Catastrophic Insurance Regimes

Rachel Anne Carter[1]

[1] Associate Lecturer and PhD Scholar (in conjunction with the Bushfire CRC) School of Law, La Trobe University, Bundoora, Victoria
International Association of Wildfire Law PhD Scholarship Recipient 2012.

The Problem

More Frequent and Severe Catastrophic Events	Approximately 30% of people are uninsured or inadequately insured	Different pricing structures in each state	Cost Factor prevents access for a number of people	Reliance on Public Benevolence and Government Handouts

The Options

Status Quo	Adopt Recommendations in the National Disaster Insurance Review	Conduct further research	Look to international examples for guidance

Barriers

Who will pay for what both in terms of money and in terms of resourcing (delineating responsibility	Communication barriers between the different stakeholders	Uncertain methodological paradigms (mitigation and resilience v post disaster recovery)	Social perception of risk and attitudes towards planning for risk

RESEARCH USES FOR SOCIETY

Australia has much to learn from the increase in catastrophic disasters, particularly the flooding in NSW (2012) ,Queensland (2010 – 2011), Victoria (2011, 2012) and the effects of Cyclone Yasi (resulting in 99% of the state being declared a disaster zone and in excess of $9.3 billion in property losses with only half of the losses covered by insurance). This project will be beneficial in seeking to explore ways to increase levels of adequate insurance coverage and mitigate losses endured by individuals, society and governments resulting from catastrophic events.

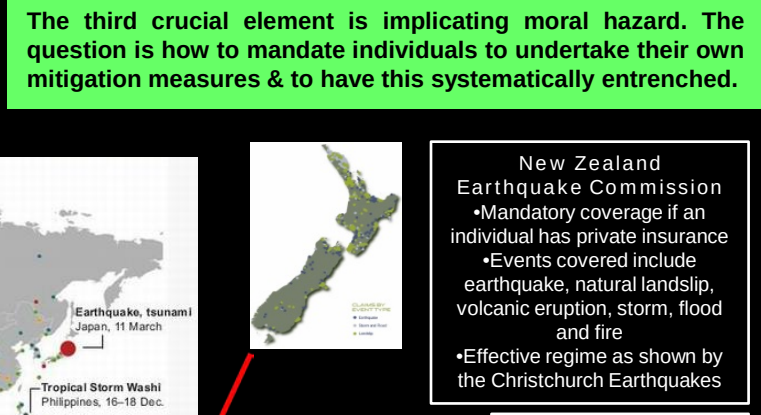
IMPACTS AND IMPORTANCE OF RESEARCH

The research is of significant value to insurers, government & individuals.

There are a number of Senators currently watching the progress of my PhD as a potential basis to remedy any latent defects within the current insurance regulatory regime in Australia. In the wake of the catastrophic disasters of 2011, there is official acknowledgement (National Disaster Insurance Review, House of Representatives Inquiry into the Operation of the Insurance Industry During Disaster Events) of the need to promote Australia's resilience and ensure that individuals have their economic assets protected through insurance or an alternate means.

RESEARCH METHODOLOGIES

Between December 2011 – May 2012, I have undertaken PhD research at the OECD in Paris. Researching at the OECD enabled me to talk to key economists, policy makers and leading insurance experts to better inform my project. I obtained a greater understanding of international catastrophic insurance regimes, particularly the systems in France, Spain, New Zealand, Turkey and the United States. Following the G20 Summit in 2012 there have been calls to mandate further research into risk exposure worldwide. This PhD project is positioned well to deliver such information and highlight the most preferable options for economic protection and prevention of property losses in Australia.



THE SOLUTION

The project will propose the most viable economic solution to protect against property losses in Australia occasioned by catastrophic weather related events. The solutions will centre on using the law and regulatory regimes governing insurance to achieve this.

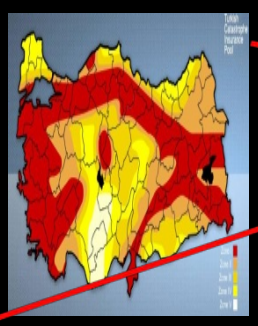
A key aspect required to derive at the optimal solution will require a clear and decisive delineation of responsibility between the key stakeholders (insurers, government and individuals). In formally dividing responsibility the costing must be apportioned to each stakeholder both in terms of monetary contributions and resourcing obligations. The optimal balance must be struck between the public/ private divide. In doing so questions are asked about implicating the private insurance sector with the requirement to provide full insurance coverage for all events. In some areas where the risk is exceptional, facilitating insurance coverage will involve interaction. The PhD project will suggest ways that this necessary overlapping of responsibility can be achieved.

