RESULTS AND DISCUSSION ON THE IMPACT ASSESSMENT OF THE FUTURE SOLVENCY II FRAMEWORK ON INSURANCE PRODUCTS AND MARKETS

This document was prepared with the collaboration of CEA Member Associations as well as the Association of European Cooperative and Mutual Insurers (ACME), the International Association of Mutual Insurance Companies (AISAM) and the International Credit Insurance & Surety Association (ICISA) and has received their full support.

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INTRODUCTION

The European insurance industry is in need of a new Solvency system. For many undertakings, Solvency I does not constitute anymore a reference in conducting business and managing risk. As a result, some member states have developed more stringent Solvency assessment models and undertakings use rating agency models or their own internal models to manage their business of accepting and spreading risks.

The development of Solvency II is a unique opportunity to create a harmonised framework at European level that better reflects the way undertakings conduct their business and manage their risks, aligning capital requirements with risks.

This challenge has motivated no less than 442 insurance companies to contribute actively to the European Commission's Impact Assessment and express the industry's strong commitment for the Solvency II project and a risk based economic Framework. This commitment is strengthened by the great consistency among all contributions, from small, medium-sized and large (re-) insurance companies, mutuals and shareholders companies etc., to the survey carried out by the CEA

Crucial objectives are met only if Solvency II is built on a true risk-based economic approach

The European Commission has set the improvement of the policyholders and beneficiaries' protection, the integration of the EU insurance market, the competitiveness of the insurance industry and the promotion of 'better regulation' at the top of the Solvency II agenda.

These objectives can only be achieved by developing a Framework's Directive with true risk based economic principles. In other words, key elements of the new Framework shall be the measurement of assets, liabilities, options, guarantees and other commitments as close as possible to their true economic value, the definition of capital requirements underpinning a high level of confidence that insurers can meet their obligations, the full recognition of all measures an undertaking takes to reduce and transfer risks as well as the proper account for risk concentration and diversification effects, be it across risks or at group level.

Solvency II shall maintain strong and effective policyholder protection…

The protection of the policyholders and beneficiaries lies at the heart of the future framework. The solvency assessment combining risk measurement and supplementary requirements in Pillars I and II is strengthened by Pillar III disclosure requirements encouraging economic discipline and introducing a holistic approach to policyholder protection. Furthermore, harmonisation across European borders is needed to guarantee that consumer confidence will not depend on any insurers' legal form, size or location. This harmonisation goes hand in hand with the consistency of supervisory actions across companies, jurisdictions and over time for which Pillar II will be a cornerstone.

A risk based economic approach will further increase transparency in pricing over the long term by allocating capital where the true risks are. The approach also brings many incentives for efficient risk management that will foster innovative forces in the industry, in particular greater product innovation. As a result, consumers can expect to keep the necessary insurance coverage at affordable prices along with enhanced policyholders' protection.

… Combined with increased competition within EU insurance markets and the global competitiveness of EU insurers

The insurance sector plays a major role in the European economic system and its long-term financial stability. Next to their primary function of accepting and spreading risks, insurers are important investors and capital providers. They employ over 2 million. people directly or indirectly across Europe.

A risk based economic Framework spurs the competitiveness of the EU insurance markets regionally and internationally and contributes to its health in the long run. A concrete example of benefit is the transparency in insurance risk and capital management that Solvency II will provide. Such transparency makes the industry more attractive for investors and ease the companies' access to capital. To compete effectively internationally, issues specific to insurance groups must be taken into account.

Furthermore, Solvency II is designed to be a principle-based Framework in order to give all undertakings incentives for best risk management practices. Solvency II should not be a tool to pursue objectives of structural politics. The structure and calibration of the future capital requirements can give rise to undesirable consequences for financial markets particularly if the calibration does not follow the underlying economics of the business or if arbitrary limits are introduced into the system.

A challenging Framework bringing industry and supervisors closer to each other

The industry will be ready for Solvency II. A large number of companies have not waited for the new Framework to adopt or launch the implementation of best practice risk management tools based on an economic approach.

However, if Solvency II remains a challenge to insurers, it also necessitates an evolution from supervisors: the solvency regime will need to be harmonized across borders without national gold-plating of the standards. In addition a lead supervisor for international groups must be given the necessary competences. This effort shall be supported by a mutual learning process and constructive cooperation, primarily between the industry and the supervisors, but also with the other key actors of Solvency II.

FOREWORD

The European Commission is in the process of preparing the Framework Directive. The Framework Directive must be accompanied by an Impact Assessment describing the consequences of the new legislation and which will help motivate the need for legislative action.

The Impact Assessment is intended to provide insight on the following:

- Microeconomic and financial stability
- Insurance undertakings and supervisory authorities
- Insurance products and markets
- Consumers

The insurance industry has been invited by the Commission to contribute to the Impact Assessment, especially on the part on insurance products and markets. The request from the Commission consists of two parts:

- A brief description of the 25 member insurance markets “EU25” describing the insurance market, products and distribution. Statistics on items such as premium income, number of companies, total investments, and market share of the top 5 insurance companies will be included.
- A description of the potential impact of the Solvency II framework on areas such as products and pricing; investment by insurance companies; changes in reinsurance buying; capital raising and the potential competitiveness of the industry.

This document relates to the second point of the above invitation.

Contents

1 EXECUTIVE SUMMARY

1.1 The Commission has indicated that the objectives of the Solvency II project include the following:

- Deepen integration of the EU insurance market
- Improve protection of policyholders and beneficiaries
- Improve international competitiveness of EU insurers
- Promote better regulation

1.2 The insurance industry has in the past strongly supported a risk based economic approach as the only method to achieve the objectives set by the Commission. This is because:

- It can be designed to provide a balance between protection to policyholders and encouraging efficient operations of companies
- It can cope with evolution in the financial environment, increasingly sophisticated product design and capital markets innovation
- It is transparent and will avoid arbitrage opportunities
- It aligns regulatory capital requirements with best practice internal risk management processes providing underlying transparency in the management of insurance companies

1.3 In order to better understand the position of the European insurance industry, the CEA working with its member National Associations and other industry bodies such as the AISAM, ACME, the CRO Forum and ICISA has undertaken the largest ever survey on the potential impact of the Solvency II framework involving over 400 companies from across all Europe (24 out of 27 EU Member States and additional 3 countries, see appendix at the end of this document for more details).

This work has been supplemented by additional input based on our feedback on the Consultation Papers and Quantitative Impact Studies ("QIS") undertaken by CEIOPS.

A risk based economic approach

1.4 The final form of Solvency II is not yet known so when completing the survey we have asked participants to make certain ***key assumptions*** about the Solvency II framework. In particular under the risk based economic approach advocated by the industry:

- Assets and liabilities would be valued at market consistent values
- A total balance sheet approach is applied so that the available capital is provided as the market consistent value of the assets less market consistent value of liabilities and eligible elements of capital are based on the economic ability to absorb risk
- There is a comprehensive risk analysis with full allowance for risk mitigation (including the risk absorbing properties of future discretionary benefits)
- The benefits of various forms of diversification are fully recognised
- The system is appropriately calibrated
- Group issues are recognised from the outset

Further information on the risk based economic approach is provided below in paragraph 2.9 as well as in the CEA publications listed in Appendix at the end of this document.

1.5 Under this framework, it is therefore not surprising that on balance the insurance industry recognises and supports the aims of the risk based economic approach. Regulatory change is not the only motivation for improving risk management with requirements from stakeholders and rating agencies as well as good business practice also representing a driving force.

1.6 The majority of companies responding to the survey have either already implemented a risk based framework or are currently in the process of improving their risk management tools. For the respondents that have already developed a risk management framework, there is a high level of commonality between the risk based economic approach proposed by the industry and their current internal risk measurement processes.

1.7 For companies who have not yet developed a risk management framework, Solvency II presents certain challenges although the vast majority of respondents expect that they will be ready by the time Solvency II comes into effect.

1.8 Despite the fact that the final form of Solvency II is not yet known, an important part of the respondents (50% of mutuals and 50% of small companies) expect to use the Standard Approach for calculating the capital requirements with another non-negligible part expecting to use a partial model. This would underline the need for an adequate standard formula in line with the Solvency II key assumptions described in paragraph 1.4.

Product design and pricing

1.9 Insurance companies are in the business of accepting and managing risk. It is therefore in the long term interest of the companies, policyholders and insurance industry that a fair price is charged for accepting and managing such risks.

1.10 Companies expect that a risk based economic approach would lead to greater product innovation and increased opportunity for Europe wide offerings. For products where the economic capital requirements are justifiably increased, companies have the possibility of adjusting pricing, product features and risk mitigation and the first reaction would not necessarily be withdrawal of product lines.

A prerequisite for this is that diversification and risk mitigation are fully recognised within the Solvency II framework.

Investment strategy

1.11 At a macro level, insurance companies are major investors in the investment markets. Traditionally the greatest holdings are in fixed interest securities followed by shares, property and cash-like investments

1.12 A risk based economic framework would encourage improved asset liability management. Although this is not fully recognised in Solvency I, most companies included in the survey indicate that they already closely match assets and liabilities and understand the implications of mismatching

Consequently, the introduction of the risk based economic framework would help align regulation with company's underlying practice.

1.13 The majority of respondents expect no changes or only limited changes in their investment strategies as a result of the introduction of a risk based economic framework. However there is a particular concern within some markets on the capital charge for shares.

1.14 Most respondents believe that financial markets are sufficiently well developed to provide the range of assets consistent with a risk based economic framework. Concerns were however expressed on the financial markets by certain regions such as Eastern Europe. Concern was also expressed by other non-Euro regions with developed financial markets (e.g. Scandinavian countries).

The impact on the reinsurance market

1.15 Many insurance companies already use reinsurance as a risk management instrument, despite the limited recognition under Solvency I. A significant change in the use of reinsurance by companies is therefore not expected. Allowing for full recognition of risk mitigation within the Solvency II framework will therefore align regulation with current risk management practice and provide a better reflection of companies' actual risk exposures.

1.16 The majority of reinsurers however indicate that one of the main benefits of a risk based economic approach is an increase in product innovation in the future. Most companies surveyed believe that the current availability of reinsurance is sufficient, with only the availability of longevity risk reinsurance as an area of concern. Respondents do not expect Solvency II to negatively impact the availability of reinsurance, suggesting that the supply of reinsurance will remain adequate.

Capital raising

1.17 The majority of participants believe that a common risk based economic framework under Solvency II will increase transparency across Europe and make it easier to raise capital, since it will help potential investors understand insurance companies.

1.18 However, there is also a risk that the ideas underlying the risk based framework are not adequately communicated to investors resulting in a downgrade of the insurance sector. In order to avoid this it is important that the framework does follow an economic approach and is clearly communicated externally.

1.19 Comments from participants indicate that the calibration and nature of the SCR will be important in determining the need for companies to raise capital. The industry has expressed its concerns on the existing calibration of QIS2 and the need for the SCR to be considered an important target, recognising that from time to time even well run companies may dip below the SCR. This would help mitigate the need for companies to raise capital in the future.

1.20 The need to raise capital will be somewhat alleviated by a larger use of reinsurance financing and other forms of securitisation. This would underline the need for proper recognition of risk mitigation elements in the Solvency II framework.

Dangers of not following a risk based economic approach

1.21 The above comments have been based on the assumption that the Solvency II framework follows a coherent risk based economic approach similar to that described by the industry in paragraph 2.9 and in previous CEA publications (see Appendix). For the avoidance of doubt, the recently tested QIS 2 did not meet the required standard of a risk based economic approach. Some of the deficiencies identified in QIS2 are described in Section 2.

1.22 If the Solvency II framework did not follow a risk based economic approach then it will have the following major disadvantages:

- Solvency II will not follow the ongoing industry trend towards a risk based economic approach and hence it is less likely to be embedded in companies risk management
- Solvency II will result in double work for companies if it gives rise to a parallel reporting stream.
- It would provide incorrect incentives for companies in managing their risks thereby allowing companies to accept risk on non-economic terms. This will be to the longer term detriment of policyholders and investors.
- Indeed, over 80% of companies responding indicate that if the Solvency II framework system does not follow economic principles or the capital requirements are higher than economically justified or if the requirements conflict with good risk management then the resulting system will be complex and inefficient potentially damaging investor confidence and their willingness to supply capital to the insurance industry.

2 PROCESS AND METHODOLOGY

2.1 The insurance industry has been invited by the Commission to contribute to the Impact Assessment, especially on the part relating to insurance products and markets.

This document provides a description of the potential impact of the Solvency II framework on areas such as products and pricing; investment by insurance companies; changes in reinsurance buying; capital raising and the potential competitiveness of the industry.

2.2 In order to respond to the invitation of the Commission, CEA organised a survey involving companies and member National Associations but also in co-operation with organisations representing specific parts of the industry including AISAM/ACME (mutual insurers) ICISA (credit insurers) and the CRO Forum (large European multinationals).

2.3 The survey was conducted from June to September 2006. The objective of the survey was to include as wide a representation of company types as possible and to ensure that the views from all relevant jurisdictions were included.

2.4 Data collection was done in the form of an anonymous electronic questionnaire coordinated centrally by CEA. To achieve a greater degree of participation, the German National Association (GDV) translated the questionnaire into German and launched a corresponding anonymous survey for the German market.

The Austrian National Association (VVÖ) worked together with the GDV on the German language version of the survey. National Associations also made the survey available in French and Spanish.

2.5 The survey had specific questions to address the following points:

- Product Development, Design and Pricing;
- Investment Policy;
- Reinsurance;
- Capital Raising; and
- Issues that were of specific importance to specific sections of the market.

2.6 As the final form of Solvency II is not yet known and in order to assist companies in completing the questionnaire the CEA has included a guidance document.

2.7 In this guidance document, participants were asked to make certain ***key assumptions about the final form of the Solvency II Framework.*** The guidance document accompanying the survey was issued by the CEA in order to raise awareness of the framework and to help companies think more widely about the issues and how they may apply to their own individual circumstances.

2.8 In particular, participants have been asked to complete the on-line questionnaire assuming that Solvency II will follow a risk based economic approach. The risk based economic framework is very different from the current Solvency I framework and participants were encouraged to consider these differences when responding to the Impact Assessment.

2.9 The main differences between the risk based economic framework and the current Solvency I regime are described in the table below:

Risk based economic framework	Current Framework
A. An economic approach is followed and prudence in technical provisions is recognised. Assets and liabilities are measured at market consistent values B. Capital requirements are risk sensitive and risk mitigation is fully recognised C. There is an appropriate balance between the ease of use and risk sensitivity D. Diversification and concentration effects are fully recognised E. Factors in the Standard Approach are appropriately calibrated F. Sufficient ladder of intervention exists between the MCR and SCR G. The Standard Approach (SCR) mimics the model of the underlying risk to the extent that this is practical H. Supervisors share information leading to harmonisation of tools and processes and recognition of the concept of Lead supervisor I. The framework takes into account specific group issues such as group diversification, fungibility of capital and group-wide internal models J. Pillar I is supported by Pillar 2 which supplements quantitative requirements with adequate risk management procedures K. Appropriate disclosure requirements exist	A. In many cases, the current framework is not based on an economic approach. Assets and liabilities are not necessarily valued at market value. Prudence in technical provisions is not recognised B. Current framework is not sufficiently risk sensitive: some risks are over penalised and others are under penalised C. No harmonization exists across countries D. Disclosures are somewhat limited and are not necessarily transparent

2.10 The impact assessment survey is not the only source of information used in drafting of this report. We have also drawn on insights from other areas of work such as the Quantitative Impact Studies (QIS) and Consultation Papers issued by CEIOPS.

