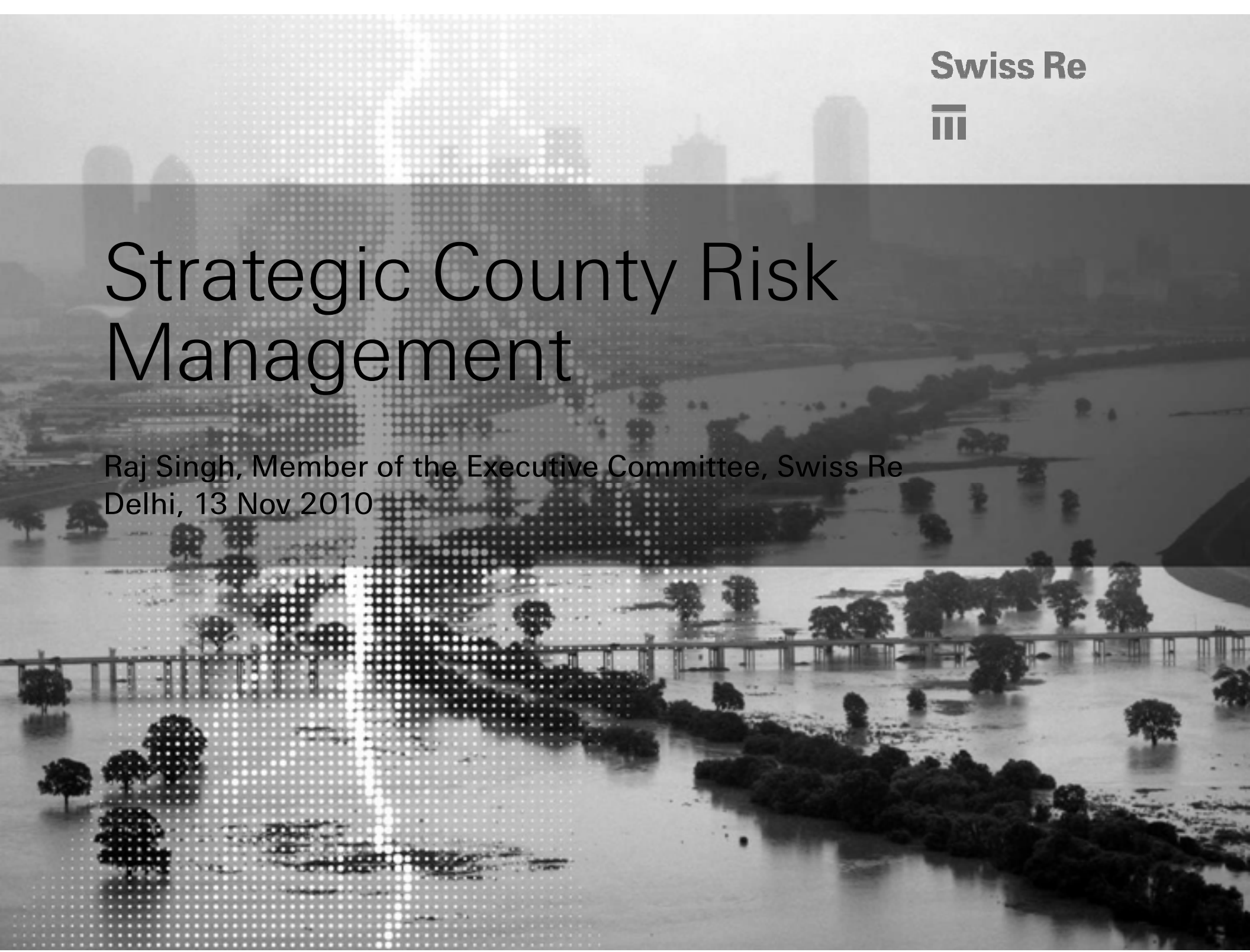

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