Insurance can help Asia cut economic losses from disasters: MAS chief

Technology, innovation, research and an integrated ASEAN market can close the protection gap, says Ravi Menon

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WITH the increasing frequency and severity of natural catastrophes striking Asia, the region needs to close the wide protection gap through insurance to lower the financial impact of natural disasters and raise disaster resilience, said Ravi Menon, managing director of the Monetary Authority of Singapore (MAS).

Speaking at the Institute of Catastrophe Risk Management (ICRM) Symposium on Thursday, he noted that, going by United Nations data, the number of natural disasters in the Asia-Pacific region has grown from an average of 44 a year in the 1970s to 146 in the 2000s.

Growing urbanisation has increasingly concentrated Asian wealth in small, over-populated megacities, many of which are found in the Philippines, China, Japan, India, Indonesia and Bangladesh.

Over the last 20 years, Asia has accounted for almost half the world’s economic losses from natural disasters, amounting to more than US$900 billion. Yet, under 5 per cent of economic losses in the developing region were insured.

In developing countries, the figure is 40 per cent.

Mr Menon said: “This means governments in Asia have had to finance the cost of recovery by raising revenues, issuing debt or relying on donations from abroad, on an ex-post basis.” (The Latin phrase means “after the fact”, in other words, actual return.)

This is not sustainable and comes at the cost of economic development, he added.

Asked why Asia is still under-insured in this area, Kent Chaplin, chief executive of Lloyd’s Asia Pacific, put it down to the lack of data with which to price risk accurately.

“In terms of product offerings, there is a need for innovative products that meet local demand, such as crop-and-weather-related insurance,” he said. There is thus a need to raise awareness of the vital role insurance plays in building resilience, protecting communities, companies, individuals and governments.

Mr Menon said insurers can play a bigger role in providing emergency relief after disasters, and insurance is an expensive (Latin for “before the event”) financing solution.

He suggested that the wide natural-catastrophe protection gap can be narrowed through four key enablers — technology, product innovation, research and development (R&D) and an integrated ASEAN market.

■ Technology: Sensors and Internet of Things (IoT) devices can capture more data on the causes and impact of natural disasters.

■ Big-data analytics enable better quantification and risk pricing, in turn strengthening “ex ante” risk resilience measures.

For example, Singapore’s natural catastrophe data analytics exchange (Nat Cat DAX) monitors economic loss and exposure data, which helps assess natural catastrophe risks in the Asia-Pacific, Mr Menon said.

■ Product innovation: Unlike traditional insurance which indemnifies against actual losses, product innovations such as parametric insurance solutions calculate payouts based on catastrophic events hitting predefined parameters such as hurricane wind speed or the magnitude of an earthquake.

This removes the need for loss adjusters to survey the extent of losses, enabling insurers to recoup cost savings while policyholders get faster payments.

“We are also seeing increasing use of alternative risk-transfer mechanisms such as insurance-linked securities (ILS) in disaster-risk management,” Mr Menon said, noting that this diversifies the insurance industry’s exposure to natural perils.

■ R&D: This builds disaster-risk resilience, he said. Improved market access in Asian countries would enable greater risk diversification beyond national boundaries.

■ One ASEAN market: The ASEAN member states have made a commitment to liberalise by 2025 the cross-border supply of international maritime, aviation and goods-in-transit insurance, catastrophe reinsurance and the remaining classes of reinsurance.

Mr Menon said advances in technology, innovation, research and market integration places Asia in a strong position to implement mechanisms for effective assessment, management and transfer of disaster risks.