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Quantitative Impact Studies - A Pluralist Process?

Implementation of Solvency II

Abstract

This study focuses on the implementation of the Solvency II directive, a very important policy for the insurance community in the European Union. Results from surveys included in the implementation process show that the process implied certain aspects which cannot be prescribed to the pluralist democracy that usually describes the European policy process. In order to analyze this process the dissertation is a case study which uses a qualitative text study. The primary material are reports published by European authority EIOPA which discuss the findings from five quantitative impact studies. Pluralist and elitist public policy theories are used as separate indicators to the analysis.

The results from this analysis concluded the process to be of pluralist character in a later stage of the process, whilst the initial phases were rather elitist. This shows how the European policy process has different faces according to what policy you analyze.

Key Words: Solvency II, Quantitative Impact Study, Pluralism, Elitism, Public Policy Theory

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1 Background

1.1 General background

One of the many undisputed facts in the financial industry is that the insurance business is a fundamental economic institution (Danthine & Donaldson, 2005, p. 4). Whenever making a investment in whatever it may be, without any possibility to insure and thereby eliminating financial risk, that investment will in a great majority of cases never happen (Byström, 2010, p. 21). Therefore, to say that the insurance is one of the pillars that the financial sector stands upon is no understatement, it is rather an established truth. With this knowledge in mind, interesting questions arise as to who can actually conduct insurance business, what different types of insurance businesses are available and how are they regulated? Within the banking sector, there exists a directive called BASEL which regulates different types of requirements a business has to meet in order to be able to provide banking services to its clients (EBA 1). One such regulation that BASEL incorporates is to name the so called capital adequacy (the ratio of capital in relation to the loans given out by the bank) which dictates what size a business providing banking services can achieve in terms of loans given to clients and the size of those loans (BIS 1). This regulation has in turn a certain consequence on the price of banking services following general pricing principles.

The insurance sector in Europe have had a similar directive (73/239 EEC) since 1973, when the first regulatory actions were made standardized within the European Union (LLoyd's 1). The 1973 directive and the BASEL dito are similar in terms of setting up a framework for the different financial business models, whereas solvency as a term used within the insurance sector can be compared to what capital adequacy means to the banking industry. Solvency is a general financial term, however in insurance the solvency dictates the ratio of capital and premiae paid to clients (CEIOPS 2008). The original directive was amended several times as it became obsolete when the years passed by and the insurance business models outgrew these regulations. Even considering these amendments, the 1973 directive was starting to be considered outdated at the turn of the new millenium, which urged the European community to start working on establishing the outlines of what would become the new directive for regulating the insurance sector, the so called Solvency II (also called Omnibus II) (LLoyd's 2).

1.2 Background specific to Solvency II

The 1973 directive was one of the requirements in order to being able to open up for the freedom of services regime and it was the first step towards a standardized regulatory set of rules for the insurance sector (LLoyd's 1). Because of this, the directive was considered quite rudimentary by many of the practitioners as it lacked certain elements deemed crucial to a modern regulation model (CEIOPS 2008). Therefore, voices were raised to open up talks to create a new directive, which resulted in a minor reform being approved by the European Council and the European Parliament in 2002 (LLoyd's 2). However, this reform was not considered important enough by the insurance sector, which led to further discussions on how to approach a new regulatory regime (CEIOPS 2005). These discussions resulted in the agency formerly known as CEIOPS (Committee of European Insurance and Occupational Pensions Supervisors) and currently goes under the name of EIOPA (European Insurance and Occupational Pensions Authority) started approaching the question on how such a directive would be molded and how the process should be conducted (CEIOPS 2006). As concluded in the general background, the insurance business is a major force within the financial community, which stipulates the importance of getting the whole framework as finely tuned as possible. This relates to the fact that the regulations would affect every single insurance provider in the European Union and European Economic Area (EEA) (CEIOPS 2005).

Due to the importance of the directive to the financial community in Europe, EIOPA was charged with the task to create a study that could provide legislators with input from the industry itself (CEIOPS 2006). This was the first step in implementing a new European framework for insurance businesses.

1.3 Quantitative Impact Studies

EIOPA, a part of the European System of Financial Supervision, is an independent advisory body to the European Commission as well as the European Parliament (EIOPA 1). In order to get input from the different stakeholders, EIOPA issued consultation papers to insurance businesses all over Europe, so called quantitative impact studies (QIS). The meaning of this was to gain insight from the actual businesses on what impact the framework could have if it were applied in its current state (CEIOPS 2005).

All in all, five of these studies were issued within the timeframe of five years (autumn 2005 - autumn 2010) and included several sets of questions in order to create an overview of how to approach the new regulation model (CEIOPS 2006).

The advice EIOPA later proposed to the European Commission relied heavily on the results gathered by these quantitative studies (EIOPA 2).

2 Introduction to dissertation

This dissertation will discuss the process which led up to the Solvency II directive getting adopted, throughout a couple of different sections that will highlight certain aspects that are interesting from a public policy implementation perspective. Focus will be put on executing an analysis of text that can be used as a mean to understand how the process was conducted. I will in this section of the essay formulate my purpose as well as explain the demarcations of the subject area and theoretical frameworks.

2.1 Purpose

As concluded in the background, the implementation of Solvency II is a big step for the European financial community. The aim of this academic text is to offer an analysis of the specific implementation method (the use of quantitative impact studies) in an EU context and to define the character of this process (which lasted 5 years). It is important to note that it is not desirable to make general conclusions from a public policy study (Hill, 2005, p.15) and therefore will there be a focus on this specific case.

