

Comments Template on CEIOPS-CP 49 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
Name of Company:	PricewaterhouseCoopers LLP	
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
<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ Do not change the numbering in the column “reference”. ⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a paragraph, keep the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific paragraph numbers below. <ul style="list-style-type: none"> ○ 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. ○ If your comment refers to sub bullets/subparagraphs, please indicate this in the comment itself. <p>Please send the completed template, in Word Format, to secretariat@ceiops.eu. Our IT tool does not allow processing of any other formats.</p> <p>The numbering of the paragraphs refers to Consultation Paper No. 49 (CEIOPS-CP-49/09).</p>		
Reference	Comment	
General Comment	Overall, the CP provides further clarity on how firms will be expected to calculate the life underwriting risk element of the standard formula, especially around the calibration of the stresses and how this calibration compares to QIS 4. However, we note that no guidance has yet been provided on how simplifications may be applied to the standard formula for sub-modules other than persistency risk.	

**Comments Template on CEIOPS-CP 49
Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Life underwriting risk**

**Deadline
11.09.2009
4 p.m. CET**

	<p>Details of simplifications allowed (which CEIOPS has indicated will be provided as part of the third wave of CPs) are likely to be key in a firm’s assessment of the amount of capital and the level of modelling development required to calculate the standard formula and thus it is important that clear guidance is given in this area.</p> <p>We note that, overall, the standard formula for life underwriting risk appears more onerous than that applied for QIS 4, with the majority of changes since the QIS 4 process likely to increase capital requirements.</p> <p>Whilst details are given of how the parameters of the standard formula have been calibrated, it is not always clear how this relates to underlying data or evidence backing these parameterisations. The parameters have been calibrated primarily based on a combination of QIS 4 participant feedback, analysis of a small sample of internal models and research carried out by regulatory bodies in Member States, but the chosen stresses do not always appear justified by the evidence and in some cases (e.g. mass lapse stress for institutional investors) there does not seem to be sufficient underlying evidence. We would also encourage CEIOPS to consider the validity of research carried out by member states (which is based on data from only one or a subset of member states) as a representation of an appropriate stress for all member states and consider carrying out more detailed research to support the chosen stresses.</p> <p>Further clarification on the treatment of group life business may be useful. This business is typically operated as a short-term contract using methods similar to those used in the valuation of non-life insurance business (e.g. unexpired premium reserve). The practical application of the mortality stress in the life underwriting risk module is thus not immediately obvious.</p>	
1.		
1.1.		
1.2.		
1.3.		
1.4.		
2.		

**Comments Template on CEIOPS-CP 49
 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Life underwriting
 risk**

**Deadline
 11.09.2009
 4 p.m. CET**

3.		
3.1.		
3.2.	We welcome the refinement of the standard formula calculation to allow for the change in option take-up rates as a result of stresses in the other sub-modules.	
3.3.		
3.4.		
3.5.		
3.6.		
3.7.		
3.8.		
3.9.		
3.10.		
3.11.		
3.12.		
3.13.		
3.14.		
3.15.		
3.16.		
3.17.		
3.18.		
3.19.		
3.20.		

Comments Template on CEIOPS-CP 49 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
3.21.		
3.22.	Further clarification is needed as to the level of grouping which is considered to “capture appropriately the mortality risk of the portfolio” for the purposes of applying the defined approach to unbundling. (Also applies to 3.47, 3.27, 3.52)	
3.23.		
3.24.		
3.25.		
3.26.		
3.27.		
3.28.		
3.29.		
3.30.		
3.31.		
3.32.		
3.33.		
3.34.		
3.35.		
3.36.		
3.37.		
3.38.		
3.39.		
3.40.		

Comments Template on CEIOPS-CP 49 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Life underwriting risk		Deadline 11.09.2009 4 p.m. 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.	<p>Further clarification is needed on the criteria that should be used to determine whether the health component of a contract can be unbundled from other components. In many cases it is not practical to unbundle contracts, as the cash-flows from different components are interdependent. It would be helpful if, where practical and relevant, the requirements for unbundling are aligned with those in IFRS.</p> <p>For medical insurance, different treatment can be applied to calculate the health risk component depending on whether it is deemed the health risk component can be unbundled from an underlying contract (and thus considered under CP50) or not. Without clear guidance, this will remain a grey area in the regulations, with the potential for inconsistent treatment across the EU.</p>	
3.55.		
3.56.		

Comments Template on CEIOPS-CP 49 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
3.57.		
3.58.		
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.		
3.75.	<p>(Also applies to 3.76-3.88)</p> <p>Many companies outsource part of their operations to a third party for a fixed expense. This provides some mitigation of the risk of unexpected variability in expenses but, at the same time, introduces the risk of a significant increase in expenses should the third party default on the agreement.</p>	

**Comments Template on CEIOPS-CP 49
 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Life underwriting
 risk**

**Deadline
 11.09.2009
 4 p.m. CET**

	While it is not realistic to expect the standard formula to be able to accommodate all such individual circumstances, we suggest that the advice includes mention of such arrangements. It may be appropriate to make reference to capital add-ons or partial internal models to address the necessary lack of flexibility in the standard formula.	
3.76.		
3.77.		
3.78.		
3.79.		
3.80.		
3.81.		
3.82.		
3.83.		
3.84.		
3.85.		
3.86.		
3.87.		
3.88.	In our response to CP 39, paragraph 3.55, we express the view that the allowance for expenses in the best estimate technical provisions should most appropriately be assessed on a “going concern” basis, with an addition to the SCR to avoid undue strain in the event of closure to new business. We make no suggestion for how this should be done within the standard formula but note that any such allowance should be included within the expense risk sub-module.	
3.89.		
3.90.		
3.91.		

