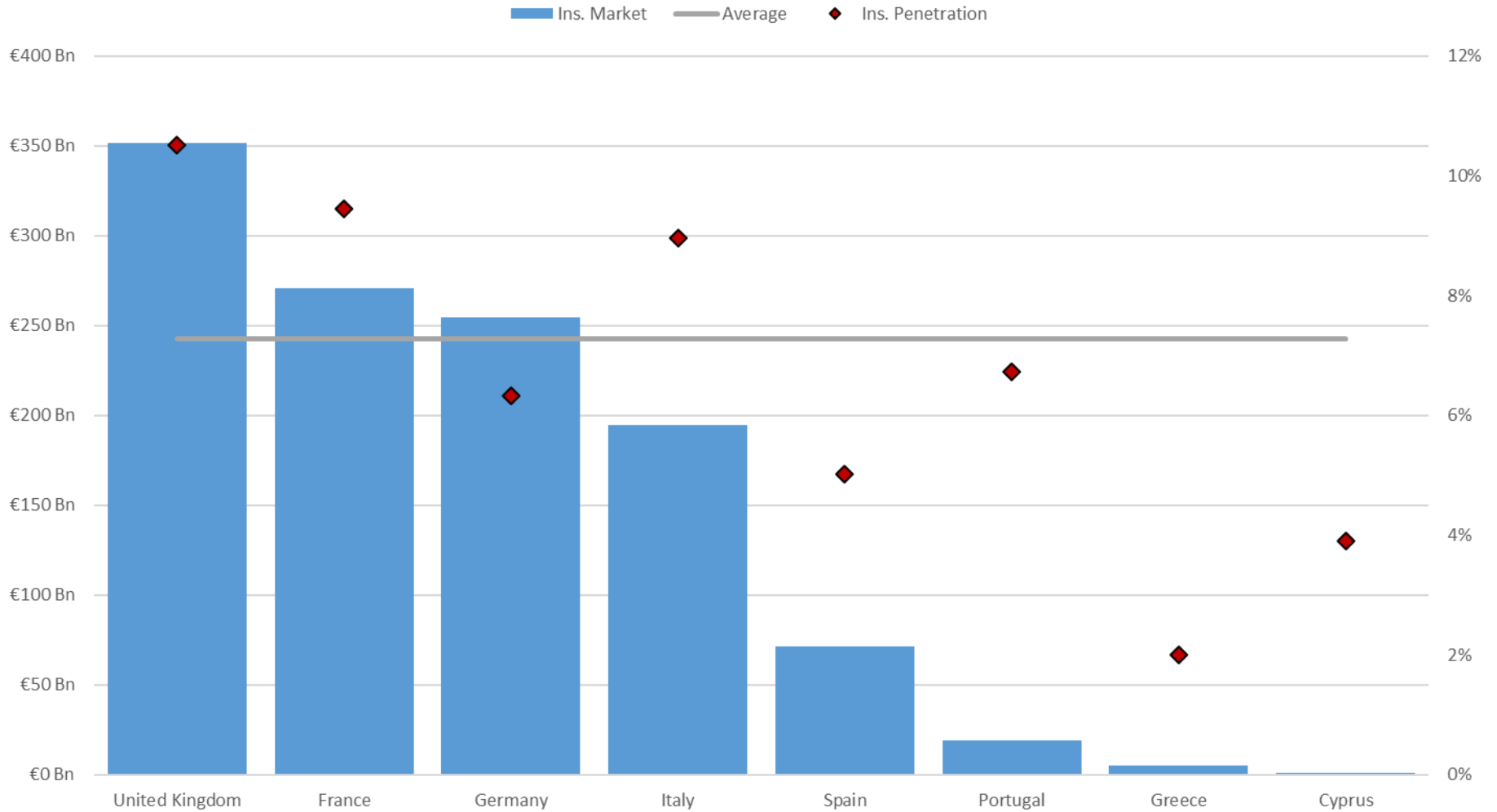


Earthquake Insurance Considerations

Alexander E.G. Turner
September 2018

1.0. Insurance Awareness? – Greek vs European Insurance Market



1.1. Earthquake Insurance Pool – Why do we need it?



1.2. Earthquake Pool – Why is it a good idea?

- One of the fundamental “laws” of insurance is that the “Losses of the few are paid (financed) by the premium contributions of the many”.
- As the Insurance Pool grows the cost is spread more evenly and therefore Insurance becomes cheaper and more affordable. In addition, reinsurance cost in theory reduces as there is better geographical diversification.
- Especially important for people residing in high EQ prone areas where insurance might otherwise be very expensive and / or unattainable.
- Earthquake is an exceptionally rare phenomenon when compared to, for example, hurricanes, fires & floods. As such, people tend to forget exactly how destructive earthquakes can be, both in terms of loss of life but also material damage. Discussions for natural peril pools tend to happen post-event, a very unfortunate circumstance.
- State Benefits from having to contribute towards an unbudgeted loss
- Better access to reinsurance – especially alternative and capital market products / structures.