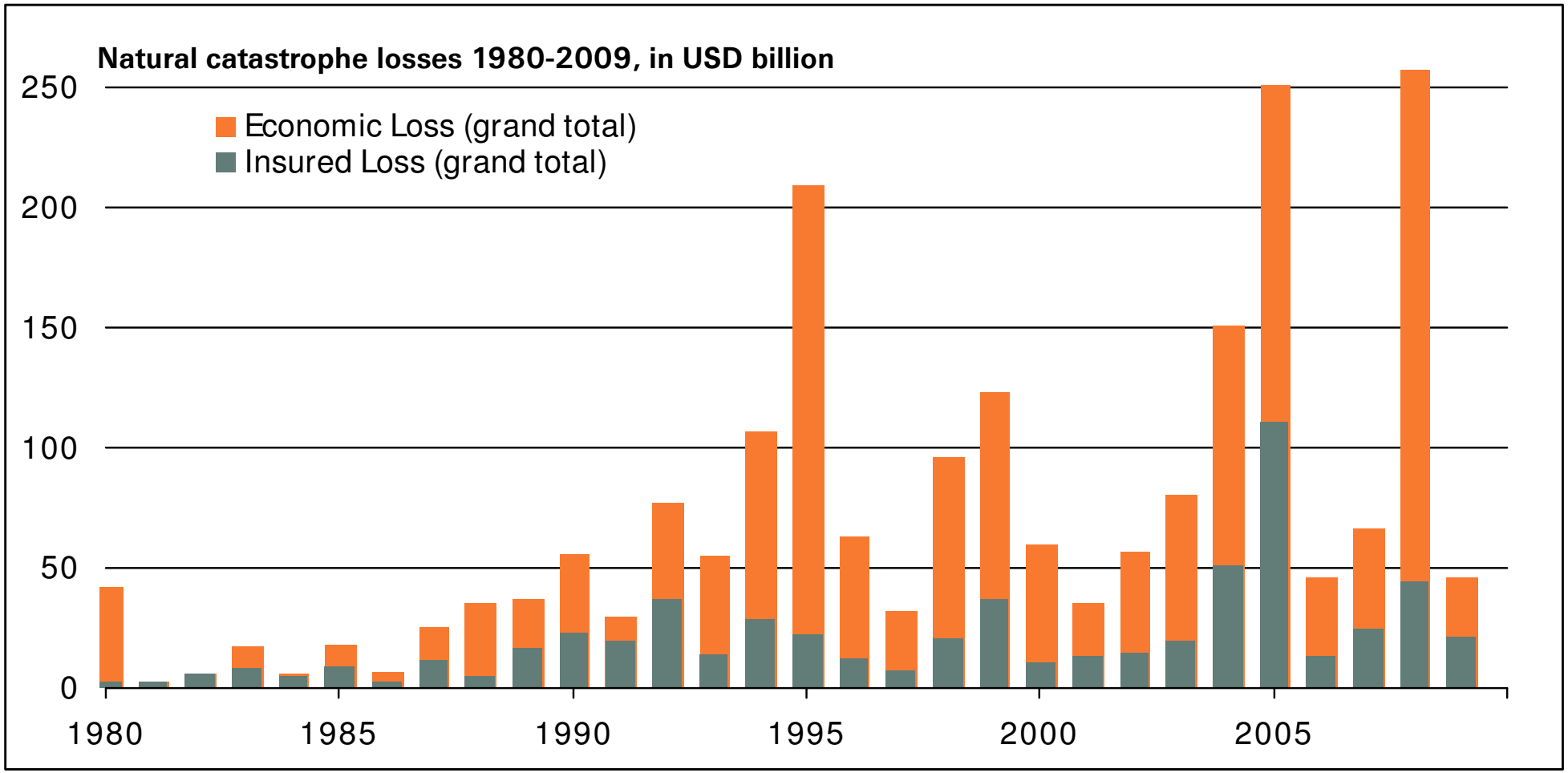
Strategic County Risk Management

