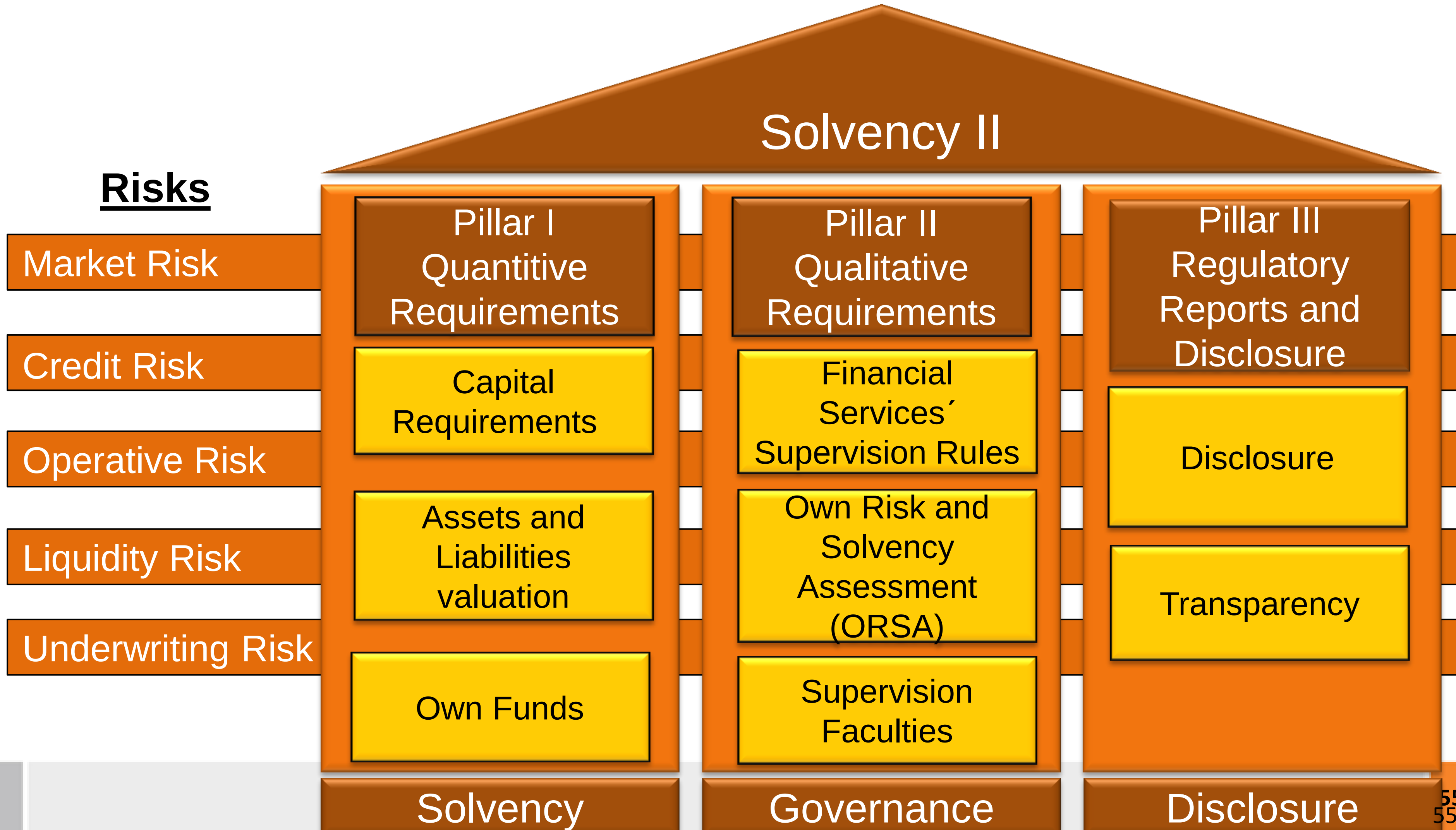
Solvency Capital Requirement is calculated in function of the risks that face the insurance companies with a confidence level of 99.5% and a year time horizon

The CSR structure is composed by a set of modules that are at the same time composed by a set of submodules

Solvency Capital Requirements derived of this modules and sub modules are aggregated by means of a correlation matrix.

Solvency II Pillars Structure – The three pillars

Solvency II is based in **3 fundamental principles called pillars**



55

Pillar I – Quantitive Requirements

How do we find the market value for insurance corporations´ equities?

Assets Market Value

Assets

Pillar I – Quantitive Requirements

How do we find the reserves´ market value of an insurance company?

Liabilities

Reserves

Liabilities Market Value

Risk Margin

Liabilities Best Estimator

Risk appetite and Risk Administration Framework

- For having an **effective risk administration** it is necessary to capture the **interaction** of all risk activities related to the organization. This includes surveillance, internal policies, advice in risk administration, risk´s quantification, monitoring, reporting, risk control and optimization.

- The importance of **risk administration** is based in the **identification, measurement and handling of risks**, as well as with an adequate definition of **risk appetite**, since it is an essential part of this framework. Therefore, a risk administration framework should cover the following elements:

Fuente: *"Constructing a Risk Appetite Framework: an Introduction"*, The Society of Actuaries in Ireland, Marzo 2011

Risk appetite and Risk Administration Framework

The risk administration framework ease the determination, revision and vigilance of the risk appetite. It is a strategic bridge between the organization strategy and its risk administration framework.

The risk appetite should be actualized in line with the organization´s strategy changes and also should get involved with the development of the risk administration framework

Fuente: *"Constructing a Risk Appetite Framework: an Introduction"*, The Society of Actuaries in Ireland, Marzo 2011

Operative Processes

- For complying with the new regulation, the insurance institutions are immersed in a **general change of their processes**, which derives form a profound operative restructuration with important implications in the systems´ areas:
  - **Products´ Registration**: record adjustments to existing products, including new clauses and legends, new formats, new endorsements, rights brochures and insured obligations, between others
  - **Disclosure:** generate information, design formats, validation, programming, system stabilization
  - **Reporting**: generate information, design formats, validation, programming, system stabilization

LISF´s elements

The new Law of Insurance and Surety Institutions (LISF), that entered in to force the past 4th of April 2015, has a Solvency II type regulatory frame that contemplates the following dispositions:

- More precise capital requirements
- Solid Corporative Governance.
- Enhanced Risks Administration
- A better revision by part of the supervisor.
- More transparency and information disclosure .

Risk appetite and Risk Administration Framework

Components of the risk administration framework	Risk appetite roll
Surveillance	The Council should approve the risk appetite. Stablish the action lines and form the basis for decision making process
Internal Policies	The Council could delegate the authority of risk administration, as well as the approval of policies pursuant with the Company´s risk appetite.
Risk Administration Assessment	A frequent risk assessment allows the identification of changes in the risk profile or new risks
Risk quantification, Monitoring, Report and Integration	The quantitative risk metrics should be monitored and reported to the Council. The framework of risk administration should contain processes that allow the identification of serious breaches of the company´s risk appetite, as well as action lines.
Control and Optimización	The current company´s risks should compare with the risk appetite or should take measures and actions for controlling the level of assumed risk and hence adequate their risk appetite.

Fuente: *“Constructing a Risk Appetite Framework: an Introduction”*, The Society of Actuaries in Ireland, Marzo 2011

Pillar II in context: ¿Why is it important?

Companies should demonstrate that the risk administration is implicit in the daily administration and that is integrated in the business planning and the decision making process

The compliance only will be possible if a Corporative Governance exists and an ADR system is really operating

The Board of Directors and the General Directors are the owners of the ADR system and of the Internal Model, so they should understand and be accountable of the solvency and risk administration within the limits of the company´s risk appetite

The responsibilities with respect to risks should not be smoothed trough the delegation of responsibilities (per example the hiring of external services)

Use test: The internal model should be integrated in the risk administration processes and the solvency capital assessment should be validated. Capital additional resources could be required before a deficient ADR system.

