Madrid, 23 de Abril 2010

Dentro del calendario de QISV,

- CEIOPS should run a **fifth Quantitative Impact Study (QIS5) between August and November 2010**
- Publish a report on the results of that exercise **by end April 2011**
- All insurers and reinsurers should send their submissions to national supervisors by **31 October 2010** and, in the case of insurance and reinsurance groups, 15 November 2010.

Para ello se ha publicado el presente documento denominado "Consultation", pues está sujeto a comentarios finales por parte de los diferentes países afectados, previo a la publicación del definitivo a fin de Julio

El presente informe pretende ser un documento de trabajo, sin ningun carácter oficial, debiendo ser considerado como borrador de trabajo, complementario a los documentos publicados por la comisión y orientado a las especificaciones de negocio que AREA XXI viene abordando en los diferentes ejercicios realizados hasta ahora en los diferentes QIS

Para poder seguir el presente informe, la primera parte es una transcripción del documento "cover-note" – un resumen del resumen -, mientras que la segunda es un comentario a las distintas especificaciones técnicas – en donde se destacan aquellas de más relevancia y que, a su vez, presentan más novedades -

---

April 2010: fifth quantitative impact study: consultation on call for advice and technical specifications

Specifically, as indicated in the list of major modifications below, a number of changes have been made to the relevant:

1. **Risk free rate for calculating technical provisions**
2. **Eligibility of own funds and**
3. **The calibration of the standard formula Solvency Capital Requirement (SCR).**

Main modifications to the draft QIS5 technical specifications CEIOPS

Changes to the technical specifications on technical provisions

1. Allowance for diversification between lines of business in the calculation of the risk margin

Changes to technical specifications on the standard formula SCR

2. Calibration of the operational risk charge reduced (see Annex 2)
3. Correlation between concentration risk sub-module and other market risk submodules reduced from 0.5 to 0
4. Correlation between currency sub-module and other market risk sub-modules reduced from 0.5 to 0.25 (except correlation between currency risk sub-module and concentration risk-sub module reduced to 0)
5. Shock on equity levels reduced from 45% to 39% for global equities and from 55% to 49% for other equities
6. Increase of the time period for the symmetric adjustment to equity risk to three years
7. Volatility shock for equity reduced
8. Approach to participations incorporated into the SCR section to introduce a reduced level equity shock of 22% for strategic participations, other than those held in financial and credit institutions
9. Calibration of non-life and NSLT2 health premium and reserve risk reduced
10. Explicit allowance of geographical diversification
11. Increased allowance of non-proportional reinsurance
12. Calibration of the intangibles asset risk module reduced from 100% to 80%
13. Increase of the credibility factors for external data used to calculate undertakingspecific parameters
14. Application of the captive simplifications widened and allowance for risk mitigating effect of aggregate limits in the non-life catastrophe module

Changes to technical specifications on own funds

15. Treatment of the winding-up gap as Tier 3 own funds deleted, amount included in Tier 1
16. Treatment of profits included in future premiums as Tier 3 own funds deleted, amount included in Tier 1
17. Approach to participations amended so that own funds are only reduced by the value of participations held in financial and credit institutions
18. Inclusion of deferred tax assets that can be used or legally transferred within the next 12 months in Tier 1
19. Inclusion of recognised intangible assets in Tier 1

Changes to technical specifications on Groups

20. Calculation of the group risk margin amended to take into account group Diversification

Risk-free rates

A task force on risk-free rates was set up in December 2009 to develop technical solutions on a number of issues relating to the discount rate for technical provisions, including the illiquidity premium. The task force delivered solutions in relation to these issues at the beginning of March 2010 and these solutions have been incorporated into the draft QIS5 technical specifications. The task force also identified several outstanding issues (for example the adjustment to be used to remove credit risk from the swap rate curve), which industry representatives from the task force were asked to provide additional input on.
This additional input has been taken into account in the draft QIS5 technical specifications.
In accordance with the conclusions of the task force, the insurance industry was also asked to derive the non-extrapolated basic risk-free rates and the illiquidity premium observed in the financial markets for QIS5. CEIOPS was asked to specify the extrapolation of the basic-risk free rates in line with the principles developed by the task force. Both deliverables are included in the QIS5 consultation package.
Compared to the final CEIOPS advice, the determination of the relevant risk-free rates has been improved in the following way:

- the relevant risk-free rates include an illiquidity premium (the level of the illiquidity premium depends on the features of the liabilities which are classified in 3 buckets)
- the basic risk-free rates are derived from swap rates with an adjustment for credit risk
- there are transitional provisions for the discounting of specific life insurance Obligations

Health insurance

The modelling approach for NSLT health insurance included in the draft QIS5 technical specifications does not capture the risk profile of several significant health insurance products. A task force on health insurance has been initiated with the objective of improving the risk-sensitivity of the standard formula for NSLT health insurance. The conclusions of the task force will be taken into account in the finalisation of the QIS5 technical specifications.