2.11 However, it is important to note that QIS 2 does not represent the risk based economic approach that the industry supports. Our initial feedback on QIS 2 was provided in our paper "CEA Preliminary Feedback on QIS2" (16 October 2006) and the following is a summary of some of the key deficiencies identified in the QIS 2 work:

- There was general support for the aims of the Cost of Capital approach
- In certain areas, the calibration of QIS2 is not consistent with the industry expectations. This means that care is required in communicating the results
- QIS2 is a partial test and the comparison with the existing Solvency I position must be put in context
- The need for a flexible standard approach incorporating both scenarios and factors
- Greater focus on the underlying principles is required
- The suggestions in the QIS2 specification for calculating the MCR are not viable
- Company specific data provides a better assessment of the risk

3 PARTICIPATION

3.1 One of the targets of the Impact Assessment survey was to develop industry-wide views of the likely effect of introducing a risk based economic framework. The level of participation was therefore important in order to establish whether the results are a reliable representation of the views of the European insurance industry.

3.2 In order to achieve a representative sample of companies of different size, jurisdictions, legal form, and business segments, an algorithm was suggested to the National Associations on which to base the invitations to participate. Based on this approach, about 800 undertakings were identified and invited. The final participation response rate, above 50%, was very satisfactory. The survey was undertaken on an anonymous basis.

Summary

- Responses to the electronic questionnaire were provided by 442 companies, supervised in 27 countries. This represents the largest survey on Solvency II conducted to date.
- The participation was diverse including companies operating in different jurisdiction, companies of different types, sizes and covering business segments.
- In addition, approximately 64% of the responding companies included also responded to QIS2 suggesting a strong understanding of the underlying issues.

Representation by company type

3.3 The following Table indicates that all types of companies and legal structures are represented in the results of the questionnaire.

	Proprietary/ joint stockholding	Mutual / co-operative	Reinsurer	Total
Stand-alone, independent company	40	67	5	112
Entity/ subsidiary of a larger group	231	16	7	254
Head office for a group/ Holding company	26	25	5	56
Total	297	108	17	422
			Other	20
			Total	442

Geographic representation

3.4 The geographical representation of the responses is good with 24 out of 25 EU Member States represented as well as 3 additional non-EU jurisdictions. Geographical details on the participation is shown in Appendix at the end of the document.

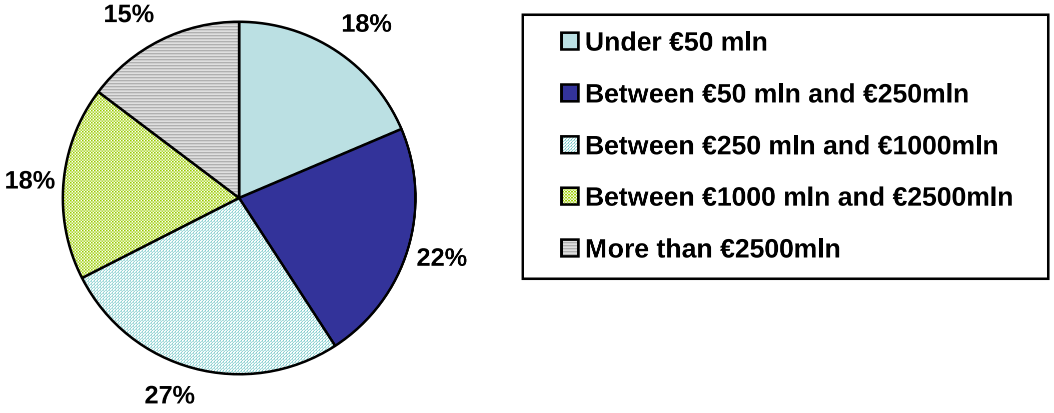
3.5 Care has been taken when analysing the results so that the conclusions drawn are not disproportionately dominated by the higher participation from certain jurisdictions. Deviations that specific countries have from the average responses are also highlighted in the analysis.

Company size and business segments representation

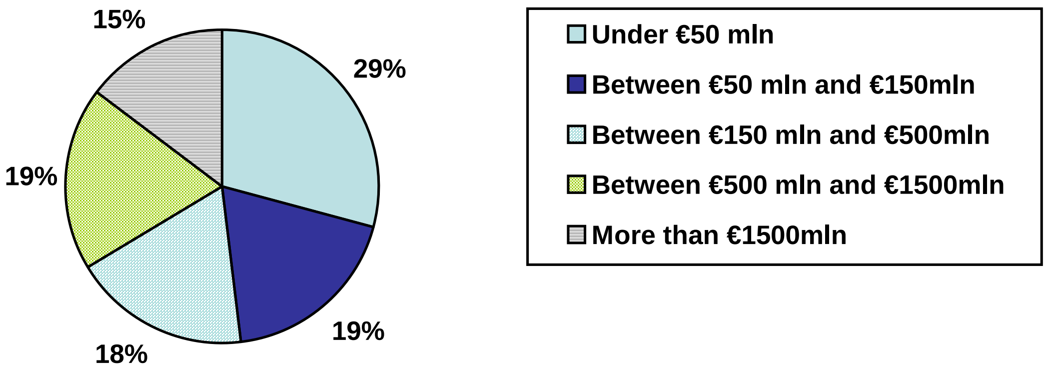
3.6 The charts below represent the composition of the respondents categorised by company size, based on number of companies. The results are shown separately for life and non life companies.

The total number of Life respondents in the analysis is 271 and the number of Non-Life respondents is 306[1].

Life participation by company size (in terms of premium)



Non-life participation by company size (in terms of premium)

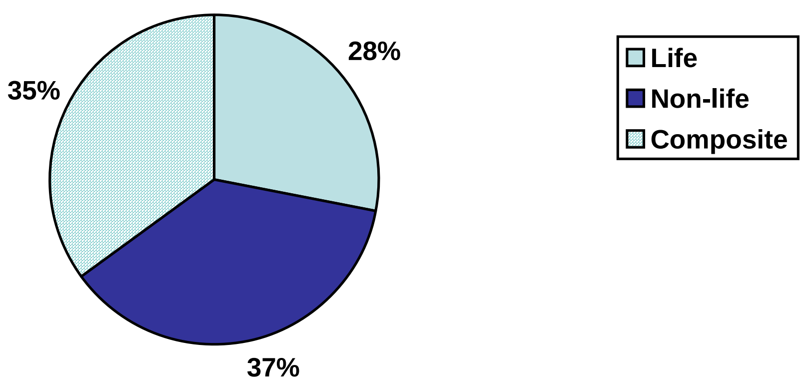


3.7 The CEIOPS definition of Small and Medium Size enterprises ("SME") for the QIS 2 exercise were undertakings with neither life technical provisions above €10,000m nor non life written premiums above €1000m. Based on this definition the SME are well represented within the results of the survey.

3.8 In addition, companies can generally be classified based on the business segments in which they operate. The chart below shows the response by business segment, again based on number of companies. Composites are companies that operate both in the life and non-life segments.

[1] The total number of participants exceed the number of companies as some companies are composites participating in both life and non-life business

Participation by business segment



3.9 The results indicate that at an aggregate level the different business segments and sizes are fairly represented. As companies were also questioned regarding the product types that they wrote within the life and non life segments, results indicate all relevant product types were represented in the survey.

Level of Solvency II awareness of participants

3.10 A considerable number of respondents to the survey (64%) have also participated in QIS 2. This contributes to the quality of the results as these companies should have a reasonably thorough understanding of the potential impacts from the proposed framework.

4 CURRENT PRACTICE AND THE IMPACT OF INTRODUCING THE NEW FRAMEWORK

4.1 The shortcomings of Solvency I are well documented. In certain cases, current Solvency I rules are risk insensitive and can actually conflict with good risk management

4.2 In response, many country supervisors have set additional local requirements, rating agencies have developed their own solvency models or rules of thumb and companies have developed internal models to analyse the risks more accurately. This lack of risk sensitivity can sometimes result in lack of confidence that companies are appropriately capitalised and has led to an increasingly complex and inefficient capital management for companies.

4.3 The objective of this section is to understand how companies are currently managing their business and the practical consequences of a move to a risk based economic regulatory framework. Companies were asked about their current practice, motivations for change, challenges of a risk based economic framework and the likelihood that companies will meet the intended Solvency II timetable.

4.4 The assumptions underlying the risk based economic framework are described in section 2.

Key Messages

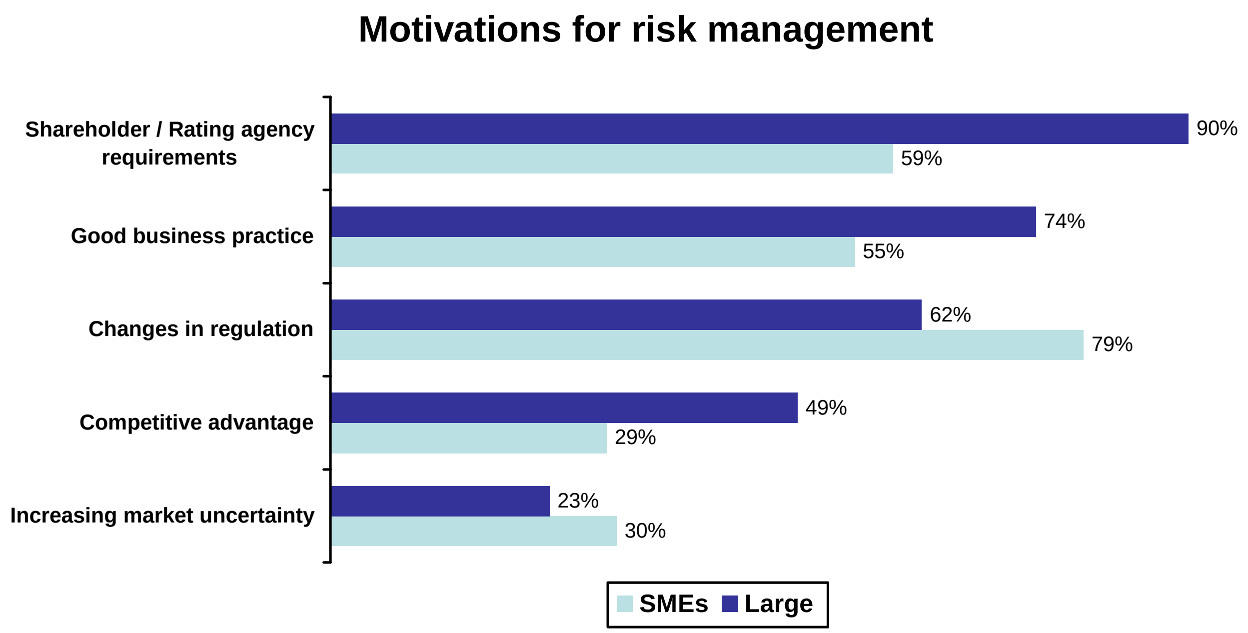
- The majority of companies responding to the questionnaire have either already implemented a risk based framework or are currently in the process of improving their risk management tools.
- For the respondents that have already developed a risk management framework, there is a high level of commonality between the risk based economic approach proposed by the industry and their current internal risk measurement processes.
- Regulatory change is not the only motivation for improving risk management with shareholder / rating agency requirements/pressures and good business practice also representing a driving force
- For companies who have not yet developed a risk management framework, Solvency II presents certain challenges.
- Although the effort required to implement Solvency II is recognised, the vast majority of respondents expect that they will be ready by the time Solvency II comes into effect. Only 3% of respondents believe that they will not be ready by 2010.
- Measures to ease the transition to the new framework are welcomed by companies, especially the ability to use partial internal models.

Current practice regarding risk management

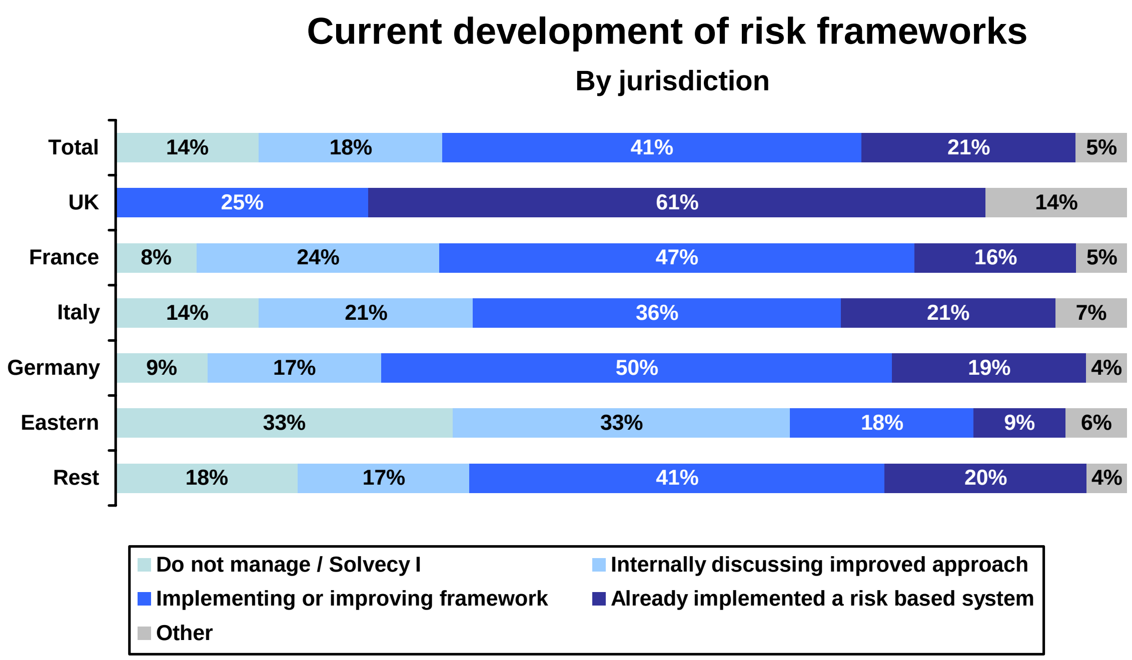
4.5 The vast majority of companies surveyed are currently taking steps towards the improvement of their risk management capabilities. Regulatory change (i.e. the introduction of Solvency II) is one of the main motivations for undertaking this improvement, but is not the only driver for change.

