



Brussels, 15 April 2010

COVER NOTE TO ACCOMPANY THE DRAFT QIS5 TECHNICAL SPECIFICATIONS

1. Introduction

The Commission Services have today published for **consultation draft technical specifications** for the fifth Quantitative Impact Study (QIS5) exercise that will be run from August to November this year.

The draft QIS5 technical specifications were produced by the Committee of Insurance and Occupational Pensions Supervisors (CEIOPS) based on their final technical advice on Solvency II level 2 implementing measures. These technical specifications were forwarded to the Commission Services at the end of March 2010.

A number of modifications to the technical specifications produced by CEIOPS have been made, a full list of which is included in Annex 1. These changes have taken into account discussions with technical experts from Member States in the Solvency Expert Group (SEG)¹ and discussions with other key stakeholders on the Solvency II level 2 implementing measures that have taken place so far.

The argument has been made that the final advice from CEIOPS, if adopted unchanged, would result in a significant increase in capital requirements as compared to the last quantitative impact study that was undertaken (QIS4). These concerns have been taken into account when modifying the technical specifications. Specifically, as indicated in the list of major modifications below, a number of changes have been made to the relevant risk free rate for calculating technical provisions, the eligibility of own funds and the calibration of the standard formula Solvency Capital Requirement (SCR).

While a significant number of changes have been made to the document produced by CEIOPS, it is important to highlight that it is has not been possible, given the length of the document and the time available, to fully align the draft technical specifications with the position that the Commission Services have proposed so far in its draft papers on level 2 implementing measures or that it intends to take in relation to implementing measures that have yet to be discussed with experts in the SEG. As a result, changes to what are expected to be some of the most significant issues at level 2 have been prioritised.

Further changes to the technical specifications will be made during and after the consultation process before the final version of the technical specifications is published and the QIS5 exercise is launched.

¹ The SEG is a sub-committee of the European Insurance and Occupational Pensions Committee (EIOPC)

It is important to stress that the draft QIS5 technical specifications being published do not purport to represent or pre-judge the formal proposals of the European Commission.

2. Main modifications to the draft QIS5 technical specifications produced by CEIOPS

Listed below are the most significant modifications that the Commission Services have made to the draft QIS5 technical specifications produced by CEIOPS. The rationale for these changes, together with the other changes have been made are set out in Annex 1.

Changes to the technical specifications on technical provisions

1. Allowance for diversification between lines of business in the calculation of the risk margin

Changes to technical specifications on the standard formula SCR

2. Calibration of the operational risk charge reduced (see Annex 2)
3. Correlation between concentration risk sub-module and other market risk sub-modules reduced from 0.5 to 0
4. Correlation between currency sub-module and other market risk sub-modules reduced from 0.5 to 0.25 (except correlation between currency risk sub-module and concentration risk-sub module reduced to 0)
5. Shock on equity levels reduced from 45% to 39% for global equities and from 55% to 49% for other equities
6. Increase of the time period for the symmetric adjustment to equity risk to three years
7. Volatility shock for equity reduced
8. Approach to participations incorporated into the SCR section to introduce a reduced level equity shock of 22% for strategic participations, other than those held in financial and credit institutions
9. Calibration of non-life and NSLT² health premium and reserve risk reduced (see Annex 2)
10. Explicit allowance of geographical diversification
11. Increased allowance of non-proportional reinsurance
12. Calibration of the intangibles asset risk module reduced from 100% to 80%

² NSLT refers to health insurance obligations pursued on a similar technical basis to that of non-life.

13. Increase of the credibility factors for external data used to calculate undertaking-specific parameters
14. Application of the captive simplifications widened and allowance for risk-mitigating effect of aggregate limits in the non-life catastrophe module

Changes to technical specifications on own funds

15. Treatment of the winding-up gap as Tier 3 own funds deleted, amount included in Tier 1
16. Treatment of profits included in future premiums as Tier 3 own funds deleted, amount included in Tier 1
17. Approach to participations amended so that own funds are only reduced by the value of participations held in financial and credit institutions
18. Inclusion of deferred tax assets that can be used or legally transferred within the next 12 months in Tier 1
19. Inclusion of recognised intangible assets in Tier 1

Changes to technical specifications on Groups

20. Calculation of the group risk margin amended to take into account group diversification

3. Risk-free rates

A task force on risk-free rates was set up in December 2009 to develop technical solutions on a number of issues relating to the discount rate for technical provisions, including the illiquidity premium. The task force delivered solutions in relation to these issues at the beginning of March 2010 and these solutions have been incorporated into the draft QIS5 technical specifications. The task force also identified several outstanding issues (for example the adjustment to be used to remove credit risk from the swap rate curve), which industry representatives from the task force were asked to provide additional input on. This additional input has been taken into account in the draft QIS5 technical specifications.

