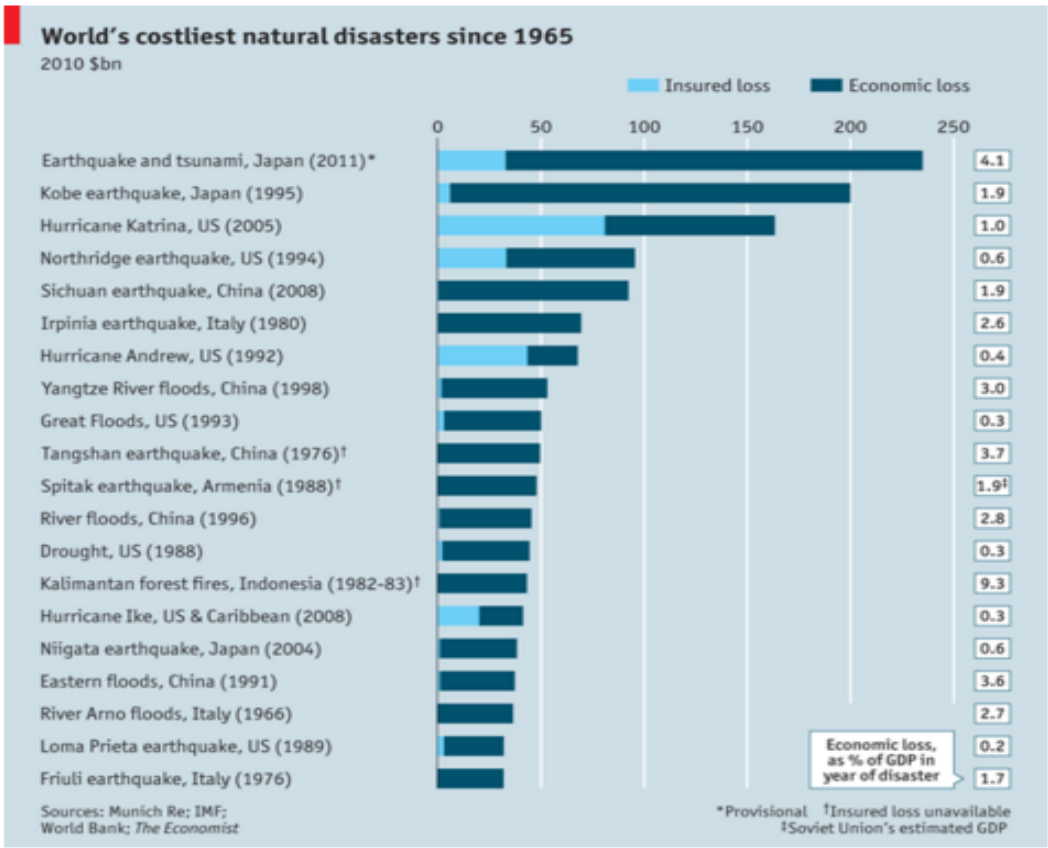
Trust Re Perspectives

Asian Markets Push for Development of Catastrophe Risk Insurance

Key international players are taking more interest in penetrating the Asian catastrophe insurance market as nations across the natural-disaster prone continent continue to pursue the growth of catastrophe risk insurance. As catastrophe reinsurance rates hover near pricing troughs across key markets such as the United States, Europe, Canada and Australia, established reinsurers and the insurance-linked securities (ILS) market are looking at new emerging opportunities in regions such as Asia. In this article, Trust Re offers a perspective on the potential for development of catastrophe risk insurance in this region as well as the link between demand for catastrophe insurance and the continuous need to educate to ensure greater uptake of insurance.

Calamity risks are higher in Asia than in other regions because their geographic location is more susceptible to potential typhoons, floods, tsunamis, earthquakes and other natural disasters. It is also evident that damages caused by natural calamities have considerably increased worldwide over the last fifty years. Many insurance groups have recognised the risk and importance of catastrophe insurance in the region and have started to branch out in areas of need.



