

CEA QIS4 survey for groups

Background

The development of Solvency II is at a crucial stage, with the QIS4 results likely to have a significant influence on the final level 2 implementing measures. It is vital that the industry presents strong and coherent messages in order to ensure that its interests are well represented.

Past QIS exercises have shown that well reasoned and consistent messages have the most chance of being accepted. The CEA, in conjunction with the National Associations, will try to achieve this. In order to do so the help of companies is needed to ensure understanding of the issues and possible solutions.

Another strong reason for needing this information is that the European Parliament has requested CEIOPS to provide them with QIS4 results shortly after summer (i.e. in advance of the November publication date) as part of the Framework Directive Proposal discussions in European Parliament and Council. The CEA and National Associations therefore also need advance information in order to influence the debate effectively.

To ensure that the industry will present strong and coherent messages, the CEA is trying to collate a limited amount of information on QIS4 in a way that respects the confidential nature of companies' QIS4 results and which does not place significant additional burdens on companies. In each state, companies are therefore being asked to provide a limited amount of QIS4 information and feedback to their National Associations, who will then provide summary results to the CEA Solvency II project team in order to allow them to more effectively represent the industry's interests and concerns during discussions with CEIOPS and the EU Commission.

Guidance for survey

To facilitate this, companies are asked to complete the attached survey on a "best efforts" basis after they have submitted their QIS4 results and completed those sections that they can. To assist completion references are included to the relevant sections of the QIS4 which include:

- The QIS4 technical specifications ("TS")
- The QIS4 solo spreadsheets
- The QIS4 group spreadsheet
- The QIS4 questionnaire for solo firms ("QS")
- The QIS4 questionnaire for participating groups ("QG")

Separate surveys have been produced in respect of the solo and group aspects. **The surveys have been designed to minimise the effort required by companies, with it being envisaged that it in aggregate they should take no more than an hour to complete.**

The questions have been grouped into the following sections:

- Valuation
- Own funds
- Calculation of SCR and MCR
- Results (this is optional)
- General
- Group calculations

Some questions apply to both life and non-life companies, others only to non-life companies and the

remainder to just life companies. Please complete the questions that are relevant to your company. Also, feel free to highlight significant issues not captured within the questionnaire.

Please submit the questionnaire to your National Associations by 14 July (solo companies) and 7 August (groups). Your help on this is greatly appreciated.

Section 1: Valuation of technical provisions

Calculation best estimate technical provisions

1. Life companies only (see QS question 2)

Did you have any difficulty in calculating the best estimate of the liabilities?

- Yes No

Did you have any difficulty with discounting the best estimate liabilities?

- Yes No

Please explain any difficulties and how you have overcome these.

2. Life companies only

In calculating the time value of options and guarantees (see TS.II.D.40 to 42), which of the following approaches did you use?

- Not applicable because there is no optionality inherent in the liabilities
- We did not take the time value of options and guarantees into account
- We did take these into account and used stochastic simulation approach
- We did take these into account and used closed form solutions
- We did take these into account and used a series of deterministic projections with attributed probabilities
- We did take these into account and used a single deterministic valuation
- Other (please explain)

If you used a series of deterministic projections with attributed probabilities please explain how you determined these probabilities

If you used a single deterministic approach please explain how you incorporated the cost of options and guarantees

If you used a closed form solution, are you likely to use this approach once Solvency II has been implemented?

3. Non-life companies only (see QS question 2)

Did you have any difficulties in calculating the best estimate of the technical provisions using actuarial techniques (see TS.II.E) (tick one or more boxes)?

- No
- Yes, difficulties with segmentation
- Yes, difficulties because of lack of data which did not make it possible to create loss-development triangles
- Yes, other reason (please explain)

Did you use cumulative paid development triangles to derive the best estimate liabilities or/and did you also use other data triangles such as incurred claims data?