In accordance with the conclusions of the task force, the insurance industry was also asked to derive the non-extrapolated basic risk-free rates and the illiquidity premium observed in the financial markets for QIS5. CEIOPS was asked to specify the extrapolation of the basic-risk free rates in line with the principles developed by the task force. Both deliverables are included in the QIS5 consultation package.

Compared to the final CEIOPS advice, the determination of the relevant risk-free rates has been improved in the following way:

- the relevant risk-free rates include an illiquidity premium (the level of the illiquidity premium depends on the features of the liabilities which are classified in 3 buckets)

- the basic risk-free rates are derived from swap rates with an adjustment for credit risk
- there are transitional provisions for the discounting of specific life insurance obligations

4. Health insurance

The modelling approach for NSLT health insurance included in the draft QIS5 technical specifications does not capture the risk profile of several significant health insurance products. A task force on health insurance has been initiated with the objective of improving the risk-sensitivity of the standard formula for NSLT health insurance. The conclusions of the task force will be taken into account in the finalisation of the QIS5 technical specifications.

5. Non-life and health catastrophe risk

CEIOPS has not yet provided final advice on Solvency II level 2 implementing measures in relation to the details of the non-life and health catastrophe sub-modules of the SCR standard formula. For this reason, the draft QIS5 technical specifications do not include a complete specification of these two sub-modules.

CEIOPS will continue working on catastrophe risk in close cooperation with external experts and will produce a complete specification in time for the finalisation of the QIS5 technical specifications. A separate consultation has been set up on the CEIOPS proposals on these sub-modules that have been published.

6. Future premiums

With regard to the recognition of future premiums in technical provisions the Commission has asked CEIOPS to deviate from its final advice when drafting the QIS5 technical specifications. CEIOPS' final advice envisaged an asymmetric treatment of future premium where the recognition of specific cash-flows depends on their profitability. The draft QIS5 technical specifications include a symmetric treatment of future premiums.

7. Calibration of the SCR

In its letter to CEIOPS dated 12 June 2009, the Commission Services asked for the draft QIS5 technical specifications to be accompanied by a comprehensive calibration paper. The calibration papers produced by CEIOPS, in support of the approach that it proposed in the draft QIS5 technical specifications, have been published alongside the draft QIS5 technical specifications. No amendments have been made to the CEIOPS calibration papers. Consequently, where the changes result in a different approach to that proposed by CEIOPS, the published calibration papers may not support the approach proposed.

However, based on the empirical evidence that has been published, which in some cases is limited, it would appear that the calibration of a 99.5% Value-at-Risk over a one-year period (the confidence level for the SCR required in Directive 2009/138/EC) may fall in some cases somewhere between the approach taken in QIS4 and that proposed by CEIOPS in its final advice. As such, for the purposes of the official consultation on the

draft QIS5 technical specifications a calibration falling somewhere between the two approaches for some of the risk factors has been proposed.

8. Results of QIS5

The results of QIS5 are expected to differ from those seen in QIS4 for two main reasons.

Firstly, the QIS4 exercise was run on 2007 data and therefore did not reflect the effects of the financial crisis. QIS5 will be run on year-end 2009 data. Changes in market values and insurer's balance sheets between 2007 and 2009 are likely to have a significant impact on the QIS5 results compared to those seen in QIS4. In this respect it should be highlighted that even QIS5 results are only indicative of the actual impact of Solvency II. Market values and balance sheets will continue to change and it is therefore impossible to test the precise impact of the new regime before the Solvency II Directive becomes applicable.

Secondly, the QIS5 results will differ from the QIS4 due to the different approach that has been taken. Although the Commission Services have reduced the calibration of the SCR from that proposed by CEIOPS, they have not been reduced to the level tested in QIS4.

However, as noted above the QIS5 technical specifications will continue to be revised throughout the consultation process.

