Solvency II – Quo Vadis?

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The “*single*” rule book

- Directive : Entry into force 1 January 2013
- Implementing measures
  - o Delegated acts (known as “Level 2 measures”):
  - o Implementing acts: development of implementing technical standards by EIOPA, endorsement by Commission
- EIOPA Guidelines and Recommendations
- EIOPA tasks under Solvency II

QIS5 tested the feasibility of the proposed measures

Ongoing discussion in Commission Solvency Expert Group, to be followed by approval in Council and Parliament

Omnibus II Directive to define scope and timing

EIOPA to ensure convergent practices of industry and supervisors

For example: derive and publish risk free rate, eligibility of ECAIs, be consulted and settle disagreements on group internal models, appointment of group supervisor, dtermine exception fall in financial markets (PII dampener)…

What was the aim of QIS5?

- Objectives
  - Assess the **quantitative impact**
  - Check principles and **calibration** targets
  - Encourage (re)insurers and supervisors to **prepare** for the introduction of Solvency II
  - To provide a starting point for an **ongoing dialogue** between supervisors and (re)insurers

- Also: EIOPA to test **feasibility** and assess complexity

What did we learn from QIS5?

Feasibility of Solvency II ?!

Sustainable impact for all insurers ?!

Are industry and supervisors prepared ?!

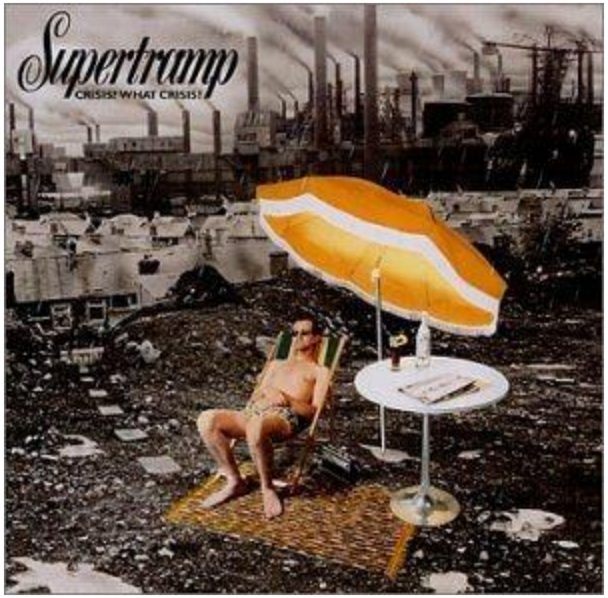
Feasibility of Solvency II

- Complexity
  - Solvency II is a major overhaul of valuation of balance sheet and calculation of the capital requirements
  - Simplify where impact is not material