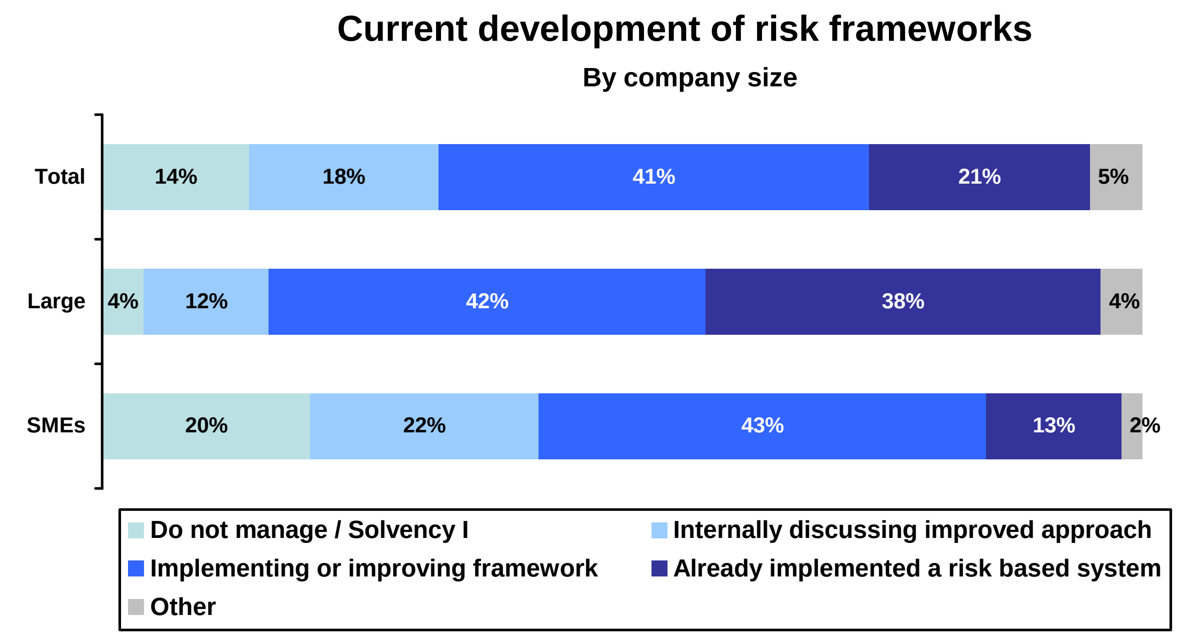
4.6 For many companies, aligning their systems with good business practice and shareholder / rating agency requirements/pressures are as important as complying with the regulations. This statement holds true across the different industry segments.

4.7 In light of this, Solvency II represents an opportunity to align regulatory action with best practice trends for the insurance industry. The diagram below illustrates the survey response as to the main motivations for risk management. Notwithstanding differences in percentages, the key messages are consistent across the different company sizes.



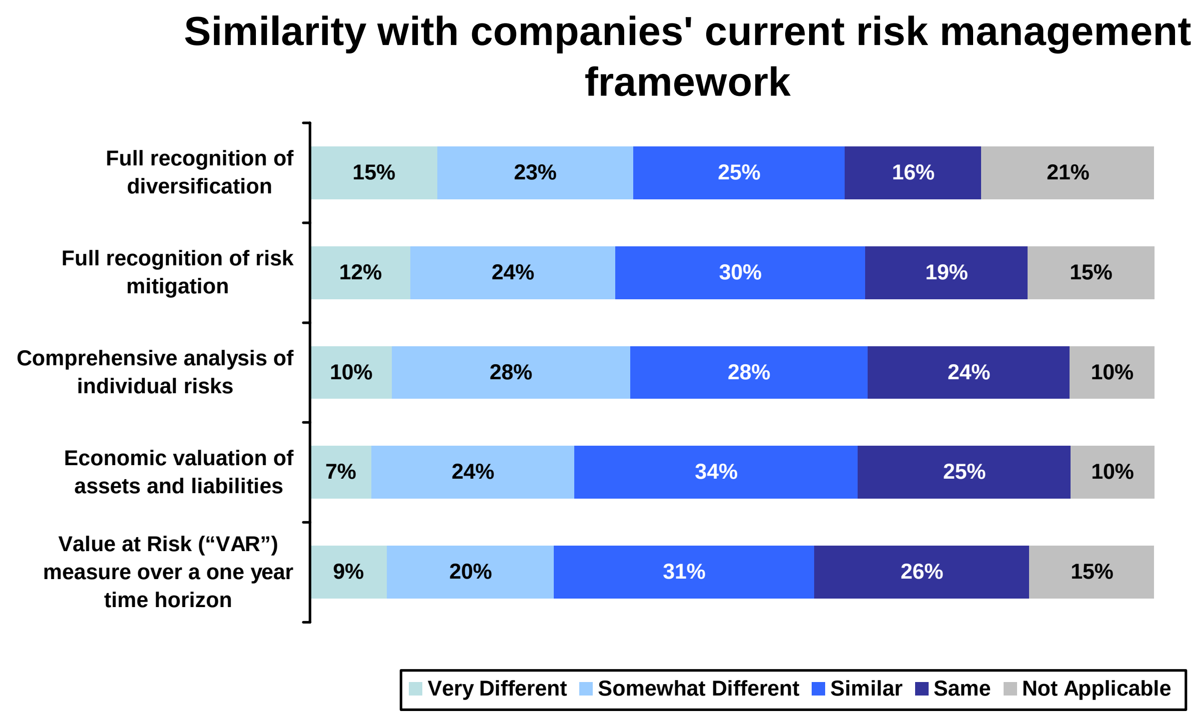
4.8 The following charts provide a snapshot of the current approach to risk management for the surveyed companies. Although there are some differences in the level of development across jurisdictions and sizes, the analysis does indicate that the majority of respondents in all jurisdictions are already taking steps to improve their current risk measurement and risk management capabilities.





4.9 The survey results also indicate that for companies the challenge following the implementation of risk based system is embedding it in the business. For the 21% of companies that have already implemented a risk based framework, about a third of these companies already have embedded the framework within the company.

4.10 The features of the new risk based economic framework are described in Section 2. The following chart compares some of the key features of the risk based economic approach with company's current practice.



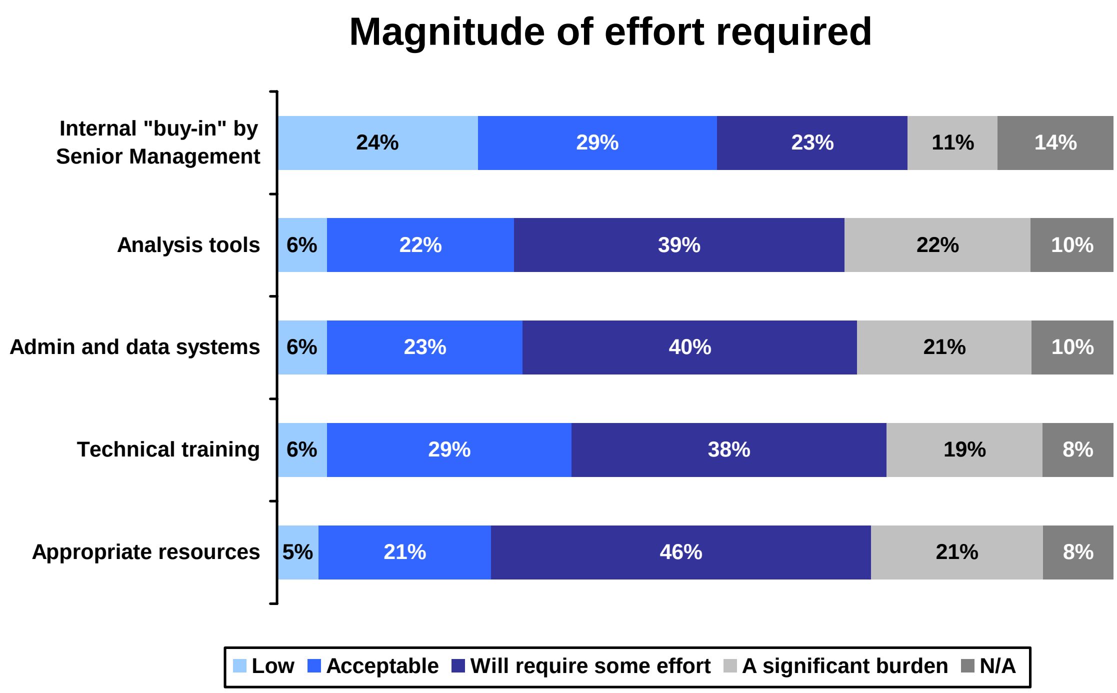
4.11 The results indicate that in most cases the risk based economic framework is not very different from company's current practices. This comparison should be viewed in the context of the evolving nature of company's internal framework described previously.

4.12 The number of companies indicating that they use an economic valuation of liabilities is somewhat surprising. This could in part be due to different interpretations as to what is meant by economic value of liabilities.

4.13 It is worth noting that over 60% of companies are concerned that the application of economic principles to assets and liabilities would result in tax consequences. This represents a concern for the industry.

Transitioning to the new Solvency II system

4.14 The chart below provides an analysis of the impression from companies who have not yet developed a risk management framework of the magnitude of the effort required to do so.

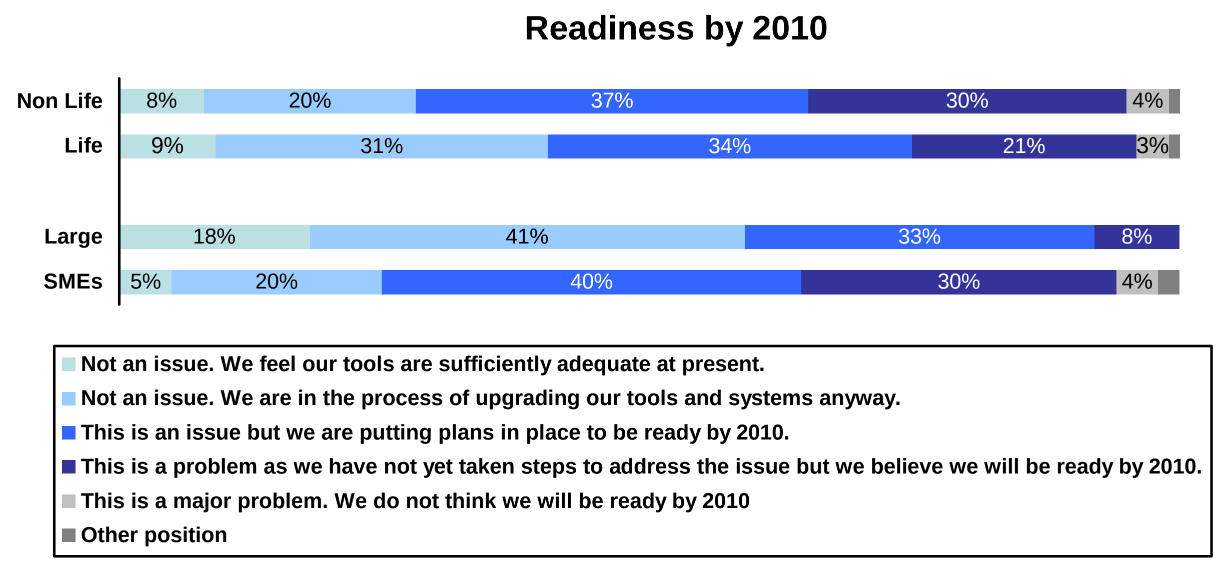


4.15 For those companies which still do not have risk management systems in place, establishing such a system presents a number of challenges. The challenges include developing and training the appropriate internal resources, the need for improved technical training and better information technology systems and risk measurement tools.

4.16 Interestingly, the majority of respondents did not believe that it will be difficult to achieve the buy-in of senior management for implementing such a framework. This seems to indicate that although risk management frameworks represent a significant investment for companies, senior management understand the importance and are willing to make such investments.

4.17 In addition, there does not appear to be a significant concern among participants regarding their readiness for implementation of the new system. Although the preparation for the new framework is a concern, 96% of respondents so far are confident that they will be ready by the time Solvency II comes into effect.

4.18 In those countries where prudential supervision has taken steps towards an economic approach, transitioning to Solvency II is not even seen as an issue by the majority of respondents.



4.19 Companies recognise the Standard Approach as a cost effective method of implementing a risk based economic system. The final form of the Standard Approach is not yet known but most participants have indicated that their desire for better risk measurement techniques such as partial or full internal models. This is true for all companies independent of the size of the company.

4.20 The following table indicates the expected modelling approach that companies expect to use.

Expected approach for the calculation of capital requirements	Small	Med-Small	Medium	Med-Large	Large
Standard Approach	52%	40%	26%	20%	5%
Internal models	18%	27%	36%	38%	77%
Partial models	30%	32%	38%	42%	19%

4.21 A more detailed analysis of the data indicates that the approach that companies intend to take towards the calculation of capital requirements is dependent on its current capabilities and is therefore influenced by factors such as size and regulatory developments.

4.22 In light of this it may be worthwhile to reiterate certain key messages in relation to the Standard Approach based on the CEA feedback to QIS 2. The feedback indicates that within the standard approach, companies should have the option to use company specific data as this more accurately reflects the risk and the possibility of a two tier standard approach incorporating both factors and scenarios (see also "CEA Preliminary feedback on QIS2" – 16 October 2006).

4.23 The possibility of using partial internal models would be welcomed by companies in order to ease the adoption of the new system. Other measures that would be welcomed are a supervisory process that places greater emphasis on the main risks for the company, the use of adequate transitional arrangements and IFRS compatibility if possible.

5 PRODUCT DESIGN AND PRICING

5.1 Insurance companies are in the process of accepting and managing risk. As part of this process we would expect that the companies will aim to charge a fair price for managing such risks. Failure to do so is not in the long term interest of the company, its policyholders or the insurance industry as a whole.

5.2 The objective of this section is to understand how capital requirements currently impact the product design and pricing process and the potential impact of introducing a risk based economic approach.

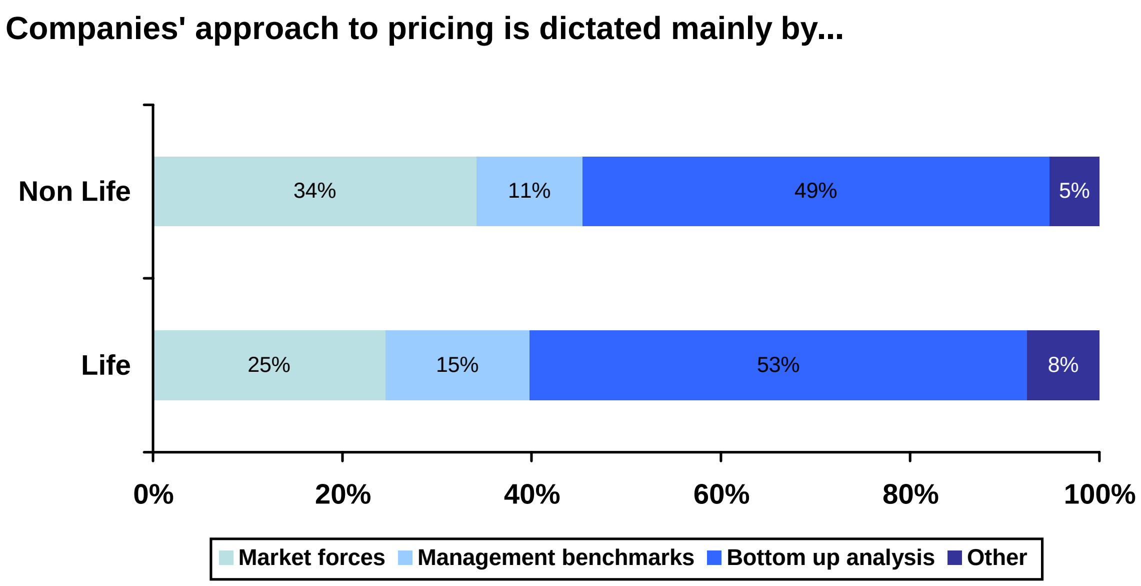
5.3 In order to do so companies were asked about their current approach to pricing and the possible reactions in cases where the capital requirements for products were to increase or decrease under a risk based economic approach.

