

**QIS3**

**Cover Note**

**April 2007**

# EU Solvency II project – Third Quantitative Impact Study

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 for European insurance undertakings (Solvency II). 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 second QIS during 2006. This QIS2 covered both the assessment of the technical provisions, and also tested some different approaches for the calculation of a possible solvency capital requirement (SCR) and a minimum capital requirement (MCR). The resulting figures for the SCR and MCR were then compared against a preliminary assessment of the available capital for solo entities. However, the calibration of these possible capital requirements was intentionally quite tentative. In addition, there was no guidance provided on which items of capital could be included as eligible capital, or on how the figures might be combined for entities that are part of a larger group of undertakings.
3. We are most grateful to the firms that participated in QIS2, and provided us with valuable information about the suitability, practicability and potential impact of the possible approaches that were considered for the assessment of provisions, and the calculation of capital requirements, that were tested in QIS2. 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.
4. The documents setting out a possible specification, as proposed by CEIOPS, for the assessment of provisions, and for the calculation of the SCR and MCR, have now been amended and updated, taking account of the valuable information that was received from firms during QIS2.
5. We now propose to commence our latest quantitative impact study (QIS3), which will study the potential effect of these new proposals by CEIOPS for both insurance undertakings and groups of undertakings.
6. Our recent advice to the European Commission on Pillar I issues (CEIOPS-DOC-08/07)<sup>1</sup>, together with some further development work by CEIOPS, form the basis for these revised proposals. We also have taken into account the useful comments that were received from insurance

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<sup>1</sup> See <http://www.ceiops.org/media/files/publications/submissionstotheec/CEIOPS-DOC-08-07AdviceonPillarI-Issues-FurtherAdvice.pdf>.

undertakings and industry associations during the recent pre-test of our draft specification for QIS3.

7. You will see in particular that a framework is provided in Section 2 of the specifications for how the eligible elements of capital should be assessed, based on some recent thinking within the EU. In addition, you will see that the specifications have one set of sections detailing the calculations to be made by individual undertakings, while the specifications for insurance groups are set out in the final Section 6, so that QIS3 can be applied both to solo undertakings and to groups of undertakings.
8. The goals of QIS3 are fourfold. Firstly, we hope that this exercise will give further information about the practicability and suitability of the calculations involved. Secondly, we are looking for quantitative information about the possible impact on the balance sheets, and the amount of capital that might be needed, if the approach and the calibration set out in the QIS3 specification were to be adopted as the Solvency II standard. Thirdly, we are looking for information about the suitability of the suggested calibrations for the calculation of the SCR and MCR. Fourthly, we are looking for information about the effect of applying the QIS3 specification to insurance groups.
9. While decisions about the basis on which the insurance technical provisions and capital requirements should be assessed will be for the EC, member states, and the EP, we believe that the results from QIS3 will provide valuable information for all the relevant stakeholders when the results are published in the autumn of 2007.
10. To this end CEIOPS is inviting insurance undertakings and reinsurers, and groups of such undertakings, to participate in this exercise. We recognise that it will not be practicable to provide figures to an auditable standard for QIS3, but ask firms instead to provide information on a best efforts basis. In QIS3, as in QIS2, if the precise figures cannot be obtained, approximations may be used.
11. The qualitative information received about the practicability and resource implications if these proposals were to be adopted, and about the methods and models used by market participants will also be very important for us. Therefore, we encourage you to answer the questions in the qualitative questionnaire, as well.
12. If undertakings are unable to complete the whole survey, a partial submission should then be considered as we would appreciate receiving as much good quality information as possible. As with QIS2, guidance on any areas of difficulty can be provided by national supervisors during the execution of QIS3. To this end, a list of contact persons at the national supervisory authorities is being put on CEIOPS' website.
13. It is intended that national supervisors will invite individual undertakings supervised in their country to participate in QIS3, and to complete the spreadsheet and questionnaire for those undertakings. In addition, national supervisors will invite those insurance groups for which they are

responsible for the supervision, to complete the spreadsheet and questionnaire for groups.

14. The technical specifications are divided into three documents. The first document (Part I) contains the technical instructions which allow the companies to complete QIS3 on a relatively straightforward basis, without having regard to additional technical background information. The latter is being compiled in the second part of the specifications (Part II), which contains background information for specific elements and types of business. For ease of reference, both parts are structured in a similar way. The third document contains the annexes (A - D) with special emphasis on alternative approaches.
15. The QIS3 package further includes a spreadsheet, accompanied by instructions and guidance for its completion, along with a set of term structures for the interest rates to be assumed for discounting cashflows, plus a qualitative questionnaire. The package also contains a document dealing with the calibration of specific risk modules, describing the rationale and assumptions underlying the calibration. The spreadsheet and instructions are currently being tested and finalised, and these documents will be made available to all participants on Thursday, 5<sup>th</sup> April.
16. We hope that undertakings will be able to complete the spreadsheets with their most recent available data. Our preference therefore would be for 2006 data to be utilised, but if this will not be available in time for QIS3, we would request undertakings to utilise their 2005 data.
17. This QIS does not prejudge the outcome of the discussions that are taking place about possible Solvency II rules. Therefore, the specifications should not be viewed as the final standards for the solvency framework. However, both the results and the additional data obtained from QIS3 will be invaluable in assisting CEIOPS to develop their advice on an appropriate framework for the Solvency II rules, and in particular the calibration of the MCR and SCR. It is feasible that after this study, further QIS studies will then take place to evaluate the effect of a revision to some of the parameters.
18. Confidentiality is of utmost importance when conducting any QIS. In the QIS3 this will be achieved, in a similar way to QIS2, by aggregating all the information from individual replies at national level by national supervisors.
19. CEIOPS would be grateful if participants are able to complete the spreadsheet and questionnaire, and return these by 29<sup>th</sup> June 2007 to their supervisor. This tight schedule is needed in order to provide necessary input for the discussions that will start to take place on the draft Solvency II Directive when it is published by the Commission in July, and in particular to provide further information relevant to the impact assessment for this Directive.

20. CEIOPS strongly encourages all EU insurance and reinsurance undertakings to give their contribution to this exercise, which represents a major step in the development of the new solvency regime.