

**Fourth Progress Report  
to the European Commission  
on  
CEIOPS' work in the field of the Solvency II project  
(December 2005)**

The European Commission has requested CEIOPS to advise on the development of a new solvency system to be applied to life, non-life and reinsurance undertakings in the European Union.

As a part of this, CEIOPS is requested to give regular Progress Reports to the Commission at four-monthly intervals, informing of the steps taken to advance technical work and respond to the specific Calls for Advice, as well as draw attention to any further issues identified by CEIOPS' Working Groups. This is the Fourth Progress Report.

**First wave of Calls for Advice**

The Answers to the European Commission's first wave of Calls for Advice, were approved at the CEIOPS Members' Meeting 28 June 2005 in London. The Answers (CEIOPS-DOC-03/05) were subsequently sent to the European Commission, as well as published at CEIOPS' website ([www.ceiops.org](http://www.ceiops.org)) together with the comments received from public consultation and the resolution on the comments (CEIOPS-SEC-43/05).

**Second wave of Calls for Advice**

On 4 July 2005 CEIOPS issued its Consultation Paper No. 7 dealing with the *Draft Answers to the EU Commission on the second wave of Calls for Advice in the framework of the Solvency II project*. These cover:

- Technical Provisions in Life Assurance (No.7);
- Technical Provisions in Non-Life Insurance (No. 8);
- Safety Measures (No. 9);
- Solvency Capital Requirement: Standard Formula, Life and Non-Life (No. 10);
- Solvency Capital Requirement: Internal Models, Life and Non-Life (No. 11);
- Reinsurance (and other risk mitigation techniques) (No.12);
- Quantitative Impact Study and Data Related Issues (No. 13);

- Powers of Supervisory Authorities (No. 14);
- Solvency Control Levels (No. 15);
- Fit and Proper Criteria (No. 16);
- Peer Reviews (No. 17); and
- Group and Cross-Sectoral Issues (No. 18).

On 7 September 2005 CEIOPS held a public hearing on its draft answers to the second wave of Calls for Advice in Frankfurt. Following public consultation until 30 September 2005, CEIOPS considered the comments received.

The Answers to the European Commission's second wave of Calls for Advice, were approved at the CEIOPS Members' Meeting 27 October 2005 in Frankfurt. The Answers (CEIOPS-DOC-07/05) were subsequently sent to the European Commission, as well as published at CEIOPS' website ([www.ceiops.org](http://www.ceiops.org)) together with the comments received and the resolution on the comments (CEIOPS-SEC-86/05).

### **Third wave of Calls for Advice**

On 29 April 2005 CEIOPS received the 'third wave' of Calls for Advice from the European Commission covering:

- Eligible Elements to Cover the Capital Requirements (No. 19);
- Cooperation between Supervisory Authorities (No. 20);
- Supervisory Reporting and Public Disclosure (No. 21);
- Procyclicality (No. 22); and
- Small Undertakings (No. 23).

The draft answers to the European Commission to the third wave of Calls for Advice were discussed for finalization at the CEIOPS' Members Meeting 27 October 2005 in Frankfurt. Another round of consultation was necessary amongst CEIOPS' Members due to the significance of the comments made during the meeting. The draft answers to the third wave of Calls for Advice were approved for public consultation in the extraordinary CEIOPS' Members Meeting 6 December 2005 in Copenhagen and subsequently published (CEIOPS-CP-06/05) on CEIOPS' website ([www.ceiops.org](http://www.ceiops.org)). Due to the increase in Consultation Papers expected in 2006 because of the need to give further detailed advice to the European Commission, in relation to this Consultation Paper CEIOPS considered it necessary to shorten the consultation period under its consultation policy to two months.

### **Next steps**

Besides finalizing the answers to the third wave of Calls for Advice, CEIOPS will continue to work on the overall Solvency II project through assisting the European Commission in dealing with all its different phases. Given the complexity and duration of the Solvency II project, CEIOPS intends to cover the entire development of the new prudential framework, not only by contributing to

the preparation of the Framework Directive (Level 1 measures), but also by continuing to assist the European Commission in the preparation of potential implementing measures (Level 2 measures) and by issuing any consequent supervisory measures (Level 3 measures).

2006 should see the developing definition of the Framework Directive. According to the revised Road Map of the European Commission<sup>1</sup>, the proposal for such a Directive is planned for mid-2007. In this context, CEIOPS will work on integrating the advice already delivered, by covering aspects not yet dealt with, or needing further specification as a result of greater technical analysis and/or Quantitative Impact Studies (see below).

In particular, it is envisaged that CEIOPS will publish further consultation papers focussing on those parts of its advice to the Commission which were not fully elaborated and/or defined (e.g. technical provisions, functioning of Pillar 2, supervisory cooperation) and thus require additional inputs from interested parties.

### Quantitative Impact Study

In the frame of the Solvency II project several rounds of Quantitative Impact Studies (QIS) are foreseen. They will provide input for the European Commission's work on the Solvency II Framework Directive.

In October 2005, CEIOPS started a first round of QIS (QIS1/until 31 December 2005), restricted on technical provisions in life and non-life, with particular regard to the level of prudence to be embedded in the measurement. According to the note of the European Commission on *The Impact Assessment of the Solvency II Level 1 Directive* (MARKT/2519/05) the European Commission expects the results of QIS 1 in February 2006.

A more comprehensive, second round of QIS (QIS2), including solvency requirements, is expected to start in May 2006. The pre-test phase of this QIS, with a small sub-sample of insurers in each Member State, is expected to start around April 2006. The results of QIS2 are planned to be sent to the European Commission in October 2006.

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<sup>1</sup> REVISED ANNEX TO MARKT/2502/05-rev 2.