Raj Singh, Member of the Executive Committee, Swiss Re

Delhi, 13 Nov 2010

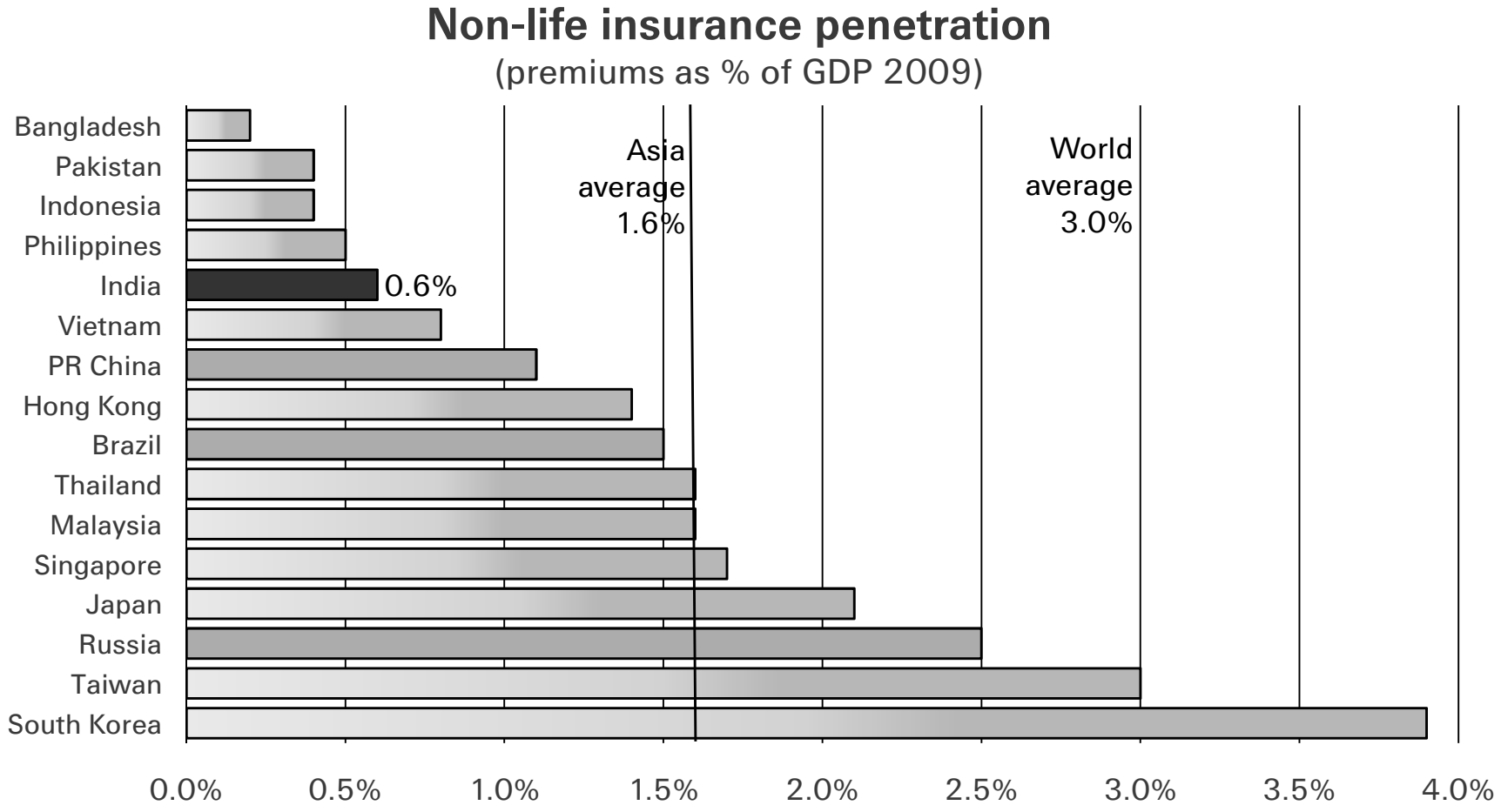
Swiss Re

Massive gap between economic and insured losses



Note: Loss amounts indexed to 2009 Source: Swiss Re, sigma No 2/2010