Key Messages

- As more companies implement risk measurement and management frameworks, we would expect companies to take into account the capital requirements associated with the insurance products.
- A risk based economic framework would be more transparent in the costing of product features such as options and guarantees. This should allow policyholders to make more informed decisions between the cost of a product feature and the perceived value added.
- For some products there will be lower capital requirements under the economic approach. This is likely to attract further players, increasing competition within particular product lines with potential advantages for policyholders.
- If the design or calibration of the system is incorrect leading to higher than economically justified capital requirements then companies may respond by withdrawing certain capital intensive products or passing the additional costs to policyholders. This is why certain design features such as diversification and risk mitigation are essential for the Solvency II framework.
- Economically justified increases in capital requirements for some products are likely to affect mainly product features and the use of risk mitigation. In the longer term, product innovation could also be a consequence.
- Failure to charge a fair price for risk is not in the long term interest of the company, its policyholders or the insurance industry as a whole.

Current approach to pricing

5.4 The majority of respondents use a bottom up approach to pricing based on profit testing or detailed historic claim analysis. However, many also made comments about using a combination of the different methods; very often based on market forces but also using a bottom up approach.



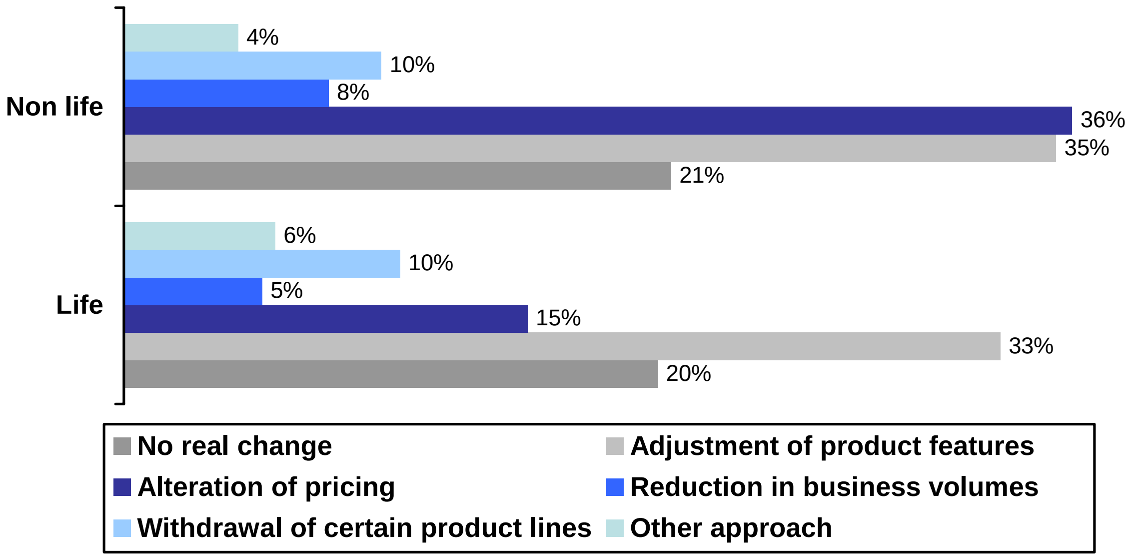
5.5 Surprisingly the use of explicit capital requirements in the pricing process is relatively low with only about 40% or companies taking into account capital requirements explicitly in the pricing process. This may be in part due to the limitations of the Solvency I capital requirements which are not sensitive to the underlying risks.

Reaction of companies on product design and pricing

5.6 For many companies the last five years have presented challenging external conditions experienced such as equity market falls, natural and man made catastrophes, a general lowering if interest rates and the economic cycle. A useful starting point might therefore be to assess how companies have reacted in the past to these challenges.

5.7 The following chart shows a summary of the actions that the surveyed companies have taken over the last five years in response to the challenging external environment previously described.

Product design and pricing reaction to difficult environment over the last 5 years



5.8 The results show only about 20% of companies have not made any real change to their product design and pricing over the last five years. This may imply that although the current Solvency I may be somewhat risk insensitive and not currently used in the pricing process, companies often look beyond this when making business decisions such as pricing and product design.

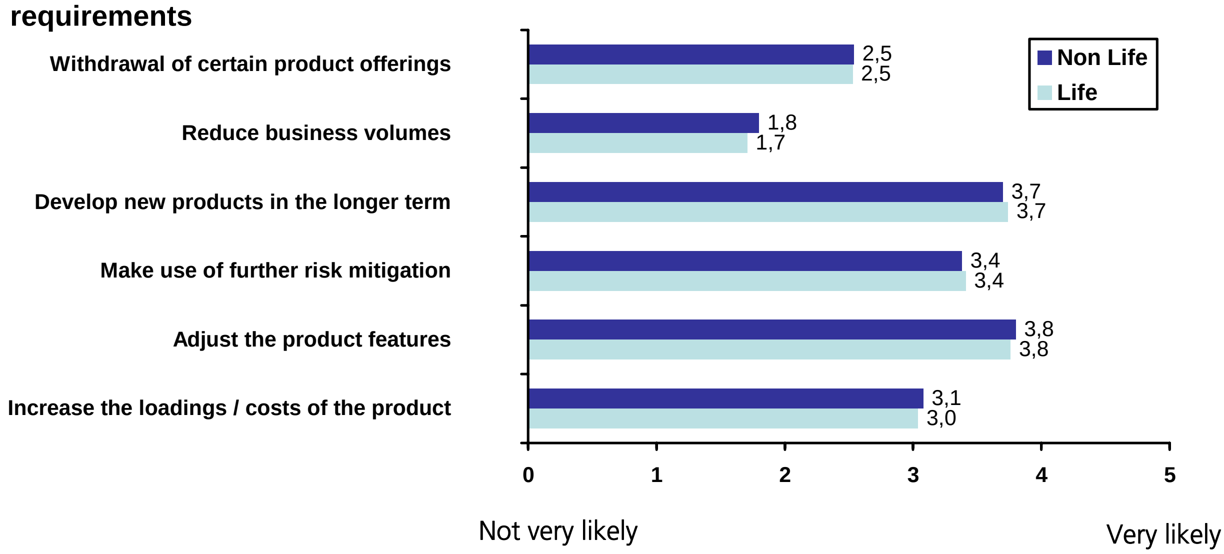
5.9 Therefore a Solvency II system designed on economic principles may simply help companies align regulatory requirements with current practice. However, companies also indicate consistent with Section 4 that some effort is required in order to embed a risk based economic approach in the pricing process.

5.10 For the companies responding, the most common changes were in the adjustment to product feature and pricing with fewer companies considering options such as reductions in business volumes and withdrawal of certain product lines.

5.11 The new framework must aim to align the capital requirements with the underlying risks. Companies were therefore asked how they might respond if the system led to an increase in capital requirements for certain products. Note this question is in the context that the increase in capital requirements was economically justified and not arbitrary.

5.12 The following chart shows how the survey respondents would react to economically justified increases in capital requirements. The most likely actions indicated are adjustments to product features, greater use of risk mitigation and development of new products in the long term with increases in costs and reducing business volumes or withdrawal from such product lines much less likely.

Likely implications for products with an economically justified increase in capital requirements



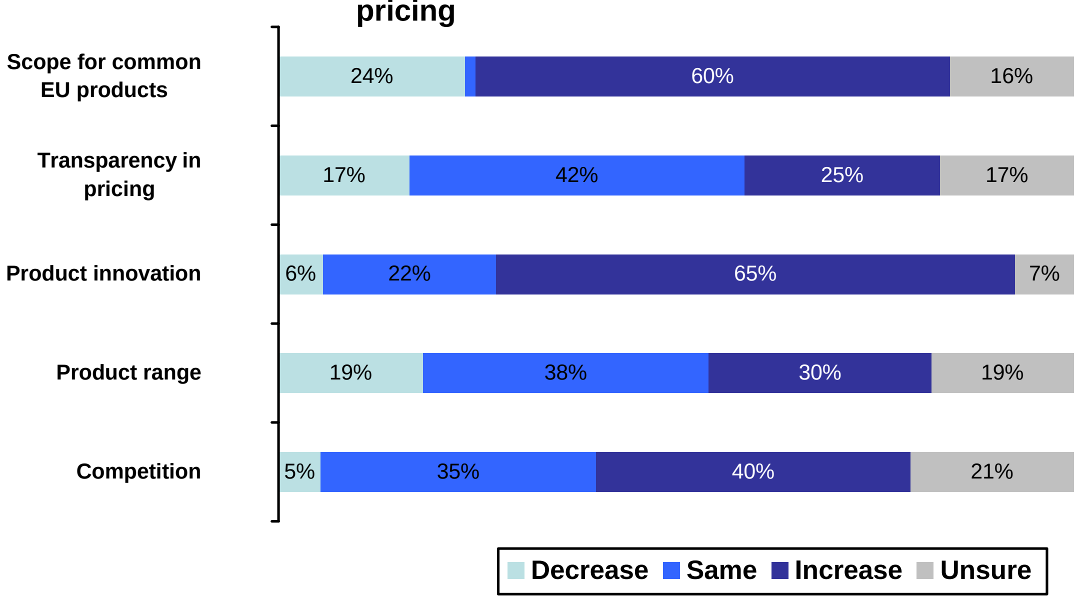
5.13 For some products a risk based economic approach will lead to lower capital requirements. In such cases, approximately 50% of the survey respondents believed that this would lead to increased competition and possible reduction in the costs borne by consumers.

Likely macro impact on product design and pricing

5.14 Survey participants were asked to respond on the potential macro impact of a risk based economic approach on product design and pricing. The results are summarised in the following chart.

5.15 The greatest expectation by respondents was an increase in product innovation and the possibility of Europe wide product offerings. A substantial number of participants also expect an increase in competition, wider product offerings and increased transparency in pricing for policyholders.

Expected overall impact of the new framework on the product offering/ pricing



6 INVESTMENT STRATEGY

6.1 Insurance companies manage significant volumes of investments and in certain territories they represent a primary vehicle for retirement savings. Consequently, insurers are major investors in traditional asset classes such as government debt, corporate debt, property and shares.

6.2 CEA data indicates that life insurance companies manage approximately € 4,800 billion and non-life companies manage almost € 1,100 billion as at the end of 2005.

6.3 The investment strategy employed by an insurance company needs to balance policyholder assurance that claims and guaranteed amounts are paid when due while maximising the return for policyholders and shareholders.

6.4 The objective of this section is to understand insurance company's current investment strategies, the potential changes that might arise from the new framework and their view on the current development of financial markets.

6.5 In order to do this, companies were asked about their current investment strategy and their views as to how this may change in light of a risk based economic approach.

Key Messages

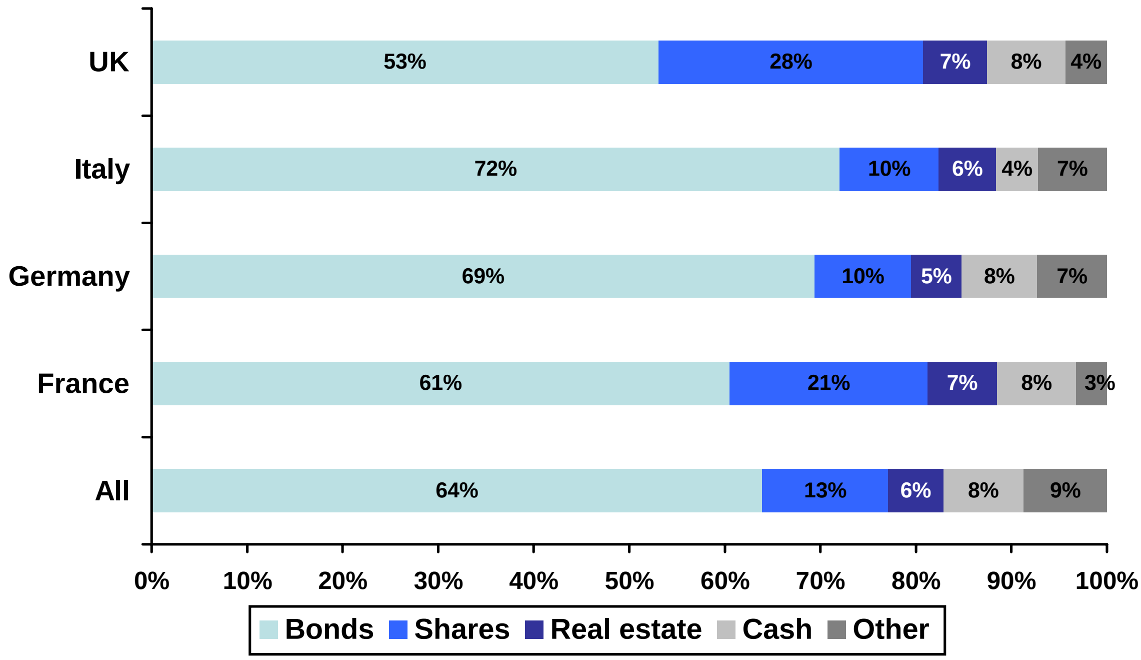
- At a macro level, insurance companies are major investors in the investment markets. Traditionally the greatest holdings are in fixed interest securities followed by shares, property and cash like investments
- At the product level most insurance companies tailor their Investment strategy taking into account the nature, term and duration of the underlying liabilities
- A risk based economic framework would encourage matching of assets and liabilities. Although this is not fully recognised in Solvency I, most companies included in the survey indicate that they already closely match assets and liabilities and understand the implications of mismatching

  Consequently, the introduction of the risk based economic framework would help align regulatory with company's underlying practice.
- The majority of respondents expect no changes or limited changes in their investment strategies as a result of the introduction of a risk based economic framework. An increase in the use of derivatives for hedging purposes is the only foreseen trend.
- The potential capital requirement on share holdings is seen as a manageable issue by most respondents. An exception is the French respondents, many of whom consider the capital charge for shares to be a major problem
- Most respondents believe that investment markets are sufficiently well developed to provide the range of assets consistent with a risk based economic framework. Concerns were however expressed on the financial markets by certain regions such as Eastern Europe. Concern was also expressed by other non-Euro regions with developed financial markets (e.g. Scandinavian countries).

Current investment practice

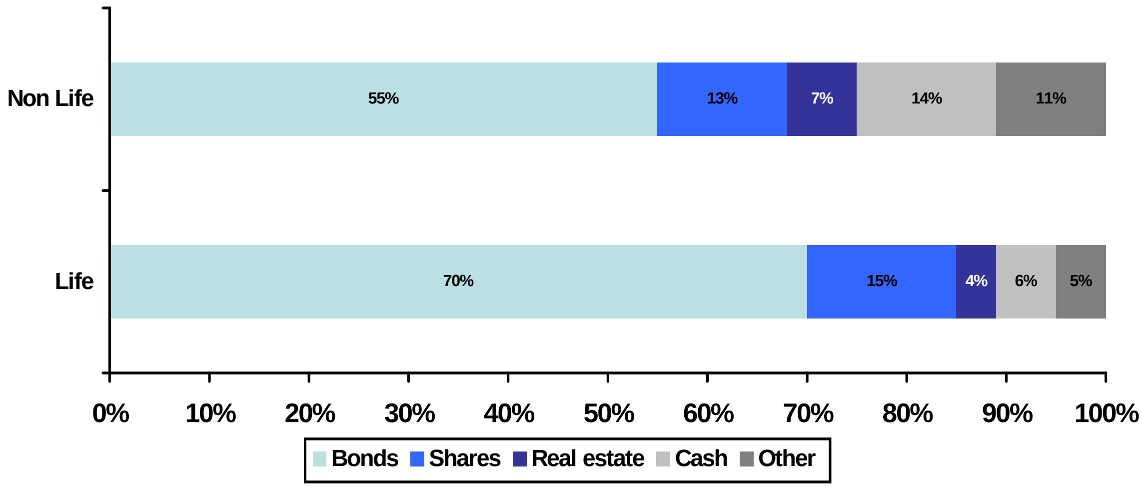
6.6 The following charts provide an analysis of the current investment strategy for non linked assets. The assets include free capital and exclude linked assets.

