



Solvabilität
 Solvabilité
 Οικονομική φερεγγυότητα
 Solvibilità
 Vakavaraisuus
 Solvencia
 Fízetőképesség
 Solvabiliteit
 Zdolnosť platnícza
 Solvabilidade
 Lahustamisvõime
 Solvens
 Maksätspēja
 Solventnost
 Mokumas

Solvency II – Newsletter

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CEIOPS will look back on 2006 as a year of many consultation periods and several studies. QIS2, in which more than 500 insurance companies from 23 countries took part, was a particularly important milestone in the Solvency II project. The third impact study is awaited with some anticipation, as it is expected to provide first indications of the real risk situation of European insurance companies.

Current developments

European Commission

Framework Directive to be published

The European Commission is sticking to its ambitious goal of publishing its Framework Directive proposal by mid-2007. This will involve combining the 14 Insurance Directives currently in existence in Europe and will provide an impetus for the political consultation process. Karel van Hulle, head of the Unit for Insurance and Occupational Pensions at Directorate-General Internal Market of the European Commission, has indicated that the new directive will not come into force in European countries before 2011 following translation into national law.

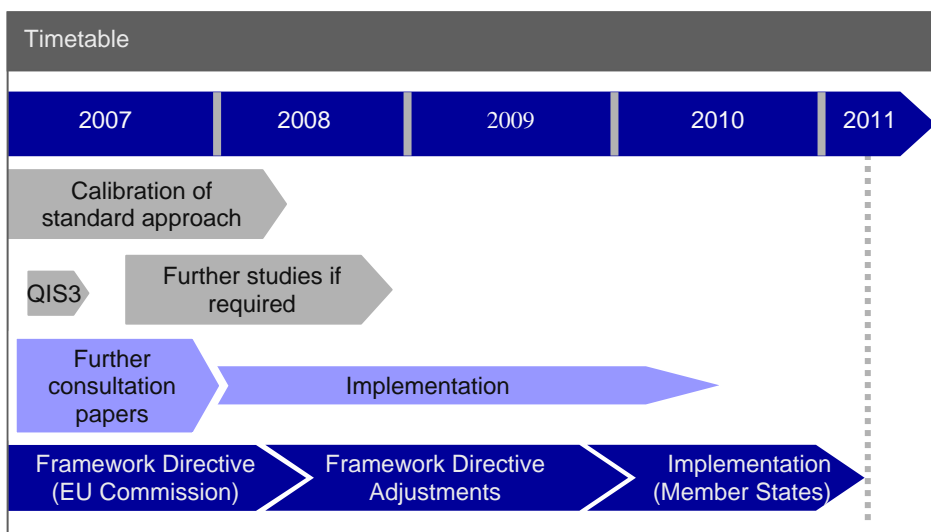


Fig.: Overview of further activities



In a letter¹ to CEIOPS dated 2 February 2007, the European Commission set out its initial stipulations for Solvency II, which will be included in the Framework Directive and requested that CEIOPS take them into account in QIS3, the next quantitative impact study. The letter makes it clear that work on the principles of quantitative requirements (Pillar I) is not yet complete. However, the proposal will include the following features:

- Risk measure: Value at Risk with a confidence level of 99.5%
- A modular standard formula for calculating the solvency capital requirement

The Commission emphasised the importance of QIS3 for the preparation of the Framework Directive. The study will be carried out by CEIOPS.²

From the Commission's point of view, QIS3 should cover at least the following aspects: Companies already using internal models should provide key figures generated by them in addition to the values calculated using the prescribed standard formula. The study should also aim to analyse the impact of the future solvency regime on the valuation of assets and liabilities, including technical provisions, solvency capital requirements and own funds.

The solvency capital requirement (SCR) should be calculated for the following risk categories:

- Underwriting risk in life, non-life and health
- Market risk
- Credit risk
- Operational risk

QIS3 should test alternative calculation methods for risks in health, as the valuation of requirements relating to these risks in QIS2 did not appear to be appropriate.

The objective of QIS3 should be to test a European standard formula. It is the intention of the European Commission to allow local parameters only in exceptional cases, such as natural catastrophes or other loss scenarios specific to a country. Company-specific data should also be used in the calculation of the solvency capital requirement.

