

Global Risk Spreading of Catastrophe Risks

RSC 3.1



IAIS Reinsurance Committee

Cape Town, South Africa

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Tracey Laws, Senior Vice President & General Counsel
Reinsurance Association of America

Agenda

1. 2011 Catastrophe Losses
2. Reinsured Share of 2011 Catastrophe Losses
3. Key Elements for Well-Functioning Global Reinsurance Market
4. Regulatory Protectionist Measures
5. Suggested IAIS Response

2011 Catastrophe Losses – U.S.

United States

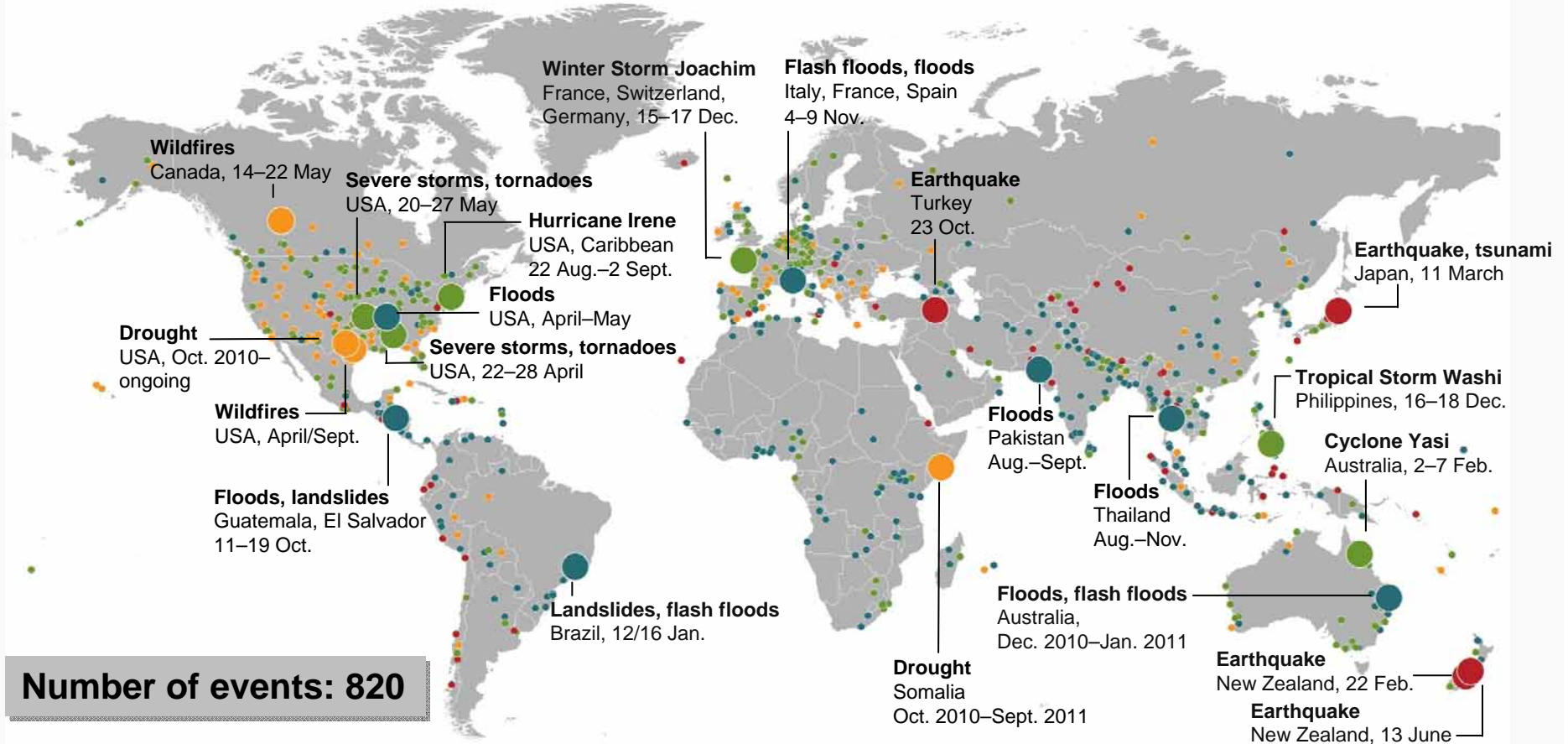
2011 Economic Losses: \$72.8 BN

2011 Insured Losses \$35.9 BN

- Very active/deadly thunderstorm season (> \$25BN)
- Hurricane Irene & Tropical Storm Lee: major flooding
- Severe spring flooding in Midwest & Great Plains
- Earthquake in Virginia felt along Eastern Seaboard
- Most damaging wildfires in Texas history