Average asset mix for non linked business



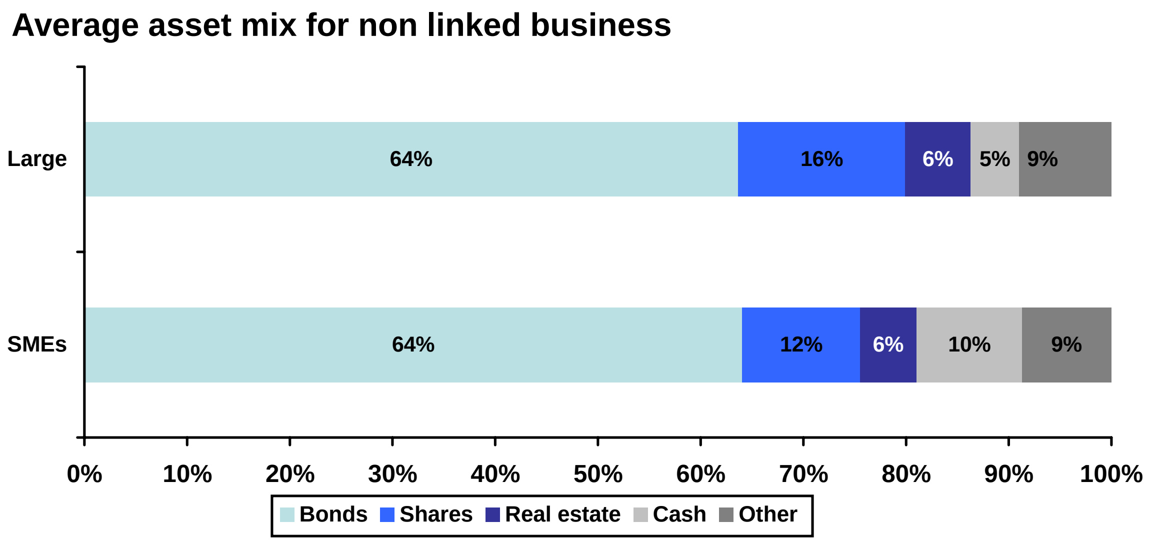
6.7 Investment in bonds is predominant among participants in all markets. The analysis indicates that the average percentage of assets invested in shares is higher for the UK (28%), the Scandinavian countries (22%), France (21%), and the Benelux countries (17%).

Average asset mix for non linked business



6.8 The companies responding indicate roughly similar proportions of combined bond and cash type investments between Life and Non-Life companies. In addition, the weight of shares in both cases is similar. However Non-Life companies hold a greater proportion of other assets which includes items such as reinsurance deposits.

6.9 The analysis of asset mix by company size does not indicate substantial differences in asset holdings.



6.10 A more detailed analysis of the results indicate that for certain companies mortgages, private equity shares and derivatives are increasingly becoming common investments.

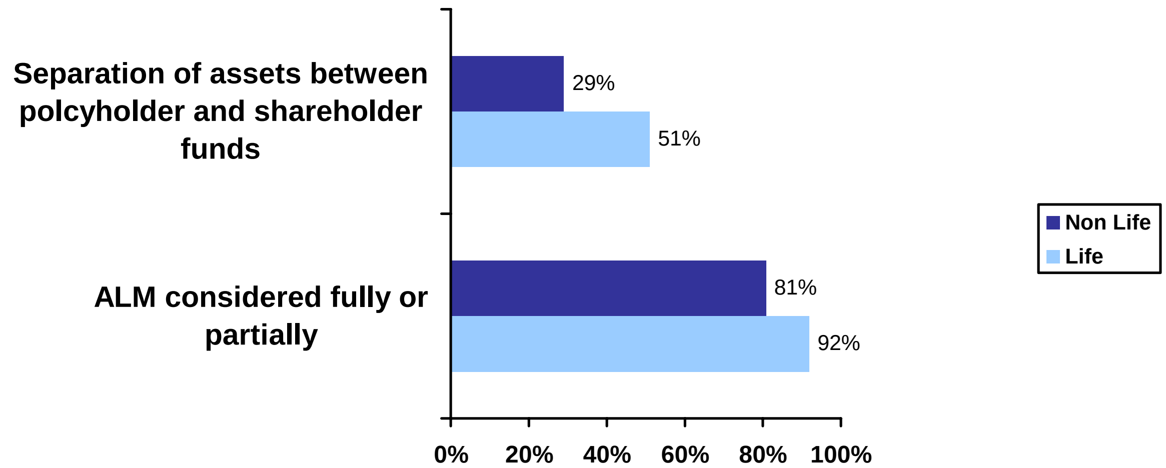
6.11 The following chart shows the extent to which companies take into account the liability profile when setting the underlying investment strategy. In setting the investment strategy for individual products.

Most survey respondents indicate that they already take into account the term, nature, duration and currency of their liabilities when determining the underlying investment strategy although this is not necessarily a prerequisite under Solvency I.

6.12 A risk based economic approach would therefore help align the regulatory and current practice for many companies.

6.13 The following Chart provides information as to the extent that companies currently segregate policyholder and shareholder assets. This would be a pre requisite if the policyholder and shareholder assets were to be managed separately.

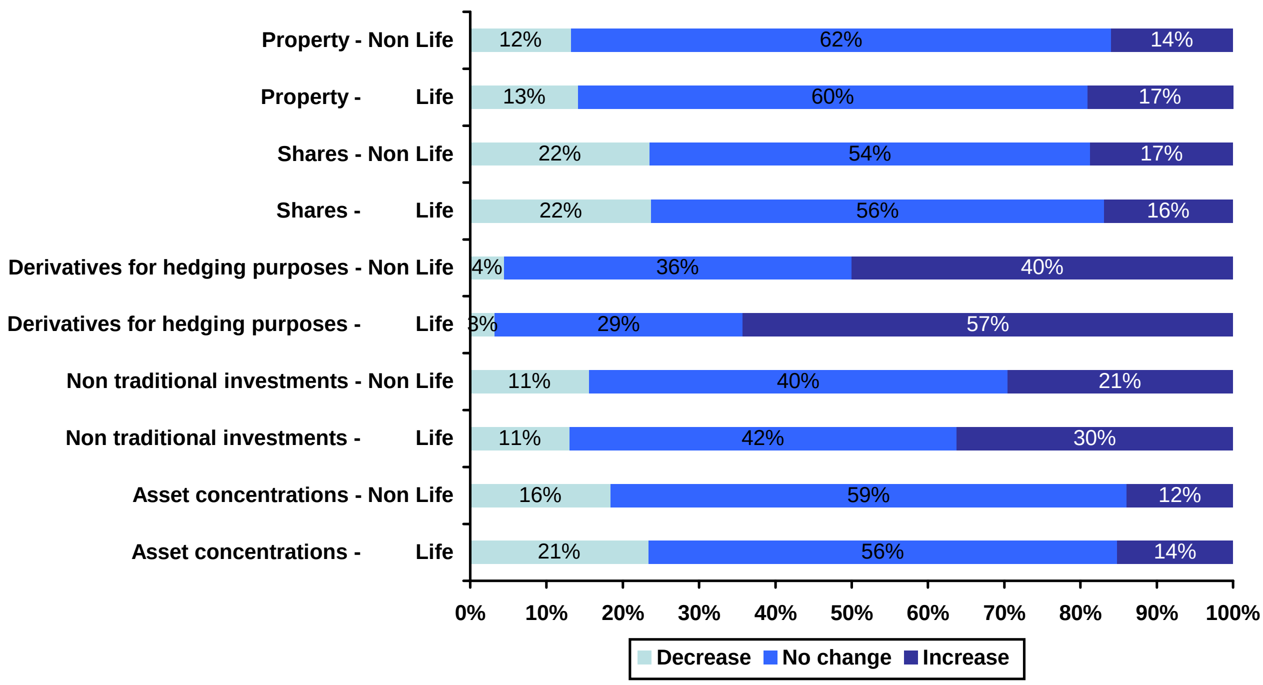
Separation of assets and ALM



Potential implications of the new framework

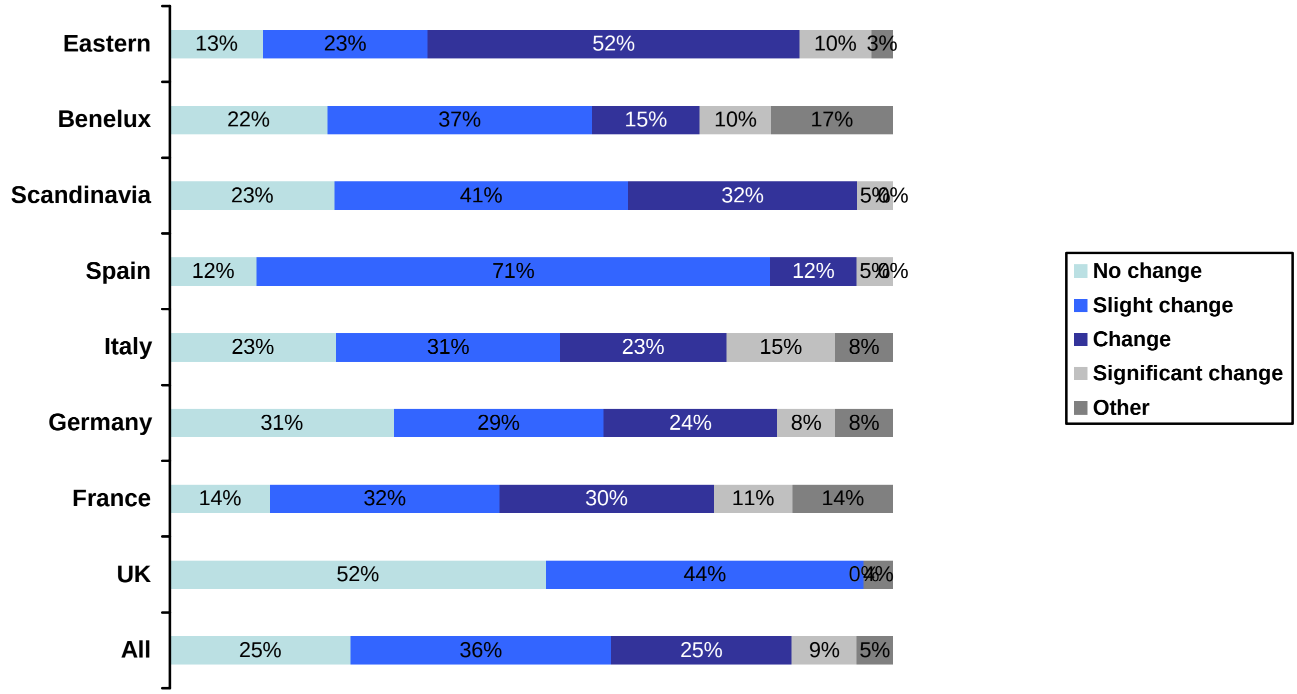
6.14 In order to understand the potential implications of a risk based economic approach, participants were asked on the potential implications of the introduction of the new framework. The following chart indicates that the majority of respondents expect no changes or limited changes in their investment strategies as a result of the introduction of a risk based economic framework. An increase in the use of derivatives for hedging purposes is the only foreseen trend.

Implications of the introduction of the new framework



6.15 One of the features of a risk based economic approach is recognition of asset liability mismatches. Previously we indicated that many companies were *already* taking into account the term, nature and duration of their liabilities thereby recognising the risks of asset liability mismatches. As a result, it may not be surprising that only a minority of companies expect significant change in the asset liability matching requirements.

Impact of risk based economic framework on asset liability matching requirements

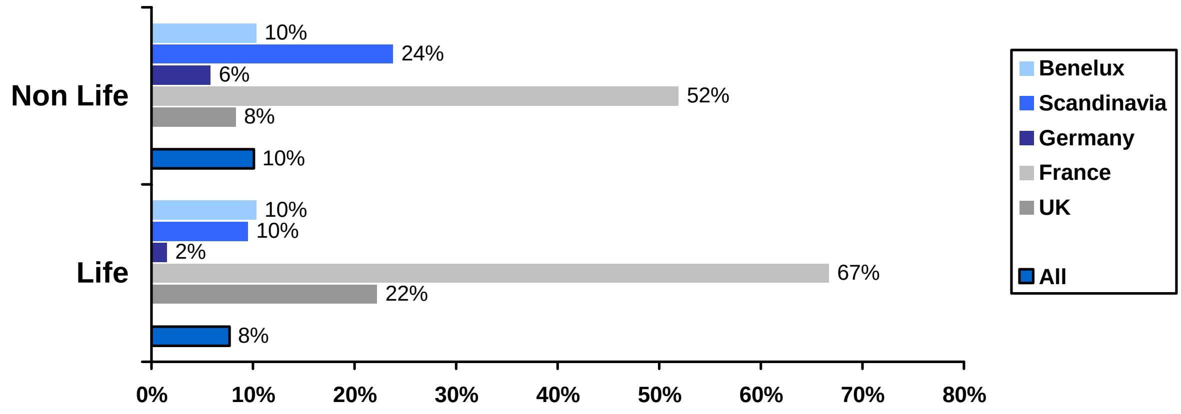


6.16 A potential consequence of the introduction of a risk based economic framework is a change in the capital charge on shares to reflect the higher volatilities over the one year time horizon. There has been some discussion that such a framework would encourage companies to reduce their equity risk exposure.

6.17 Companies were therefore questioned on the potential impact of the framework on the holding of shares. The higher risk volatility of shares was recognized by respondents with approximately 40% of insurers holding fairly low percentages of shares. Many other companies have indicated that the volatility of shares was mitigated as a result of the recognition of diversification and risk mitigation making the issue.

6.18 Overall the survey respondents indicated that only around 8% of the participants considered that the capital charge on equity holdings represents a major problem for their company. An exception is for the French respondents for whom the capital charge on shares is a major problem.

Major problems expected due to higher risk charge on shares

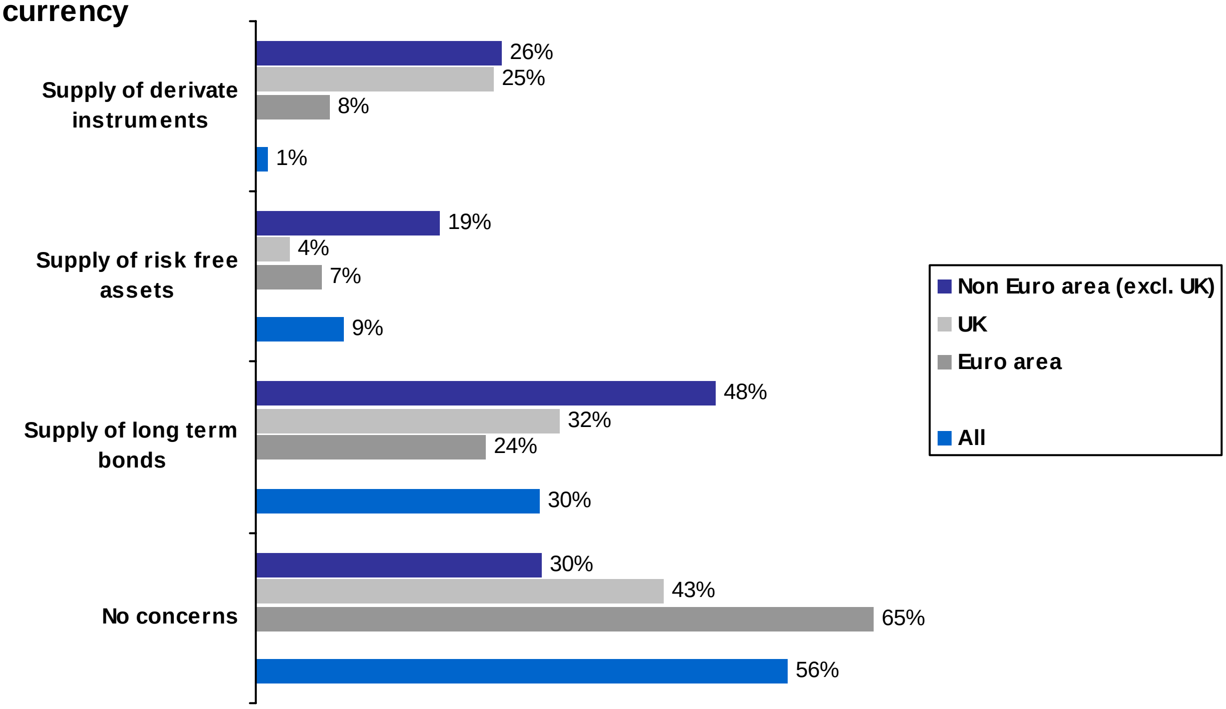


In some jurisdictions like Eastern European countries, Italy and Spain, no companies answering this question expect major problems due to higher risk charge on shares.

