

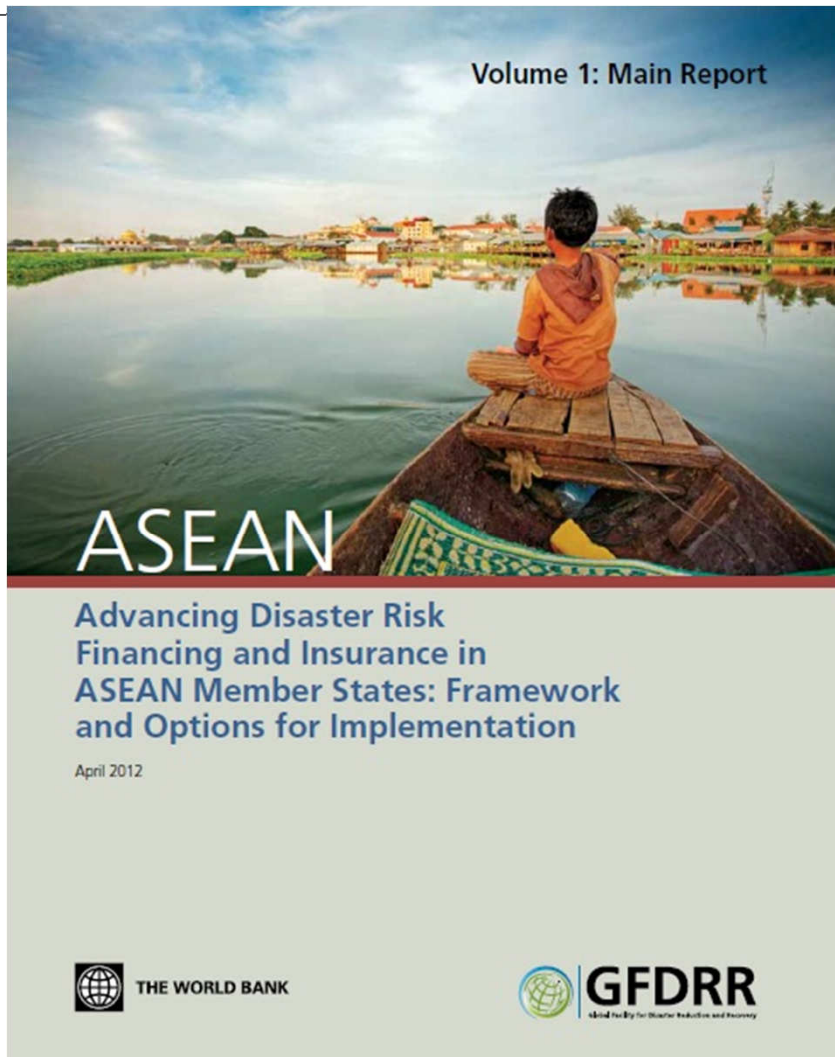
Agenda

Section 1	Introduction
Section 2	Challenges
Section 3	Case Studies
Section 4	Points to Ponder
Section 5	Conclusions



Section 1: Introduction

A bit of background...



ASEAN:

Advancing Disaster Risk Financing and Insurance in ASEAN
Member States: Framework and Options for Implementation