- Insurance EDUCATION / Awareness and hence Insurance penetration in Greece are very very low.

1.3. Insurance Awareness? – Kefalonia Market Study

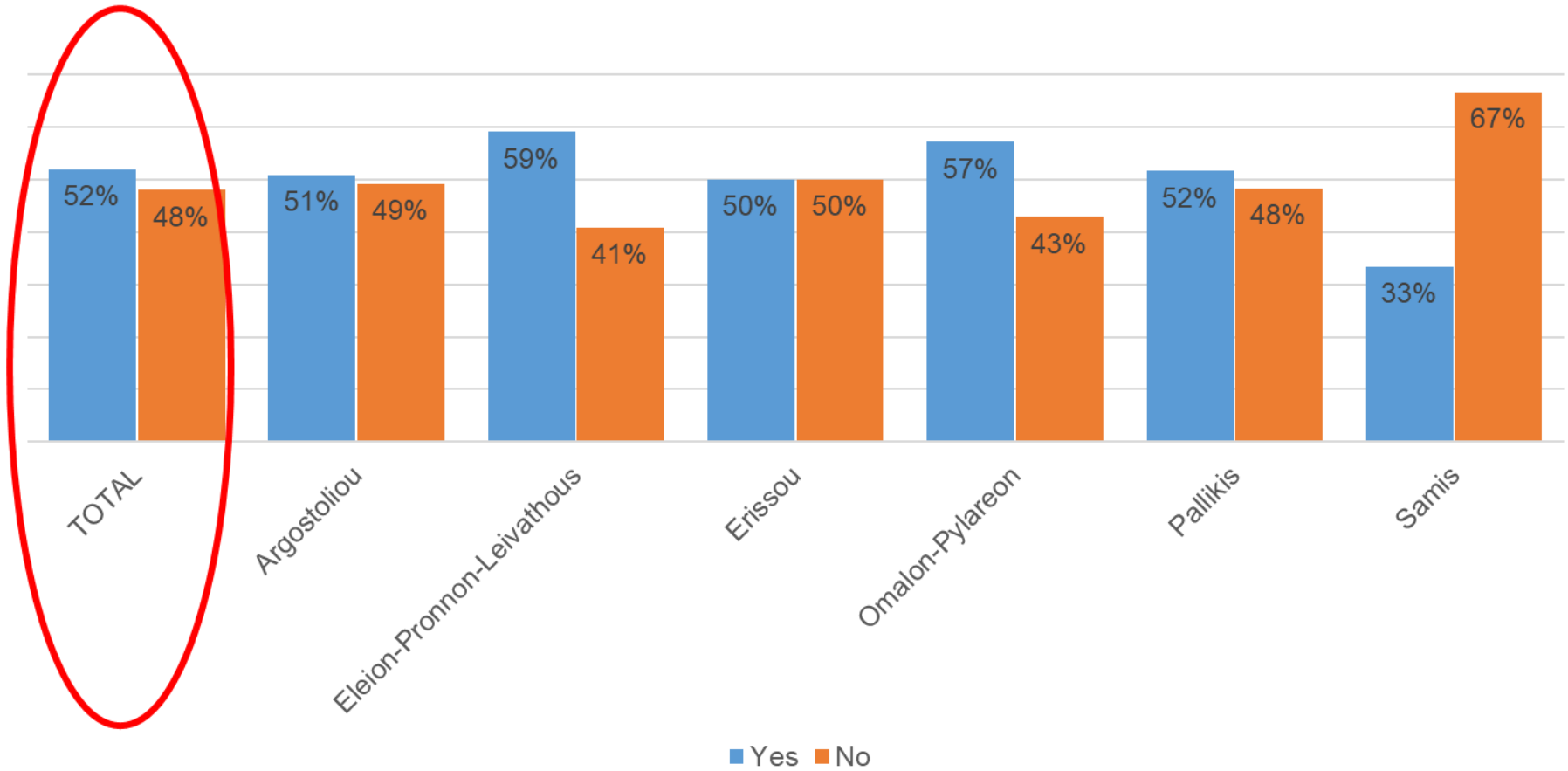
- In 2014 Carpenter Turner & Munich Re co-sponsored a market study in Kefalonia
- Among others, the aim of the study was to quantify:
 - Household EQ insurance penetration in what is considered to be a very high risk region for Earthquakes in Greece
 - Understand better the level of “insurance education / awareness”
 - Reasons for opting out of insurance
 - Whether people appreciate the “Cost of Insurance”
- Targeted population: general public living on the island of Kefalonia Greece, aged 25-64 years, over 70% responsible for the financial decisions of their households.
- Original Population sample about 17.50% of the islands population
- Mode of researching: Quantitative.
- Mode of sampling: random stratified, with quotas.
- Method of conduction: Computer Assisted Telephone Interviewing.
- Quality control through recall: 30%.
- Research team: 14 interviewers – 2 supervisors – 3 senior analysts.
- All stages of this research project were conducted according to the Code of Practice and Ethics of ESOMAR and SEDEA.

