

Draft: 7/16/21

Catastrophe Risk (E) Subgroup
Virtual Meeting (*in lieu of meeting at the 2021 Summer National Meeting*)
July 15, 2021

The Catastrophe Risk (E) Subgroup of the Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met July 15, 2021. The following Subgroup members participated: Wanchin Chou, Chair, and Susan Andrews (CT); Robert Ridenour, Vice Chair (FL); Susan Bernard, Lynne Wehmueller, and Kathryn Taras (CA); Judy Mottar (IL); Gordon Hay (NE); Anna Krylova (NM); Halina Smosna and Gloria Huberman (NY); Tom Botsko (OH); Andrew Schallhorn (OK); and Miriam Fisk, Monica Avila, and Rebecca Armon (TX).

1. Adopted its June 1 and April 26 Minutes

The Subgroup met June 1 and April 26. During these meetings, the Subgroup took the following action: 1) forwarded the response to the Climate and Resiliency (EX) Task Force request for proposed changes to the property/casualty (P/C) risk-based capital (RBC) catastrophe component; 2) heard updates from its Catastrophe Model Technical Review Ad Hoc Group; and 3) discussed the possibility of allowing additional third-party models or adjustments to the vendor models.

Mr. Botsko made a motion, seconded by Ms. Krylova, to adopt the Subgroup's June 1 and April 26 minutes (Attachments Five-C1 and Five-C2). The motion passed unanimously.

2. Adopted its 2021 Working Agenda

Mr. Chou summarized the changes of the 2021 working agenda, which included the following substantial changes: 1) changing the completion date of the "evaluate the possibility of allowing additional third-party models or adjustments to the vendor models to calculate the cat model losses" item to year-end 2022 or later; and 2) deleting the "remove the embedded 3% operational risk component contained in the reinsurance contingent credit risk factor of Rcat" item from the working agenda. He also provided a brief update on items 9 and 19.

Mr. Schallhorn made a motion, seconded by Mr. Ridenour, to adopt the Subgroup's 2021 working agenda. The motion passed unanimously.

3. Heard an Update from its Catastrophe Model Technical Review Ad Hoc Group

Ms. Smosna said the ad hoc group met June 7 to discuss additional questions for AIR Worldwide and June 28 to review some technical questions with AIR Worldwide on its wildfire model. She said the ad hoc group gained a better understanding on: 1) event generation; 2) spread model; 3) damage estimation; and 4) insured loss calculation. Mr. Chou stated that there were 54 technical questions discussed with AIR Worldwide in May and June, and he indicated that the ad hoc group will meet next month with Risk Management Solutions (RMS) to review/discuss some technical questions. He also discussed further steps to develop the proper charge for wildfire.

4. Heard a Presentation from AIR Worldwide Regarding the Wildfire Model

Dr. Jeff Amthor (AIR Worldwide) provided a brief overview on wildfire in the western U.S. and stochastic wildfire modeling for risk assessment. He said most of the wildfires are caused by humans and lightning. He also stated that climate change is likely increasing the area burned. During the stochastic wildfire modeling for risk assessment section, he briefly mentioned: 1) large stochastic fire catalogs used to provide a robust view of possibilities and probabilities; 2) wildfire modeling begins with ignition; 3) physically based processes for simulating fire spread; and 4) key modeling challenges.

Mr. Chou encouraged all the interested parties to review this presentation. Thoughts and ideas on developing the wildfire charge are welcome in the upcoming meeting to complete this project effectively.

Having no further business, the Catastrophe Risk (E) Subgroup adjourned.

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