

<b>Comments Template on CEIOPS-CP 48            Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Non-Life            underwriting risk</b>		<b>Deadline            11.09.2009            4 p.m. CET</b>
Name of Company:	<b>AMICE</b>	
Disclosure of comments:	CEIOPS will make all comments available on its website, except where respondents specifically request that their comments remain confidential. Please indicate if your comments should be treated as confidential:	No
The numbering of the paragraphs refers to Consultation Paper No. 48 (CEIOPS-CP-48/09).		
Reference	Comment	
General Comment	<p>These are AMICE´s views at the current stage of the project. As our work develops, these views may evolve depending, in particular, on the other elements of the framework which are not yet fixed.</p> <p>The comments outlined below constitute AMICE´s primary areas of concern:</p> <p>Generally, entity specific parameters should be allowed for the SCR calculation. Removing this ability would prevent the recognition of the specificities of the undertaking’s business. There should be allowance for parameters such as “business volume” when assessing volatilities; These parameters should be defined by the supervisor as part of the Level 3 guidance in order to take into account national specificities (e.g Social Security in France).</p> <p>We suggest recognizing geographical diversification as was done during QIS 4. Geographical diversification should be recognised using a blending formula for business underwritten or commitments existing in different geographical areas.</p> <p>Non-proportional reinsurance should be appropriately recognized in the standard formula. Not recognizing this possibility is not consistent with the spirit of the Level 1 text, since Non-Proportional reinsurance is a common mitigation technique widely applied among insurers.</p>	
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3.2.	<p>CEIOPS points out that a “number of supervisors and undertakings outlined the difficulties in encompassing the potentially non-linear effects of these risk mitigating instruments in the standard approach”. AMICE has developed, in its paper “Proposal on Reinsurance and Non-Life Calibration for the QIS5”, three options for recognising this type of reinsurance within the standard formula.</p> <p>CEIOPS should take into consideration the results of its working group on non proportional reinsurance, either in its advice on non life underwriting risk, or in the course of its examination of remaining issues.</p>	
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3.5.	<p>We would like to emphasize the need to allow for the entity specific parameter option, in order to take into account the reality of the undertaking’s business. We suggest keeping the QIS 4 approach.</p> <p>CEIOPS will not retain the approach of credibility mix for the standard deviation for premium risk. AMICE agrees to abandon the formulae proposed in QIS4 because it was not sufficiently robust.</p>	
3.6.	<p>CEIOPS considers that the standard formula is already complex and introducing additional complexity by taking into account non-proportional reinsurance may not be welcome. AMICE is in favour of a</p>	

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	better consideration of non-proportional reinsurance under the standard formula because the risk mitigating effects of non-proportional treaties can be important for some undertakings. These undertakings should not be obliged to use internal models to take these treaties into account.	
3.7.	This paragraph states the importance of making a clear distinction of Catastrophe Risk. CEIOPS believes that the assumptions underlying the estimation of the premium risk capital charge, implicitly allow for double counting, however no solution is provided.	
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3.32.	<p>The correlation coefficient of 0.5 between premium and reserve risk seems to be already fixed. More advice should be provided on whether CEIOPS envisages a revised calibration to be carried out by the year-end. The value of this correlation coefficient is the same for all lobes at the moment. However, the correlation between reserve and premium risk is extremely varied among different lines of business. This assumption is presumably too high for short-tail risks.</p>	
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3.46.	CEIOPS considers that the capital requirement for health catastrophe risk should fall under the non-life catastrophe risk category. We do not agree with this categorisation.	
3.47.	CEIOPS writes that Member States should consider any other relevant scenarios that they should apply. However, we are not convinced that uniform scenarios for large and diversified countries will properly reflect catastrophe events that may have an impact in some areas and lines of business.  We would expect that large countries will consider regional scenarios provided by the local supervisor and relevant for a specific territory.	
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3.56.	We agree with the CEA that, when the scenario is not applicable, the undertaking should be allowed to use personalised scenarios instead of computing the higher capital charge between the standardized scenario and the alternative method.	