Non-life and health catastrophe risk

CEIOPS has not yet provided final advice on Solvency II level 2 implementing measures in relation to the details of the non-life and health catastrophe sub-modules of the SCR standard formula. For this reason, the draft QIS5 technical specifications do not include a complete specification of these two sub- modules.
CEIOPS will continue working on catastrophe risk in close cooperation with external experts and will produce a complete specification in time for the finalisation of the QIS5 technical specifications. A separate consultation has been set up on the CEIOPS proposals on these sub-modules that have been published.

Future premiums

With regard to the recognition of future premiums in technical provisions the Commission has asked CEIOPS to deviate from its final advice when drafting the QIS5 technical specifications. CEIOPS' final advice envisaged an asymmetric treatment of future premium where the recognition of specific cash-flows depends on their profitability. The draft QIS5 technical specifications include a symmetric treatment of future premiums.

7. Calibration of the SCR

In its letter to CEIOPS dated 12 June 2009, the Commission Services asked for the draft QIS5 technical specifications to be accompanied by a comprehensive calibration paper. The calibration papers produced by CEIOPS, in support of the approach that it proposed in the draft QIS5 technical specifications, have been published alongside the draft QIS5 technical specifications. No amendments have been made to the CEIOPS calibration papers. Consequently, where the changes result in a different approach to that proposed by CEIOPS, the published calibration papers may not support the approach proposed. However, based on the empirical evidence that has been published, which in some cases is limited, it would appear that the calibration of a 99.5% Value-at-Risk over a one-year period (the confidence level for the SCR required in Directive 2009/138/EC) may fall in some cases somewhere between the approach taken in QIS4 and that proposed by CEIOPS in its final advice. As such, for the purposes of the official consultation on the 5 draft QIS5 technical specifications a calibration falling somewhere between the two approaches for some of the risk factors has been proposed.

8. Results of QIS5

The results of QIS5 are expected to differ from those seen in QIS4 for two main reasons.
Firstly, the QIS4 exercise was run on 2007 data and therefore did not reflect the effects of the financial crisis. QIS5 will be run on year-end 2009 data. Changes in market values and insurer's balance sheets between 2007 and 2009 are likely to have a significant impact on the QIS5 results compared to those seen in QIS4. In this respect it should be highlighted that even QIS5 results are only indicative of the actual impact of Solvency II. Market values and balance sheets will continue to change and it is therefore impossible to test the precise impact of the new regime before the Solvency II Directive becomes applicable.
Secondly, the QIS5 results will differ from the QIS4 due to the different approach that has been taken. Although the Commission Services have reduced the calibration of the SCR from that proposed by CEIOPS, they have not been reduced to the level tested in QIS4.
However, as noted above the QIS5 technical specifications will continue to be revised throughout the consultation process.
Although the results of the QIS5 exercise will most likely not be available until after the European Commission has published its proposed level 2 implementing measures, it is important to recognise that **the purpose of QIS5 is to test the impact of the new regime**.
Consequently, it will still be possible to make amendments to the level 2 implementing measures before the final level 2 implementing measures are adopted.

9. Consultation process

As the draft QIS5 technical specifications are based on CEIOPS' advice which has been thoroughly consulted upon3, the official consultation for QIS5 will be restricted and targeted at specific stakeholders as explained below.
The draft QIS5 technical specifications will be consulted with Member States, the European Parliament, selected stakeholders and CEIOPS.
The selected stakeholders officially being asked to provide comments are the seven representative European stakeholder groups: CEA, AMICE, CRO Forum, CFO Forum, ECIROA, FERMA and Groupe Consultatif. Details of the consultation process for these stakeholder groups can be found in Annex 3.
The consultation will last five weeks and end on **20 May 2010**. It may not be possible to take comments submitted after this deadline into account in the final QIS5 technical specifications.
The consultation process also includes the following:

a stakeholder meeting on 30 April;

the European Commission's public hearing on Solvency II on 4 May, which includes a panel on QIS5;

a meeting of the SEG dedicated solely to QIS5 on 7 May.