6.19 Most respondents to the survey indicated that the investment markets were sufficiently well developed to provide the supply of assets necessary for a risk based economic framework. The biggest concerns relate to the supply of assets with a long enough term to cover longer term liabilities which is an issue that is more relevant for life insurance companies.

6.20 Concerns were proportionately greater in financial markets that are not part of the euro zone such as in Eastern Europe.

Figure 6.10: Concerns with respect to the supply of specific assets by currency



7 IMPACT ON REINSURANCE AND REINSURANCE COMPANIES

7.1 Insurance companies are in the process of accepting and managing risks. Reinsurance is a key tool used by insurance companies to manage their levels of risk exposure and to reduce claims volatility.

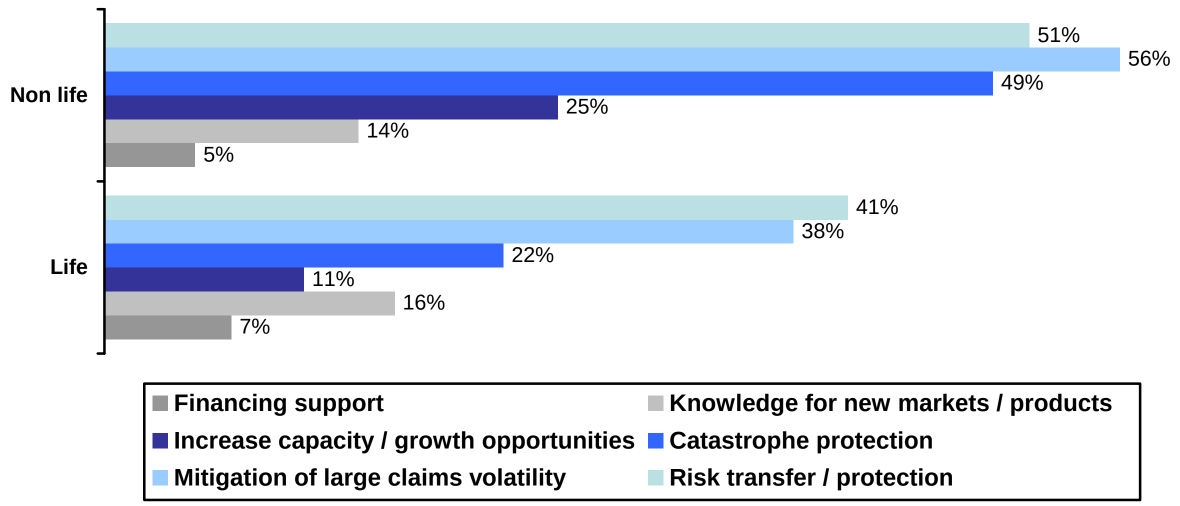
7.2 The objective of this section is to discuss the current position on reinsurance and to gather views from participants on the potential impact of a risk based economic approach on the demand, supply and potential cost of reinsurance offerings.

Key Messages

- Many insurance companies already use reinsurance as a risk management instrument, despite the limited recognition under Solvency I. A significant change in the use of reinsurance is therefore not expected
- Allowing for full recognition of risk mitigation within the Solvency II framework will therefore align regulation with current risk management practice and provide a better reflection of companies' actual risk exposures.
- There are mixed views as to the expected change in demand for reinsurance under the new framework with differences in views between life and non- life and between direct writers and reinsurers. Those who expect an increase in demand also expect increase in the price for reinsurance
- Most companies surveyed believe that the current availability of reinsurance is sufficient, with only the availability of longevity risk reinsurance an area of concern
- Respondents do not expect Solvency II to negatively impact the availability of reinsurance, suggesting that the supply of reinsurance will remain adequate
- Reinsurers however indicate that one of the main benefits of a risk based economic approach is an increase in product innovation in the future

7.3 The following chart shows the reasons why companies use reinsurance. The use of external reinsurance is prominent amongst respondents in both life and non-life markets, with the main drivers being risk transfer, catastrophe protection and reducing claims volatility, all being methods of reducing the risk exposure of companies.

The main reasons respondents use external reinsurance



7.4 Approximately half of the companies surveyed expect their use of reinsurance under a risk based economic approach will be unchanged since they already employ reinsurance as a risk management instrument, despite the limited recognition under Solvency I.

7.5 Interestingly, approximately 16% of respondents indicated that under a risk based approach the use of reinsurance would increase so as to manage particular risk exposures downwards. Hence, aligning Solvency II with a risk based economic approach provides the opportunity to encourage best practice risk management.

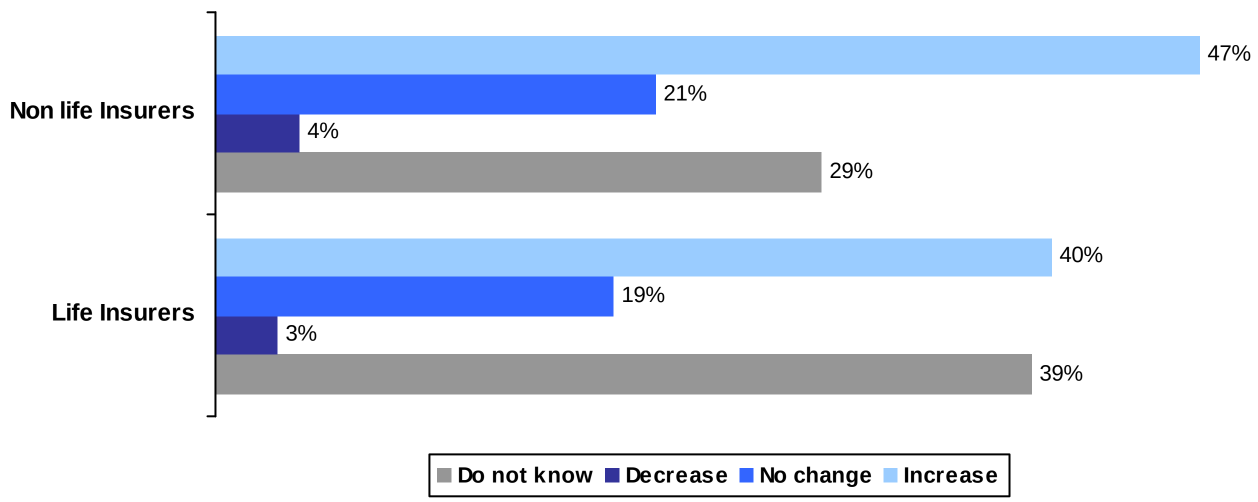
Potential implications of the new framework

7.6 The majority of companies surveyed believe that the current availability of reinsurance is adequate with only the availability of longevity risk reinsurance an area of concern.

7.7 Companies however indicate that under a risk based framework, the credit rating of the reinsurer would be of fundamental consideration in the choice of reinsurer. This would be consistent with a risk based framework.

7.8 There is a mix of views of the potential impact of a risk based approach on the price of reinsurance. Most insurance companies indicate that they are unsure of the impact of a risk based economic approach but there is an underlying expectation that prices may rise if the demand for reinsurance were to increase.

Expected impact of Solvency II on cost / price of reinsurance



7.9 Separately an analysis of the response from reinsurance companies indicates that one of the benefits a risk based economic approach is an increase in product innovation with over 80% of reinsurers expecting an increase in product innovation.

7.10 Interestingly, more than 70% of Non-Life reinsurers expect an increase in demand for reinsurance as a result of the risk based framework and that this would be accompanied by potential price increases. This is higher than the expectations of the non-life insurance companies.

7.11 However, most reinsurers indicate that there is sufficient reinsurance capacity to cope with any increase in demand.

7.12 For life reinsurers the expectations are lower with only 10% of reinsurers expecting an increase in demand and associated price increases. This is lower than the expectations of the life insurance companies.

8 CAPITAL RAISING

8.1 The new regulatory framework will directly determine the target level of capital to be maintained by insurance companies. This has implications for company's discussions and interactions with the financial markets and the ability to raise and efficiently utilise capital.

8.2 The purpose of this section is to understand company's recent experience of capital raising, their views on the potential impact of the new framework on the requirement to raise capital and also the cost and opportunity of raising such capital.

8.3 Companies were therefore asked about their recent experience in raising capital and how this might change under a risk based economic approach.

Key Messages

- The effect of the risk based economic framework on the capital needs of companies is viewed in different ways by respondents, which is most likely a reflection of the currently outstanding issues on calibration, recognition of risk mitigation and capital eligibility.
- The majority of participants believe that a common risk based economic framework under Solvency II will increase transparency across Europe and make it easier to raise capital, since it will help potential investors understand insurance companies.
- There are concerns that the cost to raising capital for the insurance industry will rise if the new framework does not follow economic principles or if it conflicts with good risk management.

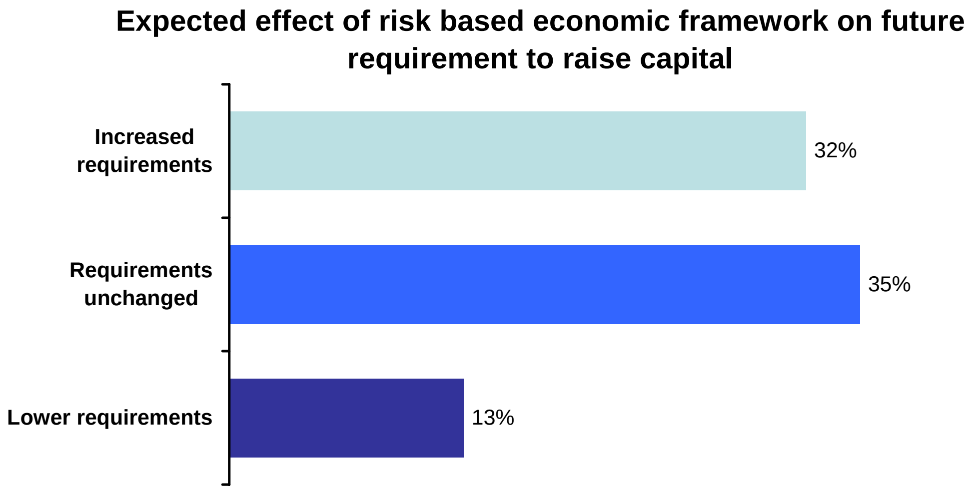
8.4 A significant proportion of the surveyed companies have recently raised capital with more than half of respondents being involved in a capital raising exercise within the last five years. These have mostly taken the form of issuing ordinary shares (52%), debt instruments (37%) or innovative forms of capital such as hybrid capital (32%).

8.5 There are differences in opinion as to the need for companies to raise capital under a risk based economic framework. Approximately one third of the companies responding expect the need to raise capital will be unchanged as markets already apply some risk based measure for companies raising capital.

8.6 A further one third indicated that the need for capital may increase as a result of the greater volatility in a risk based measure with approximately 13% expecting lower need to reduce capital in the future as a result of recognition of prudence in the existing technical provisions and innovative forms of capital.

8.7 Comments from participants indicate that the calibration and nature of the SCR will be important in determining the need for companies to raise capital. The industry has expressed its concerns on the existing calibration of QIS2 and the need for the SCR to be considered an important target and that from time to time even well run companies may dip below the SCR.

This would mitigate the need for companies to raise capital.



8.8 The majority of participants (65%) have indicated that a common risk based economic framework under Solvency II will increase transparency across Europe and will help potential investors to better understand insurance companies. This would most likely make it easier for insurers to raise capital.

8.9 Additionally, many companies think that the recognition of different types of capital under the new framework may reduce the cost for companies to raise capital although there is some variation by jurisdiction on this point.

8.10 However, there is also a concern that the ideas underlying the risk based framework could be misinterpreted by investors resulting in a downgrade of the insurance sector. In order to avoid this it is important that the framework does follow an economic approach and is clearly communicated externally.

8.11 Over 80% of companies responding indicate that if the Solvency II framework system does not follow economic principles or the capital requirements are higher than economically justified or if the requirements conflicts with good risk management then the resulting system will be complex and inefficient potentially damaging investor confidence and their willingness to supply capital to the insurance industry.

APPENDIX A: PARTICIPANTS BY COUNTRY

Country		N° of Participants
AT	Austria	20
BE	Belgium	10
CH	Switzerland	5
CY	Cyprus	6
CZ	Czech Republic	2
DE	Germany	116
DK	Denmark	10
EE	Estonia	4
ES	Spain	45
FI	Finland	9
FR	France	38
GR	Greece	3
HU	Hungary	2
IE	Ireland	4
IT	Italy	14
LU	Luxembourg	14
LV	Latvia	2
MT	Malta	5
NL	The Netherlands	23
NO	Norway	8
PL	Poland	9
PT	Portugal	21
SE	Sweden	16
SK	Slovakia	8
SL	Slovenia	6
TR	Turkey	6
UK	United Kingdom	28
	Other[2]	8
	Total	442

[2] 'Other' corresponds mostly to multinationals headquartered in several EU Member States.

APPENDIX B: SELECTED INFORMATION MATERIAL AND POSITION PAPERS

- Solvency II: Structural Issues (March 2005)
- Solvency II - Building Blocks for the Solvency II Project CEA Working Document in Progress (May 2005)
- Solutions to Major Issues for Solvency II – Joint submission by the CRO Forum and the CEA (February 2006)
- Solvency II – Introductory Guide (June 2006)
- Assessing the Impact of Solvency II on the Average Level of Capital (October 2006)
- CEA Preliminary Feedback from QIS2 (October 2006)
- CEA Working Paper on the MCR and Proposed Ladder of Intervention (October 2006)
- CEA Guidance Paper on the Impact Assessment Questionnaire (June 2006)

These documents can all be found under the Solvency II section of the CEA website (www.cea.eu).

APPENDIX C: DEFINITION OF SMALL AND MEDIUM SIZED ENTERPRISES (SMES)

In the QIS 2 exercise, CEIOPS defined SMEs as the undertakings with neither life technical provisions above €10,000 mln nor non life written premiums above €1000 mln. However, following the structure of the questionnaire, for the purpose of this report a slightly more prudent definition was adopted with regard to non life: an undertaking is considered an SME if neither life technical provisions exceed €10,000 mln nor non life written premiums exceed €500 mln. The effect of adopting one definition or the other is not material from the viewpoint of the analysis results.

