

# Risk sharing, risk prevention, and lessons from recent disasters: the view of a reinsurer

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International Conference for Disaster Reduction,  
Aug 27-Sept 1, 2006, Davos, Switzerland



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# The Dec 26th, 2004 Tsunami

## Event characteristics



- > 200.000 victims
- Economic loss US\$ 9.6 bn (World Bank)
- Local economies affected variably
- World economy unaffected
- Insured losses < US\$ 1bn (source: MR)
- Enormous international response – more ad-hoc response than proactive prevention

# Hurricane Katrina, 25-30 Aug, 2005

## Event characteristics

Worst natural disaster in the USA  
since SF 1906

*picture*

- 1322 victims
- Economic loss  
US\$\$ 125 bn
- Local economy affected  
dramatically
- Global economic  
implications (oil sector)
- Insured losses US\$ 60bn
- Enormous response –  
more ad-hoc response than  
proactive prevention

# Katrina's lesson

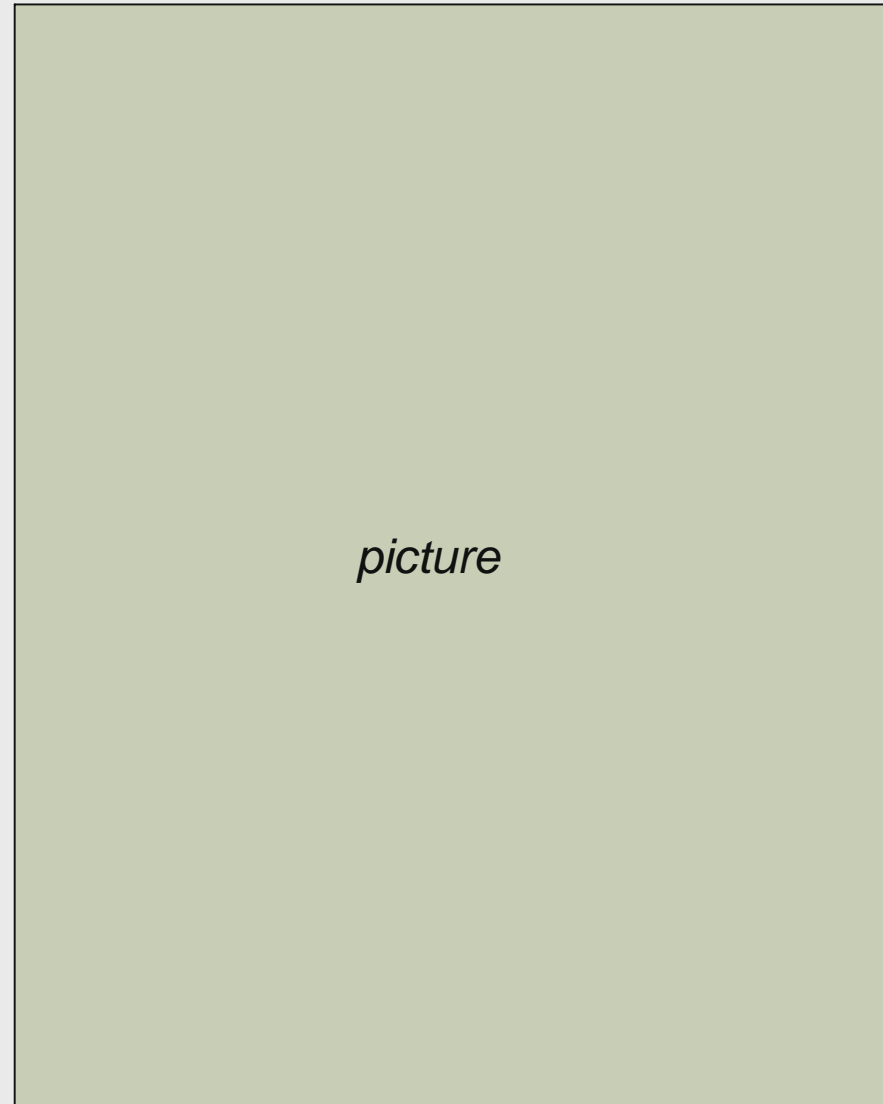
How losses can be amplified by long-term economic disruption



