



International Association for the  
Study of Insurance Economics

# Études et Dossiers

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Extract from

## Études et Dossiers No. 325

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**Hosted by ING Group**

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**&**

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**Hosted by ING Group**

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Layout & Distribution: Valéria Kozakova

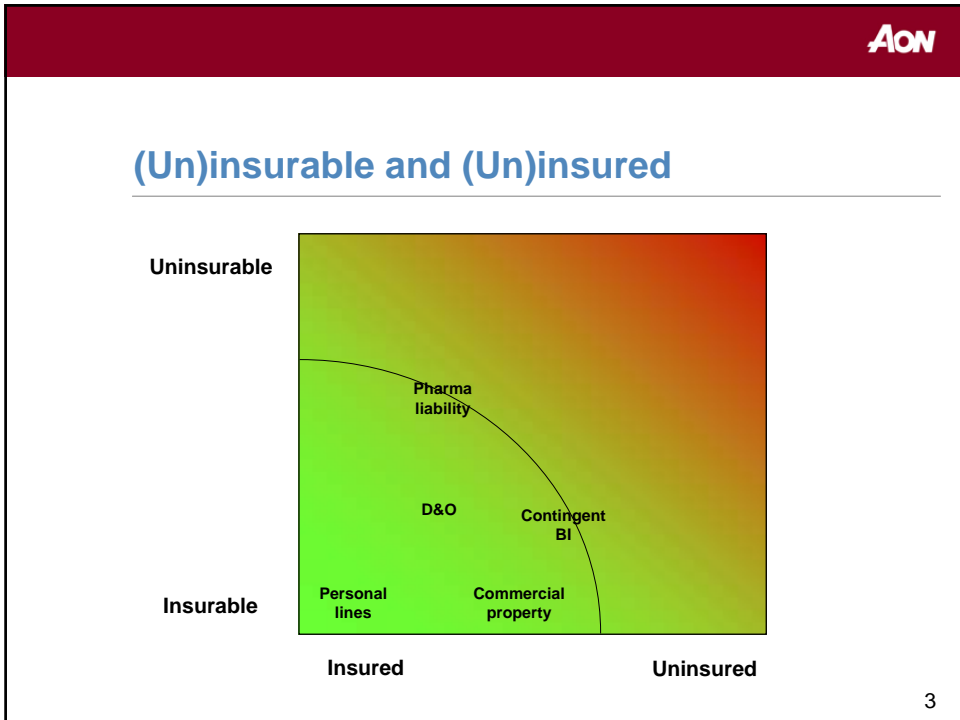
# Comments on Discussion Session II: Uninsured Risks

Alan Punter



## The risk spectrum - degrees of difficulty

Personal lines	Commercial lines	Property	PD	BI	Cont BI	Brand value
		Liability	EL	PPL	Nat Cats	Reputation
					Terrorism	Computer
					D&O	Environmental
						Pharma
						EMF

