	Comments Template on the Consultation Paper on the methodology to derive the UFR and its implementation	Deadline 18 July 2016 23:59 CET
Name of Company:	AMICE	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
	Please follow the following instructions for filling in the template: ⇨ Do **not** change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇨ Leave the last column empty. ⇨ Please fill in your comment in the relevant row. If you have no comment on a paragraph or a cell, keep the row empty. ⇨ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. **Please send the completed template, in Word Format, to** CP-16-003@eiopa.europa.eu **Our IT tool does not allow processing of any other formats.** The numbering of the paragraphs refers to on the Consultation Paper on the methodology to derive the UFR and its implementation.	
Reference	**Comment**	
General Comment	AMICE welcomes the opportunity to comment on the consultation paper on the methodology to derive the UFR and its implementation. AMICE members consider the UFR as a key input value which can have a high impact on market values and the firm´s solvency positions especially when the duration is high. As a general rule, AMICE believes that the UFR should be kept stable and not respond to short term or random developments. There may be a long term trend in interest rates which suggests gradual adjustments	

	to the UFR. However, the Ultimate Forward Rate should not be reviewed in isolation. We support the need to assess the suitability of the UFR with other components of the LTGA package; The timing of the review of the UFR methodology should therefore be aligned with that of the review of the standard formula, due by 2018. The review should be consistent with the approach taken in the past to calibrate the measures in the long-term guarantee package. As stated in previous EIOPA consultations, we see the need for insurance companies to anticipate adjustments in the UFR and include them in their corporate planning and the ORSA. Thus, early warning indicators of the underlying trend of the UFR should be regularly produced in order for the industry to be aware of possible changes and prepare itself. **Early warning indicators**, as suggested in EIOPA paper, **could be made available through the regular publication of the values underlying the composition of the UFR such as an updated value of the real interest rate and the inflation components.** We support the regular publication of the result of the UFR formula and a decision on whether an update of the UFR value is needed each time the computed amounts exceed the values of a "tunnel" (corridor) with an **upper and lower threshold which should not exceed some basic points**. Assessing the trend and the sustainability of such a trend is key (e.g. if inflation is too high and above expectations, the firm will know that the UFR will have to be corrected). If the trend continues over a long period of time (10 - 15 yr) this would lead to a gradual adjustment in the UFR. The correction could be made by the amount exceeding the corridor. EIOPA should broaden their analysis by including an approach by which the UFR would be determined based on **historical nominal rates**. There may be some arguments in favour and against a nominal rates' approach; However the approach has been disregarded without a full anyalsis or real justification.	

Q1. (pg. 56)	**Q1: The proposed methodology is based on the same calculation approach that was used to calculate the current UFRs, in particular UFR is proposed to be the sum of expected real rate and expected inflation. Do you agree with that approach?** AMICE agrees to maintain the UFR as the sum of the expected real rate and expected inflation. However, an alignment with the wording used in the Delgated Acts is needed. Article 47 of the Solvency II Delegated Regulation lays down the principles for deriving the UFR. It is explicitly stated in Art. 47 (1) that the "*ultimate forward rate referred to in paragraph 1 of Article 46 shall be stable over time and shall only change as a result in changes in long-term expectations.*" The methodology proposed by EIOPA for estimating the UFR aims to estimate a long term equilibrium of the short term nominal interest rate that differs between currency areas. The proposed procedure is based on separate estimates of the real rate and expected inflation. In the Euro case, the UFR is estimated to be reduced from today's 4.2 to 3.7 percent. In our view the proposed method to estimate the real rate and inflation expectations is appropriate. However, EIOPA should take into account that this approach is based on an inherent assumption that interest rates will converge between member states and that the current policies for inflation targets will materialise exactly and eternally. None of these assumptions have materialised in recent years. The EIOPA estimate should also be validated by comparing the estimate of 3.7 percent to actual historical nominal rates.	
Q2. (pg. 56)	**Q2: According to the proposed methodology the expected real rate is calculated on the basis of past real rates since 1960 (widening window approach). Do you consider that to be an appropriate period for averaging the past real rates?** We consider the widening window approach to be appropriate. We do, however, propose that longer time series are used, when available and appropriate. The availability of longer time series should generally not be a concern.	
Q3. (pg. 56)	**Q3: The expected real rate of the proposed methodology is derived as a weighted average of past real rates. Which weights do you consider appropriate for that purpose?**	

