VALIDATION TEST AND BACKTEST ON EARTHQUAKE MODELS FOR TWO INSURANCE COMPANIES IN ROMANIA

Mădălin ROȘU, The Bucharest University of Economic Studies, Department of Finance, Romania, rmadalin.rosu@gmail.com

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Abstract
The present paper presents a practical example of methods and tests which are used by companies in the Romanian insurance market with regards to choosing the most feasible model in order to validate their partial internal model and to use it for internal calculation of solvency capital requirement. The focus of the analysis carried on by the author was on earthquake model and content of the paper presents the validation of individual components in the model starting with the exposure and its processing. The back test considers how the rare past catastrophes are described in the models. The validation tests show that the used model – Impact Forecasting – is the best to be chosen of the available models.

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