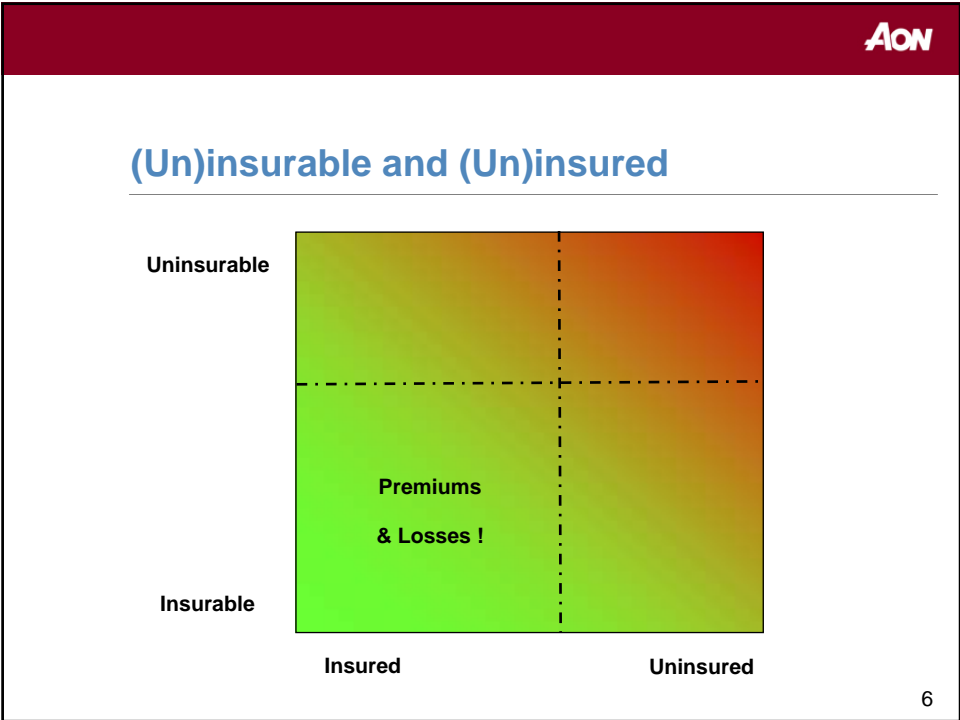
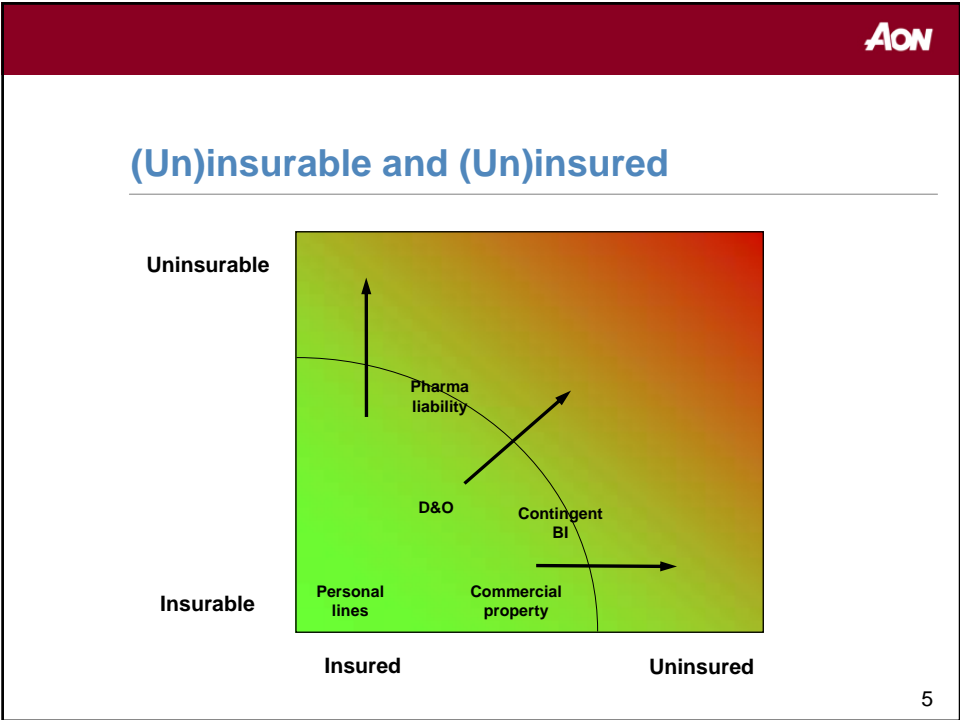