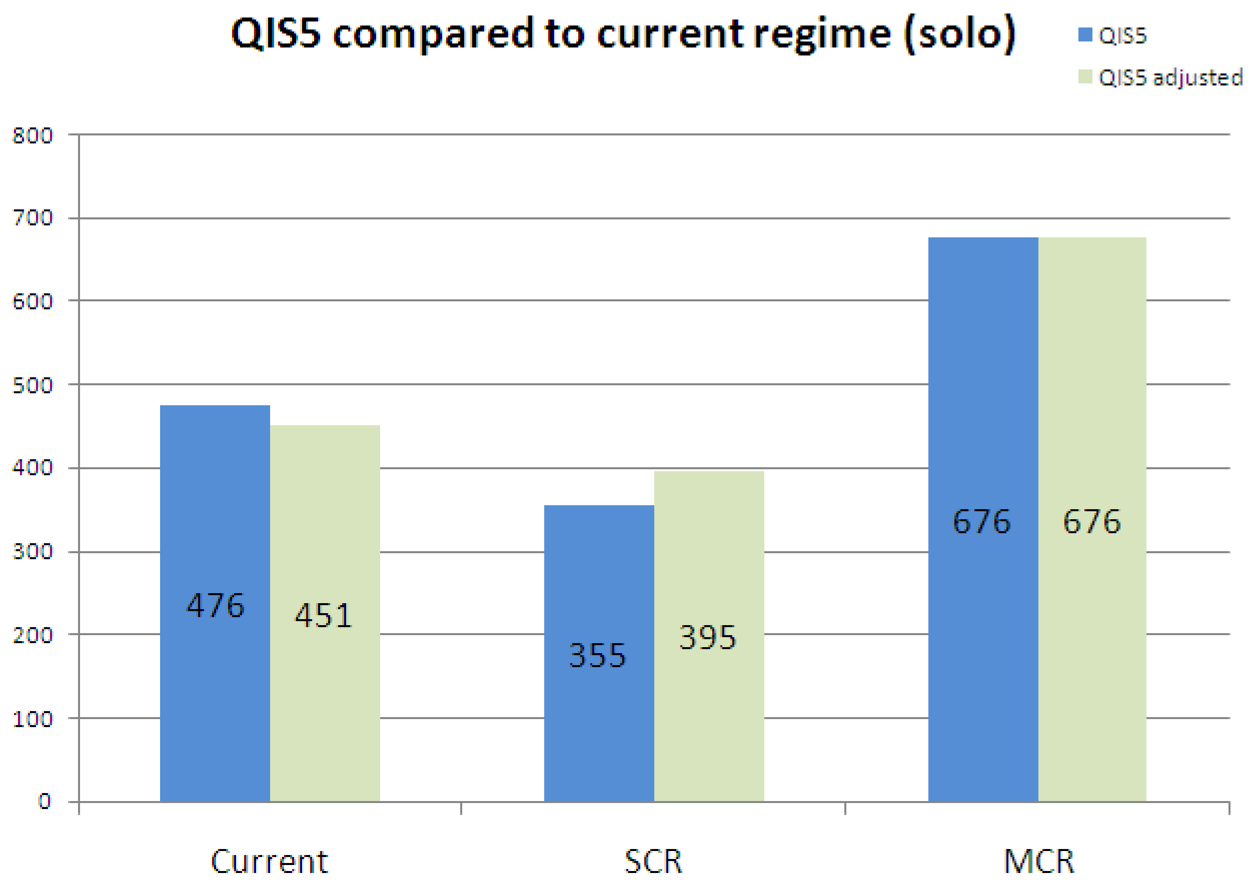
- Need to spend time to understand the requirements and how they will be implemented operationally
  - Pillar II and Pillar II (ORSA, Governance
  - Training, Human resources
  - IT, Data collection