No precise method for the calculation of the minimum capital requirement (MCR) was laid down in the letter. The risk measure to be used is Value at Risk with a confidence level of 90%. In parallel, QIS3 should also test the CEA proposal for the MCR (using 33% as a basis for testing purposes).

The Commission expects at least 15% of European insurers to take part in the study.

Survey: Impact of Solvency II

In order to analyse the impact of Solvency II in comparison to Solvency I, the European Commission sent a questionnaire to stakeholders at the end of January 2007.³ Recipients have until the end of March 2007 to participate in the survey.

CEIOPS⁴

Second CEIOPS conference

Highly-qualified experts met at the second CEIOPS conference in Frankfurt on 14 November 2006, attended by more than 330 delegates. CEIOPS used the event to continue its policy of providing full information on both its own work and the progress made in the redesigning of supervisory regulations. At the same time, it was CEIOPS intention to promote exchanges of views with the insurance sector and all interested parties.

¹ Cf. Letter of the European Commission to CEIOPS Chair regarding the design of QIS 3 on: <http://www.ceiops.org/content/view/5/5/>

² Cf. subheading QIS3

³ Cf. http://ec.europa.eu/internal_market/insurance/solvency2/hearing_en.htm.

⁴ Committee of European Insurance and Occupational Pensions Supervisors



In his introductory speech, the CEIOPS Chairman stressed the importance of total transparency in the Solvency II project.

The most important issues dealt with at the conference were:⁵

- the impact of the Solvency II project on the insurance industry
 - requirement for fair competition, including between different sectors and markets (e.g. banks, non-EU countries)
 - requirement for a pragmatic and flexible system
- management and supervision of operational risks
- future pensions on a European level
- cross-sector protection for the consumer

CEIOPS publishes 2007 work programme

The 2007 work programme⁶ is primarily concerned with the development of the Solvency II project: The Framework Directive is expected to be published this year. The European Commission is dependent on CEIOPS to achieve this goal. By March 2007 at the latest, new proposals from the latest consultation papers (nos. 15–20) on various issues relating to the three pillars of Solvency II will be submitted to the Commission, though they will not be included in the Framework Directive due this year.

In November 2006, a questionnaire was sent out to the insurance industry, to be used for an investigation of the types of capital to be recognised for Solvency II purposes. The aim of the survey was to highlight similarities and differences between the banking and insurance sectors. A report on the results is expected in March 2007.

The third impact study will be followed by further consultation papers. The emphasis will be on calculation of the capital requirement. By early 2008, not only the methodology, but also the parameters for the standard formula for calculating the solvency and minimum capital requirement should have been defined.

Consultation papers (CPs)

In November 2006, CEIOPS presented six further consultation papers (nos. 15–20):⁷

- No. 15 – Supervisory reporting and public disclosure
- No. 16 – Pillar II issues relevant for reinsurance
- No. 17 – Capital add-ons
- No. 18 – Supervisory powers
- No. 19 – Safety measures
- No. 20 – Pillar I issues

CP15 concentrated on the third pillar (reporting and disclosure requirements). The reporting requirements primarily support supervision through the risk-based approach, whilst the disclosure requirements are intended to strengthen market mechanisms. Companies will be required to provide as a minimum information on

- their insurance business,
- corporate goals and strategies, including a description of how they are to be achieved or implemented,
- performance,
- valuation methods (e.g. for technical provisions),
- risk and capital management.



⁵ Cf. <http://www.ceiops.org/content/view/27/31/>

⁶ Cf. <http://www.ceiops.org/content/view/10/13/>

⁷ Cf. <http://www.ceiops.org/content/view/14/18/>

CEIOPS emphasised the necessity for these requirements, which should encourage insurance companies to conduct their businesses in a sound and efficient manner. CEIOPS again stressed that it is absolutely essential for disclosure requirements to be harmonised across European countries. It has not yet been decided what information on solvency capital requirements will have to be published. Stakeholders have been requested to submit proposals.

CP16 dealt with those aspects of Pillar II which affect reinsurance. The main differences between direct insurance and reinsurance were first highlighted. It is CEIOPS intention that identical supervisory principles be applied to direct insurers and reinsurers and that non-EU reinsurance companies be subject to the same requirements.