	The most questionable aspect of the proposed weights is the fact that a weight of zero is given to all years prior to 1960. We propose, as also mentioned in Q2, that weights are also given to years prior to 1960 by utilising a longer time series. The proposal regarding the relative distribution of weights within the utilised time series is of less concern. The proposed mechanism may serve the purpose.	
Q4. (pg. 56)	**Q4: According to the proposed methodology, there are four buckets for the expected inflation rate (1%, 2%, 3% and 4%). Do you consider it appropriate to use inflation buckets and the choice of buckets adequate?** It might not be a relevant presumption that the inflation rate in a distant future will be exactly that of the current targets of the current policymakers. The future might bring other policymakers with other targets, and additionally the ability of any policymaker to achieve any target will be notoriously weak. There is also the effect of inherently unpredictable changes in inflation targets. **However, and given that inflation targets are used, the exact target should be used for each currency area; there is no reason to use a bucket approach.**	
Q5. (pg. 56)	**Q5: The proposed methodology includes a limit to the annual change of the UFR of 20 bps. Do you consider such a limit necessary and appropriate?** **We consider a limit to the annual change of the UFR to be appropriate. We do, however, propose to set the limit at 10 bps.** Combined with our proposal that the rounding (cf Q6) is also made to 10 bps, we propose the simple, yet expedient, procedure that all changes to the UFR are of the size 10 bps. In paragraph 126 it is stated that a limit at 10 bps "*modifies the course of the real rate average*". This is, however, an artefact based on a too short time series, and would not appear when a suitably long time series is used. Otherwise, the UFR would move too much and this is not in line with the aim of reducing the volatility of the longer term cash flows.	
Q6. (pg. 56)	**Q6: According to the proposed methodology the expected real rate component is rounded to 5 bps. Do you consider such a rounding necessary and appropriate?** **We consider a rounding of the change in UFR to be appropriate, in order to avoid frequent and minute changes in the UFR. We do, however, propose that the rounding is made to 10 bps.** Combined with our proposal that the limit to the annual change (cf Q5) is also set at 10 bps, we propose the simple, yet expedient, procedure that all changes to the UFR are of the size 10 bps.	

Q7. (pg. 56)	**Q7: Do you consider the proposed implementation of the methodology appropriate? (continued)** We oppose a mechanistic approach by which the UFR could be updated on an annual basis. Stating a +-5bp corridor is unnecessary having in mind 50 years ahead. The UFR should be kept stable over time unless the long term economic fundamentals have significantly changed.	
Paragraph 1.		
Paragraph 2.		
Paragraph 3.		
Paragraph 4.		
Paragraph 5.	It is worth pointing out that not all health insurance products have a long duration. Reference should be made to health insurance as a line of business (LoB) within the life insurance (or SLT Health) segment. In the methodology used to derive the Risk Free Rate, EIOPA seems to suggest that a 30 year tenor point is available for the Euro. However, Recital 30 of the Omnibus II Directive states that *under market conditions similar to those at the date of entry into force of that Directive, the starting point for the extrapolation of risk- free interest rates, in particular for the Euro, should be at a maturity of 20 years*.The economic environment has surely changed since the Solvency II Framework Directive entered into force.	
Paragraph 6.		
Paragraph 7.		
Paragraph 8.		
Paragraph 9.		
Paragraph 10.		
Paragraph 11.	Reference should also be made in this paragraph to the role of the UFR as a stabiliser of volatile long-term cash flows. The rates of the term structure only refer to the liquid part of the term structure. This requirement cannot hold for the non-liquid part of the term structure as no market is available.	
Paragraph 12.	If the UFR is set too low, insurers may have to set aside provisions which are too high. This may also cause problems for the survival of insurers and their ability to pay out	