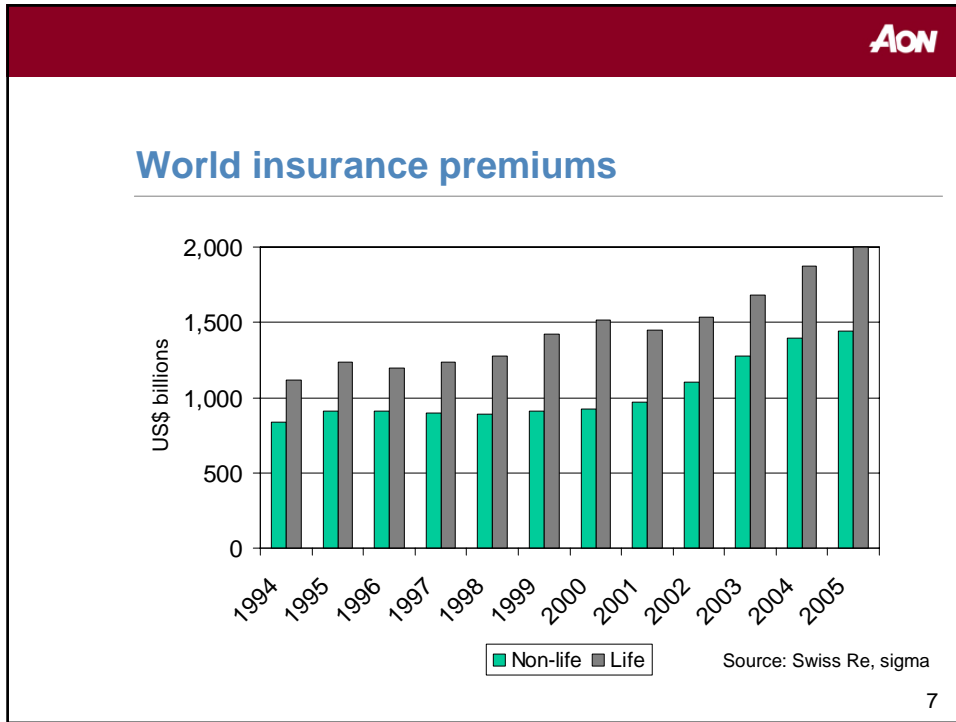
**Growing risk exposures**

*“The world has become more and more prosperous, more and more complex, interdependent and with greater concentrations of larger and larger amounts of economic value. The consequences of any event - accidental or intentional, natural or man-made - are therefore greater. In addition, the boundaries of non-catastrophic risk are being constantly redefined by society, and especially the legal system.”*

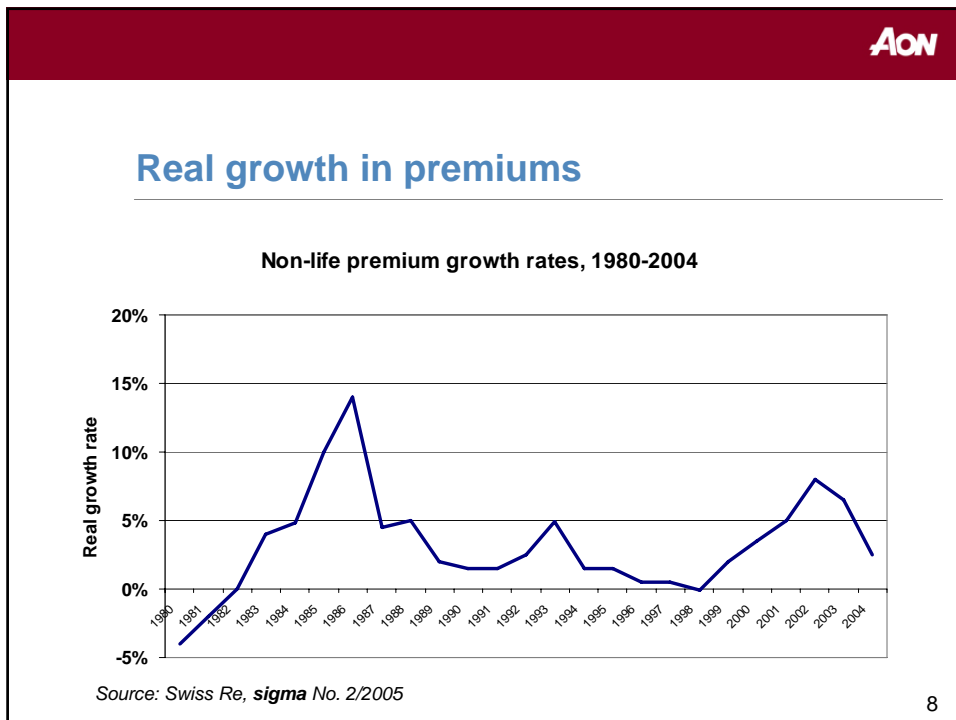
Nick Prettejohn, CII 2003 Annual Conference

