

Draft: 3/9/21

Catastrophe Risk (E) Subgroup
Virtual Meeting (in lieu of meeting at the 2021 Spring National Meeting)
March 8, 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 March 8, 2021. The following Subgroup members participated: Wanchin Chou, Chair (CT); Robert Ridenour, Vice Chair (FL); Laura Clements (CA); Gordon Hay (NE); Anna Krylova (NM); Halina Smosna and Sak-man Luk (NY); Tom Botsko (OH); Andrew Schallhorn (OK), Will Davis (SC); and Miriam Fisk (TX).

1. Adopted its Jan. 27 Minutes

Mr. Chou said the Subgroup conducted an e-vote that concluded Jan. 27 to adopt the updated 2020 U.S. and non-U.S. catastrophe risk event lists.

Mr. Botsko made a motion, seconded by Ms. Clements, to adopt the Subgroup's Jan. 27 minutes. The motion passed unanimously.

2. Adopted Proposal 2020-08-CR (Clarification to PR027 Interrogatories)

Mr. Luk said some insurers with minimal or no gross earthquake and/or hurricane exposure did not file PR027A or PR027B, and the Interrogatories on PR027 will create some validation issues in the catastrophe risk component. He said the purpose of this proposal is to add instructions to PR027 Interrogatories that clarify how insurers with minimal or no gross exposure to the catastrophe risk should complete the interrogatories. Mr. Chou stated that the Subgroup received no comments during the exposure period.

Mr. Luk made a motion, seconded by Mr. Botsko, to adopt proposal 2020-08-CR. The motion passed unanimously.

3. Adopted Proposal 2020-11-CR (Remove Operational Risk Factor from Rcat)

Mr. Botsko said the operational risk is now separately addressed in the risk-based capital (RBC) formula as a stand-alone capital add-on. The purpose of this proposal is to remove the embedded 3% operational risk charge in the Rcat component to avoid double-counting of the charge. He also stated that the Subgroup received two comment letters during the exposure period. Stephen W. Broadie (American Property Casualty Insurance Association—APCIA) and Scott Williamson (Reinsurance Association of America—RAA) support this proposal to eliminate the duplicative application of operational risk charges for modeled reinsurance recoverable in Rcat component.

Mr. Botsko made a motion, seconded by Mr. Davis, to adopt proposal 2020-11-CR. The motion passed unanimously.

4. Discussed Wildfire Modeling and RBC Charge Development Progress

Mr. Chou said understanding the wildfire model and engaging the state insurance regulators and industry to get involved in the development of the RBC charge are the two key elements of implementing the RBC charge properly. He stated that the Subgroup met three times since the 2020 Fall National Meeting in regulator-to-regulator session to discuss wildfire models. He said the Subgroup planned to continue with more in-depth technical reviews of different model assumptions, limitations and impact studies in the upcoming months. Also, Mr. Chou urged the Subgroup to provide thoughts regarding the wildfire peril during its next meeting on: 1) other key items to be considered during the RBC charge development phases; 2) using the worst year in 100 in the calculation of the RBC charge; and 3) expected actual implementation reporting year. He stated that a meeting will be scheduled in the near future to continue discussing this issue. Mr. Broadie said developing an appropriate charge for the wildfire peril is crucial; he recommended that the Subgroup should consider taking time on the development progress. Mr. Chou agreed.

5. Discussed its Working Agenda

Mr. Chou summarized the changes to the Subgroup's 2021 working agenda: 1) changed "Evaluate other catastrophe risks for possible inclusion in the charge" item expected completion date to year-end 2022 or later; 2) modified "Evaluate the possibility of allowing additional third-party models to calculate the cat model losses" to "Evaluate the possibility of allowing additional third-party models or adjustments to the vendor models to calculate the cat model losses," and the expected completion date was changed to year-end 2021 or later; and 3) added "Implement Wildfire Peril in the Rcat component (For Informational Purpose Only)" in the new items section. Ralph Blanchard (Travelers) asked the Subgroup to consider changing the expected completion date of implementing wildfire peril in the Rcat component for informational purpose only to after the 2022 Spring National Meeting.

Mr. Botsko made a motion, seconded by Mr. Schallhorn, to adopt the Subgroup's 2021 working agenda, with the change of the expected completion date for "Implement Wildfire Peril in the Rcat component (For Informational Purpose Only)." The motion passed unanimously.

6. Discussed the Internal Catastrophe Model Evaluation Process

Mr. Chou said there are three different kinds of CAT models that deviate from the vendor models: 1) internal CAT models; 2) vendor CAT models with adjustments or different weights; and 3) derivative models based on the vendor models. He stated that detailed instructions in evaluating the internal CAT models have been included in the RBC instructions. However, he said he thinks more in-depth instructions on the derivative model and the vendor models with adjustments may be necessary. Mr. Botsko recommended that the Subgroup should take wildfire peril into consideration as it continues discussing this issue. Mr. Blanchard said a different level of evaluation and validation process should be applied to vendor CAT models with adjustments or different weights. He said he believes that a more simplified instructions is worthy of consideration for this type of model. Mr. Chou asked all the interested parties to share thoughts during the Subgroup's upcoming meeting.

7. Discussed Other Matters

Mr. Chou said he believes that creating a technical review ad hoc group to conduct a more in-depth review on different wildfire models would speed up the entire wildfire charge development progress. He said encourages interested parties to join the ad hoc group so this project will be completed in time.

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

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