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Fishing for scenarios

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Abstract

- The new solvency frameworks commonly include the requirement to estimate scenarios to test if the risk distributions include all potential negative deviations. Even though such scenarios can be estimated in terms of loss amounts, it can be difficult to find out the return period associated with such scenarios. In particular when scenarios are prescribed and impact several lines of business following one risk factor which is implicitly embedded in the risk distribution but for which there is no explicit model, the return period is not directly readable in the risk distribution. As a result, this paper aims at providing a methodology to look for a proxy for estimating the return period of such scenario using some light assumptions.

- Keywords: Cornish-Fisher expansion; Skewness; Variance; Gaussian copula; Correlations.