- Impact
  - Smooth transition – transitional measures

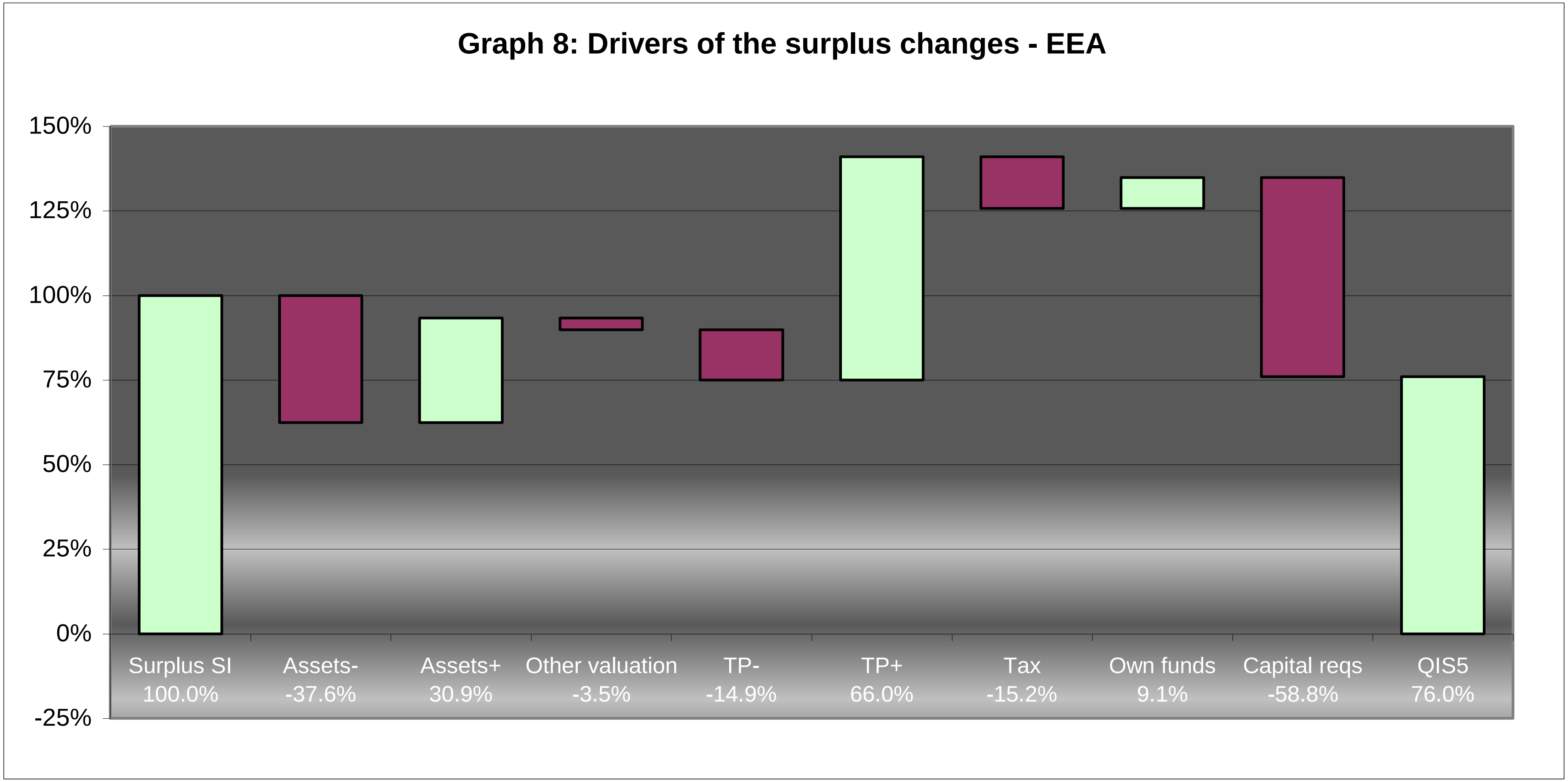
Impact of the proposed regime



A sustainable impact on the surplus



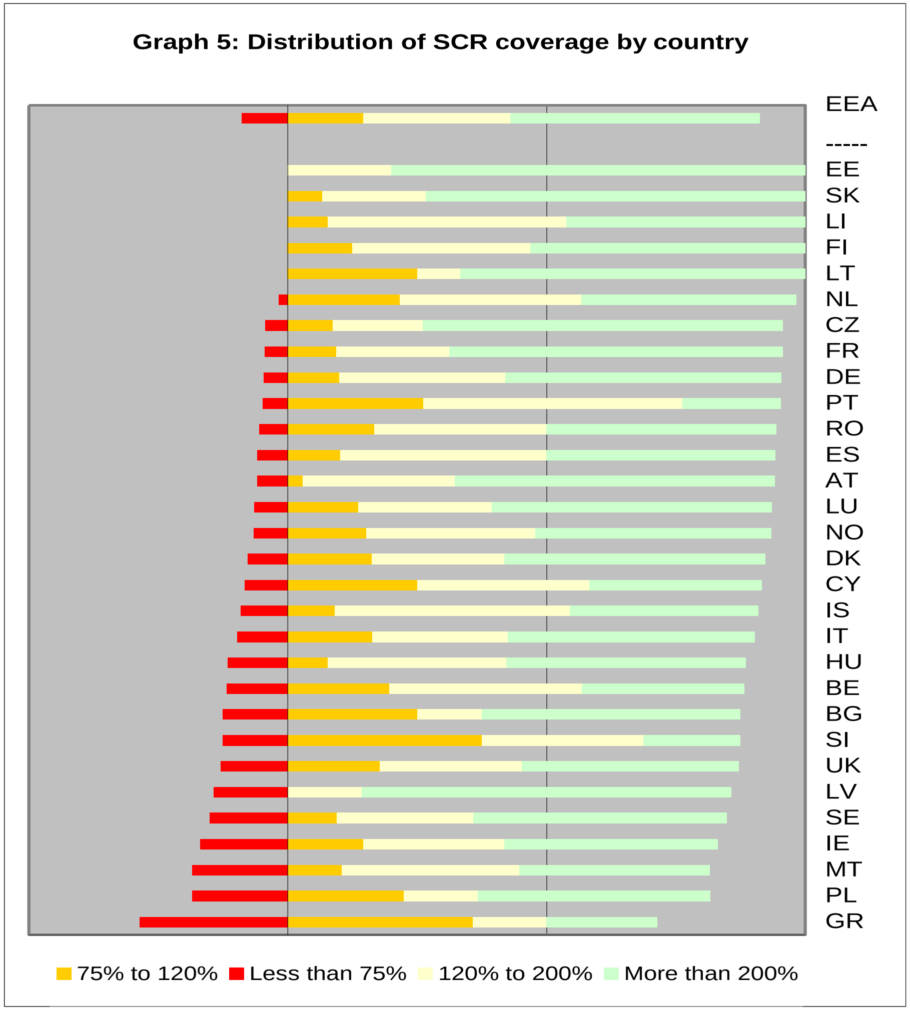
Explanation of solo surplus evolution



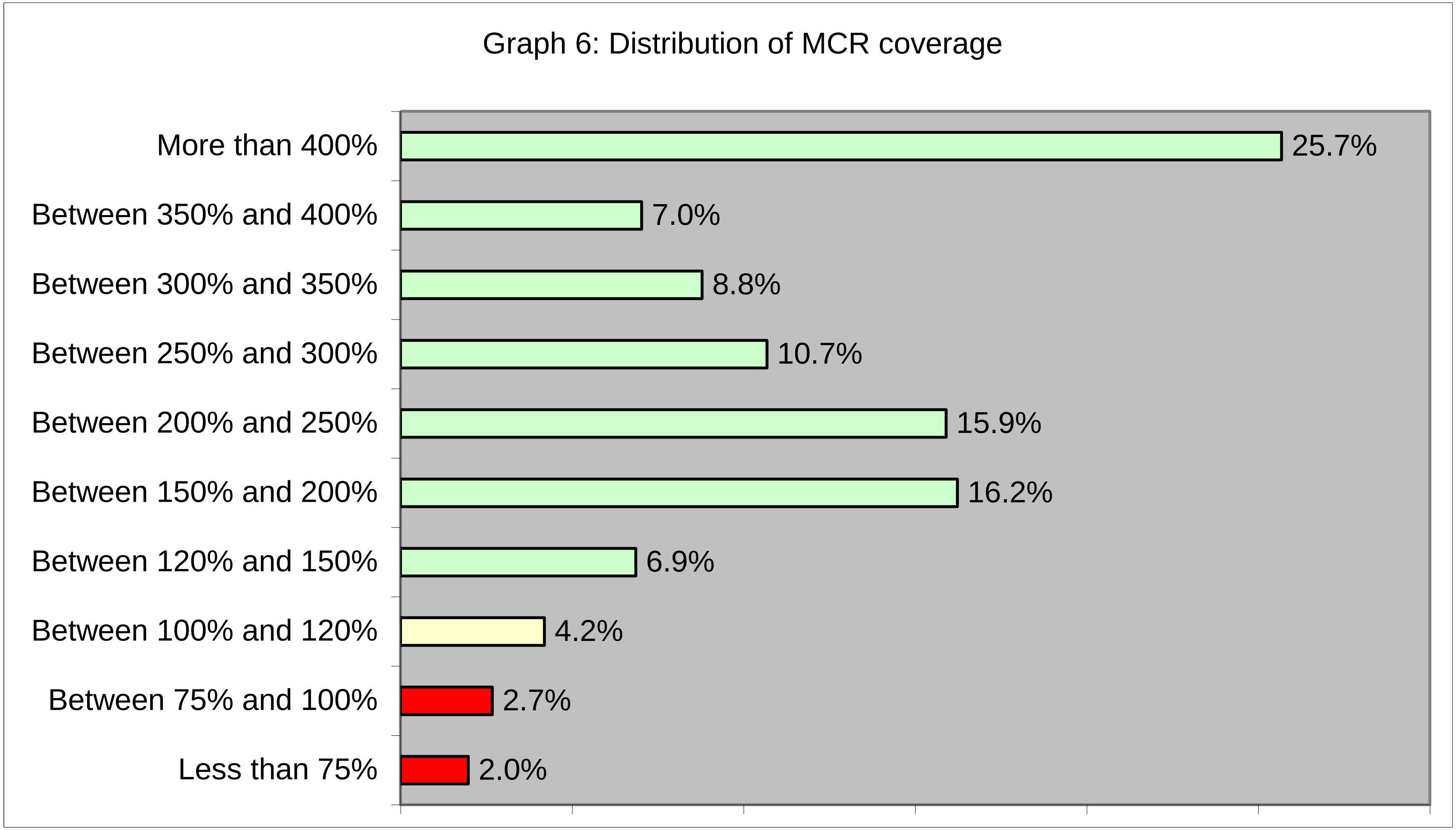
Group surplus

(Billions euro)	Surplus Solvency I	Surplus QIS5	Size sample
Results in case internal models were approved and/or local rules under D&A for third countries were used			
Large	**109**	**129**	17
Medium	27	18	21
Small	64	50	109
All	200	197	147
Consolidated method with standard formula			
Large	109	54	17
Medium	27	16	21
Small	64	44	108
All	200	114	146

SCR coverage across the EEA



Solo MCR coverage



Technical Provisions

- A general decrease in technical provisions from Solvency 1 to QIS5 due to :
  - Removal of implicit prudence
  - Generally a higher discount rate
  - Different cash-in and –out flows to be assessed
- This statement has however to be nuanced for life business

Preparedness – solo participation rate

- Participation rate

More than doubled solo participation

Solo	Target (set by EC)		Results	