Low insurance penetration in Emerging Markets



Source: Swiss Re sigma No 2/2010

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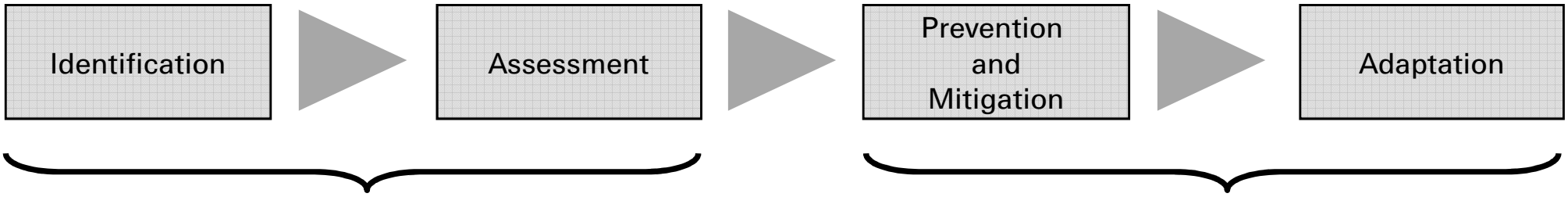
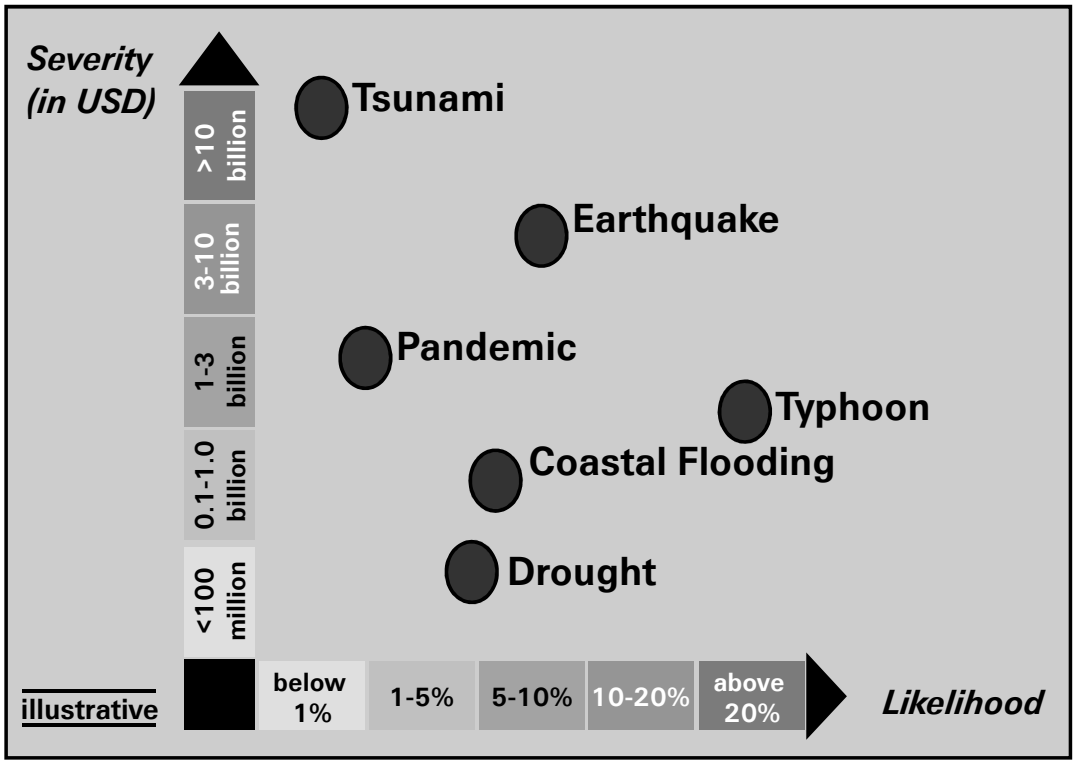
Disasters place a significant burden on the public sector

