	Comments Template on CEIOPS-CP 74 **Consultation Paper on the Draft L2 Advice on Correlation parameters**	**Deadline** **11.12.2009** **12.00 CET**
Name of Company:	**AMICE**	
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:	Confidential/Public
	Please follow the following instructions for filling in the template: ⇨ Do **not** change the numbering in the column "reference". ⇨ Please fill in your comment in the relevant row. If you have no comment on a paragraph, keep the row empty. ⇨ Our IT tool does not allow processing of comments which do not refer to the specific paragraph numbers below. o If your comment refers to multiple paragraphs, please insert your comment at the first relevant paragraph and mention in your comment to which other paragraphs this also applies. o If your comment refers to sub bullets/subparagraphs, please indicate this in the comment itself. **Please send the completed template, in Word Format, to secretariat@ceiops.eu. Our IT tool does not allow processing of any other formats.** The numbering of the paragraphs refers to Consultation Paper No. 74 (CEIOPS-CP-74/09).	
Reference	**Comment**	
General Comment	These are AMICE´s views at the current stage of the project. As our work develops, these views may evolve depending in particular on other elements of the framework which are not yet fixed.	

	Comments Template on CEIOPS-CP 74 Consultation Paper on the Draft L2 Advice on Correlation parameters	Deadline 11.12.2009 12.00 CET
	AMICE members believe the current financial crisis cannot be used to justify these exceptional increases of correlation factors, since the crisis has not hit the insurance sector as much as banking / financial sector (either directly or indirectly). If the underlying cause for the correlation adjustments upwards is to force the undertakings to adopt a full internal model, the discussion will be more productive for all involved parties to discuss this openly. We agree that in many cases it is not reasonable to have a correlation factor of 0 (zero), but it is hard to understand some suggested high correlation factors based on "feeling" and no concrete evidence.Correlation factor for life underwriting risk and health underwriting risk	
1.		
1.1.		
1.2.		
2.		
3.		
3.1.		
3.2.		
3.3.		
3.4.		
3.5.		
3.6.		
3.7.		
3.8.		
3.9.		
3.10.		

	Comments Template on CEIOPS-CP 74 Consultation Paper on the Draft L2 Advice on Correlation parameters	Deadline 11.12.2009 12.00 CET
3.11.		
3.12.		
3.13.		
3.14.		
3.15.		
3.16.		
3.17.		
3.18.		
3.19.		
3.20.		
3.21.		
3.22.	We have another example which proves that the implied correlation between two independent variables could be less than 0. For instance, two independent lines of business (X and Y), following a lognormal distribution (0,1), with a non-proportional reinsurance contract defined as a stop loss, starting from 15 without limit : VaR (X+Y) = 15 VaR (X) = VaR (Y) = 12,6 Implicit correlation between X and Y : rho defined as (12.6^2 +12.6^2+ 2*rho*12.6*12.6)^(1/2) = 15 => rho = -30%	
3.23.		
3.24.		

	Comments Template on CEIOPS-CP 74 Consultation Paper on the Draft L2 Advice on Correlation parameters	Deadline 11.12.2009 12.00 CET
3.25.		
3.26.		
3.27.		
3.28.		
3.29.		
3.30.		
3.31.	We support the CEIOPS minority view to set at 0 the correlation factor between equity and interest rate. The impact on the final capital requirements could be very high and it is not clear whether a correlation factor set at 50% as suggested does not exceed the 99,5% confidence level. It could be very hazardous to change this parameter based only on qualitative judgement linked to the recent crisis. Furthermore, if CEIOPS states that the fall of equity is linked to the downward shock of interest rates, in this case a medium correlation set at 50% to take into account the two-sided nature of the interest rate module does not make sense. A symmetric correlation should in this case be used.	
3.32.		
3.33.	Correlation between interest rate risk and other market risks should be carefully measured based on historical data.	
3.34.		
3.35.		
3.36.		
3.37.		
3.38.		
3.39.		
3.40.		

