

**The Actuarial Profession**  
making financial sense of the future

Life conference and exhibition 2010  
Anthony Brown and Ross Gardiner

**QIS5**  
**A Regulatory Perspective**

7-9 November 2010

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## Agenda

- Background to QIS5
- Role of QIS5 in Solvency II Process
- Early Findings
- Key Issues
- Next Steps
- Solvency 2 timetable
- Questions

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## Background to QIS5

- European wide field study
- Owned by EC, practicalities from CEIOPS and Member States
- c5,000 firms in Europe
- c500 in UK
- Quantitative and Qualitative aspects
  - of equal importance
- The key input to Level 2
- The final chance to influence(?)

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## Background to QIS5 - Timetable

- Final specifications released in July
- Spreadsheets released in August
- Submission: End of October – Solo  
Mid November - Groups
- Country Reports to CEIOPS – January
- CEIOPS report to EC – Q1 2011

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## Role of QIS5 in Solvency II Process

### The Solvency II journey

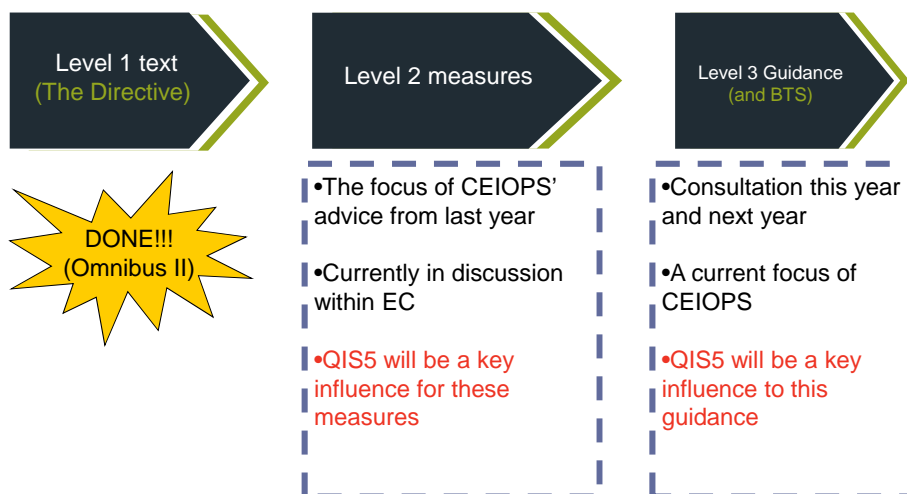


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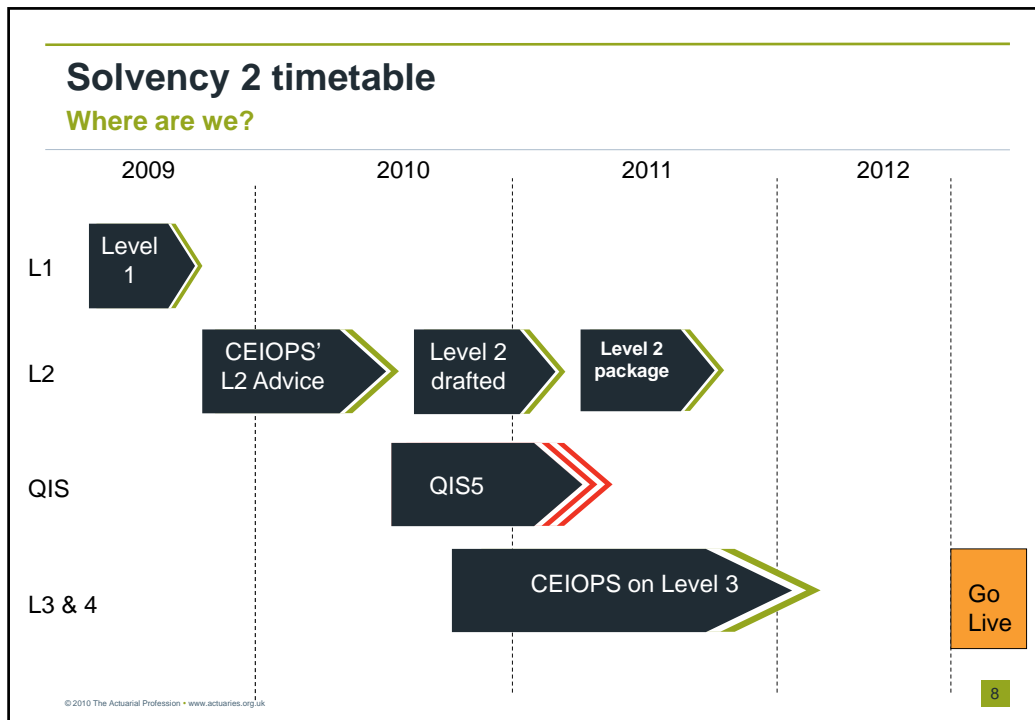
## Role of QIS5 in Solvency 2 Process