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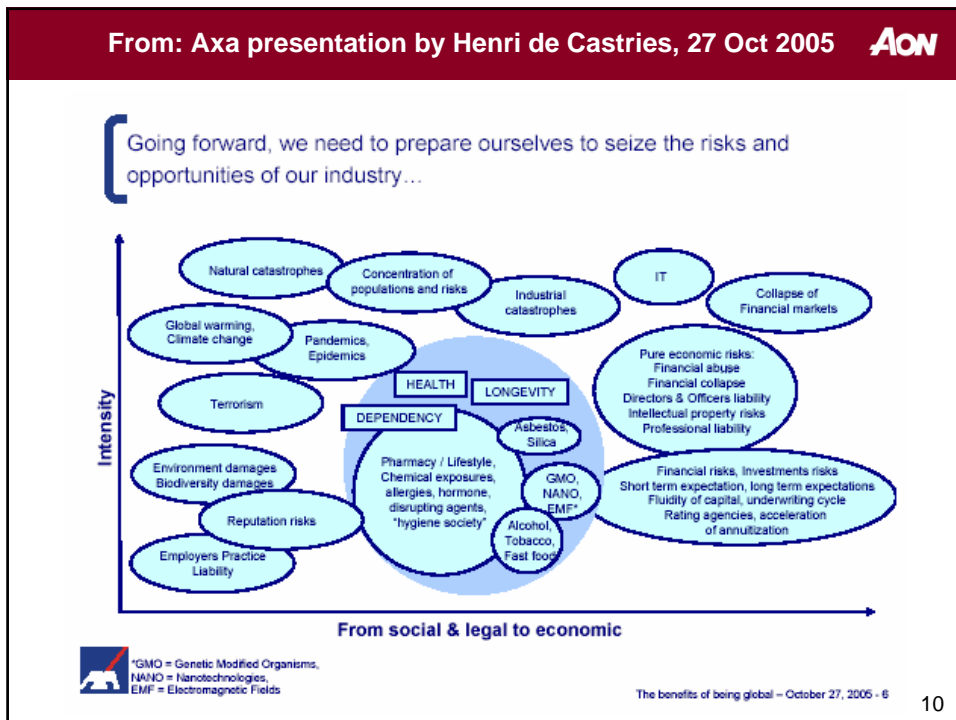
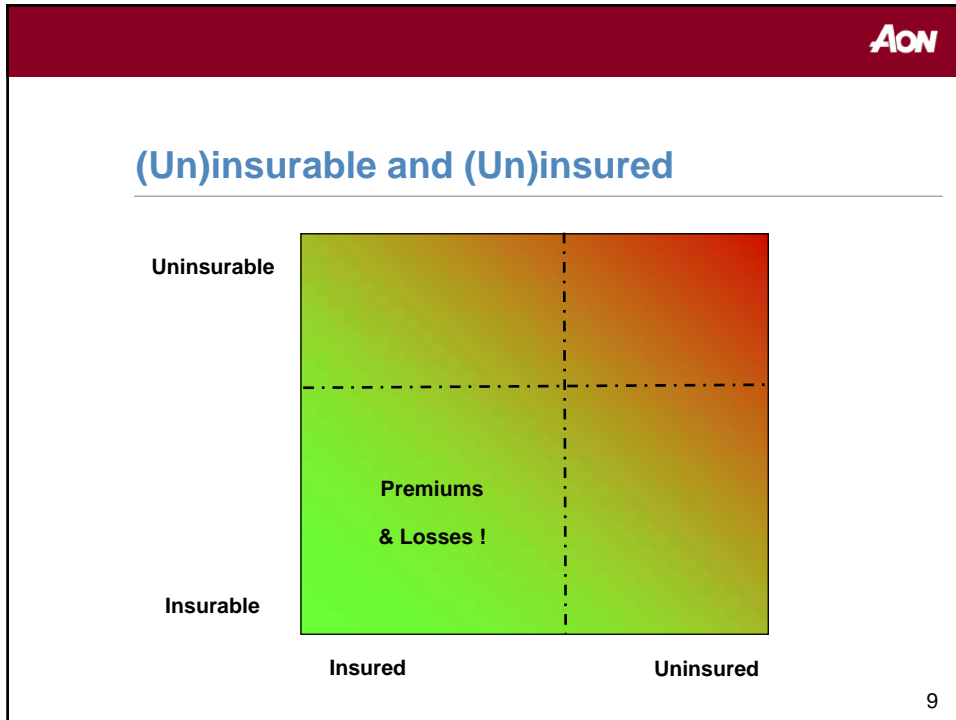


