

*Warsaw 19 April 2007*

**QIS3:  
A valuable opportunity to  
influence Solvency 2 outcome**

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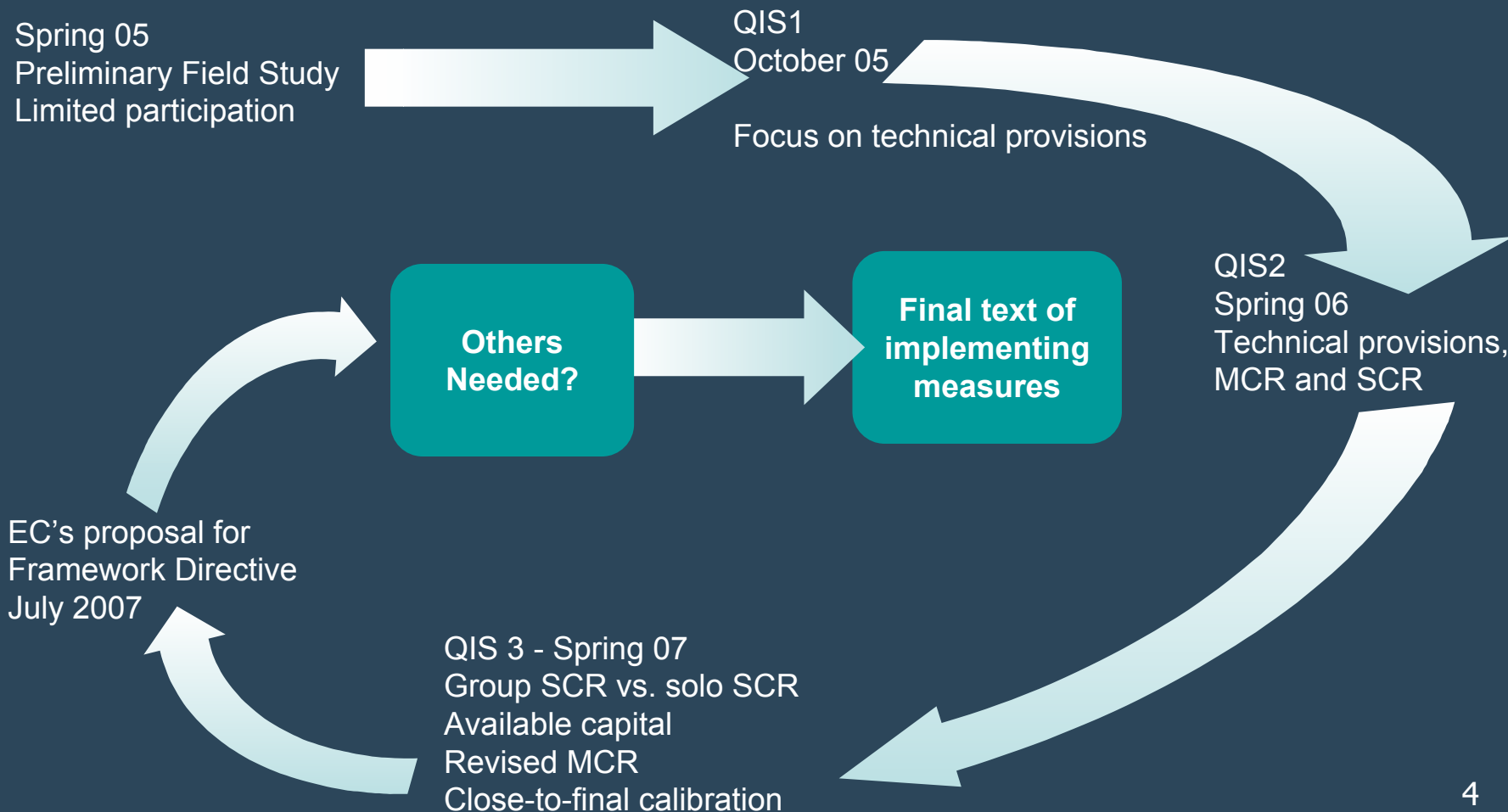
# Outline

- **Development of Solvency 2 framework**
- **Projected impact of Solvency 2 framework**
- **Assessing the 'actual' impact of Solvency 2: QIS exercises**
- **QIS exercises: a valuable opportunity to influence Solvency 2 outcome**
- **Summary of past QIS results**
- **QIS3: objectives, timetable and main changes since QIS2**