## A wake-up call...

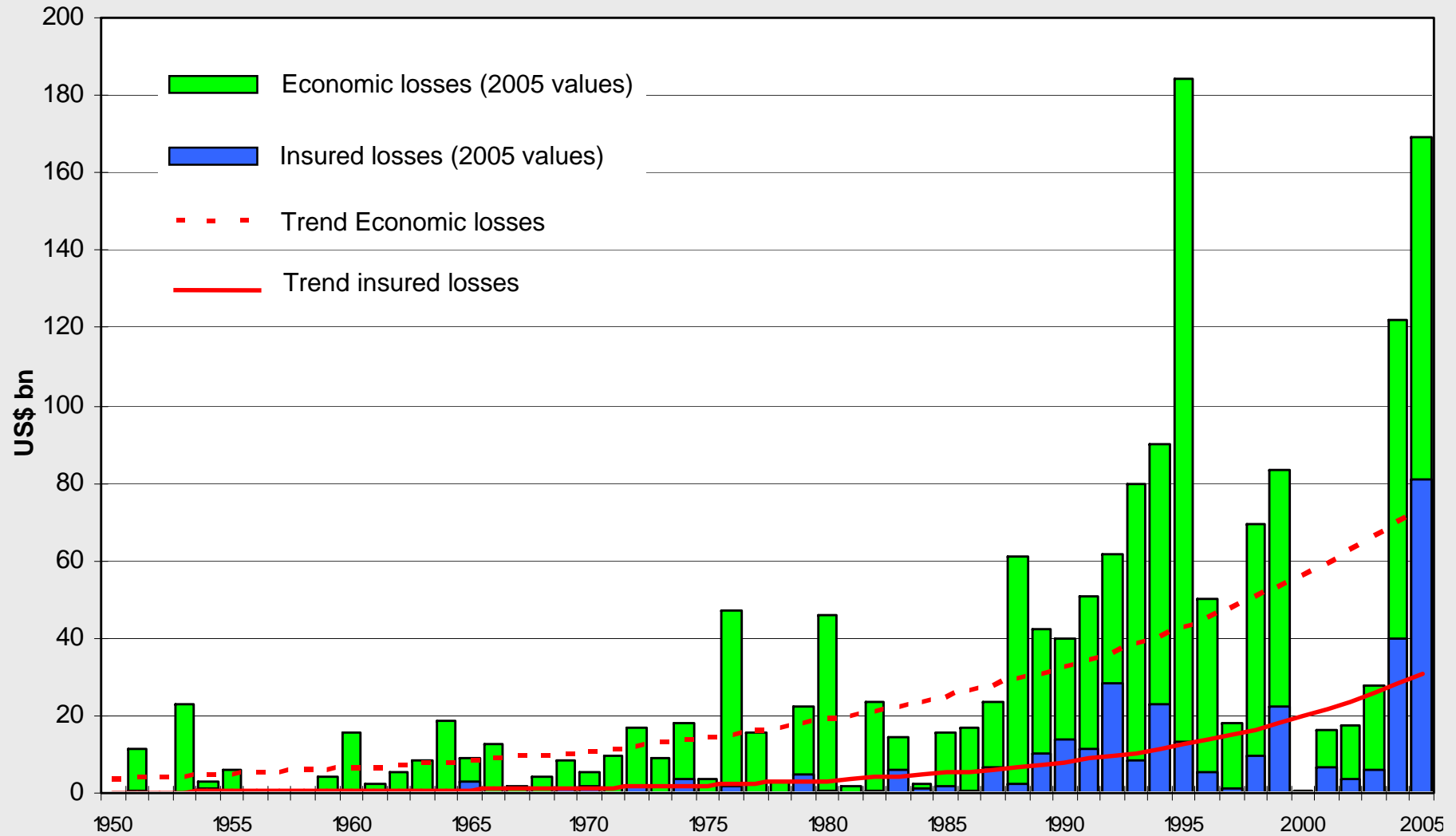
- a global event
- a multi-line event
  - Personal lines
  - Property/Casualty

Although insured losses were low, questions arose regarding the significance of **truly rare disasters**.



