Fire Following Earthquake

Personal Lines Insurance Discussion

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Insurance can provide financial capacity for consumers to manage earthquake and fire following risk

– Insurance coverage discussion

  – Home insurance
    - Coverage – dwelling, contents, additional living expense
    - Price
    - Earthquake vs. fire following earthquake
    - Key issue: mortgage requirements (vs. flood)

  – Auto insurance

To support their customers, insurers need to focus on risk selection and risk pricing

– Individual risk underwriting (risk selection)
  - Bolting, water heaters strapped

– Portfolio risk underwriting
  - Concentrations & diversification
  - Almost impossible to achieve optimal diversification

– Risk pricing
  - Price risk of loss
    – Accumulate capital – infrequent events
  - Avoid adverse selection – competitive environment

Insurers need to be operationally prepared to deliver on the promises they make

– Individual vs. catastrophic loss perspective

– Claims perspective
  - Proactive contact
  - Immediate claims response
  - Combination of responses – face-to-face, brick & mortar, phone, etc.
  - Internal claims personnel and contract adjusters

Insurers need to be prepared financially to deliver on the promises they make

– Insurers use catastrophe modeling to quantify their risk

- Major modeling firms – differing results
- Blended modeling results
- Correct for one’s particular risks
- Probable maximum loss – 1-in-100, 1-in-250

– Catastrophe-related objectives may include:

- Pay all of the catastrophe claims
- Renew all of our customers’ policies
- Be positioned to support our customers’ need for additional product, post-event

To meet post-catastrophe needs, insurers draw on multiple resources

– Liquidity risk – meet our customers immediate needs for payment

– Income statement vs. balance sheet events

– Capital resources

- Surplus/equity – must make profit in non-cat years
- Line of credit
- Reinsurance
  - – Sample large program may have 25+ reinsurers
  - – Hundreds of million in limits placed
  - – Helps insurers diversify their risk
    - Flows through to capital requirements and cost consumers pay for insurance

Where will the industry go from here?

– Increasing granularity in insurance pricing

- Engineering and modeling advancements
- Improved ability to match the cost of insurance and to the individual risk insured
- Less subsidization from one insured to the next
- Drive industry & consumer behavior

– Increasingly fluid capital flows

- Post-catastrophe, capital flexes to meet demand – moderates pricing swings and stabilizes market

In summary, insurance industry needs to be ready to meet customer needs related to fire following risk

– Insurers need to…

- Provide insurance coverage that consumers need and demand
- Need to have the human & operational resource power to handle the catastrophe and run the ongoing business
- Need to have the liquidity and capital position to meet the post-catastrophe financial demands
- From a societal perspective, the industry is relatively well prepared to withstand fire following risk