



**The Actuarial Profession**

making financial sense of the future

GIRO 2010

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# QIS5 Current Issues

# AGENDA

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- What is QIS5
- Timetable
- Data Collection exercise
- Practical issues

# What's involved in QIS5

- All quantitative aspects of SII, as spreadsheet submission
  - balance sheet (technical provisions, asset valuations, own funds)
  - capital requirements (MCR, standard formula SCR, internal model SCR)
  - groups and solos
- Qualitative questionnaires
  - solo questionnaire
  - groups questionnaire
  - internal model questionnaire
- Data Collection exercise



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# QIS5 Timetable

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- Technical specifications finalised in July
- Submission toolkit available from CEIOPS website
  - spreadsheet, helper tabs, manual
  - qualitative questionnaires
  - background documents
- Submissions deadline
  - end Oct for solos
  - 15 Nov for groups
  - 30 Nov for data collection exercise
- Results and analysis during Q1 2011
  - UK country report to CEIOPS by 7 Jan
  - QIS5 report to EC mid March

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# Questionnaires

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- Solo, group, internal model versions
- Word based AND Excel based
- Important to use these to provide feedback on practical issues, suitability, methodology
- Examples are helpful and more persuasive!

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# Participant tab

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- Contains general information
- Drop-down menus to simplify and standardise
- Responses to participant questions trigger reminders to fill tabs or prompts to delete or ignore tabs
- Ignore everything to the right of column J
- Note possibility to select reporting currency
  - currency conversion specified automatically
  - but check your units! (same in ALL sheets please)
- Local registration number will be your FRN

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# What happens next?

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## Firms

- Internal firm quality control process
  - as for any information supplied to FSA

## FSA

- Initial high level “reasonableness” review
  - Consistent with FSA returns
  - Do we “recognise” the firm?
  - Analyse all submissions (incl Qual Qs) for UK country report
- Supervisor review
  - Issues raised in Qual Questionnaire
  - Discussion on progress in Solvency II implementation

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# Own Funds

## Grandfathering

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- QIS5 Spreadsheet currently doesn't deal properly with grandfathering aspects of Own Funds
  - It does new rules OK
  - But doesn't yet reflect grandfathering rules
    - Eg Subordinated debt instruments
- Very important issue
- New tool being developed
  - Add-on to existing QIS5 spreadsheet
- Look out for this on CEIOPS website



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# Joint Working Group – NL u/w risk calibration

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- Comprises CEIOPS members with EC and Industry
  - CEA, CRO Forum, AMICE & GC
- Revise calibration of premium and reserve risk modules
  - Non-life and Health – Non-SLT
  - NOT reconsidering structure
- Inputs from a wide range of
  - Member States
  - Size and type of undertakings
  - All Lines of Business
- Provide input to EC for L2 Implementing Measures

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# Data Collection timetable

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- Oct / Nov 2010 JWG reviews previous methods
  - Proposes additional methods
  - Prepares analysis tools
- 30 Nov 2010 – Data submission by firms
- 31 Dec 2010 – FSA sends data to CEIOPS
- Mid Feb 2011 – initial results for review by JWG
- Mid Mar 2011 – results to EC

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## Other points

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- Data confidentiality considerations
  - Data processing by CEIOPS in Frankfurt
- 3 sets of data for both premium and reserve risk
  - Raw data – gross or reinsurance
  - Adjusted gross data, excluding cat losses
  - Adjusted data, net of reinsurance, ex cat
- Full explanation of all adjustments made
- Accident year data preferred
  - But underwriting year data may be OK

# Data for Premium Risk

## Premium risk analysis

## Raw data gross of reinsurance

	Earned premiums
	( a )
2000	
2001	
2002	
2003	
2004	
2005	
2006	
2007	
2008	
2009	

Acquisition costs	ULAE	Other paid expenses
( b )	( c )	( d )

Ultimate loss	
Current estimate	End of 1st year
( e )	( f )
	0.00
	0.00
	0.00
	0.00
	0.00
	0.00
	0.00
	0.00
	0.00
	0.00

# Data for Reserve Risk

<b>3.</b>	<b>Reserve risk analysis</b>		
<b>3. 1.1</b>	<b>Raw data gross of reinsurance</b>		