	claims/benefits to policyholders; Moreover the non-availability of own funds may hamper innovation and other necessary developments within the insurance industry.	
Paragraph 13.	"*Long-term nature*" suggests that insurers can anticipate the future developments well in advance. However, EIOPA's proposal to calculate an updated UFR in March and implement it in June is not consistent with this statement.	
Paragraph 14.	The conclusions from the QIS5 final report and the setting of the UFR at 4.2% were key in the finalisation of the calibration of the Solvency II Standard Formula. The level of the UFR and all the other components of the extrapolation method were instrumental in reaching the Omnibus II agreement in which the variables related to the Volatility Adjustment, Matching Adjustment and other LTGA measures were also set. A different UFR at that moment in time would have had a distinct impact on those other measures. The review should be consistent with the approach taken in the past to calibrate the measures in the long-term guarantee package.	
Paragraph 15.	See comment to paragraph 14	
Paragraph 16.	See comments to paragraph 11 (second)	
Paragraph 17.	EIOPA refers to changes in long term expectations. More guidance is needed as to what is meant by long-term expectations. Moreover, we query what the actual definition should be as many stakeholders assess the current interest rate environment to be the long term expectation. Clarification should be provided as to what is the difference between the long-term expectations that are observed in the liquid part of the curve and those addressed in the UFR. The UFR should capture the long-term expectations beyond the last liquid point and indeed in 60 years time.	
Paragraph 18.	Should this phasing in not also be applied for other major variables used to set the RFR, for example changing the Last Liquid Point or changing the CRA?	
Paragraph 19.	How can this approach be consistent with the stament made by EIOPA that insurers can anticipate the change in long term expectations? The announcement that the UFR changes (following the March calculation) would require insurers which are sensitive to a change in the UFR to re-calculate the Solvency Capital Requirements and assess their compliance. Morevoer, this approach	

	would require insurers to calculate, on an intermediate basis, the Solvency II ratio. Those insurers which breach the Solvency II ratio will have to notify it to the national supervisory authority and will only have a three-month period to take remedial actions. This period is extremely short; Insurers should be granted a longer period from the announcement of a new calibration. Additionally, insurers which hedge based on the RFR would have to change their hedging at the same moment in time which could distort the market in a short period of time.	
Paragraph 20.		
Paragraph 21.		
Paragraph 22.		
Paragraph 23.		
Paragraph 24.	EIOPA should be precise in the definition. More guidance is needed as to what is meant by short-term nominal rate and inflation rate.	
Paragraph 25.	Could EIOPA confirm whether the definition of the inflation rates used by the OECD is similar to the inflation rates used by central banks in their monetary policies?	
Paragraph 26.	More guidance is needed as to the rationale for 5 bp. Could EIOPA explain whether this serves the purpose of not changing the UFR very often? Could EIOPA explain whether it has been back tested over the historic period?	
Paragraph 27.		
Paragraph 28.		
Paragraph 29.		
Paragraph 30.		
Paragraph 31.		

Paragraph 32.		
Paragraph 33.		
Paragraph 34.		
Paragraph 35.		
Paragraph 36.		
Paragraph 37.		
Paragraph 38.	**Assessment of alternatives:** **Historical nominal rates' approach: *Pros*** - More simple and straight forward approach. - UFR will not be subject to political changes but it will rely on economics. - Nominal rates can be observed for different currencies historically. - Statistics of the short term nominal interest rate are available for 160 years. Taking an arithmetic mean of the nominal interest rate for different time horizons between 40-160 years (or a weighted mean according to EIOPA's proposition) we will end up with a fair stable result between 5.0-5.5 percent for the Swedish currency, for example. **Historical nominal rates' approach: *Cons*** - The ECB monetary policy should be included in the methodology. - The application of longer time periods in combination with historical nominal rates does not work for all currencies. - Different buckets for different periods and currencies may be needed, which brings additional complexity (i.e different buckets for the 1914-1950 and 1960 – 2016 periods).	
Paragraph 39.		
Paragraph 40.		

Paragraph 41.		
Paragraph 42.		
Paragraph 43.		
Paragraph 44.		
Paragraph 45.		
Paragraph 46.		
Paragraph 47.		
Paragraph 48.		
Paragraph 49.		
Paragraph 50.		
Paragraph 51.		
Paragraph 52.		
Paragraph 53.		
Paragraph 54.		
Paragraph 55.		
Paragraph 56.		
Paragraph 57.		
Paragraph 58.		
Paragraph 59.		
Paragraph 60.		
Paragraph 61.		
Paragraph 62.		
Paragraph 63.		
Paragraph 64.		
Paragraph 65.		
Paragraph 66.		
Paragraph 67.		
Paragraph 68.		