Areements Position Documents 2010 and 20 de November 2012

Entry into force: 735 days after its promulgation

Does not consider reputational and strategic risks in the Capital Requirements Satandard Model

The excess capital was not subject to a specific investment regime

Allow prevention in medical expenses insurances as indemnification. Allow personal accidents in the ISES

Only one credit qualification will be obligatory demanded

Size, scale and complexity of the LISF´s three pillars will be considered (proportionality principle)

Real estate Company sharse computable for reserves and Solvency Capital

Recognition of the no proportional reinsurance in the SCR

Return period in the catastrophic risks

Products registration

Standard SCR Model

Cuatro puntos del Documento de Posición fueron negociados en la CUSF

Comments sent to CNSF

1540 commentaries sent
1057 commentaries considered

67 letters sent to CNSF with diverse analysis, mainly about methodologies

The groups with mayor number of commentaries are those that correspond to:

- Corporative governance
- Disclosure
- Distribution channels
- Products´ registration

	Grupos											
Títulos	1	2	3	4	5	6	7	8	9	10	11	
1	3	4			2							9
2	5											5
3		97								84		181
4					146							146
5							18				19	37
6							30				10	40
7							12				20	32
8					95						65	160
9					21							21
10	0											0
11	1											1
12		26								14		40
13	0											0
14									5			5
15			11									11
16								10				10
17								6				6
18								2				2
19			0									0
20						22						22
21	1											1
22									115			115
23				19								19
24		27								131		158
25	0											0
26				2								2
27									13			13
28						4						4
29						15						15
30				23								23
31				15								15
32					107							107
33					32							32
34					21							21
35					1							1
36						8						8
37						7						7
38				26						238		264
39				5						2		7
	10	154	11	90	425	56	60	18	133	469	114	1,540

LISF and *CUSF*

CUSF Titles

Title 4
Title 5
Title 6
Title 7
Title 8
Title 9
Title 10
Title 11
Title 14
Title 15

Title 16
Title 17
Title 18
Title 19
Title 32
Title 33
Title 34
Title 35
Title 36

Title 2
Title 3
Title 12
Title 20
Title 27
Title 28
Title 29
Title 30
Title 31
Title 38
Title 39

Title 13
Title 22
Title 23
Title 24
Title 25
Title 26
Title 37

Other Regulations

Title 1
Title 21

LISF Titles

1 2 3 4 5 6 7 8 9 10 11 12 13

¿How prepared is the Mexican Insurance sector to comply?

This regulatory change affects all the aspects regarding insurance operations and not only those related with solvency

It was necessary to define staggered steps for the entry into force of the different themes included in the CUSF

For complying with the new regulation, insurance institutions are immerse in a general change of their process which derives in a deep operative restructuration, with important implications on their systems areas.

CUSF´s consultation process

CUSF´s Titles

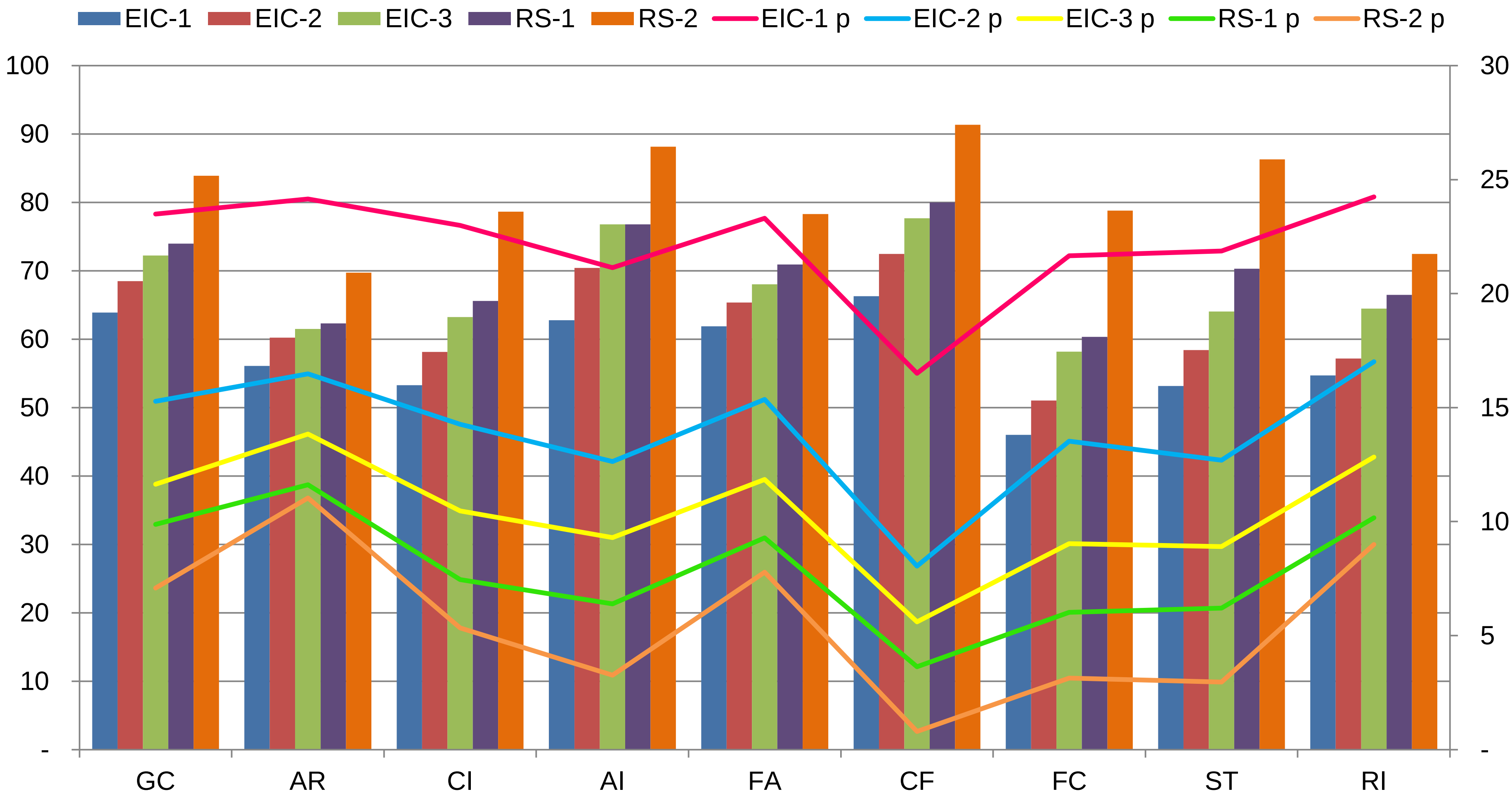
During the CUSF consultation process 39 were analyzed and commentaries were sent

The CNSF issued a response to the analysis and commentaries sent. All of them have been captured in the CUSF last version that was in consultation process in COFEMER, previously to their publication.

