

01.03.2022

## Event Report



# CSA Insurance Linked Strategies CSA Insurance Linked Strategies Fixed

## Winter storms Europe – February 2022

Dear Investor,

Between 14 and 24 February a sequence of intense extratropical cyclones swept across northwestern and central Europe, causing widespread property damage and disruption to communities.

On 16 February, storm Dudley struck large parts of the UK and continued its eastern track over northwest Europe, causing moderate property damage and widespread disruption to infrastructure from high wind speeds. Soon after, it was followed by a more severe storm system named Eunice, which triggered severe weather warning in various countries from its high wind force. Eunice has been recorded as one of the most powerful storms on record in the UK with wind gusts measured up to 196 km/h (122 mph).

Following, storm Franklin struck parts of the UK with torrential weather, freezing temperatures and strong winds. Although its wind force did not reach levels as measured from Eunice, the storm caused heavy precipitation, in particular in Ireland, the UK and Benelux countries.

The high storm activity has been driven by an unusual strong polar vortex - a flow of cold air rotating around the Earth's poles - exhibiting a disturbance driving low-pressure arctic air from the North Pole into the North Atlantic. The subsequent interaction of warmer air from the equator and cold air from the arctic region functions as a catalyst for such extratropical cyclones over the North Atlantic. Although such Atlantic storms exhibit similarities with tropical cyclones, the source of storm formation is very different from those systems occurring during the hurricane season, which obtain their energy from high sea surface temperatures in the tropical region.

The winter storms caused disruption to infrastructure and transportation with millions of households affected by power outages in the UK, Germany and Czech Republic and with extensive disruption to air, rail and road travel across Europe. High precipitation caused further havoc with flooding, in particular in the northern parts of England. At the time of writing, the reported damage is mostly from high wind force, such as structural damage to buildings and rooftops as well as from water damage from flooding rivers.

The ILS market exposure to such European storms varies between the Cat Bond and private transactions market. The overall Cat Bond market exposure is low with only a few tranches covering European winter storms. The private transactions market has a higher and broader exposure from European insurers, with different coverage structures by country for wind and flood damage.

On an ILS portfolio and instrument level, for such clustered events, contractual event definitions are an important factor to the loss trigger level. In specific, the losses for reinsurance layers depend on the "hour clauses", which are the rules on how insurance losses are aggregated over time and across locations. These terms determine if such storms count as a single combined event or as separate events whereby losses are accumulated under "aggregate" reinsurance structured contracts, where multiple events can aggregate to a trigger level. At the time of writing, there is uncertainty on how these events are to be defined under these terms.

Based on preliminary available data and on the conservative and likely scenario that storms Dudley and Eunice will form one loss occurrence for most affected reinsurance contracts, we expect this event to have a minor impact on the Investment Group on a standalone basis. However, cumulating insurance losses from multiple events may erode exposed private ILS transactions, in particular with aggregate trigger structures.

The damage assessment for this event is still at an early stage and the estimates are based on the information available at the time of writing this report and are therefore subject to a considerable amount of uncertainty.

As damage assessment is progressing, we will continue to evaluate any potential changes in insurance losses and impact on the Investment Group and will keep you up to date on any significant changes. In the meantime, please do not hesitate to contact us if you have any questions.

Kind regards,

**Credit Suisse Insurance Linked Strategies Ltd**

Sources: Credit Suisse, Reuters, AIR

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