



somewhat
different

Reinsurance and Climate Change

Challenges and Contributions

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Agenda

► Challenges

- current data
- claims
- legal proceedings

► Contribution

- parametric insurance
 - direct schemes
 - indirect schemes
- other

Challenges

current data

► Press release Hannove Re 13 March 2018:

- *“The 2017 financial year was a challenging one; it was the year with the heaviest burden of large losses in our company’s history.”* CEO Ulrich Wallin.
- Hurricanes Harvey, Irma and Maria resulted in net catastrophe loss expenditure of EUR 749.4 million for Hannover Re in the third quarter.
- Wildfires in California caused losses of EUR 101.1 million in the fourth quarter
- These and other events added up to total major loss expenditure of EUR1,127. million.

Challenges

Claims - example Earthquake Ecuador

Magnitude 7.8 quake, Muisne, Ecuador



On the 16th of April 2016, an earthquake occurred in the province of Manabí, Northeast of Ecuador. The intensity was 7.8 on the Richter scale.

The quake severely affected all locations in this zone, with greatest levels of destructions in the cities of Manta and Portoviejo, and also in Guayaquil, one of Ecuador's main ports.

Challenges

Claims - example Earthquake Ecuador

“Zona 0” Manta, Manabí



Challenges

Claims - example Earthquake Ecuador

► Contingency Plan

- ideally a CP should consist of inter alia:
 - meeting point for staff
 - technical back up procedure (hardware and software) available copies of files and correspondence
 - loss adjusters (can local operate? sufficient man power for the job? cooperation with foreign loss adjuster? how soon can foreign loss adjuster start working?)
- what we found
 - some companies had a CP but for a different event (volcanic eruption near Quito)
 - Zone 0 in Manta was closed for more than a year
 - without CP for earthquake in Manabí claims handling was delayed (eg late arrival of loss adjusters)
- conclusion:
 - companies need a well structured CP for every type of event, for every zone
 - RI can support clients in developing such a CP

Challenges

Claims - example Earthquake Ecuador

► Underinsurance

- consumer is not educated regarding insurance and unfamiliar with the concept of underinsurance
- policies are not standardized in the market.
- evaluation of applicability of underinsurance case by case and per cedant



Challenges

Legal proceedings - example Thai floods

► Facts:

- widespread flooding over a seven month period May 2011- January 2012
- 67 provinces were affected
- more than 884 people were killed and millions of residents were either left homeless or displaced
- economic losses were estimated by the World Bank at USD 45.7 billion; one of the top five costliest natural disaster events in modern history
- the insurance industry suffered at least USD 10.8 billion in losses



Challenges

Legal proceedings - example Thai floods

► Arbitration:

- disagreement about whether the flood losses claims by cedant constitute a single loss occurrence under the loss occurrence definition of the RI wording
- SR 460: variation of the traditional hours clause
 - para 1: general definition of event
 - i. same cause (i.e. peril which directly occasions the loss)
 - ii. same period of time
 - iii. in the same area
 - para 2: list of perils that shall constitute a single loss occurrence
 - para 3: subsidiary hours clause if above definition does not suffice
 - para 4-7: other
- HR: “flood by one and the same instance of high water” listed under para 2 automatically constitutes one single loss occurrence; alternative argument; unity test positive
- cedant: not possible to determine number of loss occurrences under para 1+2 and applies hours clause (2x504h)

Contributions

Parametric Insurance - direct schemes

- ▶ Parametric (aka 'index') risk insurance provides insurance that pays out benefits on the basis of a predetermined index
- ▶ Index can be e.g rainfall level, drought, Richter Scale, area yield
- ▶ when the index is triggered (eg rainfall level is higher than the accorded benchmark) payments will be made to the beneficiaries without the necessity of a proof of loss and a loss assessment.

- ▶ RI direct schemes
 - RI offers parametric solutions for cedants in regions with little available data and loss history
 - development of original insurance product including pricing together with cedent
 - tailor made reinsurance coverage and service during term

Contributions

Parametric Insurance - indirect schemes

- ▶ The InsuResilience Investment Fund forms part of the G7 InsuResilience Initiative
- ▶ IIF set up by KfW Development Bank on behalf of the Federal Republic of Germany, represented by the Federal Ministry for Economic Cooperation and Development (BMZ). The Fund commenced its business activities in January 2015.
- ▶ aims to increase the protection of poor and vulnerable households as well as micro, small and medium enterprises (MSME) from climate volatility
- ▶ by promoting the development and distribution of climate insurance products in developing countries.
- ▶ RI business partnerships/ focus of reinsurance service is on
 - reinsurance underwriting capacity,
 - technical assistance to build capacity for successful scaling-up
 - facilitate access to industry contacts that can play a useful role for expansion of the client base.



Contributions

Parametric Insurance - indirect schemes

- ▶ African Risk Capacity (ARC)
- ▶ ARC provides index insurance against droughts to African Union member states.
- ▶ participating governments have to prepare contingency plans prior to taking out insurance. These plans determine how insurance payouts will be used when the insurance is triggered.
- ▶ By combining early warning and contingency planning with an insurance mechanism, ARC provides liquidity shortly after a catastrophic event, while the pre-planned activities ensure that payouts are used quickly and effectively, mitigating the detrimental impacts of disasters for the poor and vulnerable



Contribution

other- every little helps

- ▶ Group wide commitment to the climate in many different ways:
 - Hannover: joint project between the city and the region of Hanover. Talanx and HR have made a commitment to reduce the emission of climate damaging greenhouse gases overall to 40% less than in 1990
 - Rome: Replacing traditional PCs with thin clients at the end of 2015 enabled HDI Assicurazioni S.p.A. to reduce its energy consumption by 10%
 - Mexico City: claims regulators from HDI Seguros S.a. go the site of an accident by bicycle. Since June 2016 the insurer has been using e-bikes for getting around Mexico City.
 - Warsaw: the WARTA Group has been using LED illumination to reduce the energy consumed for outdoor advertising.

warta.



Thank you for your attention.



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