Furthermore, one assumption considered fulfilled in this bachelor's thesis is the ontological which stipulates the existence of a reality independent of our subjective consciousness. The epistemological dito which in turn specifies that we by systematic enquiries are able to gather reliable information of this reality (Esaïsson et al 2010, p.17) is also considered fulfilled.

But why study the implementation of Solvency II? What makes this case special? The answer lies within a discrepancy between preconceived ideas about the European policy process, and some of the results the quantitative impact studies gathered.

Public policy in the European Union is generally described as a policy community or policy network model (further description of this European model will be described later in this thesis, more specifically under 3.1) (Richardson, 2001, p.5). However, it seems that parts of the QIS implementation process did not show all the typical signs of such a model, which raises questions on how the process itself was conducted. Whenever the current preconceptions about our

reality are not coherent with reality itself, this makes for an interesting and relevant study within the field of political science (Esaïsson et al, 2010, p. 30).

2.2 Problem formulation

In order to formulate an academic question, it might be of interest to recap what we have concluded so far. The issue at hand is the public policy process that preceded the implementation of the Solvency II regime. This sparks an interest as the results from the quantitative impact studies (in this thesis the de facto process) show it did not follow the typical policy network model that usually applies to the EU public policy process. As it is of interest to describe the process from a public policy point of view, our academic question is as follows:

How should the process that led up to Solvency II be described from a public policy implementation point of view?

As this might be a difficult question to answer due to the complexity of public policy implementation theory and the questions general nature, it might prove helpful to specify which aspects that is interesting to this analysis. I will do so by formulating two underlying problems that together will contribute to answering the main question in a more conclusive manner.

In order to come to more comprehensive conclusions, I will use pluralist public policy theory as a benchmark in this study. Pluralist theory is a well known public policy theory which will be elaborated upon in a later section (more specifically under chapter 3). It is therefore fruitful to formulate a question that will provide answers on what similarities there were between the theoretic framework, and the process as it happened. This leads up to the following question:

Can the process that led up to Solvency II be described as pluralist (in the public policy implementation sense)?

I have thereby formulated a question that aims to describe what parts of the Solvency II process that resembles the pluralist train of thought within public policy. It does seem as the analysis might profit from another question that raises the aspects of the Solvency II process that cannot be linked to a pluralist theoretic approach. In order to formulate such a question, this thesis will also discuss elitist public policy theory as it might explain certain patterns that contradicts pluralist theory. Elitist public policy theory will be further explained in the theoretic chapter of this dissertation (see chapter 3.3). A question that describes an elitist approach to public policy and that can operate as opposition towards pluralism in this dissertation, is as follows:

Can the process that led up to Solvency II be described as elitist (in the public policy implementation sense)?

These two formulations should be regarded as a mean to make the analysis more comprehensive in its content. It should be noted that the deconstruction of my material will take its starting-point in these two questions, in order to answer the primary question.

It is also important to note that the two underlying questions are connected to theories which form a dichotomy when it comes to public policy (Hill, 2005, p. 36). My interpretations of the material will therefore derive from a discussion on whether aspects of the material can be connected to either pluralist public policy or the elitist ditto. This is in order to create a broader analysis of the Solvency II process.

2.2.1 Demarcation of Subject Area

The thesis will have a specific focus on the public policy processes that led the Solvency II regime to become adopted. As public policy research relies heavily on secured data (Hill, 2005, p.15), it is important to stress that this study will limit itself to study the results from the quantitative impact studies gathered by EIOPA. Although attempts (successful or not) at informal influence may have played a part in the public policy process, I have no insight in these attempts, and will therefore execute my analysis without taking informal meetings into consideration. The results from the QIS are in other words considered as the full public policy process in regard to taking influence from societal agents. As this is the demarcation of the subject area, one can note that the only actors actively analyzed in this process are insurance business as well as EIOPA.

3 Theory

As I stated earlier, the analysis will be done with a focus on elitist and pluralistic public policy implementation theory. My reasoning for this can be found in the purpose chapter. I will in this part of the dissertation describe the two theories a little closer, as well as introduce the writings of Robert Dahl and Karl Marx which are two central figures in each respective theory (Hill, 2005, p. 29ff). A brief introduction to the more general public policy implementation theory will also feature.

However, it is also important to define the different actors that are active in the implementation process and their role in the policy-making scheme. Therefore I will give a brief introduction to my view on the EU from a public policy perspective.

3.1 The European Union as a Policy-Making Body

The European Union (EU) is by some researchers, including Brent Nelsen and Alexander Stubb (2003), indeed considered to have almost obtained a federal sovereign nation-like status (p. 203). It has elections for seats in parliament as well as functioning institutions such as a court of justice and a central bank (EU 1). However, as much as the EU does have the same characteristics as a nation-state, it does specifically lack the monopoly on the legitimate use of coercion (Richardson, 2001, p.4). What the European Union on the other hand does not lack, are the policy-making attributes that one may ascribe the modern state, within a wide range of sectors. The EU does nonetheless not lack a certain degree of coercion either, there are policy enforcing structures within the union (do, p.4). In that regard, the European Union should not be considered a nation-state in the classic sense of the word, but as a policy-making body it does have all attributes at hand.

So how does one describe the European Union from a public policy point of view? Laura Buonnano and Neill Nugent (2013) take their vantage point in Tanja Börzels statements to describe the European policy-process as follows: "(...) the EU, like its member states (though even more so) 'features a combination of different forms of governance that covers the entire range between market and hierarchy' " (2009, p.192). They go on to classify the current mode of governance within the Union as undertaking several different shapes although it usually involves non-hierarchical and often open governments and institutions, with

societal actors often being active, as well as the quasi-independent agencies the EU operate through in some policy areas (Buonnano and Nugent, 2013, p.120). Jeremy Richardson (2001) continues by stating that its neo-federal, multinational nature along with the openness towards lobbyists and the considerable weight of national politico-administrative elites contributes to creating a multi-level and unpredictable mode of policy-implementation, albeit a productive one (p. 5).

