

CEIOPS

Committee of European  
Insurance and Occupational  
Pensions Supervisors

## Summary of QIS4 results

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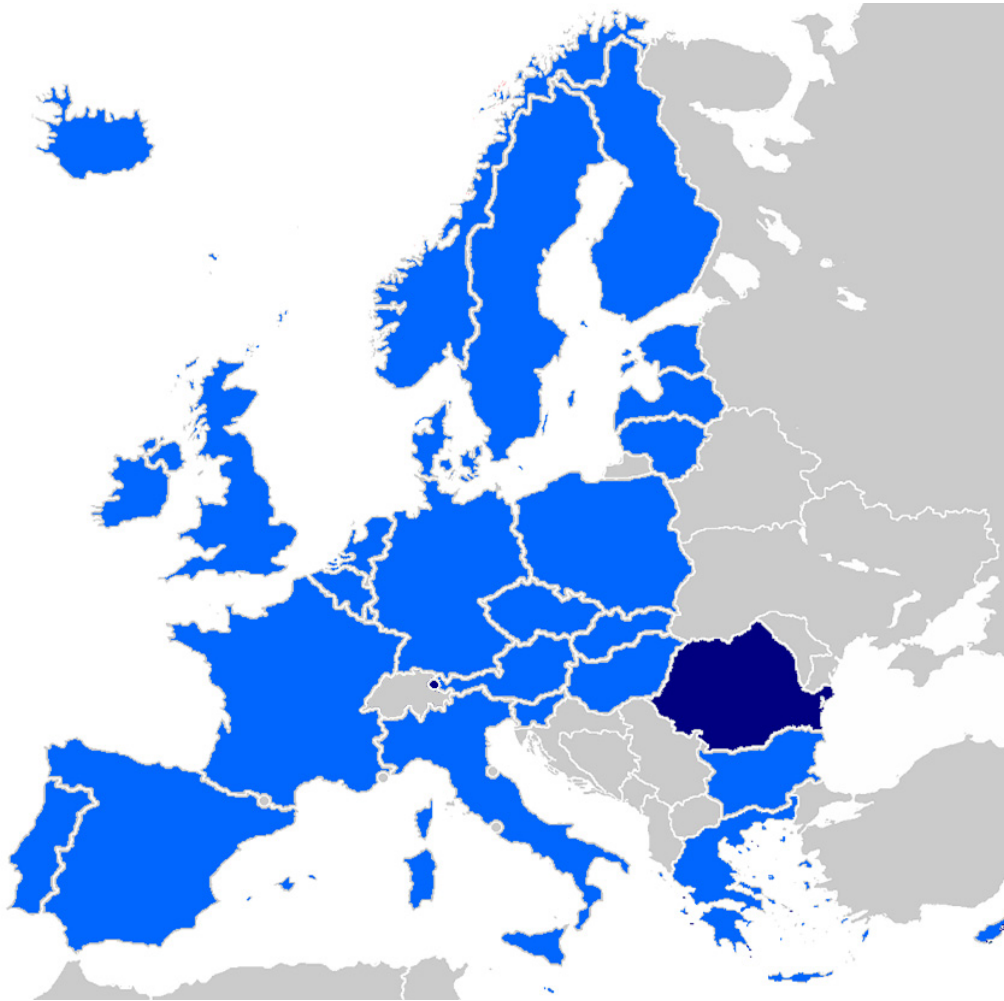
# Introduction: process

- QIS4 process:
  - QIS3 results published November 2007, Consultation on QIS4 technical specifications launched December 2007
  - EC consulted with stakeholders
  - Political guidance from the EC
  - Exercise from April till end July, country reports for 1 September
- 22 September 2008: preliminary results on key issues to ECON
  - Participations, functioning of the MCR, use of simplifications, equity risk, internal models, diversification effects and group excess capital
- Publication of the report on 19 November, the day of the CEIOPS Annual Conference

# Preliminary messages

- Level 2 measures
- Close cooperation between EEA supervisors, the European Commission, industry, trade associations and stakeholders
- Reliability of the collected data:

