GIRO 2010
David Simmons & David Theaker

QIS5
Current Issues
AGENDA

• 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

NEW!
QIS5 Timetable

- 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
Questionnaires

- 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!
Participant tab

- 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
What happens next?

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
Own Funds
Grandfathering

• 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
Joint Working Group – NL u/w risk calibration

- 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
Data Collection timetable

• 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
Other points

- 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**

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<th>Earned premiums</th>
<th>Acquisition costs</th>
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# Data for Reserve Risk

## 3. Reserve risk analysis

### 3.1.1 Raw data gross of reinsurance

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Question and Answers

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

- 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

• 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?
Balance Sheet Issues – Own Funds

• 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:
  – Eligible Own Funds / SCR
  – (Available) Own Funds / SCR
SCR Issues - Catastrophe Risk
Standardised Scenarios

- 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
SCR Issues - Catastrophe Risk

Factor method

• 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
SCR Issues - Undertaking specific parameters

• 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?

<table>
<thead>
<tr>
<th>Balance Sheet Issues</th>
<th>SCR Issues</th>
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<tr>
<td>Gross best estimate</td>
<td>Catastrophe Risk</td>
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<td>Outstanding claims</td>
<td>Standardised Scenarios</td>
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<td>Premium provisions</td>
<td>Factor method</td>
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<td>Reinsurance recoverables</td>
<td>Non-prop RI adjustment</td>
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<td>Expected counterparty default adjustment</td>
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<td>Contract Boundaries</td>
<td>Any Finite Re?</td>
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<td>(existing multi-year contracts)</td>
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<td>Own Funds / Tiering</td>
<td>Simplifications</td>
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Questions or comments?

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.