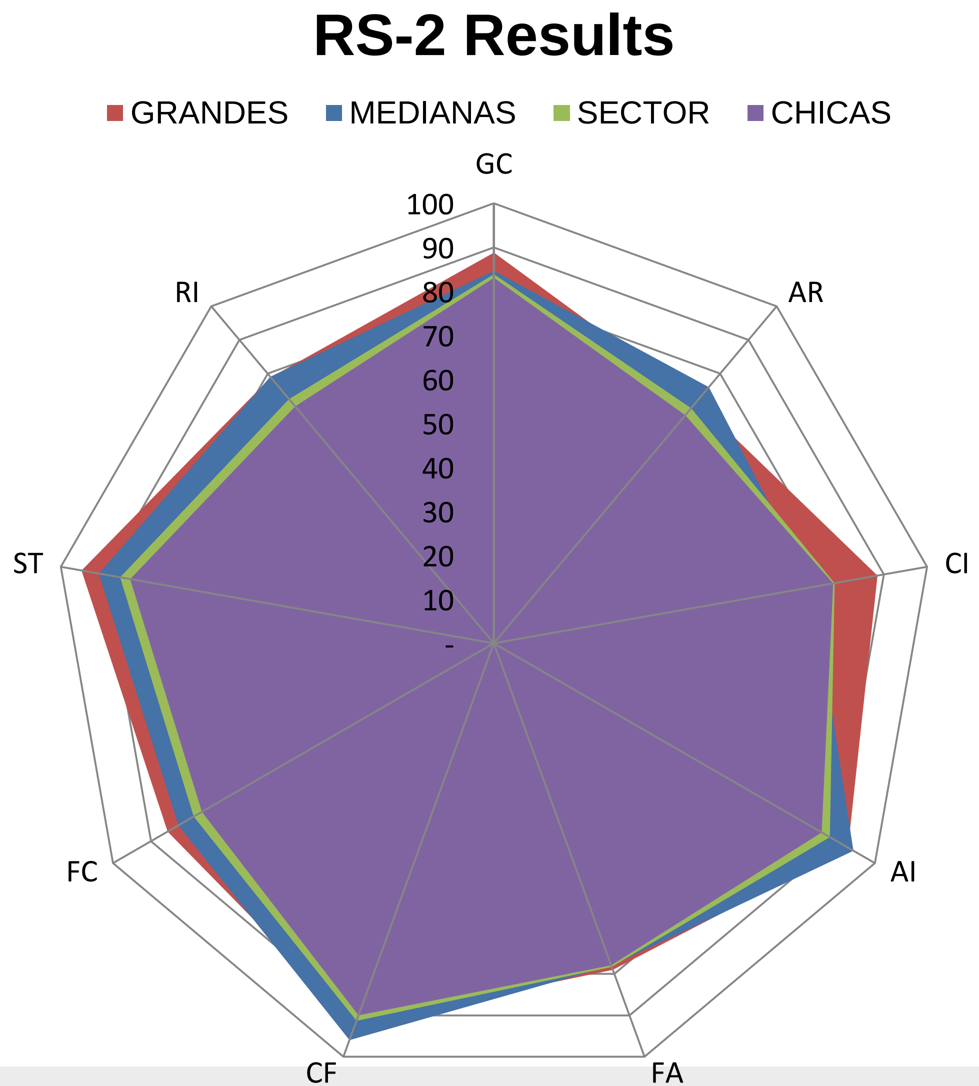
1	9	17	25	33
2	10	18	26	34
3	11	19	27	35
4	12	20	28	36
5	13	21	29	37
6	14	22	30	38
7	15	23	31	39
8	16	24	32	

Sectorial Resume

Sectorial Results



Sectorial Resume



ANEXOS II

Definición formal del apetito de riesgo

Apetito de riesgo (expresado, generalmente, en términos cualitativos)

- Los riesgos que una organización acepta y los que no
- Vinculado a objetivos corporativos y expectativas de las partes interesadas
- Consideración de riesgos emergentes

Tolerancia de riesgo (expresada, generalmente, en términos cuantitativos)

- Métricas y objetivos utilizados para medir la exposición al riesgo (seguimiento)
- Cantidad de riesgo que pueden aceptar las partes interesadas
- Procesos y controles existentes en el cálculo de la exposición

Límites de riesgo (enfoque más granular)

- Por unidad de negocio o por exposición individual
- Considera la diversificación del riesgo
- Controles y procesos para mantener el riesgo dentro del apetito de riesgo definido

La solvencia se mide en función al capital requerido, que puede ser …

Regulatorio

- Capital que una compañía debe mantener para ser solvente de acuerdo con la regulación
- Es común mantener un margen adicional (buffer) al capital regulatorio para asegurar que se seguirá cumpliendo con el mismo después de un evento adverso

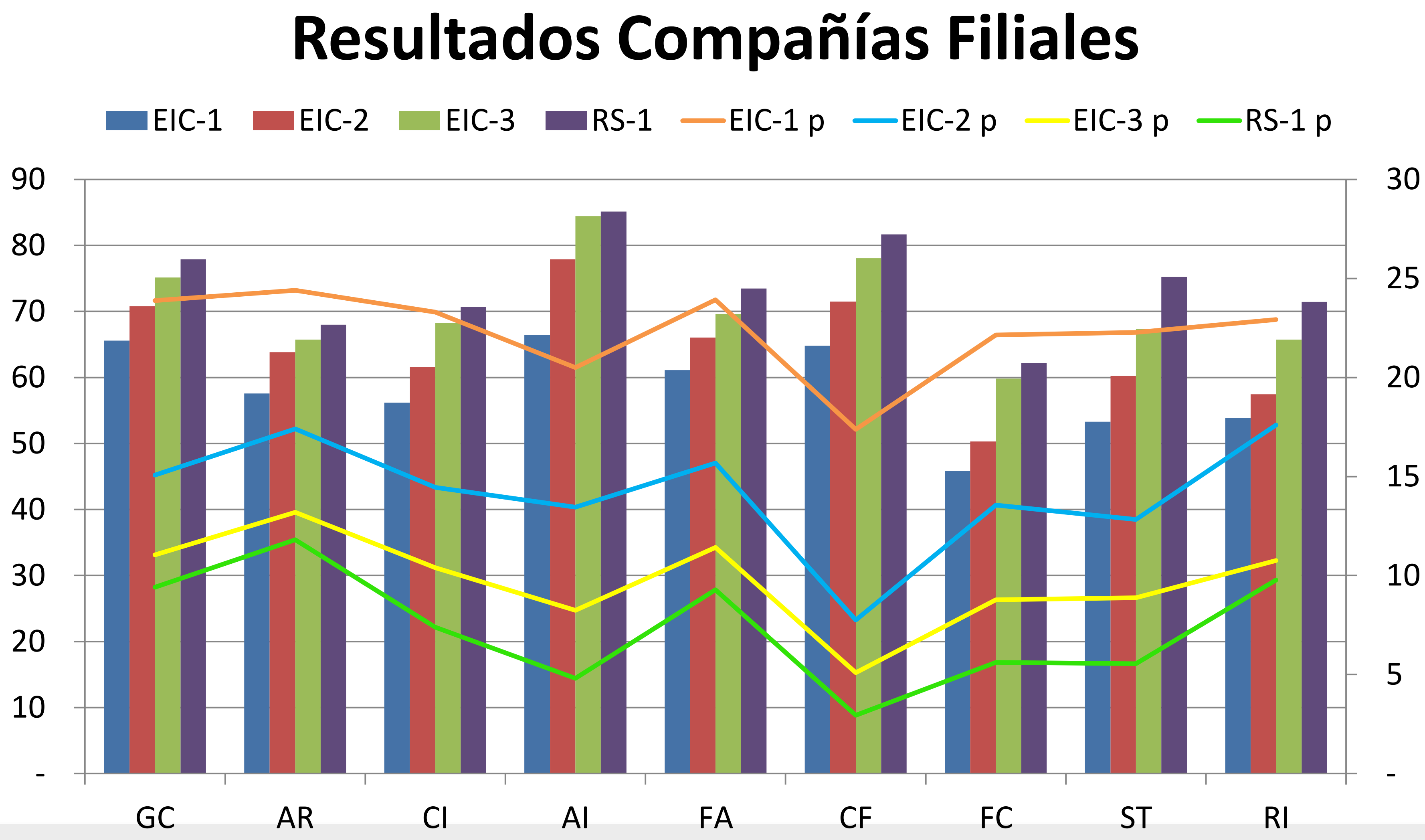
Económico

- Definido en forma simplista, el capital económico debe contestar a la pregunta ¿qué monto de activos se necesita hoy para asegurar con un nivel de confianza razonable el cumplimiento de las obligaciones futuras?
- Aquí no aplica el tener un buffer, ya que se determina en función al apetito de riesgo de la compañía