	Comments Template on CEIOPS-CP 74 Consultation Paper on the Draft L2 Advice on Correlation parameters	Deadline 11.12.2009 12.00 CET
3.41.		
3.42.		
3.43.		
3.44.		
3.45.		
3.46.		
3.47.		
3.48.		
3.49.		
3.50.		
3.51.		
3.52.		
3.53.		
3.54.		
3.55.		
3.56.		
3.57.		
3.58.	**Correlation factor for life underwriting risk and health underwriting risk** Setting a correlation factor of 0.75 (compared to 0.25 in level 1 text) to avoid undertakings arbitrage opportunities seems restrictive and does not sound like expert judgment. Indeed, in France, most health riders within life contracts concern only disability and they are handled in the disability sub-module of the life underwriting risk module. Selling the same health cover on a	

|---|---|---|
	stand-alone basis requires the undertaking to launch a non-life company which is unlikely to happen.	
3.59.		
3.60.		
3.61.		
3.62.		
3.63.		
3.64.		
3.65.		
3.66.		
3.67.		
3.68.		
3.69.		
3.70.		
3.71.		
3.72.		
3.73.		
3.74.	**Correlation between equity and property** We do not see on which basis CEIOPS sets the correlation factors of equity risk and property risk to 0.75. We note that there is a diversification effect between property and other risks. ~~For example :~~ So the correlation suggested in the CP or in the QIS 4 is too high. **Correlation between concentration risk and other market risks** The concentration risk module is based on a totally different concept than other risk modules. In	

	consequence, setting a correlation parameter between correlation risk and other market risks has no meaning. Hence, the correlation parameters should be set at 0.	
3.75.	We share the minority view that there is not correlation between interest rate and equities (sometimes is positive and sometimes is negative)	
3.76.	**Life underwriting correlation factors** QIS4 correlation factors were set using expert judgment. Hence, we would like to understand on which basis this expert judgment changed. Expert judgment should not introduce high volatility (about 11% as stated in 3.46) in life underwriting capital requirements otherwise it cannot be considered as such. CEIOPS should clearly justify any change from QIS4 calibration. Moreover : • Correlation between lapse and disability: in life insurance products, disability is often a rider which cannot be surrendered on a standalone business. Hence an increase in lapse rates would lead to lower exposure of the undertaking to disability risk (as the whole policy is surrendered). As lapse risk is a two-sided risk, maintaining the correlation to 0 between lapse and disability seems appropriate as in QIS4. • Correlation between revision and lapse: As lapse risk is a two-sided risk, maintaining the correlation to 0 between lapse and disability seems appropriate as in QIS4. In addition, generally insured cannot surrender annuities.	
3.77.		
3.78.		
3.79.		
Annex A		
A.1.		
A.2.		
A.3.		
A.4.		

	Comments Template on CEIOPS-CP 74 Consultation Paper on the Draft L2 Advice on Correlation parameters	Deadline 11.12.2009 12.00 CET
A.5.		
A.6.	Based on our estimations the effect of changes in the correlation matrix is of 30% of the SCR. The main driver is the increase in the correlation factor between the concentration risk and the other risks included in the market risk module.	
A.7.		
A.8.		
A.9.		
A.10.		
Annex B		
B.1.		
B.2.		
B.3.		
B.4.		
B.5.		
B.6.		
B.7.		
B.8.		
B.9.		
B.10.		
B.11.		
B.12.		
B.13.		

	Comments Template on CEIOPS-CP 74 Consultation Paper on the Draft L2 Advice on Correlation parameters	Deadline 11.12.2009 12.00 CET
B.14.		
B.15.		
B.16.		
B.17.		
B.18.		
B.19.		
B.20.		
B.21.		
B.22.		
B.23.		
B.24.		
B.25.		
B.26.		
B.27.	The only reason higher parameters can lead to better risk management would be if the undertakings are going to use internal models, which again should be an open question and not a hidden agenda from the CEIOPS or the supervisory authorities. Besides higher premiums, higher parameters will definitely also lead to a deterioration of the insurance policy terms and in turn will not be for the customers' best.	
B.28.		