

COMMENT

Comment

of the German Insurance Association (GDV)
ID-number 6437280268-55

on the 2023 / 2024 (Re)assessment of the nat cat
standard formula parameters



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Questions to Stakeholders

QuestionQ22: Do you have any comments about the (re)assessment/(re)calibration for Germany flood?

Yes.

The calibration for the parameters for flood risk in the natural catastrophe risk module is conservative. Even the enormous damage caused by the flooding of the Bernd rainstorm in 2021 is covered by the current calibration by far - especially in motor insurance the discrepancy between observed claims and flood risk is inappropriately high.

Thus, there is evidence given that the factor for motor flood should be decreased.

QuestionQ34: Do you have any comments about the (re)assessment/(re)calibration for Germany hail?

Yes.

The increase of the factor motor hail (from 5) to 10 seems to be reasonable given the evidence.

However, raising the country factor hail and setting it to 0,03 is not justified:

GDV data show that household and commercial contents play a subordinate role in windstorm and hail. The risk is overestimated by the proposed factor. This is not adequately reflected in the standard formula.

The substantial overall increase of the risk factors (country factor plus motor factor) for motor adds significance to the risk weights of the different risk zones in Germany. If country and motor factor for hail were increased as proposed by EIOPA, any discrepancies that may exist between the given risk weights by the standard formula and the actual hail risk would even enhance these discrepancies. If only the factor motor hail was adapted, any discrepancies would be less stressed.

Against the background of an envisaged doubling or even tripling of the motor hail risk factors for Germany, the following aspect should be considered: Evidence clearly shows that the risk factor for motor overestimates the risk for flood. A reduction of the motor flood factor should be considered.

QuestionQ44: Do you have any comments on the impact of wildfire for the European insurance sector?

The impact of wildfires for Germany is currently low and well below the materiality threshold for the standard formula. So far, practically no damage to buildings due to wildfires has been observed - despite several hot and dry summers since 2018 and corresponding wildfires.

There is therefore no reason to include the risk of wildfires in the standard formula for Germany in the foreseeable future.

Given that there is a certain materiality of wildfire, and it is included in the standard formula, there must be no double counting of the risk.

QuestionQ45: How should wildfire be included in the SF?

We agree with EIOPA's analysis that the risk wildfire is difficult to be included among the existing perils. Wildfire can only occur locally in forest areas or in the immediate vicinity (not nationwide), it should therefore be considered as a separate peril.

Adequate modelling is only possible with regard to the geocoordinates of individual buildings (which is difficult for integration in the standard formula).

We identified diverging contradictory aspects on the question whether wildfire should be integrated in the natural catastrophe or in the man-made catastrophe sub-module. On the one hand, in vendor models wildfire is usually considered and modelled as a natural catastrophe. In addition, natural factors such as heat, drought, forest and soil conditions play an important role. On the other hand, most wildfires can be traced back to a person and is thus man-made. Against this background, we encourage EIOPA to work on two concrete alternative proposals for the integration of wildfire in the respective sub-module and consult and decide eventually on the basis of these two alternative proposals.

QuestionQ46: Are there key factors driving the wildfire risk not mentioned so far?

No.

QuestionQ47: Do you have any comments on the impact of coastal flood for the European insurance sector?

The impact of coastal flood for Germany is currently low and well below the materiality threshold for the standard formula.

Therefore, there is currently no reason to include the risk of coastal flood in the standard formula for Germany.

Given that there is risk of coastal flood rises above the materiality threshold, and it is included in the standard formula, there must be no double counting of the risk.

QuestionQ48: How should coastal flood be included in the SF?

Coastal flood should be considered as a separate peril. It is different from wind-storm as coastal flood can only occur locally (on coasts) and not every storm on the coasts results in a damaging coastal flood. In general, storm surge also occurs independently of river flooding or flooding caused by heavy rainfall, thus should not be part of the peril flood.

Another reason for considering coastal flood separately is that not all insurance companies have coastal flood in their portfolio.

QuestionQ49: Are there key factors driving the coastal flood risk not mentioned so far?

No.

QuestionQ50: Do you have any comments on the impact of drought for the European insurance sector?

The impact of drought for Germany is currently low and well below the materiality threshold for the standard formula. Therefore, there is currently no reason to include the peril drought in the standard formula.

If the peril drought becomes material and it is included in the standard formula, there must be no double counting of the risk.

QuestionQ51: How should agricultural drought be included in the SF?

Agricultural drought should be considered as a separate peril as part of the Natural Catastrophe module and not as part of the premium and reserve risk module.

It should be integrated in a separate Nat Cat submodule only considering crop insurance business with respect to agricultural drought (without mixing with the other perils).

Another reason for considering agricultural drought separately is that not all insurance companies have it in their portfolio.

QuestionQ52: Are there key factors driving the agricultural drought risk not mentioned so far?

No.

QuestionQ53: Do you have any other comments?

If a recalibration takes place, the recalibration process should in any case be carried out transparently. EIOPA should disclose methods and data used. If it is not possible to disclose the results, it would be helpful to name the models used and the range of the (anonymized) results. Particularly, if changes are proposed naming the models would be reasonable.

Besides that, the earthquake risk factor Q of 0,10 % for the region Germany seems to be rather high as the results of different models show. Though it is conceivable that earthquakes with high claims occur in Germany, however, these have only a very low probability of occurrence.

Further, it is noted that the reflection of the overall nat cat risk in the standard formula is conservative compared to the underlying risk. This is revealed by many users of the standard formula, who additionally use own NatCat models to assess their risks. Further, EIOPA is encouraged to evaluate taking into account the risk mitigating effect of contract limits and deductibles. Currently only sum insureds are defined as exposure basis and contract limits and deductibles do not have an influence. Therefore, also for this reason estimates are for many companies on the conservative side.