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3.60.	See our comments to paragraph 3.111	
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3.72.	<p>CEIOPS states that premium risk relates to policies to be written (including renewals) during the period, and to unexpired risks on existing contracts.</p> <p>AMICE members would appreciate further guidance on which type of renewals should be included and in particular whether policy renewals not cancelled before maturity date and automatically prolonged at the reporting date for another period should be considered.</p>	
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3.74.		
3.75.	<p>CEIOPS has introduced a new element defined as <math>(C^{PP}_{lob})</math> the expected present value of net claims and expected payments which relate to claims incurred after the following year and covered by existing contracts for each LoBs.</p> <p>We would appreciate it if CEIOPS could provide more guidance on the purpose of this new element and how it should be calculated.</p>	
3.76.		
3.77.	<p>CEIOPS is proposing not to apply geographical diversification for non-life business.</p> <p>AMICE understands that geographical diversification should be taken into account. Furthermore, compared to the geographical diversification proposed in QIS 4, we consider that it does not yet sufficiently reflect the risk profile of entities.</p>	
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3.84.	<p>CEIOPS does not consider the expected future profits and losses from the next year's new business.</p> <p>We agree with the CEA that underwriting cycles may have a material impact on the profitability of the portfolio over the year to come. Therefore, undertakings should be allowed to take into account in the SCR calculation, expected future profits and losses from the next year's new business.</p>	

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3.85.	<p>The calibration which will be provided by the end of the year has to take into account:</p> <ul style="list-style-type: none"> <li>- The impact of non proportional reinsurance in the standard deviations: in such contracts, the remaining volatility should be much smaller than the one used in QIS4. We cannot accept a single estimation of volatility completely separated from the level of Non-Proportional reinsurance;</li> <li>- The size of the modelled business also has a significant impact on volatility. We regret the application of the same level of volatility regardless of the premium income. Having regard to the number of policies issued or the number of claims is a key element in the calibration.</li> </ul>	
3.86.		
3.87.	Same comments as paragraph 3.85.	
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3.91.	In this paragraph CEIOPS aims to deliver standardised scenarios for QIS 5. In our opinion this timeline is very ambitious if we consider that many undertakings have spent many years developing some scenarios.	
3.92.	AMICE welcomes the creation of a task force to work with CEIOPS in constructing the required scenarios. We are in favour of compiling a database of historic EU catastrophic losses as long as it ensures a high level of harmonisation in the development of standardised scenarios. Supervisory authorities should make public such a database to provide undertakings with scenarios for their (partial) internal models.	
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3.95.	CEIOPS provides a list of scenarios that should be constructed for a minimum set of catastrophe events.	

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	AMICE would appreciate further guidance on how such events should be added. Since the list of events would probably not happen in the same year, more advice is needed on how to take into account this probability	
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3.98.	See our comments to paragraph 3.47	
3.99.	Climate change has been never taken into account in the calibration of catastrophe events. The calibration of cat scenarios with this type of assumption seems to be irrelevant since market data are scarce and not reliable.	
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3.111.	CEIOPS writes that the catastrophe capital charge for a specific event type shall be the result of the maximum of the standardized scenario and the factor method. AMICE members do not agree with this proposal. The factor method does not take into account the	

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	effect of reinsurance. The standardised scenario should be used for the capital charge calculation as long as this method has been chosen by the company.	
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3.116.	<p>CEIOPS writes that "(re) insurance undertakings shall review the scope of the scenario defined and assess the applicability of such a scenario and range of possible outcomes that could arise on the occurrence of the scenario. The range (and probability distribution) of possible outcomes shall determine the best estimate of loss from the scenario."</p> <p>AMICE members understand that assessing the range and probability of possible outcomes could be burdensome and difficult to obtain for many undertakings and that a deterministic approach leads to an adequate capital amount and avoids calculating the whole distribution.</p>	

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