Managing Earthquake Risk & Financial Resilience

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Principles of Insurability (for nat cat events)

The loss or event should be fortuitous

The maximum amount of loss should be calculable in order to estimate the premium

The aggregate loss should be limited

How do Insurance Companies assess earthquake risk

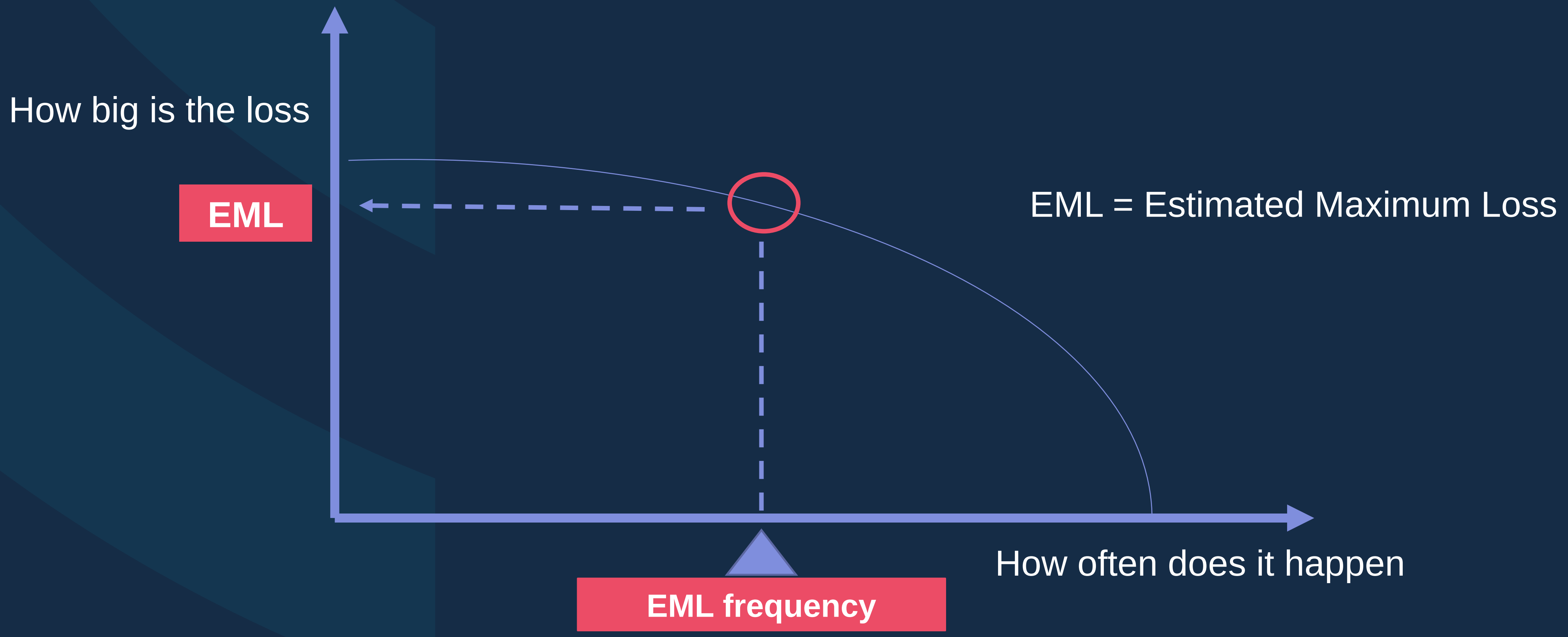
Hazard

Vulnerability

Distribution of Values

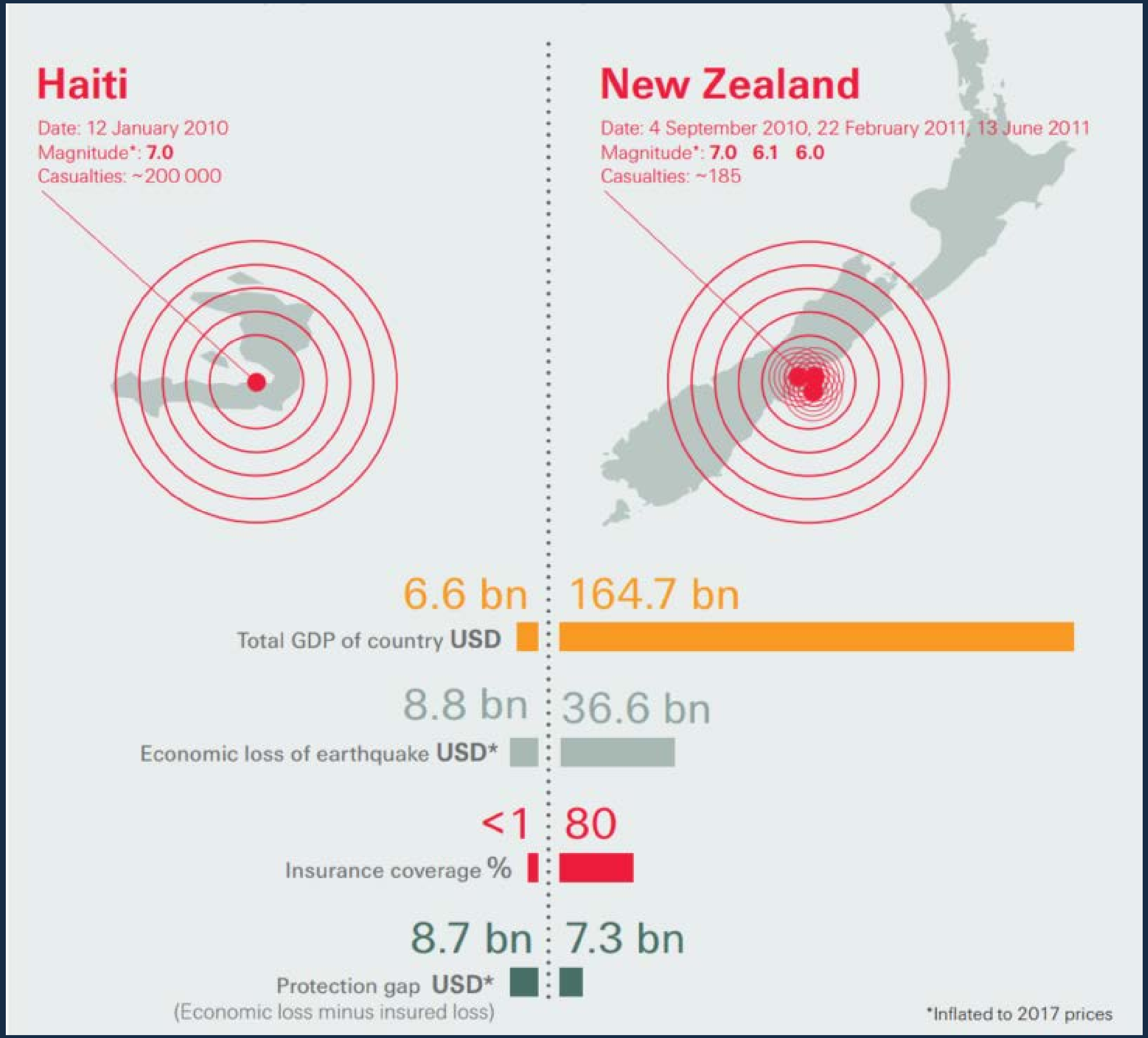
Insurance Conditions

Combine



Country comparison- Earthquake insurance coverage

- Both earthquakes released similar amounts of energy
- The differences in insurance penetration in New Zealand and Haiti is marked especially for earthquake cover
- This has a huge impact on the overall economic recovery of the respective countries post-event
- The Protection Gap (difference between total economic losses and insured losses) is similar in USD amount but as a % of GDP is strikingly different – 132% for Haiti but only 4% for New Zealand



Source: Swiss Re, *Closing the protection gap,* 2018

New Zealand EQC Scheme for Residential Homes

- Automatic cover for earthquake damage to every homeowner who has a fire insurance policy
- Flat rate of 20 cents per NZ$ 100 of insured value (payback of 500 years)
- Same rate for entire country
- Allows build up of reserves
- Guaranteed by the Government (but reinsured in the international markets)