### Where QIS5 influences



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## Early findings



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## Key issues

### Overview

- Expected Profits In Future Premiums
- Contract boundaries
- Risk Margin
- ESGs
- Liquidity Premium
- Single Equivalent Scenario
- SCR in the Standard Formula
- Capital issues

## Key issues

### Technical Provisions - I

- Expected Profits In Future Premiums (EPIFP)
  - Tier 1 or Tier 3 capital
  - QIS5 tests potential impact
  - An important part of the market consistent value of liabilities
  - Q+A 155: 'pragmatic... allocate profits on a pro rated basis, based on proportion of premiums received'
  - Difficulties on assumption setting
- Contract boundaries
  - Linked to EPIFP
  - Definition and examples provided
  - IFRS
  - Further clarity still needed

## Key issues

### Technical Provisions - II

- Risk Margin
  - Practicability of calculation
  - Simplifications used – for real?
  - Do methods chime with how business is run?
- ESGs
  - Impact of the illiquidity premium
  - Practicability of calibration
  - Calibration to price or volatility
- Liquidity Premium
  - The three bucket approach
  - Define 'stressed conditions'

## Key issues

### SCR

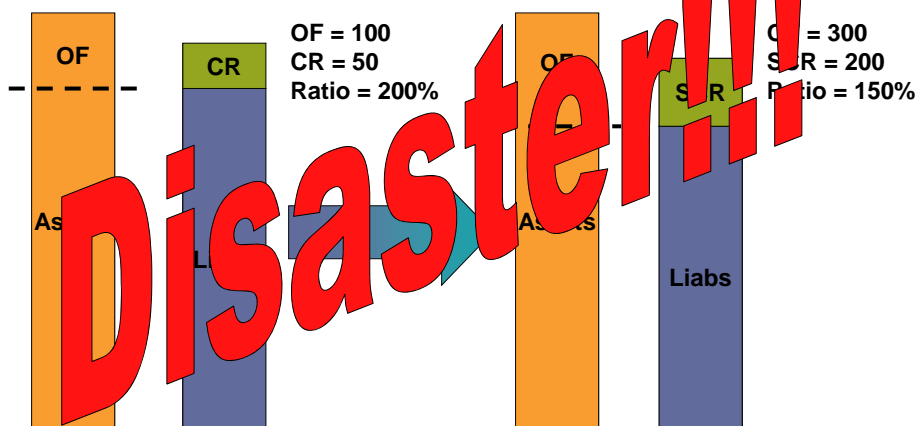
- Single Equivalent Scenario
  - Practicability
  - Use in communications to board?
  - Reliability
  - Time constraints
- SCR in the Standard Formula
  - Calculations less difficult than previous QIS?
  - A good fit with risk profiles?



