

RISK ATLAS

NATURAL CATASTROPHES

A costly year for nat cats

Record losses from natural disasters alongside an increasingly globalised world have made for a highly disruptive year

BY JULY THIS YEAR, THE TOTAL ECONOMIC LOSSES AS a result of severe natural hazards totalled around \$265bn (€195bn), according to reinsurer Munich Re. That is the highest ever loss on record, despite the figures only including half the year.

More recently, catastrophe modeller AIR estimated insured losses of between \$3bn and \$6bn for Hurricane Irene, caused by wind and storm surge damage to residential, commercial and industrial properties on the east coast of the USA.

Irene first made landfall in the USA on 27 August in North Carolina as a Category 1 hurricane, then paralleled the East Coast and slammed into Little Egg Inlet, New Jersey, the next day as a slightly weakened storm. Irene made a third landfall on Coney Island, New York, at tropical storm strength a few hours later.

The Risk Map here depicts some of the other key natural catastrophes to have hit this year, including a rash of heavy tornadoes, wildfires and heavy flooding – all of which hit the USA earlier this year. The fact that so many disasters have struck a region like the USA, where lots of people buy insurance, instead of the emerging markets, where insurance penetration is less deep, could hit the global insurance industry hard and result in a reduced risk appetite. The rating agency AM Best said that it believes some property and casualty insurers in the USA could face capital and, ultimately, rating pressures. However, it does expect the overall financial impact of Hurricane Irene to be “generally manageable” given the current overall strength of the

EXPERT VIEW

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Preparedness is key

The number, scale and destructive power of natural catastrophes appear to be increasing worldwide every year. Across the globe, trends like urbanization and coastal or flood plain development increase the overall loss potential due to the high risk of windstorms and floods. Socio-economic changes combined with rapidly developing technology and increasing global supply chains create growing potential for huge losses and a threat for business continuity.

However, despite great media coverage and the significant impact, many businesses still don't address their vulnerability to natural perils adequately. Thorough preparation and risk management is crucial.

Risk management in respect of natural hazards is complex. Organisations should ask themselves where they are overly concentrated relative to the catastrophic loss exposure and where they are highly exposed to multiple perils. Secondary perils like storm surge or floods after major storms should also be considered. Single event loss experience is not adequate for long-term risk management. It is important to not only consider the single ‘surprising’ event, but also how many opportunities there have been

for similar events to have occurred within the same area or time.

The emphasis should be on proactive loss prevention and risk mitigation, as damage can be reduced or prevented. Customised insurance solutions exist. Nevertheless, insurance cannot cover loss of market share or damaged reputation. A comprehensive risk analysis will help to understand potential damage, losses and potential implications on the organisation and mitigation actions can be taken. There are no uniform practices and standards, but established improvements to key business facilities as well as to those of critical suppliers do prevent or reduce potential property damage and ensure business continuity.

