



eiopa
EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

Solvency II – Quo Vadis?

Carlos Montalvo Rebuelta
Executive Director
Handelsblatt Jahrestagung, Cologne, 13 April 2011

The “*single*” rule book

- Directive : Entry into force 1 January 2013

- Implementing measures

QIS5 tested the feasibility of the proposed measures

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

- o Delegated acts (known as “Level 2 measures”):

- o Implementing acts: development of implementing technical standards by EIOPA, endorsement by Commission

Omnibus II Directive to define scope and timing

- EIOPA Guidelines and Recommendations

EIOPA to ensure convergent practices of industry and supervisors

- EIOPA tasks under Solvency II

For example: derive and publish risk free rate, eligibility of ECAIs, be consulted and settle disagreements on group internal models, appointment of group supervisor, determine exception fall in financial markets (PIL 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? EIOPA

Feasibility of Solvency II ?!

Sustainable impact for all insurers ?!

Are industry and supervisors prepared ?!

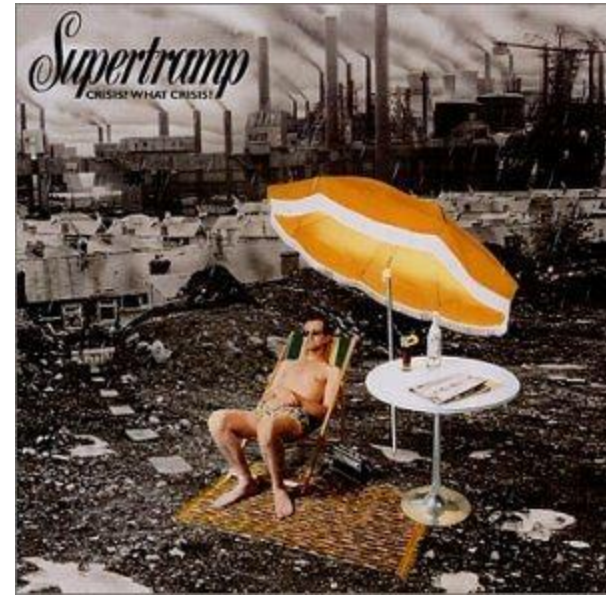


- Complexity
 - o Solvency II is a major overhaul of valuation of balance sheet and calculation of the capital requirements
 - o Simplify where impact is not material