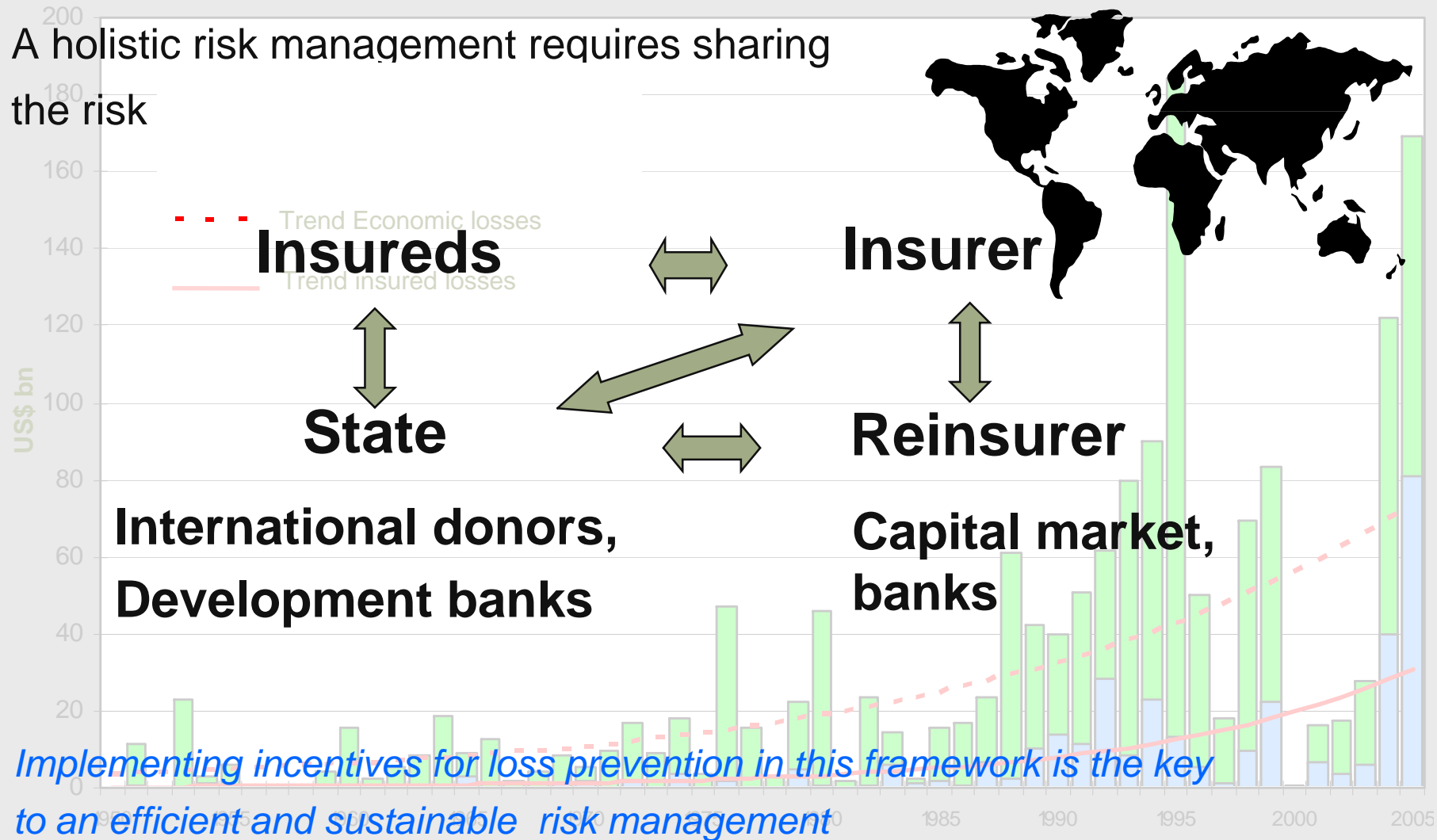
# Great Natural Disasters 1950 – 2005

## Economic and insured losses



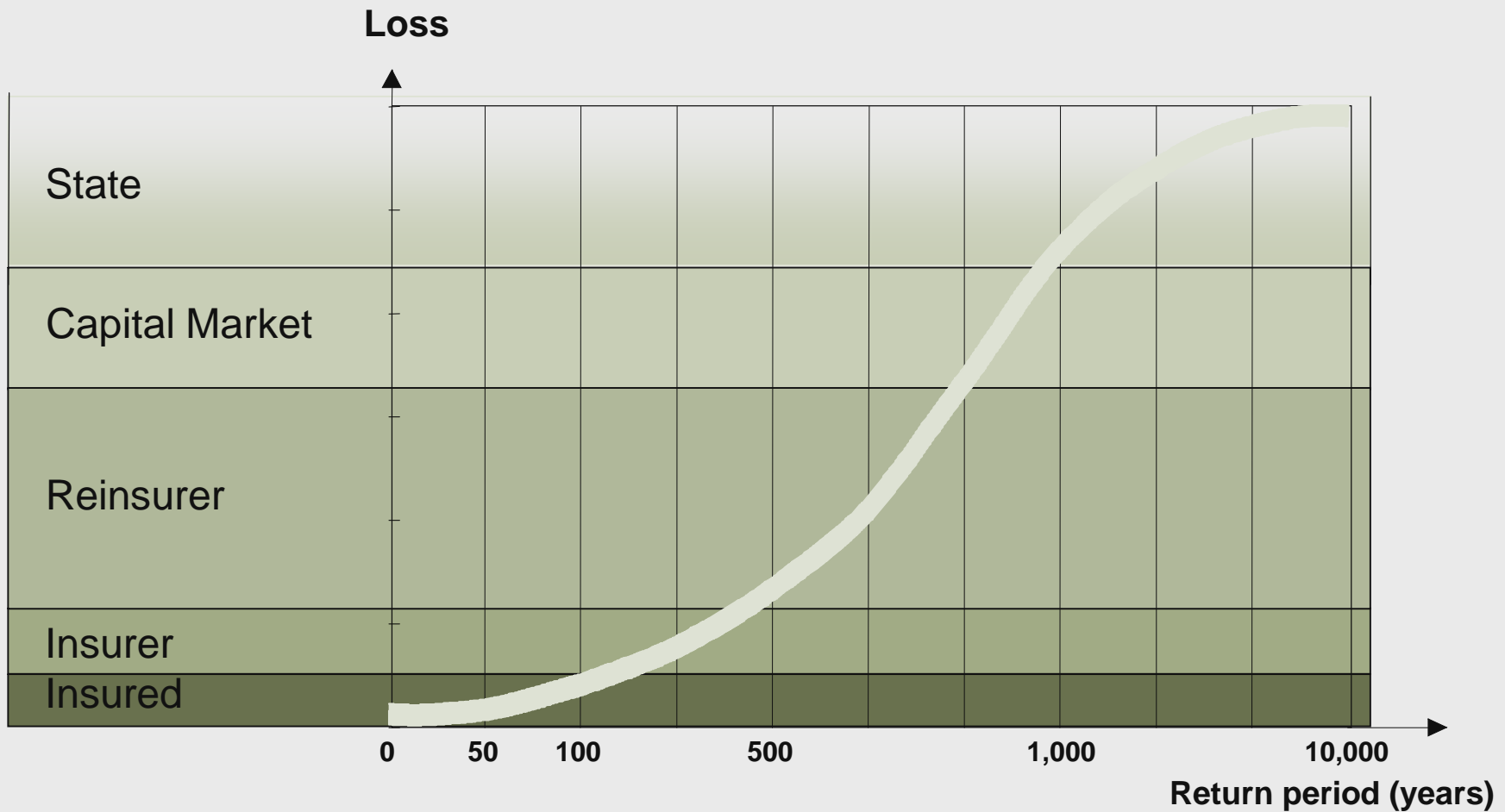
# Risk financing and risk control

## The principle of risk partnership



# The principle of risk partnership

A holistic risk management requires sharing the risk between



## Risk Partnership: The roles of parties involved

Clients/insureds	<b>Loss prevention</b> , self participation
Insurers	adequate pricing accumulation control limitation of liability (reinsurance)
Reinsurers	capacity for large events knowledge transfer/technical support
Capital markets/banks	supplementary capacity (“ART”) mortgage insurance
State	land use and building regulations <b>enforcement of regulations</b> tax exemption for catastrophe reserves reinsurer of last resort

*Microinsurance: Insurance for the poor*

## Turkey:

### TCIP (Turkish Catastrophe Insurance Pool)

- Mandatory scheme
- No state loans w/o insurance
- 2 % deductible + 55,000 \$ limit
- Rating scheme graded for hazard and risk
- Originally, complete risk transfer to abroad
- (Establishing a mechanism for code compliance)
- Dwellings and small commercial risks

Large commercial/industrial on private market

# How to encourage loss prevention?

- Risk awareness and education
- Financial incentives
  - tax incentives
  - favourable insurance conditions
- Development of low-cost construction measures for upgrading existing structures

*No free loans for recovery w/o insurance protection*

## South Africa: The Mzansi microinsurance project

### Client

- could be illiterate
- may work in informal sector
- may not have regular income
- may not have bank account
- no postal address

### Product

- Simple policy design
- Innovative solutions for  
distribution channels  
premium payment  
loss regulation

⇒ Mobile phones

Post or municipal offices

Supermarkets

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Thank you for your attention!



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