EU Solvency II project – the first 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 (Solvency II) for European insurance undertakings. In its second wave of Calls for Advice the EC requested among other things advice on technical provisions and their level of prudence. 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). Recent publicly consulted draft answers of CEIOPS to the EC form the basis for the specifications for the first QIS.

2. The goals of QIS1 are twofold. Firstly, QIS1 focuses on the level of prudence in the current technical provisions, benchmarking them against some predefined confidence levels. In addition, we hope that this exercise will give information about the practicability of the calculations involved. To this end CEIOPS invites life and non-life insurance undertakings and reinsurers to participate in this exercise. In QIS1, if the precise figures cannot be obtained, approximations may be used, and the qualitative information received about the methods and models used by market participants will be very important for us. 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. CEIOPS would be grateful if you could respond to this request for information by 31 December 2005. This tight schedule is needed in order to provide necessary input for the preparation of the Solvency II Directive.

3. This initial exercise does not prejudge the outcome of the discussions that are taking place about possible Solvency II rules. However, the data obtained from QIS1 will be invaluable in assisting CEIOPS to develop their advice on an appropriate framework for the Solvency II rules. It is expected that after this study, further studies will be needed to test different possible approaches and sets of assumptions. It is also intended that each such study will be more refined than the previous one. The next study (QIS2) is planned for the spring 2006 and will focus on solvency requirements (SCR and MCR as defined in the EC documents). The input from QIS1 and 2 will be important to the EC when preparing a Directive proposal and corresponding Impact Assessment for Solvency II.

4. In line with expected IASB developments, it is envisaged that in the future Solvency II regime a best estimate value of the technical provisions should be calculated topped up with a risk margin. This risk margin is intended to reflect uncertainties (e.g. in estimating the size of the relevant risk factors) that may
result in shortfalls compared to the expected value of the liabilities. Moreover, it is envisaged that an overall quantitative benchmark for the confidence level of technical provisions should be set in order to achieve an increased level of harmonisation for technical provisions, which is a cornerstone of the new solvency system. However, at this stage of the project it is not yet possible to give all technical details relating to the calculation of best estimates and risk margins, or to decide on how the confidence level should be calibrated. It should be noted that the goal of QIS1 is different from the preparatory field study (PFS) conducted for the life insurance sector last spring in that, inter alia, now more detailed guidance on the valuation is given and risk margins over and above best estimate liabilities are in focus.

5. Confidentiality is of utmost importance when conducting any QIS. In the QIS1 this will be achieved by aggregating all the information of individual undertakings at national level by national supervisors.

6. The QIS1 package will include this cover note, a spreadsheet accompanied by specifications and guidance and term structures plus a qualitative questionnaire. These have been amended slightly compared to the pre-test version (available on the CEIOPS-website) to take account of a number of comments received from undertakings, insurance associations, and consultants. Further guidance on remaining questions can be provided during the execution of QIS1. If you have any further questions, please contact your national supervisor, who is a member of CEIOPS. Answers will also be published on the CEIOPS-website (http://www.ceiops.org).