- Prevention and mitigation efforts are a priority, but no country can fully insulate itself against extreme natural disasters
- Un-insured losses from natural disasters must be borne by individuals, corporations and governments, both on national and sub-national level
- Government budgets are impacted by:
  - Primary effects, which include immediate expenses for emergency relief efforts, costs for rebuilding public infrastructure or loss of capital and durable goods
  - Secondary effects, which include reduced economic growth, lower tax and non-tax revenues, budget deficits, increased public debt and costs from refinancing, higher inflation or currency fluctuations

A systematic risk management approach for natural disasters is needed





- Prevention and mitigation strategies must be the first priority to reduce economic losses
- However, sovereign natural disaster management also includes the financial preparedness for the residual risk
- Deployment of public funds should be well balanced between prevention/ mitigation and adaptation measures
- Adaptation measures include ex-ante disaster financing instruments, such as reserve funds and insurance solutions

Pre-financing of disaster losses helps countries lower their financial exposure

Residential Properties

Industrial properties

Government's exposure (state budget)

Ex-ante risk financing

Traditional (Re-)insurance

Traditional (Re-)insurance

Parametric Covers, Cat Fund, Cat Bond

- smaller gap between economic and insured losses
- reduced financial burden for the government after an event
- less volatility for the state budget and more planning certainty

Ex-post financing

Debt financing

Budget reallocation

Donor assistance

Tax increases

Others

Including ex-ante instruments in the overall disaster risk financing mix helps to lower its financial exposure to natural catastrophe risk and reduces the potential burden for the state budget in case of a major event. Using ex-ante risk transfer instruments reduces the volatility of the state budget, lowers the need for the government to raise funds after an event and provides more budget planning certainty.

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Public-private partnerships

The effective reduction and financing of catastrophic risks requires a combined response by both private and public sector players

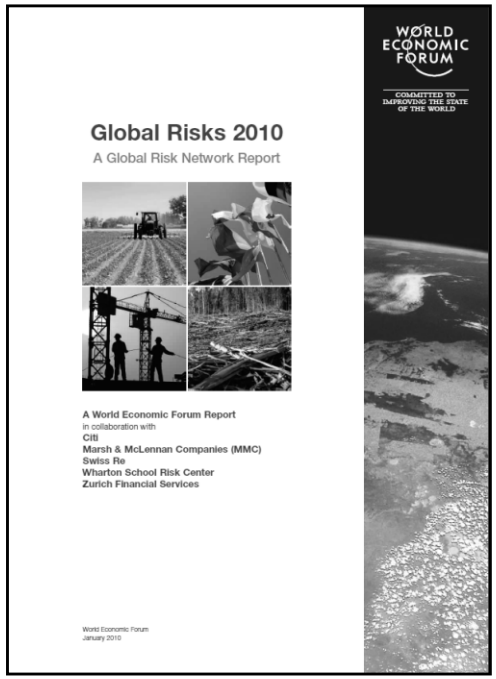
Public Sector

- Political and legal power to set framework conditions that facilitate adaptive responses by individuals, the public and the private sectors
- Typically operates under significant financial constraints. As costs of disasters rise, the ability of governments to cope with natural disasters will be stretched even further

