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## **CONSULTATIVE DOCUMENT**

### **DRAFT CALL FOR ADVICE FROM CEIOPS**

#### **(FOURTH QUANTITATIVE IMPACT STUDY)**

#### **Purpose of this document**

This document contains a Call for Advice from the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). The Call for Advice requests CEIOPS to run a fourth Quantitative Impact Study between April and July 2008 and to publish a report on the results of that exercise in November 2008 in the frame of the development of potential future level 2 implementing measures for the Solvency II Directive Proposal.

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## **CALL FOR ADVICE FROM CEIOPS: QIS4**

### **1. FOURTH QUANTITATIVE IMPACT STUDY**

- CfA.1 This Call for Advice requests CEIOPS to run a fourth Quantitative Impact Study (QIS4) between April and July 2008 and to publish a report on the results of that exercise in November 2008 in the frame of the development of potential future level 2 implementing measures for the Solvency II Directive Proposal.
- CfA.2 QIS4 should be conducted in accordance with the technical specifications laid down in the annexes of this Call for Advice and in a manner that ensures that the objectives for QIS4 which are set out in this Call for Advice are met (See Section 1.1).
- CfA.3 To meet the objectives of QIS4, it is important that the areas of particular relevance identified in this Call for Advice (See Section 1.2) are dealt with comprehensively. In order to cover these areas properly it is important that participation in QIS4 is high (See Section 1.3) and that submissions are of a high quality (See Section 1.4).
- CfA.4 To meet the objectives of QIS4, it is also important that the report produced by CEIOPS on the results of QIS4 makes maximum use of the data gathered and enables all stakeholders to understand both the overall impact of potential future level 2 implementing measures as well as the impact on specific solvency balance sheet items, geographical regions and lines of business (See Section 1.5).
- CfA.5 The timetable for the QIS4 exercise is challenging (See Section 1.6) and we recognise that CEIOPS will have to work with and will need the full support and collaboration of other stakeholders in order to ensure that the QIS4 exercise is successfully executed.
- CfA.6 During the QIS4 exercise, CEIOPS will keep the Commission Services informed, in particular of any problems encountered as well as any questions coming up during the QIS4 exercise which require political guidance.

#### **1.1. Objectives for QIS4**

- CfA.7 The QIS4 exercise has the following **objectives**:
- To provide all stakeholders with detailed information on the quantitative impact on insurers and reinsurers' solvency balance sheets of the introduction of potential future level 2 implementing measures under Solvency II compared to the situation under Solvency I;
  - To check that the technical specifications laid down in the Annexes to this Call for Advice are aligned with the principles and calibration targets set out in the level 1 Framework Directive Proposal;

- To collect quantitative and qualitative data to support the analysis of different policy options that will be assessed as part of the Impact Assessment of potential future level 2 measures;
- To encourage insurers, reinsurers and supervisors to start preparing for the introduction of Solvency II and to identify areas where their internal processes, procedures and infra-structure may need to be enhanced; and in particular, to encourage insurers and reinsurers to improve their data collection processes.

## 1.2. Areas of particular relevance for QIS4

CfA.8 When running and compiling the results of QIS4, particular attention should be paid to the following areas:

- The suitability and practicality of the technical specifications laid down in the annexes to this Call for Advice, in particular with respect to the **simplified methods** proposed for the calculation of technical provisions and the SCR, as well as the use of **entity-specific parameters**;
- The quantitative impact on insurance and reinsurance **groups'** solvency balance sheets of the technical specifications laid down in the Annexes to this Call for Advice, taking into account the interaction between solo and group capital requirements (i.e. diversification effects plus intra-group transactions and participations) and the eligibility and transferability of own funds;
- The comparability of results produced by the SCR Standard Formula and those derived from insurers and reinsurers' **full and partial internal models**, as well as the current state of preparedness of those insurers and reinsurers which would like to use a full or partial internal model following the introduction of Solvency II;
- The design and calibration of the **MCR** formula.

## 1.3. Participation

CfA.9 In order to ensure that comprehensive information is received regarding the suitability and practicality of the technical specifications laid down in the annexes to this Call for Advice, the Commission Services believe that it is important that **small and medium sized insurers and reinsurers** take part in significant numbers in the QIS4 exercise.

CfA.10 Concretely, the Commission Services would like at least **25% of the total number of European insurance and reinsurance undertakings** to participate in the QIS4 exercise.

CfA.11 In addition, in order to ensure that comprehensive information on the quantitative impact on insurance and reinsurance groups' solvency balance sheets can be gathered, the Commission Services would like **at least 60% of European insurance groups** to fully participate in the QIS4 exercise.

