CONFERECE ON CATASTROPHIC RISKS AND INSURANCE

22–23 November 2004

DESIGNING A DISASTER INSURANCE POOL
PARTICIPATORY AND EXPERT APPROACHES IN HUNGARY AND TURKEY

Reinhard Mechler (IIASA)

Powerpoint presentation

This document is circulated for Session 3 of the Conference on Catastrophic Risks and Insurance, to be held on 22-23 November 2004 at the OECD Headquarters, 2 rue André Pascal, 75016 Paris, starting at 9:00 a.m.

For further information on this conference, please contact Cécile Vignial, Financial Markets Division (Cecile.Vignial@oecd.org), or Yosuke Kawakami or Morven Alexander, Outreach Unit for Financial Sector Reform (Yosuke.Kawakami@oecd.org or Morven.Alexander@oecd.org)
Designing a Disaster Insurance Pool

Participatory and Expert Approaches in Hungary and Turkey

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Outline

• The Tisza stakeholder process
• The Hungarian legislation and the expert-designed TCIP
• Prospects for Hungary and Turkey
• The value of a stakeholder process
The Upper Tisza Study

Hydro-Model
• One-dimension
• Unsteady Flow

Flood Model
• GIS-Based
• Flood Depth

Loss Model
• Agriculture
• Infrastructure

Stakeholder Interviews

Public Survey

Policy Model
Monte Carlo Simulation
Fast Stochastic Optimization

Stakeholder Workshop
Round 1: Stakeholder Views

Hierarchical
- Structural mitigation to protect lives
- Government compensation to victims

Individualistic
- Self responsibility
- Private insurance
- Incentives

Egalitarian/Holistic
- Naturalization
- Equity
- Distrust insurers
Round 2: Survey
What are preferred measures for encouraging households, businesses, and communities to reduce flood losses?

- 80% The local authorities should pass zoning regulations and strictly enforce them
- 53% The central government should make compensation to victims contingent on loss-reducing measures before the flood
- 39% Insurance companies should offer lower premiums to reward loss-reducing measures
- 14% Insurance companies should raise premiums of those living in high-risk areas
- 4% The central government should compensate far less of the losses from floods
After a major flood, the government should compensate...

57% All victims by a certain percentage of their losses
19% All victims by the same amount, above which they can choose to have insurance
7% Only needy victims, that is, not owners of vacation homes or well-to-do businesses
3% Only victims with flood insurance
4% Only victims who have not built their homes in high-risk areas without a permit
0% No-one
Do you agree with the following statements?

- Social solidarity requires that government compensate flood victims
- Everybody should take more responsibility (including insurance)
- Locals should pull together and create a fund
- It does not matter what you do

[Bar Chart with data points]
**Round 3: Stakeholder Consensus**

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<th><strong>Private reinsurance</strong></th>
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<td><em>Voluntary</em></td>
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<td><em>Flat rate</em></td>
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<td><em>Subsidies for poor households</em></td>
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Prospects

**Hungary**
To date, only 100+ policies sold in high-risk areas. Appears to be too little support for poor households.

**Turkey**
To date, about 20% uptake, but Parliament has not passed requisite legislation to continue program.
Possible reasons: opposition to mandatory policies and too little solidarity.

**Message:** A stakeholder process could flag these difficulties and avoid policy failures.