

Current Event: 2006 Catastrophe Experience
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In year 2005, hurricane Katrina has destroyed many properties causing insurance companies to focus more on catastrophe risk management. As a result, in year 2006 insurance company have come up with a better understanding on the catastrophe risk and reassess the appropriate pricing of the insurance and the approaches that insurance companies should do, when they are faced against such situation again. In addition to the traditional equity capital and investments, the industry also opens up new researches for additional capital to bear this risk; such as catastrophe bonds and reinsurance side cars.

Examples of the development affecting this industry on how the companies view risk and searching for new capitals are, changing the catastrophe model, investors reevaluation of insurance linked securities and analysis of risk concentration. By updating the catastrophe model by modeling it after the 2005 and 2006 hurricanes events, insurance companies are able to get closer estimations if hurricanes hit particular areas. Hence, insurance companies are able to adjust their price so that they will be able to allocate enough funds to cover such loss. By using the risk accumulation techniques, insurance companies will found out which area have the higher risk of being attack with catastrophe. Thus, this affect the companies' decisions whether to decrease their underwriting and transfer the risk to another company.

After the event in 2005, it is expected that there is going to be a significant decrease in the availability of catastrophe insurance because the public expected that the country will suffer from another hurricane losses in year 2006. Climate forecasters anticipated that in year 2006, the number and strength of hurricanes in will be above average. Contrary to that believe, there are no significant losses that the country suffers from hurricanes; there are only three major losses that caused and insured losses of over a billion dollars, that is two tornadoes in United States and the typhoon in Japan. Thanks to the development in the industry, insurance companies are able to cover such losses. Plus, this helps

the industry to gain time and recovered from the setbacks due to previous year experience.

Besides that, the actual incurred losses due to catastrophe events in year 2006 is \$15 billions, compared to the year 2005, which is \$100 billions. Due to this low losses lots of the reinsurance company that specialize in property catastrophe risk, generated amazing profits in year 2006. In the property/casualty industry, there has been a reported gain of \$31.2 billion compared to the loss \$5.6 billion in the previous year. Thus, causing the industry to have the highest profitability in 20 years.

In the future years, though we might suffer some setbacks such as the time during the Katrina hurricanes, however the development in the insurance industry will help insurance companies to be able to manage the risk more efficiently and provide enough capital to cover the losses.