In conclusion, the EU can be considered as a very complex policy-making body, with many different actors on divergent levels. The model is as we have already noted, usually described as a policy network model (see chapter 2.1). As Richardson (2001) claims, there is an openness towards societal actors, so called stakeholders, as well as an importance given to administrators (p. 6). Whenever businesses are introduced to this system, the complexity of the process deepens. As Lindblom and Woodhouse (1968) puts it: "(...) policy making also faces extra-governmental obstructions to intelligent, democratic steering of society. One of the most important of these is the business sector's influence over public policy" (Lindblom & Woodhouse, 1993, p.90). The authors explains this by stating the importance of growth in domestic regions to politicians, as well as citing the rules of the market system (Lindblom & Woodhouse, 1993, p.91). Politicians will always show constant concern towards business performances as the growth of a region depends on this (do). At the same time, rules of the market stipulate limits for how much governments can control business (do). This makes the European policy process even more complex if one considers the case of Solvency II.

From the policy-perspective in the European Union, the case of Solvency II does sure tick all the boxes. It was a very open process in regards to societal actors as the QIS were issued to all insurance businesses in Europe and the whole process was overseen by administrators on a quasi-independent level (EIOPA). It is of importance to note that Solvency II would not encompass only the European Union, but also members of the European Economic Area (QIS1 report, p. 6). However, the QIS were issued to all EEA member countries by EIOPA, an EU body, therefore can it define the process as one within the EU.

3.2 Public Policy Implementation Theory

The term implementation studies was coined in the 1970's, although the practice of implementation has been around far longer than that. Simply put, studying implementation is a way to try and distinguish the effects from the relationship between actions and preceding objectives (Hill & Hupe, 2010, p.20). Public policy implementation can therefore be described as trying to study the management of organized behavior (do). However easy this might sound, understanding the policy process often requires a tactful mind as it in most cases involves hundreds of actors from interest groups, governmental agencies, legislatures at different levels of government, journalists, researchers and judges

which all have different perceptions and goals. Not to mention that policy implementation is a very lengthy process (10 years or more is the minimum duration of all policy cycles) which does not make the analysts work any easier (Sabatier, 2007, p.3f). In other words, the examination of a public policy implementation is a multi-faceted process with many layers to it. Therefore, such a study does require a certain degree of simplification in order to come to any conclusion on the important events that have transpired during that policy cycle (do, p.5f).

There is another important factor that comes in to play whenever scrutinizing a public policy process, which is the fact that many relevant activities in an implementation sense are covert to analysts (Hill, 2005, p.15). There might be a justified explanation why that is the case, there might not be one, but in any case it restricts the analyst to rely on methods which must involve the inference from secured data (do).

A consequence that derives from the complexity, change, perceptions and goals of the actors is that the power of generalisation is limited whenever performing a public policy implementation analysis (do). In this specific case, that means that general assumptions on how all public policy processes within the European Union are based on the results of this study, are not possible.

3.3 Pluralist Public Policy Theory

Democratic ideals does imply that the people have power over all political issues (Dahl, 2000, p.12). However, if all democracy would follow let us say the Athenian ideal of direct participation, very few things would get done as it is an unworkable model from a practical point of view (Wolff, 2006, p. 96). The alternative to this mode of direct participation has been the representative democracy which involves the participation of a limited number of people in the day-to-day governmental work but they should be regarded as representatives for the people as a whole (Hill, 2005, p.27). In practice, this delegation of tasks leads to a more productive government in terms of implementing policy (Hill & Hupe, 2009, p.28). To elaborate on this, Frank Fischer argues that the expansion in the political sphere, such as the elaboration of basic political and legal rights in the nineteenth and twentieth centuries happened just as bureaucracies and corporations grew bigger (Fischer, 2009, p.5). As the governmental apparatus grew, and societal organizations with it, one could argue that this is where pluralism became a factor in the political world (do).

Pluralism within the public policy area does, as we already have concluded in chapter 2.2, make assumptions on how pressure groups in society tend to have power in certain aspects of legislative as well as electorate processes (Hill, 2005, p.27). This also leads to them gain influence over policy (do). These pressure

groups might try and influence voting decisions at elections and legislative programs in political parties (do). Once established, these organizations are likely to want further influence in the policy process at any stage such as negotiating the details of legislation and monitoring policy outcomes et cetera (do). In a fragmented power situation within governments, actors in each fragment can exert its influence or formal authority over policy that does affect them (Kozhikode & Li, 2012, p.339). Robert A. Dahl is considered as one of the most influential exponents of the pluralist theory, and one of the most important writers on policy matters (Hill, 2005, p.29). His analysis of the political power struggles in the Connecticut city of New Haven in the book *Who Governs?* (1961) was very influential; as it revealed that power in the policy process is not concentrated to one group, but rather widely dispersed (Hill, 2005, p.29). The writings of Dahl will be elaborated further on in the next passage of this theoretical discourse.

