Catastrophe Insurance and Insurers as Private Regulators

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I. Introduction

- Insurance as tool to outsource public regulation
- Private insurance can lead to risk spreading
- And regulate policy holder behaviour
- Also in the domain of disaster insurance

II. Insurance as a tool of disaster risk reduction

A. Insurance as private (risk) regulation

- Private regulation through insurance: insurance governs our lifes
- Also reinsurers act as "silent regulator"

II. Insurance as a tool of disaster risk reduction

B. Disaster risk reduction by controlling moral hazard

- Kunreuther: insurance as tool of disaster risk reduction
- Empirical evidence: individuals with flood insurance take more preventive measures
- Public/private partnership: insurance supports state efforts
- State also provides upper layer of compensation as reinsurer of last resort

III. Regulatory techniques of catastrophe insurance

A. Risk based pricing
B. Contract design (exclusions to control moral hazard)
C. Loss prevention services
D. Claim management (reducing transaction costs)
E. Refusal to insure (again to provide incentives)

IV. Regulation by catastrophe insurance: examples

	U.K.	U.S.	France	Japan	Turkey
Risk-based Pricing	Yes, and individualized.	Partially, 1/4 policies subsidized.	No, flat rate.	Yes, but for Kyosai.	Yes.
Contract Design	Yes. Deductibles; a given limit for the whole content insurance.	Yes. Deductibles; Maximum limit.	Yes. Deductibles; exclusions; a given limit for the whole property insurance policies.	Yes. Deductibles; maximum limit.	Yes. Deductibles; maximum limit; exclusions; insureds' obligation.
Loss Prevention	Yes. Engaging with government regulation; Conducting catastrophe risk research.	Yes. Mitigation assistance programs; risk-zoning and risk maps; building code regulations.	Yes. Risk prevention plan; mitigation fund.	Minimal.	Yes. Education, implementing mitigation measures.
Claim Management	Yes.	Yes, but costs higher than private insurance scheme.	Yes. Time limit.	Yes.	Yes. Time limit.
Refusal to Insure	Yes, and it works well due to *de facto* obligation of homeowners.	No.	No.	No for household earthquake insurance. Others yes.	Yes. It works well combined with compulsory insurance.

V. Conclusion

- Insurers increasingly act as private risk regulator
- Substitute or complement public regulation
- Insurers use technical tools to execute this task
- But in practice tools often limited, sometimes as a result of public regulation (for example prohibiting premium differentiation or a refusal to insure)

V. Conclusion

- Also important difference between countries
- Interesting challenge: can political desire providing affordable disaster insurance be combined with technical tools aiming at disaster risk reduction
- To allow

Insurers to play a role as private regulators