



High-Level Roundtable on the Financial Management of Earthquakes

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EARTHQUAKE IN CHILE: LESSONS FROM POST DISASTER REVIEW

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SUPERINTENDENCIA
VALORES Y SEGUROS

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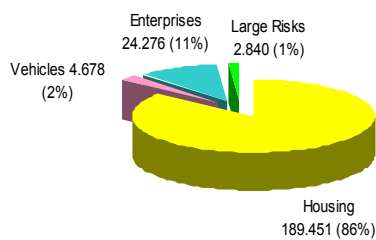
June, 2011

27F: Claims Reported and Paid

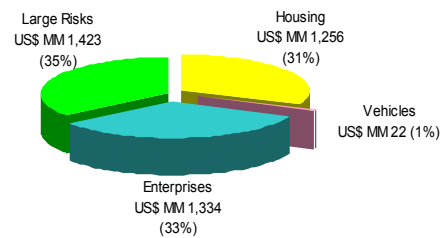


- **221,000 Reported Claims** → 189,000 (86%) housing claims but in amounts only about 15% of the total estimated losses

N° Claims Paid as of December 2010

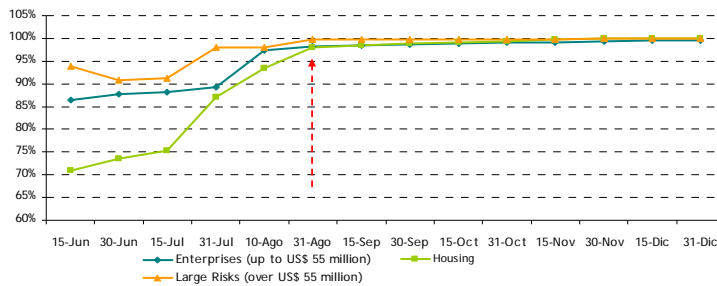


Amounts Paid (US\$ MM) as of December 2010



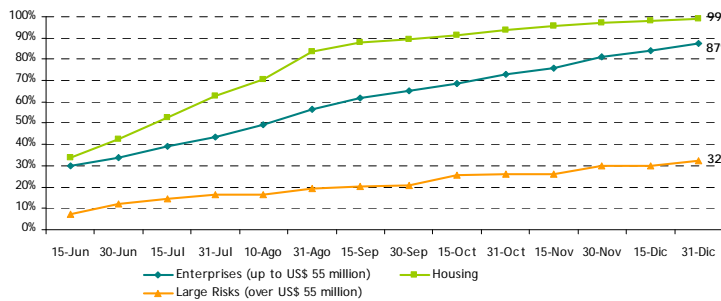
Total claims paid: US\$ MM 4,035

Evolution of Claim Inspection and Adjustment



Claim Inspection

By end of Aug 2010 almost all the claims were inspected



Claim Adjustment

By end of Dec 2010 almost all the housing claims were adjusted

Large risks take longer to adjust.

Reinsurance



- Reinsurance is key for the solvency of local insurers.
- Regulation require a rating BBB for reinsurers, but insurers operate with reinsurers with a credit rating of A- or above.
- Cat Technical Provision → PML defined by regulation:
10% retained insured amount (15% business interruption) based in the area of the largest exposure (Santiago)
- Minimum exposure for local insurers, most ceded abroad

	US\$ Million
Total Estimated Losses	8.500
<u>Average Reinsurance Coverage (78%)</u>	<u>6.630</u>
Retained Losses	1.870
Capacity XL Contracts	3.700

↑
Capacity for losses covered with XL contracts was about twice the retained losses

Lessons and Future Challenges



1. Level of Insurance Coverage as a Protection Tool.

- Microinsurance → low amount of indemnity and a very simple coverage (¿parametric?).
- Government subsidy to the premium → example: agriculture insurance
- Creation of compulsory earthquake (private) insurance:
 - Implementation and compliance
 - No very popular

Lessons and Future Challenges



1. Level of Insurance Coverage as a Protection Tool.

- Government Catastrophe Fund (pool):
 - It is a long term solution
 - Reduce dependency of international reinsurance market
 - Allow long term investment (scientific work, monitoring systems, education and prevention, risk mitigation, etc)
 - Could play an important role in the reconstruction process.
 - Enhance coordination at a national level.

Some doubts:

- Require strong technical approach, independency and clear rules to manage it.
- Could be under political pressure (before and after the catastrophe)

Lessons and Future Challenges



2. Insurance associated with a Mortgage Loan.

Problem:

- Not a transparent process to purchase the insurance.
- High commissions charged to the insurance → High premiums for policy holders
- Covertures not always are appropriate to the policyholder interest.

Solution:

- A draft bill was introduced to the Congress that require the banks or lenders to call for a public offering (bidding process) to purchase the insurance associated to a mortgage loan and prohibit any kind of commission or payment for this concept.
- The new law will establish the faculty of the SVS to set up the minimum requirements for earthquake coverage associated to a loan (policy holder protection).

LESSONS and FUTURE CHALLENGES



3. Earthquake Risk Model and Solvency Regulation

An SVS-AACH project to develop an Earthquake and Tsunami Risk Model.

Objectives:

- To develop a risk based model to calculate the PML of the insurers.
- To improve the solvency regulatory requirement (technical provision or capital requirement).
- To strength insurers underwriting and risk management → incentives for adequate risk assessment and risk mitigation.



GRACIAS!

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