Source: *The Economist – Natural Disasters: Counting the Cost*

Rapid urbanisation means risks are more concentrated in certain areas – so if a disaster hits a highly dense or populated city, insurance companies struggle to cover losses. This is why the need for educating the public on catastrophe insurance is becoming an imperative risk management objective in order to minimise losses and maintain financial and human resources.

According to an article from *The Economist*, of the $101 billion in global economic losses in 2014, nearly half stemmed from natural disasters in Asia. According to Swiss Re, of these, only 8% were covered by insurance (compared to 60% in America). In April, the earthquake that struck Nepal is thought to have cost around $5 billion in damages – yet insurers will only end up paying about $160 million in claims. Ashok Kumar Roy, CEO of GIC Re says losses are still being evaluated.

TABLE 1: 2014 ASIA-PACIFIC LOSSES BY DISASTER TYPE

Disaster type	Occurrences	Deaths	Total Affected	Economic Losses (US$)
Flood	52	3559	28.6 million	26.8 billion
Storm	37	730	16.3 million	25.8 billion
Earthquake	7	733	1.9 million	6.7 billion
Volcanic activity	5	101	0.17 million	186 million
Drought	5	180	31.5 million	18 million
Landslide	9	657	0.18 million	Not recorded
Extreme Temperature	3	88	1 million	Not recorded
Wildfire	1	2	168	25 million
Total	119	6050	79.6 million	59.6 billion

Data source: D. Guha-Sapir, R. Below, Ph. Hoyois - EM-DAT: International Disaster Database – www.emdat.be – Université Catholique de Louvain – Brussels – Belgium. Data accessed: 9 February 2015

Source: UNESCAP – *Disasters in Asia and The Pacific: 2014 Year in Review*

The difference between catastrophe insurance and other types of insurance lies in the fact that it is difficult to estimate the total potential cost of an insured loss of a natural disaster, which equates to a rather large number of claims being filed at the same time. This makes it difficult for catastrophe insurance issuers to effectively manage risk. Reinsurance and retrocession are used as well as catastrophe insurance to manage catastrophe risk.

While initiatives to develop catastrophe insurance increase, catastrophe risk pooling and catastrophe reinsurance markets in Asia are often slow to develop. This is due to low penetration and also because they are quite small. This poses a huge threat to sustainable development in the region, compared to

established markets. Involvement is important to demonstrate awareness and willingness to back these initiatives with reinsurance and risk transfer capacity. However, positive signs of acceleration are now evident as interest by key international insurance players, ILS and collateralised markets increases.

"The prospects in Asia are especially bright. The Asian risk landscape is transforming rapidly, generating robust demand for insurance and reinsurance," said Ravi Menon, Managing Director of the Monetary Authority of Singapore. A lot of big insurers and reinsurers, as well governments and regulatory authorities are starting to take initiatives to educate the public about the importance of catastrophe-risk insurance.

The Philippines has been planning to enforce mandatory disaster insurance cover for homeowners and small to medium enterprises since May of 2015. The proposed 'calamity insurance', as it is being called, is designed to cover losses from typhoons, flooding from typhoons, earthquakes and fires. It is estimated that only 1 percent of Manila's 14 million population are currently insured.

The regulatory environment has gradually been tightened, in the hope of strengthening overall financial stability and enhancing risk-management capabilities. Fitch believes that various regulatory initiatives could indirectly lead to a greater demand in reinsurance, as direct insurers rethink their risk-management strategies.

According to Fitch, Asia is in need of greater (re)insurance protection for catastrophe losses due to the substantial gap between insured losses and economic losses. This view was echoed during a signing ceremony in June between the Monetary Authority Singapore, Lloyds in Singapore, and the British government. Signatories have agreed to work together and share data and aid in the understanding of catastrophe risk in Asia, which would ultimately support (re)insurance companies across the region.

Events such as the earthquakes that shook Nepal, the cyclone that left Philippines ravaged in mid-2015, and the earthquake that rocked northern Afghanistan, have devastated the countries' economies and caused billions of dollars in damage. Significant lives have been lost, and property and infrastructure have been damaged to such a degree that recovery will be slow and costly. Insurance and reinsurance markets currently play a small role in financing the recovery, but positive signs of acceleration are now evident as interest by key international insurance players, increases.

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