Although the results of the QIS5 exercise will most likely not be available until after the European Commission has published its proposed level 2 implementing measures, it is important to recognise that **the purpose of QIS5 is to test the impact of the new regime**. Consequently, it will still be possible to make amendments to the level 2 implementing measures before the final level 2 implementing measures are adopted.

9. Consultation process

As the draft QIS5 technical specifications are based on CEIOPS' advice which has been thoroughly consulted upon³, the official consultation for QIS5 will be restricted and targeted at specific stakeholders as explained below.

The draft QIS5 technical specifications will be consulted with Member States, the European Parliament, selected stakeholders and CEIOPS.

The selected stakeholders officially being asked to provide comments are the seven representative European stakeholder groups: CEA, AMICE, CRO Forum, CFO Forum, ECIROA, FERMA and Groupe Consultatif. Details of the consultation process for these stakeholder groups can be found in Annex 3.

The consultation will last five weeks and end on **20 May 2010**. It may not be possible to take comments submitted after this deadline into account in the final QIS5 technical specifications.

The consultation process also includes the following:

- a stakeholder meeting on 30 April;

³ The consultation documents and the resolution of the stakeholder comments can be found on CEIOPS' website.

- the European Commission's public hearing on Solvency II on 4 May, which includes a panel on QIS5;
- a meeting of the SEG dedicated solely to QIS5 on 7 May.

After having received all the comments on the consultation package, the documents will be updated and a final discussion will take place with Member States at the EIOPC meeting on 30 June.

The Commission Services intends to issue the final Call for Advice including the QIS5 technical specifications on 1 July 2010. According to this Call for Advice, CEIOPS will run QIS5 between August and November 2010.

10. QIS5 consultation package

The QIS5 consultation package comprises the following documents:

1. Cover note
2. Draft Call for Advice
3. Draft QIS5 technical specifications
4. Relevant risk-free interest rate term structures for QIS5
5. CEIOPS risk-free rate extrapolation tool (2 Excel files and a user manual)
6. Parameters for non-life catastrophe risk
7. CEIOPS QIS5 Calibration paper
8. CEIOPS QIS5 Calibration paper for spread risk
9. CFO Forum/CRO Forum paper on risk-free rates
10. CEIOPS paper on extrapolation of risk-free rates

The present **cover note** explains the approach to the draft QIS5 technical specifications and the process of the QIS5 consultation.

The **draft Call for Advice** to CEIOPS covers:

- the objectives of QIS5;
- who is expected to participate;
- the timetable for the QIS5 exercise; and
- the analysis and information to be included in the final report on the results of QIS5.

The **draft QIS5 technical specifications** include the technical instructions which explain how insurance and reinsurance undertakings should complete the QIS5 exercise. The specifications are complemented with three excel files:

- the **relevant risk-free interest rate term structures** that should be used in QIS5 to discount technical provisions;
- an **extrapolation tool** that QIS5 participants can use to extrapolate risk-free rates for currencies where no term structure has been provided; and
- **parameters for non-life catastrophe risk** that are needed to carry out the calculations of the non-life catastrophe risk sub-module of the SCR standard formula.

The **CEIOPS QIS5 Calibration papers** explain the calibration of the SCR and the Minimum Capital Requirement (MCR) in the draft QIS5 technical specifications that were provided by CEIOPS.

The **CFO Forum/CRO Forum paper on risk-free rates** explains the derivation of the illiquidity premium observed in the financial markets and of the non-extrapolated basic risk-free rates. This document was provided by the CFO Forum and the CRO Forum.

The **CEIOPS paper on risk-free rates** sets out the extrapolation of the basic risk-free rates. This document was provided by the CEIOPS.

ANNEX 1

Section of draft QIS5 technical specifications	Change	Rationale
New paragraphs added at the beginnings of SECTION 1 and the sub-section on technical provisions	Valuation date for QIS5 included	Explicit specification of valuation date was missing