April 2012

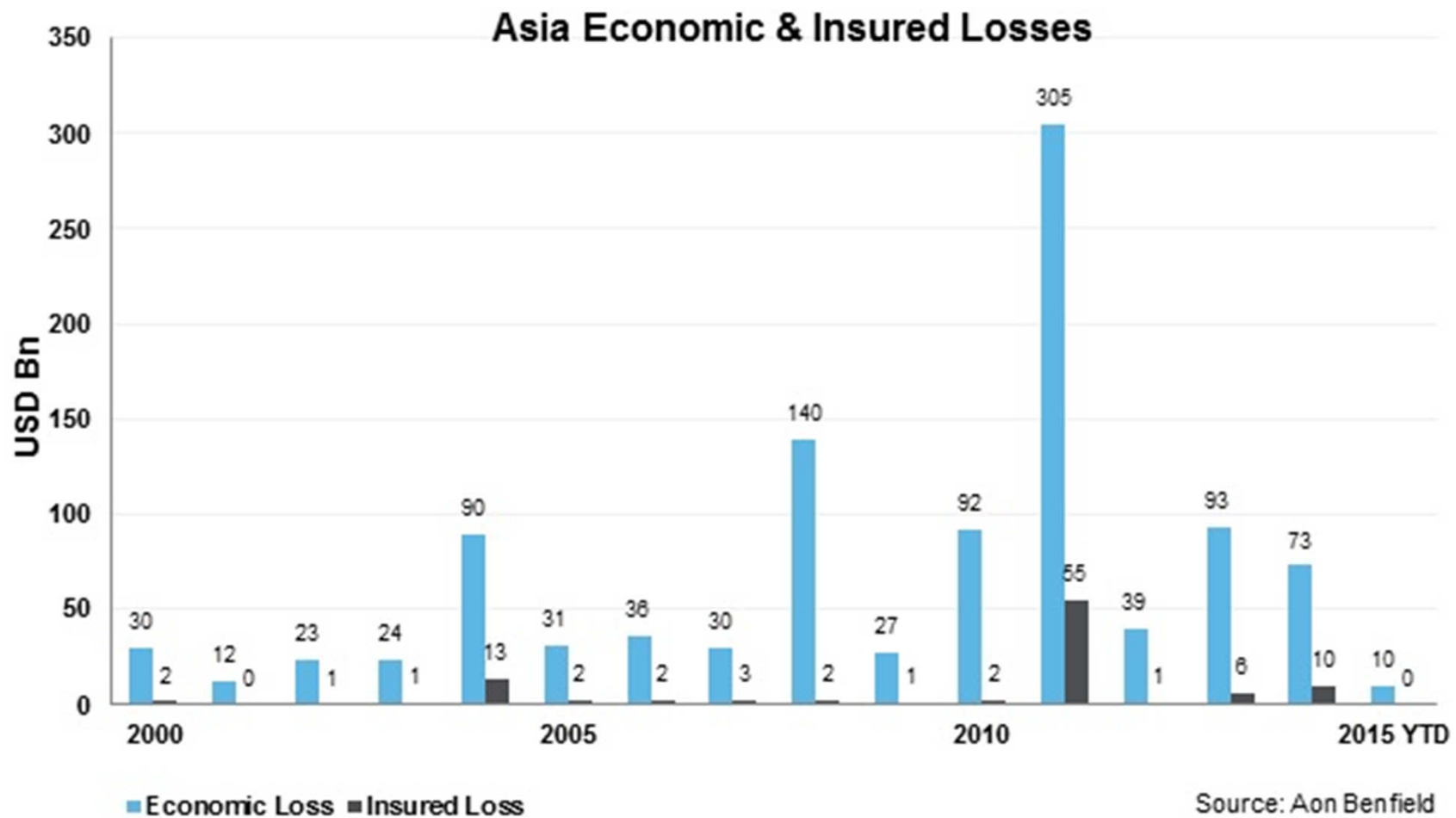
Volume 2: Technical Appendices

This volume complements the main report, which is published as a separate document. It compiles technical background notes and papers drafted for the preparation of the main report. The team has made every attempt to verify the contents presented, but the information should be interpreted with due consideration to its limitations resulting from the fact that indirect sources have been used where primary sources were not available and that the collective knowledge in this area is limited.



Source: World Bank, GFDRR

Asia Economic and Insured Losses (from 2005)