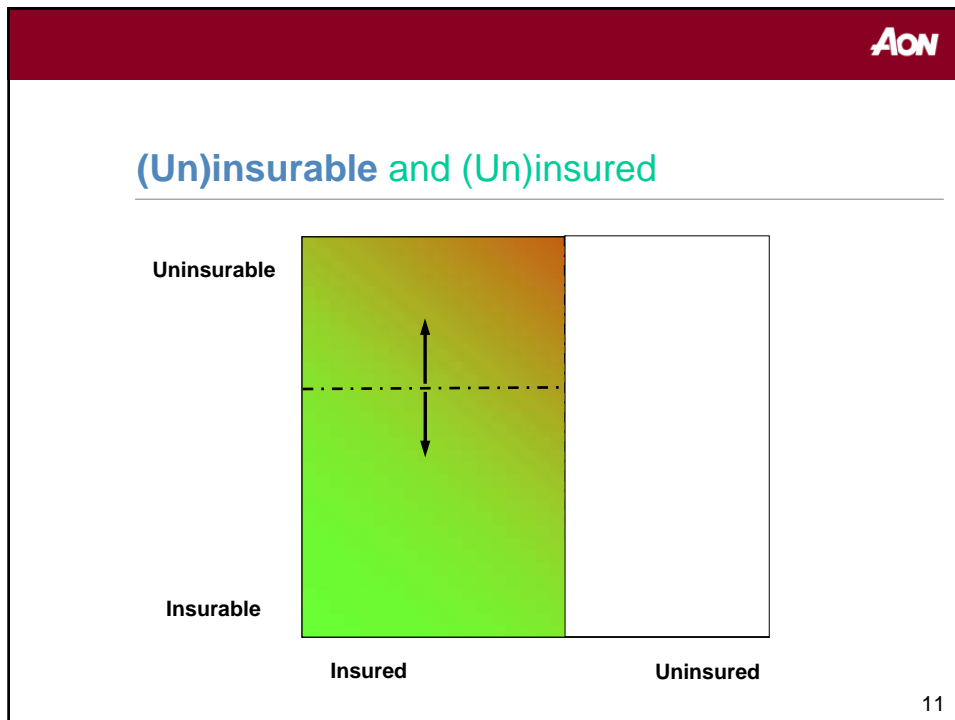


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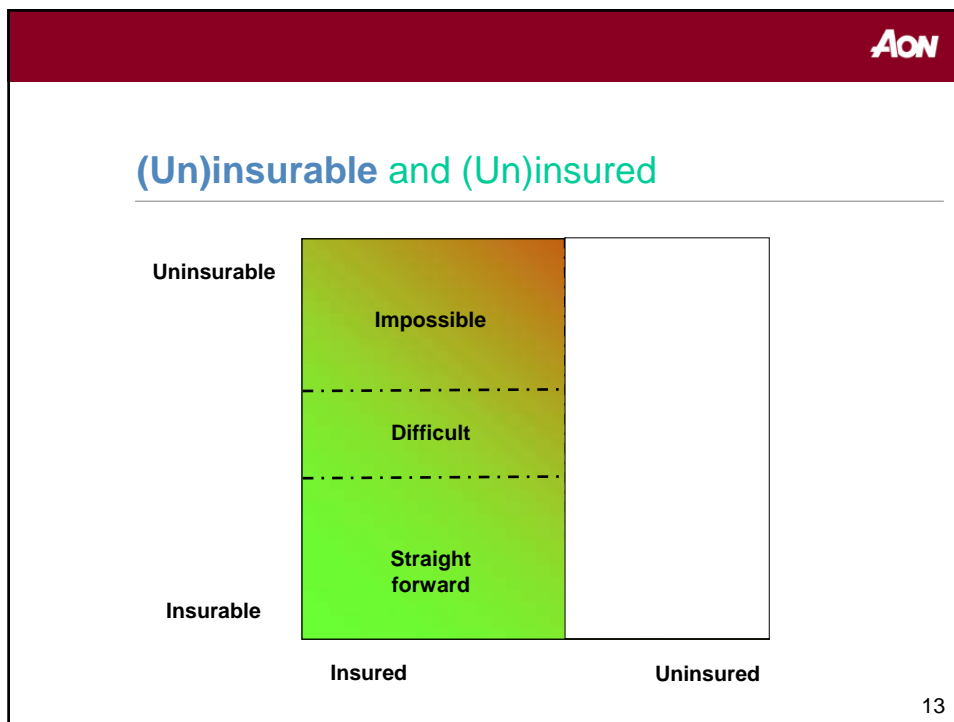