1.4. Carpenter Turner – Munich Re – Kefalonia Market Study

Question 1 – Insurance Awareness



Do you know whether you can buy private Earthquake Home insurance?

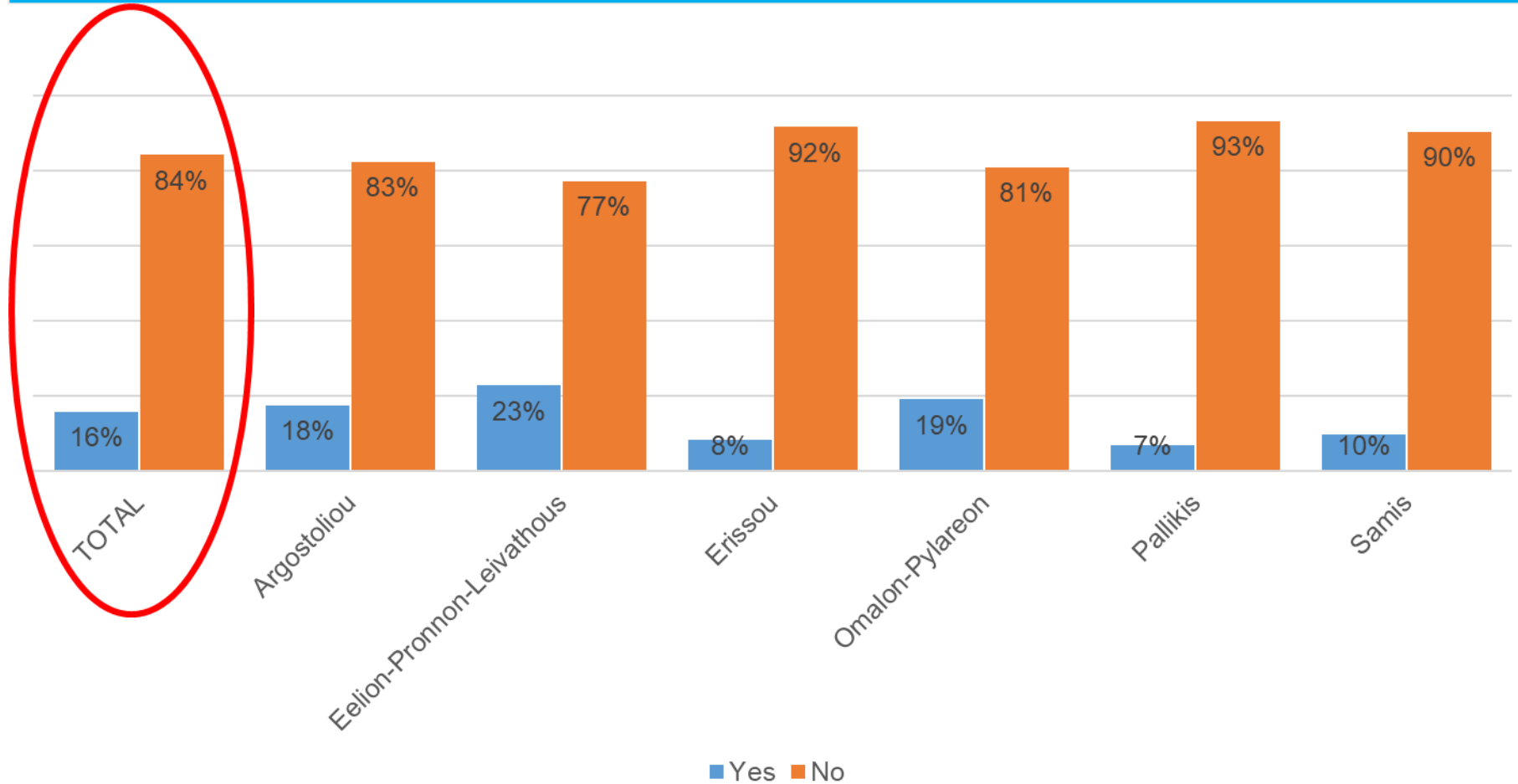


1.5. Carpenter Turner – Munich Re – Kefalonia Market Study

Question 2 – Insurance Awareness



Have you ever bought house insurance against Earthquake?

