

Position paper of the Czech Insurance Association on the EIOPA public consultation on the Solvency II review 2020 – calibration of the market factor for the risk of floods

Purpose

The purpose of this paper is to describe the problematic issues connected with the calibration of the market factor of the Flood risk for the Czech Republic. After having collected the relevant data for our industry we have come to the conclusion that the current market factor is very prudent. The quantitative analysis makes it clear the market factor needs to be corrected in order to reflect the risks properly.

Summary of findings

The analysis was performed for the Czech market to assess the level of the market factor for the risk of floods used in the Solvency II standard formula. Based on the work performed, we believe we are able to demonstrate that the current level of the market factor is very conservative. When applying limits and deductibles, all market player participating in the analysis are situated below the market factor (0.3%). The current market factor 0.3% does not properly reflect neither standard market underwriting conditions (effect of flood sublimits particularly in SME and Industrial LoB), nor ongoing investments into flood protection measures resulting in the significant risk improvement across the whole country.

Moreover, we would like to adjust the market factors consistently with other countries where it was performed in 2019.

Thus, we propose to decrease the factor **from 0.3% to 0.2%**.

Analysis

Scope

The Czech Insurance Association requested AON to provide results from risk modelling for the risk of Flood for the property portfolio insured in the Czech Republic. The assessment was performed per portfolio of an insurance company and for the aggregated market.

The covered business represents 95.9% of the Czech market. The portfolio is split to Residential, Commercial and Industry.

Data used were data of portfolios used for renewals of reinsurance programmes 2020.

The output shows modelled estimates of losses (Occurrence losses and Aggregate losses) per Return period 200 for Ground up loss (before applications of deductibles and limits) and Gross loss (after application of deductibles and limits) for the Solvency II Standard formula and IF Elements scenarios.

Results

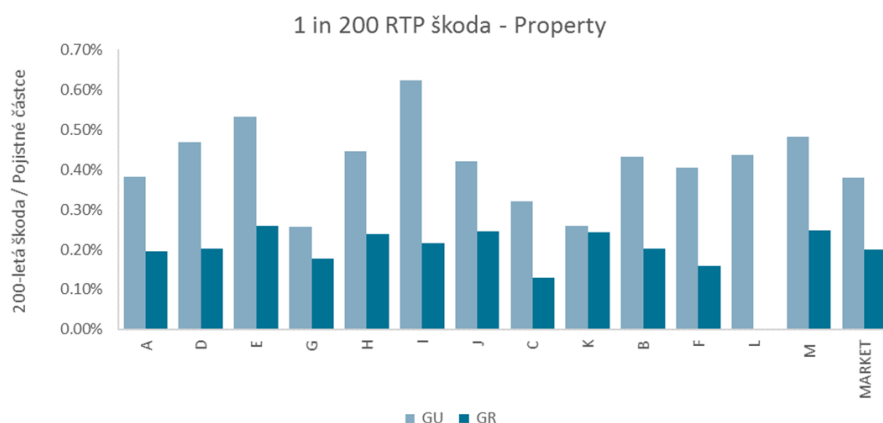
Portfolio structure

	Market share (sum insured) %	Limit as % of sum insured
Residential	33,8%	87%
Commercial	15,6%	16%
Industry	50,6%	5%
Market	100%	39%

Source: AON

Limits are very important for the Czech market, primarily for Commercial and Industry portfolios, where they are strictly applied. Thus, the total average limit represents 39% of the sum insured but we need to point out that 51% of the market portfolio has the limit of 5% (Industry).

Market loss

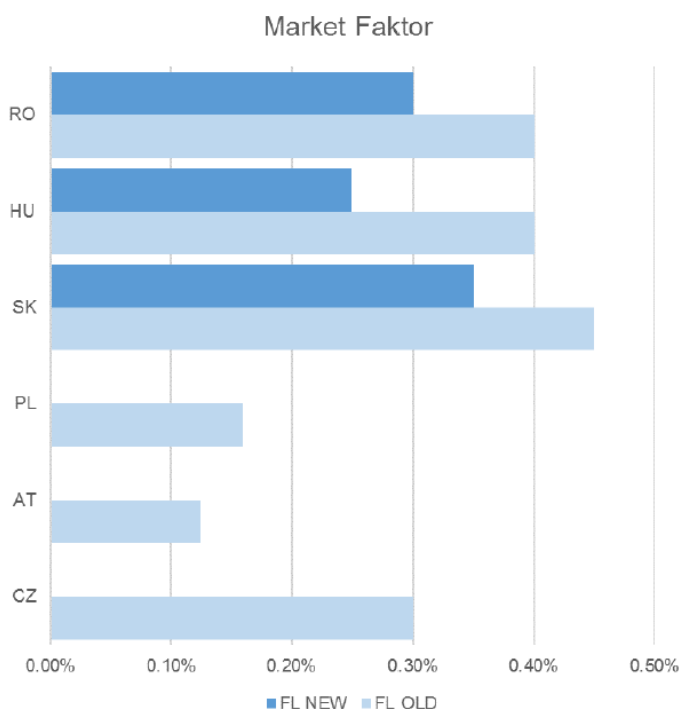


Source: AON

Based on the analysis for 1 in 200 year losses, all market players are located below the Solvency II market factor 0.3% when deductibles and limits are applied.

Moreover, the flood protection measures decreasing impacts of floods are continuously implemented either by the state or individual clients. Thus, the prudence exists in the results presented above.

Market factor other countries



Source: AON

We can observe that the market factor was decreased for several countries from the Central and Eastern Europe. When comparing situation in these countries with the Czech Republic, we consider the current state as inconsistent and prudent for the Czech Republic.

We would like to point out:

- SK- the original factor was higher and decreased to 0.35% but there are stricter limits in the Czech Republic
- RO – the factor decreased to 0.3% (the same as CZ) but no limits apply
- CZ – limits are applied but the factor corresponds rather to countries without limits

Conclusion

After having collected the relevant data for our industry we have come to the conclusion that the current market factor is very prudent and unjustifiably increases the Solvency II requirements for respective insurers. According to our opinion, such correction can be done within the actual Solvency II 2020 review.

We are happy to share the extensive analysis and provide you with further clarification, is needed. For any information, do not hesitate to contact: Petr Jedlička (petr.jedlicka@supin.cz).

Prague, 10 January 2020