# Impressive participation !

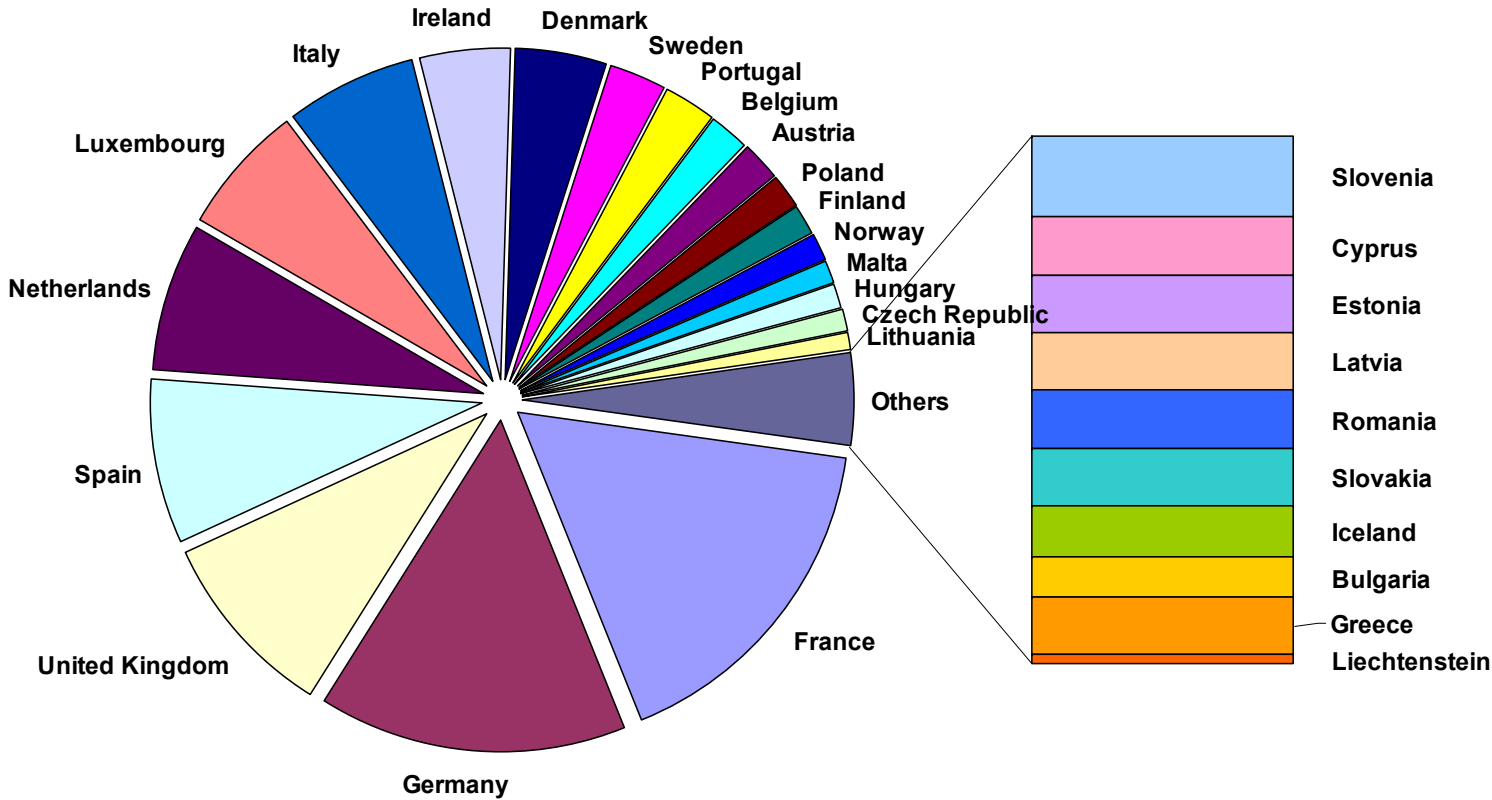


All 30 EEA  
Member Countries

New in sample:

- Romania
- Liechtenstein

# Solo Participants



# Participation rate

- 1,412 solo companies (1,027 in QIS3)
- 111 Groups (from 16 EEA home member states) (51 in QIS3)