The third crucial element is implicating moral hazard. The question is how to mandate individuals to undertake their own mitigation measures & to have this systematically entrenched.

Map Source: Munich RE

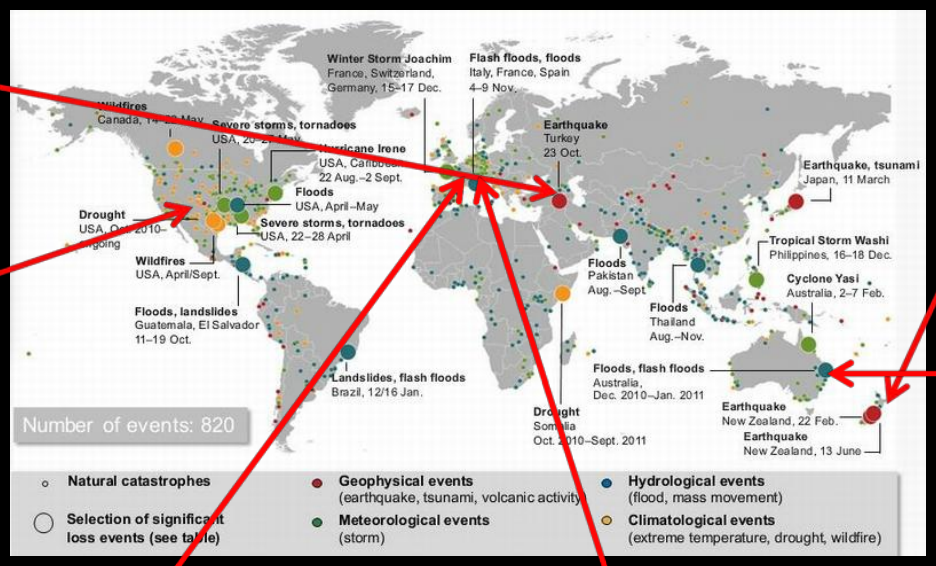
Turkey Catastrophe Insurance Pool & Compulsory Earthquake Scheme

- 96% of Turkey is exposed to earthquake risk
- Scheme brought into place to overcome low insurance penetration
- Appears to be working well although more time is needed to determine the viability of the regime in the long term
- Features specific to the localised risk



United States

- State based insurance regimes which cover particular perils
- Some regimes which exist are:
- California Earthquake Authority
- Florida Hurricane Catastrophe Fund
- Texas Windstorm Insurance Association
- National Flood Insurance Program
- Many economic problems with the viability of state based single peril risk regimes
- Some of the biggest catastrophic insurance losses have occurred in the United States
- Constant production of catastrophic risk research with research centres dedicated to each of the most threatening perils (flood, wildfire, hurricane, windstorm, earthquake etc)



New Zealand Earthquake Commission

- Mandatory coverage if an individual has private insurance
- Events covered include earthquake, natural landslip, volcanic eruption, storm, flood and fire
- Effective regime as shown by the Christchurch Earthquakes

Australia

- Insurance Cover generally includes cover for fire, hailstorm and cyclone
- Introduction of Uniform Flood Definition (but not uniform cover)- insurers can decide not to cover flood in particular localities or price risk on actuarially sound models
- Autonomy of individual insurers (coverage terms and pricing)
- Disconnect between the roles and responsibilities of the key stakeholders

France CatNAT

- Compulsory insurance (and compulsory catastrophic risk cover)
- System premised upon solidarity which is entrenched in French culture
- Coverage is for events which would otherwise be 'uninsurable'
- French government is re-insurer but insurers can use the private re-insurance market instead

Spain Consorcio de Compensacion de Seguro

- Mandatory for those with insurance coverage to be covered for listed catastrophic risks
- Scheme has been economically viable and has sufficient reserves
- Regime is the oldest catastrophic insurance coverage regime in the world (origins in the Spanish Civil War)
- Consorcio covers against a variety of events (not just catastrophic risk)

Rachel Anne Carter
Email: rachel.carter@latrobe.edu.au
Phone: (03) 9479 3684