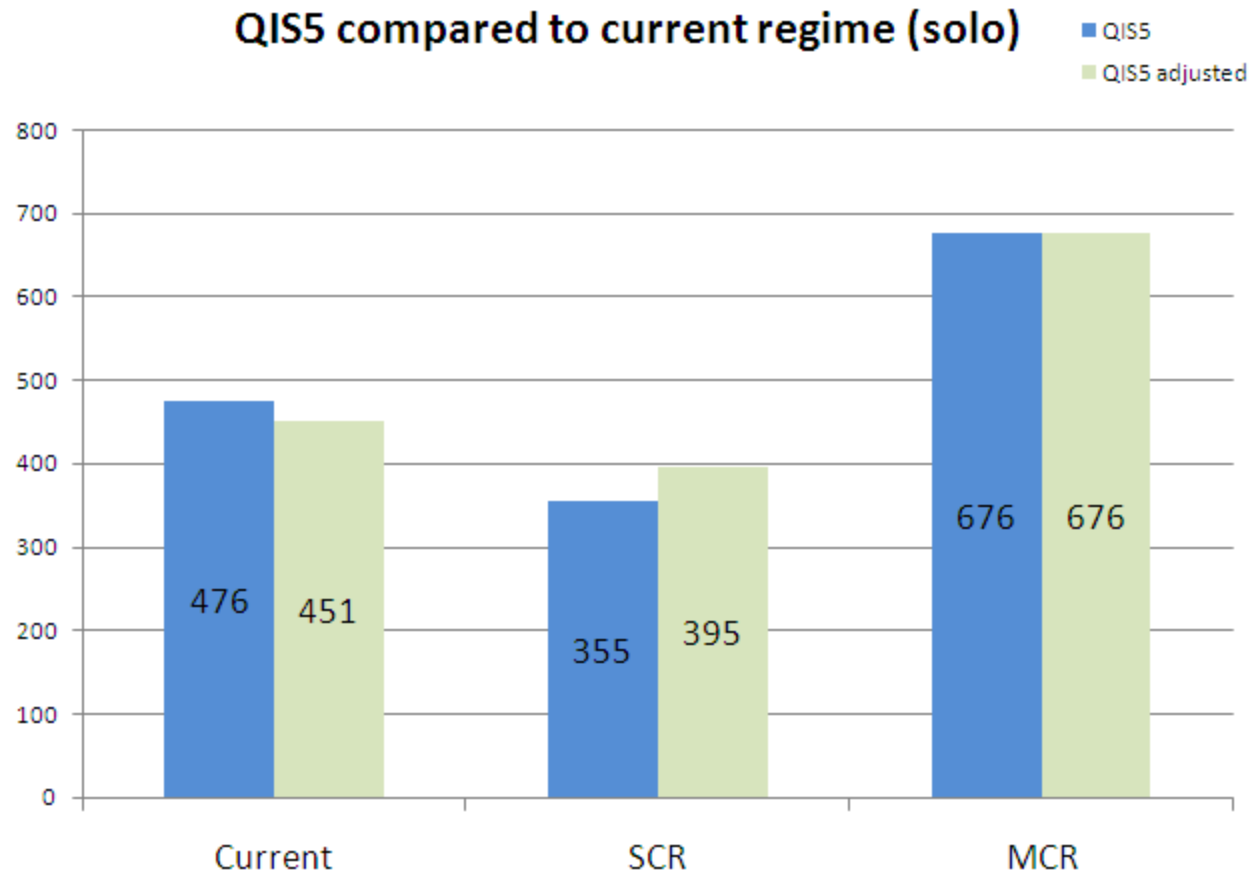
 - Need to spend time to understand the requirements and how they will be implemented operationally
 - o Pillar I and Pillar II (ORSA, Governance)
 - o Training, Human resources
 - o IT, Data collection