## Comparing results

Capital Implications – Health warning: the danger of Solvency Ratios

Solvency Ratio = 'Own Funds' / SCR



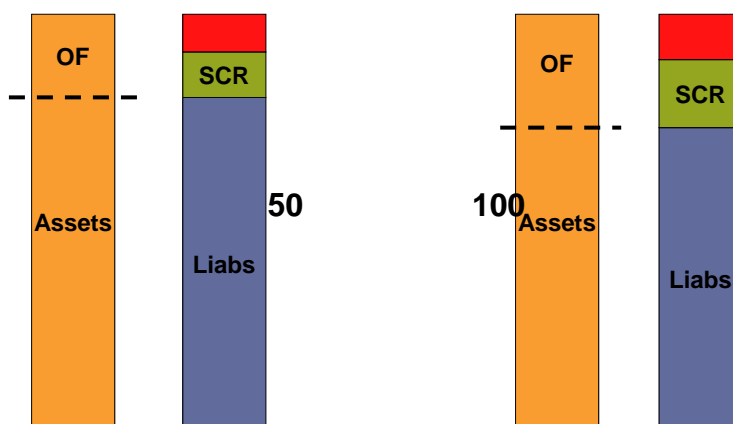
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## Preliminary Results

Capital Implications – Health warning: the danger of Solvency Ratios

'Free Assets' are the key



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## Next Steps

### What happens now?

- Final group submissions in next week
- National regulators to review the data
- Country reports to be compiled for CEIOPS – not public
- CEIOPS to compile public report
- Lots of interest from analysts anticipated
- Influence for level 2

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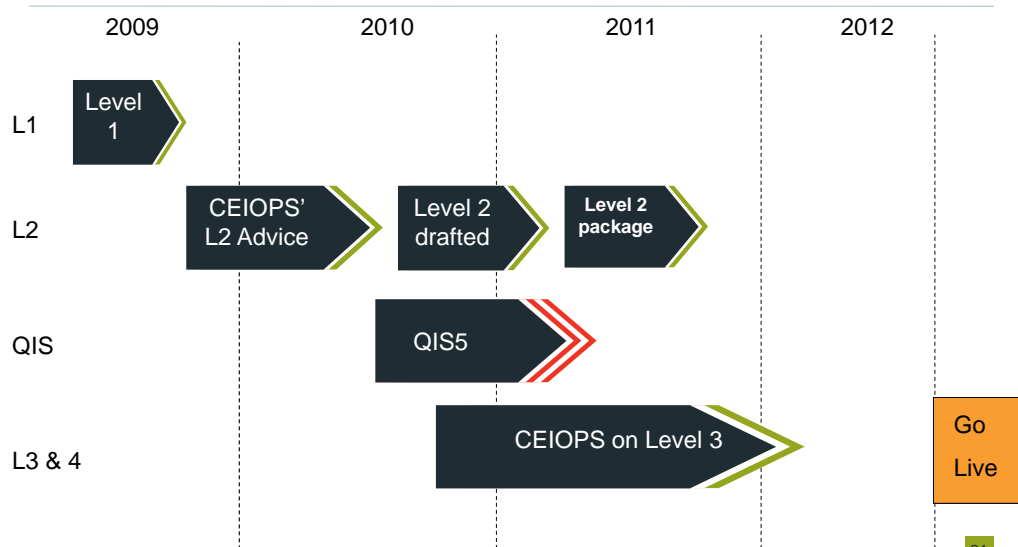
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## Solvency 2 timetable

Where are we?



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## Solvency 2 timetable

### What's coming?

- Omnibus II - Imminent
- Consolidated Level 2 package for consultation Q1/Q2 2011
- Final Level 2 measures – End Q2 2011
- CEIOPS' QIS5 Report – Late Q1 2011
- Level 3 papers – Throughout 2011
  
- And then we go live!

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## Questions or comments?

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The views expressed in this presentation are those of the presenter.