- We used paid development triangles only
- We used incurred claims development triangles only
- We used paid cumulative paid development well as incurred claims development triangles
- We also used other data (please elaborate)

Did you have any difficulty with discounting the best estimate liabilities?

- Yes No

Simplifications for calculating the best estimate

(See QS questions 7-11)

4. In order to use a simplification companies need to meet certain thresholds (see TS.II.A.38). What is your view of the proposed thresholds? Is it appropriate to include size thresholds that potentially restrict the use of simplifications by larger companies? Do you have suggestions for an alternative way of assessing when companies should be allowed to use simplifications?

5. Life companies only

Did you use any of the simplifications to calculate the best estimate of the liabilities?

- Yes No

6. Non-life companies only

Did you apply any of the simplifications (see TS.IV.B – TS.IV.N) to derive the best estimate of the technical provisions?

Yes No

Did you find these simplifications useful?

Yes No

Do you believe that some of the simplifications should be allowed as the default methods? If so, please state which ones and why.

Allowance for future premiums when calculating the best estimate

7. Life companies only

Please describe the extent to which future premiums have been included/excluded when determining the best estimate (see TS.II.B.32 to B35).

Premiums included:

Premiums excluded (if possible, please quantify the effect):

Did you find the technical specifications (see TS.II.B.32 to B35) clear over which expected future premiums to allow for when determining the best estimate of the technical provisions?

Yes No, some additional guidance and examples would have been helpful

8. Non-Life companies only

Please describe the extend to which future premiums have been included/excluded when determining the best estimate (see TS.II.B.32 to B35).

Premiums included:

Premiums excluded (if possible, please quantify the effect):

Did you find the technical specifications (see TS.II.B.32 to B35) clear over which expected future premiums to allow for when determining the best estimate of the technical provisions?

Yes No, some additional guidance and examples would have been helpful

Calculation of risk margins

(See QS questions 2b and 4b)

9. On average, how large was the risk margin expressed as a percentage of the best estimate of the total technical provisions, if possible separately for your life and non-life business?

Life business:	%
Non-Life business:	%
Total	% (see tab "I. General" cell E 277 of the solo QIS4 spreadsheet)

10. Life companies only

Did you use the default method to calculate risk margins (see TS.II.C.15), i.e. by projecting future SCR's by business line?

Yes No

Do you think that the default method is unnecessarily complex?

Yes No

11. Non-life companies only

Did you use the default method to calculate risk margins (see TS.II.C.15), i.e. by projecting future SCR's by business line?

Yes No

Do you think that the default method is unnecessarily complex?

Yes No

If you had difficulties do you expect these to persist in the future?

Please explain any difficulties and how you have overcome these.

Future taxes

17. How was the deferred tax liability calculated?

- It was set to zero
- We set it equal to the local GAAP figure
- We used local GAAP, but adjusted it to be consistent with an economic basis
- We used IAS12 values (see TS.III.B)
- Other

Please elaborate on the approach used.

Section 2: Own funds

Tiering of own funds

18. Did you have any difficulties in allocating eligible capital into tiers 1,2 and 3 (see TS.V.D – TS.V.F and TS.V.K)?

Yes No

If you had any difficulties, could you please explain why?

- Guidance by CEIOPS was too limited / difficult to interpret
- Lack of time
- Other, please explain

19. The Framework Directive Proposal limits the capital deemed to be eligible to cover the MCR (only tier 1 and tier 2 Basic Own Funds with at least 50% being tier 1) and the SCR (at least 1/3rd needs to be covered by tier 1 and no more than 1/3rd can be covered by tier 3). Would such restrictions significantly reduce the capital that would be eligible to cover your MCR and SCR (see also tab "O.Graphical Output", cells F124-F128 of the QIS4 solo spreadsheet)?

