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## **CALL FOR ADVICE FROM CEIOPS**

### **(FIFTH QUANTITATIVE IMPACT STUDY)**

#### **Purpose of this document**

This document contains a Call for Advice from the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). The Call for Advice requests CEIOPS to run a fifth Quantitative Impact Study between August and November 2010 and to publish a report on the results of that exercise in April 2011 in the frame of the development of level 2 implementing measures for the Solvency II Directive 2009/138/EC.

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**1. FIFTH QUANTITATIVE IMPACT STUDY**

- CfA.1 This Call for Advice requests CEIOPS to run a fifth Quantitative Impact Study (QIS5) between August and November 2010 and to publish a report on the results of that exercise in April 2011 to inform the discussions of the Commission's proposed level 2 implementing measures for the Solvency II Directive 2009/138/EC.
- CfA.2 QIS5 should be conducted in accordance with the technical specifications laid down in the annexes of this Call for Advice and in a manner that ensures that the objectives for QIS5 which are set out in this Call for Advice are met (See Section 1.1).
- CfA.3 To meet the objectives of QIS5, it is important that all areas of the exercise are dealt with comprehensively. In order to cover the areas properly it is important that participation in QIS5 is high (See Section 1.2) and that submissions are of a high quality (See Section 1.3).
- CfA.4 To meet the objectives of QIS5, it is also important that the report produced by CEIOPS on the results of QIS5 makes maximum use of the data gathered and enables all stakeholders to understand both the overall impact of future level 2 implementing measures as well as the impact on specific solvency balance sheet items, geographical regions and lines of business (See Section 1.5).
- CfA.5 The timetable for the QIS5 exercise is challenging (See Section 1.4) and we recognise that CEIOPS will have to work with and will need the full support and collaboration of other stakeholders in order to ensure that the QIS5 exercise is successfully executed.
- CfA.6 During the QIS5 exercise, CEIOPS will keep the Commission Services informed, in particular of any problems encountered as well as any questions coming up during the QIS5 exercise which require political guidance.

**1.1. Objectives for QIS5**

- CfA.7 The QIS5 exercise has the following **objectives**:
- To provide all stakeholders with detailed information on the quantitative impact on insurers and reinsurers' solvency balance sheets of the introduction of future level 2 implementing measures under Solvency II compared to the situation under Solvency I;
  - To check that the technical specifications laid down in the Annexes to this Call for Advice are aligned with the principles and calibration targets set out in Directive 2009/138/EC;
  - To encourage insurers, reinsurers and supervisors to prepare for the introduction of Solvency II and to identify areas where their internal processes, procedures and infrastructure may need to be

enhanced; and in particular, to encourage insurers and reinsurers to improve their data collection processes;

- To provide a starting point for an ongoing dialogue between supervisors and insurers and reinsurers in preparation for the new supervisory system.

## 1.2. Participation

CfA.8 In order to ensure that comprehensive information is received regarding the suitability and practicality of the technical specifications laid down in the annexes to this Call for Advice, the Commission Services believe that it is important that **small and medium sized insurance and reinsurance undertakings** take part in significant numbers in the QIS5 exercise.

CfA.9 **Ideally, all insurance and reinsurance undertakings under the scope of the Solvency II directive should participate in QIS5.** The Commission Services would expect at least **60% of the total number of European insurance and reinsurance undertakings** to participate in the QIS5 exercise.

CfA.10 **Ideally, all insurance groups under the scope of the Solvency II directive should participate in QIS5.** In order to ensure that comprehensive information on the quantitative impact on insurance and reinsurance groups' solvency balance sheets can be gathered, the Commission Services would expect **at least 75% of European insurance groups** to fully participate in the QIS5 exercise.

CfA.11 CEIOPS should ensure that all insurance and reinsurance undertakings which are likely to be under the scope of Directive 2009/138/EC are invited to participate in the QIS5 exercise.

CfA.12 Solvency II will introduce a harmonized European standard. However, for the purposes of QIS5 it is recognised that providing **national guidance** to complement the technical specifications can facilitate and increase the participation of undertakings in the exercise. Therefore supplementary national guidance to the QIS5 technical specifications can be provided by national authorities through CEIOPS where it is deemed strictly necessary and where CEIOPS has verified its consistency with Directive 2009/138/EC and the QIS5 technical specifications. In order to ensure full transparency, any additional national guidance must be translated into English, and made available on CEIOPS' website at the same time as it is provided to participants. The national guidance should be published, where possible, before the QIS5 exercise commences.

CfA.13 The past QIS have shown that a translation of the technical specifications into national languages can contribute much to the understanding of the calculations and to a broad participation. The Commission would like to encourage the provision of translations where they are necessary to meet the objectives of the exercise. A translation of the technical specifications should not be considered national guidance and is not subject to the requirements set out in paragraph 12.

