



CSA Insurance Linked Strategies
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Europe floods – July 2021

Heavy rainfall caused by a quasi-stationary low-pressure storm system has brought widespread flooding and destruction to large parts of western and central Europe between 12 and 19 July 2021. The low-pressure weather system had been moving east from the U.K. over France and Germany and had become nearly stationary over central and western Europe for several days. While drawing moisture from the Mediterranean Sea as well as cold air from the north, the low-pressure system caused heavy rainfall and flooding across Germany, France and the Benelux countries, where the two air masses commingled. Other nearby countries, including the U.K., Switzerland, Austria, Italy and Czech Republic, have also been affected by widespread rainfall and flooding.

In particular, regions in Germany along the Rhine basin and its tributary streams in the states Rhineland-Palatinate and North Rhine-Westphalia were severely struck. Some regions in the western parts of Germany experienced daily precipitation levels that exceeded records dating back several decades. The high precipitation caused rivers to overflow and the flooding to turn streets into rivers with extensive damage and destruction to buildings and infrastructure from overflowing rivers and landslides with some villages even being entirely destroyed. Strong rainfall in other parts of Germany, in particular in the southern states, also led to flash floods and landslides over the weekend.

In the Benelux countries, many thousands of people were evacuated as a protection against flooding from the main rivers. Some rivers have overflowed their banks or caused dam failures, inundating adjacent towns and villages causing widespread damage to buildings.

Apart from the physical destruction, nearly 200 people have been reported dead, with the most fatalities reported in Germany and Belgium, and many are still missing at the time of writing this report.

The level of industry losses from this event are influenced by the insurance coverage in the affected countries, specifically from flooding. In Germany, where the majority of damage has been reported so far, less than half of all properties have some form of insurance coverage against all weather phenomenon, although with a high variation per region, whereby flood coverage has a generally low take-up-rate. In France, the public sponsored State National Catastrophe Scheme covers a part of flood damage. The foregoing implies a wide variation between economic and insurance losses from this event. In other countries, however, the insurance take-up-rate for flood damage coverage is higher.

Further, during early June and July, before the aforementioned July storm and flooding, several storms had already caused damage from heavy rainfall and hail in Germany, France, Switzerland and Czech Republic. The losses for reinsurance layers, therefore, depend on the "hour clauses", which are the rules on how insurance losses are aggregated over time and across locations, about which there is still uncertainty. This is a major factor in how single event "occurrence" losses are determined or how losses are accumulated under "aggregate" reinsurance structured contracts, where multiple events can aggregate to a trigger level.

In all, the portfolio manager expects that the weather events in Europe during June and July could affect some lower layers and retrocession contracts in an adverse scenario. As outstanding Cat Bonds, generally, do not cover losses from flood damage, he does not expect an impact on the Cat Bond market.

The damage assessment for this event is still at an early stage, which creates substantial uncertainty on estimated ultimate insurance industry losses. At the time of writing, the portfolio manager expects that industry losses may exceed EUR 7 billion for the June and July events combined. This estimate can change as new information becomes available.

Although the event is still ongoing and damage assessment is still preliminary, based on an early assessment of insurance loss levels and Fund exposures, the portfolio manager expects this event to have only a small impact on the investment group on a standalone basis.

The portfolio manager will continue to assess the event's potential impact on the portfolios and we will keep you updated on significant developments. In the meantime, please do not hesitate to contact us if you have any questions.

Sources: Credit Suisse, Reuters, AON

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