CEIOPS-FS-18/07

QIS3
Qualitative Questionnaire

PART I: SOLO QUESTIONS

Questions printed bold and marked with a dark coloured bar on the side should be answered by all participants.
Questions marked with a light coloured bar on the side should be answered if data availability and time constraints allow participants to do so.
In the case of dashed bars, only those participants are expected to answer for whom this question is relevant. Others may omit this part and proceed to the subsequent question of this questionnaire.

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Q.S.1 **Which were the <u>major practical difficulties encountered during QIS3?</u> Do you have any suggestions about how to solve these problems?**

Q.S.2 **(a) Can you provide an estimate of the additional resources (in person months) that are likely to be required**

- **to develop appropriate systems and controls, and**
- **to carry out a valuation each year of the provisions, the MCR, and the SCR in accordance with the methodology proposed here?**

(b) What level of resource (in person months) was required to complete QIS3?

Q.S.3 **(a) Please provide some assessment of the reliability and accuracy of the data that you have input for the SCR and the MCR.**

(b) Please provide some assessment of the reliability and accuracy of your results for

- **the value of assets, and**
- **the technical provisions.**

(c) How do you think you would be able to demonstrate the <u>validity</u> of the numbers that you have produced for the amount of the provisions shown in the spreadsheet?

Q.S.4 **Please set out any views you may have about the suitability and appropriateness of the methodology set out in this specification, about the comprehensibility of definitions, about the incentives for effective risk management, the granularity of calculations, and about any simplifications that might sensibly be introduced to increase the practicability of the calculations, for**

- **the assessment of provisions,**
- **the valuation of assets,**
- **the calculation of the MCR,**
- **the calculation of the SCR, and**
- **the assessment of the amount of eligible elements of capital.**

Q.S.5 For the future Solvency framework, please state on a scale of 1 to 5 (1 for less and 5 for more) whether you deem appropriate more or less prescriptive rules, guidance for calculation, or simplifications to the methodology proposed in the QIS3 technical specification. For doing this, please refer to table I.A.3 of the spreadsheet.

SCR and MCR standard formula

Methodology and calibration

Q.S.6 **Please set out any views you may have on how the parameters for the SCR and MCR have been calibrated for**

- **market risk**
- **counterparty default risk**
- **life underwriting risk**
- **health underwriting risk**
- **non-life underwriting risk**
- **operational risk**

and provide a rationale for any alternative calibration that you may prefer.

Q.S.7 On a scale of 1 to 5 (1 poor and 5 good), please rate the methodological suitability and the suggested calibration (against the criteria set out in paras. II.3.1 to II.3.3 of the Technical Specifications), together with the practicability, of the proposed approach for the calculation of each component of the SCR and the MCR respectively. Please refer to table I.A.3 of the spreadsheet.

Q.S.8 Please describe any difficulties found when calculating the loss-absorbency capacity of future profits provisions and, if any, alternative proposals to enhance the calculation and reliability of this point.

Diversification effects

Q.S.9 **Please provide any comments you may have on the suitability of the correlation factors and aggregation methods that are set out within Section 3 of the Technical Specifications, for the assessment of the SCR and MCR.**

Fund structure - life insurance

Q.S.10 Undertakings should provide feedback on the reasonableness of applying the approach with respect to fund structure in life insurance (as described in II.3.27 and II.3.28 in the Technical Specifications), given their particular circumstances.

Revision risk

Q.S.11 **The design and calibration of revision risk (cf. paras. I.3.170 to I.3.174 of the Technical Specifications) are at an early stage and should be regarded as indicative. The objective is to gather market information on the appropriateness of the inclusion of the revision risk for the various markets and lines of business, including the relative size of the initial tentative calibration. Participants are therefore invited to comment on these issues.**

NL_{cat} CAT risk supplementary information

Q.S.12 (a) Please specify any additional 1 in 200 year company-specific scenarios that you believe are relevant to your portfolio of business, and indicate their approximate cost. Please also comment on the appropriateness of the specified scenarios and any difficulties you had estimating their effect.