<b>1. Claim payments</b>	0	1	2	3	4
1990					
1991					
2007					
2008					
2009					

<b>2. Claims provisions</b>	0	1	2	3	4
1990					
1991					
2007					
2008					
2009					

<b>3. Claims reported</b>	0	1	2	3	4
1990					
1991					
2007					
2008					
2009					

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# Question and Answers

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- Currently 180 Questions and Answers from CEIOPS
  - Another 25 later this week
  - Final (solo) batch next week
- FSA has had over 80 specifically non-life questions, mainly on:
  - Contract Boundaries
  - Binary events in
  - Segmentation / unbundling
  - Cat risk modules
  - Undertaking Specific Parameters
  - Counterparty default risk

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# Balance Sheet Issues - Technical Provisions - **Contract Boundaries**

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- Solvency II definition different from IFRS ED proposals
  - But only for some products
- Consideration of any options eg renewal options
  - Implicit as well as explicit
    - Next years cover at today's prices if no claims made
    - protected no-claims discounts
  - What ability to determine premiums?
- Based on legal obligation rather than inception of risk
  - Unincepted business
  - Binder business

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# Balance Sheet Issues - Technical Provisions

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- How have binary events been allowed for?
  - Both claims provisions and premium provisions
- Segmentation and unbundling
  - Consider how you will split motor into 'Motor vehicle liability' and 'Motor, other classes'?
  - Issues for other products?
  - Currency?
  - Identifying Periodic Payment Orders (PPOs) and valuing them as life products?



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# Balance Sheet Issues – Own Funds

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- Own Funds comprise of:
  - Basic own-funds items classified as Tier 1, Tier 2 or Tier 3 plus
  - Ancillary own-funds classified as Tier 2 or Tier 3
- Important to get the Tiers correct
  - To determine Eligible Own Funds
  - Amount of Eligible Own Funds must cover SCR
  - At least 80% of the MCR should be met by Tier 1 items
- Solvency ratio – possible options:
  - $\text{Eligible Own Funds} / \text{SCR}$
  - $(\text{Available}) \text{ Own Funds} / \text{SCR}$

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# SCR Issues - Catastrophe Risk

## Standardised Scenarios

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- only apply to EEA
- Nat cat events
- Man made cat events
- Is reasonable quality data available?
- How do gross loss costs look compared to current models?
- How has netting down been achieved?
  
- Please provide constructive feedback on practicality issues in the qualitative questionnaire

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# SCR Issues - Catastrophe Risk

## Factor method

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- Applies where standardised scenarios not applicable
  - And “Miscellaneous” and non-prop reinsurance lobs
- Recognised as not being very satisfactory
- If significant, consider a (partial) internal model
- Please provide constructive feedback on practicality issues and any alternative options in the qualitative questionnaire

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# SCR Issues - Undertaking specific parameters

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- Encourage everyone to test the methods and provide feedback
  - On methods themselves
  - On data requirements
    - Own data
    - Use of external data
  - Do the results make sense?

# Areas for discussion?

Balance Sheet Issues	SCR Issues
<p>Gross best estimate</p> <ul style="list-style-type: none"> <li>Outstanding claims</li> <li>Premium provisions</li> </ul> <p>Reinsurance recoverables</p> <ul style="list-style-type: none"> <li>Expected counterparty default adjustment</li> </ul> <p>Risk Margin</p> <p>Segmentation / unbundling</p> <p>Contract Boundaries</p> <p>Pension Scheme</p> <p>Contingent liabilities</p> <p>Own Funds / Tiering</p> <p>Simplifications</p>	<p>Catastrophe Risk</p> <ul style="list-style-type: none"> <li>Standardised Scenarios</li> <li>Factor method</li> </ul> <p>Non-prop RI adjustment</p> <p>Undertaking Specific Parameters</p> <p>Counterparty Default risk</p> <p>Market Risk</p> <p>Any Finite Re?</p> <p>Any <math>P_{lob}^{PP}</math> issues?</p> <p>(existing multi-year contracts)</p> <p>Simplifications</p>

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# Questions or comments?

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Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

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