3.3.1 Dahl and *Who Governs?*

The study performed by Dahl commenced in the simple question: "In a political system where nearly every adult may vote but where knowledge, wealth, social position, access to officials, and other resources are unequally distributed, who actually governs?" (Dahl, 2000, p.1). This inequality of resources in terms of power led Dahl to examine a number of specific key questions that featured in the New Haven political scene (Hill, 2005, p.29). These questions were formulated to answer whether power in New Haven was cumulative or non-cumulative (that is, are people who are more resourceful in one area of power also better off in others), and whether this led the policy processes to become oligarchical or pluralist (Dahl, 2000, p.7). To succeed with this study, Dahl monitored the outcome of three political processes (with the criteria that there should be a disagreement between at least two parties) in order to come to conclusions about the sources of power and the effect these had on policy (Hill, 2005, p.29). His findings were that New Haven, which once had lived under oligarchical rule, now was a rather pluralist society with many influences from different layers of society (Dahl, 2000, p.87f). Dahl also found that, in contrast to the cumulative inequality of power that marked oligarchy, the pluralist society was rather one of dispersed inequalities of power (Dahl, 2000, p.87). Because of this, power itself was fragmented between different actors, while different interests were active on different issues (without any consistent pattern of success and failure)(Hill, 2005, p.29). Taking this into regard, Dahl goes on to state that all groups (even the least powerful) are able to make their voices heard in the pluralist society (Hill, 2005, p.29f). It is also interesting to note that even though some have a direct influence on policy in the sense that they are closer to the stage where processes are initiated or vetoed, indirect power should not be disregarded (Dahl, 2000, p.90). Indirect power might be harder to weigh and observe, nonetheless should it be

regarded as a highly important process of control in the pluralistic democracy (do).

3.4 Elitist Public Policy Theory

If pluralism stipulates that power is distributed among a large amount of actors on several different levels of society, elitism on the other hand does imply a society run by the few and powerful (Hill, 2005, p. 37) and makes for an important alternative to pluralism (do, p. 38). The elite have come to power by a number of different ways: it could be by revolutionary overthrow, military conquest, control of water power or by the command of economic resources (do, p. 37). This elite rules from a position from which they exert political power, but is also comprised of individuals with economical wealth, military resources or aristocratical connections (do). We can conclude that elitism in this sense very much has the same characteristics as the oligarchy described by Dahl (2000, p. 87).

Another interesting component in elitism is the economical aspect of elitism and what this means for the study. At this point, elitism in public policy coincides with one of the most influential studies of power there has ever been, namely Marxist theory (Hill, 2005, p.38). One could even make the statement that not much varies between elitist studies and Marxist theory except for the word which describes the power elite (or ruling class) (do). By this, we can conclude how both theories suggest that institutions are ruled by minorities from the same background and therefore are exercising power for a dominant group (do). However, Marxist theory has a bigger focus on economical structures whenever studying power relations (do, p. 39). In his book *The State in Capitalist Society*, Ed Miliband (1969) discusses three major themes within Marxist theory that explain the relation between resources and power. In his opinion, the state is not a neutral agent but rather a way to obtain class domination (Hill, 2005, p. 39). The first of these reasons is tied to similarities of social background in members of the power elite, the second is connected to networks that this power elite enjoys (do). The third, and the most interesting to this thesis, is the power of capital (do). Marx means that these three reasons together form power structures in public policy matters which are difficult to breach (do, p. 39).

4 Method

4.1 Method

Whenever analyzing a political scientific situation, the analyst needs to use a reliable method in order to gather material in a way that adds to the study (Esaïsson et al, 2010, p. 99). In other words, the analysis will steer the study towards the use of certain methods that are of importance in relation to what inquiries made and to the material (Bell, 1999, p.13f). Whenever analyzing a restricted aspect of a wider problem within a certain timeframe, such as I have chosen to analyze the case of Solvency II from a public policy implementation perspective, the case study is deemed a fine alternative (do, p.16). Within case studies, the analyst identifies a phenomenon and observes and studies this case (do). As certain organizations have properties that they share with others and also some that are completely unique, the case study aims to analyze these properties and come to conclusions on how this affects the follow-through of ideas in a system as well as showing how these properties affect the organization as a whole (do). The successful case study is useful as it will give the reader a three-dimensional view and an illustration of relations, micro-political inquiries and power patterns in a certain context or situation (do, p.17). It can be used to follow up on existing surveys as well as serve as a precursor for future surveys (do, p.16). We can conclude that this study of Solvency II does just this, it follows up on the Quantitative Impact Studies. It is also important to point out that a consequence from choosing to perform a case study is that my critics might consider noting that there are difficulties concerning the control of information from independent bodies (do, p.16f). Critics of the case study might thereby comment on the potential of generalisation the study has (do, p.17). This does imply certain difficulties, some have already been pointed out (chapter 2.1) that generalizing within public policy theory is complicated, and the case study does not generalize either. Therefore, it is possible to conclude that this analysis will not strive to draw generalizing conclusions on the case of Solvency II.

The conclusion on what type of systematic gathering of data which will be used in this analysis has been drawn, so now the question on how the material should be analyzed arises. Michael Hill (2005) concludes that most public policy studies are indeed case studies, with a qualitative analysis (p.14). He goes on to stating that because of the complexity within public policy theory we cannot use experimental methods, which tends to lead researchers to rely on qualitative techniques to study phenomena (do, p.15). This study will be no different and focus will be on the qualitative analysis of the given material. The qualitative text study focuses on analyzing with a different mindset than for instance quantitative

studies (Bergström, Boréus, 2005, p. 44). This mindset includes arriving at conclusions on what is really essential in a text by carefully studying its parts, its context and the text as a whole (Esaïsson et al, 2010, p. 237). The reasoning behind this has its origins in the assumption that certain aspects of the studied text have bigger importance to the analysis than others and therefore needs to be taken into account in different ways (Holme & Solvang, 2011, p. 94). There are different areas of use for the qualitative technique; depending on the analytical tools (problem formulations) defined (Esaïsson et al, 2010, p. 243f). Depending on these, the qualitative analysis should either have a systematic function which classifies different aspects of the text, or be of use as a critical examination (do, p. 238). This thesis has defined its problem formulations (in chapter 2.2), and as they are of a systematic character which aims to divide the elitist notions from pluralist, a qualitative study with systematization as its penultimate goal (the ultimate goal being to answer the problem formulation) will be conducted.