**Comments Template on CEIOPS-CP 49
Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Life underwriting
risk**

**Deadline
11.09.2009
4 p.m. CET**

3.92.		
3.93.		
3.94.		
3.95.		
3.96.		
3.97.		
3.98.		
3.99.		
3.100.		
3.101.		
3.102.		
3.103.		
3.104.		
3.105.		
3.106.		
3.107.		
3.108.		
3.109.		
3.110.		
3.111.		
3.112.		

Comments Template on CEIOPS-CP 49 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
3.113.		
3.114.		
3.115.		
3.116.		
3.117.		
3.118.		
3.119.		
3.120.		
3.121.		
3.122.		
3.123.		
3.124.		
3.125.		
3.126.		
3.127.		
3.128.		
3.129.		
3.130.		
3.131.		
3.132.		
3.133.		

Comments Template on CEIOPS-CP 49 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
3.134.		
3.135.		
3.136.		
3.137.		
3.138.		
3.139.		
3.140.		
3.141.		
3.142.		
3.143.		
3.144.		
3.145.		
3.146.		
3.147.		
3.148.		
3.149.		
3.150.		
3.151.		
3.152.	We agree that it is reasonable to distinguish between retail and non-retail business for the purposes of the mass lapse scenario due to the vastly different financial sophistication of the investors / policyholders concerned. However, within the category of retail business there would appear to be no clear justification for distinguishing between different product types. Policyholder behaviour is typically not strongly influenced by the presence of guarantees and the degree to which they are in the money.	

**Comments Template on CEIOPS-CP 49
 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Life underwriting
 risk**

**Deadline
 11.09.2009
 4 p.m. CET**

	We would thus consider the simplicity of the calculation for the mass lapse scenario to be the overriding consideration in the calibration.	
3.153.		
3.154.	The simplification to the lapse risk sub-module, allowing the calculation of the surrender strain at homogeneous risk group level (as described in 3.153) is permitted if it is proportionate to the nature, scale and complexity of the risk. The current guidance on how this proportionality should be assessed is subjective. It would be helpful to have some more quantitative measures that can be considered when determining when assessing whether a simplified approach can be taken.	
3.155.		
3.156.		
3.157.		
3.158.		
3.159.		
3.160.		
3.161.		
3.162.		
3.163.		
3.164.		
3.165.		
3.166.		
3.167.		
3.168.		
3.169.		

Comments Template on CEIOPS-CP 49 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
3.170.		
3.171.		
3.172.		
3.173.		
3.174.		
3.175.		
3.176.		
3.177.		
3.178.		
3.179.		
3.180.		
3.181.		
3.182.		
3.183.		
3.184.		
3.185.		
3.186.		
3.187.		
3.188.	The increase in the calibration of the mortality catastrophe stress from QIS4, with the absolute increase in mortality changing from 1.5 per mille to 2.5 per mille, is significant and does not appear to be strongly supported by the arguments or evidence set out in the consultation paper. While we acknowledge that catastrophe events are, by nature, very rare, we would prefer to see some further justification for this stress.	

Comments Template on CEIOPS-CP 49 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
3.189.		
3.190.		
3.191.		
3.192.		
3.193.	<p>We note that different undertakings write different lines of business in widely varying proportions. It thus does not seem appropriate to prescribe a single mortality catastrophe stress which takes into account the wide range of possible diversification benefits between lines of business with mortality and longevity risk. As such, we suggest that life catastrophe risk is treated in a similar way to mortality risk – a single (extreme) stress is applied to all business subject to mortality risk and any diversification benefits are allowed for through the correlation matrix which is used to combine catastrophe risk with other sub-modules of the life underwriting risk module.</p> <p>In relation to the calibration of the single extreme stress, we refer to our comments at paragraph 3.188.</p>	
3.194.		
3.195.		
3.196.		

**Comments Template on CEIOPS-CP 49
 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Life underwriting
 risk**

**Deadline
 11.09.2009
 4 p.m. CET**

A.		
A.1.		
A.2.		
A.3.		
A.4.		
A.5.		
A.6.		
A.7.		
A.8.		
A.9.		
A.10.		
A.11.		
B.		
B.1.		

Comments Template on CEIOPS-CP 49 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
B.2.		
B.3.		
B.4.		
B.5.		
B.6.		
B.7.		
B.8.		
C.		
C.1.		
C.2.		
C.3.		
C.4.		
C.5.		
C.6.		

Comments Template on CEIOPS-CP 49 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
C.7.		
C.8.		
C.9.		
C.10.		
C.11.		
C.12.		
C.13.		
C.14.		
C.15.		
C.16.		
C.17.		
C.18.		
C.19.		
D.		

Comments Template on CEIOPS-CP 49 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
D.1.		
D.2.		
D.3.		
D.4.		
D.5.		
D.6.		
D.7.		
D.8.		
D.9.		
D.10.		
D.11.		
D.12.		
D.13.		
D.14.		

Comments Template on CEIOPS-CP 49 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
D.15.		
D.16.		
D.17.		
D.18.		
D.19.		
D.20.		
D.21.		
D.22.		
D.23.		
D.24.		