APPENDIX D: SURVEY QUESTIONNAIRE

CEA QUESTIONNAIRE ON IMPACT ASSESSMENT

Contents

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*   *

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March 2007

Introduction

Purpose of this questionnaire

The European Commission has approached the CEA, AISAM and ACME[3] to assist in preparing an Impact Assessment of the potential consequences following the introduction of the Solvency II legislation.

The European Commission request has a specific focus on the impact on Insurance and Markets and in particular on the following areas:

- Product Development, Design and Pricing
- Investment Policy
- Reinsurance
- Capital Raising

In responding to this request, the CEA has prepared a series of tools to assist National Associations in gathering feedback from their market. This includes:

- A Guidance document detailing[4]:
  - The request of the Commission
  - The importance of the Impact Assessment
  - The process/organisation and the timeline of this exercise
  - Making a link with QIS 2
  - Description of the risk based economic framework advocated by the industry
  - Initial hypotheses and key points to consider
  - Glossary of key terms

- This questionnaire with specific targeted questions on the specified and other areas of the request.

We note that the outcome of Solvency II is not yet clear and in particular it is not certain that the risk based economic framework advocated by the industry and outlined in this questionnaire will be adopted.

This Impact Assessment work could therefore be invalidated if Solvency II fails to follow a risk based economic approach. This is described further in the Guidance document.

Process and Organisation

The National Associations have been asked to organise the consultation within their markets and to ensure sufficient participation. It is intended that the questionnaire will be done in electronic format on an anonymous basis.

This questionnaire is intended to be filled out and submitted at the legal entity level for the participating companies. We recognise that certain activities such as capital raising may be handled at the group / holding company level and as such we will look for additional feedback from the group holding companies.

In such cases, we would welcome the feedback from the group head office on all sections of this questionnaire (and not only the Group related issues).

Contents of this questionnaire

Section 2 contains general information to be used to segment the results.

Section 3 covers questions on the general Solvency II framework and the areas specified by the Commission.

Section 4 includes some additional questions specific to insurance group reinsurers and mutual / co-operative companies.

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3 CEA: Comité Européen Des Assurances
AISAM: Association Internationale des Societées d'Assurance Mutuelle
ACME: Association of European Cooperative and Mutual Insurers

4 The guidance can be found at the CEA website (www.cea.assur.org) under the Solvency II section.

Company and Market Information

Q1) What is the classification of your company?

a) We are a stand-alone, independent company. The company is a:
- ☐ i) Proprietary / Joint Stockholding
- ☐ ii) Mutual/ co-operative
- ☐ iii) Reinsurer

b) We are an entity/subsidiary of a larger group. This subsidiary is a:
- ☐ i) Proprietary / Joint Stockholding
- ☐ ii) Mutual/ co-operative
- ☐ iii) Reinsurer

c) We are the Head office for a group / Holding company. The holding company is:
- ☐ i) Proprietary / Joint Stockholding
- ☐ ii) Mutual/ co-operative
- ☐ iii) Reinsurer

d) Other [please specify]

Q2) From which country are you supervised? *This question will be used to separate the results by market.*

Q3) What are the main types of insurance business that you write? Health insurers, please classify your business, depending on whether it exhibits characteristics closer to Life or Non Life business.

a) Life [☐ Unit Linked, ☐ With Profit, ☐ Non Profit, ☐ Health, ☐ Other]
b) Non Life [☐ Commercial lines, ☐ Private lines, ☐ Reinsurance, ☐ Health, ☐ Other]
c) Other [Please specify]

Q4) Please indicate the size of your company in terms of premium[5] income and the amount of technical provisions held?

Life (including health if applicable)

a) Net Premiums:
☐ Under €50 million ☐ Between €50 million and €250 million ☐ Between €250 million and €1000 million ☐ Between €1000 million and €2500 million ☐ More than €2500 million

b) Net Technical Provisions:
☐ Under €500 million ☐ Between €500 million and €2,000 million ☐ Between €2,000 million and €10,000 million ☐ Between €10,000 million and €25,000 million ☐ More than €25,000 million

Non Life (including health if applicable)

a) Net Written Premiums:
☐ Under €50 million ☐ Between €50 million and €150 million ☐ Between €150 million and €500 million ☐ Between €500 million and €1500 million ☐ More than €1500 million

b) Net Technical Claims Provisions:
☐ Under €50 million ☐ Between €50 million and €150 million ☐ Between €150 million and €500 million ☐ Between €500 million and €1500 million ☐ More than €1500 million

Q5) What is your current asset mix excluding assets backing linked business (% bonds, % shares, % real estate, % cash, % other)?

Q6) Are you participating in the Quantitative Impact Study no. 2 ("QIS 2")?

☐ Yes
☐ No

Q7) Could we contact you to ask any questions regarding your response, if necessary? [OPTIONAL to ensure confidentiality]

☐ Yes [Please supply contact details below]
☐ No

[5] Premiums for this purpose include deposits on investment contracts

Questionnaire

The purpose of the questions in Section 3 is to understand the general impact the introduction of Solvency II may have on companies and on policyholders. This section is divided into 5 sub-sections ("areas to consider"). These sections are:

- General issues and Framework
- Product Development, Design and Pricing
- Investment Policy
- Reinsurance
- Capital Raising

General questions and framework

Q8) Which statement best describes the position of your company? [Select one item]

- ☐ a) We do not actively measure and manage the capital requirements of the company
- ☐ b) Risk measurement and management are based on traditional Solvency I measures
- ☐ c) We are in the process of discussing internally an improved approach to risk management
- ☐ d) We are in the process implementing a framework and risk policy (for example risk appetite, risk identification and process)
- ☐ e) We are improving our risk measurement and risk management tools
- ☐ f) We have implemented a risk based system and are now embedding it in the day to day operation of the business
- ☐ g) We have implemented a risk based system and it is now operational in the business
- ☐ h) Other position [Please describe below]

Q9) What are the principal motivations in your approach to risk management? [Select all relevant items]

- ☐ a) Shareholder requirements
- ☐ b) Rating agency requirements
- ☐ c) Increasing uncertainty generated by turbulence in the markets (financial, natural catastrophes etc)
- ☐ d) Changes in solvency regulation (e.g. Solvency II or other regulatory change)
- ☐ e) Good business practice
- ☐ f) Competitive advantage
- ☐ g) Other reasons [Please describe below]

Q10) The Solvency II framework proposed by the industry is described in Section 4 of the guidance document. The guidance document can be accessed in the solvency II section of the CEA website (www.cea.assur.org).

For companies which have developed a risk management framework, how different are the following Solvency II features from your current internal risk measurement process? *If you have not developed such a framework then go to Q11.*

a) Value at Risk ("VAR") measure over a one year time horizon
☐ Very different ☐ somewhat different ☐ same ☐ similar

b) Economic valuation of assets and liabilities
☐ Very different ☐ somewhat different ☐ same ☐ similar

c) Comprehensive analysis of individual risks
☐ Very different ☐ somewhat different ☐ same ☐ similar

d) Full recognition of risk mitigation
☐ Very different ☐ somewhat different ☐ same ☐ similar
e) Full recognition of diversification
☐ Very different ☐ somewhat different ☐ same ☐ similar

Please comment on elements which are very different:

Q11) For companies that have not yet developed a risk management framework, how do you rate the magnitude of the effort required for your company to ***develop*** a risk based economic framework *If you have already developed a such a framework then go to Q12.*

[On a scale: 1 = Low/easy 3 = acceptable/OK 5 = a significant burden]

a) Appropriate Resources: 1☐ 2☐ 3☐ 4☐ 5☐
b) Technical Training: 1☐ 2☐ 3☐ 4☐ 5☐
c) Admin and data Systems: 1☐ 2☐ 3☐ 4☐ 5☐
d) Analysis Tools: 1☐ 2☐ 3☐ 4☐ 5☐
e) Internal “buy-in” by Senior Management 1☐ 2☐ 3☐ 4☐ 5☐
f) Other (Please specify):

Q12) For companies that have developed a risk based economic framework, how do you rate the magnitude of the effort required for your company to ***maintain*** a risk based economic framework?

[On a scale: 1 = Low/easy 3 = acceptable/OK 5 = a significant burden]

a) Appropriate Resources: 1☐ 2☐ 3☐ 4☐ 5☐
b) Technical Training: 1☐ 2☐ 3☐ 4☐ 5☐
c) Admin and data Systems: 1☐ 2☐ 3☐ 4☐ 5☐
d) Analysis Tools: 1☐ 2☐ 3☐ 4☐ 5☐
e) Knowledge management 1☐ 2☐ 3☐ 4☐ 5☐
f) Other (Please specify area and effort required):

Q13) Based on current knowledge and system capabilities, which approach would you expect to use for calculating the capital requirements under Solvency II?

☐ a) The Standard Approach
☐ b) Internal Models assuming reasonable approval criteria
☐ c) Partial Models (An intermediate between standard approach and internal models)

[If answer to Q 13 is (a) then go to Q14. Otherwise go to Question 16]

Q14) To what extent do you agree the Standard Approach as an opportunity to implement a cost effective method to achieve the benefits of a risk based economic framework?

☐ Strongly Agree
☐ Agree
☐ Neutral
☐ Disagree
☐ Strongly Disagree

Additional comments

Q15) Solvency II will come into effect from 2010. This may require companies to upgrade certain tools and systems in order to perform a more sophisticated risk analysis even under the Standard Approach. To what extent do you believe you this will be a problem for your company:

☐ a) This is not an issue. We feel our tools are sufficiently adequate at present.
☐ b) This is not an issue. We are in the process of upgrading our tools and systems anyway.
☐ c) This is an issue but we are putting plans in place to be ready by 2010.
☐ d) This is a problem as we have not yet taken steps to address the issue but we believe we will be ready by 2010.
☐ e) This is a major problem. We do not think we will be ready by 2010.
☐ f) Other position described below

Q16) What steps would you support to ease the transition to Solvency II for companies?

[Indicate all that apply]

☐ a) Supervision that places greater emphasis on the main risks for the company.
☐ b) System where technical provisions for Solvency are based upon (reconcilable to) the accounting provisions
☐ c) Fast track approval for internal models based on standard modelling packages
☐ d) Allowing partial use of models to allow a phased transition from the Standard Approach to Internal Models
☐ e) Appropriate use of transition arrangements
☐ f) Education of stakeholders on the difference between an economic approach and Solvency I
☐ g) Other steps described below

Q17) Do you think that the introduction of a risk based economic framework that bases valuation of assets and liabilities on economic principles might have tax consequences in your jurisdiction?

☐ a) Yes
☐ b) No

Please comment

Product Design / Pricing

Q18) Which of the following best describes your company's current approach to pricing?

☐ a) Prices for insurance products are largely dictated by market forces
☐ b) Product pricing is based on management benchmarks
☐ c) A bottom up approach to pricing is used based on profit testing and/or detailed historical claims analysis
☐ d) Some other approach (Please define)

Q19) In the design and pricing, do you currently take capital requirements into account? (e.g., by deducting the cost of holding capital at the product level)

☐ No
☐ Yes, these are based on
- ☐ Solvency I requirements
- ☐ Regulatory requirements (if different from Solvency I).
- ☐ Rating agency requirements.
- ☐ Internal economic capital requirements
- ☐ Some other approach (please explain)

Q20) The last five years included periods of challenging economic conditions (equity market falls, catastrophes, interest rate environment, economic cycle). How has your product design and pricing process reacted to these challenges?

Life (including health if applicable)

☐ a) No real change to product design / pricing.
☐ b) Product features have been adjusted (for example reduced options and guarantees; exclusions added to the contract)
☐ c) Product pricing has been altered (i.e. increase in prices for certain more risky products/ segments)
☐ d) Reduction in business volumes
☐ e) Withdrawal of certain product lines
☐ f) Some other approach (Please explain)

Non Life (including health if applicable)

☐ a) No real change to product design / pricing.
☐ b) Product features have been adjusted (for example new limits; exclusions added to the contract)
☐ c) Product pricing has been altered (i.e. increase in prices for certain more risky products)
☐ d) Reduction in business volumes
☐ e) Withdrawal of certain product lines
☐ f) Some other approach (Please explain)

Q21) Under the risk based regime the capital requirements for some products might increase. What will be the most likely implications for your business lines which require significantly more capital than that used in your current pricing approach (described in Q18)?

[Please rank the following options by their likelihood using numbers 1 to 6, where 1 is least likely and 6 most likely]

Life (including health if applicable)

a) Increase the loadings / costs of the product for consumers
1 ☐ 2 ☐ 3☐ 4☐ 5 ☐ 6☐ Do not know ☐
b) Adjust the product features (such as loadings / options / guarantees / limits) to reduce the capital requirements
1 ☐ 2 ☐ 3☐ 4☐ 5 ☐ 6 ☐ Do not know ☐
c) Make use of further risk mitigation such as reinsurance or hedging to reduce capital requirements
1 ☐ 2 ☐ 3☐ 4☐ 5 ☐ 6 ☐ Do not know ☐
d) Develop new products in the longer term which have a different balance of risks between policyholders and shareholders
1 ☐ 2 ☐ 3☐ 4☐ 5 ☐ 6 ☐ Do not know ☐
e) Reduce business volumes
1 ☐ 2 ☐ 3☐ 4☐ 5 ☐ 6 ☐ Do not know ☐
f) Withdrawal of certain product offerings
1 ☐ 2 ☐ 3☐ 4☐ 5 ☐ 6 ☐ Do not know ☐
g) Other (please explain)

Non Life (including health if applicable)

a) Increase the loadings / costs of the product for consumers
1 ☐ 2 ☐ 3☐ 4☐ 5 ☐ 6☐ Do not know ☐
b) Adjust the product features (such as limits / exclusions) to reduce the capital requirements
1 ☐ 2 ☐ 3☐ 4☐ 5 ☐ 6 ☐ Do not know ☐
c) Make use of further risk mitigation such as reinsurance or hedging to reduce capital requirements
1 ☐ 2 ☐ 3☐ 4☐ 5 ☐ 6 ☐ Do not know ☐
d) Develop new products in the longer term which have a different balance of risks between policyholders and shareholders
1 ☐ 2 ☐ 3☐ 4☐ 5 ☐ 6 ☐ Do not know ☐
e) Reduce business volumes
1 ☐ 2 ☐ 3☐ 4☐ 5 ☐ 6 ☐ Do not know ☐
f) Withdrawal of certain product offerings
1 ☐ 2 ☐ 3☐ 4☐ 5 ☐ 6 ☐ Do not know ☐
g) Other (please explain)

Q22) Under the risk based regime the capital requirements for some products might decrease. What are the *most likely* implications for business lines which require significantly less capital than that used in your current pricing approach (as indicated in Q18)?