After having received all the comments on the consultation package, the documents will be updated and a final discussion will take place with Member States at the EIOPC meeting on 30 June.
The Commission Services intends to issue the final Call for Advice including the QIS5 technical specifications on 1 July 2010. According to this Call for Advice, CEIOPS will run QIS5 between August and November 2010.

10. QIS5 consultation package

The QIS5 consultation package comprises the following documents:
1. Cover note
2. Draft Call for Advice
3. Draft QIS5 technical specifications
4. Relevant risk-free interest rate term structures for QIS5
5. CEIOPS risk-free rate extrapolation tool (2 Excel files and a user manual)
6. Parameters for non-life catastrophe risk
7. CEIOPS QIS5 Calibration paper
8. CEIOPS QIS5 Calibration paper for spread risk
9. CFO Forum/CRO Forum paper on risk-free rates
10. CEIOPS paper on extrapolation of risk-free rates

The present **cover note** explains the approach to the draft QIS5 technical specifications and the process of the QIS5 consultation.
The **draft Call for Advice** to CEIOPS covers:

the objectives of QIS5;

who is expected to participate;

the timetable for the QIS5 exercise; and

the analysis and information to be included in the final report on the results of QIS5.

The **draft QIS5 technical specifications** include the technical instructions which explain how insurance and reinsurance undertakings should complete the QIS5 exercise. The specifications are complemented with three excel files:

the **relevant risk-free interest rate term structures** that should be used in QIS5 to discount technical provisions;

an **extrapolation tool** that QIS5 participants can use to extrapolate risk-free rates for currencies where no term structure has been provided; and

parameters for non-life catastrophe risk that are needed to carry out the calculations of the non-life catastrophe risk sub-module of the SCR standard formula.

7

The **CEIOPS QIS5 Calibration papers** explain the calibration of the SCR and the Minimum Capital Requirement (MCR) in the draft QIS5 technical specifications that were provided by CEIOPS.

The **CFO Forum/CRO Forum paper on risk-free rates** explains the derivation of the illiquidity premium observed in the financial markets and of the non-extrapolated basic risk-free rates. This document was provided by the CFO Forum and the CRO Forum.

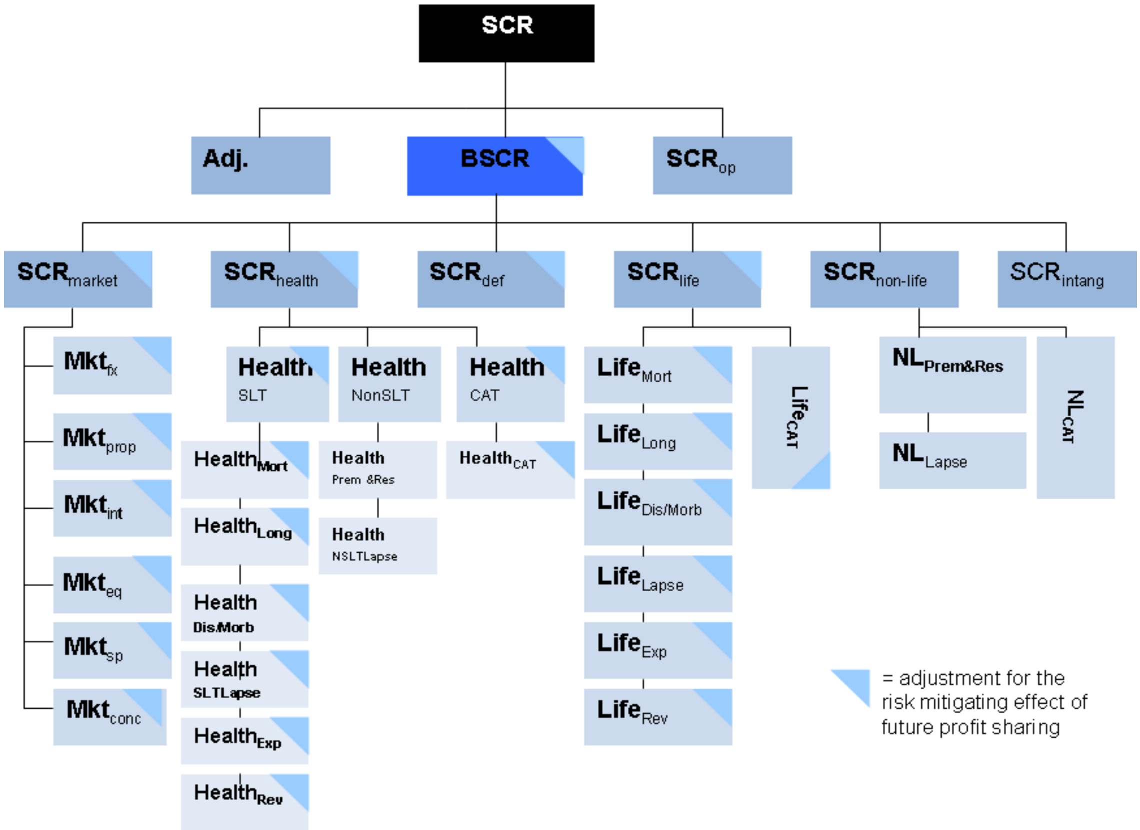
The **CEIOPS paper on risk-free rates** sets out the extrapolation of the basic risk-free rates. This document was provided by the CEIOPS.