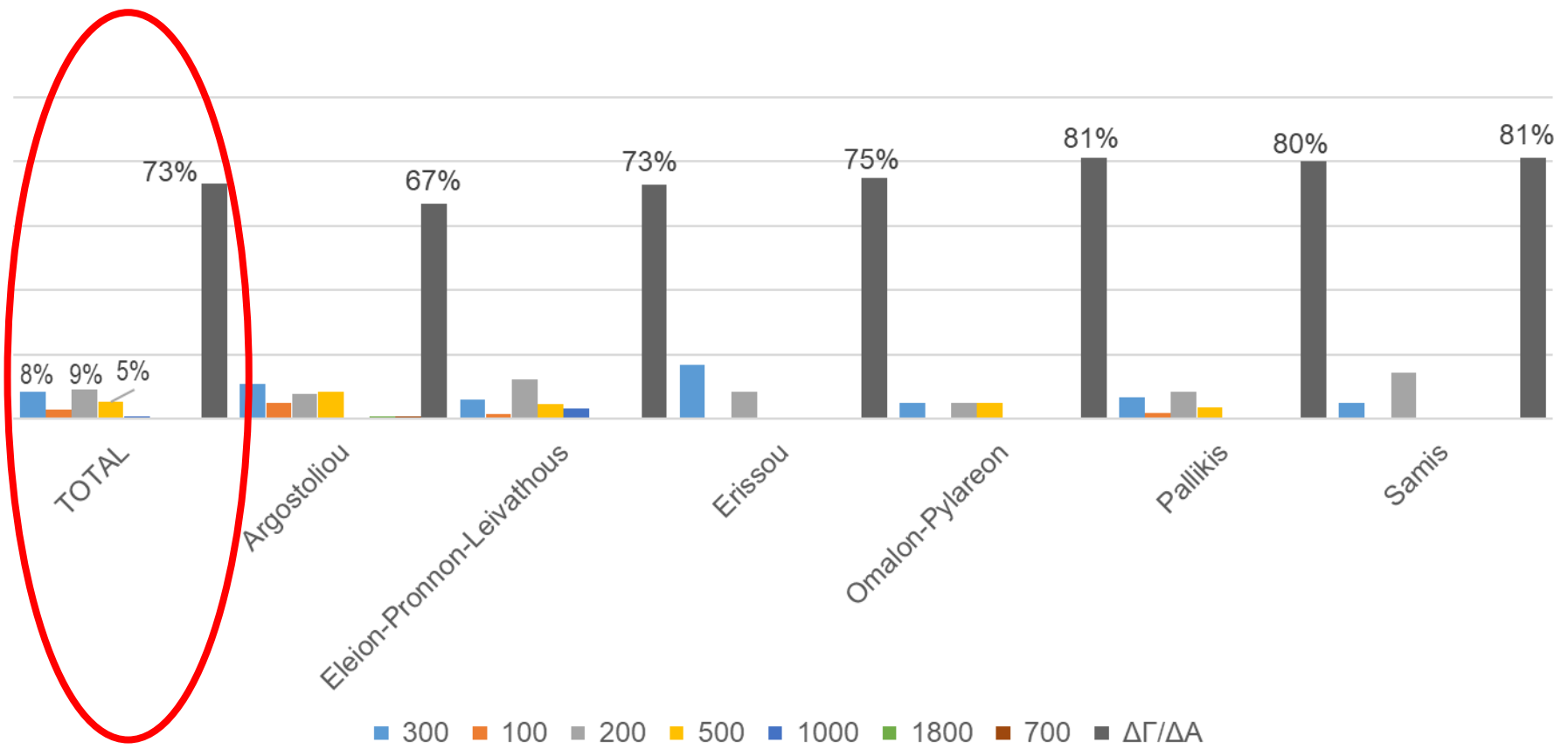


1.6. Carpenter Turner – Munich Re – Kefalonia Market Study

Question 3 – Cost Perception



How much do you think is the annual cost of Earthquake