

GENEVA ASSOCIATION CALLS FOR INTEGRATED APPROACH TO MANAGING EXTREME EVENTS AND CLIMATE RISKS

- Disaster loss events are on the rise. Of those 91% were caused by weather-related extremes (1980–2015). These weather-related extremes caused the loss of more than 600,000 lives and more than USD 3 trillion in total economic losses
- Detailed independent analysis and research shows that countries with a robust penetration of market-based disaster insurance coverage recover faster from the financial impacts of extreme events
- (Re)insurance has become a key element of UN and governmental strategic disaster risk reduction efforts (e.g. the Sendai Framework for Disaster Risk Reduction and COP21 Paris Agreement)
- But strategic alignment of priorities and cooperation at the industry level along with effective partnerships with the public sector, the scientific community, IGOs and NGOs will be fundamental to increasing the vital contribution insurance can deliver

(Zurich, 23 September 2016) Weather-related disaster losses are in the increase, causing significant loss of lives, economic damage and often leading to significant economic hardship for individuals and enormous costs to taxpayers. Today reinsurance and insurance ('insurance') is being recognised as part of any comprehensive strategic disaster risk reduction plan by governments and international organisations. But according to a report issued today by the international insurance think tank, The Geneva Association, there remain hurdles that must be addressed to fully capture the industry's potential.

In the report, *An Integrated Approach to Managing Extreme Events and Climate Risks – towards a concerted public private approach*, The Geneva Association provides insights about the causes and effects of mounting social and economic risks, analyses the obstacles and opportunities to fully realising the insurance industry's potential and maps the landscape of stakeholders and their roles. . The report provides concrete recommendations on how to leverage and further expand the contributions of the insurance industry in building economic resilience to extreme event and climate risks.

Anna Maria D'Hulster, Secretary General of The Geneva Association, said, "The insurance industry is already making a significant difference to individuals and governments by reducing the impact of extreme events through risk management and transfer mechanisms. However, there remains a huge and unrealised opportunity to reduce disaster risk impacts further if the public and private sectors can more effectively harness the potential contributions of the insurance industry. In the face of increasing human and economic losses, it is imperative that these opportunities are realised."

Over the last three and a half decades, we have observed a trend of rising economic losses from weather-related disasters. During the period from 1980 to 2015, Munich Re's NatCatSERVICE identified 15,700 disaster loss events (Munich Re, 2016). Of those, 91 per cent were caused by weather-related extremes (meteorological, hydrological and climatological events). According to Swiss Re (2014) more than 130 million people are directly exposed to these perils in Asia's top five urban regions alone (Manila, Pearl-River Delta, Jakarta, Kolkata and Shanghai).

The vulnerability of critical infrastructure (e.g. energy, food and agriculture, water, transportation, health) and resilience of urban systems and megacities to shock events such as natural catastrophes has become a critical concern of many governments. For example, destruction, disruptions or interruptions in critical infrastructure

could lead to cascading effects across sectors and sometimes across borders, causing significant harm to the population's health and financial well-being as well as significant direct and indirect economic impacts.

Governments are at the heart of this issue with the multiple roles of creating enabling environments (sound policies and regulatory frameworks); creating the institutional foundations that enable more coordinated planning and budgeting on risk prevention and preparedness investments across governmental layers; supporting systematic collection of hazard and socio-economic data as a foundation for the understanding of risks; and, investing in raising societal awareness about extreme events and climate risk and ways to manage them.

Market-based insurance mechanisms not only help with risk sharing and risk transfer, but also encourage more risk-conscious behaviour. Research has revealed that countries with a robust penetration of market-based disaster insurance coverage recover faster from the financial impacts of extreme events. Von Peter et al. (2012) show that it is the uninsured part of catastrophe-related losses that drives macroeconomic costs, whereas well-insured catastrophes can be inconsequential or even positive for economic activity. For example, research from Lloyd's (Cebr, 2012) finds that a one percentage point rise in insurance penetration can reduce the burden on the taxpayer by 22 per cent.

The insurance sector can help design and launch relevant and innovative risk transfer solutions in response to known risks, particularly in regions where insurance is still in its infancy. Examples include reinsurers' support of innovative regional sovereign risk-pooling schemes such as the Caribbean Catastrophe Risk Insurance Facility (CCRIF), African Risk Capacity (ARC), and Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) or the structuring of catastrophe bonds on behalf of sovereign issuers, as in the case following Superstorm Sandy in New York City. Beyond these the industry can share its extensive risk knowledge and risk pricing expertise; research and knowledge in preventive measures, and its capacity for faster and more efficient claim settlement.

However, to make best use of risk sharing and risk transfer now and in the longer term, insurance needs to be embedded in any national and international integrated risk management and adaptation approach that addresses the underlying sources of risks. Strategic alignment of priorities and cooperation at the industry level along with effective partnerships with the public sector, the scientific community, IGOs and NGOs are fundamental to successful implementation.

Therefore, The Geneva Association makes four key recommendations in its report that will lead to a better outcome from international and national disaster risk reduction initiatives:

1. Raise awareness of the of socio-economic benefits of an integrated approach to managing disaster and climate risks through documentation and sharing of good practices
2. Harness the (re)insurance industry's risk knowledge and risk modelling expertise and develop of the next generation of predictive catastrophe risk models
3. Engage the insurance industry in enhancing resilience of critical infrastructure
4. Employ insurance solutions to enhance the resilience of mega-cities and urban systems

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A copy of the report is available on The Geneva Association website at:

www.genevaassociation.org/media/952146/20160908_Ecoben20_FINAL.pdf

A summary of the report is available on The Geneva Association website at:

https://www.genevaassociation.org/media/952149/20160909_ecoben4_final.pdf

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About The Geneva Association

The Geneva Association is the leading international insurance think tank for strategically important insurance and risk management issues. It is a unique platform for dialogue between leaders of the insurance industry and key decision-makers at the international and national levels to evidence the important social and economic role of the insurance industry.

The Geneva Association identifies fundamental trends and strategic issues where insurance plays a substantial role or which influence the insurance sector. Through the development of research programmes, regular publications and the organisation of international meetings, The Geneva Association serves as a catalyst for progress in the understanding of risk and insurance matters and acts as an information creator and disseminator.

The Geneva Association membership comprises a statutory maximum of 90 chief executive officers (CEOs) from the world's top insurance and reinsurance companies. It organises international expert networks and manages discussion platforms for senior insurance executives and specialists as well as policy-makers, regulators and multilateral organisations.

Established in 1973, The Geneva Association, officially the "International Association for the Study of Insurance Economics", is based in Zurich, Switzerland and is a non-profit organisation funded by its membership.

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