Business, Insurance and Financial Implications

Bryon Ehrhart, CEO Aon Benfield Americas

January 16-17, 2014 - University of California, Los Angeles
Impacts

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Within 18 Months

Insurers had to completely change how they thought about natural catastrophe risks

$12.5B
Northridge Earthquake

$15.5B
Hurricane Andrew
Impacts

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$38B Hurricane Andrew

$28B Northridge Earthquake

Today

www.northridge20.org
Impacts

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Today

$150B Modeled Hurricanes

$100B New Madrid Earthquake

$50B California Earthquake
Impacts

The Reinsurance and Capital Markets have responded to well to meet the consistently growing needs of insurers for catastrophe capacity.

Earthquake Capacity Could be Easily Expanded and is Already Diversifiable.
Impacts – Lack of EQ Reinsurance Demand

- Lack of insurance demand drives low reinsurance demand
- Low insurance demand is driven by strange GSE mortgage collateral insurance requirements
- Wind, flood, fire insurance are required
- Earthquake insurance is not required
- Earthquake insurance would be far more affordable if it were required and competition would emerge
- Hurricane exposed properties already pay for the peak global reinsurance exposure
- Earthquake deductibles would be lower than 15%
- Florida hurricane deductible options are 1%, 2% and 5%
- Insurance is a core to community continuity and community affordability
Impacts – Community Continuity & Affordability

Case Study: New Orleans
- Insurance take-up in most deeply impacted areas: 25 to 40%
- Population dropped from 455,000 in 2005 to 209,000 in 2006
- Communities do not work with half of their populations
- Insurance funds bring calm and quickly restore confidence to individuals, businesses and communities
- Uninsureds drain community resources for debris removal, foreclosure processes and sales and depress real estate values for extended periods of time
- Local budgets are tight and they cannot afford these additional burdens
- Federal assistance is significant but not complete
- Coordination of assistance is difficult because each event is different
- Cities, Counties and States should consider insurance incentives in a budget neutral process
Recommendation

- GSEs and Banks Should Require Insurance
  - With reasonable deductibles
  - Allow for debris removal and mortgage repayment if rebuilding is not sought by owner
- Cities and Counties should incent insurance coverage with budget neutral methods to address risks to their communities
- Insurers and Reinsurers have built sufficient capacity in the 20 years since Northridge
- A competitive earthquake insurance market should be encouraged