insurance for a house of 100 sqm - €100,000 in Kefalonia?

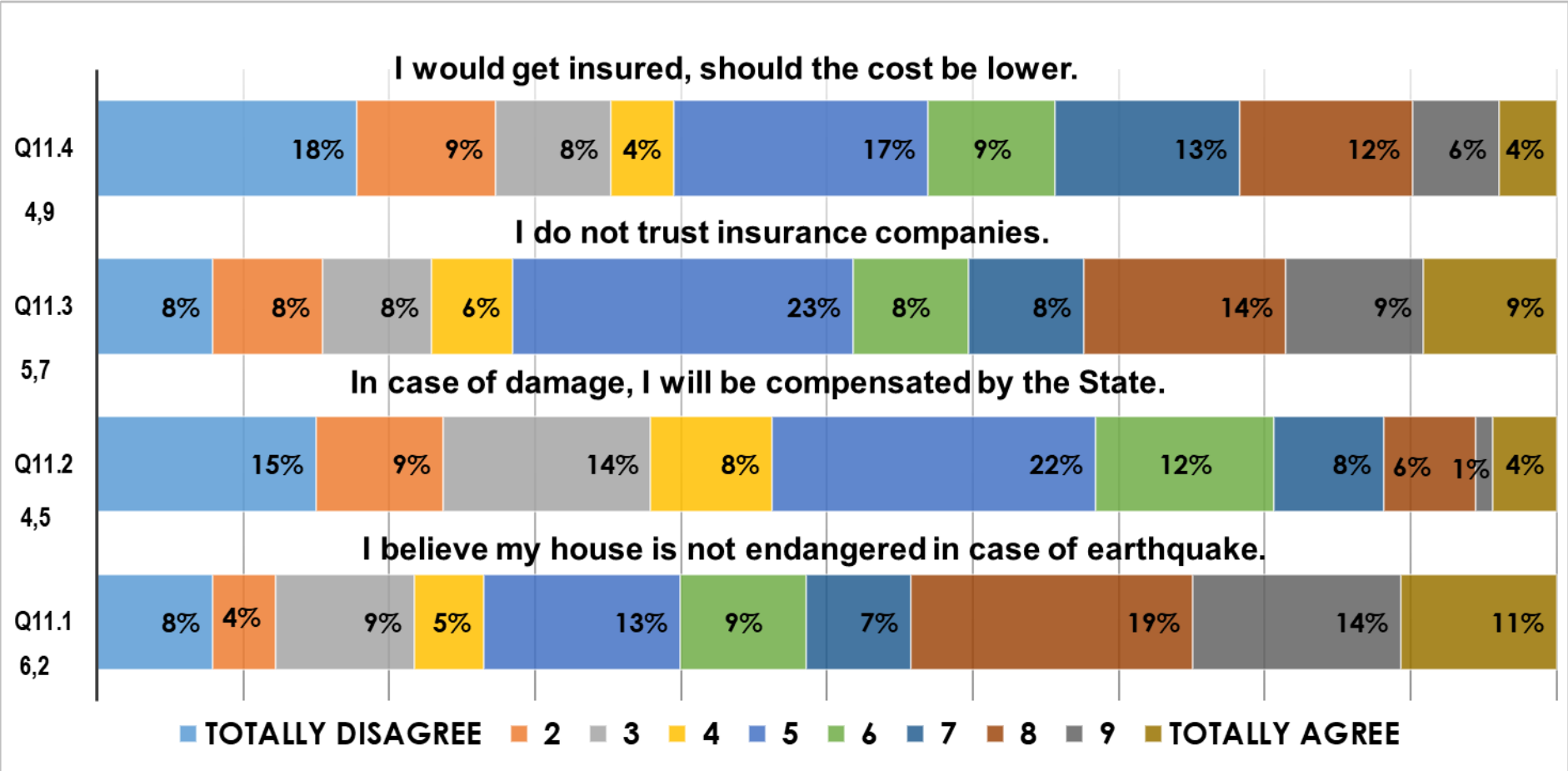


1.8. Carpenter Turner – Munich Re – Kefalonia Market Study

Question 4 – Insurance purchase ?



