Disaster Finance and Risk Reduction
Private Sector Participation –
A realistic assessment

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Focus Insurance and Reinsurance

- What did we do up to now?
- Are Re-/Insurance Products available?
- Re-/Insurer Brain Storming - examples
- What does a professional Re-/Insurer need?
- Public Private Partnerships – A solution?
Risk Assessment Tools

- World Map of Natural Hazards
- Building quality and resistance research
- Hazard models (earthquake, windstorm, flood)
- Index products, e.g. Mega city Index
- Open risk, loss and loss potential communication
Are Re-/Insurance Products available?

Yes! All kinds of traditional plus

- **Large scale**
  - **Cat Bonds**
    - pro: any structure, any area, any amount
    - con: complex, costly, interesting (investor, affected country)

- **Medium scale**
  - **Weather Derivatives**
    - pro: well tested, often hedging energy demand, why not hedge food safety!
    - con: up to now no strong global market, shy new markets (but this is no obstacle)

- **Small Scale (to regional)**
  - **Micro Finance, Micro Insurance**
    - pro: good examples from various developing countries and markets
    - con: complex, volume, administration efforts, regulatory frame

- **Other**
  - **SWAPs**
    - pro: risk balance in multi exposed areas
    - con: up to now only few examples in the insurance world
Hard Facts

- 2004 costliest year for global insurance industry ever: >US$ 40 bn (clrd. inflation)
- 2004 Economic losses ca. US$ 150+ bn. (Great Tsunami > US$ 10 bn)
- Chasing ROE (return on equity), combined ratios [strong role of media]

Further

- Ratings, investors, interest rates, stock market issues
- Actual/Emerging risks (terror, long tail business, climate change etc.)?
- New business (E-commerce, ART, Renewables, Kyoto products)
- New markets, emerging markets
- Equator principles, social responsible investments (SRI), NGOs etc.
- Innovation (new products for the developing world?)
What we need

- A large group of insureds (solidarity principle, also positive prizing effect)
- Commitment to minimize/mitigate losses (deductibles)
- No “anti selection” (negative risk selection)
- Hazard and loss assessment, claims handling system
  - Long-term business and wide geographical spread
  - Long-term trustful business relationship
  - Stable distribution system
- Clear Rules and regulations (government, administration)
- Demand (clear interest of the affected)
Strong commitment of all involved groups

Political (and economic) stability, long-term involvement

Visible win-win-situation

Public Private Partnerships are a way out, a promising chance we all must fight for!

Strong commitment and dialogue is the key