Yes, it reduced our available capital by % for the MCR and by % for the SCR
 No

20. Can you provide an approximate breakdown of eligible capital:

Tier 1	€ mln (see "I. General" , cell F147 of the QIS4 solo spreadsheet)
Tier 2	€ mln (see "I. General" , cell G147)
Tier 3	€ mln (see "I. General" , cell H147)
Total	_____ € mln (see "I. General" , cell E147)

Ring-fenced funds

(See QS questions 22 -23)

21. Life companies only

Do you have any ring-fenced funds in your company (see TS.V.C)?

Yes No

If yes, please describe how many ring-fenced funds do you have and what types of business they relate to (see also the questions asked in TS.V.C.4)?

If yes, were you able to do the additional calculations where for each ring-fenced fund you had to calculate a separate SCR (tick one or more boxes)?

- Yes
- No, lack of time
- No, too complicated

Please explain any difficulties you encountered and how you have overcome these.

Do you agree with the approach / have any suggestions on how to simplify the calculations (see TS.XVII.B)?

Hybrid capital

22. What proportion of your Group Basic Own Funds consists of hybrid debt with step-up coupons (see QS question 24)?

23. If applicable, what is the average effective duration of this hybrid debt when measured a) at the issue date and b) 31 December 2007?

Section 3: Assessing solo-entity capital requirements

Calculation risk absorbing capacity of future profit sharing and deferred taxes

24. Life companies only

Did you have any difficulties with calculating the risk mitigating effect of future profit sharing (see TS.VI.H and QS question 2e)?

- Yes No

If you had any difficulties, could you explain why (tick one or more boxes)?

- Guidance form CEIOPS unclear
- Our current models are not set up this way to generate these results
- The process is overly complicated
- Other, please explain

25. Life companies only

Did you apply the alternative method for profit sharing business (that seeks to allow for non linearity) for the loss absorbing capacity for future profit sharing and deferred taxes (see TS.VIII.C.8)?

- Yes No

26. Did you have any difficulties calculating the risk absorbing capacity of deferred taxes (tick one or more boxes)?

- No difficulties
- Yes, the guidance provided was too limited
- Yes, lack of time

Please explain the approach used.

Lower boundary SCR

27. Life companies only

What is the ratio of lower boundary SCR (see TS.VI.H.8) to the SCR?

Methodology of the calculations of the capital requirements for the individual risk modules

28. Did you provide additional information on the alternative 'dampener approach' to assess equity risk (see TS.IX.C.21 – C27 and QS question 4e)?

Yes No

If you did provide additional calculations, what were the main findings?

If you did not provide the alternative 'dampener approach' can you please state why?

29. In assessing concentration risk (see TS.IX.G), did you have any difficulties (tick one or more boxes)?

- Yes, the methodology was too complex
- Yes, we had difficulties in getting the data
- Yes, other
- No

30. In assessing counterparty default risk (see TS.X), did you have any difficulties (tick one or more boxes)?

- Yes, the methodology was too complex
- Yes, we had difficulties in getting the data
- Yes, the calculation of the LGD was too burdensome
- Yes, other
- No

31. Non- life companies only

Did you collect historical data to assess your company specific factors for premium risk (see TS.VI.F5-F7 and TS.XVII.D4 – D8 and QS question 54)?

Yes No

If yes, did you have any difficulties in collecting the data?

Yes No

If yes, did you find the approach sensible?

Yes No

If no, was it because of time constraints?

Yes No

If no, was it because the data was not available?

Yes No

Concerns have been expressed that the approach prescribed by CEIOPS is too mechanical and does not take into account changes over time (e.g. profitability, reinsurance structure, mix of business). Do you agree with these concerns?

Yes No

What were the major concerns (if any) regarding non-life underwriting risk?

32. Non- life companies only

Did you collect historical data to assess your company specific factors for reserve risk (see TS.XVII.D9-D13 and QS question 54)?

Yes No

If yes, did you have any difficulties in collecting the data?

Yes No

If yes, did you find the approach sensible?