Section 2: Challenges

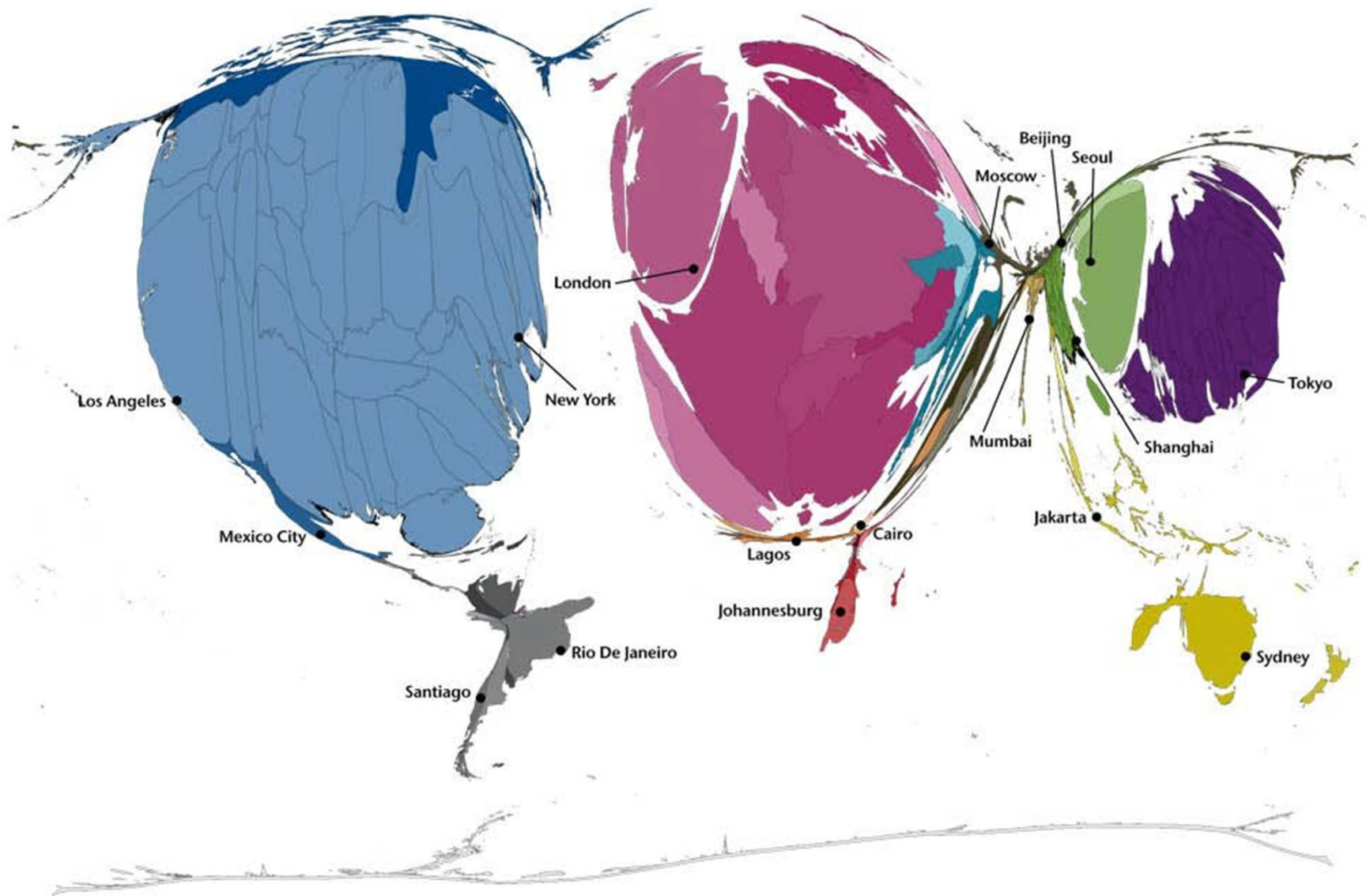
The Challenge of Covering Catastrophic Risks in Asia

- Lack of risk awareness
- Low disposable income
- High concentrations of risk – Asian mega cities
- Anti – selection > high premiums > inhibits sales
- Risk communication

- Local Insurers in Asian markets lack the incentive to actively promote and extend cover for Nat Cat perils:
 - The difficulty of generating economically viable risk pools with sufficient diversification of risk and adequate premiums
 - The challenge of modelling and pricing potentially high severity risks with little valid experience
 - Low capitalisation and heavy reliance on reinsurance
 - Accounting and tax rules inhibit the build up of cat reserves
- **Cat presents a volatile risk with low net returns for most local insurers**
- **Yet the global reinsurance market has the capacity, scale and ability to diversify cat risks on a global basis**
- **Key lies in regulation and state intervention**

Low Insurance Coverage for Catastrophe Risks in Asia – the DRF Gap

- Coverage Gap: Low Insurance Penetration in the emerging markets of Asia
 - Only the large commercial and Industrial sector covered for cat perils
 - Low residential risk coverage
 - Minimal public sector risk coverage