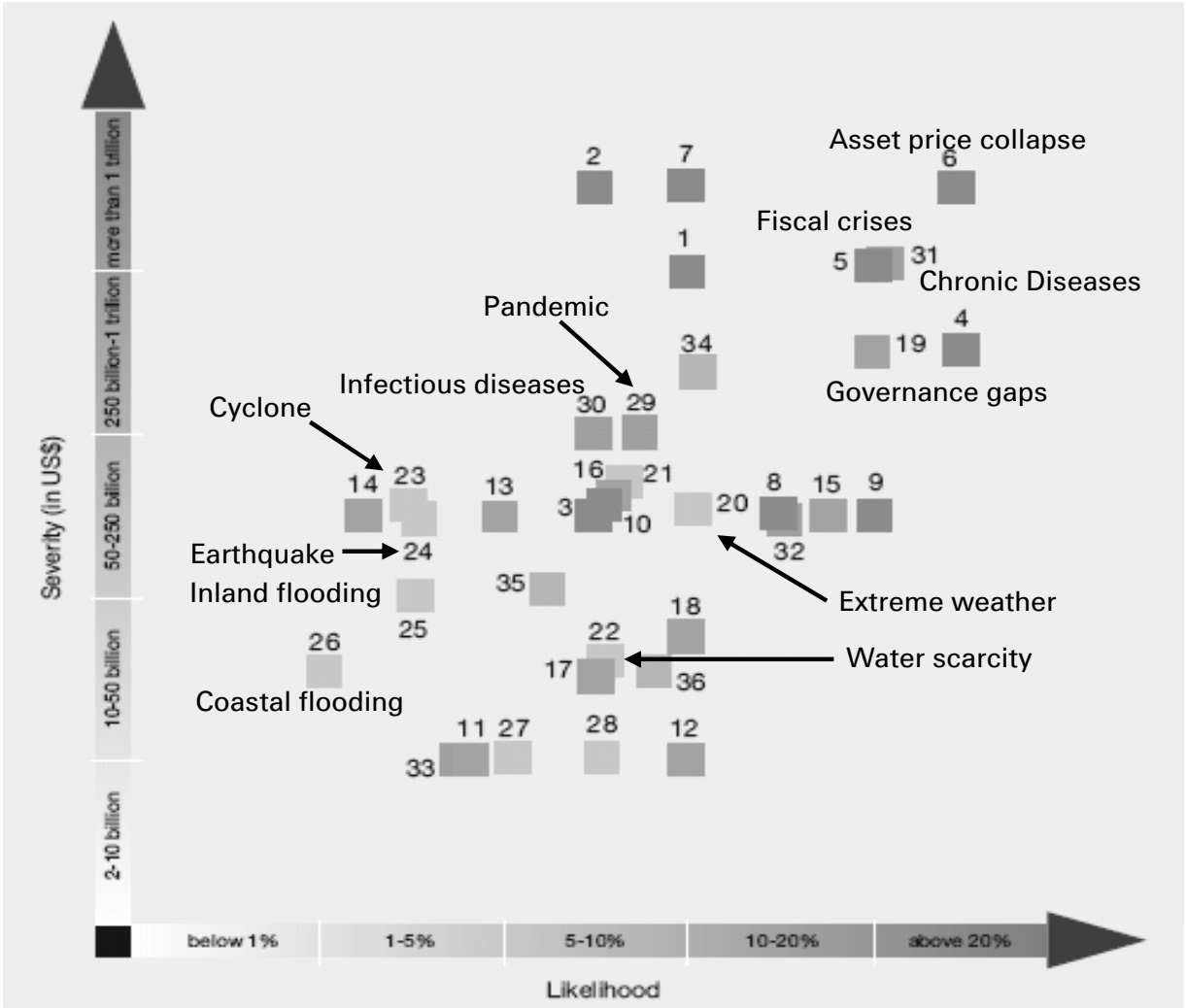
Private Sector

- Financial resources but lacks the power to set up the required frameworks
- Broad geographical diversification which is required to absorb these risks in a cost-efficient way
- Valuable global knowledge and experience in dealing with catastrophe risk management