#### **1.4. Submissions**

CfA.12 As with previous QIS exercises and in order to maximise participation, insurers and reinsurers should be invited to take part in the QIS4 exercise on a best efforts basis. However, where alternative approaches are provided for in the QIS4 exercise, insurers and reinsurers are strongly encouraged to provide data **on each alternative** in the technical specifications laid down in the annexes to this Call for Advice, in order to enable a comparative quantitative analysis of the different approaches to be conducted.

CfA.13 In particular, insurers and reinsurers should be encouraged to provide feedback on the relative impact of the various **simplified calculations** for technical provisions and the SCR standard formula laid down in the annexes in this Call for Advice, as well as the different methods proposed for **groups**. In addition, insurers and reinsurers providing quantitative results derived using their **internal model** should also provide results calculated using the SCR Standard Formula.

CfA.14 Insurance and reinsurance groups should submit their results to the **CEIOPS centralised database**, as well as to national supervisory authorities, in order to enable an aggregate analysis of the impact on cross-border groups to be conducted. In order to provide a complete picture of the impact on insurance and reinsurance groups and make maximum use of the data gathered, CEIOPS members will need to **work closely together and exchange information**, especially with respect to the interaction between solo and group requirements as well as the eligibility and transferability of own funds.

#### **1.5. Timetable for the QIS4 exercise**

CfA.15 CEIOPS should run a fourth Quantitative Impact Study (QIS4) **between April and July 2008** and publish a report on the results of that exercise by end November 2008, as CEIOPS has successfully done for the past three QIS exercises.

CfA.16 In a similar way, as for the previous exercises, after building the QIS4 spreadsheets, CEIOPS should run a short pre-test with a small sample of insurers and reinsurers.

CfA.17 All insurers and reinsurers should send their submissions to national supervisors by 7 July 2008 and, in the case of insurance and reinsurance groups, results should be sent to the CEIOPS centralised database and their national supervisors by 31 July 2008.

CfA.18 As with the previous exercises, CEIOPS will organize the process of "questions and answers" (Q&A) during the QIS4 exercise in order to ensure consistent interpretation of the technical specifications laid down in the annex to this Call for Advice across Member States. However CEIOPS should refer questions of a political nature coming up during the QIS4 exercise directly to the Commission.

## 1.6. QIS4 Report

CfA.19 The QIS4 final public report should make optimal use of the information and data submitted by participant companies as the QIS exercises are a unique opportunity to gather detailed information of high quality. By performing an in-depth analysis of the QIS4 results and by sharing the results with all stakeholders, CEIOPS will make a major contribution to the Solvency II project as a whole.

CfA.20 The QIS4 final report should comprise an executive summary, a main report, and attachments. In particular, attachments should include **tables** with the detailed quantitative results.

CfA.21 The executive summary should set out the key issues in a structured manner, and technical language and abbreviations should be avoided.

CfA.22 The main report should take the reader through the **different steps** followed when completing the QIS4 exercise in order to assess an individual company's solvency, i.e.: valuation of assets and liabilities, technical provisions, capital requirements (SCR standard formula, internal models, and MCR), own funds, and capital surplus.

CfA.23 The main report should also look at any issues of particular relevance (e.g. the proportionality principle, questionnaire on Operational Risk).

CfA.24 The main report should also include a section on **group solvency**, highlighting the interaction between solo and group capital requirements (i.e. level of diversification effects, plus intra-group transactions and participations) as well as issues concerning the transferability of own funds.

CfA.25 For each of the areas mentioned above (see § 23), the report should analyse QIS4 results both from a **quantitative** and from a **qualitative** point of view (i.e. adequacy of the proposed design and calibration, practicability of the various solutions, and quantitative impact of these alternatives).

CfA.26 Whenever possible and for each area, quantitative results should be split by:

- type of business (life, non-life and reinsurance);
- country, or relevant group of countries (in particular where results need to be aggregated across Member States in order to maintain an appropriate level of confidentiality);

- company or group dimension (small, medium, or large).

CfA.27 In addition to the analysis provided for each area, the main report should assess the **overall quantitative impact of Solvency II** on the insurance industry. In particular, the report should describe the overall impact of QIS4 specifications on the main items of the solvency balance sheet of insurance companies, i.e. comparing the Solvency II and Solvency I balance sheets.

CfA.28 For that purpose, the main report should address the following questions:

- Which items on insurers' solvency balance sheets are the most impacted?
- What is the relationship between the new Solvency II explicit requirements (technical provisions and capital requirements) and the previous Solvency I explicit and implicit requirements (technical provisions, required solvency margin, plus prudent valuation principles for assets and liabilities).
- What is the overall impact on available capital?
- What is the effective impact on capital surplus and on the solvency ratio?
- Will insurers need to raise additional capital? Or will they be able to release idle capital?
- What is the impact on insurance groups?

## **2. ANNEXES: QIS4 TECHNICAL SPECIFICATIONS PACKAGE**

- Technical specifications, main text
- Qualitative questionnaire on Operational Risk