(b) Participants should describe which man-made scenario they chose. In case this is an individual scenario, the participant should indicate how this was derived.

SCR Internal models

Q.S.13 **(a) If you have applied an internal model for the calculation of a figure for any of the above elements of the SCR, then please describe the methodology underlying this model, and whether it is consistent with the criteria of the standard formula:**

- **the unacceptable level of capital (definition of ruin) being where assets no longer exceed technical provisions (including any risk margin) and other liabilities**
- **a target probability of survival of 99.5%**
- **a time horizon of one year**
- **VaR as the risk measure**
- **assets and liabilities (including technical provisions) valued in accordance with Section 1 of the Technical Specification**

(b) Please describe the risks that were covered by your internal model.

(c) Participants are encouraged to comment on reasons for material differences between their internal model estimates and the results of the standard formula modelling treatments, especially where they suspect the latter fail to reflect the true drivers of risk. (For those undertakings that participated in QIS2,

there is no need to repeat information already provided for QIS2, but please indicate if any change to the model has been applied for QIS3.) **Note: There is no need to answer when group model is applied and the model is described in the group questionnaire which is submitted to the national supervisor.**

Recognition of risk mitigation instruments

Q.S.14 **A tentative set of principles on financial risk mitigating tools is laid out in Annex B of the Technical Specification which may be used to define minimum requirements on the allowance of such tools with respect to a standard formula calculation of the SCR. These principles are inspired by requirements in the banking sector on the credit quality of the provider of the risk mitigation instrument, and some CEIOPS members believe that they may usefully complement the advice on risk mitigation instruments that CEIOPS has given in its answer to CfA12.**

CEIOPS has not yet reached a final position on this issue, and participants are invited to comment on the appropriateness of these principles in the context of a standard formula calculation of the SCR.

Q.S.15 **In cases where risk mitigation instruments were applied for the calculation of the QIS3 standard formula SCR which do not fulfil the principles included in the annex, and where such mitigating instruments have a significant impact on the SCR, please indicate which of the principles were violated, and give an estimation of the impact of the instruments out of the scope of the annex on the SCR estimate.**

Q.S.16 **CEIOPS welcomes comments from external stakeholders on liquidity requirements, if any, that may be sensible to impose, especially regarding financial risk mitigation instruments with a long term (cf. para. B.10 in Annex B of the Technical Specification).**

Valuation of assets

Q.S.17 If a market price is observable but is not reliable due for instance to illiquidity, reasonable proxies for valuation should be used, taking into account the degree of unreliability and illiquidity of the asset in an adequate manner. Please provide a description of the proxies used for the different categories of assets.

Q.S.18 The following questions and supplementary comments relate to the section “Mkt_{int} interest rate risk” (para I.3.32 to I.3.38) of the Technical

Specifications. Securitisation techniques exist whereby assets can be decomposed into:

- a tranche of highly rated bonds,
- a mezzanine tranche of lower rated bonds, and
- an equity tranche, carrying residual risks.

These techniques provide an alternative way of viewing many long-dated infrastructure and property assets, by assessing the effect of a virtual securitisation. Such assets could then be viewed as a combination of bonds and equities and treated as such for the purpose of the SCR. Firms are invited to estimate the effect of this alternative view on their SCR, but restrict this estimation to cases where the value of the highly rated bonds would be more than 50 per cent of the value of the corresponding asset. Please describe:

- the techniques used for the decomposition of such assets,
- the constraints and controls (if any) you consider should be placed on this option, if it is introduced, and
- the value and nature of the assets, to which you have applied the option for the purpose of estimating its effect.

Valuation of technical provisions

Best estimate

Q.S.19 **Participants are encouraged to perform the valuation of technical provisions (including best estimate and risk margin) on the basis of homogeneous groups of risks (which may be more granular than the segmentation provided in the technical specifications), following actuarial best practice. Results should, however, be disclosed on the basis of the above segmentation.**

(a) Please describe on what basis the groupings were made.