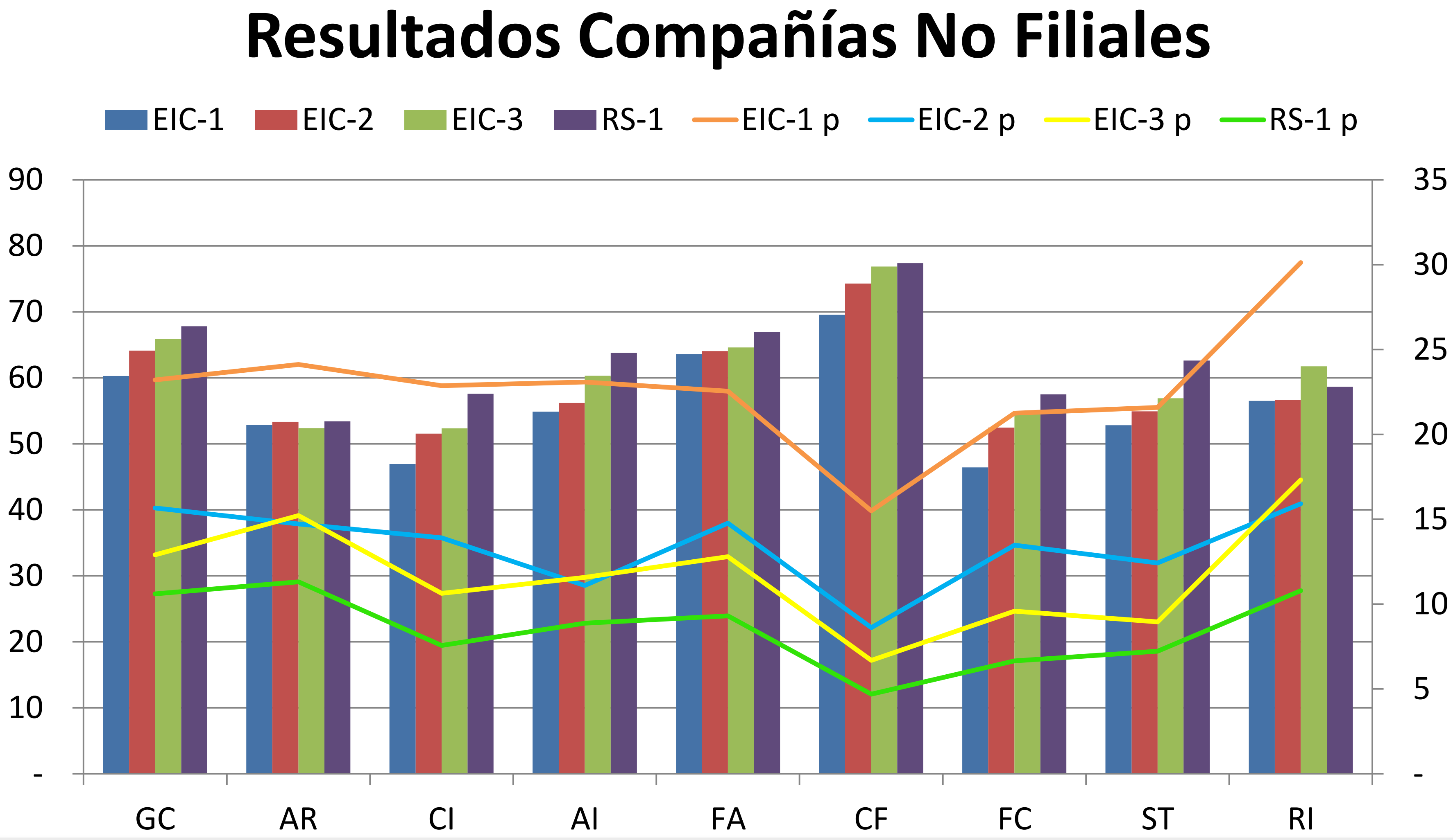
De las calificadoras

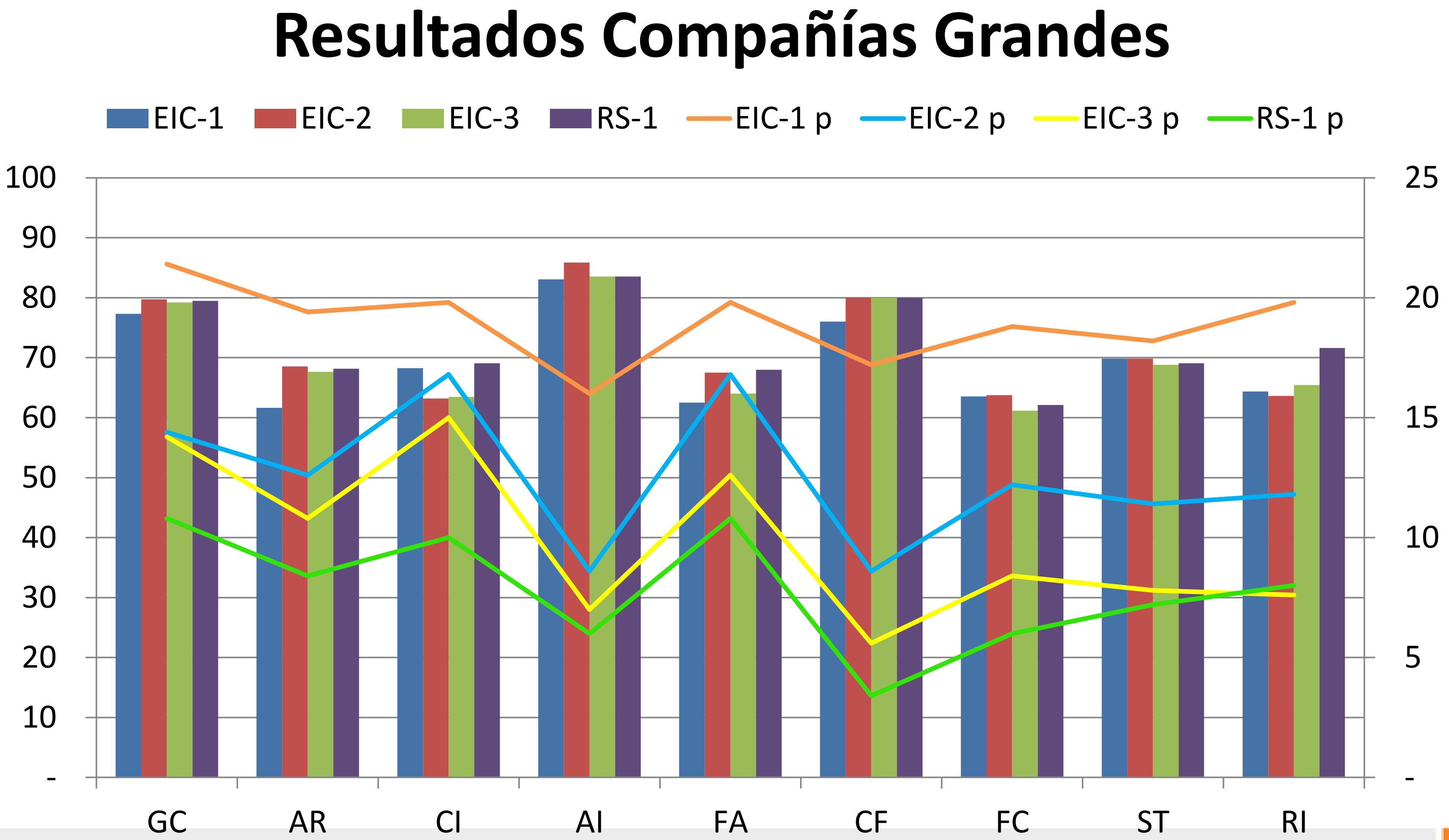
- El que se requiere para obtener una calificación crediticia que refleja el nivel de confianza (riesgo) en la compañía que está recibiendo dicha calificación
- Lo busca la institución para poder transmitir al público una opinión sobre su solidez financiera