<u>Comentarios sobre las especificaciones técnicas</u>

- V1, Apoyo valor mercado, MI
- V9, No diferencia crecimiento orgánico de inorgánico
- V12,Valoración real, si no cálculo específico
- V1.5, Diferencias entre IFRS y SII, sobre todo en: Goodwill, Intangibles – diferencia venta de no -, Property y Liabilaties, Pension – coinciden bastante –
- Risk Margin, Valor de Transferencia del Riesgo
- Vida misma clasificación, Salud se divide entre las que se calculan como Vida y NV
- Rescates, Reducciones, etc … Conforme a comportamiento de mercado
- PB, Distingue Garantizada de Discrecional
- TP 1.258, Volatilidad depende del grueso del mercado en cuestión o de la composición de sus Activos
- 1.3, Ejemplos de diversos métodos de Stress
- Rgro, LGD se diferencia conforme al Rating y duración del Saldo
- 2.4, Establece principio de Materialidad para determinados cálculos
- 4.55, Modelos de Rescate

SCR:

- La fórmula general cambia en:
  - Introducción de Ajustes
  - Salud, se divide en Vida y No Vida
  - SCR para Intangibles



- La Matriz de Correlaciones no cambia, además de no considerar en ella los Intangibles
- Ahorro de Capital por efectos fiscales y correlaciones entre riesgos

- 3.1, Operacional no cubre ni Estratégico ni Reputacional
- 3.5, Se modifican porcentajes al alza

- 4.2, Intangible Reconocido sí y solo si puede ser considerado por su valor de Mercado, referenciado a transacciones similares
- Intangibles, dos partes: Mercado – bajada de precio o iliquidez – e Internos – propios de estos riesgos –
- Se carga capital por el 80% de estos riesgos

- 5.15, Dos matrices de correlación en el Riesgo de Mercado, al alza y a la baja. Se diferencian en “i” con Equity, Property y Spread
- 5.46, Equity, de 32% y 45%, pasa a 30% y 40% … Si bien con el incremento de la matriz de correlaciones, se incrementa
- 5.74, Property, del 20% al 25%
- 5.84, Idem con Divisa
- 5.107, Spread, diferencia entre: Bonos, Estructurados, Derivados y Ptmos Hipotecarios. Para Bonos considera Rating y Duraciones, con Cap mínimos

y máximos. En el caso Hipotecario se diferencia en Uso Residencial del Comercial

- 5.137, Contraparte, sólo considera la Financiera, NO Geográfica o Sectorial
- 5.140, NO considera Tesorería como Concentración

- La escala cambia, para todo tipo de A – single, doble o triple -, un 3%, desde BBB, 1'5%
- 6.2, Dos clases de Exposiciones: 1(Directa y con Rating) y 2(Diversificadas y sin Rating, por ejemplo intermediarios)
- 6.9, cuando no hay Rating, PD del 10% - CCC un 30% -, si es un banco, como BBB
- 6.10, Si son del mismo grupo se unen