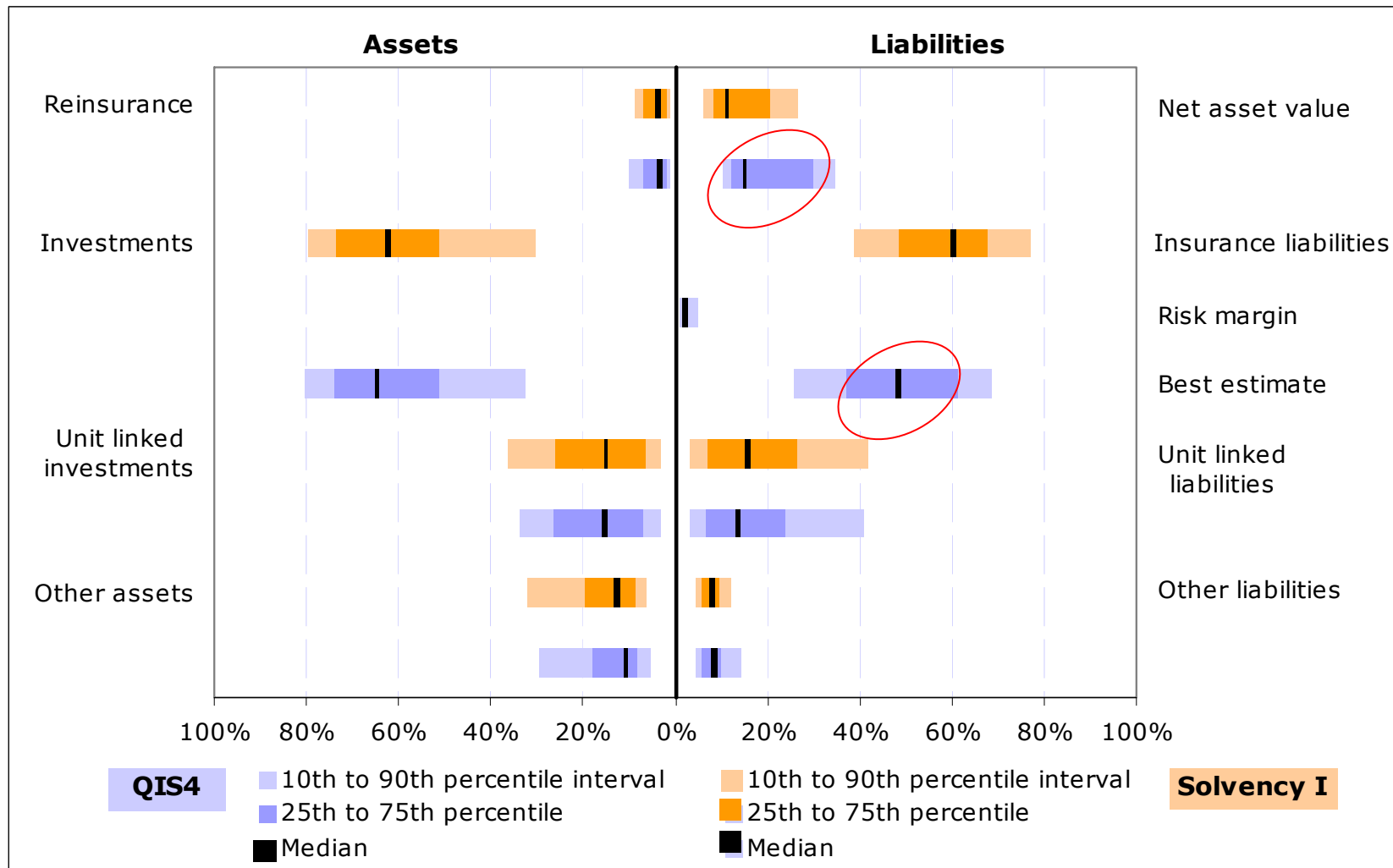
	EC Target:	Result:
EEA solo firms:	25%	34%
Cross-border groups:	60%	65%