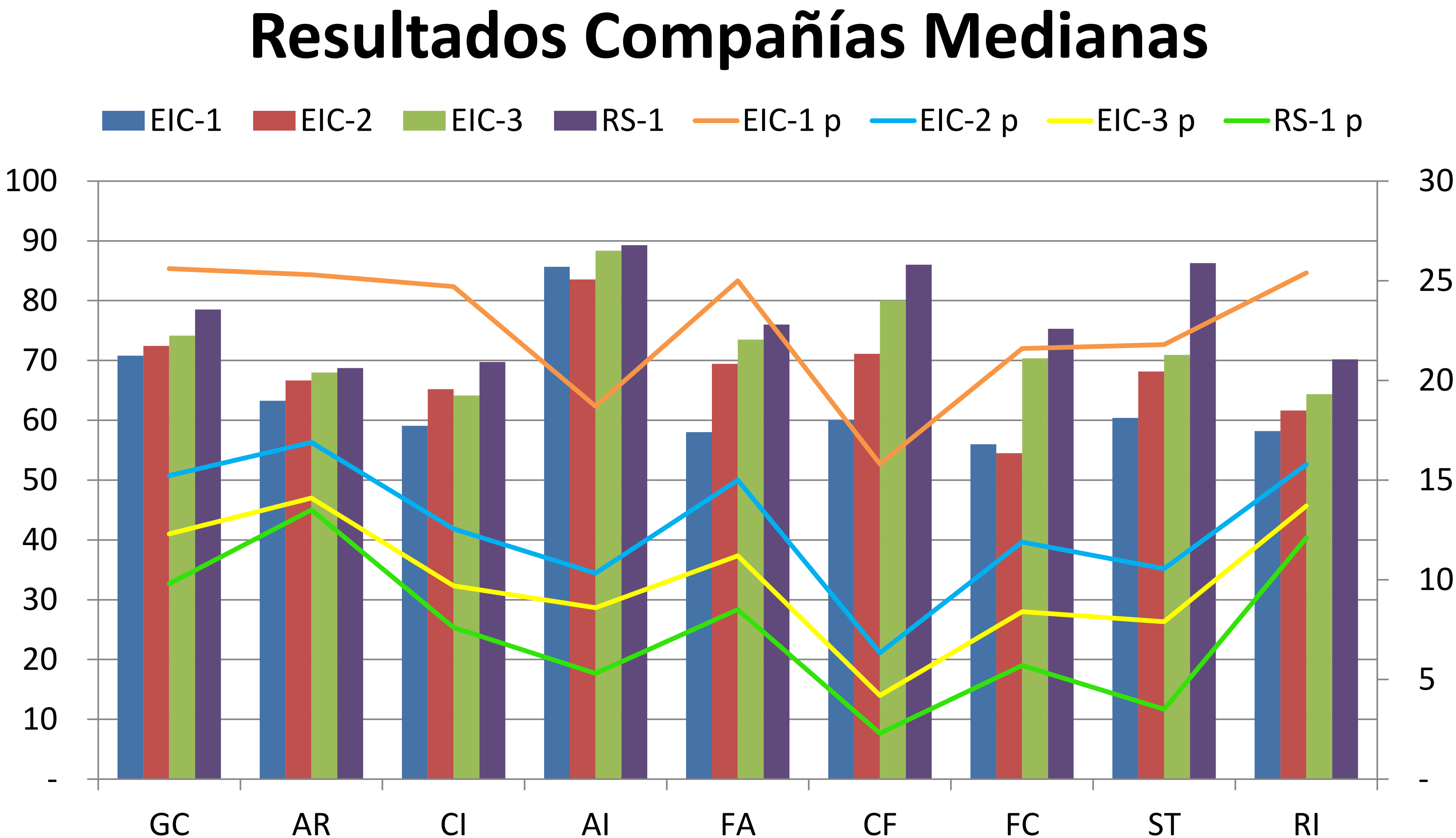
Resumen Compañías Filiales

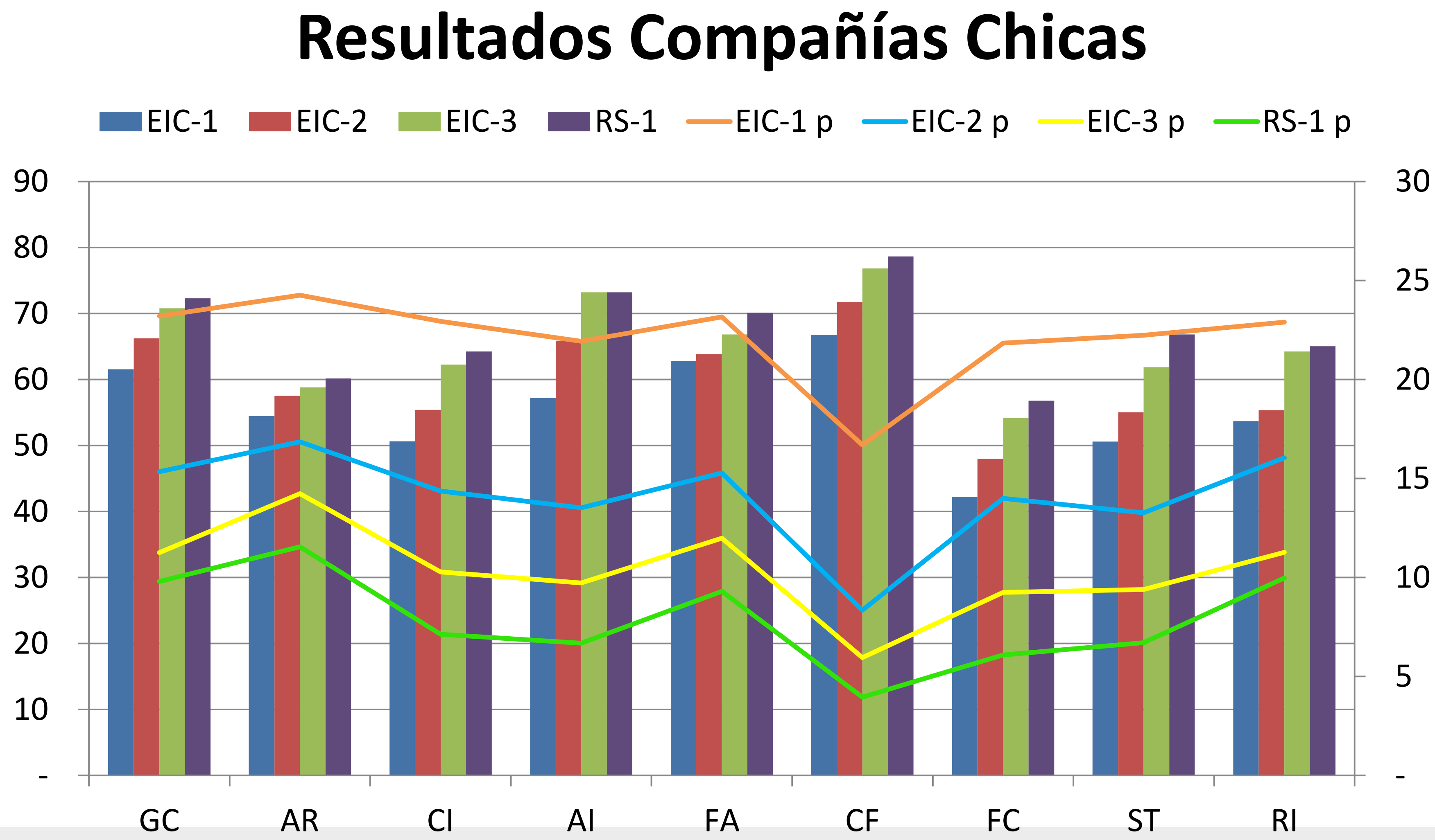


Resumen Compañías No Filiales




Resultados Compañías Grandes
EIC-1
EIC-2
EIC-3
RS-1
EIC-1 p
EIC-2 p
EIC-3 p
RS-1 p
100
90
80
70
60
50
40
30
20
10
-
25
20
15
10
5
-
GC
AR
CI
AI
FA
CF
FC
ST
RI


Resultados Compañías Medianas
EIC-1
EIC-2
EIC-3
RS-1
EIC-1 p
EIC-2 p
EIC-3 p
RS-1 p
100
90
80
70
60
50
40
30
20
10
-
30
25
20
15
10
5
-
GC
AR
CI
AI
FA
CF
FC
ST
RI


Resultados Compañías Chicas
EIC-1
EIC-2
EIC-3
RS-1
EIC-1 p
EIC-2 p
EIC-3 p
RS-1 p
90
80
70
60
50
40
30
20
10
-
30
25
20
15
10
5
-
GC
AR
CI
AI
FA
CF
FC
ST
RI

QIS 1 Mexicano

AMIS
ASOCIACIÓN MEXICANA DE INSTITUCIONES DE SEGUROS

Participación	28 Compañías (83.5% del mercado)	
Calificación asignada	Buena Información	Mala Información (Excluidas)
Criterio de Agrupación de Compañías con “Buena Información”	Criterio 1: Compañías con un modelo interno para el mejor estimador de seguros de vida a largo plazo.	Criterio 2: Compañías con y sin modelo interno para el mejor estimador de seguros de vida a largo plazo.