The requirement for “capital add-ons” was covered for the first time in CP13. CP17 goes further still in that the requirement to hold additional capital suggests that the calculation of the solvency capital requirement does not take adequate account of certain risks or that qualitative shortcomings need to be rectified. The additional requirements are to be defined using a five-stage process. The question of disclosure requirements for add-ons is also under discussion.

The powers granted to supervisors were the subject of CP18. They need to be sufficient to enable supervisors to perform their duties. It is important for harmonised rules to apply within Europe.

CP19 focuses on safety measures, particularly in the area of investments. Even though investment risks will in future be taken into account in the solvency capital requirement, CEIOPS assumes that certain risks will not be fully covered. Concentration and liquidity risks are cited as examples. CEIOPS has therefore proposed a “prudent person plus approach” to such risks. This approach makes use of both qualitative components (prudent person principle) and quantitative requirements by imposing limits on certain types of investment.

CP20 was easily the most extensive of the last wave of consultation papers. It basically covered Pillar I issues. In addition to valuation standards, the paper covered the categorisation and limitation of financial instruments (in combination with CP19), the calculation of the solvency capital requirement (SCR) using either a standard approach or a (full or partial) internal model, and the calculation of the minimum capital requirement (MCR). CfA 10⁸ was used as the basis for a possible standard formula to calculate the SCR. CEIOPS proposes a modular design for the formula. This would have the advantage of both making the distribution of capital requirements between risk categories transparent and facilitating a subsequent move to an internal model. The precise method of calculation of the MCR remains as yet undecided. Either a figure based on the SCR or a partly independent calculation would be possibilities. A number of aspects are to be tested in the forthcoming impact study.

Mid-January 2007 was the deadline for submitting comments. The public hearing which took place shortly before the deadline gave stakeholders, especially experts from the industry and actuary and insurance associations, the opportunity to hold direct and open discussions with CEIOPS representatives. The extent to which the comments submitted will be able to be considered in QIS3 is not clear.

Field study – QIS2

In the course of the second impact study, insurance companies were called upon to calculate their solvency capital requirement using a given standard formula. To this end, they had to determine the capital requirements of individual risk categories – underwriting, investment, credit and operational risk. In addition, a solvency balance sheet – not to be confused with the financial statements – had to be prepared. This involved companies comparing the capital actually available with the capital required.

A standard approach was used. Nonetheless, some insurers had difficulty with certain calculations. The participants' experience has provided supervisors with



⁸ Cf. “Answers to the Second Wave of Calls for Advice in the Framework of the Solvency II Project”: <http://www.ceiops.org/content/view/17/21/>

valuable information on the practicability of the standard approach and how suitable it is in terms of methodology. Insurers' awareness of the forthcoming changes has been increased and they can start preparing for them now.

The results of the study for Europe as a whole have been available since the beginning of December 2006.⁹ However, it is not yet possible to draw conclusions about actual solvency positions from the study. Nor was that the aim of the study, as CEIOPS expressly stated. An analysis of actual solvency positions will require further adjustments to model structures and parameters. Nevertheless, the supervisory authorities have been able to analyse a number of key indicators. The analyses show that in life insurance, the investment risk is paramount, and in property-casualty, underwriting risks. Credit risk plays only a subordinate role for insurance companies.

Operational risk cannot be quantified on the basis of data currently available. The standard approach to the evaluation of this risk used in QIS2 was consequently only a pragmatic solution. Various groups of experts continue to work on developing a risk-based approach, though an early solution is unlikely.

Field study – QIS3

The preparations for a third impact study are already in full swing. CEIOPS plans to carry it out in the second quarter of 2007.

An initial informal meeting on QIS3 involving Solvency II experts took place at the end of January at CEIOPS in Frankfurt. QIS3 will differ from QIS2 in that there will be no testing of several possible solutions. QIS3 will also no longer focus only on the single-company view, but also on group aspects.

In addition to various relevant issues, both of the early studies, QIS1 and QIS2, tested the technical and actuarial feasibility of the new valuation guidelines and methodology. In QIS3, the emphasis will be almost exclusively on quantitative aspects and a possible calibration of the future standard approach.

