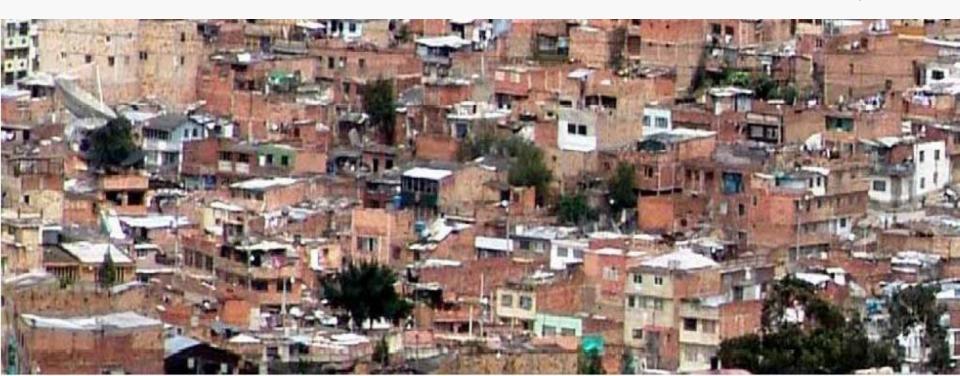


## First Regional Europa Re Insurance Conference Developing Catastrophe and Weather Risk Market in Southeast Europe: From Concept to Reality

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October 15, 2011



### 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.

# World Bank Group

### **Compulsion or persuasion? Catastrope pools world-wide**

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

<sup>•</sup>PP = Public Private Partnership

<sup>•</sup>CR = Natural Cat Risks covered.

<sup>•</sup>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.