Yes No

If no, was it because of time constraints?

Yes No

If no, was it because the data was unavailable?

Yes No

Concerns have been expressed that the approach prescribed by CEIOPS is too mechanical and also impractical as the data could be difficult to collect. Do you agree with these concerns?

Yes No

Please comment, which approaches you would believe would be more suitable.

33. Only for non- life companies with international business

Did you have any difficulties in gathering the premium data and technical provisions data by geography?

Yes No

Do you think the use of a Herfindahl index is an appropriate way to allow for geographic diversification (see TS.XIII.B31-B33 and TS.XVI.B.10)?

Yes No

If no, what alternatives would you suggest?

34. Non- life companies only

Were you able to use your own scenario approach(es) to determine the capital requirement for Catastrophe risk (see TS.XIII.C.21)?

Yes No

If NO, do you expect you will use a scenario approach in the future?

Yes No

35. Did you have any other concerns on the methodology for any particular risk module?

Yes No

If yes, could you describe some of the concerns you had?

Simplifications

(See QS questions 7-11)

36. Did you use any of the simplifications to calculate the capital requirements of certain (sub) risk modules?

Yes No

If yes, could you indicate for which (sub) modules you used these and whether you thought there was excessive prudence inherent in the methodology and assumptions?

37. In order to use a simplification companies need to meet certain thresholds (TS.VI.G)? What is your view of the proposed thresholds (see the question in TS.VI.G.5)? Is it appropriate to include size thresholds that potentially restrict the use of simplifications by larger companies? Do you have suggestions for an alternative way of assessing when companies should be allowed to use simplifications?

38. Was the suggested simplification for counterparty risk (see TS.X.A.22) helpful or do you believe that there should be another simplification for counterparty risk as well?

Yes, it was helpful No, there should be another simplification

39. Do you have any proposals of simplifications which would be useful to have but have not been provided in QIS4? If you have any suggestions, could you give a brief description?

Calibration

(See QS question 5)

40. Did you have any major concerns with the QIS4 calibration of stress factors or correlations?

Yes No

Could you specify in the table below for which risk modules you had any difficulties. Did you have any difficulties with the correlation factors prescribed? If you had any concerns, could you also suggest possible alternatives?

Area / risk Module	Concern?	Concern and suggested alternative (if possible)
Market risk	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Life U/W risk	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Non-life U/W risk	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Counterparty default risk	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Operational risk	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Correlation factors	<input type="checkbox"/> Yes <input type="checkbox"/> No	
	<input type="checkbox"/> Yes <input type="checkbox"/> No	

Section 4: Results (this section is optional)

41. Do you have an (approximate) indication of the average ratio MCR/SCR for your market; if possible separately you're your life business, non-life business and your aggregate business?

	Life business	Non-life business	Aggregate
MCR / SCR ratio	%	%	%

See tab "O.Graphical Output" cells C72 and E72 of the QIS4 solo spreadsheet

42. Do you have an (approximate) indication of the average ratio Available Capital/SCR and the Available Capital/MCR for your market? , if possible, separately for each of: life business, non-life business and your aggregate business? How do these compare to Solvency I?

	Life business	Non-life business	Aggregate
SCR coverage			
(Tier 1 basic own funds plus Tier 2 basic own funds) to total own funds			
(Tier 3 basic own funds plus Tier 3 ancillary own funds) to total own funds			
MCR coverage ratio			
Tier 1 basic own funds to (Tier 1 plus Tier 2 basic own funds)			

See tab "O.Graphical Output" cells F124 and F128 of the QIS4 solo spreadsheet

43. Could you indicate what the capital requirements were for each of the risk modules, if possible, separately for each of: life business, non-life business and your aggregate business?