Towards strategic country risk management: comprehensive risk mapping



Next 10 years

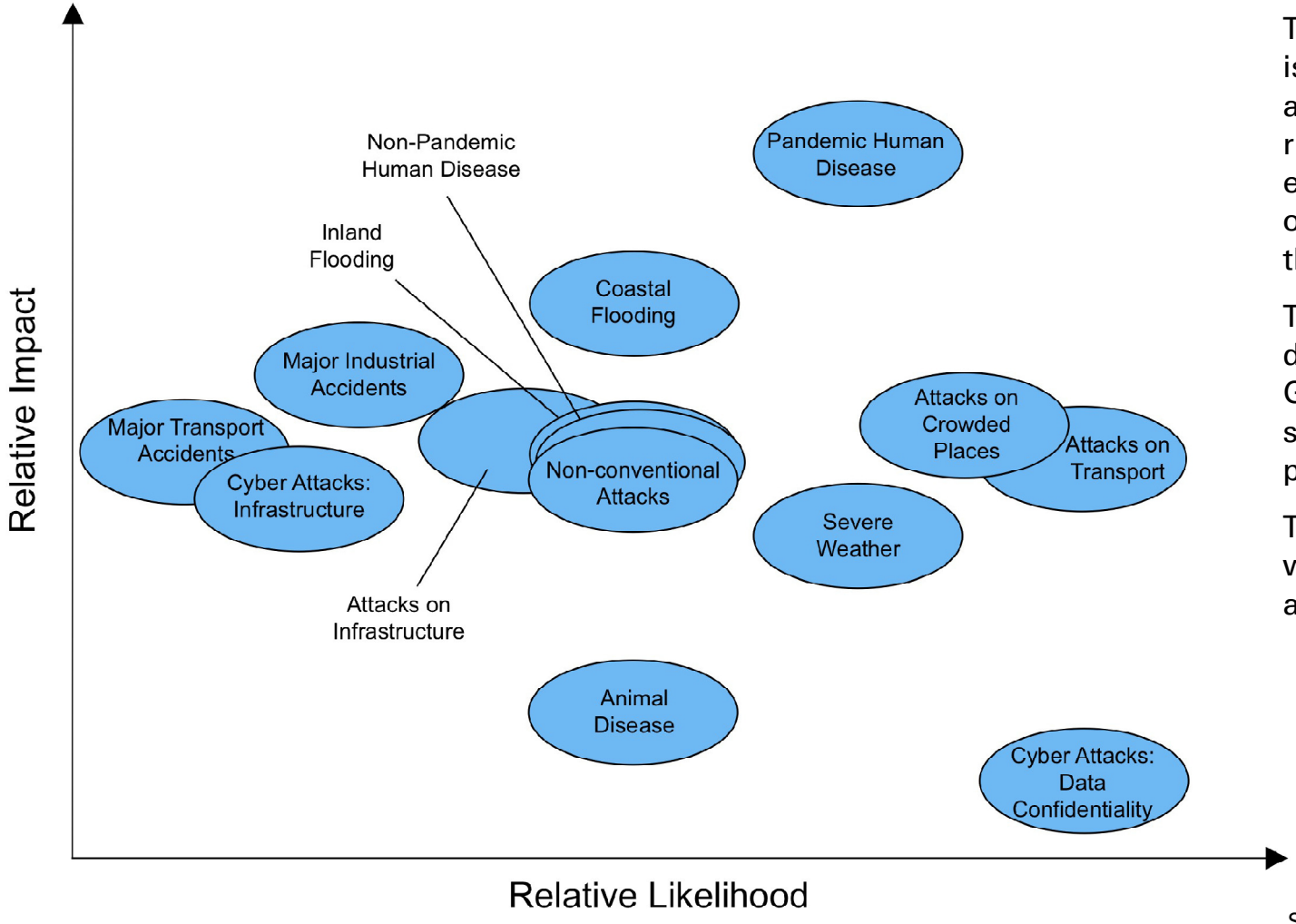


Risk categories

- Economic
- Geopolitical
- Technological
- Environmental
- Societal

Source: Global Risk Report 2010, World Economic Forum, January 2010

Example:
The UK National Risk Register of Civil Emergencies



The National Risk Register is designed to increase awareness of the kinds of risks the UK faces, and encourage individuals and organizations to think about their own preparedness.