# **Development of Solvency 2 framework**

- **EU Commission draft Directive to be published in July 2007**
- **Request to CEIOPS to provide technical advice on implementing measures – CP 20 and subsequent CP in October/November 2007**
- **EU Commission has envisaged that a series of quantitative impact studies (QIS) will be needed throughout the Solvency 2 project (Cfa 13 of the second wave of Calls for Advice)**
- **Level 1 negotiations start September 2007 – QIS3 results perfectly timed to influence**

# Assessing the 'actual impact' of S2: Quantitative Impact Studies



# Assessing the 'actual impact' of S2: Quantitative Impact Studies

- Insurance undertakings are invited by CEIOPS Members to voluntarily participate:
  - participation is on 'best effort' basis
  - Reasonable approximations are allowed
  - Where possible, simplifications and proxies for small undertakings have been provided
  - Focus on material risks
- Main benefits for undertakings:
  - Getting acquainted with the new Solvency framework (building up expertise, improving data quality, etc.)
  - Contributing to the refinements of the structure and calibration of the new Solvency framework

# QIS2 - results

- **Most undertakings remained solvent according to QIS2 valuation principles**
- **Some evidence for greater impact on small undertakings**
- **SCR**
  - **Structure:** certain risk modules needed adjustment (underwriting risks, credit risk, profit sharing – in rare cases even negative SCR!)
  - **Calibration** still necessary (e.g. market risk, credit risk, operational risk, etc.)
- **MCR**
  - Issues with **structure** and **calibration** of MCR

# QIS 3

- **Look at impact on individual entities and groups of possible overall Solvency 2 framework, covering:**
  - Practicability and suitability of calculations for MCR and SCR capital requirements
  - Effect on level of capital needed by firms
  - Suitability of calibrations proposed for establishing capital requirements
- **Information and data will assist in further development and calibration of both SCR and MCR**
- **Last QIS round before Draft directive**

# A valuable opportunity to influence Solvency 2 outcome

## Industry participation in QIS3 is very important!!

- We are conscious, for example, that **not all types of firm, especially smaller firms, were represented in earlier QIS**
- **Qualitatively:** comments on the suitability and practicability for each type of firm of the proposed methodology will help us to refine further the methodology for the MCR and SCR
- **Quantitatively:** the figures will indicate potential impact of proposals on different types of firm, and along with the additional information will inform the final calibration of the SCR and MCR
- Overall, the QIS3 results will assist in further development and calibration of both SCR and MCR



# QIS 3 package

- **Introduction with scope and objectives**
- **Technical specification covering - Value of assets, Provisions, SCR , MCR, and Capital elements for both individual firms and groups**
- **Spreadsheet and instructions**
- **Qualitative questionnaire**

# Main developments since QIS2

- **Best estimate plus cost-of-capital risk margins agreed as the standard for provisions**
- **Scenario tests agreed as the standard for market risks and non-life cat risk**
- **SCR Methodology developed further for**
  - Premium and reserve risk
  - Credit risk
- **Removal of expected profits adjustment for new business**

# Main developments since QIS2 (ct'd)

- **New (simplified) approach to MCR**
- **Revised calibration for many parameters in both SCR and MCR**
- **Segmentation for reinsurance business**
- **Proposal for 'eligible' elements of capital**
- **Application of capital requirement to groups**

# QIS 3 timetable

2 April 2007	Package containing detailed specification, spreadsheet and questionnaire ready to be released to firms
30 June 2007	Spreadsheet and questionnaire returned to national supervisors
July/August 2007	Analysis of responses by national supervisors

# QIS 3 timetable

Sept/Oct 2007	Presentation of country reports on results to firms and CEIOPS
Oct/Nov 2007	QIS3 Summary report presented to the EU Commission
Nov. 2007/ Jan 2008	Consultation period for new Post-QIS3 CP, with advice on SCR 'standard formula' and MCR

# Conclusions

- QIS3 represents a major step in the development of the new solvency regime.
- The success of this exercise depends to a large extent on the degree of participation of EU insurance and reinsurance undertakings:
  - Spreadsheets and questionnaires should be completed on a 'best effort' basis
  - Reasonable approximations are allowed
  - Where possible, simplifications and proxies for small undertakings have been provided
  - Focus on material risks

# Questions??