(b) Please describe which actuarial method was used to determine the best estimate and whether various actuarial methods were used. In relation to non-life insurance liabilities, please specify whether you use run–off triangles, and if so describe these. When relevant please also state the name of the actuarial method applied. <u>Note: There is no need to repeat the information if already provided for QIS2. Nevertheless, highlight potential differences or adjustments.</u>

(c) In relation to non-life insurance, please also describe to which claims you applied a case by case approach and why. When

relevant, please provide details of the method (e.g. whether and if so, how case–by–case estimations are supplemented by actuarial methods). <u>Note: There is no need to repeat the information if already provided for QIS2. Nevertheless, highlight potential differences or adjustments.</u>

(d) As additional information participants are asked to disclose their assumptions on management actions and the objectivity, appropriateness and verifiability of the assumptions.

Q.S.20 <u>To be answered by small insurance undertakings and undertakings for which certain risks or lines of business are not material:</u> Do you consider the simplified estimation of liabilities outlined in Annex A of the Technical Specifications as a good means to reduce the burden for insurance undertakings? Are there other areas where simplified approaches may be a meaningful alternative?

Cost-of-Capital margin

Q.S.21 **Participants may use what technique they find appropriate to assess the CoC margin for individual LoBs / homogeneous risk groups (HGR). Please describe your technique (including, if relevant, your choice for allocating assets), and explain whether/why you found it more appropriate than those suggested by CEIOPS.**

Projection of future SCRs

Q.S.22 **Insurers are invited to provide comments on the projection of future SCRs for the CoC margin, and in particular on the duration over which credit and market risks should be taken into account.**

Aggregation of CoC margin per LoB

Q.S.23 In case the potential value of diversification benefits arising from the grouping of technical provisions calculated per reporting segment are disclosed (as set in para. I.1.73 of the Technical Specification for Life and para. I.1.110 for Non-life), please give details on the aggregation methodology and assumptions considered.

Alternative risk margin

Q.S.24 Alternative approaches to the CoC methodology can be developed on long tail non-life business (e.g. a percentile approach for premium and incurred but not reported reserve risks; cf. para. I.1.40 of the Technical Specification). Care should be taken to ensure that other methodologies are consistent with the framework and allow for the objectives that the risk margin is intended to achieve (i.e. transfer or run-off). Please describe these alternative approaches, their scope of application and the level of the risk margin they generate in comparison to the CoC approach.

Capital

Q.S.25 **If differing from the default methods described, please state the accounting standard or valuation basis used; providing, for each asset and liability item for which a different valuation basis is used, the impact on eligible capital. Where market consistent valuation is not applied to certain assets or liabilities, provide the amount of any material losses of the current year which would have been recognised under market consistent valuation and which has been deducted from tier 1 capital.**

Q.S.26 **Please reveal the valuation basis used for each <u>contingent capital</u> item.**

Q.S.27 **For subordinated liabilities and contingent capital which are not specified in the spreadsheets, please provide, separately for tier 1 capital, tier 2 capital and tier 3 capital, totals for (1) groups of subordinated liabilities with similar qualitative characteristics and (2) groups of contingent capital with similar qualitative characteristics; stating those characteristics.**

Q.S.28 **Please provide, separately, for each <u>contingent capital</u> item included in tier 2 capital under other contingent capital, and for each contingent capital item included in tier 3 capital, a description of:**

- **The quality of the counterparties concerned, in relation to their ability and willingness to pay;**
- **The recoverability of the funds, taking account of the legal form of the item, as well as any conditions which would prevent the item from being successfully called up;**
- **Information on the outcome of past calls, which have been made;**
- **Any other relevant information.**

Q.S.29 **Please provide, for each asset and liability item, any significant difference in valuation under Solvency I and Solvency II.**

Management of operational risk

Q.S.30 Please refer to table I.A.3 of the spreadsheet.

Treatment of composite insurance companies

Q.S.31 Participants are invited to set out their views on

- a capital requirement calculation method as if composites were a group of separate life and non-life companies (cf. II.3.19).
- other adequate methods to treat composites in an equivalent manner to two solo entities writing life and non-life business respectively.
- how to deal with composites when developing internal models.