4.2 Material

A conclusion drawn in the theoretic (more specifically in 3.2) chapter of this dissertation indicates that data used in studies of public policy must be secured. As explained in the purpose chapter of this thesis, the analysis of the Solvency II case will depend heavily on the reports of the quantitative impact studies issued by EIOPA as well as publications from other official sources. Therefore I consider the data gathered to carry out this study to have secured status. However, whenever analyzing a text, it is important to acknowledge the fact that some human actor are behind these texts (Esaïsson et al, 2010, p. 246). Thus it is with certain wariness that the analysis will study these reports as they are indeed published by someone that is an actor in the Solvency II case.

There is no general rule on which type of material is considered optimal (do, p. 248). In a perfect world one should use all material that can be deemed adequate for the analysis (do, p. 249). However, there are certain practical limits to the qualitative study; one cannot study everything that applies to a certain subject if there is too much material (Holme & Solvang, 2011, p. 97). It is therefore safer to assume a position which advocates a limited choice of material (Esaïsson et al, 2010, p. 249). This thesis concluded earlier (in chapter 2.2.1) the difficulties with exploring every single piece of material concerning Solvency II implementation, which is why the QIS reports will be the primary material of this dissertation.

4.3 Operational Definitions

An important part of performing a qualitative text analysis with a focus on systematic classification is to define the different factors that will point the analysis to the one or to the other direction (Esaïsson et al, 2010, p. 238). Consequently, this section will serve as setting operational guidelines to the analysis, where the interpretation of the two theories predominantly used in this thesis will be defined.

4.3.1 Pluralist Theory

As was noted under the section 3.3 in this dissertation, pluralist theory presupposes that political society is run by a multi-faceted and multi-layered set of groups that work as pressure points in the implementation of policy. All groups in society work as pressure points, and even the least powerful are able to make their voices heard. In this dissertation the interpretation of pluralism will first and foremost focus on whether the selection of businesses included in the quantitative impact study was representative for all concerned groups. Representation is key on many levels as it depicts the amount of businesses in general that participated, the size of these businesses, what kinds of businesses that participated and how many countries that were involved in the process.

As QIS are considered as the only input in the implementation process, and as these studies were mathematically the same for all homogenous businesses, we can suppose that all companies gained the same amount of influence on the policy once they participated. Focus will consequently not be put on how insurance businesses affect the study with their independent contribution but rather on which businesses that contributed.

4.3.2 Elitist Theory

The elitist theory was under the section of 3.4 described as a theory which stipulates the emergence of an elite in the political life that tend to rule the outcome of policy implementation. We have noted Marx argumentation on how this elitism springs from economical inequalities which leads us to inequalities in different aspects such as networks and social background further down the line (Hill, 2005, p. 41). In this dissertation, much of the analysis of elitist process will deal with the matter of representation, just like the analysis of pluralist processes.

However, elitist theory deals with the lack of representation in the policy process. This is in regards to bigger companies are more likely to be able to make their voices heard in the implementation of Solvency II. This is linked to the discussions within Marxist theory (described in chapter 3.4) and the third reason for why the state is an agent which works for the ruling class (do, 39). However, resource is a more accurate definition than capital in this discussion, which is why focus will be put on resources rather than capital. Therefore, the analysis of elitism will deal with representation or lack thereof in the implementation process.

5 Analysis

This section of the thesis will dissect the reports that were issued after every Quantitative Impact Study had been completed. There will be a chapter for each report, which will thereafter be analyzed separately from a pluralist- and an elitist public policy implementation theoretical perspective. This is in order for the analysis to become as comprehensive as possible. The answers to the problem formulations will be concluded in the final section of this dissertation, which will derive from the results of this analysis.

An important thing to keep in mind for the reader is that there are several kinds of insurance businesses: life-insurance, non-life insurance, composites (life and non-life), captives, reinsurance, health-insurance and mutuals. There are three categorizations of sizes which are decided by national supervisors: big, medium and small.

5.1 Quantitative Impact Study 1 Report

The first of the five Quantitative Impact Studies was issued to national observers in autumn/winter 2005 (CEIOPS 2005) and the final report from this study was issued in March 2006 (CEIOPS-FS-01/06). The general findings were quite inconclusive but QIS1 was mainly supposed to give an overview of the practical direction Solvency II should take (CEIOPS 2005) as well as future QIS.

5.1.1 Pluralism in QIS1 Report

The first Quantitative Impact Study invited businesses that were involved in life-, non-life insurance, reinsurers as well as composite companies to take part in the study (CEIOPS 2005). CEIOPS (the predecessor to EIOPA) claimed the: "qualitative information received about the methods and models used by market participants was also very important". This means that CEIOPS did indeed look for active feedback from the market to gain knowledge which would help the policy to take form. Some national supervisors gathered results deemed representative for the internal market (CEIOPS 2005) which could indicate some level of pluralism. However, very little from the report indicates that the Quantitative Impact Study gathered results that can be linked to pluralist policy

theory. To the contrary, most indications point towards elitism, which will be elaborated upon in the next section.