	QIS4	QIS5	*QIS4*	QIS5
	25%	60%	*33%*	**68%**

- 1511 Small
- 791 Medium
- 217 Big

- 610 Life
- 1284 Non-Life
- 111 Reinsurers
- 175 Captives
- 336 Composites

- 382 Health
- 454 Mutual

Preparedness – Groups participation rate

Groups: QIS4: 106

QIS5: **167**

Increase in number of small and medium groups

	Large	Medium	Small
Number	17	23	127

	EEA groups without non-EEA entities	EEA groups with non- EEA entities	EEA subgroup(s) of non-EEA groups
Number	121	41	5

Current state of preparedness of the industry

- Participation rate shows that Solvency II is a priority to all insurers, regardless of size

- (Re)insurance undertakings and groups are striving to be ready for the implementation date of 1st January 2013.
  - A majority of undertakings considers they will be ready by end 2012
  - Large undertakings and group members in advance in their preparation (and QIS4 participants)

Internal models

Caveat: small sample and internal models not finalized/approved

- Using: 262/309. Working on implementation: 289
- 96% of group members would use the model developed at group level
- Spike of submissions around the introduction date of Solvency II expected

Further work: SCR

- Non-Life catastrophe risk: (calibration, data availability and effort required, risk mitigation)
  - Further work in progress
- Counterparty default risk
  - Difficulty applying full calculation
  - Proportional to (lack) of importance for some ?
- Calculation of loss absorbency of deferred taxes
- Equivalent scenario
- Lapse risk (policy level in life, availability of systems and process in non life)
- Look through approach (e.g. unit-linked)

Further work:
Expected profits in future premiums

- Quantified in QIS5 – amount disclosed as part of Tier 1
- Proxy methodology intended to provide a simple and consistent approach but …
- Poor participation rate – 29%
- Results affected by calculation difficulties, assumptions and undertakings' concerns about the concept
- Care with use of data
- Weighted average – 20% of Tier 1 v 16% for groups

Link with contract boundaries

Further work: Groups

- Absorbing effects of deferred taxes and future discretionary benefits at group level
- Treatment of ring fenced funds
- Treatment of intra-group transactions

Thank you