2011 Catastrophe Losses – Global

Natural Catastrophes 2011



Number of events: 820

- Natural catastrophes
- Selection of significant loss events (see table)
- Geophysical events (earthquake, tsunami, volcanic activity)
- Meteorological events (storm)
- Hydrological events (flood, mass movement)
- Climatological events (extreme temperature, drought, wildfire)

2011 Catastrophe Losses – Global

Natural Catastrophes Worldwide 2011

Significant Events

Earthquake, tsunami Japan	Strongest earthquake in Japan, Mw 9.0, with destructive tsunami waves up to 40 meters.	Costliest event ever in terms of overall losses; costliest event 2011 in terms of insured losses.
New Zealand	Three strong earthquakes (Mw 5.9/6.3/7.0) in 10 months.	Second highest losses for the insurance industry in 2011.
Floods Australia and Thailand	The series of floods 2010/11 were the most devastating in modern Australian history.	Strong rainfalls from Aug.-Nov.; highest insured losses ever from nat cat events in Thailand.
Drought, famine Somalia	Lack of rain, two short rainy seasons since October 2010.	Expected deaths due to famine in the tens of thousands.

2011 Catastrophe Losses – Global

Global

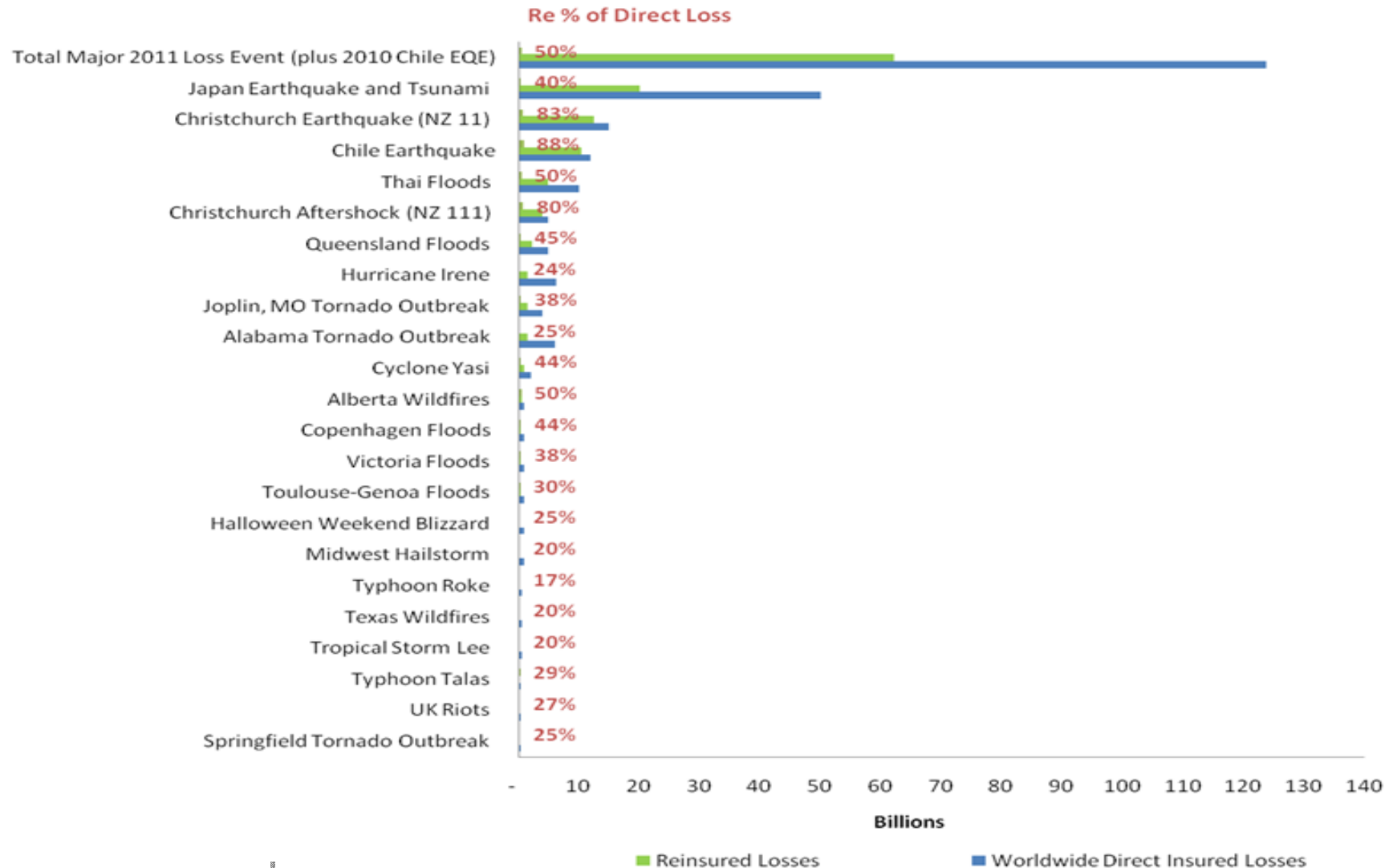
2011 Economic Losses: US\$ 380 BN

2011 Insured Losses: US\$ 105 BN

Five Most Costly Insured Natural Catastrophes	Economic Loss	Insured Loss
Japan EQ/Tsunami	US\$ 210 BN	US\$ 35-40 BN
New Zealand EQ	US\$ 16 BN	US\$ 17 BN
Thailand Floods & Landslides	US\$ 40 BN	US\$ 15 BN
US Storms	US\$ 15 BN	US\$ 7.3 BN
US/Caribbean Hurricane Irene	US\$ 15 BN	US\$ 7 BN

2011 Catastrophe Losses – Reinsured Share

Reinsurers' Share of Recent Major Loss Events



Source: Holborn

2011 Catastrophe Losses – Reinsured Share

Risk Spreading through Private Global Reinsurance Market

Jurisdiction	Insured Losses (Mega Cats)	Reinsured Losses (Mega Cats)	Estimated Reinsured Share	Non-Domestic Reinsured Share