SCR composition

	BSCR	SCRop	Adjustment	SCR	BSCR
Life business					
Non-life business					
Aggregate					

See tab "O.Graphical Output" cells C12 and F12 of the QIS4 solo spreadsheet

SCR composition

	Market risk	Default risk	Life	Health	Non-life	AdjFDB
Life business						
Non-life business						
Aggregate						

See tab "O.Graphical Output" cells C31 and H31 of the QIS4 solo spreadsheet

If you supplied internal model results, how does the SCR derived using an internal model compare to the to the SCR calculated using the standard approach See tab "O.Graphical Output" cells F124 and F128 of the QIS4 solo spreadsheet? For which risk modules were there the biggest differences?

Section 5: General

44. What were the key issues, concerns and challenges that may affect your company?

Section 6: Group calculations

General

45. Please explain any difficulties associated with eliminating intra-group transactions.

46. Please explain any difficulties associated with obtaining consolidated data.

47. CEIOPS asks in questions 10 and 11 of TS.XVI.B.19 for groups to provide information on group-specific risks such as contagion risk, conflict of interest, legal risk and reputational risk. Please provide a summary of any response given.

Diversification

(See QG questions 7, 8, 15 and 19)

48. Please provide details on the extent of the group diversification benefit (expressed as a % of the sum of solo entities SCR's after eliminating intra-group transactions)?

	% of sum solos
Worldwide consolidation	%
EEA consolidation	%
EEA consolidation excluding profit sharing business	%
Sum of solo SCR's after eliminating intra-group transactions	100 %

See tab "TS.XVI.Group calculations" cells D9-D14 of the QIS4 groups' spreadsheet

49. Only for groups with international non-life business

Did you have any difficulties in gathering the premium data and technical provisions data by geography?

Yes No

Do you think the use of a Herfindahl index is an appropriate way to allow for geographic diversification (see TS.XIII.B31-B33 and TS.XVI.B.10)?

Yes No

If NO, what alternatives would you suggest?

Do you think the use of a Herfindahl index is an appropriate way to allow for geographic diversification?

Yes No

If NO, what alternatives would you suggest?

50. Groups with life business

Do you think geographic diversification should be reflected in the group figures (see TS.XVI.B12)?

Yes No

If YES, how should this be done?

If YES, how material might the effect be in terms of a % reduction in your group SCR?

51. In percentage terms, how much would your group operational risk charge reduce if you were able to allow for diversification effects in respect of the operational risk across the group (see TS.XVI.B.17 and QG question 10)?

Own funds

52. What proportion of your Group Basic Own Funds consists of hybrid debt with step-up coupons?

53. If applicable, what is the average effective duration of this hybrid debt when measured a) at the issue date and b) 31 December 2007?

54. Please estimate the proportion (as a %) of your group basic own funds that are subject to transferability restrictions, i.e. that are not fungible.

Total own funds that are not fungible, % of group basis own funds

Please describe the main sources of any transferability restrictions?

55. In your view, how should fungibility restrictions be allowed for in a group?

- It should be allowed for by reducing the diversification effect recognised in the group SCR
- It should be captured by reducing the available own funds
- Both

Please explain

Group Support Arrangements

(See QG questions 21)

56. CEIOPS ask in question 19 of TS.XVI.I.4 a series of questions relating to the group support mechanism. Please provide below the response (if any) that you gave.

Describe the potential legal and practical barriers to the transfer of assets pledged under "group support", including any impediments to the movement of capital between subsidiaries in different jurisdictions

Describe any existing intra-group support arrangements, including the circumstances under which they would apply and the ability of the supported entity to legally enforce them

Describe the type of instruments they think they would use to give effect to the guarantee of "group support"

Explain the factors that might influence a groups' decision to mobilise or not to mobilise "group support"

Describe how the ability to use "group support" would affect their approach to capital management

Describe methods used to distribute group level diversification benefits to individual group entities

Describe the positive and negative effects of group membership (separately identified) with regards to EEA (re)insurers, non-EEA (re)insurers, other financial sector entities, and non-financial entities