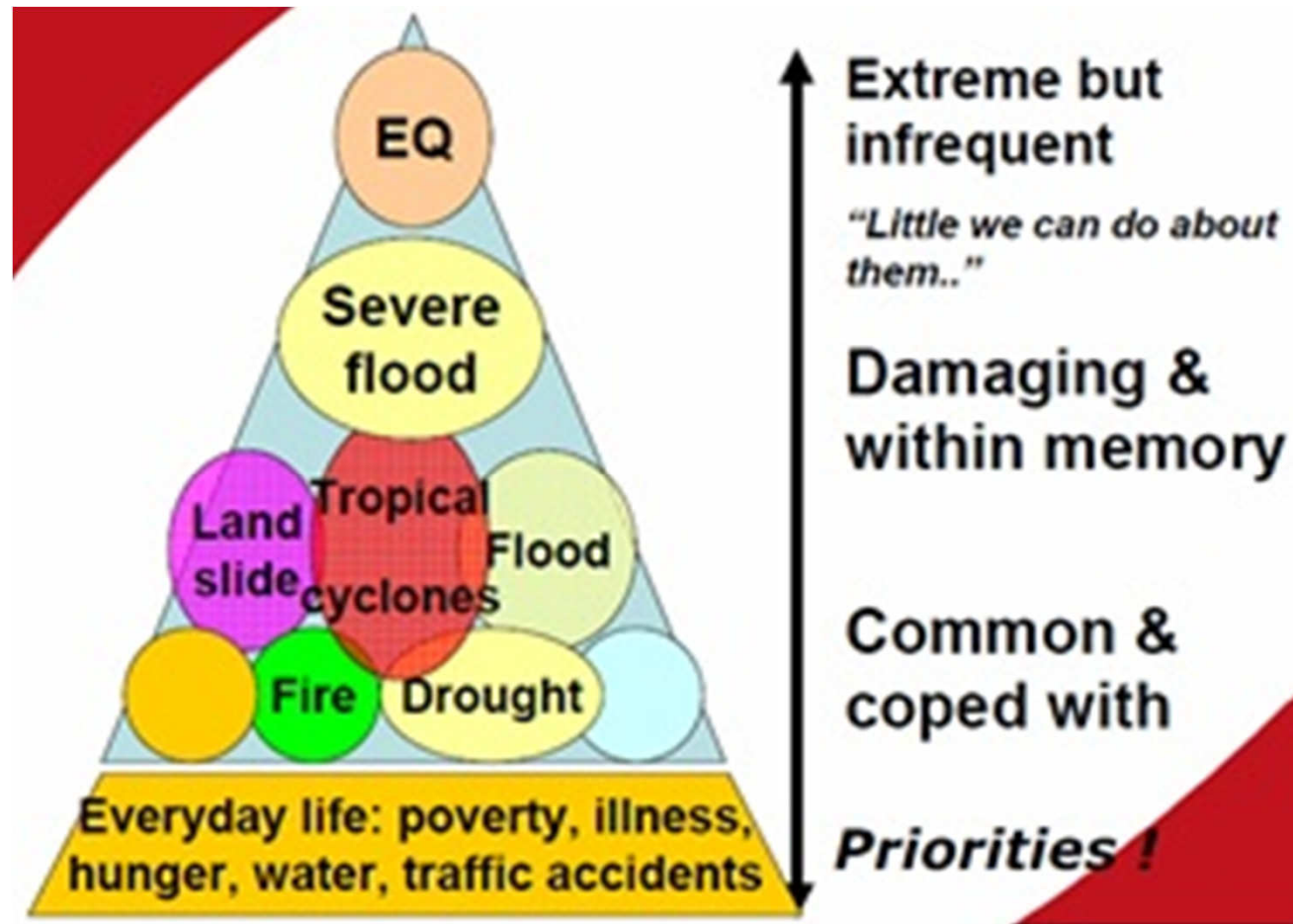
Cartogram showing the insurance penetration

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Source: Aon Benfield Insurance Risk Study 2012

