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EIOPA's catastrophe risk work stream (CAT WS) - Draft minutes for 27 Apr 2017 meeting

1. Introductory remarks
    - Welcome address by Manuela Zweimüller (EIOPA Head of Policy Dpt) on behalf of Gabriel Bernardino, EIOPA chairperson: focus of CAT WS work on three "guiding principles" simplification, proportionality and risk-sensitivity;
    - Address by European Commission (EC) representative Dagmar Völker: reference to EC's 2014 intention to review Standard Formula (SF) in particular; responses by 50 stakeholders to EC's Call for evidence pointed to three main areas of attention: proportionate application of requirements, removal of technical inconsistencies (with double counting of contractual limits in particular) and removal of unjustified constraints to financing; stressing importance of evidence-based approach to proposed SF amendments;
    - EIOPA staff informed on several organisational topics:
        - Attendees may send proxy in case of unavailability, but number of representatives per party should not vary/increase;
        - Next meeting re-scheduled for 24 May 2017; following meeting on 28 June; at least one telecon (max duration of 1.5h) between meetings.
    - In order to accommodate for upcoming need for document and data exchange, Susanne Diebel will put forward an outline for common confidentiality and secrecy statement; this should enable WS members to exchange data and work on shared documents, while likewise determining what can be shared with EIOPA's decision making bodies (e.g. SCR review Project Group, IPC)
    - During the discussion on GR EQ, it was suggested to use a representative industry portfolio for the analysis of the specific scenario -> using such portfolio for every possible purpose (simplifications and re-calibration issues) could improve the methodological soundness of the CAT WS's output; **Eduard Held offered PERILS's own database as a respective source.**
2. Overview of the responses to the catastrophe risk related parts of EIOPA's Discussion Paper on the SCR review

    Responses:

- members urged for documentation of the CAT WS's output and approach at least corresponding to the level and quality required from regulated insurance entities;
- while the SF should be "as simple as possible and as complex as necessary", the application of reinsurance should be enabled by sufficient complexity; according to other members, the latter could be granted by the ORSA, which should look at the net (of reinsurance) exposure;
- EIOPA staff outlined the necessary steps in relation to a requested update of the outwards reinsurance Guidelines (GL): final, updated Delegated Regulation determines amendments to GLs;
- members identified the allocation of the sum insured to risk zones as crucial and difficult;
- linked to this, members requested to discuss the concept of the "sum insured", in order to capture risks properly (e.g. in FR: for windstorm risk should the sum insured correspond to the building only or the buliding plus its content?); first views were that everything that could be impacted by the scenario should be taken into account (e.g. in FR: the response would be building plus content).

3. Simplifications
   [related document: CAT WS simplification mandate]
   - Consensus on optionality for final simplification proposals: given the incurred costs for implementation of the current approach, simpler methods should be offered in parallel instead of new standard;

3.1. Discussion on potential Nat Cat simplifications

Responses:

- Some members were arguing in favour of more spatial granularity: technological progress was claimed to make more granular data easily available and increases risk-sensitivity, while maintaining proportionality; this could be done first within internal models, second if in coming years it is decided to further develop the standard formula; this is however not relevant for simplified calculations where the risk would low;
- Widely accepted focus of CAT WS on small and medium insurers, who have smaller Cat exposure; this supports the claim for simplifications with non-excessive level of additional prudence;
- Members supported analysing the approach to reduce the granularity up to the country level. **Matthew Eagle (Guy Carpenter) volunteered for providing draft input, with potential support from Olav Jones (Insurance Europe) .**
- Disaggregation of exposure according to individual market share (~ to exposure) was proposed as simplification: it could be applied to all relevant perils and would give ease on the data collection side for applying companies, where a simple aggregation of zones would not; members agreed to check eligibility of this approach by analysing its sensitivity by manipulation of CRESTA zone level data. **Susanne Diebel (AIR Worldwide) will propose draft analysis and will coordinate with Christine Ziehmann (RMS), Eduard Held**

(PERILS) and Matthew Eagle (Guy Carpenter), with support from Olav Jones (Insurance Europe)

- The need for a specific trigger for using simplified calculations was discussed. At this stage, conclusion to stay within the framework provided by article 88 of the Delegated Regulation: insurance undertakings have to perform and document a proportionality assessment.