# Participation growth compared to QIS3

	QIS3	QIS4	% growth
Large	187	220	18%
Medium	418	522	25%
Small	422	666	58%
Total	1027	1411*	37%

\* 3 participants were not attributed to a size class

# Overall financial impact: no major impact on total balance sheet composition



## Overall financial impact: stable capital surplus

- Insurance industry well capitalised
  - QIS4 scenarios !
  - Data end 2007 !
- No additional capital needed for the EEA insurance industry as a whole
- Almost 11 % of participants would not meet the SCR
- Vast majority meets the MCR under QIS4

## Some key issues in QIS4

## Use of simplifications and proxies

- Simplifications: Proportionality principle put in practice!
  - Well received, not commonly needed.
  - Favourite simplifications: for calculation of risk margin or interest rate risk module.
  - Allows to overcome lack of resource or time (QIS4), achieve a balance between complexity of calculation and materiality of the risk, palliate lack of granular information (SII).
- Proxies: Usefulness for calculation of the best estimate, particularly for smaller companies.
  - Market based proxies for lack of data.

**Further details on application criteria  
in Level 2 measures.**

## MCR: combined approach

- = Linear approach with 20 % floor and 50 % cap calculated on basis of SCR
- Acceptable compromise for the majority of supervisors
- Better received by industry than the approach tested in QIS3

**Workable proposal**

## Equity risk – duration dampener

- Duration dampener:
  - Tested by 25 % of participants
  - Ratio SCReq with dampener/SCReq without dampener: 91%
  - Two aspects: Cyclical aspect + duration of liabilities aspect
- Majority of industry and supervisors **reject** the **duration** aspect: not compatible with the SII 99.5 VaR calibration over 1 year horizon.

**Issue in political negotiations**

## Equity risk: other issues

- **Treatment of participations - Industry proposal for differentiated approach (half equity shock):**
  - Ratio SCReq differentiated approach/SCReq across the board: 90%
  - Some impact at EU-wide level; impact can be significant depending on undertaking's ownership structure
  - Further work will be dedicated to treatment of participations
- **Average internal model equity stress:** around 40% (10% participation rate)
- **Alternative correlation with interest rate risk:**
  - Marginal impact on the SCR level after aggregation

## Standard formula or internal model?

- Half of QIS4 participants commented on **future use of internal models**:
  - Majority plans to use a (partial) internal model
  - Size of company relevant: small companies – partial IM; large companies – full internal models
  - Comparison with SF: majority of respondents expects that the use of an IM would result in decrease of SCR
- Quantitative input on current IM results: lower SCR on average
- Incentive for use of internal models?

Development of technical standards and Level 2 measures for approval process

# Group Solvency - Impact of QIS4 on overall financial position

- Data quality has improved compared to QIS3
  - Complexity of group calculation raises more questions about data reliability than at solo
- General trend: slight increase of group excess own funds
  - Large variation

# Group Solvency – Diversification effects and capital transferability

- Standard formula: Estimated group diversification benefits: 21 % on average
- Internal model results: on average a lower SCR compared to standard formula
- Transferability:
  - Issues on the availability of assets, e.g. from third countries and with profit entities

**Diversification benefits reported – considerable differences; transferability issues remain**

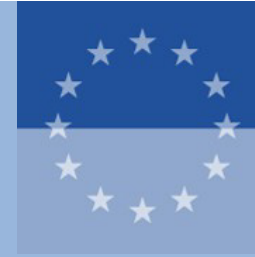
# General conclusion

- **Successful exercise:** strong commitment from supervisors and industry to the Solvency II project
- **Sound architecture:** Support of the underlying principles (e.g. calculation of best estimate, SCR modular structure, proportionality)

## Areas for further work at Level 2: examples

- Reporting and disclosure
- Valuation
- TP guidance on calculation of BE and risk margin
- Deferred taxes
- Further work on specific SCR modules
- List of own funds
- Depending on Level 1 decision: MCR, Group support

**CEIOPS work programme is fully packed!**  
**EIOPC today: discussion of the timeline of Level 2 implementing measures**



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Questions?