# 2023/2024 (re)assessment of natural catastrophe risk in the standard formula

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10:10 – 10:25 **Presentation on Nat Cat reassessment of the standard formula – consultation paper -** Marie Scholer

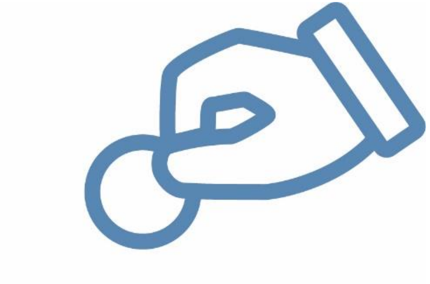
10:25 – 10:40 Q&A

10:40 – 11:00 **Zoom in on specific aspects for the flood assessment for the Nordic countries -** Marie Scholer, Toni Blomster & Jane Toothill

# CLIMATE CHANGE = INSURANCE RISK

The escalating frequency and severity of extreme weather conditions have shone a spotlight on **insurance risk and climate change**.

# WHY IS THIS IMPORTANT FOR EIOPA?



# SOLVENCY II

- The Solvency II regime codifies and harmonises the EU insurance regulation.
- EU insurance companies must hold enough capital based on their risk profile to reduce the risk of insolvency.

# SOLVENCY II: NAT CAT CAPITAL REQUIREMENT

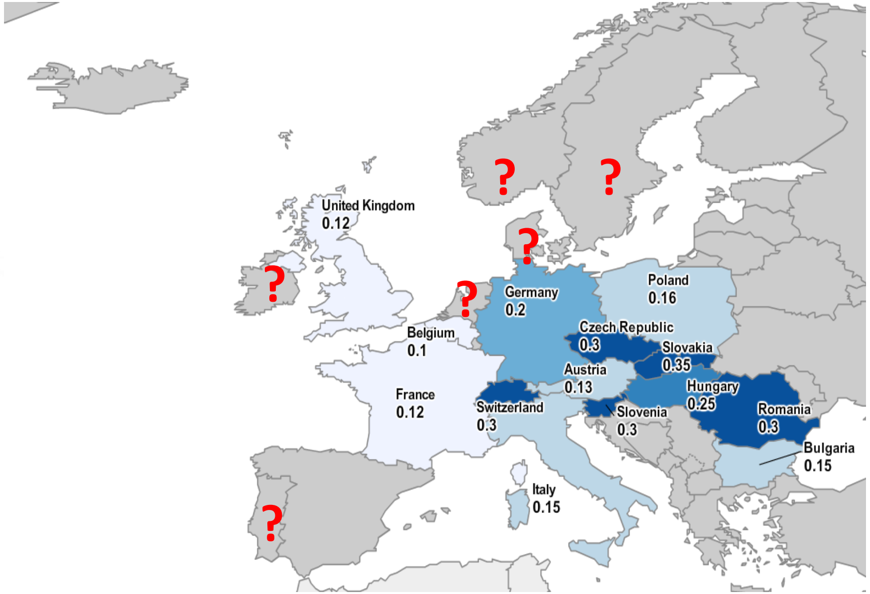
| | |
|---|---|
| Risk Basis | • Hazard<br>• Vulnerability<br>• Exposure |
| Time Horizon | • 1 Year |
| Method | • Standard Formula or<br>• Internal Model |
| Climate Change | • Not explicitly included |

# 2023/2024 (RE)ASSESSMENT OF NATURAL CATASTROPHE RISK IN THE STANDARD FORMULA

- Natural catastrophes are becoming more frequent and more severe across Europe due to climate change.
- Against this development – and with a view to ensuring the continued protection of policyholders and the stability of the EU's insurance market – it is important that insurers' capital requirements for natural catastrophe underwriting risk continue to reflect the excepted impact of climate change.
- EIOPA published a methodological paper on potential inclusion of climate change in the Nat Cat standard formula in July 2021.
- The Solvency II review also includes a mandate to EIOPA to undertake a reassessment. If this reassessment identifies a significant discrepancy between the reassessment and current factors, the mandate requires a recalibration in Article 304a(2).
- EIOPA worked on a recalibration process including two steps: (a) reassessment of the Nat Cat parameters of the SF and (b) where material, propose to recalibrate the parameters.

# INCLUDE NEW COUNTRIES IN THE STANDARD FORMULA

- Due to climate change, the frequency and intensity of certain perils in certain countries might change.
- Countries which might not have been relevant for the (re)insurance sector in the past might become more relevant.



# MAIN CHANGES PROPOSED





| Flood | Hail | Windstorm | Earthquake | Subsidence |
|---|---|---|---|---|
| 7 countries were added (IE, NO, FI, NL, SE, LU, DK) & 3 countries (RO, BE, CZ) were reassessed | 6 countries were reassessed (FR, DE, BE, LU, NL, PL) as well as the motor factor | few changes mainly for oversea territories, Island and Poland | Few changes Romania was impacted to reflect the national scheme PAID | France has been reassessed and Belgium was added |

# MONITORING “NEW” PERILS

Other perils such as wildfires, coastal flood or droughts should be considered

For the monitoring, some countries have been identified as material and could be considered in the next exercise to be added in the SF.

- For wildfire, 2 NCAs estimated the risk to be material for the insurance sector.
- For coastal flood, IE estimated the materiality to be high and BE estimated the materiality for the insurance sector to be medium.
- For droughts (crop insurance), 3 NCAs responded that this would have a medium impact on the insurance sector and 1 NCA (Spain) responded that this has a high impact.

# HOW TO ADD THESE PERILS TO THE SF?

- For coastal flood: under the peril windstorm or flood or inclusion of coastal flood as a separate peril under the Nat Cat risk module
- For wildfire: new peril named wildfire
- For droughts (crop insurance):

i) assess agricultural drought in a separate Nat Cat submodule, adapted to only keep crop insurance business;

ii) integrate this change of risk in a non-life premium and reserve risk module reassessment;

iii) keep the existing Nat Cat segmentation and reshape subsidence risk as a broader drought risk.

# PUBLIC CONSULTATION: HAVE YOUR SAY

Consultation on the 2023/2024 (re)assessment of natural catastrophe risk in the standard formula - European Union (europa.eu)

By 20 June 2024

# Q&A HOW TO INTERACT WITH US TODAY: SLIDO

1. Go to **slido.com**, enter event code **#NatCat** and your full name and organisation *(e.g. "Mario Rossi (EIOPA)").*

2. **Submit written comments/questions through Slido** and upvote questions of interest submitted by other participants

3. Please provide only comments/questions which are inside the scope of the event.

# THANK YOU!

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