insurance europe

Memo for action

To: Solvency II Working Group
From: Prudential Team
cc:
Date: 14-07-2017
Reference: ECO-SLV-17-128

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

Member's feedback requested

Following the conclusion of the July meeting of the CAT WS, EIOPA have circulated draft meeting minutes (see ECO-SLV-17-126). In addition, two supporting presentations on the recalibration process and a document from the previous CAT taskforce were provided prior to the meeting (see ECO-SLV-17-127).

Members are requested to provide feedback on the issues discussed during the meeting. Feedback on the **recalibrations is requested by 19 July** and on **simplifications by 25 July** and should be sent to prudential@insuranceeurope.eu.

Recalibrations

For each peril/country scenario the standard formula uses three parameters; the country factor, the zonal relativities (CRESTA factors) and the aggregation matrix. It was suggested that the CAT WS should seek to restrict the scope of the recalibrations on the grounds of materiality and time constraints.

- **Members are requested to clarify their expectations on the scope of the recalibrations to be carried out by the CAT WS** ie do members expect the CAT WS to undertake a full recalibration of all the parameters?

To determine the recalibrated country factor, the CAT WS needs to determine a single figure, based on the range submitted by the data providers. Three different procedures were proposed; 1) an iterative process of expert judgement, 2) simple average of submissions and 3) weighted average of submissions with weights derived through expert judgement.

- **The secretariat proposes support for the second option** (simple average of submissions) but with subsequent expert judgement applied to ensure consistency between countries. It believes this to be the most transparent option achievable within the available timescales. **Members are requested to provide any comment or objection to this proposal.**

Natcat simplification

The natcat simplification being developed is intended primarily to address exposures within an undertaking's portfolio which cannot be easily allocated to an existing CRESTA zone ("unallocated exposures").

- **Members are requested to provide information on the reasons for unallocated exposures** (eg it is moveable property, poor data quality, ongoing renewal of historical contracts etc).
- **Members are further requested to provide information on the process undertakings currently use to calculate the SCR on unallocated exposures**.

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Background

The CAT WS convened yesterday via conference call for their July meeting. The meeting was separated into two sections, the morning session focussed on the development of the natcat simplification and the afternoon session focussed on recalibrations. The secretariat provides below an overview of key discussion areas.

Cat WS timeline and process

- It was agreed that the CAT WS would convene via conference call on 27 July to maintain momentum during the summer.

Natcat simplifications

- The level of prudence incorporated within any simplification remains a key issue. The regulators remain concerned that the simplification will provide an opportunity for regulatory arbitrage.
- The secretariat raised the issue of moveable property and whether this should be considered as part of the simplification given its focus on unallocated exposures. However, this was considered to be out of scope of the CAT WS and perhaps could be addressed via EIOPA's Q&A process.
- Further understanding of unallocated exposures is required to ensure that the simplification will be useful and feedback was requested on this.
- The simplification subgroup has been requested to further develop option 3 (use of the country factor with prudence), option 5 (allocation of unallocated exposures to the highest risk zone), and option 6 (allocation of unallocated exposures pro-rata across allocated exposures).
- Testing of the proposals was also requested from some of the model vendors.

Recalibrations

- A presentation was provided to explain the recalibration process and to reflect upon some of the work of the previous CAT taskforce (see ECO-SLV-17-127).
- The parameters for recalibration of each scenario in order of importance are the country factor, zonal relativities (CRESTA factors) and aggregation matrices.
    - The country factor affects the overall capital required for a region
    - The zonal relativities affect the distribution of the required capital between companies
- It was noted that consistency between countries is also very important and needs to be considered in the recalibration.
- The work required to recalibrate the zonal relativities and aggregation matrices is much greater than the country factor. The document relating to the previous recalibration of Czech flood risk was provided to illustrate this.
- It was further noted that any recalibration of zonal relativities is expected to have a greater impact at company level, especially for undertakings with a low level of geographical diversification. This may result in increased capital requirements for certain undertakings even in the case where the country factor has been reduced.
- The data providers have been requested to provide country factors for all scenarios and a process needs to be agreed to use these to determine a single country factor. The following processes and their pros/cons were discussed (see pages 19-21 of the presentation).
    - An iterative process of expert judgement - this improves consistency between countries but is difficult document.
    - Simple average of submissions – this provides transparency but is difficult to ensure consistency between countries and strange results can be expected due to the differing number of data/model availability.
    - Weighted average of submissions, weighted by expert judgement – this is robust and transparent but it requires significant information and resource.
- It was also suggested that the CAT WS restricts the scope of the recalibrations due to time constraints.