

To: Solvency II Working Group
From: Prudential Team

Date: 8 August 2017
Reference: ECO-SLV-17-145

Subject: EIOPA CAT WS - August meeting

Summary

Ahead of the next meeting of the EIOPA Catastrophe Workstream (CAT WS), scheduled on 24/25 August, members are invited to an exchange of views on Tuesday 22 August between 15:00-16:00 CET. As with previous call, national experts are welcome to attend (please register participation [here](#)).

The secretariat will provide an update on the developments within the CAT WS and invite members to provide any comment or feedback on both the proposed simplifications and recalibrations.

The following supporting documents have been uploaded by the secretariat. Additional documentation will be uploaded when available.

[ECO-SLV-17-146](#) - EIOPA Recalibration process proposal

Background

The CAT WS will meet for the fifth time on 24/25 August. At the meeting, a number of the simplifications which have been under discussion by the CAT WS are expected to be drawn to a conclusion. The recalibration data, provided by the vendor models, is also due to be discussed.

The secretariat provides below a summary of recent developments and a reminder of the agreed Insurance Europe positions on each of the topics.

Natcat simplification

- Three proposed simplifications continue to be considered by the CAT WS; 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).
- Some testing of the impact on capital levels is being undertaken to demonstrate the different levels of prudence inherent in each of the options.

Insurance Europe supports the introduction of option 5 and/or option 6 as a useful simplification for exposures which are difficult to map to the risk zones.

Fire risk

- A second iteration of the draft proposal is being developed to provide additional justification for the recommendation.

Insurance Europe supports the introduction of a simplification which restricts the requirements for identification of the largest risk concentration to a 200m radius around the 5 largest exposures per risk type.

Health catastrophe risk

- The CAT WS has been mandated to investigate three aspects of the health catastrophe risk; simplification of the mass-accident risk, accident concentration risk and pandemic risk submodules.
- Some preliminary analysis of the issues has been completed by the CAT WS (see [ECO-SLV-17-111](#)).
- A proposal has been put forward to provide EIOPA guidelines on:
 - the assumptions underlying the cost of benefits payable (number of days in hospital etc.).
 - the identification of the largest accident risk concentration.
- A further proposal to removal of the “10-year disability scenario” from the mass accident risk submodule is also under consideration.

Insurance Europe supports the removal of the 10-year disability scenario and the subsequent recalibration of the permanent disability and 12-month disability scenarios.

Recalibrations

- EIOPA have developed a proposal for the process that the CAT WS should follow to (re)calibrate the scenarios which they have been mandated to investigate (see [ECO-SLV-17-146](#)). In summary, the proposed process, for each scenario, is as follows:
 - Vendors models and other data providers submit their estimate for a 1-in-200 year regional (country) event.
 - The regional factors will be determined using an iterative process of expert judgement which requires CAT WS members to submit their proposed factor (including justification) based on the estimates provided and consideration of other relevant and available data.
 - The zonal factors and aggregation matrices are sourced from a single model which is deemed to contain a sufficient level of detail.
 - A normalisation process is undertaken to ensure consistency between the regional factors and the zonal relativities and aggregation matrices.
- EIOPA has also proposed that the calibration of the zonal relativities and aggregation matrices is restricted to a subset of the scenarios, identified by EIOPA.

In its feedback to EIOPA on the proposed recalibration process, the secretariat noted all relevant data, including historical analysis, relating to a scenario should be available to aid the expert judgement process.

The secretariat advocated the recalibration of zonal relativities and aggregation matrices for all scenarios where issues have identified by members and provided bilateral feedback to EIOPA on these issues. It further suggested that all available data should be considered in the recalibration of the zonal relativities and aggregation matrices rather than restricting the assessment to a single model.