



World Bank Group

First Regional Europa Re Insurance Conference **Developing Catastrophe and Weather Risk Market in Southeast Europe: From Concept to Reality**

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Benefits of compulsory disaster insurance

- Ensures massive participation
- Eliminates adverse selection.
- Guarantees better pricing of products (due to a large customer base and hence smaller profit margin required to make products profitable).
- Reduces costs of sales as the product is “compulsory” for consumers.
- Reduces political pressure on governments in aftermath of natural disasters to pay post disaster compensation as most policyholders have an insurance coverage.



Opting for pragmatism

- While non-compulsory programs are less ideal they are easier and faster to organize.
- If designed properly – offer an appealing affordable product, properly educate consumers, and find ways to bundle insurance with other financial products (mortgages) – overtime voluntary programs can become effective.
- Inherent deficiencies of non-compulsory schemes can be addressed through change of government post-disaster policies (incentives to buy insurance), price-based underwriting and appropriate product design.
- Europa Re is an example of such an approach to developing catastrophe and weather risk markets.



Compulsion or persuasion?

Catastrophe pools world-wide

Country	Cover	Institution	Type
Algeria	CR	CCR	PP
Australia	T	Australian Reinsurance Pool Corporation (APRC)	PP
France	CR	CCR	PP
France	T	GAREAT	PP
Germany	T	Extremus	PP
Romania	CR	PAID	PP
Indonesia	CR	PT.Asuransi.MAIPARK	PP
Japan	CR	(JERe)	PP
Morocco	CR/T	SCR	PP
N. Zealand	CR	EQC	PP
Netherlands	T	NHT	PP
Norway	CR	Norsk Naturskedepool	PP
S. Africa	T	SASRIA	PP
Spain	CR/T	Consorcio	PP
Sri Lanka	T	National Insurance Company	PP
Taiwan	CR	Central RE (TREIP)	PP
Thailand	CR	Thai Re	PP
Turkey	CR	TCIP	PP
UK	T	Pool Re	PP
US	T	TRIA	PP

•PP = Public Private Partnership

•CR = Natural Cat Risks covered.

•T = Terrorism covered.



Compulsory disaster insurance programs: a myth or reality?

- TCIP – compulsory by decree law (but no penalties envisaged for offenders)
- PAID – penalties are envisaged but implementation has been delayed and enforcement mechanism is not in place yet
- CEA – not compulsory for homeowners
- JEP – not compulsory
- Taiwan – not compulsory
- NEC – not compulsory (only when one buys a fire policy)
- Nat Cat (France) – not compulsory – only when one buys a fire policy



Disadvantages of mandatory disaster insurance schemes

- Immediately invite political opposition as they are typically perceived by the public as another government tax.
- If supported by government - become quickly politicized and runs into numerous political risks:
 - Risk of politically set premium rates and deductibles;
 - Risk of inadequate technical reserves and reinsurance;
 - Risk of uncertain government financial support for the program.
 - Risk of political hijacking of accumulated surplus.
 - Risk of politicized Board of Directors.
 - Risk of politically appointed management.