Paragraph 69.		
Paragraph 70.		
Paragraph 71.		
Paragraph 72.		
Paragraph 73.		
Paragraph 74.		
Paragraph 75.		
Paragraph 76.		
Paragraph 77.		
Paragraph 78.		
Paragraph 79.		
Paragraph 80.		
Paragraph 81.		
Paragraph 82.		
Paragraph 83.		
Paragraph 84.		
Paragraph 85.		
Paragraph 86.		
Paragraph 87.		
Paragraph 88.		
Paragraph 89.		
Paragraph 90.		
Paragraph 91.		
Paragraph 92.		
Paragraph 93.		
Paragraph 94.		
Paragraph 95.		
Paragraph 96.		

Paragraph 97.		
Paragraph 98.		
Paragraph 99.		
Paragraph 100.		
Paragraph 101.		
Paragraph 102.		
Paragraph 103.		
Paragraph 104.		
Paragraph 105.		
Paragraph 106.		
Paragraph 107.		
Paragraph 108.		
Paragraph 109.		
Paragraph 110.		
Paragraph 111.		
Paragraph 112.		
Paragraph 113.		
Paragraph 114.		
Paragraph 115.		
Paragraph 116.		
Paragraph 117.		
Paragraph 118.		
Paragraph 119.		
Paragraph 120.		
Paragraph 121.		
Paragraph 122.		
Paragraph 123.		
Paragraph 124.		

Paragraph 125.		
Paragraph 126.		
Paragraph 127.		
Paragraph 128.		
Paragraph 129.		
Paragraph 130.		
Paragraph 131.		
Paragraph 132.		
Paragraph 133.		
Paragraph 134.		
Paragraph 135.		
Paragraph 136.		
Paragraph 137.		
Paragraph 138.		
Paragraph 139.		
Paragraph 140.		
Paragraph 141.		
Paragraph 142.		
Paragraph 143.		
Paragraph 144.		
Paragraph 145.		
Paragraph 146.		
Paragraph 147.		
Paragraph 148.		
Paragraph 149.		
Paragraph 150.		
Paragraph 151.		
Paragraph 152.		

Paragraph 153.		
Paragraph 154.		
Paragraph 155.		
Paragraph 156.		
Paragraph 157.		
Paragraph 158.		
Paragraph 159.		
Paragraph 160.		
Paragraph 161.		
Paragraph 162.		
Paragraph 163.		
Paragraph 164.		
Paragraph 165.		
Paragraph 166.		
Paragraph 167.		
Paragraph 168.		
Paragraph 169.		
Paragraph 170.		
Paragraph 171.		
Paragraph 172.		
Paragraph 173.		
Paragraph 174.		
Paragraph 175.		
Paragraph 176.		
Paragraph 177.		
Paragraph 178.		
Paragraph 179.		
Paragraph 180.		

Paragraph 181.		
Paragraph 182.		
Paragraph 183.		
Paragraph 184.		
Paragraph 185.		
Paragraph 186.		
Paragraph 187.		
Paragraph 188.		
Paragraph 189.		
Paragraph 190.		
Paragraph 191.		
Paragraph 192.		
Paragraph 193.		
Paragraph 194.		
Paragraph 195.		
Paragraph 196.		
Paragraph 197.		
Paragraph 198.		
Paragraph 199.		
Paragraph 200.		
Paragraph 201.		
Paragraph 202.		
Paragraph 203.		
Paragraph 204.		
Paragraph 205.		
Paragraph 206.		
Paragraph 207.		
Paragraph 208.		

Paragraph 209.		
Paragraph 210.		
Paragraph 211.		
Paragraph 212.		
Paragraph 213.		
Paragraph 214.		
Paragraph 215.		
Paragraph 216.		
Paragraph 217.		
Paragraph 218.		
Paragraph 219.		
Paragraph 220.		
Paragraph 221.		
Paragraph 222.		
Paragraph 223.		
Paragraph 224.		
Paragraph 225.		
Paragraph 226.		
Paragraph 227.		
Paragraph 228.		
Paragraph 229.		
Paragraph 230.		
Paragraph 231.		