GDV's Response to EIOPA's consultation paper on the assessment of the prudential treatment under Solvency II of adaption measures

Discussion of the materiality of different peril/region in the SF (section 5)

Q1a. Do you have any comments about the discussion for windstorm?

- Yes

Q1b. Please explain.

- Windstorm vulnerability depends strongly on building characteristics, construction quality, and local building standards. Measures such as reinforced roof structures, stronger structural connections, and improved building materials can significantly reduce windstorm damage.
- However, the implementation and effectiveness of such measures vary considerably across regions and building stocks. This heterogeneity makes it difficult to reflect their impact through typified parameters within the Standard Formula.
- In addition to physical resilience measures, insurers adapt to windstorm risks through underwriting practices and insurance contract design. Contractual features such as deductibles, limits on maximum payouts and coverage conditions are essential instruments for managing catastrophe risks.
- These mechanisms directly affect the insurer's net loss distribution and limit exposure to extreme losses. From a prudential perspective, they should therefore also be considered when assessing the impact of adaptation measures on insurers' risk profiles.

Q2a. Do you have any comments about the discussion for earthquake?

- Yes

Q2b. Please explain.

- Modern seismic building standards and retrofitting programmes can substantially reduce earthquake losses. However, the degree to which such measures are implemented varies widely across countries and regions.
- In many areas the building stock still consists largely of older buildings constructed before modern seismic standards were introduced.
- Capturing these differences requires detailed exposure to information and catastrophe modelling. Typified parameters within the Standard Formula may therefore not fully reflect the risk profile of individual portfolios.

- Where appropriate data are available, undertaking-specific approaches may therefore provide a more risk-sensitive representation of earthquake risk.

Q3a. Do you have any comments about the discussion for floods?

- Yes

Q3b. Please explain.

- Flood risks differ substantially across Europe due to variations in hazard intensity, exposure patterns, topography, and flood protection infrastructure.
- Experience from undertakings suggests that the typified calibration of the Standard Formula does not always fully reflect the actual risk characteristics of flood exposures. In some cases, differences can be observed between internal risk assessments based on catastrophe models and the assumptions embedded in the Standard Formula.
- Macro adaptation measures such as flood defence systems and water management infrastructure can significantly reduce flood risk. However, protection levels, maintenance standards, and residual risks vary considerably between regions.
- In addition, insurance contract design – including deductibles and limits on maximum payouts – strongly influences the net loss distribution of flood events. These contractual mechanisms are a key element of insurers' risk management and should therefore be considered when assessing the prudential relevance of adaptation measures.

Discussion on a dedicated treatment on adaptation (section 6)

Q4a. Do you think that considering adaptation in the reassessment process is a valuable option?

- Yes

Q4b. Which other pros do you see from this option? Please explain.

- The calibration of the standard formula is more than ten years old. Climate adaptation measures were not taken into account at that time. Since then, there have been several adjustments. We also consider it appropriate to review whether climate adaptation measures have been adequately taken into account. In doing so, it is necessary to consider the following aspects: hazard models and protection measures.
- Option A provides enhanced risk sensitivity while imposing the lowest cost and implementation burden on undertakings.
- It is noted that certain calibration parameters, such as the flood factor for motor risks, could merit further review in light of the specific characteristics of those exposures. Unlike residential buildings, vehicles can be moved out of the danger zone.

Q4c. Which other cons do you see from this option? Please explain.

- In general, the standard formula is very imprecise regarding NatCat. For example, the classification into CRESTA zones is far too coarse. Accordingly, macro measures can be taken into account with less precision. German insurers, for example, have a much more granular system in place: ZÜRS Geo. An adjustment of the zoning could therefore be a useful step. The development of a suitable model should primarily be undertaken by the EIOPA. However, the considerable effort this entails for insurance companies should be taken into account. Accordingly, an appropriate transition period of several years should be granted for implementation. Protective and adaptive measures often lead to higher insured values, while their qualitative risk-reducing effect is not captured in the standard formula. Transferring this effect of individual risks to the overall exposure is challenging.
- Recalibration processes are typically linked to broader regulatory review cycles and may therefore take several years to implement. A five-year cycle is too infrequent to adequately take adaptation measures into account in a timely manner. More frequent adjustments are necessary here.
- Incorporating future developments into the reassessment process could further enhance its accuracy.
- In addition, recalibration at EU level cannot capture portfolio-specific characteristics or regional differences in natural catastrophe risks. It should therefore be considered only as a complementary mechanism.
- The EIOPA could publish two parameter sets per CRESTA zone. The first one would be aligned with the proposal to place stronger emphasis on macro measures, while the second one would additionally reflect typical micro measures. This would enable undertakings to determine which parameter set better matches their portfolio. In addition, the second parameterization could offer a potentially simpler entry point to options B–E.

Q5a. Do you think that considering USP to better reflect adaptation measures is a valuable option?

- Yes

Q5b. Which other pros do you see from this option? Please explain.

