

Tsunami Risk and Insurance

MICHAEL SPRANGER and ANSELM SMOLKA²

Geo Risks Research, Munich Reinsurance Company, 80791 Munich, Germany

The insured losses of the tsunami disaster of Dec 26th, 2004 were relatively low as compared to the extent of the humanitarian dimension of the event. Nevertheless this catastrophe told a series of lessons also in respect of natural disaster insurance, and it raised questions relating to risk assessment and appropriate handling of the risk in terms of PML assessment, pricing considerations and insurance conditions.

Like the man-made WTC disaster of Sept 11, 2001, the Sumatran tsunami affected various insurance branches and highlighted the potential role of personal insurance lines as compared to the usually dominating property insurance, in the case of a high number of victims. A further and completely new aspect was that, by means of the touristic sector, policies were affected not only in the directly stricken countries, but also in the home countries of tourists who suffered from the event. Beyond these inherent insurance aspects there is also research demand in the field of hazard and risk assessment aimed at insurance applications. A crucial question is the probabilistic estimate of average hazard and losses along coastal strips at risk.. This has to be supplemented by the creation of realistic tsunami scenarios which can serve as a basis for the assessment of probable maximum losses (PMLs). After proper planning and risk assessment, the insurance sector can play an important role in managing the financial implications of future disasters and in proactive loss prevention. A precondition will be a higher spread of natural disaster insurance. This can be achieved by insurance pools, which have been designed or already become effective in various countries, and by making insurance accessible also to low income population in the form of so-called microinsurance schemes.