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Risk Hierarchy



Source: Cannon 2011



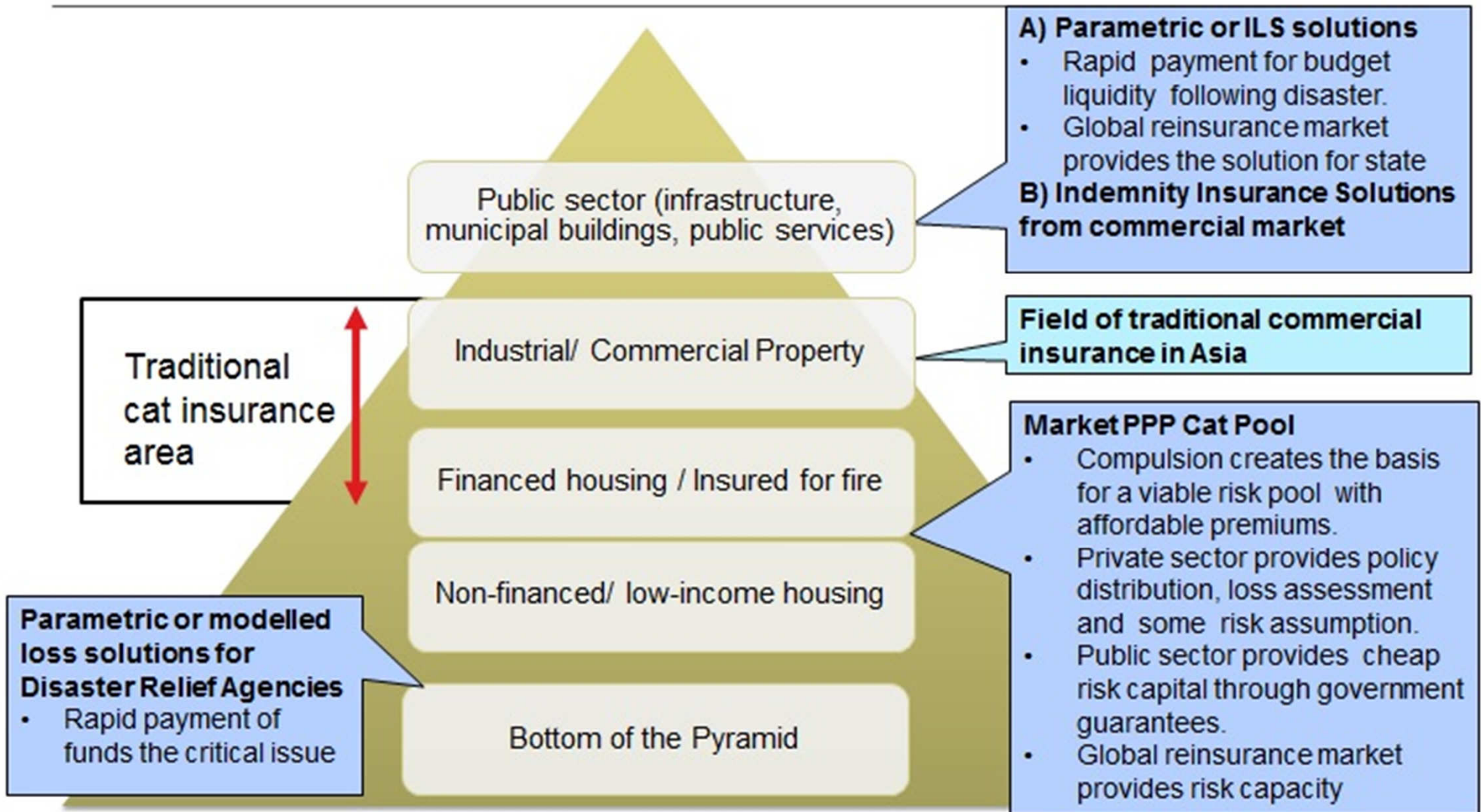
Section 3 Case Studies

Major Variance in the Contribution of Insurance to Disaster Risk Financing

Major Cat Losses 1999-2012 in APAC and USA					
		LOSS (USD MILLIONS)			
TERRITORY	EVENT	YEAR	INSURED	ECONOMIC	RATIO
New Zealand	Lyttleton EQ	2011	13,500	16,000	84.4%
New Zealand	Darfield EQ	2010	3,050	5,000	61.0%
Australia	Queensland Floods	2011	2,480	30,000	8.3%
South Korea	Typhon Songda	2004	3,500	9,250	37.8%
USA	Hurricane Katrina	2005	66,900	125,000	53.5%
USA	Hurricane Sandy	2012	30,208	71,780	42.1%
Thailand	Floods	2011	15,500	45,000	34.4%
Japan	Tohoku EQ	2011	35,000	210,000	16.7%
India	Mumbai Floods	2005	844	3,350	25.2%
Indian Ocean	Sumatra EQ and Tsunami	2004	3,000	14,000	21.4%
China	Snowstorms	2008	1,300	22,150	5.9%
Taiwan	921 Chi Chi EQ	1999	750	14,100	5.3%
Indonesia	Padang EQ	2009	50	2,300	2.2%
Taiwan	Typhoon Morakot	2009	130	6,200	2.1%
Indonesia	Yogyakarta (Bantul) EQ	2006	40	3,100	1.3%
China	Wenchuan EQ	2008	366	85,000	0.4%

- Insurance for Cat losses in developing markets of Asia usually less than 10% of economic loss
- Places major potential burden on the less diversified and vulnerable economies of Asia
- Fiscal burden of 1/200 yr event estimated at 5% (IDN) to 20% (PH) of annual govt expenditure (World Bank)

The Place for Disaster Risk Financing and PPP Solutions



Critical Success Factors for Residential Nat Cat Scheme for DRF

- **Compulsion** for homeowners to insure:
 - Creates sufficiently large and diversified risk pool to make the insurance of cat risks viable and affordable.
 - Requires the establishment of state owned entity to carry and manage risk
- **Government capital support**
 - Contingent capital or guarantee for tail risk with or without levies/debt financing
 - Spreads risk over time and reduces capital cost making insurance affordable
- **Simple basic cover for the masses**
 - Limited Cover for majority with limited risk premium differentiation
 - Optional excess cover
- **Partnership with private Insurance sector**
 - Harness policy distribution and claims settlement capability
- **State owned catastrophe insurance fund**
 - Build up over time no profit basis, tax free



Section 4: Conclusions

Thank you for your time and attention!



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