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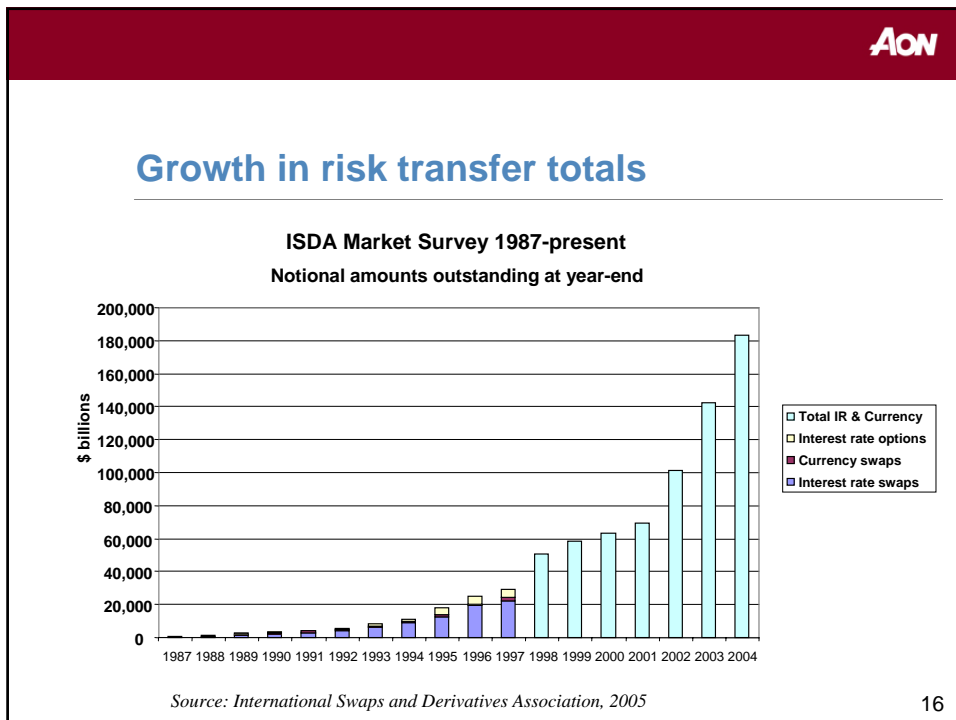
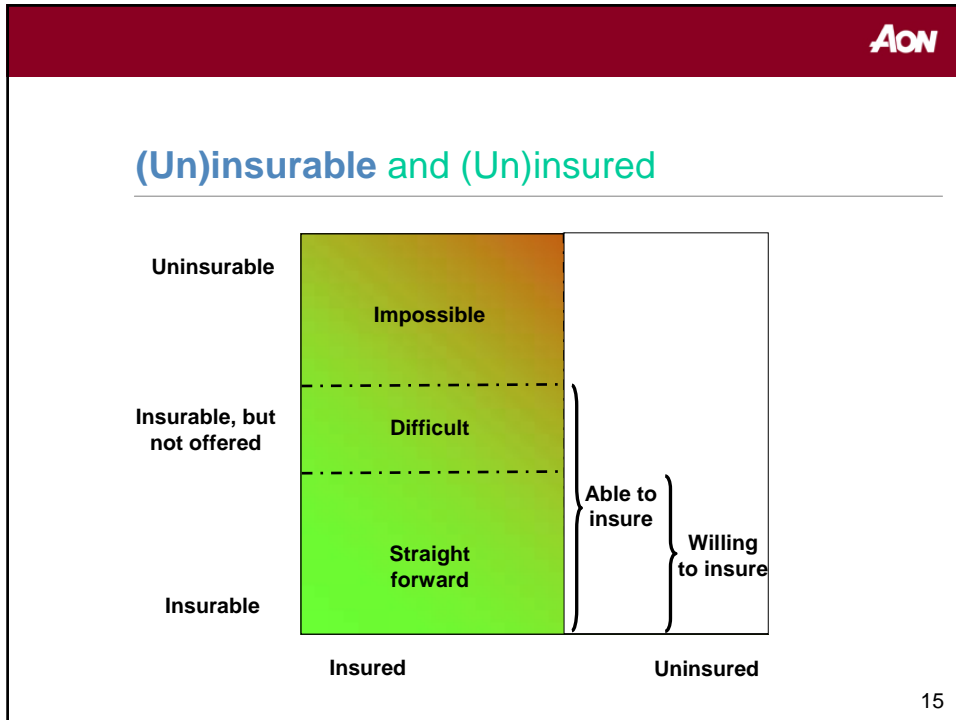
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- Criteria of insurability**
- From “*Limits of Insurability of Risks*” by Baruch Berliner, Swiss Re, 1982
    - Randomness (of the loss occurrence)
    - Maximum possible loss
    - Average loss amount upon occurrence
    - Average period of time between two loss occurrences
    - Insurance premium
    - Moral hazard
    - Public policy
    - Legal restrictions
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**Dealing with “difficult” risks**

