What next for QIS 5?
Solvency II Breakfast briefing

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QIS5 – Open Issues

- Relevant risk-free interest rate term structure
- Group solvency: approach to availability of solo own funds in Groups
- Treatment of participations in own funds and in the SCR standard formula
- Present value of future profits and treatment as own funds

- Calibration of market risk in the SCR standard formula
- Proportionality in the calculation of technical provisions SCR
- Definition and treatment of ring-fenced funds in the SCR

- Treatment of health insurance in the SCR
- Numerous non-life issues:
  - Non-life catastrophe risk in the SCR
  - Design of the non-life premium and reserve risk sub-module in the SCR
  - Calibration of non-life premium and reserve risk in the SCR standard formula

Open Issues: Governance

- Supervision
  - Convergence of supervisory practice across EU
  - How will supervisors interact in supervising groups
  - Proportionality principle
- Own Risk and Solvency Assessment
- Actuarial Function
  - Scope and responsibility of actuarial standards.
  - Independence and fitness and probity
- Disclosure
  - Detailed quantitative and qualitative disclosure proposed
  - Some concerns that too much information could result in a lack of transparency

QIS5 product consequences

Impact of Solvency II on capital needed for different product lines (versus Solvency I)

- Positive for pure unit-linked
  - Negative reserves possible
- Negative for annuity providers
  - Previously, use of corporate bonds yield curve for discounting with default adjustment
  - Now use of swap rates and illiquidity premium
  - Plus high risk margin, onerous longevity shock and spread risk (where corporate bonds)
- Negative for with-profits & other traditional guaranteed business
  - Must reserve for expected bonus payments
- Stochastic reserves for options and guarantees
  - Some traditional guaranteed business

Producing QIS5 results

New to QIS?

- Your current valuation models are unlikely to help
    - Term structure discount rate versus deterministic
    - Need to be able to model lapses, segmentation, stochastic runs (maybe)
    - Shocks, stresses, many runs
    - Data and assumptions to support best estimate liability versus prudent
    - Documentation and detailed board approval
- MCEV models seem to be the best starting point

Moving from QIS 4 models

- If you developed a "QIS 4.5" model from CEIOPS Level 2 final advice you will have the correct variables
- You should see a reduction in capital from the Level 2 advice calibrations

- Financial Regulator expects all companies to participate in QIS5
- Don't forget QIS5 includes lots of questionnaires
- Final Spec is due end July but no reason why you cannot start now!

Questions?

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