- In general, the standard formula often fails to fully reflect the idiosyncrasies of some NatCat risks and thus can lead to deviations from the actual risk. In this context, opening the standard formula and allowing insurers greater flexibility could be beneficial.
- From our point of view, the proposal does not go far enough. USPs for NatCat parameters could be a good option to take into account the specificities of individual portfolios such as underwriting policy, deductibles or compulsory insurance schemes, as are currently being discussed in Germany. Adaptation measures are only another example of these specificities.

- For the calculation of USPs, however, a clear derivation is necessary. These derivation requirements must then be specified in the Delegated Regulation. One possibility could be using an established system in a certain region to derive USP factors. E.g., as mentioned in Q4c., German insures have a more granular system in place, ZÜRS Geo. Based on this model, the German insurers could calculate risk factors per Cresta zone for flood using the overall market portfolio. This would reflect adaptation measures in place in a much better way than the current standard formula factors.

Q5c. Which other cons do you see from this option? Please explain.

- The use of undertaking-specific parameters would likely generate significant additional workload and data requirements. Not every insurer is able to handle this. For example, verifying whether adaptation measures are in place and effective at policyholder level would be challenging.
- Furthermore, USPs require regular updates and supervisory approval, driven by ongoing changes to adaptation measures in the portfolio. The resulting surge in approval processes may overwhelm national competent authorities and consequently delay the overall process.
- It is very important that, from a proportionality and cost-benefit perspective, insurers relying on the Standard Formula remain able to operate under that framework without excessive hurdles.

Q6a. Do you think that considering Risk Mitigation to better reflect adaptation measures is a valuable option?

- No

Q6b. Which other pros do you see from this option? Please explain.

Q6c. Which other cons do you see from this option? Please explain.

- It is difficult to implement this proposal. The standard formula does not differentiate risks with sufficient granularity.

Q7a. Do you think that considering new parameters to better reflect adaptation measures is a valuable option?

- No

Q7b. Which other pros do you see from this option? Please explain.

Q7c. Which other cons do you see from this option? Please explain.

- The practical implementation could be difficult, particularly given the limitations in data availability and data quality. Introducing additional parameters could lead to substantial methodological complexity, which may not be feasible at this stage.
- Adding an additional factor does not improve a formula that is already imprecise. Furthermore, this would increase the complexity of the standard formula.
- It will be very difficult for an insurance company to assess the effectiveness of the adaptation measures in the portfolio compared to the market average.

Q8a. Do you agree that considering IM to better capture adaptation measures is a valuable option?

- Yes

Q8b. Which other pros do you see from this option? Please explain.

- It is a good incentive to allow the use of partial internal models (PIMs) for selected modules only. Especially in NatCat, the risks reflected in the standard formula deviate from the actual underlying risks. Therefore, it may not be necessary to model other modules in the Non-Life underwriting risk category – i.e. premium and reserve risk- internally.
- PIMs provide a way to address the limitations arising from the standard formula's overly coarse geographical zoning. They allow insurers to reflect detailed hazard, exposure and vulnerability information and may therefore capture adaptation measures more explicitly.
- Therefore, national supervisory authorities should support insurance undertakings in the development of partial models tailored to their needs.

Q8c. Which other cons do you see from this option? Please explain.

- Internal models and PIMs are inherently complex and resource-intensive, which may limit their practical use. Therefore, the use of (partial) internal models may not be suitable for all insurers. Data availability and quality may be constrained.
- It is very important that, from a proportionality and cost-benefit perspective, insurers relying on the Standard Formula remain able to operate under that framework without excessive hurdles.
- Macro-adaptation measures should be reflected in updated hazard and vulnerability assumptions within the YLTs of NatCat models. As model vendors update these only in multi-year intervals, recognition in internal models tends to lag actual developments.

Q9a. Do you see other valuable options to better capture adaptation measures?

- Yes

Q9b. Please explain.

- It is noted that deductibles and annual aggregate limits are currently not taken into account in the standard formula. These measures increase granularity and should therefore also be allowed to reduce the SCR. In particular, they allow for more risk-adequate pricing.
- In our view, implementing Option A is essential. Accordingly, it is important to assess whether and how different solution approaches can be combined. One initial approach could be the publication of two parameter sets per CRESTA zone (see Q4c).

Assessment of further development of adaptation measures (section 7)

Q10a. Do you have any comments on the assessment of micro adaptation measures for windstorm?

- No

Q10b. Please explain.

Q11a. Do you have any comments on the assessment of micro adaptation measures for earthquake?

- No

Q11b. Please explain.

Q12a. Do you have any comments on the assessment of macro adaptation measures for flood?

- No

Q12b. Please explain.

Q13a. Do you have any comments on the assessment of micro adaptation measures for flood?

- No

Q13b. Please explain.

Q14. Do you have any other comments on the consultation paper?

- Adaptation measures play an important role in maintaining the insurability of natural catastrophe risks in Europe. Therefore, we welcome EIOPA's initiative to ease solvency requirements by recognising adaptation measures. Nevertheless, it is crucial to ensure that any methodology does not result in disproportionate reporting obligations or become impracticable due to insufficient data availability.
- It is important that the Standard Formula remains proportionate and avoids unnecessary complexity.
- We view it critically that the "risk of selection by the insurers […] and increasing protection gap" is presented as a con in Section 6. This entirely undermines the rationale for recognising adaptation measures.