Fire Following Earthquake

Personal Lines Insurance Discussion

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May 3, 2011
Insurance can provide financial capacity for consumers to manage earthquake and fire following risk

– Insurance coverage discussion

– Home insurance
  • Coverage – dwelling, contents, additional living expense
  • Price
  • Earthquake vs. fire following earthquake
  • Key issue: mortgage requirements (vs. flood)

– Auto insurance
To support their customers, insurers need to focus on risk selection and risk pricing

– Individual risk underwriting (risk selection)
  • Bolting, water heaters strapped

– Portfolio risk underwriting
  • Concentrations & diversification
  • Almost impossible to achieve optimal diversification

– Risk pricing
  • Price risk of loss
    – Accumulate capital – infrequent events
  • Avoid adverse selection – competitive environment
Insurers need to be operationally prepared to deliver on the promises they make

– Individual vs. catastrophic loss perspective

– Claims perspective
  • Proactive contact
  • Immediate claims response
  • Combination of responses – face-to-face, brick & mortar, phone, etc.
  • Internal claims personnel and contract adjusters
Insurers need to be prepared financially to deliver on the promises they make

- Insurers use catastrophe modeling to quantify their risk
  
  • Major modeling firms – differing results  
  • Blended modeling results  
  • Correct for one’s particular risks  
  • Probable maximum loss – 1-in-100, 1-in-250

- Catastrophe-related objectives may include:
  
  • Pay all of the catastrophe claims  
  • Renew all of our customers’ policies  
  • Be positioned to support our customers’ need for additional product, post-event
To meet post-catastrophe needs, insurers draw on multiple resources

– Liquidity risk – meet our customers immediate needs for payment

– Income statement vs. balance sheet events

– Capital resources

  • Surplus/equity – must make profit in non-cat years
  • Line of credit
  • Reinsurance
    – Sample large program may have 25+ reinsurers
    – Hundreds of million in limits placed
    – Helps insurers diversify their risk
      • Flows through to capital requirements and cost consumers pay for insurance
Where will the industry go from here?

– Increasing granularity in insurance pricing
  
  • Engineering and modeling advancements
  • Improved ability to match the cost of insurance and to the individual risk insured
  • Less subsidization from one insured to the next
  • Drive industry & consumer behavior

– Increasingly fluid capital flows
  
  • Post-catastrophe, capital flexes to meet demand – moderates pricing swings and stabilizes market
In summary, insurance industry needs to be ready to meet customer needs related to fire following risk

– Insurers need to...

• Provide insurance coverage that consumers need and demand

• Need to have the human & operational resource power to handle the catastrophe and run the ongoing business

• Need to have the liquidity and capital position to meet the post-catastrophe financial demands

• From a societal perspective, the industry is relatively well prepared to withstand fire following risk