Possible Earthquake Insurance Mechanisms

- Traditional insurance – may not be affordable by all, especially for those in high risk areas, rely on the individual to take the initiative

- Risk Pool – eg. The NZEQC – removes the antiselection challenge, allows reserves to be built up, almost compulsory

- Parametric Solutions – has the advantage of fast payout after the trigger criteria are met, suitable for cities, municipalities, provinces, countries

- Cat bonds – only work if the underlying economics make sense

The London Market and the role of the broker

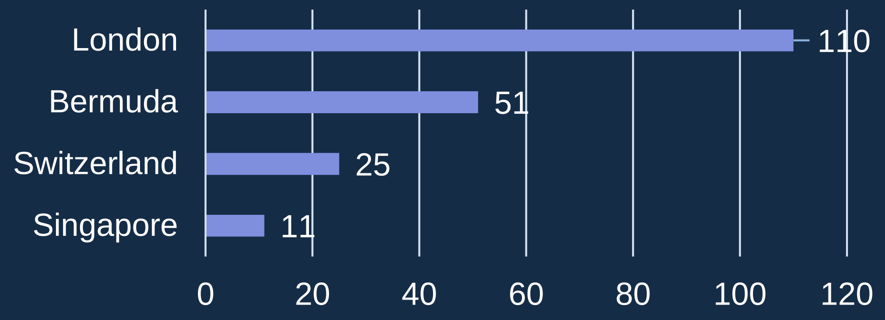
- The London Market is a global hub for innovative insurance solutions, with a total size of £110bn, larger than the next three markets (Bermuda, Switzerland and Singapore) combined for specialty and (re)insurance.
- Over 40% of the UK reinsurance market is related to overseas risk.

<u>The Role of the Broker</u>

There are three main reasons a broker is important:

1. Gives the client an expert advocate in the specific area of insurance they require, to represent their interests.
2. Gives comfort to the client that there has been a full and competitive process to obtain the best terms.
3. Gives the client the comfort that in the event of a claim, they have an advocate to work on their behalf with the insurers.

Gross Written Premium 2018 (£bn)



Source: London Market Group, *London Matters (2020)*

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