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Abundance in Capital: Global Risk Sharing and Insurance in a Changing Financial Environment

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Insurance has played a viable role in the hedging of homeowners and commercial risks around the world. Countries that have significant penetration in insurance have in addition performed better after large regional or over-regional catastrophic losses. Insurance has hence increased the resilience of western societies. This is opposed to emerging or developing markets with low insurance penetration which have suffered significant drawbacks in their development after large catastrophic events. Examples include the recent Typhoon(s) in the Philippines and the 2010 Haiti earthquake.
This presentation will provide insights into the opportunities, views and risk management features a global reinsurance company must assume in order to hedge and mitigate risk across the world. During the past year, an unprecedented amount of new capital has been entering the insurance market, looking for profitable investments outside the much wider capital market. Catastrophe insurance is seen as a valuable alternative to investing in assets that that have shown low returns and high correlation in the recent financial meltdown. The new capital is mostly deployed - or competing with already deployed capital - in the US where insurance penetration is already high. This is opposed to more than half of the world including all developing and most emerging countries which have low insurance penetration and often lack infrastructure hindering new capital to be deployed effectively.

What is needed to overcome this obvious deficiency in capital supply and demand? One reason why it is difficult to deploy capital in developing countries is the lack of available exposure information and catastrophe models. This presentation sheds light on the potential science needs of our market and gives an overview of what is being done at Montpelier, a global reinsurance company, to understand catastrophe risk around the globe.