insurance europe

Memo for information

To: Solvency II Working Group
From: Prudential Team

Date: 06-07-2017
Reference: ECO-SLV-17-118

Subject: EIOPA CAT WS - Minutes and outcome of June meeting

Summary

Following the conclusion of the June meeting of the CAT WS, EIOPA have circulated draft meeting minutes (see ECO-SLV-17-119).

In addition, and ahead of the fourth meeting of the EIOPA CAT WS, **Insurance Europe invites members of the Solvency II WG to an exchange of views on Tuesday, 11 July, 17:00-18:00 CET** (please register participation here).

The secretariat will provide an update on developments within the CAT WS and welcomes further input from members. As per the previous exchange of views, members of the SII WG can extend the invitation to attend the call to experts from their respective markets. Supporting documentation will be circulated when available.

Background

The CAT WS met for the fourth time on 28 June (see ECO-SLV-17-111). The schedule followed the proposed agenda with a short presentation of the proposals provided prior to discussion. The secretariat provides below an overview of key discussion areas.

EIOPA clarified the following points regarding **process**:

- Both the August and September meetings are expected to be extended to two days to accommodate the work on recalibrations.
- Two topics relating to simplifications remain to addressed (marine risk and motor vehicle third party liability risk). Insurance Europe was asked to contribute to these topics.

Natcat simplifications

- Clarification of whether the simplification is intended to cover a full portfolio or solely unallocated risks is required from the CAT WS.
- The merging of CRESTA zones (option 1) was noted to create significant regulatory, legislative and calibration burden without commensurate benefit.
- Allocation of unallocated risks either pro-rata across an undertaking's existing exposure (option 6) or to a prudent (highest) risk CRESTA zone (option 5) was considered by most members to provide an appropriate simplification.
- An approach which combines option 5 and 6 may be appropriate and the subgroup responsible for the proposals was asked to develop this idea further.

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Recalibrations

- Information on data and model availability had been collected. There are sufficient data sources and models for the majority of peril/country recalibrations to ensure protection of intellectual property and integrity to the calibrations.
- Several questions on the process for amalgamating the data and running the recalibrations remain to be answered. It was agreed that there was not a one-size fits all approach to the recalibrations and different approaches would be required depending on the peril/country.
- The subgroup will review the available data and models and will propose a process to progress the work.
- EIOPA confirmed that they are happy to receive additional analysis from members to support the work on recalibrations.

Recalibration documentation (discussed in tandem with the previous item)

- There are a number of concerns from the model vendors about the protection of intellectual property which will influence the documentation which can be provided.
- EIOPA noted that transparency and documentation is likely to be the primary concern of the BoS.
- Further discussion on this item was postponed until additional progress had been made with the recalibrations.

Fire risk simplifications

- There was broad support for the simplification which assesses only the top five exposure per risk type.
- Several issues were identified with the proposal including whether an additional calibration level was justified for the simplification and whether the exposure should be the central point or not. Further clarification how the proposal deals with these was requested in the next iteration of the paper.
- It was noted that testing of the proposal would further strengthen the proposal. Insurance Europe was requested to endeavour to provide analysis of the impact of the simplification.

Health Cat simplifications

- The proposals for the Health Catastrophe risk submodule were presented but discussion limited due to time constraints.
- These will be addressed bilaterally ahead of the next meeting.