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Understanding and Hedging Natural Catastrophic Risk in a Changing Environment: An Insurance and Reinsurance Perspective

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Relatively low frequencies of major atmospheric catastrophic events with high insurance penetration have left insurers and reinsurers in profit over the last decade despite falling insurance rates and climate change. Namely reinsurers i.e. those companies that globally diversify risk and insure insurers have enjoyed 1) an unprecedented drought of landfalling hurricanes, 2) low activity in devastating extratropical storms in Europe and 3) low loss activity from Japan Typhoons. This last decade of moderate atmospheric losses was only interrupted by this year's hurricane activity with HIM (Harvey, Irma, and Maria) creating losses significantly above average.
Indeed, high insurance returns alongside significant expenses have made the insurance market a target for others much larger than the insurance market to explore. The insurance market as a whole is with 600bn in capital a rather small (niche) market and 2% of the investments from pension funds could already replace the global capital needed for insurance.
Perceived risk scales with wealth rather than the number of fatalities, only and no other area in world gets more attention than the US when there is a large hurricane devastating part of a country deemed most secure and protected against adverse events. This presentation discusses risk and insurance, inefficiencies, modeling and changes expected for our market over the coming decade.