Memo for information

To: Solvency II Working Group
From: Prudential Team
cc:
Date: 24 January 2018
Reference: ECO-SLV-18-011

Subject: EIOPA CAT WS - holistic recalibration follow up

Comment

The secretariat attended the final EIOPA Catastrophe Workstream (CAT WS) meeting in Frankfurt on 18/19 January, during which the CAT WS members:

- discussed and sought to resolve the feedback received on the catastrophe risk simplification proposals, previously recommended by the CAT WS.
- undertook the holistic recalibration exercise of the windstorm and flood country factors.

As a follow up to the meeting, EIOPA will invite individual insurance associations to provide written feedback on the recommended recalibration parameters. It will also invite them to attend a conference call to discuss the holistic recalibration exercise. The call is scheduled on Tuesday 30 January at 10h-12h CET and members will receive an invitation directly from EIOPA.

The secretariat would appreciate it if members can copy any written feedback provided to EIOPA to prudential@insuranceeurope.eu.

Background

The final meeting of the EIOPA CAT WS was held on 18/19 January. The purpose of the meeting was twofold; firstly, to address the feedback provided in response to the EIOPA's Consultation paper on its second set of advice and secondly, to undertake the holistic recalibration exercise. Draft minutes of the meeting have been circulated by EIOPA (see ECO-SLV-18-009). The secretariat provides a summary of the discussions below.

Feedback received to the consultation paper

Overall, the proposal for Health, Man-made and Natural Catastrophe risk were well received by stakeholders. The following proposals were discussed and may result in changes to the final advice:

- **Fire risk** – the interpretation of the underpin formula may be altered to regional market share for undertakings which operate predominantly in specific regions.
- **Marine risk** – the threshold limit could be considered to be too low. Most CAT WS members agreed but it was noted by one CAT WS member that they believed the threshold should not be above €500 000.
- **Change of identification of largest risk concentrations from a gross of reinsurance basis to a net basis** – an unintended consequence could be the incorrect determination of the risk mitigating effect in the counterparty default risk submodule. **Members are requested to review and provide feedback on the secretariat's proposal to address this issue** (see ECO-SLV-18-010).

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- **Natcat simplification** – most CAT WS members agreed with Insurance Europe that the second formulation of the proposal which provides additional flexibility is more appropriate (see page 82 of Consultation).

Holistic recalibrations
The holistic recalibration exercise encompassed the majority of windstorm and flood scenarios.

- Some NSAs raised concerns about the mini-delphi process which was previously used by the CAT WS. The process was altered for the holistic recalibration exercise as follows:
  - EIOPA provided an initial value for discussion, based on the modelling input and pre-meeting discussion with modellers and supervisors.
  - CAT WS members individually provided their views on the proposals.
  - EIOPA updated the proposal based on discussion.
- The input data for the exercise was provided by up to 6 vendor modelling companies.
- This was supplemented in several cases by data from internal model portfolios, provided by NSA representatives.

The secretariat is unable to share the input data due to confidentiality concerns. However, it would note that, in the majority of cases, the CAT WS recommendation is within the range provided by the vendor models (albeit predominantly at the prudent end of the range).

Should members have any queries about the recalibrations, please contact the secretariat.

Windstorm

Country	Existing factor	CAT WS recommendation	Change/comment
Austria	0.08%	0.06%	Decrease
Belgium	0.16%	0.16%	-
Switzerland	0.08%	0.09%	Increase
Czech Republic	0.03%	0.04%	Increase
Germany	0.09%	0.08%	Decrease
Denmark	0.25%	0.25%	-
Spain	0.03%	0.01%	Decrease
Finland	-	0.04%	New scenario
France	0.12%	0.12%	-
Hungary	-	0.02%	New scenario
Ireland	0.20%	0.22%	Increase
Luxembourg	0.10%	0.12%	Increase
Netherlands	0.18%	0.18%	-
Norway	0.08%	0.08%	-
Poland	0.04%	0.04%	-
Slovenia	-	0.04%	New scenario
Sweden	0.09%	0.075% (without forestry), 0.09% (with forestry)	Swedish NSA to decide on inclusion of forestry
UK	0.17%	0.17%	-

Flood

Country	Existing factor	CAT WS recommendation	Change
Austria	0.13%	0.13% - 0.15%*	Possible increase to be discussed with NSA
Belgium	0.10%	0.10%	-
Bulgaria	0.15%	0.15%	-
Switzerland	0.15%	0.30%	Increase
Czech Republic	0.30%	0.30%	-
Germany	0.20%	0.20%	-
France	0.10%	0.12%	Increase
Hungary	0.40%	0.25%	Decrease
Italy	0.10%	0.15%	Increase
Poland	0.16%	0.20%	Increase
Romania	0.40%	0.40%*	Possible decrease to be discussed with NSA
Slovenia	0.30%	0.30%	-
Slovakia	0.45%	0.40%	Decrease
UK	0.10%	0.12%	Increase

***To be discussed with respective NSA**