 - Impact
 - o Smooth transition – transitional measures
-

Impact of the proposed regime ειορᾶ

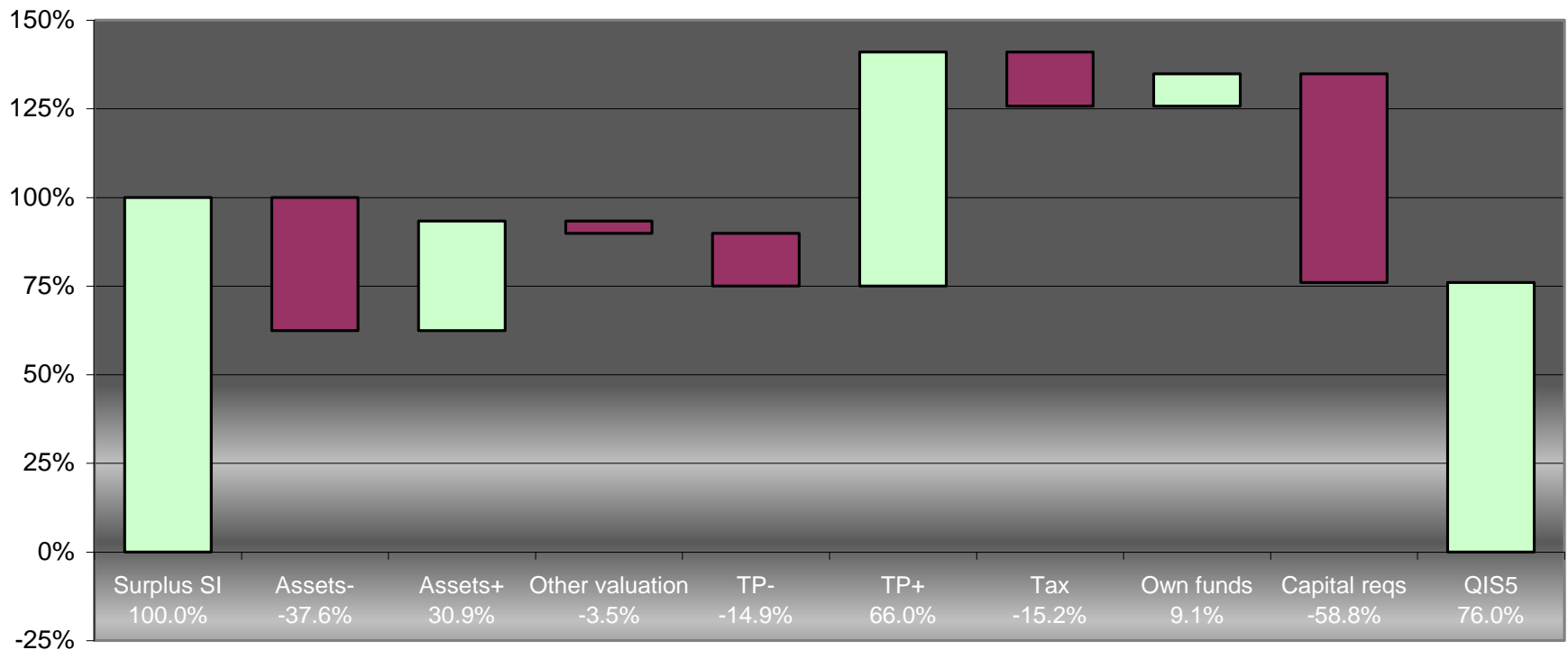


A sustainable impact on the surplus



Explanation of solo surplus evolution

Graph 8: Drivers of the surplus changes - EEA



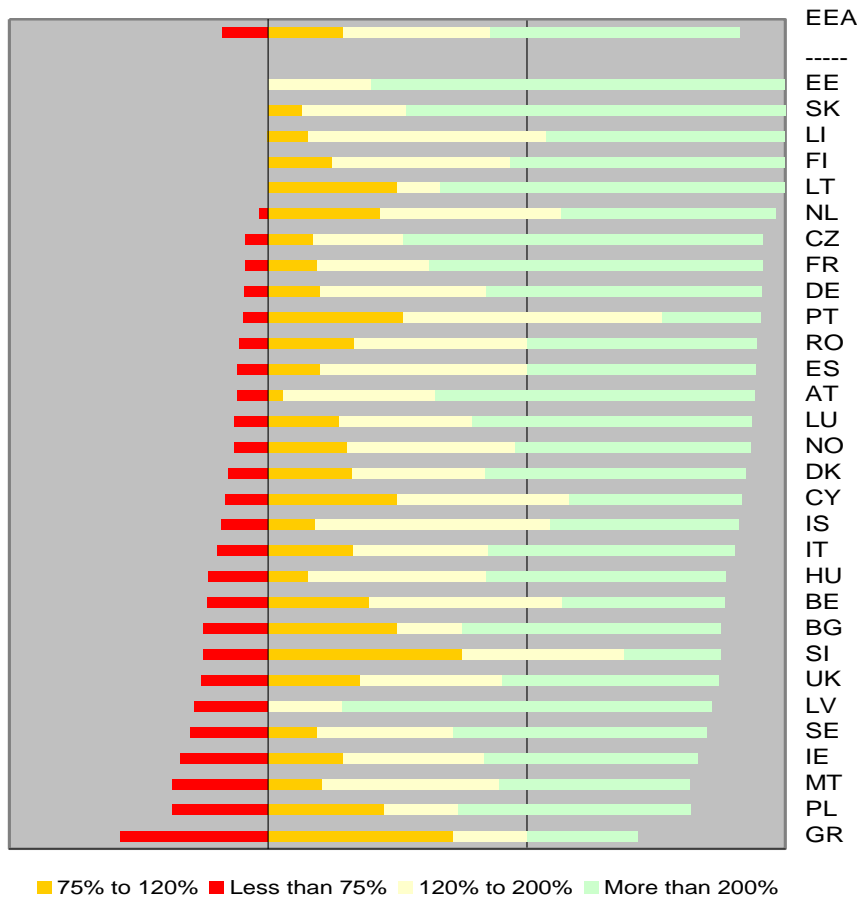
Group surplus



(Billions euro)	<u>Surplus Solvency I</u>	<u>Surplus QIS5</u>	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