- 7.6, Dos grandes grupos en Vida, CAT y resto de partes, correlacionados al 25%
- Mismos riesgos que en anterior QIS, la correlación longevidad fallecimiento -25%
- 7.20, Cuando haya capital por fallecimiento y supervivencia en un mismo riesgo, se compensan ambos, no deben ser separados
- 7.24, cambio del 10% al 15% en el porcentaje a aplicar en Vida Riesgo Fallecimiento, no cambia en Longevidad
- 7.48, Disability, 50% de incremento en el siguiente año, siendo un 25% para los restantes. Para el caso de Rescates, un 20% de disminución
- 7.60, Rescate, Incremento / Disminución del 50% en el primer año. Con un tope del 20% a la baja y un 100% al alza
- 7.74, Gastos, incremento 10% el primer año, con incremento del 1% en los siguientes años
- 7.96, CAT Life, se define porcentaje en 15 pipos sobre el Capital en Riesgo, combinando Fallecimiento y Longevidad

- 8.3 Health, Se dividen en tres: SLT Health – Técnicas Vida -, Non-SLT Health – Técnicas No Vida – y CAT
- Existe una Matriz de Correlaciones entre ellos, así como otra matriz propia para cada subgrupo
- 8.33, Para la NV se determina por Primas y Reservas
- 8.95, Salud CAT: Arena – Zona -, Concentración – Producto -, Pandemic
- 8.149, Clasifica los diferentes productos en grupos para su tratamiento. Dentro de ello "Funeral Cost Insurance" sería el Decesos español, es considerado como Vida. La página 257 muestra un gráfico explicativo

- 9.3, Divide entre agrupaciones entre los Ramos y CAT, con su correspondiente correlación
- 9.3, A su vez divide entre Riesgo de Primas y Reservas, los cuales se miden con su correspondiente STD y correlacionadas con la matriz estipulada por línea de negocio
- 9.64, Se distingue entre CAT de la Naturaleza – Tormenta, Terremoto, Inundación, Granizo - y Causada por el Hombre – desde Incendio a Terrorismo -. Se marcan escenarios por países. No habla del CCS

- 10.1, Parámetros que pueden reemplazar a los dados anteriormente – considerando aprobación previa por el supervisor , tomando un cariz importante la calidad del Dato –

- Sección 12, Tratamiento de Derivados
- 12.9, indica las limitaciones y alcance, complementándolo en 12.13
- 12.28, muestra las condiciones de Liquidez
- 12.31, el rating mínimo BBB de la contraparte
- 12.36, características de la Contraparte, como por ejemplo el no poder revocarlo unilateralmente
- 12.40, Colateral

- Punto 14, Cautivas, con simplificaciones específicas

- SECCIÓN III, Modelos Internos
- Calidad del Dato y VAR 99’5%
- Contemplado en documento de AREA XXI

- SECCIÓN IV, MCR, tope del 25% y 45% del SCR

- SECCIÓN V. OWN FUNDS
- Desaparecen de T1 partidas como beneficios futuros y consideraciones fiscales de esta índole, así como matizaciones a participaciones intragrupo
- Determinadas cobertura de “Ancilliary” pueden ser T2, como por ejemplo coberturas iniciales de Capital o Garantías de Crédito
- T1 como mínimo 50% SCR y T3 como máximo 15%
- MCR sólo T1 y T2, mínimo 80% T1
- For the purposes of QIS 5, the table below sets out the approach to be followed in relation to the different types of participations and subsidiaries.

A. *Participations – included in the scope of Group supervision*

Nature of participation/ subsidiary		Approach
1	Financial and credit institutions Where the participation is in an intermediate holding company, this should be treated as a financial institution.	Exclude from own funds by deducting an amount representing the value of the participation from T1. Any investment in Tier 2 own funds of the participation should be deducted from Tier 2 basic own funds.
2	Related undertakings where the investment is of a strategic nature, because a long-term relationship has been established and will be maintained	Specific equity risk charge (22% level shock and +10 percentage points/-3 percentage points volatility shock)
3	Other related undertakings (i.e. those not included in 1 or 2).	**Standard equity risk charge (49% level shock and +10 percentage points/-3 percentage points volatility shock). If participations are listed in EEA or OECD countries, the standard equity risk charge is (39% level shock and +10 percentage points/-3 percentage points volatility shock)**