EIOPA CAT WS

Notes of call between Olav Jones (OJ) and Fabrice Felden (FF) – 22 May 2017

- OJ provided some background on discussions that had taken place at the first physical meeting of the EIOPA CAT WS.
  - It was broadly agreed within the CAT WS that simplifications should be optional
  - OJ noted that he believed the justification for use of simplifications does not need to be quantitative in nature and instead should be based on expert judgement
  - It was also agreed that documentation and transparency on calculation/methodology is paramount

- FF gave an overview the rationale for the current scenario
  - At the time of its development, it was considered to provide the best compromise between:
    - simplicity and
    - The necessary level of risk sensitivity (concentration of risk)
  - The 200m radius was calibrated based on historical observation and output from vendor models. It is also the result of a compromise on simplicity, resulting from combining modules from terrorism and conflagration together.
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- FF noted that further information on the assumptions underlying the risk module were discussed within the previous CAT expert group and he would check with EIOPA whether these were publicly available (n.b. these have been circulated by Roy Nitze in email of 22 May 2017 – link here)

- FF proposed that he believed that the current approach could be improved through additional flexibility but that the key principles of simplicity and risk sensitivity should be maintained
- FF further noted a preference for calculating the exposure net of reinsurance and to ensure that the calibration was sufficient to capture risks such as the explosion at the AZF factory in Toulouse in 2011, the explosion at the container storage facility in Tiajin in 2015 or a large terrorism event
- OJ countered that evidence of fires outside of the EU may not provide a suitable scenarios against for calibrations due to differences in planning laws and regulations.

- OJ reiterated that the identification of the TSI in the 200m radius was reportedly difficult for insurers and that many of Insurance Europe's members had noted that this was done manually.
- Different proposals were then discussed
  - It was agreed that a factor based method was not sufficiently risk sensitive
  - Simplifying the calculation so that only the 200m radius around the 5 largest exposures in the portfolio was considered (rather than any 200m radius) was likely to provide a similar result for portfolios of industrial/commercial exposures but may present problems for residential/retail only portfolios
  - This could be resolved by splitting the portfolios into commercial and retail or alternatively by including an underpin (e.g. min of X times 'average' residential sum insureds)

- It was agreed that it would be useful to do some analysis on the proposals to determine if they captured the risk appropriately. This could include
    - Impact analysis between a top 5 risks approach and the existing approach
    - The level of underpin required to adequately capture the conflagration risk to a portfolio of residential policies.
    - Further analysis of conflagration events and their impact zones.