The study will be organised in such a way as to make participation somewhat easier. There is to be only a single reference document, into which other documents will be integrated.

There is little time available for national supervisory authorities to have all of the documents translated into their local languages. CEIOPS' aim of increasing the involvement of small and medium-sized insurance companies in the study requires extensive preparation by national supervisory authorities.

CEA¹⁰

Survey of administrative costs

At the end of last year, the European Commission requested the CEA to obtain the views of the insurance industry on potential administrative costs caused by the new supervisory rules. The Commission required an initial indication of the additional costs insurers expect to incur as a result of the implementation of Solvency II. Insurers were able to take part in the survey until the beginning of February. The results are to be submitted to the Commission by mid-February 2007.

AISAM/ACME¹¹

Report on first joint congress in Bruges, Belgium

AISAM and ACME held a conference from 18–21 October 2006. The 200 delegates discussed the future of mutual companies in an age of new supervisory guidelines at their first joint congress "Capitalising on Mutuality".

Insurers should continuously increase their awareness of risk. Future solvency requirements will be based on insurers' risk profiles. A company which is aware



⁹ Cf. Summary: <http://www.ceiops.org/media/files/consultations/QIS/QIS2-SummaryReport.pdf>

¹⁰ Comité Européen des Assurances – umbrella association of European insurers

¹¹ Associations of mutual insurers:

AISAM: International Association of Mutual Insurance Companies

ACME: Association of European Cooperative and Mutual Insurers

of and in control of its risks will in future require less solvency capital. The responsible European Commissioner, Charlie McCreevy, vehemently dismissed the fears of small mutuals that Solvency II would be too complicated and too expensive, maintaining that, far from aiming to force small insurers out of the market, Solvency II on the contrary went to great pains to take account of the special characteristics of smaller companies. Paul Sharma, head of the CEIOPS group of experts for Pillar I, urged the mutuals to prepare themselves in good time for the changes in supervisory law, emphasising that participation in the impact studies by the insurance industry was extremely important for all concerned. He also stressed CEIOPS' efforts to tackle the problem at the base together with the European Commission and the insurance industry.

European actuaries – Groupe Consultatif

29th Annual Meeting

The 29th Annual Meeting of European actuaries was held in Barcelona on 26 and 27 October 2006. There were meetings of the Groupe's five committees:

- Education Committee
- Freedoms and General Purposes Committee
- Insurance Committee
- Investment and Financial Risk Committee
- Pensions Committee

Some 100 actuaries from all over Europe attended.

The committees dealt with, amongst other things, unresolved issues relating to the redesigning of insurance supervision, on which the European Commission and CEIOPS had expressly requested support. These included the valuation of technical provisions and defining the European standard approach to the calculation of solvency capital requirements. Other important discussion points were the Commission's impact assessment and the latest set of consultation papers.

The actuaries consider that there may be changes in their profession. Their current areas of responsibility may be extended and become more important. The possible future role played by actuaries under Solvency II was presented.

International Actuarial Association/regulators

IAA/IAIS guidelines for internal models

Various committees and bodies are focusing their attention on the use of internal models both for evaluating insurance risks and for calculating capital requirements against the background of increasingly complex risk-based supervisory requirements.

Thus, guidelines defining common standards for internal models would be of great interest to all concerned. The International Actuarial Association (IAA) has been asked by the International Association of Insurance Supervisors (IAIS) to publish best-practice guidelines. The guidelines are intended to answer questions on the general parameters for designing an internal model, its incorporation into insurance companies' risk management processes and the assessment of risk management in the context of supervisory requirements. Examples of relevant questions are:

- When is an internal model appropriate?
- Which risks should be covered by an internal model?
- On what principles should the model be based?
- What modelling techniques are already in use?
- What assumptions should be applied in the model?



There should also be a description of the rules which need to be in place for the operation of an internal model, notably

- the relationship between internal models and risk management,
- controls and validations required,
- calibration.

The guidelines should also cover external publication of results of calculations produced by internal models.

Though the document will be primarily aimed at actuaries, regulators and supervisory authorities, other parties involved will find it useful.

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