Solvency II's impacts on French healthcare mutuals

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Agenda

- **Scope**
- **Quantitative, data quality and reporting issues**
  - Pillar 1 aspects
  - Pillar 3 aspects
- **Governance (Pillar 2) issues**
- **Group issues**

French (re)insurance undertakings

Authorised French undertakings:

Applicable legislation	2012	2013	2014	2015	2016
Code des Assurances	351	339	329	318	301
Code de la Mutualité (Livre II)	672	630	599	550	489
Code de la Sécurité Sociale	51	49	46	41	37
Total	**1074**	**1018**	**974**	**909**	**827**

- French healthcare mutuals' governance fall under the « code la mutualité ». For most « code de la mutualité » mutuals, individual health insurance forms the bulk of their business, even though some of them are rather active in the life / pension-like business. Healthcare is a short-term, relatively simple business (large claims covered by Social Security) ; it is however exposed to regulatory / revision risk.

- Other undertakings carry out healthcare insurance (ex. : limited companies, provident institutions). But mutuals' market share is still predominant in this regard

Are all healthcare mutuals impacted by Solvency II in France?

Some healthcare mutuals don't have their own license

- ~ 130 « mutuelles substituées », i.e. fully reinsured, guaranteed and « substituted » by a bigger mutual which is licensed
- Out of Solvency II scope
- The bigger mutual is responsible for being SII compliant wrt to the smaller mutual's portfolio and its risk management

Undertakings small enough to fall below S2D article 4's thresholds are out of Solvency II scope as well

- ~ 140 French undertakings concerned, most of them healthcare mutuals
- They're subject to Solvency I provisions.

A relatively limited quantitative impact…

- **Most healthcare mutuals show strong resilience under SII**
  - Best estimate pretty close to French GAAP / Solvency 1 technical provisions (short term mass risks)
  - Healthcare business attracts reasonable capital charges, even though there is little diversification
  - Solvency ratios often between 200% - 400%, since many undertakings were already well-capitalised under Solvency 1

- **New Tier 1 instrument introduced : « certificats mutalistes »**
  - Highly subordinated undated debt
  - Very stable overtime (no repayment / limited redemption options)
  - To provide mutuals with an unrestricted T1 tool, when they need additional funding in the short term
  - Sold to policyholders or other undertakings, typically within the same group

- NB : Absolute MCR can be higher than SCR for smaller undertakings / composite undertakings more affected

… even though the new reporting requirements can be challenging

- **More detailed, advanced calculations**
  - Data quality issues
  - Audit track, documentation and justification
  - Developing automated calculations, versus filling in QRTs manually

- **New reporting formats, new expectations**
  - Using the XBRL format / EIOPA taxonomy
  - Getting used to strict automatic control points (e.g. LEI)
  - Electronic signature
  - Dealing with a shorter time-frame

- **Narrative reports** (ORSA, SFCR, RSR, actuarial reports) which can seem pretty technical

Main impacts relate to governance (1/2)

- **Board of Directors** : increased involvement in technical issues even though they are not « professionals » → need for additional training ; need to challenge the senior management (implementation of board's strategy)
- The mutual's chairperson is no longer the only person « running effectively the undertaking » → need to appoint a « **dirigeant opérationnel** » (=CEO)
- Need to appoint **4 key function holders** → ACPR's doctrine rather demanding in this regard (guidelines published in October 2016) ; concrete application of the proportionality principle ?

Main impacts relate to governance (2/2)

- **ORSA and risk management system**: need to take a prospective stance, based on a full business plan ; adoption of a risk tolerance framework ; carrying out stress-testing ; defining and implementing a capital management strategy to ensure on-going compliance with SCR/MCR requirements

- Need for further **formalization** (written policies), enhanced **internal contral** system and stronger framework vis-à-vis outsourced activities (e.g. claims management, asset management…)

- **Prudent person principle** for investments: greater flexibility (e.g. no more haircuts to deal with concentration risk) but greater responsibility (justify policy's relevance)

A new deal for mutual groups

- Mutuals and mutual-like French undertakings can set up a group, based on strong long-lasting contractual relationships and financial solidarity ; the mutual « mother company » is called SGAM, SGAPS, UMG depending on the undertakings' « family ». **UMG is the « mother company » for healthcare mutuals forming such a group**.

- As a consequence of Solvency II, undertakings have to make a clear choice between **two options** :
  - Strong prudential group : the UMG has a dominant influence on all mutuals / undertakings of the group (regarding senior management, main financial decisions, auditing and sanctioning powers)
  - Flexible partnership : not considered as a group under Solvency II (no UMG)

  Many reorganisations / evolutions observed

- The UMG **solidarity clauses** determine amount of own funds deemed available at group level and provide a strong framework to prevent financial distress situations

Any questions ?

Thank you

Annexe : Solvabilité 2 en France , les principaux textes

- Directive 2009 / 138 / CE complétée par la directive Omnibus 2 (**niveau 1**) => transposée en droit français le 2 avril (ordonnance) et le 7 mai (décret) 2015

- Règlement délégué de la Commission Européenne publié le17 janvier 2015 (**niveau 2**)

- Règlements d’exécution (ITS) adoptés courant 2015 pour la plupart (**niveau 3** contraignant) ; instructions ACPR en matière de dossiers d’autorisation adoptées à la suite

- Orientations publiées par EIOPA en 2014 – 2015 (**niveau 3**, comply or explain) => quelques arrêtés et notices ACPR adoptés en 2015

- **Date d’entrée en vigueur : 1er janvier 2016**