- Some risks are testing the boundaries of insurability
  - Growing complexity of “old risks”, for example
    - US casualty (too many moving parts)
    - D&O, E&O, medical malpractice, pharmaceuticals
    - Terrorism
  - Emerging “new risks”
    - Enterprise risk management (growing importance of intangible assets), reputation
    - Asian flu, aging populations, obesity, new forms of terrorism
    - Climate change
- Faced with “difficult” risks does the re/insurance industry
  - Embrace them, or
  - Exclude them?

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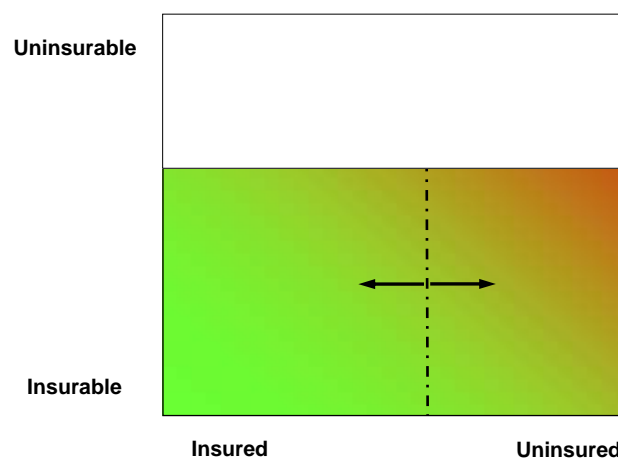


## Are financial risks insurable?

- For instance, interest rates – *check against criteria*
  - Randomness (of the loss occurrence)?
  - Maximum possible loss?
  - Average loss amount upon occurrence?
  - Average period of time between two loss occurrences?
  - Insurance premium?
  - Moral hazard?
  - Public policy?
  - Legal restrictions?

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## (Un)insurable and (Un)insured



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### Survey of risk managers

- Major buyers want longer-term commitment, less volatile pricing, tailored products, more efficient delivery
  - CFO playing more important role in risk management decisions
  - More holistic approach to risk management
  - Increased growth of self-insurance and use of captives
  - Major concerns are damage to brand/reputation, environmental risks, regulation/legal environment, ranking higher than the traditional insurance areas, e.g. business interruption, explosion/fire, terrorism, natural catastrophes
  - Wish-list included more recognition for risk control, multi-year policies with fewer repudiation clauses, less ambiguous wordings, quicker responses to requests, more responsive and professional claims behaviour, more transparency on pricing models

Source: Market Energy Review: Changing Priorities, Dec 2006, Willis 19

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### (Un)insurable and (Un)insured

<b>Uninsurable</b>			
<b>Insurable</b>			
	<b>Insured</b>	<b>Not insured, but financed</b>	<b>Uninsured</b>

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## Principles on which insurance is founded

... or on which it will founder?

- Insurable interest
  - Counter-example: Sumitomo / Dell
- Indemnity
  - Counter-example: Oriental Land
- **Insurance** focuses on specific **cause** of loss
- **Policyholder** more interested in overall **impact**

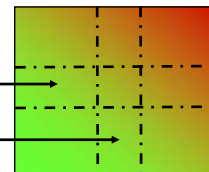
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## Insurance - looking to the future

Key questions:

**Q1:** Has insurance gone ex-growth? →

**Q2:** Is insurance losing its value? →



What is to be done about this?

- By insurers?
- By brokers?
- By clients?

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