QIS 1 Mexicano

Resultados del QIS1 Mexicano

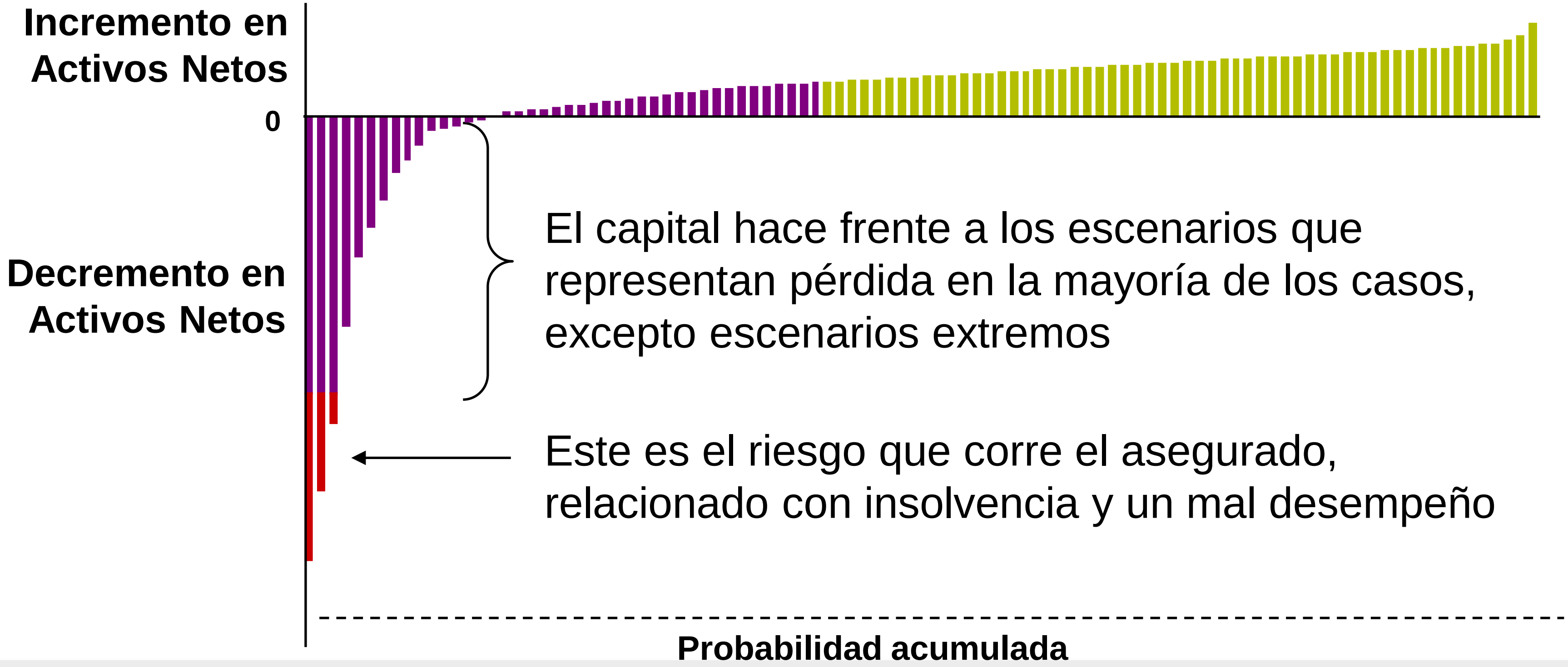
	Resultados 26 de abril de 2010	Corrección de información y análisis de metodologías	Compañías con buena información
Índice de Solvencia	1.39	2.01	2.51
Incremento RCS	113%	59%	21%
Disminución de Reservas	7.0%	10.8%	11.2%
Activos Computables / RCS	0.89	1.19	1.51
Margen de Riesgo / ME	2.49%	2.13%	1.73%

Nota: Actualmente la relación entre los activos computables y el capital mínimo de garantía es de 1.88

Capital Económico

Aquellas entidades que toman riesgos necesitan contar con capital para hacer frente a escenarios adversos.

Escenarios posibles ordenados en función a su resultado



Pilar I. Algunos números sobre el proceso de cálculo del modelo…

- **274 submodelos** dentro de la fórmula general.

- **100.000 simulaciones** requeridas para generar resultados al 99.5%.

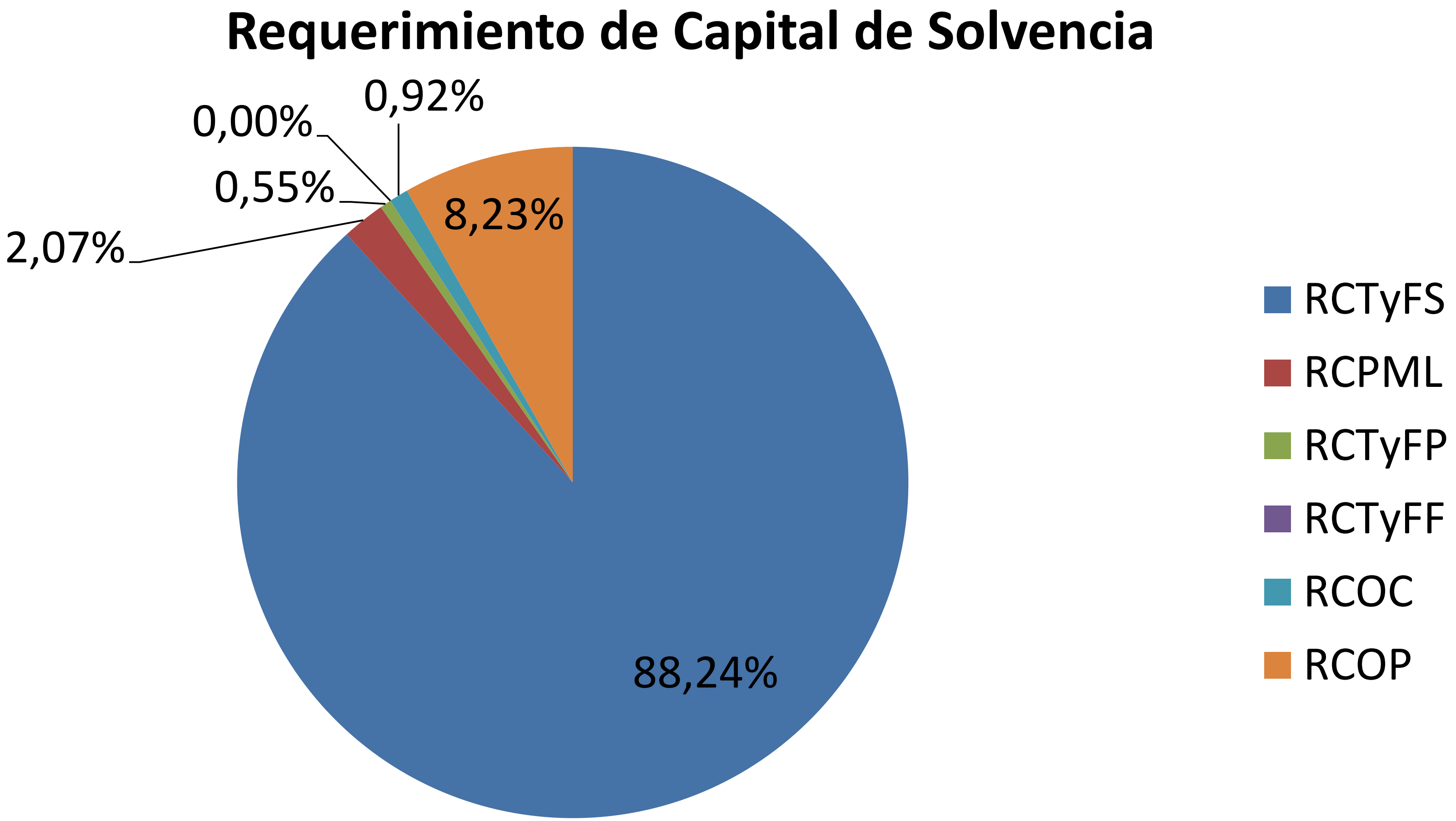
- Datos de cartera agrupados salvo para Vida Largo plazo póliza por póliza (gastos) o **agrupaciones por llaves bastante extensas** (pasivo en 1).

