insurance europe

Memo for information

To: Solvency II Working Group
From: Prudential Team
cc:
Date: 09-06-2017
Reference: ECO-SLV-17-094

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

Summary

Following the conclusion of the May meeting of the EIOPA Catastrophe Workstream (CAT WS), EIOPA have circulated draft minutes of the meeting (see ECO-SLV-17-093).

Members are requested to provide feedback on the following developments and to note any objections to the emerging Insurance Europe positions. Comments should be sent to prudential@insuranceeurope.eu by 23 June 2017.

- On NatCat simplifications several different simplification proposals continue to be considered. **Unless there are objections from members Insurance Europe will support the emerging proposal to create a new zone for unmapped exposures**. The calibration of this zone is expected to attract a high degree of prudence but may provide a useful simplification for exposures with limited data.
- On the redesign of the fire risk submodule, the secretariat continues to work with other members of the CAT WS and **will share a draft proposal document prior to the next meeting**.
- Additional work is being carried out on the recalibration of the disability scenarios under the mass accident risk submodule. Based on feedback to date, **Insurance Europe will support a recalibration to alter the 10-year scenario to a 3-year scenario**.
- The list of recalibrations mandated to be reviewed by the CAT WS has been agreed within EIOPA. **Members are requested to notify the secretariat of any omissions**, noting that EIOPA envisage further recalibrations to be part of the ongoing work of the CAT WS.

Ahead of the third physical meeting of the EIOPA CAT WS, **Insurance Europe also invites members of the Solvency II WG to an exchange of views on Monday, 26 June, 10:00-11:00 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.

Background

The EIOPA CAT WS met for a second time on 24 May 2017 and are due to meet again on 28 June 2017. As outlined below, progress has been made on several topics mandated to the group and members are kindly requested to provide feedback on developments and to note any objections to emerging Insurance Europe positions.

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Natural catastrophe simplifications

Several proposals put forward by the group have been considered and continue to be assessed. These vary in their approach and the level of prudence introduced. Based on feedback to date, **the emerging Insurance Europe position is that the development of a country level simplification is not expected to yield a useful simplification**.

However, one proposal was discussed at the meeting which may be relevant to companies who have a small part of their portfolio not mapped to CRESTA zones due to data or time limitations. This proposal would allow insurers to assign unmapped exposures to a new zone (eg NoCrestaZone) thereby providing an optional simplification for insurers who have exposure which is difficult or burdensome to map to CRESTA zones. Given supervisors' prudential requirements, it is expected that any allocation to this zone will be weighted with a CRESTA relativity factor which includes a high degree of prudence (eg using the highest CRESTA relativity factor in the region). **Unless there are objections from members, Insurance Europe will support this proposal to create a new zone for unmapped exposures.**

Fire risk submodule

The secretariat continues to work with other members of the CAT WS on the proposals for simplification of the fire risk submodule**. A draft proposal document is expected to be completed prior to the next CAT WS meeting and will be shared with members for comment in due course**.

Mass-accident submodule

The CAT WS are mandated to investigate whether it is necessary to have scenarios in the mass accident risk submodule for both a 10-year and permanent disability. This issue is being investigated because in some markets the concept of disability is considered permanent after three years. The 10-year scenario is therefore considered permanent which arguably results in an overstatement of the risk.

Further work is being carried out by the CAT WS to specify options to remedy this issue and develop potential solutions. One of the proposals being considered is to alter the 10-year scenario to a 3-year scenario and to recalibrate based on these scenarios. Based on feedback from members to date, **Insurance Europe will support this proposal unless it receives feedback to the contrary.**

Recalibrations

As noted in earlier correspondence, EIOPA had provided a list of perils and countries which they had proposed the CAT WS to review (see ECO-SLV-17-080). This list has now been formally agreed within EIOPA.

EIOPA have further indicated that other perils and countries (specifically flood and hail risk in Italy and hail risk in Germany) are envisaged to be reviewed by the CAT WS as part of its ongoing work, after the completion of its work under the current mandate. (see ECO-SLV-17-083, EIOPA CAT WS – Full mandate, page 12).

Members are requested to notify the secretariat of any additional scenarios which they believe should be included in this list. The secretariat notes that the explanation paper provided by Union poistovna, a.s. (see ECO-SLV-17-064, Explanation_paper_CAT_calibration_review) was referenced by the IRSG representative at the CAT WS as providing a good standard of evidence to justify future recalibrations.