Stakeholder responses to EIOPA's Discussion Paper on the SCR review - Overview on the responses to cat risk related questions

Camille Graciani, EIOPA
Catastrophe Risk Work Stream meeting
Frankfurt, 27 April 2017

Scope of the presentation

- This presentation aims at providing a short overview of the responses to the discussion paper
- These responses were used to draft the CAT WS mandate
- This mandate focuses on simplifications. It will be completed with a list of perils to recalibrate
- There are other “CAT risks” topics that are being reviewed by the SCR review project group

Natural Catastrophe risks

- Q7.1 and Q7.2 on granularity

→ cf. CAT WS mandate

- Q7.3 to Q7.7: difficulties for each sub-module
  - Difficulties often linked with granularity (e.g. allocating sum insured to risk-zone)
  - Some stakeholders mentioned inappropriate results for some countries → will be addressed in the recalibration part
  - Lack of documentation → effort to better document the new calibration
  - No other significant difficulty: formula is simple enough to apply once mapping to risk zone is done

Natural Catastrophe risks

- Q7.8 on risk-sensitivity
  - o Standard formula has its limits and the current design for Nat Cat is already granular
  - o ORSA was seen as the right tool to go further than the standard formula
  - o Risk-sensitivity for non-EEA exposures could be improved

  → It was not seen as a priority work

- Q7.9 on contractual limits
  - o No evidence that contractual limits have changed since 2010
  - o Several requests for clarification on the application of sum insured and contractual limits

  →Practices are being collected and if necessary, the point will be included in the CAT WS mandate in the future

Natural Catastrophe risks

- Q7.10 to Q7.13 on windstorm clustering
  - Clustering component observed in 1990 and 1999 → already somehow included in the calibration
  - Doubt whether that would improve the risk sensitivity
  - Not a risk in all jurisdictions
  - Rather an issue of level of calibration
  - 2 events are enough for the standard formula
  - Model vendors are considering this risk

  → Not a priority to be addressed, not part of the mandate for the time being

Man-Made risks

- Q8.1 to 8.6 on simplifications
  - o Most of the difficulties relate to the fire risk sub-module
  - o Motor-vehicle liability and marine risk sub-modules mentioned by several stakeholders as well

  → cf. mandate

- Q8.7 on issue with calibration
  - o Most of the comments relate to fire risk sub-module

  →cf. mandate

Man-Made risks

- Q8.8 on risk sensitivity of marine, aviation and fire risks: should it be based on the sum insured net of reinsurance?
  - o Vast majority of stakeholders agree
  - o Some point out that it increases complexity, but not necessarily to a degree that it prohibits the proposal

  → Data has been collected and is being analysed to draw pros and cons

- Q8.9 to Q8.12 on fire risk:

  →cf. mandate

Health Catastrophe risks

- Q9.1 and Q9.2 on mass accident and terror risks
  - o Only 2 stakeholders in favour of reviewing terror risk
  - o Others believe the current design is appropriate
  - o And that ORSA should complete the assessment, which depends on the exposure

  →No further work on this topic

- Q9.3 to Q9.5 on simplifications

  → cf. mandate

Thank you

Camille Graciani
Insurance Policy Unit
EIOPA
email: camille.graciani@eiopa.europa.eu