Para una compañía que opere tanto en Vida largo plazo, con una cartera aproximada de 50.000 pólizas, **el modelo realiza más de 500 millones de cálculos** (sin contar los cálculos de BEL realizados fuera del modelo).

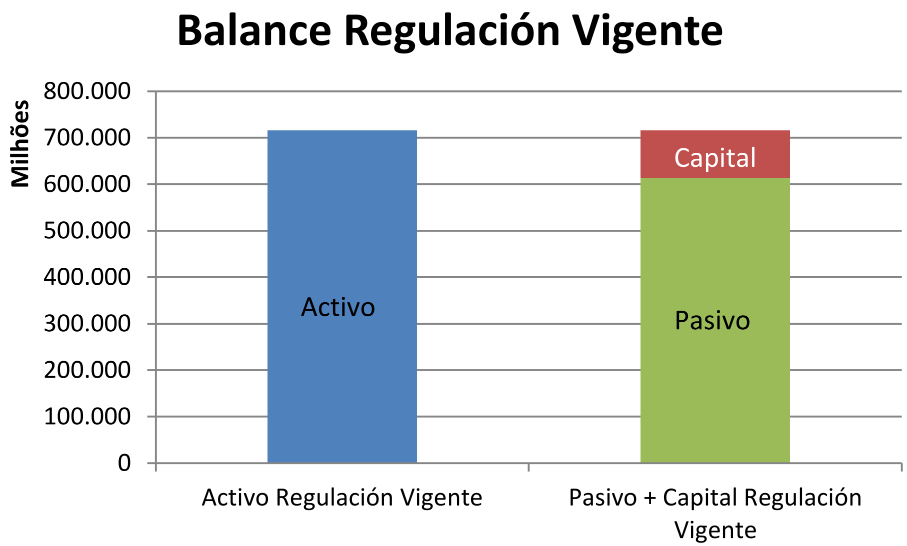
Resultados EIQ-3

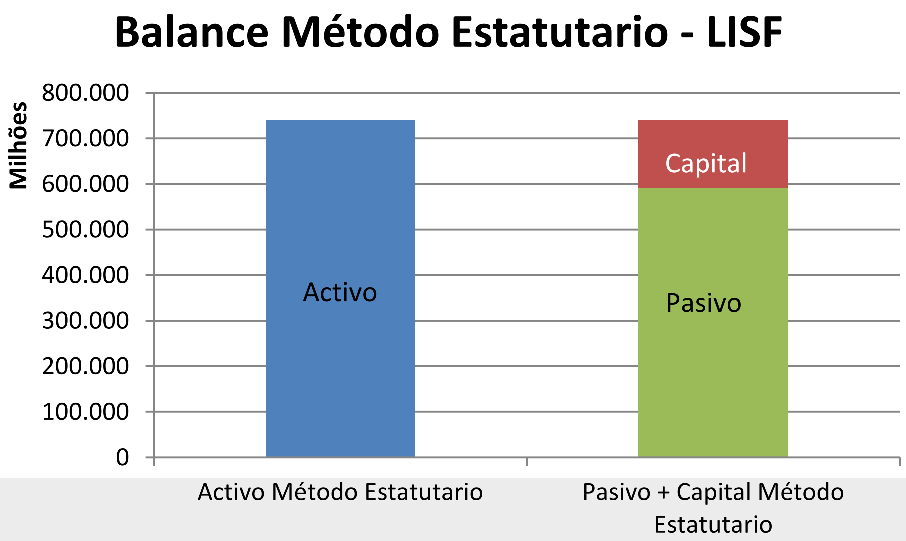
- Recibimos información de **52** compañías, las cuales tienen una participación del mercado con base en primas de 2013 del **84.77%**.
- De estas **52** compañías, **39** son de seguros multilínea o línea tradicionales, **5** de salud, **7** de pensiones y **1** de crédito.
- **8** compañías de seguros y de salud tienen RCS de riesgos técnicos y Financieros igual a 0.
- **4** compañías de rentas vitalicias tienen RCS por riesgos técnicos y financieros de pensiones igual a cero.