SECTION 1 - VALUATION

V.1 of V.1.1	Level II draft implementing measures taken into account in the TS deleted	Specification not needed
V.9 of V.1.2	Principle of no discrimination between undertakings that have grown in a different way deleted	Assumption not in line with Framework Directive
V.12 of V.1.2	Exclusion of the use of figures not providing for an economic value based on materiality	Assumption not in line with Framework Directive
V.16 of V.1.3	Need for independent value verification deleted	Not relevant for QIS5
V.17 of V.1.3	Justification for the use of IFRS deleted	Specification not needed as reference to IFRS is in the Framework Directive
V.19 of V.1.3	Use of accounting figures amended to clarify that they can be used only if they provide for an economic value	Specification was not clear
Goodwill on Acquisition on V.1.5	Possibility to use a different valuation method deleted	No alternative valuation for goodwill envisaged
Goodwill on Acquisition on V.1.5	Specification on the treatment of Insurance Contracts acquired in a business combination deleted	This is part of the valuation of technical provisions
Property, plant and equipment and Investment Property of V.1.5	Need for independent value verification deleted	Not relevant for QIS5
Participations in V.1.5	Reference to CEIOPS advice and EC proposal on L2	Not relevant for QIS5
Participations in V.1.5	Last bullet point incorporated in the previous one	Mark to model to be used only for related

		undertakings which are not subsidiaries
Participations in V.1.5	Reference to Articles on the valuation of technical provisions added	Explicit specification on valuation rules for insurance liabilities was missing
Inventories, Financial Lease, Non-Current Assets held for sale or discontinued operations, Current tax Assets, Cash and Cash equivalent, Provisions, Current tax liabilities in V.1.5	Generic reference to the economic valuation principle amended	Need for a specific valuation principle to be found in the relevant IAS/IFRS
Contingent liabilities in V.1.5	Definition of materiality amended	Policy decision
Contingent liabilities in V.1.5	Inclusion of the risk margin deleted	Specification not needed
2.1.2 of V.2.1.1, V.2.2.1, V.2.2.3, V.2.2.4, Annex A	Allowance for diversification between lines of business in the calculation of the risk margin	Policy decision
2.2.4.1 of V.2.1.2	Definition of the boundary of an insurance contract amended	Policy decision
2.2.4.4 of V.2.1.2	Assumptions on expenses amended	Assumptions (run-off view, entity-specific assumptions) not in line with transfer value stipulated in Framework Directive
2.2.4.9 of V.2.1.2	Assignment of annuities to non-life lines of business deleted	Not in line with risk-based approach of Solvency II
2.2.7.1 of V.2.1.2	Requirement of comprehensive plan for management actions deleted	Not relevant for QIS5
2.2.12.4 of V.2.1.2	Section on back-testing deleted	Not relevant for QIS5
2.3.1.1, 2.3.2 of V.2.1.2, SCR.5.7	Application of the illiquidity premium to risk-free rates amended: - recognition of 3 buckets - reference to illiquidity premium rather than liquidity premium	Policy decision
Footnote 12 of 1.332 of 2.3.1.2 of V.2.1.2	Specification that the unconditional ultimate forward rate is reached after 90 years.	Policy decision
1.336 of 2.3.1.2 of	Specification that the adjustment for credit risk for currencies not	Policy decision

V.2.1.2	already specified in QIS5 TS cannot be lower than the adjustment on the euro.	
1.337 of 2.3.1.2 of V.2.1.2	Explicit reference to CRO Forum/CFO Forum calibration paper on the risk free rate.	Internal consistency.
1.343 to 1.348 of V.2.1.4	Inclusion of transitional provisions. Impact to be measured through the calculation with and without transitional measures and answers to a qualitative questionnaire.	Policy decision.
V.2.1.4	Section on data quality standards deleted	Not relevant for QIS5
V.2.4.4	Section on thresholds for simplifications deleted	Not relevant for QIS5

SECTION 2 – SCR STANDARD FORMULA

1.2.1 of SCR.1.2, SCR.2.5	Aggregation of module for intangible asset risk changed	Addition to BSCR not in line with Framework Directive
SCR.3.1	Calibration of the charge factors for operational risk amended	Policy decision
SCR.4.2	Intangible asset risk calibration amended	Policy decision
5.2 of SCR.5.1	Look-through approach for participations deleted. Specification of the treatment of participations excluded from the scope of group supervision.	Policy decision
5.4 of SCR.5.2 and footnote 63 of SCR 5.8	Reference to CEIOPS advice replaced by internal reference	Internal consistency
5.15 of SCR.5.2	Correlations between sub-modules amended	Policy decision
SCR.5.3	Relative volatility shock for interest rates replaced by absolute shock	Policy decision
Footnote 57 of SCR.5.4	Reference to Commission guidance deleted	Specification not needed
5.46 of SCR.5.4	Equity level shocks amended	Policy decision
5.47 of SCR.5.4	Period of the equity dampener amended	Policy decision
5.49 of SCR.5.4	Treatment of participations amended	Policy decision
5.51 of SCR.5.4	Internal reference to approach on collective investment funds	Internal consistency
5.55 of SCR.5.4	No calculation of the equity volatility shock required if deemed immaterial	Consistency with interest rate volatility shock
5.56 of SCR.5.4	Specification that the equity volatility shock applies to implied volatilities.	Consistency with interest rate volatility shock
5.56 of SCR.5.4	Relative volatility shock for equity replaced by absolute shock.	Policy decision