### 1.3. Submissions

- CfA.14 As with previous QIS exercises and in order to maximise participation, insurers and reinsurers should be invited to take part in the QIS5 exercise on a best efforts basis. However, where alternative approaches are provided for in the QIS5 exercise, insurers and reinsurers are strongly encouraged to provide data **on each alternative** in the technical specifications laid down in the annexes to this Call for Advice, in order to enable a comparative quantitative analysis of the different approaches to be conducted.
- CfA.15 In particular, insurers and reinsurers providing quantitative results derived using their **internal model** should also provide results calculated using the SCR Standard Formula.
- CfA.16 Insurance and reinsurance groups should submit their results to the **CEIOPS centralised database**, as well as to national supervisory authorities, in order to enable an aggregate analysis of the impact on cross-border groups to be conducted. In order to provide a complete picture of the impact on insurance and reinsurance groups and make maximum use of the data gathered, CEIOPS members will need to **work closely together and exchange information**, especially with respect to the interaction between solo and group requirements as well as the eligibility and transferability of own funds.

### 1.4. Timetable for the QIS5 exercise

- CfA.17 CEIOPS should run a fifth Quantitative Impact Study (QIS5) **between** August and November 2010 and publish a report on the results of that exercise by end April 2011, as CEIOPS has successfully done for the past four QIS exercises.
- CfA.18 In a similar way, as for the previous exercises, after building the QIS5 spreadsheets, CEIOPS should run a short pre-test with a small sample of insurers and reinsurers.
- CfA.19 All insurers and reinsurers should send their submissions to national supervisors by 31 October 2010 and, in the case of insurance and reinsurance groups, results should be sent to the CEIOPS centralised database and their national supervisors by 15 November 2010.
- CfA.20 As with the previous exercises, CEIOPS will organize the process of "questions and answers" (Q&A) during the QIS5 exercise in order to ensure consistent interpretation of the technical specifications laid down in the annex to this Call for Advice across Member States. However CEIOPS should refer questions of a political nature coming up during the QIS5 exercise directly to the Commission.

### 1.5. QIS5 Report

- CfA.21 The QIS5 final public report should make optimal use of the information and data submitted by participant companies as the QIS exercises are a unique opportunity to gather detailed information of high quality. By performing an in-depth analysis of the QIS5 results and by sharing the results with all

stakeholders, CEIOPS will make a major contribution to the Solvency II project as a whole.

- CfA.22 The QIS5 final report should comprise an executive summary, a main report, and attachments. In particular, attachments should include **tables** with the detailed quantitative results.
- CfA.23 The executive summary should set out the key issues in a structured manner, and technical language and abbreviations should be avoided.
- CfA.24 The main report should take the reader through the **different steps** followed when completing the QIS5 exercise in order to assess an individual company's solvency, i.e. valuation of assets and liabilities, technical provisions, capital requirements (SCR standard formula, SCR internal models, and MCR), own funds, and capital surplus.
- CfA.25 The main report should also include a section on **group solvency**, highlighting the interaction between solo and group capital requirements (i.e. level of diversification effects, plus intra-group transactions and participations) as well as issues concerning the transferability of own funds.
- CfA.26 For each of the areas mentioned in paragraphs 24 and 25, the report should analyse QIS5 results both from a **quantitative** and from a **qualitative** point of view (i.e. adequacy of the proposed design and calibration, practicability of the various solutions, and quantitative impact of these alternatives).
- CfA.27 Whenever possible and for each area, quantitative results should be split by:
- type of undertaking (life, non-life, composite, health<sup>1</sup>, reinsurance, captive);
  - country, or relevant group of countries (in particular where results need to be aggregated across Member States in order to maintain an appropriate level of confidentiality);
  - company or group dimension (small, medium, or large);
  - where relevant, type of business (life, non-life, health similar to life techniques, health similar to non-life techniques, reinsurance).
- CfA.28 In addition to the analysis provided for each area, the main report should assess the **overall quantitative impact of Solvency II** on the insurance industry, both on the European level and, to the extent possible, according to the dimensions set out in paragraph 27. In particular, the report should describe the overall impact of QIS5 specifications on the main items of the solvency balance sheet of insurance companies, i.e. comparing the Solvency II and Solvency I balance sheets.
- CfA.29 For that purpose, the main report should address the following questions:

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<sup>1</sup> CEIOPS should specify an appropriate definition of health insurer for this purpose.

- Which items on insurers' solvency balance sheets are the most impacted?
- What is the relationship between the new Solvency II explicit requirements (technical provisions and capital requirements) and the previous Solvency I explicit and implicit requirements (technical provisions, required solvency margin, plus prudent valuation principles for assets and liabilities).
- What is the overall impact on available capital?
- What is the effective impact on capital surplus and on the solvency ratio?
- Will insurers need to raise additional capital? Or will they be able to release surplus capital?
- What is the impact on insurance and reinsurance groups?

## **2. ANNEXES:**

- QIS5 technical specifications
- Annexes to the QIS5 technical specifications
- Relevant risk-free interest rate term structures for QIS5
- Parameters for non-life catastrophe risk