The register also includes details of what the Government and emergency services are doing to prepare for emergencies.

The National Risk Register was first published in 2008 and updated in 2010.

Source: United Kingdom Cabinet Office

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A Chief Risk Officer for the public sector?

Objective
Optimal allocation of resources for systematic risk identification, assessment, mitigation and adaptation.

Tasks

- work jointly with (re)insurance industry to identify emerging risks
- establish frequency/severity risk landscape based on best scientific knowledge
- communicate risk landscape to policy makers and general public
- steer mitigation efforts towards biggest risks (either frequency or severity)

Benefits

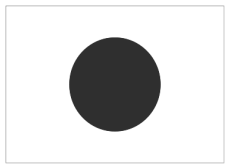
- active private/public partnership including knowledge exchange
- much more risk knowledge at policy maker level and general public on key risks
- more rational mitigation strategies and usage of public funds
- less human, physical and economic damage
- higher economic growth since uncertainties about mega risks removed (eg terrorism)

Examples of innovations in country risk management

Canada

- Public Safety Canada
- Emergency Mgmt Framework

Japan

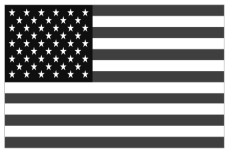


- Cabinet Office
- Basic Disaster Mgmt Plan

Netherlands

- Ministry of Interior and Kingdom Relations
- N'tlSafety & Security Strategy

United States



- Department of Homeland Security
- National Response Framework

Singapore

- Ministry of Finance, Strategic Planning Office, and others
- Whole of Government Integrated Risk Management
- Risk assessment & horizon scanning (national scenarios)

United Kingdom

- Civil Contingencies Secretariat (Cabinet Office)
- Civil Contingencies Act
- National Risk Assessments

Source: OECD, Innovations in Country Risk Management, 2009

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Conclusions

- Impact of natural disasters is rising
- Due to low insurance penetration disasters place a significant burden on the public sector
- The effective reduction and financing of catastrophic risks requires a combined response by both private and public sector players
- A systematic risk management approach for natural disasters is needed
- A Country Risk Officer can facilitate the optimal allocation of resources for systematic risk identification, assessment, mitigation and adaptation


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Thank you

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The biggest nat cat events 2010: Early estimates

Raj: This slides is for your info only. We cannot show it as numbers are preliminary but you may want to talk about it.

Date	Country	Peril	Victims	Economic Loss in USD billion	Insured Loss in %
Aug	China	Floods	2 480	52	~1-2%
Feb	Chile	Earthquakes	565	30	18%
Oct	Pakistan	Floods	1 980	15	~1-2%
Aug	Russia	Bush fires	50	15	~1-2%
Jan	Haiti	Earthquakes	222 570	10	~1-2%
Apr	China	Earthquakes	2 290	4.7	~1-2%
Jun	China	Floods	330	4.5	~1-2%
Sep	Mexico	Storms	10	4.1	5%
Feb	Europe	Storms	64	4.0	71%
May	Eastern Europe	Floods	22	3.6	5%
Sep	New Zealand	Earthquakes	0	3.1	68%
May	China	Storms	136	2.5	~1-2%
Jun	Eastern Europe	Floods	4	2.1	14%

Raj: This slides is for your info only. I would not show it as the Indian guests probably have more detailed info.

Biggest events in India

Year	Description	Victims	Economic loss in USD m	Insured loss in USD m
1998	Flooding and landslides in Uttar Pradesh	3 000	6 324	~0
2005	Floods and landslides	1 150	3 725	795
1990	Cyclone and flooding	120	3 676	~0
2006	Floods caused by monsoon rains	350	3 670	440
2004	Floods and landslides caused by monsoon rains	1 845	2 542	~0
2009	Floods caused by heavy rain	300	2 185	52
1996	Cyclone	2 000	2 088	~0
2010	Floods caused by monsoonal rains	150	1 688	~0
1977	Tropical cyclone in Andrah Pradesh	10 000	1 533	~0