Press Release

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EIOPA ANNOUNCES RESULTS OF FIFTH QUANTITATIVE IMPACT STUDY

Frankfurt, 14 March, 2011 – The European Insurance and Occupational Pensions Authority (EIOPA) today announced the results of the fifth Quantitative Impact Study (QIS5). EIOPA ran QIS5 to assess the practicability, implications and impact of specified approaches to (re)insurers' valuation of assets and liabilities as well as capital setting under Solvency II, the new insurance directive that becomes effective on 1 January 2013. Under Solvency II capital requirements will be determined on the basis of the risk profile of insurance companies and the way companies manage such risks.

QIS5 was the most comprehensive exercise to assess the impact of some key aspects and was executed upon request of the European Commission. Participation of insurers in the exercise increased considerably, compared to the fourth Quantitative Impact Study that was conducted in 2008. Almost 70% of all insurance and reinsurance companies under the scope of the Solvency II directive participated in QIS5, up from 33%, who participated in QIS4. Additionally, 167 insurance and reinsurance groups participated, up from 111 under QIS4.

Solvency II introduces two levels of capital requirements: the minimum and the Solvency Capital Requirement. If a company misses the Minimum Capital Requirement (MCR), ultimate supervisory action will be triggered. If the SCR threshold is missed the respective supervisory authority will determine supervisory responses linked to the concrete situation of the firm.

Overall, QIS5 showed that the financial position of the European insurance and reinsurance sector assessed against the Solvency Capital Requirements (SCR) of the Solvency II directive remains sound. Currently, insurance companies who participated in QIS5 hold €395 billion of excess capital to meet their solvency capital requirements (SCR) and excess capital of €676 billion to meet their minimum capital requirement

(MCR) as defined in the Solvency II directive. This confirms the strong position of the European insurance sector since the capital surplus was reached despite a difficult market situation. These challenging market conditions, mainly due to decreasing asset values as a result of the impact of the financial crisis, resulted in a lower surplus under the still applicable Solvency I rules..

For insurance and reinsurance groups, QIS5 resulted into a reduction of their capital surplus. Compared to the calculation under Solvency I standards, insurance groups have €86 billion less surplus capital available, which is a reduction of 44%. However, the QIS5 exercise demonstrated that this effect would be largely absorbed if insurance groups apply internal models and transitional measures to calculate the capital requirements under Solvency II. This would limit the reduction of the surplus to €3 billion, which represents roughly 1%.

QIS5 also examined calibrations within Solvency II. QIS 5 shows that, while the calibrations in the system are in general accepted as appropriate, EIOPA is already performing additional work in particular in the areas of Non Life and CAT modules to improve these calibrations.

EIOPA stresses that the different requirements and design of Solvency I compared to Solvency II have to be considered, and so does the diversity of the European insurance sector. The difference is characterised by an increase in capital requirements, a decrease in technical provisions and a relative increase in the amount of own funds that are allowed to be used to meet the capital requirements.

QIS5 also aimed at encouraging insurance companies and supervisors to prepare for the introduction of Solvency II. By collecting comments on the practicability of the exercise, EIOPA was able to identify areas where further guidance seems necessary or where the feasibility and complexity of the proposals should be addressed in order to ensure proper implementation by all undertakings, in particular small and medium undertakings. Some examples are the design of the non-life and health catastrophe risk sub-modules, the definition of contract boundaries and related valuation of deferred taxes and expected profits in future premium.

QIS5 also revealed other important areas, which were not tested in this quantitative exercise but require further attention of the industry in preparing for Solvency II. These areas are governance, risk management and reporting requirements.

The main lesson learned from QIS5 is that a prudent framework has to be based upon sound capital requirements, with particular attention to the quality of capital. EIOPA concludes that transitional measures are needed, particularly to ensure a smooth transition from Solvency I to Solvency II that would not disrupt ongoing business and would ensure continuous competitiveness of insurance companies. EIOPA stresses that an important balance needs to be struck: transitional measures should be limited and not be extended excessively due to a potential adverse effect on competition and the incentive for the insurance sector to implement Solvency II requirements, nor should they be of too short a duration as to limit their effectiveness.

Note to Editors:

About QIS5
In cooperation with the European national supervisory authorities, EIOPA evaluated the data that was provided by European insurance companies and groups between July and November 2010. The results will ultimately feed in to the European Commission's further development of the new regulations and help to shape the final Solvency II landscape.

Definition Minimum and Solvency Capital Requirements
The **Solvency Capital Requirement (SCR)** is defined as the potential amount of own funds that would be consumed by unexpected large events whose probability of occurrence within a one year time frame is 0.5%. This definition based on a probability measure allows (and sometimes mandates) the replacement of all or part of the standard formula with an internal model, when this can be shown to be better able to fulfil the directive requirements in relation to an undertaking's particular risk profile. EIOPA points out though that individual internal models have not been approved yet to calculate the capital requirements under Solvency II.
The **Minimum Capital Requirement (MCR)** is defined as the potential amount of own funds that would be consumed by unexpected events whose probability of occurrence within a one year time frame is 15%. In order to ensure the smooth functioning of graduated supervisory intervention (often referred to as "the ladder of intervention"), the linear result produced by the MCR calculation is bounded between 25% and 45% of the SCR, subject to an absolute minimum.
These principles for SCR and MCR are applied at solo level and group level, with the exception of the MCR, that only applies at solo entity level.

Risk
The main **risk drivers** of the SCR are the market sub-risks such as equity, spread and interest rates as well as the non-life underwriting sub risks such as premium and reserve risk and catastrophe risk.

Disclaimer
We note that QIS5 is a field test and not a proposal for the final Solvency II framework. Furthermore, caution should be exercised when drawing conclusions from the figures given in this report, since the comparability of results has in some cases been impacted by differences in the interpretation of requirements and by the short timescales in which data had to be provided.

The **European Insurance and Occupational Pensions Authority (EIOPA)** was established in consequence of the reforms to the structure of supervision of the financial sector in the European Union. The reform was initiated by the European Commission, following the recommendations of a Committee of Wise Men, chaired by Mr. de Larosière, and supported by the European Council and Parliament. EIOPA is part of the European System of Financial Supervision consisting of three European Supervisory Authorities and the European Systemic Risk Board. It is an independent advisory body to the European Parliament and the Council of the European Union.
EIOPA's core responsibilities are to support the stability of the financial system, transparency of markets and financial products as well as the protection of insurance policyholders, pension scheme members and beneficiaries.