[Please rank the following options by their likelihood using numbers 1 to 6, where 1 is least likely and 6 most likely]

Life (including health if applicable)

☐ Savings will be passed on as reduced loadings / costs of the product for consumers
1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ Do not know ☐
☐ New entrants and increased competition within such product lines
1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ Do not know ☐
☐ Other (please explain)

Non Life (including health if applicable)

☐ Savings will be passed on as reduced loadings / costs of the product for consumers
1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ Do not know ☐
☐ New entrants and increased competition within such product lines
1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ Do not know ☐
☐ Other (please explain)

Q23) How do you rate the magnitude of the efforts for your company to incorporate an risk based economic framework to the pricing and designing of products?

a) Resources: Low to High on Scale of 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐
b) Training: Low to High on Scale of 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐
c) Systems: Low to High on Scale of 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

Q24) A risk based economic framework will include a comprehensive analysis of each risk but allowing for the impact of risk mitigation and diversification benefits. What do you expect to be the overall impact of such a system on the product offering / pricing in your market?

a) Competition ☐ Increase ☐ Decrease ☐ Same ☐ Unsure
b) Product Offering ☐ Increase ☐ Decrease ☐ Same ☐ Unsure
c) Product Innovation ☐ Increase ☐ Decrease ☐ Same ☐ Unsure
d) Transparency in pricing for policyholders
☐ Increase ☐ Decrease ☐ Same ☐ Unsure
e) Likelihood of differential pricing by risk drivers [e.g. smoker status, sex, location]
☐ Increase ☐ Decrease ☐ Same ☐ Unsure
f) Possibility of Europe-wide product offerings
☐ Improve ☐ Stay the same ☐ Diminish

Additional comments (if required)

Q25) Please provide any additional comments that you may have on the potential impact of a risk based economic framework on the product design / pricing process for your company.

Investment strategy

The questions in this section are not meant to relate to Unit Linked business.

Q26) Please provide some background on the investment strategy of your company:

Life (including health if applicable)

a) The assets are separated between policyholder and shareholder funds with potentially different investment mandates
☐ Yes ☐ No

b) The investment mandate for the policyholder assets takes into account the nature, term and duration of the liabilities
☐ Yes ☐ No ☐ Partially

c) The investment mandate allows a more aggressive investment policy for liabilities which have risk absorbing properties e.g. discretionary profit sharing
☐ Yes ☐ No ☐ Partially

d) We maintain certain strategic investments (for example subsidiaries) within our asset portfolio
☐ Yes ☐ No

e) We hold a significant amount of non traditional assets e.g. hedge funds and derivatives
☐ Yes ☐ No

f) Other comments if applicable

Non Life (including health if applicable)

a) The assets are separated between policyholder and shareholder funds with potentially different investment mandates
☐ Yes ☐ No

b) The investment mandate for the policyholder assets takes into account the nature, term and duration of the liabilities
☐ Yes ☐ No ☐ Partially

c) We maintain certain strategic investments (for example subsidiaries) within our asset portfolio
☐ Yes ☐ No

d) We hold a significant amount of non traditional assets e.g. hedge funds and derivatives
☐ Yes ☐ No

e) Other comments if applicable

Q27) Under a risk based economic framework a mismatch between assets and liabilities is penalised. How might this impact your investment strategy?

☐ a) Not significantly as we already closely match our assets and liabilities
☐ b) It represents a change for us and we will now need to monitor our assets and liabilities more closely.
☐ c) It represents a significant change for us as this is not traditionally how we have managed our assets.
☐ d) We already clearly understand mismatches, we take the risk owing to our strong capital position and we do not anticipate making any changes to investment strategy.
☐ e) Other comment. Please expand.

Q28) The intended risk based economic framework measures the volatility of assets and liabilities over the one year. This can lead to potentially high capital charges for shares not in linked funds. What are the consequences of this treatment for your company?

Life (including health if applicable)

- ☐ a) Not significant as we hold fairly low percentages of shares
- ☐ b) Not significant as share investments are held mainly for profit sharing products where the risk is shared between policyholders and the company
- ☐ c) A moderate / manageable problem as although we hold some shares, the relative contribution to the overall capital requirements may be small due to diversification and risk mitigation benefits.
- ☐ d) It is a major problem in my market as the companies maintain a significant amount of assets invested in shares.
- ☐ e) Other [Please comment].

Non Life (including health if applicable)

- ☐ a) Not significant as we hold fairly low percentages of shares
- ☐ b) A moderate / manageable problem as although we hold some shares, the relative contribution to the overall capital requirements may be small due to diversification and risk mitigation benefits.
- ☐ c) It is a major problem in my market as the companies maintain a significant amount of assets invested in shares.
- ☐ d) Other [Please comment].

Q29) What do you expect to be the impact of the risk based economic framework on the following elements of your investment strategy?

[On a scale of -3 (substantial decrease) to +3 (substantial increase) with 0 as no change]

Life (including health if applicable)

a) Asset concentrations (i.e. large holdings)
☐ -3 ☐ -2 ☐ -1 ☐ 0 ☐ 1 ☐ 2 ☐ 3 ☐ Not relevant
b) Non traditional investments such as private equity and hedge funds
☐ -3 ☐ -2 ☐ -1 ☐ 0 ☐ 1 ☐ 2 ☐ 3 ☐ Not relevant
c) Derivatives for hedging purposes
☐ -3 ☐ -2 ☐ -1 ☐ 0 ☐ 1 ☐ 2 ☐ 3 ☐ Not relevant
d) Shares
☐ -3 ☐ -2 ☐ -1 ☐ 0 ☐ 1 ☐ 2 ☐ 3 ☐ Not relevant
e) Property
☐ -3 ☐ -2 ☐ -1 ☐ 0 ☐ 1 ☐ 2 ☐ 3 ☐ Not relevant

Please detail any additional comments

Non Life (including health if applicable)

a) Asset concentrations (i.e. large holdings)
☐ -3 ☐ -2 ☐ -1 ☐ 0 ☐ 1 ☐ 2 ☐ 3 ☐ Not relevant

b) Non traditional investments such as private equity and hedge funds
☐ -3 ☐ -2 ☐ -1 ☐ 0 ☐ 1 ☐ 2 ☐ 3 ☐ Not relevant

c) Derivatives for hedging purposes
☐ -3 ☐ -2 ☐ -1 ☐ 0 ☐ 1 ☐ 2 ☐ 3 ☐ Not relevant

d) Shares
☐ -3 ☐ -2 ☐ -1 ☐ 0 ☐ 1 ☐ 2 ☐ 3 ☐ Not relevant

e) Property
☐ -3 ☐ -2 ☐ -1 ☐ 0 ☐ 1 ☐ 2 ☐ 3 ☐ Not relevant

Please detail any additional comments

Q30) Do you believe that your investment market is sufficiently well developed to provide the supply of assets consistent with an risk based economic framework?

☐ Yes
☐ No

If no, what are the concerns related to:

☐ Supply of bonds of sufficiently long term to match the liabilities
☐ Supply of risk free assets
☐ Supply of derivative instruments for hedging purposes
☐ Other assets [Please expand]

Q31) Please provide any additional comments that you may have on the potential impact of a risk based economic framework on the investment strategy of the company

Reinsurance

[Reinsurers are requested to complete all questions with the exception of Q34 and Q35. In addition, reinsurers should also complete Q44 and Q45 in Section 4]

Q32) How many reinsurers does your company currently have contracts with?

a) Life Open ____ Closed ____
b) Non Life Open ____ Closed ____

Q33) What are the main reasons for using external reinsurance within your company? [Please select all that are relevant?]

Life (including health if applicable)

a) Financing support ☐
b) Mitigation of large claims volatility ☐
c) Catastrophe protection ☐
d) Knowledge for new markets / products ☐
e) Risk transfer / Protection ☐
f) Increase capacity/ growth opportunities ☐
g) Other (please specify)

Non Life (including health if applicable)

a) Financing support ☐
b) Mitigation of large claims volatility ☐
c) Catastrophe protection ☐
d) Knowledge for new markets / products ☐
e) Risk transfer / Protection ☐
f) Increase capacity/ growth opportunities ☐
g) Other (please specify)

Q34) Companies can only use reinsurance to manage their risk exposure to the extent that the required reinsurance is available. Please provide your impression of the availability of reinsurance in the following areas. [1 Poor to 5 Very Good]

Life (including health if applicable)

a) Longevity ☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ Do not know
b) Mortality ☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ Do not know
c) Morbidity ☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ Do not know
d) Catastrophe ☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ Do not know
e) Other areas [Please explain]

Non-Life (including health if applicable)

a) Non-Life Claims volatility ☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ Do not know
b) Large claims ☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ Do not know
c) Catastrophes ☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ Do not know
d) Other areas [Please explain]

Q35) Do you believe that the availability and cost of reinsurance will change as a result of Solvency II? And if yes, in which areas?

Life (including health if applicable)

a) Availability ☐ No Change ☐ Increase ☐ Decrease ☐ Do not know
b) Cost ☐ No Change ☐ Increase ☐ Decrease ☐ Do not know

Please explain reasoning for your decision and the likely business to be impacted:

Non Life (including health if applicable)

a) Availability ☐ No Change ☐ Increase ☐ Decrease ☐ Do not know
b) Cost ☐ No Change ☐ Increase ☐ Decrease ☐ Do not know

Please explain reasoning for your decision and the likely business to be impacted:

Q36) What do you feel are the most likely impacts of a risk based economic framework on the use of reinsurance in your company? [Indicate all that apply]

☐ a) Increase as our use of reinsurance was somewhat limited previously, since the old solvency I rules do not encourage risk transfer

☐ b) Increase as the focus on each risk will force us to manage certain risk exposures downwards

☐ c) Increase most likely but we will also look at alternative forms of risk transfer such as securitisations

☐ d) Remain the same as our company already makes use of reinsurance to manage our risk exposures despite not receiving full credit in the Solvency I regime

☐ e) The credit rating of our reinsurance counterparty will be a fundamental consideration for our choice of reinsurer

☐ f) The mix of reinsurance will change substantially for example greater use of non proportional reinsurance

☐ g) Decrease the use of reinsurance as a risk based economic framework allows us to recognise natural hedges that exist in the business

☐ h) Other Reason (Please explain)

Q37) Please provide any additional comments that you may have on the potential impact of a risk based economic framework on the reinsurance strategy for the company

Capital Raising

[For legal entities that are part of a Group, this section should be filled out by the Group head office unless the legal entity is involved in capital raising independent of Group head office. If this is the case then please tick here ☐]

Q38) Has your company been involved in a capital raising exercise over the last five years?

☐ Yes
☐ No

If answer to the previous question is yes then what form did the capital raising take?

☐ a) Ordinary share
☐ b) Preference shares
☐ c) Debt instruments
☐ d) Innovative forms of capital such as hybrid capital
☐ e) Reinsurance financing and securitisations
☐ f) Other forms [Please explain]

Q39) Please comment on the following statements:

a) Capital markets (equity and debt) will require education on the meanings of an economic framework. There is a danger that the ideas within the economic framework may not be understood by the market, leading to a downgrading of the insurance sector

☐ Strongly Agree ☐ Disagree
☐ Agree ☐ Strongly Disagree
☐ Neutral ☐ Further comment

b) A common risk based economic framework to assess capital requirements based on economic principles will lead to greater transparency across Europe. This will help potential investors to better understand insurance companies which will in turn make it easier to raise capital.

☐ Strongly Agree ☐ Disagree
☐ Agree ☐ Strongly Disagree
☐ Neutral ☐ Further comment

c) The use of financial engineering such as securitisations will be less relevant in a risk based economic framework as many of these financial engineering may be used to overcome the limitations of the existing Solvency I regime

☐ Strongly Agree ☐ Disagree
☐ Agree ☐ Strongly Disagree
☐ Neutral ☐ Further comment

d) A risk based economic framework which recognised the various different types of capital will provide greater choice of financing instruments for a company. This in return will lower the cost for a company to raise capital.

☐ Strongly Agree ☐ Disagree
☐ Agree ☐ Strongly Disagree
☐ Neutral ☐ Further comment

e) If the intended solvency system leads to capital requirements that are greater than economically justified (i.e. sterile capital) then investors will be reluctant to supply capital to the insurance industry

☐ Strongly Agree
☐ Agree
☐ Neutral
☐ Disagree
☐ Strongly Disagree
☐ Further comment

f) A regulatory environment which conflicts with good risk management will damage investors' confidence and reduce their appetite to supply capital. The resulting system would be complex and inefficient.

☐ Strongly Agree
☐ Agree
☐ Neutral
☐ Disagree
☐ Strongly Disagree
☐ Further comment

g) A solvency system that resulted in companies trying to raise capital at the same time is not sustainable as the markets are unlikely to support capital raising exercises across the entire industry.

☐ Strongly Agree
☐ Agree
☐ Neutral
☐ Disagree
☐ Strongly Disagree
☐ Further comment

Q40) How will a risk based economic framework influence the need for your company to raise capital in the future compared to the current system?

☐ Increase ☐ Decrease ☐ The same ☐ Don't know

Please explain the overall reasoning
☐ a) Increased due to, for example, the greater volatility captured in a risk base measure
☐ b) Lower due to the recognition of various innovative forms of capital and prudence in technical provisions
☐ c) The same as the markets already apply some form of a risk based measure to companies raising capital
☐ d) Other explanation: Please describe

Q41) Please provide any additional comments that you may have on the potential impact of a risk based solvency system on the capital raising activities for the company

Separate Questions for Specific Types of Companies

Insurance Groups

[To be filled out by the Group function / head office of the insurance groups]

Q42) In how many EU markets does your insurance group conduct business in:

____

Q43) Please comment on the following statements:

a) Insurance groups conduct risk management at the group level and not necessarily at the legal entity level. This means that certain risk management decisions such as diversification benefits, fungibility and eligible elements of capital are better understood at the Group level.

☐ Strongly Agree
☐ Agree
☐ Neutral
☐ Disagree
☐ Strongly Disagree
☐ Further comment

b) The current supervisory structure is inefficient for insurance groups as the focus is at the legal entity level which means that the issues described in (a) are taken into account.

☐ Strongly Agree
☐ Agree
☐ Neutral
☐ Disagree
☐ Strongly Disagree
☐ Further comment

c) The current form of supervision can result in inefficient capital allocation. The net result is that the position for shareholders and policyholders is worse than it would otherwise be.

☐ Strongly Agree
☐ Agree
☐ Neutral
☐ Disagree
☐ Strongly Disagree
☐ Further comment

d) On balance we believe that group level supervision will bring advantages to all stakeholders over the supervision of the individual legal entities. This should be a priority for Solvency II.

☐ Strongly Agree
☐ Agree
☐ Neutral
☐ Disagree
☐ Strongly Disagree
☐ Further comment

e) In the longer term we expect that insurance groups will not remain static but adapt to the most efficient structure (for example branches versus subsidiaries or reinsurance to transfer risk across borders) based on the supervisory arrangements.

- [ ] Strongly Agree
- [ ] Agree
- [ ] Neutral
- [ ] Disagree
- [ ] Strongly Disagree
- [ ] Further comment

Reinsurers

Q44) From the reinsurer's perspective how do you expect Solvency II to impact the following?

Life (including health if applicable)

a) Demand
- [ ] No change - [ ] Decrease - [ ] Increase - [ ] Do not know

b) Price offered by reinsurers
- [ ] No change - [ ] Decrease - [ ] Increase - [ ] Do not know

c) Product innovation
- [ ] No change - [ ] Decrease - [ ] Increase - [ ] Do not know

Non Life (including health if applicable)

a) Demand
- [ ] No change - [ ] Decrease - [ ] Increase - [ ] Do not know

b) Price offered by reinsurers
- [ ] No change - [ ] Decrease - [ ] Increase - [ ] Do not know

c) Product innovation
- [ ] No change - [ ] Decrease - [ ] Increase - [ ] Do not know

Q45) If the answer to previous question is "increase", do you believe that there is sufficient reinsurance capacity in order to meet the increase in demand?

- [ ] Yes
- [ ] No

Please explain your reasoning

Mutuals and Co-operative Insurers

Q46) Are there aspects of the overall regulatory regime which if changed, would significantly alter the existing capital management strategies of mutual and cooperative insurers?