3.2. Discussion on potential Health Cat simplifications

Response:

- mass-accident:

  length of disability period: CAT WS was requested to provide explanation on how to apply the different scenarios and to elaborate in particular on the necessity of a "permanent" and a "10 year disability" scenario in parallel -> some members described difficulties with projecting the disability scenario (projecting different lengths of disability period); other members believe that this does not raise a difficulty and that projections can simply be stopped after 10 years; other members questioned the need for the SF to adapt to individual contract conditions - the scenarios should rather be based on reasonable and realistic "health CAT" assumptions; insurance contracts would then be applied to these scenarios; members are invited to send their written comments by 11 May 2017;

  estimate of benefits payable: members did not express views on the question, whether one coefficient per country could serve as a potential simplification. Members are invited to send their written comments by 11 May 2017

- accident concentration:

  using the largest (group) policy as exposure proxy received broad support by members over the alternative of an event at the headquarter of the undertaking; one member suggested to test the sensitivity of the SCR on this approach; this approach raises difficulties in the case where undertakings are selling only individual policies - which location should be chosen in that case? Members are invited to send their written comments by 11 May 2017;

- pandemic risk:

  only few members expressed views on the issues: some support for approach to combine countries where exposure is assessed as not proportionate; Members are invited to send their written comments by 11 May 2017;

3.3. Discussion on potential Man-made Cat simplifications

- Fire risk

  Determination of gross exposure for 200m radius regarded as difficult and the results of the 200m scenario as too conservative: members' comments focussed on the latter; this should be further assessed by comparing results with internal models; staggered damage factors (percentage decreasing with increasing distance to point of origin of fire) was discarded as increasing complexity; **Olav Jones (IE) volunteered to perform some analysis on proposal to keep the**

200m radius but to do it on the five biggest exposures only; some more input is needed on this approach, please provide in written by 11 May 2017; alternatively, an approach using a percentage of a homogeneous homeowners portfolio was proposed as an exposure measure - more specifiation needed;

- Motor vehicle liability risk

  Only few comments: in FR only unlimited liability is allowed for cover;

- Marine risk

  Members pointed to a potential lack of diversification in the "additional vessel type" proposal: the proposal states, that the SCR_{cargo/cruise_ships/other_vessels} "would then be integrated to the first formula of article 130.1 of the regulation UE/2015/35", i.e. the diversification between the sub-portfolios.

4. Recalibrations

4.1. Earthquake risk in Greece:

Certain changes in certain GR risk factors (CRESTA relativity, country) were admitted to be unusual to members; it was suggested to try to reveal past calibration process for determination of GR country factors to gain insight on applied methodology and draw conclusions on potential mistakes for correction; potential explanation for surprising correlation pattern: multiple events in reference period with different epicentres; In any case and whatever the past reasons, the CAT WS is invited to provide new parameters for this risk; **Olav Jones (IE) offered to share (loss?) data on GR EQ scenarios**; another factor that could be envisaged for consideration is the cross-border correlation issue (GR-BG) only for mid-term; **analysis to be potentially carried out based on PERILS portfolio data** (see item 1).

4.2. Earthquake risk in Slovakia:

Members suggested comparison/check for correlation with actual seismic data (**Ioannis Papanikolaou [University of Athens] to provide data; Andrea Gondova [NBS, SK] to check national sources** for input in English language) for better assessment of potential mis-calibrations of CRESTA relativity factors; reference to SHARE[1] studies was made to obtain standard data for SK, not using only recent past (≤3a; likely to produce overestimation); potential reason for observed potential inconsistencies: missing normalisation -> **Nicolas to check** with former CAT risk expert group at PRA.

4.3. Flood risk in Hungary

Presentation by Gabriella Merész (HU NCA), discussion -> postponed to 24 May 2017 meeting.

Members requested whether the list of further perils to be recalibrated could be shared. EIOPA received inputs from nine national insurance associations on eleven NatCat risks and is assessing it. The IPC will decide on its 18 May meeting what will be the final list of recalibration.

5. Next steps: distribution of the work and planning -> see specific points above.

6. AoB

[1] http://www.gfz-potsdam.de/en/section/seismic-hazard-and-stress-field/data-products-services/sheec-earthquake-catalogue/sheec-1900-2006/