5.3.2 Elitism in QIS1 Report

There are many elements in the first QIS which stipulate some measure of elitist policy implementation. First of all, one can conclude how all the different insurance businesses were not invited to take part in the study, as only life, non-life, reinsurers and composites participated in the study (p. 3). Even though there are more types of insurance businesses, only these three participated. This can itself be regarded as some kind of elitism, as the policy would affect captives, mutuals and health-insurers but they did not get the same advantages to influence the policy as the other types of businesses. Another interesting point from an elitist policy view is that only 19 of 28 (EU and EEA not including EU-countries) of the national supervisors were invited to participate in the QIS. This does suggest elitism as not all insurance providers in all countries were invited. CEIOPS stated that the national supervisors who did not respond to the study, claimed to not have done so because of: "lack of experience, resources and time" (CEIOPS 2005). This could be linked to Marxist policy theory of economical structures which creates a tendency for bigger and more resourceful elite to dominate a smaller and not as resourceful majority. In this case the more resourceful countries are more likely to being able to take part in the policy process.

Another element that could imply an elitist policy implementation is the total number of undertakings, which amounted to 312 (p. 4). This is far fewer than should be expected when inviting all businesses who handle insurance in EEA, a comparison with the final study which gathered over 2000 answers (QIS 5 p. 5) is an adequate demonstration of the insufficiency to gather results. Elitism stipulates influence to be dispersed narrowly, which is just the case. Of these 272, CEIOPS reported: "68 were classified as small, 90 as medium-sized and 101 as large" (p. 4). This also presupposes elitist policy implementation as a majority of the companies who responded the study were big- or medium-sized firms although most insurance providers are indeed small (QIS 5 p. 5). According to CEIOPS, the reason for these problems were: "a lack of resources, of time and of experience" (p. 7). Once again, this shows a tendency towards Marxist policy theory of economical structures in the implementation process, testimony of this can even be found in the report: "Roughly half of the national supervisors presenting a view on the problems per size category of the undertaking indicate that it is more difficult for smaller undertakings" (p.7). This is also highlighted by CEIOPS in the report: "One main problem with estimating the additional resources required is that for about half of the reporting countries there is a large undertaking bias, and there could also be a selection bias in that undertakings with a greater ability to meet the resource requirements of QIS1 could be expected to have a greater propensity to participate" (p. 10). All in all, the first of the

Quantitative Impact Studies seem to have been molded to fit an elite rather than a majority in regards to size of the company. Although a majority of countries involved participated in the study, there still are tendencies towards elitism as some countries were in practice excluded because of their lesser resources. This does indicate a misrepresentation of European insurance companies in the first step of implementing Solvency II.

5.2 Quantitative Impact Study 2 Report

The second QIS was issued to national supervisors in 2006 and the final report (CEIOPS-SEC-71/06S) was made ready by October the same year (CEIOPS 2006 CN). CEIOPS had not been content with the poor participation in QIS1 and had wanted an increase in those numbers in order to gain wider knowledge of the market (CEIOPS 2006). This time, the study was also handed to health-insurers as well as mutuals (QIS 2 report, p. 3).

5.2.1 Pluralism in QIS2 Report

As we noted in the introduction of the QIS2 report, the study had by now incorporated the health insuring industry (CEIOPS 2006). This led to a slightly larger representation within the insurance community and therefore showed more pluralist tendencies than the previous study had. Furthermore had the total number of participants increased compared to the earlier study, partially because of this new inclusion (increase of 65%, from 312 to 514) (do). The number of countries that responded had also increased, going from 19 to 23 out of 28 member countries in the EEA (do). All these factors indicate that the representation of insurers in the QIS process had in fact increased, and thereby raised the pluralist profile of the policy implementation. However, the second Quantitative Impact Study did also gather some evidence that did show that the process had some propensity of elitism.

5.2.2 Elitism in QIS2 Report

Even though the second report showed some indication towards becoming a more pluralist process, there were still factors that did point towards the process having kept some of its elitist notions. We recall that CEIOPS still had not invited captives to participate in the study, leaving a big part of insurance businesses out of the process (CEIOPS 2006). This leads the process to become misrepresented and in turn, elitist.

CEIOPS stated that in most countries that took part in the study, the market shares for the involved companies was deemed to be over 50% (do). Although market share should not be confused with representation (as the market share is bigger for bigger companies), it still barely reaches over half of the market shares in the different countries which does suggest an elitist process. Indeed, CEIOPS did note: "For both the medium and the large sized classes, the sample size is large enough to be considered representative for the entire market. For the small size class, the number of companies present is too small to be considered representative" (CEIOPS 2006). Needless to say, the overrepresentation of larger and medium sized companies in respect to smaller companies does emphasize notions of elitism as it creates a misrepresentation of the entire market in the policy process. Similarly to QIS1, CEIOPS reported this to be a consequence of: "lack of time, people, knowledge and guidance" (do). According to the report: "on average it took a couple of persons months to complete the study" (do). This shows how companies who are not as resourceful as others tend to have difficulties to answer the study correctly. The notions of elitism (and Marxist policy theory) are thus present, as it does imply that some companies have resources to spend on influencing public policy in a way that less resourceful companies do not have. As stated by CEIOPS: "it was commented by a number of undertakings that the time period between the release of the QIS2 technical specification and Excel spreadsheet and the deadline was too short" (do). This does underline the importance of resources in the process of answering QIS2 (and thereby influencing the final product, Solvency II). Finally, we can say that the second study issued by CEIOPS in many aspects shared the same difficulties as the first one did in regards to upholding a pluralist position.

5.3 Quantitative Impact Study 3 Report

The third Quantitative Impact Study was issued to companies in spring/summer of 2007 and the final report (CEIOPS-DOC-19/07) was published in November 2007 (QIS3 report). The third study saw a great increase in participants, in fact almost exactly 100% (from 514 to 1027) (CEIOPS 2007). The rise in these numbers can, according to CEIOPS, be ascribed to: "focus on material issues, to stimulate participation" (CEIOPS 2007). We can also note the first captives participated in the study, however only three companies did so (QIS4 report, p. 367). Because of this small number, captives will not be included in the analysis of QIS3.