5.60 and 5.61 of SCR.5.4	No additional calculation of average holding period of the equity assets in the duration-based approach.	Policy decision.
5.77 of SCR.5.6	Reference to reporting in Euros deleted	Confusion that reporting in Euros would be prescribed.
5.78 of SCR.5.6	Reference to CEIOPS advice deleted	Not relevant for QIS5.
5.108, 5.112 and 5.115 of SCR.5.7	Reference to illiquidity liabilities replaced by reference to liabilities to which an illiquidity premium is applied	Policy decision.
5.123 of SCR.5.7	Equity level shocks amended	Policy decision.
5.127 of SCR.5.7	Reference to competent authorities deleted	No implicit Member State options shall be allowed
5.160 of SCR.5.8	Reference to CEIOPS advice deleted	Internal consistency
5.167 of SCR.5	Reference to CEIOPS advice deleted	Internal consistency
5.167 to 5.171 of SCR.5	No distinction between intra-group and non intra-group SPV notes.	Policy decision
SCR.8.3	Announcement of health task force included	-
SCR.8.3, SCR.9.2	Addition for future premium risk to premium risk volume measure deleted	Risk of future premiums counted twice
SCR.8.3, SCR.9.2	Non-life and NSLT health premium and reserve risk calibration amended	Policy decision
SCR.8.3, SCR.9.2	Allowance for geographical diversification according to Lloyds proposal introduced	Policy decision
SCR.8.3, SCR.9.2	Allowance for non-proportional reinsurance changed according to AMICE proposal	Policy decision
SCR.8.6	Section on comprehensive pools deleted	No standardised method for standard deviation specified
SCR.9.4	Allowance for risk-mitigating effect of aggregate limits in the non-life CAT module introduced	Policy decision
SCR.10.6	Credibility factors for external data aligned with credibility factors for internal data	Policy decision
SCR.10.6	Allowance for model error deleted	No standardised method for standard deviation specified
SCR.14.4	Scope of captive simplifications	

SECTION 5 – OWN FUNDS

OF.1	Re-drafted to make clear that L1 requires a list of own-fund items	Specification was not clear.
OF.1	Introduction of reconciliation reserve to ensure total excess of assets over liabilities plus subordinated liabilities does not exceed the individual basic own fund items	Policy decision
OF 2.1	Deletion of reference to exclusion from Tier 1 of: <ul style="list-style-type: none"> - winding-up gap - profits included in future premiums - participations (other than those held in credit and financial institutions) - intangible assets - deferred tax assets that cannot be used or legally transferred within the next 12 months 	Policy decision
OF .5 of OF 2.2	i) Criteria (b): deletion of defer ii) Criteria (g): introduction of condition that the MCR is met for supervisory authorities to be able to waive suspension of redemption/ repayment iii) Criteria (i): introduction of supervisory authority power to waive cancellation of coupons/ dividends subject to certain conditions	i) Specification inconsistent as criteria (j) requires cancellation of coupons/ dividends ii) Policy decision iii) Criteria made consistent with approach in (g)
OF .6 of OF 2.2	Amendment of trigger to significant SCR breach Introduction of a definition of significant breach Clarification that future write-up is only possible once the undertaking complies with the SCR	Policy decision
OF 2.4	Removal of multiple approaches to the treatment of participations by: <ul style="list-style-type: none"> - deletion of the table categorising the different types of participations and subsidiaries - deletion of the reference to CEIOPS advice - updating of the table to clarify which approach should be followed in relation to the different types of participations 	Policy decision
OF 2.4	Clarification of when "Excluded from the scope of Group supervision" is relevant at solo level i.e. there are legal impediments	Insufficient guidance in the QIS5 TS as to when Part B of the table may apply

