

Quantitative Impact Study 2

Cover note

1. The European Commission (EC) has requested the Committee of European Insurance and Occupational Pension Supervisors (CEIOPS) to prepare advice in order to introduce a new solvency and supervisory standard (Solvency II) for European insurance undertakings. For this purpose, CEIOPS has been requested to acquire insight into the possible quantitative impacts of this new solvency standard through a series of quantitative impact studies (QIS).
2. CEIOPS conducted its first QIS at the end of last year. This QIS1 focused on the level of prudence in the current technical provisions, benchmarking them against some predefined confidence levels. CEIOPS is most grateful to the firms that participated in QIS1, and provided it with valuable information about the suitability, practicability and potential impact of the possible approaches for the assessment of the provisions that were tested in QIS1. The results of this study have recently been presented to the industry, in the form of a summary report, as well as to the European Commission.
3. CEIOPS now proposes to conduct QIS2 which will study the effect on insurance undertakings of the possible restatement of the value of both assets and liabilities under the Solvency II framework, as well as some possible options for setting the capital requirement (MCR and SCR). While decisions about the basis on which the insurance technical provisions should be assessed will be for the EC, Member States, and the European Parliament, CEIOPS is proposing for the purpose of QIS2, in addition to some other methods, a placeholder method for the assessment of these provisions. That calculation is based on the recent publicly consulted draft answers of CEIOPS to the EC, along with an analysis of the results from QIS1. Firms will also be invited to provide detailed information about the application of the cost-of-capital approach for setting provisions that was recently promulgated by the Swiss regulator, FOPI. Recent publicly consulted draft answers of CEIOPS to the EC, together with some further

development work by CEIOPS, form the basis for the specifications for the MCR and SCR.

4. The goals of QIS2 are threefold. Firstly, CEIOPS hopes that this exercise will give information about the practicability of the calculations involved. Secondly, CEIOPS is looking for information about the possible impact on the balance sheets and the amount of capital that might be needed if one of the approaches set out in the QIS2 specification were to be adopted as the Solvency II standard. Thirdly, CEIOPS is looking for both qualitative and quantitative information about the suitability of the possible approaches to the calculation of the SCR. CEIOPS would emphasise that no decisions have been taken on, either the methodology nor the parameters for either the assessment of provisions or the calculation of the MCR or SCR. This is though likely to be influenced by the results from QIS2.
5. To this end CEIOPS is inviting life and non-life insurance undertakings and reinsurers to participate in this exercise. Groups should where possible complete QIS2 with relevant figures for each of their solo entities, but figures for groups may be aggregated where figures for solo entities are not available. (Information about the solvency effect for groups will be the subject of a later QIS) In QIS2, as in QIS1, if the precise figures cannot be obtained, approximations may be used. The qualitative information received about the methods and models used by market participants will also be very important for us. If undertakings are unable to complete the whole survey, a partial submission should then be considered as CEIOPS would appreciate receiving as much good quality information as possible. As with QIS1, guidance on any areas of difficulty can be provided by national supervisors during the execution of QIS2.
6. The QIS2 package includes a spreadsheet accompanied by specifications and guidance and term structures plus a qualitative questionnaire. These have been amended compared to the pre-test version (available on the CEIOPS-website) to take account of a number of comments received from undertakings, insurance associations, and consultants. Further guidance on remaining questions can be provided during the execution of QIS2. If you have any further questions, please contact your national supervisor, who is a member of CEIOPS. Answers will also be published on the CEIOPS' website (<http://www.ceiops.org>).
7. Confidentiality is of utmost importance when conducting any QIS. In the QIS2 this will be achieved, in a similar way to QIS1, by aggregating all the information of individual undertakings at national level by national supervisors.
8. This QIS does not prejudge the outcome of the discussions that are taking place about possible Solvency II rules. However, the data obtained from QIS2 will be invaluable in assisting CEIOPS to develop its advice on an appropriate framework for the Solvency II rules. It is expected that after this study, further studies will be needed to test different possible approaches and sets of assumptions

9. The Commission Services have requested to receive the results from QIS2 by October 2006. This tight schedule is needed in order to provide necessary input for the preparation of the Solvency II Directive, and in particular the preparation of the impact assessment for the future Directive. CEIOPS would therefore be grateful if participants are able to complete the spreadsheet and questionnaire and return these to their national supervisor by 31 July 2006.