5.3.1 Pluralism in QIS3

The third of the five impact studies (CEIOPS-DOC-19/07) was issued to companies in spring/summer of 2007 and the report was published in November

2007. As we have already noted in the earlier section, participation saw a great increase in comparison to earlier studies in the third study (CEIOPS 2007). This increase was spurred by the increase of smaller insurance companies: "With 422 small, and 418 medium undertakings participating, there have been almost as many undertakings (..) as medium undertakings that responded to QIS3. 187 undertakings (...) submitted their data." (do). Conclusions that can be drawn from this are that the representation of insurance companies in the policy process now mirrors the pluralist society in a wider sense. It indicates how the smaller bodies also get to make their voices heard in the public policy process, much like Dahl describes pluralism (Hill, 2005, p. 29f).

However, it is not fully a pluralist process as it does still show some tendencies towards elitism, which will be elaborated upon in the next section.

5.3.2 Elitism in QIS3

Even though we can conclude a big increase in regards to participants (and thereby a better measure of representation) from the second QIS to the third, there are still certain elements that do indicate elitism within the process. One such example is the exclusion of captives in the study. As captives make part of insuring companies, this does lead to a certain misrepresentation in the policy process. Another fact which leads to misrepresentation is linked to the countries that responded. For QIS4, 28 out of 30 countries responded to the inquiry, which for the countries that did not respond means that they are not represented in the policy implementation. However, no reasons are given to why these countries did not respond to the query, which makes the Marxist theory of resourceful domination very hard to confirm in this case.

There are however some factors that do point towards a certain degree of lack of resources. Some of the participants indicated: "some difficulties with keeping up with the various (revisions) of spreadsheets. More guidance in the completion of the spreadsheets and the inclusion of worked examples were being mentioned as potential tools for helping in the completion of the spreadsheets" (CEIOPS 2007). This means that the study was not comprehensive enough for some of the participants, which does show a lack of resources for the companies that had issues with this.

Concluding this chapter, the third of the Quantitative Impact Studies did show more properties of a pluralist public policy implementation than the previous had done. However, there still are some discrepancies between the pluralist position and that of the Solvency II process.

5.4 Quantitative Impact Study 4 Report

The fourth of the Quantitative Impact Studies was issued to companies in the spring of 2008 (QIS3 report, p. 18), and the final public report (CEIOPS-SEC-82/08) was published in November 2008 (CEIOPS 2008). At this point, captives actively participated in the study.

5.4.1 Pluralism in QIS4

As concluded in the introduction to this section, captives now participated in the study in a more active manner (the number has risen from 3 to 99) (QIS4 report, p. 25) as well as been introduced as a separate category (CEIOPS 2008). This leads to all kinds of insurance companies having active representation in the QIS process, which ultimately leads to the process to become more pluralist. Another conclusion drawn from the final report is that even more companies have participated (an increase with 37%, from 1027 to 1412), most notably had the participation of smaller insurance companies risen with 58%, while medium-sized companies participation-rate grew by 25% and large companies with 18% (do). This does to a even greater extent contribute to a more pluralist process, as more and more organizations are represented in the public policy process. This corresponds well to Dahl's theories of further fragmentation of power between different bodies in political society (Hill, 2005, p.29f). One could also note how all EEA countries were represented in the fourth of the Quantitative Impact Studies (CEIOPS 2008), which also contributes to the process to become more pluralist.

Even though the fourth QIS report does suggest the study to be an even more pluralist process than earlier in the process, some indications still point towards the opposite. This will be elaborated upon in the next section.

5.4.2 Elitism in QIS4

Even though most tendencies point towards a more and more pluralist public policy implementation in this case, there are certain elements that should be considered as elitist. One such element is the inclusivity of captives in the new study. CEIOPS states that: "It was stressed by another supervisor that undertakings who had already participated in earlier rounds of QIS submitted more reliable data" (CEIOPS 2008). This is a valid point for QIS4 as well as QIS3 and QIS2. It is interesting from an elitist point of view as it does indeed create discrepancies between more experienced participants and new ones (even new categorizations as was the case of captives) in terms of qualitative answers to the study (and thereby power to influence policy).

Other interesting facts related to elitism put forth in the fourth report are: "Actual participation was higher than the objectives (34% of the European undertakings compared to an objective of at least 25%, and 65% of cross-border groups compared to an objective of 60%)." (CEIOPS 2008). This once again puts representation in focus as only 34% of European insurance companies are represented in Quantitative Impact Study 4, which is considered to be higher than expected. This puts the representation of companies in another light as it does indicate that even though there has been a remarkable increase in participation, the numbers of undertakings is still not over 50%. As elitism stipulates a powerful elite to rule over a majority in the public policy process, we could highlight this fact as rather eloquent in regards to that discussion.

Within this, there are other elements that are of interest. CEIOPS goes on to state: "33,6% of insurance and reinsurance undertakings under the scope of Solvency II submitted data for the QIS4 exercise. Among life undertakings the participation has been even higher (41,5%), non-life undertakings and composites had 32,0% and 31,9% respectively. 27,1% of reinsurance undertakings and 19,2% of captives participated in the exercise" (CEIOPS 2008). This also shows that there are elites within each category that have influence on the policy in this stage.