Australia	US\$ 8 BN	US\$ 3.5 BN	44%	90%
New Zealand	US\$ 17 BN	US\$ 12.5 BN	73%	100%
Japan	US\$ 35-40 BN	US\$ 12-14 BN	40%	98%
Thailand	US\$ 15-20 BN	US\$ 12 BN	60%	95%
Chile	US\$ 8.5 BN	US\$ 8 BN	95%	100%
2011 Summary	US\$ 75-85 BN	US\$ 40-42 BN	54% avg.	96% avg.
Summary (inc. Chile 2010)	US\$ 83-93 BN	US\$ 48-50 BN	62% avg.	97% avg.

Key Elements

- Principle of Diversification
- Pooling risks that are not interconnected
- No ring fencing of risk or capital
- Competitive market environment
- Focus on limiting barriers on entry so that reinsurance capital can flow into those markets

Regulatory Protectionist Measures

Brazil

- 20% limit on affiliated reinsurance to non-Brazilian affiliates
- 40% of all risk reinsured with local reinsurers

Argentina

- First \$50M of all Argentine risk must be placed with local reinsurers

India, Thailand, China

- Mandatory cessions to local reinsurers

Government Catastrophe Funds

IAIS Has a Prudential Interest In These Protectionist Measures

Limits Global Risk Spreading

- Limit risk spread
- Limit risk pooling into entities with readily available capital
- “Ring fenced capital” locally can be problem for jurisdiction

Government funds

- If pre-funded, a large event may wipe out capital
- If post-funded, may not be able to raise enough money
- In 3 of last 4 years, US FHCF determined it would be unable to issue enough government bonds
- Can deter capital investment from private reinsurers

Request to IAIS Reinsurance Subcommittee

Review IAIS standards, guidance and principles on reinsurance to note importance of global risk spreading for large events and that protectionist measures mandating localized capital or localized reinsurance companies of funds may create a solvency risk for local ceding insurers and a risk to efficient workings of (re)insurance markets in the jurisdiction.