	to the transfer of necessary information. Clarification that for the purposes of QIS5 this may include those related undertakings currently included from the scope of supplementary supervision under the Insurance Groups Directive	
OF 2.5	Deletion of section on winding-up gap	Policy decision
OF 2.6	Deletion of the approach to calculating profits included in future premiums	Policy decision
OF 2.7	Deletion of "paid-in" before capital instrument in (b) and insertion in (ii)	Specification unclear as following paragraph refers to called up instruments
OF 2.8	i) Criteria (f): introduction of condition that the MCR is met for supervisory authorities to be able to waive suspension of redemption/ repayment ii) Criteria (g): introduction of supervisory authority power to waive deferral of coupons/ dividends subject to certain conditions	Adjustments to make the criteria consistent with approach taken to Tier 1.
OF 2.9	Deletion of reference to inclusion in Tier 3 of: - winding-up gap - profits included in future premiums - intangible assets Clarification that only deferred tax assets that cannot be used or legally transferred within the next 12 months are included in Tier 3 List expanded to include other capital instruments that do not meet the criteria for tiers 1 or 2, but that meet the criteria for Tier 3	Policy decision
OF 2.10	i) Criteria (d): introduction of power for supervisory authorities to be able to waive suspension of redemption/ repayment ii) Criteria (e): deferral of coupons/ dividends only required on a breach of the MCR for Tier 3	i) Adjustments to make the criteria consistent with approach taken to Tier 1 and 2. ii) Policy decision
OF .27 of OF 2.11	Change "Level 1 text" to "Directive" in (a) Clarification of the position in relation to members calls in (c) and following paragraph	Not in line with the Framework Directive Specification was not clear.
OF.39 of OF .4	Delete reference to the fact that the introduction of transitional provisions is subject to negotiation and may need to be supplemented with L3 and replace with rationale for transitional	All L2 are subject to negotiation and may need to be supplemented with L3

	provisions. Clarification of wording of what QIS5 will test.	
OF. 45 of OF.4.3	Clarification that the 20% limit for preference shares, hybrids and subordinated liabilities includes grandfathered Tier 1 instruments	Policy decision
OF. 45 of OF.4.3	Reference to questions on profits included in future premiums deleted	Policy decision
OF 5	Changes made to the table to align the TS with changes made elsewhere	Internal consistency

SECTION 6 – GROUPS

G.9 of G.1.2.	Specifications on the combination method deleted	Moved to G.5
G.11 of G.1.2.	Reference to the Deduction & Aggregation method included D&A	Specification was not clear and to ensure consistency with paragraph G.155
G.16 of G.1.3.	Reference to the group ORSA deleted	Not relevant for QIS5
G.17 of G.1.4.	Calculation at the level of ultimate worldwide participating undertaking deleted	Calculation not requested for QIS5
G.28 of G.1.6.	Qualitative question deleted	Not needed as already covered by QG.24
G.29 of G. 1.7.	QIS5 assumptions at subgroup levels deleted	Not needed as already covered by G.8
G.30 of G. 1.7.	QIS5 assumptions at subgroup levels deleted	Not needed as already covered by G.8
G.31 of G. 1.8.	Reference to the floor of group SCR deleted	Not needed as already covered by G.5
G.32 of G. 1.8.	Reference to the group SCR floor when using a combination method deleted	Moved to G.5
G.34 of G.2.1.	Calculation of the group risk margin amended to take into account group diversification	Policy decision
G.37 of G.2.2.	Graph illustrating the scope of group solvency assessment deleted	Specification not needed
G.43 of G.2.2.	Reference to the use of Solvency I data amended	Specification was not clear
G.61 of G.2.3.	Qualitative question deleted	Not needed as already covered by QG.14
G.88 of G.2.5.	Reference to the other financial sectors included	Explicit reference to the financial sectors was missing
G.120 of G.5	Reference to possible situations relevant in order to apply a combination of method amended	Specification was further clarified
G.120 of G.5	Qualitative question deleted	Not needed as already covered by the Qualitative questionnaire

ANNEX 2

CALIBRATION CHANGES FOR OPERATIONAL RISK AND PREMIUM AND RESERVE RISK

The following tables set out the changes made to the risk factors in the capital requirement for operational risk, the NSLT health premium and reserve risk sub-module and the non-life premium and reserve risk sub-module.

The proposed calibration is based on the average of the factor used in QIS4 and the factor proposed by CEIOPS. However, where CEIOPS has proposed a lower factor than used in QIS4 this suggestion was adopted.

