

## Solvency II – QIS<sub>5</sub>

### The Fifth Quantitative Impact Study (QIS<sub>5</sub>)

Across the insurance industry, preparations are underway in order to fulfill the requirements of Solvency II Directive by 2012. There are many challenges ahead. This briefing highlights how Mazars can help you with QIS<sub>5</sub>.

#### Background

CEIOPs has recently published draft specifications for the fifth Quantitative Impact Study (QIS<sub>5</sub>). Companies will be expected to complete the exercise between August and November 2010. With QIS<sub>5</sub> being the last quantitative impact study, companies should now be thinking about how they can get the most out of the exercise.

In Ireland only 22% of life undertakings and 19% of non life undertakings participated in the QIS<sub>4</sub> exercise. The small number of participants represents 74% and 64% of the market share of Life and non life in Ireland.

QIS<sub>5</sub> is expected to run from August 2010 to November 2010. The Financial Regulator expects all insurance undertakings/groups to participate in this exercise.

#### What to expect

Increases in the standard capital requirement for many businesses, combined with potential reductions in the capital available.

#### What is causing the changes?

The assumptions underlying QIS<sub>5</sub> are new. They are not bespoke to your business and hence will not represent your business. Therefore, the capital that you need will also not be representative of your business.

Most non life and captives companies who completed QIS<sub>4</sub> in 2008 had a significant increase in capital requirement. Since then there have been some changes in the assumptions underlying the formula. They are leading to even larger increases compared than QIS<sub>4</sub>. The key drivers of the increases are:

- Reduction in geographical diversification benefit
- Market risk assumptions

- Correlation factors
- Risk free interest rates.

#### How big are the increases in capital requirement?

A small to medium sized business may face particularly high increases due, for example, to lack of diversification. These smaller businesses make up the bulk of those who did not complete QIS<sub>4</sub>.

It is therefore strategically important to complete QIS<sub>5</sub>.

#### What are the benefits of participating in QIS<sub>5</sub>?

There are several valuable benefits to participation in QIS<sub>5</sub>. These include:

- Understanding of how much capital may be needed under Solvency II
- Understanding which parts of the business are driving the capital requirement
- Gaining a clearer focus on Solvency II planning
- Highlighting areas of arrears where an internal model may be appropriate
- Identifying the differences between internal model and standard formula
- Support to business planning as Solvency II approaches
- Highlighting the impact on the key areas of your balance sheet.

## How can Mazars help you with QIS5?

We can support you to get the most out of participating in QIS5 including:

- QIS5 training
- Completing the QIS5 exercise
- Analysing the results of the exercise
- Supporting you to develop a strategy to respond to the potential impact on your business
- Assessing the benefits of using assumptions in an internal model that are bespoke to your business as opposed to the market average basis of QIS5.

## Why Mazars?

Mazars has one of the largest multi-disciplinary insurance-focused teams in the UK and Ireland. We have drawn from this resource to form the Solvency II Technical Governance Panel (TGP).

The TGP includes leading actuaries, risk managers, accountants, internal auditors, IT data and change management experts. Their skills more than adequately cover the demands of QIS5 and their experience can help you to get maximum value from it.

For clients considering an internal model option we have developed Mazars Internal Model Approval Process (MIMAP). MIMAP is a structured approach to independent internal model approval that was developed through assisting clients to validate their internal models, including one of the world's largest insurers. Designing and delivering a Solvency II internal model approval process to clients requires a multi-disciplinary resource that is committed to client satisfaction and carefully organised to be operationally effective and competitively priced.

## Contact us

For more information on how we can help with the challenges for QIS5 and Solvency II, please contact one of our partners:

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