

Recently the European Commission published the technical specifications for the fifth quantitative impact study QIS5¹ exercise. Many European insurers will run the QIS5 exercise from August to November this year. To help you perform your SCR calculation according to the Standard Formula, we have developed a QIS5 calibration methodology that we believe is consistent with CEIOPS guidance and can be tailored to your preferred approach.

Our QIS5 Stresses Service first involves discussing our QIS5 calibration methodology with you so that we can tailor this to your requirements where appropriate. We will then perform the calibrations to your specification, providing calibration files for our ESG clients or full scenarios files for non-ESG clients, with output configured to the format specifications required for your ALM software. In addition we will provide full details of our calibration methods and assumptions. We currently offer 20 different economies as standard and can help produce market-consistent calibrations in other economies if required. Please contact us for full details.

If you are planning to participate in the QIS5 exercise and would like more information on this service, get in touch with your regular Barrie & Hibbert contact or send an email to emea@barrhibb.com with your contact details.

Base Calibration

We will supply a base end-of-December 2009 market-consistent calibration using the yield curves specified in QIS5², including any emerging consensus on how to allow for liquidity premia in the valuation of contingent liabilities. The remaining market data, such as equity and interest rate volatility, will be taken from our extensive market-consistent calibrations. Where required we will supply calibrations on multiple liquidity premia.

Stress Calibration

In addition to the base calibration we provide six stress calibrations as specified in the SCR Market Risk Module (SCR 5). The table overleaf describes each of the calibrations we will provide. These are all relative to the QIS5 base calibration.

¹ http://ec.europa.eu/internal_market/insurance/docs/solvency/qis5/201007/technical_specifications_en.pdf

² http://ec.europa.eu/internal_market/insurance/docs/solvency/qis5/201007/relevant_risk_en.xls

Barrie & Hibbert QIS 5 stresses

ID	Stress	Ref	Details
A	Interest rate level up	SCR 5.21	Up stress applied to nominal and real yield curves as specified.
B	Interest rate level down	SCR 5.21	Down stress applied to nominal and real yield curves as specified.
C	Currency level risk up	SCR 5.61	+25% shock to all non-local currency values, taking into account the constraints for EUR pegged currencies (SCR 5.63).
D	Currency level risk down	SCR 5.61	-25% shock to all non-local currency values, taking into account the constraints for EUR pegged currencies (SCR 5.63).
E	Credit up	SCR 5.83	We construct a calibration to a stressed credit spread based on standard calibration of an A rated bond of duration 7 years. We can supply other calibrations if required.
F	Illiquidity premium down	SCR 5.134	The illiquidity premium is down by 65%.

For further information, contact emea@barrhibb.com