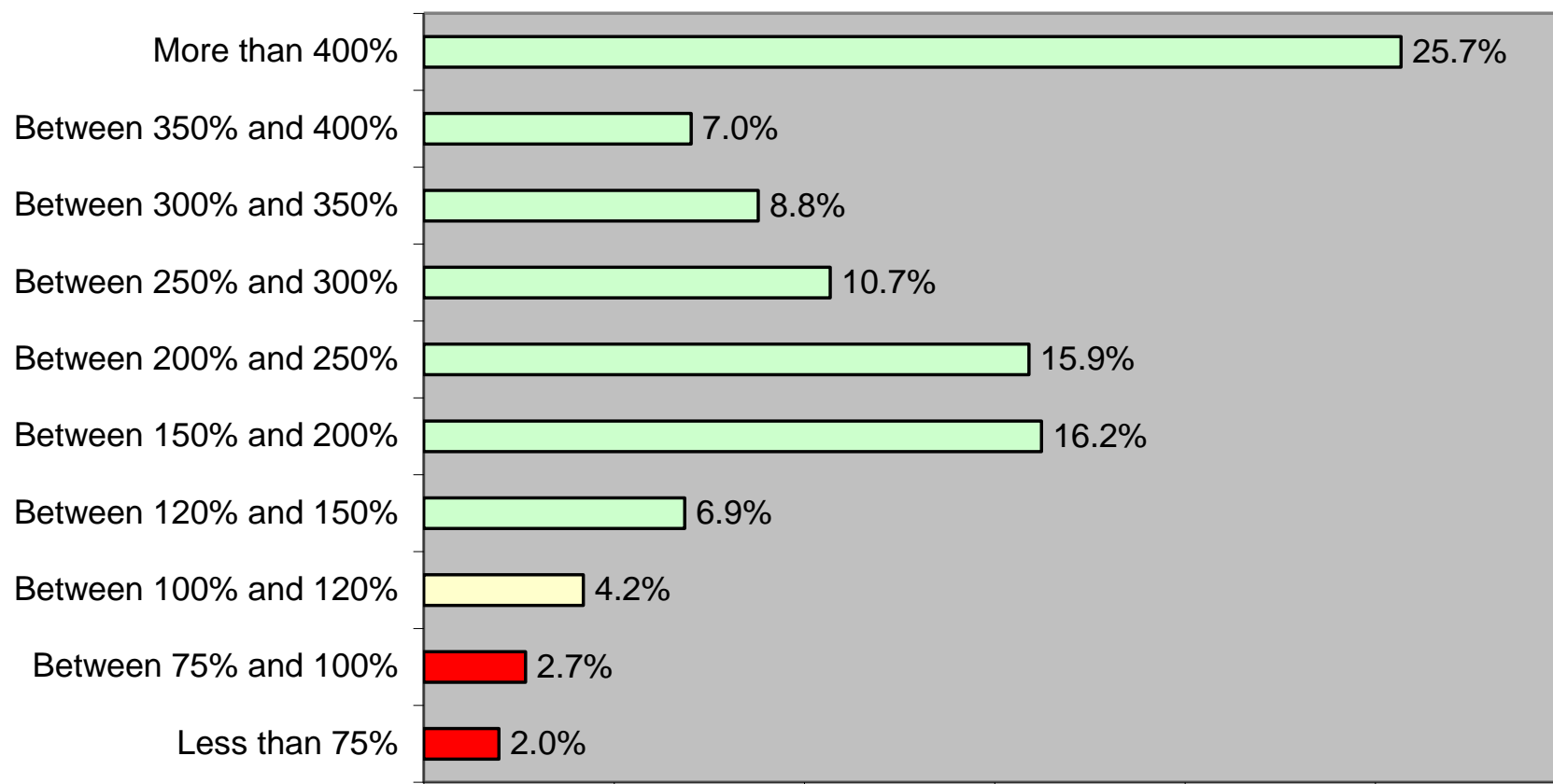
SCR coverage across the EEA

Graph 5: Distribution of SCR coverage by country



Solo MCR coverage

Graph 6: Distribution of MCR coverage



- 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)

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

- 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

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



eiopa
EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

Thank you