5.5 Quantitative Impact Study 5 Report

The final study was issued to insurance companies by EIOPA in autumn/winter 2010 (EIOPA 2011) and the final report was published in March 2011. This final report was the last piece of output that was produced in the impact study process. This makes it a very technical report as the general findings of the entire process was presented in this document. This does however not affect the analysis of the Quantitative Impact Study from a policy perspective.

5.5.1 Pluralism in QIS5

In the final report, the elements we have identified as pointing towards the Quantitative Impact Studies being a pluralist process have increased considerably. First of all, the total representation of insurance companies was 34% and by far attained the objective of 25% (CEIOPS 2008). However, in the fifth QIS, the objective in regards to participants was set much higher, namely 60% (EIOPA 2011). Nevertheless, this objective was also attained as 68% of the total number of insurance companies within the European Economic Area participated in the study (do). Conclusions that can be drawn from this are that for the first time, a majority of stakeholders participated in the process. This does suggest that the Quantitative Impact Studies process now showed the features of a pluralist policy process in much greater regard than it had done earlier. The increase in

participation and thereby in representation in absolute numbers was also quite drastic as 1511 smaller companies (compared to 667 in QIS4, or increase by 127%), 791 medium-sized companies (compared to 522 in QIS4, or increase by 52%) and 217 large companies (compared to 220 in QIS4, or decrease by 1%) (QIS4 report, p. 3) (do). An increase in the number of small- and medium-sized groups can also be noted (from 106 groups in QIS4 to 167 in QIS5) (do).

In conclusion, we can say that the fifth of the Quantitative Impact Studies is the one which shows the most propensities to be of pluralist nature, with representation being high and even in majority. This does underline Dahl's theory of pluralist policy processes, as participation in the study and thereby influence on the policy process was diversified and represented several different categories and sizes of companies.

5.5.2 Elitism in QIS5

As QIS5 showed tendencies of being a rather pluralist process, the elitist argument is not as relevant as it has been in earlier contexts. However, one could still find certain elements that tend to correspond to elitist theory. In the question of representation, one could say that even though there is a majority that has participated in the study, there is no way of saying that the majority cannot dominate the minority just like an elite would. Jonathan Wolff (2006) explains how a minority can get repressed by the majority, especially if they are not represented, but otherwise as well (p. 100).

6 Final Results

This chapter will include a presentation of the results the analysis has gathered, as well as a clarification of the conclusions that can be drawn from these results. A review of proposed studies that can follow this study will conclude the thesis.

6.1 Results

The aim of this thesis has been to study the Quantitative Impact Studies process, in order to come to conclusions about how this specific implementation method should be described in the case of Solvency II. The underlying problem formulations stipulated a classification of the process into two theoretical categories (pluralist and elitist) in order to come to more comprehensive conclusions on how the process should be defined.

Analytically, the study of the different phases of QIS gave diverse answers. In the beginning of the Quantitative Impact Study process, it showed signs of being a typically elitist process. This followed as few companies from a limited number of countries participated. There was another participation issue as not all categories of insurance companies took part in the study in the initial phase. There was a major representation issue as most companies involved in the study's early stages did not give an adequate representation of the markets, indeed most companies involved in the study were either big- or medium-sized. Difficulties posed by the studies were in early reports stated to correspond to resource (time, human resources, capital) issues which does indicate certain structures in the early QIS' which promoted the participation of bigger and more resourceful companies. This corresponds to the Marxist elitist power theory. Thus, we can describe the process as elitist.

However, as new studies emerged, this initial notion of elitism in the Quantitative Impact Studies was not as dominant. The process could in many ways still be described as elitist; nevertheless did the process become more and more diversified in terms of participating companies. This leads to a more pluralist process as more companies had impact on the new policy formation than it was in its initial phase. Even though the representation still was not in any way complete, more companies from different categories of insurance businesses and countries were introduced to this process. Smaller companies were also led to participate in a greater extent which also contributed to a less elitist process.

It was not until the final two studies, however, that one could argue for the Quantitative Impact Studies to have become a more fully pluralist process. This

followed as all categories of companies from all member-countries within the EEA actively participated. In the final study, the participation of insurance companies represented a majority of insurance companies in Europe which indicates a major representation of European insurance companies included in the policy process formation which led up to Solvency II. Therefore could the process be described as a pluralist process.

In order to answer the problem formulation stipulated to this thesis, the answer will therefore be twofold in respect to the underlying problem formulations. As our interpretation of the QIS process stated, it was a process with propensity for elitism in the initial stages, and pluralism in the latter stages.

6.2 Conclusion

Conclusions that can be drawn from the analysis of the Quantitative Impact Studies are multiple. First and foremost, Richardson described the European policy process as a policy network model (2001, p. 5). This does not correspond well with the analysis of the Quantitative Impact Studies as it did show propensity for elitism in its early stages. However, it does correlate to the pluralism of the later phases of the process. So where does this leave us? Is Richardson's description of the European policy model invalid? The answer to this question is negative. As we do recall, within public policy theoretical analysis it is not desirable to form general conclusions. It is only the process itself which we can draw conclusions from. Richardson (2001) himself states: "thus it might be a mistake to look for only one model of the EU public policy process" (p.6). This is an eloquent statement to describe the policy formation of the Solvency II case in a European context.

To clarify my answers to this thesis, the process of QIS should be described as a pluralist process, however, it did have some propensity for elitism in its initial stages. This corresponds to this statement by Richardson.

6.3 Proposals for future studies

As European public policy is a very complex field to investigate, this thesis has not had the resources to examine the full implementation of Solvency II, including a greater scope of material as well as an analysis of the more informal attempts (successful or not) at influencing this important regulation. Such an analysis could

perhaps contribute to certain insight in the difficulties of implementing major public policy on an European level.

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