CALIBRATION OF THE OPERATIONAL RISK

	Risk factor proposed by the Commission	Risk factor proposed by CEIOPS
Technical Provisions - life	0.45%	0.6%
Technical Provisions - non-life	3%	3.6%
Premium - life	4%	5.5%
Premium – non-life	3%	3.8%

CALIBRATION OF NSLT HEALTH PREMIUM AND RESERVE RISK

Net premium factor for premium risk

Line of business	Risk factor proposed by the Commission	Risk factor proposed by CEIOPS
Accident	9%	12.5%
Sickness	6%	9.5%
Workers' compensation	5.5%	5.5%

Standard deviations for reserve risk

Line of business	Risk factor proposed by the Commission	Risk factor proposed by CEIOPS
Accident	16%	17.5%
Sickness	10%	12.5%
Workers' compensation	11%	12%

CALIBRATION OF NON-LIFE PREMIUM AND RESERVE RISK*Standard deviations for premium risk*

Line of business	Risk factor proposed by the Commission	Risk factor proposed by CEIOPS
Motor (3rd-party)	10%	11.5%
Motor (other)	8.5%	8.5%
MAT	18%	23%
Fire	12.5%	15%
3rd-party liability	15%	17%
Credit	21.5%	28%
Legal expenses	6.5%	8%
Assistance	5%	5%
Miscellaneous	13%	15.5%
Non-prop. reins. (property)	17.5%	20%
Non-prop. reins. (casualty)	17%	18.5%
Non-prop. reins. (MAT)	16%	16.5%

Standard deviations for reserve risk

Line of business	Risk factor proposed by the Commission	Risk factor proposed by CEIOPS
Motor, 3rd-party	9.5%	9.5%
Motor, other	10%	12.5%
MAT	14%	17.5%
Fire	11%	12%
3rd-party liability	15.5%	16%
Credit	20%	25%
Legal expenses	9%	9%
Assistance	11%	12.5%
Miscellaneous	15%	20%
Non-prop. reins. (property)	20%	25.5%
Non-prop. reins. (casualty)	20%	25%
Non-prop. reins. (MAT)	20%	25%

ANNEX 3

CONSULTATION WITH STAKEHOLDER GROUPS

Selected stakeholders⁴ should structure their comments in the following way:

- High-level issues
- Practicability issues, inconsistencies, gaps and ambiguities
- Comments on non-life and health catastrophe risk

Stakeholders should cover each of the three areas in a different comment paper. For the comments on non-life and health catastrophe risk CEIOPS will provide a comment template that will be made available to the stakeholders. For the other two comment papers no specific format is requested.

All three comment papers should be submitted to the Commission by **20 May 2010**. It may not be possible to take comments submitted after this deadline into account in the final QIS5 technical specifications.

High-level issues

It is not the purpose of the consultation on QIS5 to repeat the consultation carried out on CEIOPS advice on level 2 implementing measures. Therefore, stakeholders are requested to focus their comments on high-level issues that they have detected in the consultation package. The comments on high-level issues should be ordered according to priority and include concrete drafting changes for the QIS5 technical specifications. The number of issues raised per stakeholder should not exceed 25.

It is not necessary to provide drafting changes to the calibration papers that are included in the QIS5 consultation package. However, any requests for changes in the calibration should be supported by sound empirical analysis.

Practicability issues, inconsistencies, gaps and ambiguities

In addition to the high-level issues, stakeholders are asked to report any parts of the technical specifications that would make carrying out the calculations impracticable. Also of interest are any specifications that are inconsistent, incomplete or unclear. Where possible comments on these issues should include concrete drafting changes.

Comments on non-life and health catastrophe risk

The draft QIS5 technical specifications do not include a complete specification of the non-life and health catastrophe sub-modules. CEIOPS will submit a complete specification to the Commission in time for the finalisation of the QIS5 technical specifications.

In relation to the CEIOPS proposals that have been published a separate consultation work stream has been set up and CEIOPS will process comments. In order to support the ongoing work of CEIOPS stakeholders are invited to submit **preliminary comments** on the two sub-modules by **30 April** to the Commission and CEIOPS. As above, stakeholder comments should include concrete drafting changes for the QIS5 technical specifications.

⁴ CEA, AMICE, CRO Forum, CFO Forum, ECIROA, FERMA and Groupe Consultatif