



The Actuarial Profession

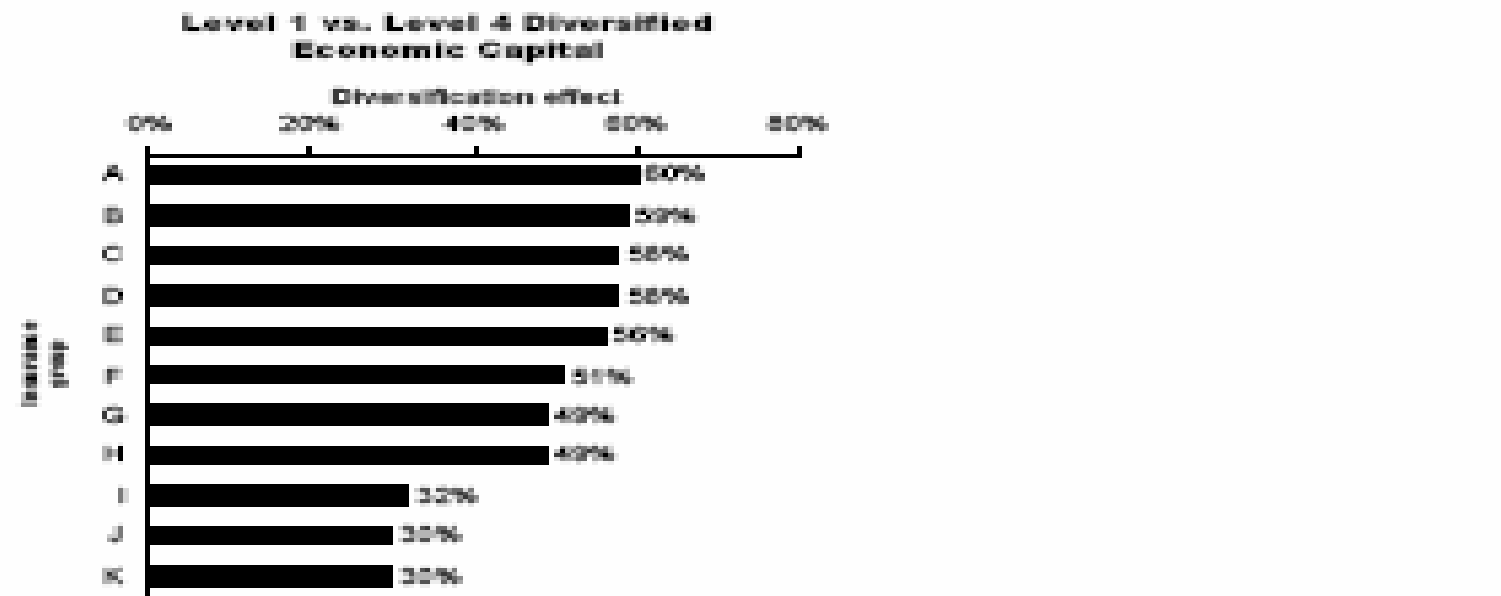
making financial sense of the future

Aggregation, Correlation, Diversification and Group Issues

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Aggregation, Correlation, Diversification and Group Issues

Figure 8. Measured diversification effects, Chief Risk Officer Forum member companies²²



Source: CRO Forum 'A framework for incorporating diversification in the solvency assessment of insurers'

Aggregation, Correlation and Diversification

- Implicit vs explicit correlations?
- Levels of correlations to take into account?
- Approach to aggregation?
- Treatment of tail dependencies?
- Validation?
- Justification/substantiate assumptions?
- ICA by split of risk type?
- Regulatory buy-in?

Group Issues

- Treatment of risks (and upsides) associated with group structure?
- Treatment of intra group reinsurance?
- Ability to transfer capital between entities (including stressed circumstances)?
- Existence of guarantees?