RCS por componente

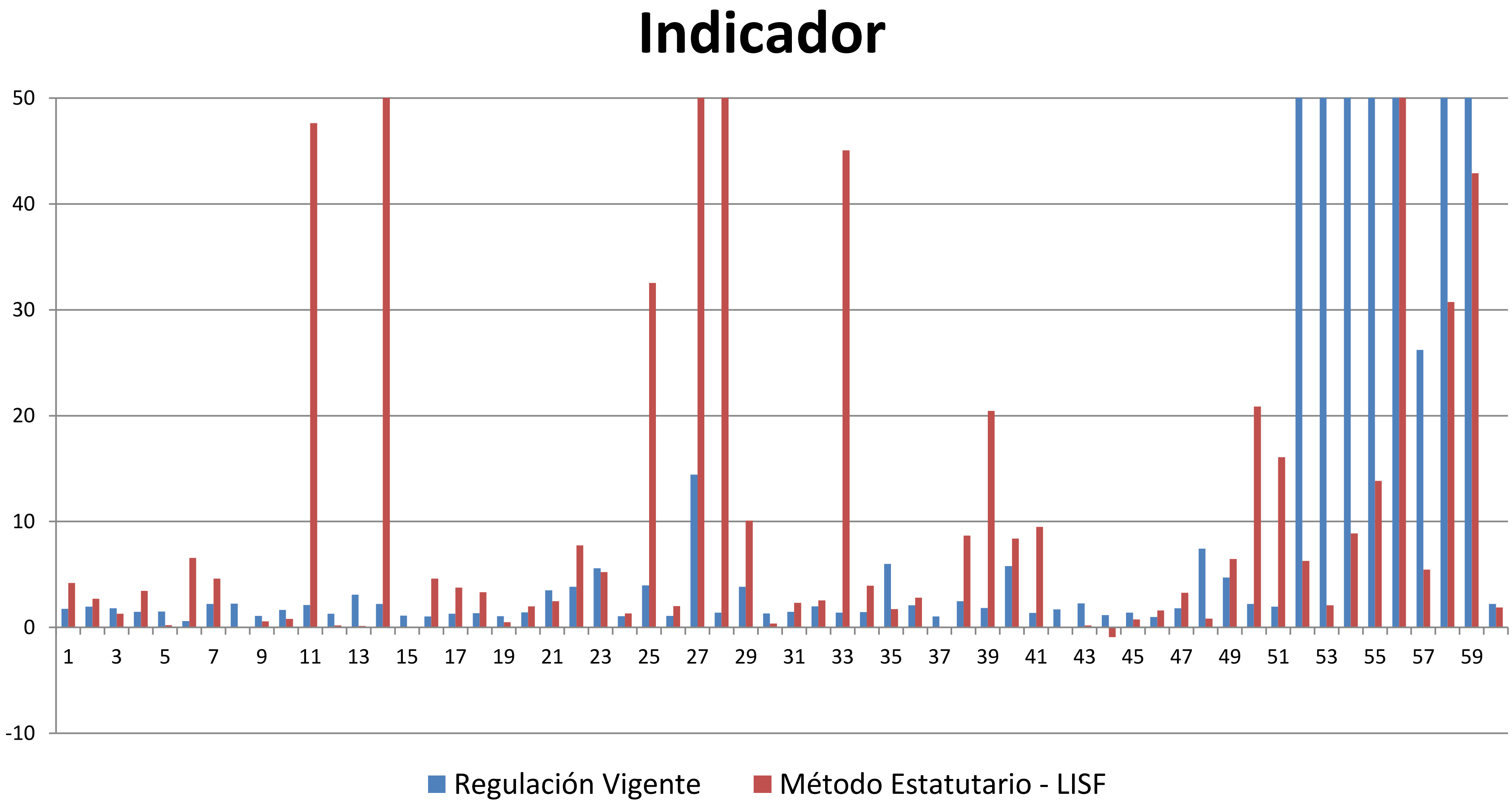


Balance

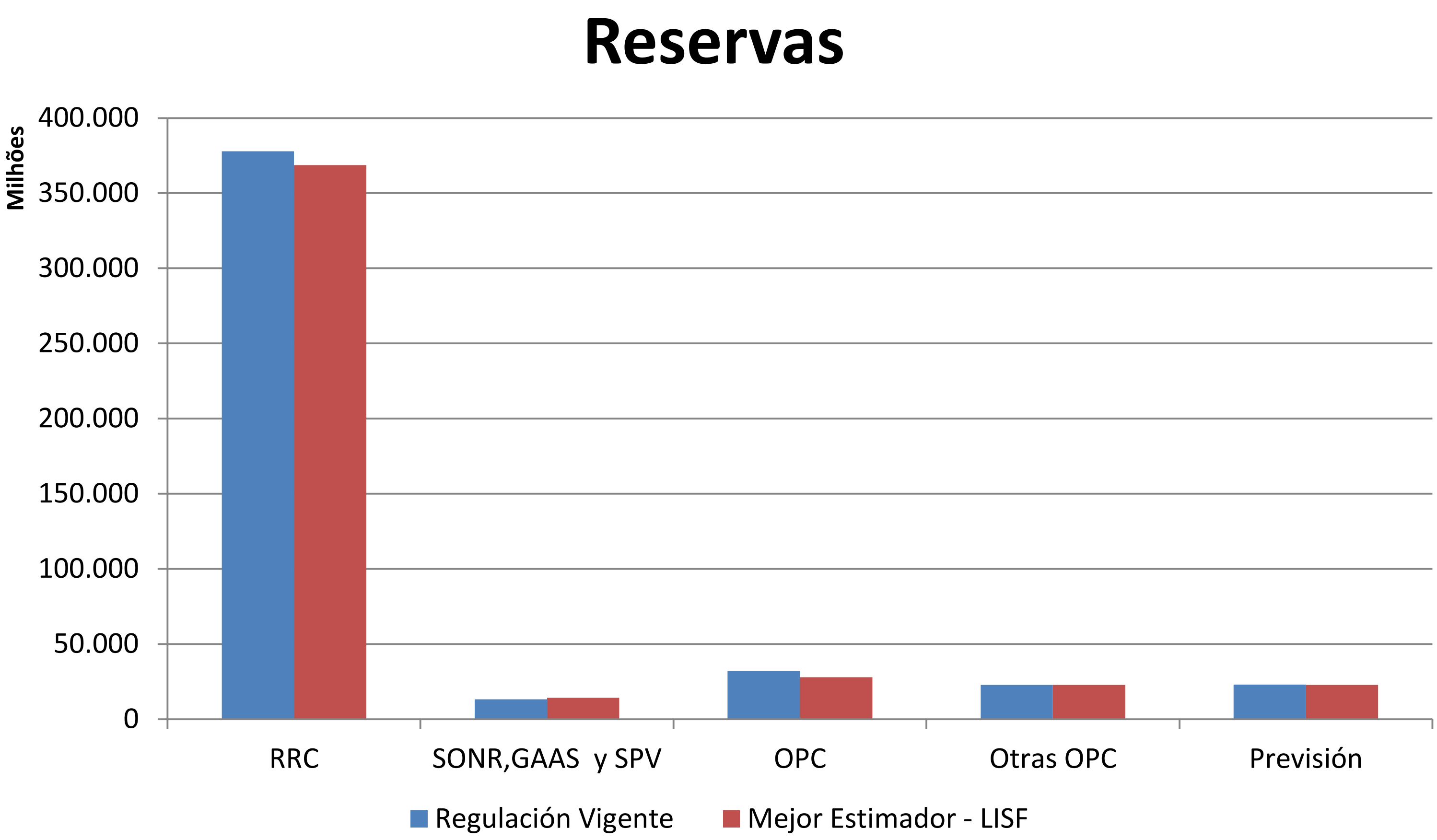

Balance Regulación Vigente
Milhões
800.000
700.000
600.000
500.000
400.000
300.000
200.000
100.000
0
Activo
Capital
Pasivo
Activo Regulación Vigente
Pasivo + Capital Regulación Vigente


Balance Método Estatutario - LISF
Milhões
800.000
700.000
600.000
500.000
400.000
300.000
200.000
100.000
0
Activo
Capital
Pasivo
Activo Método Estatutario
Pasivo + Capital Método Estatutario

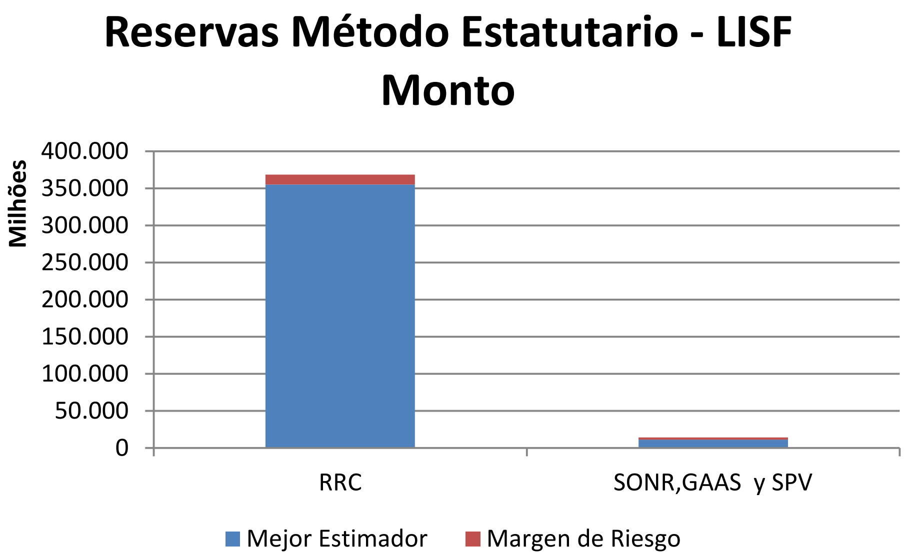
Índices de Solvencia (Vigente y EIQ-3)

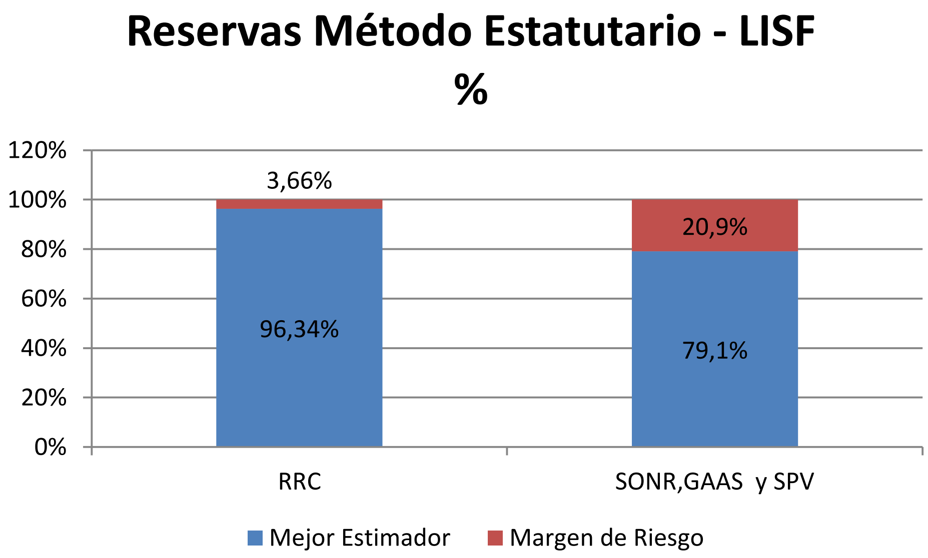


Reservas


Reservas
Milhões
400.000
350.000
300.000
250.000
200.000
150.000
100.000
50.000
0
RRC
SONR,GAAS y SPV
OPC
Otras OPC
Previsión
Regulación Vigente
Mejor Estimador - LISF

Reservas


Reservas Método Estatutario - LISF
Monto
Milhões
400.000
350.000
300.000
250.000
200.000
150.000
100.000
50.000
0
RRC
SONR,GAAS y SPV
Mejor Estimador
Margen de Riesgo


Reservas Método Estatutario - LISF
%
120%
100%
80%
60%
40%
20%
0%
3,66%
96,34%
20,9%
79,1%
RRC
SONR,GAAS y SPV
Mejor Estimador
Margen de Riesgo