How much would each statement influence your decision to buy house insurance?

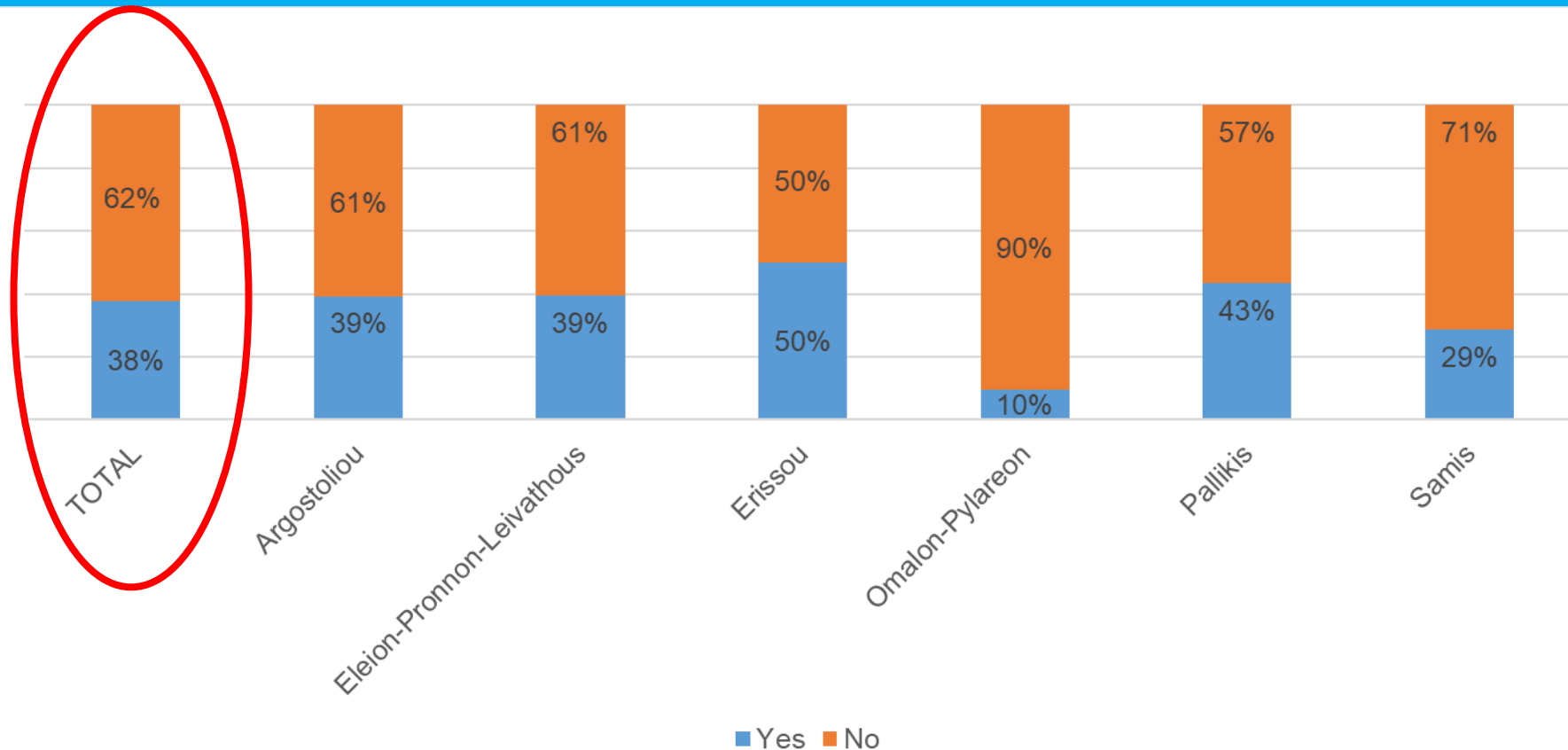


1.7. Carpenter Turner – Munich Re – Kefalonia Market Study



Question 5 – Future?

Would you agree to compulsory insurance against earthquake, so that you would not have to depend on State compensation?

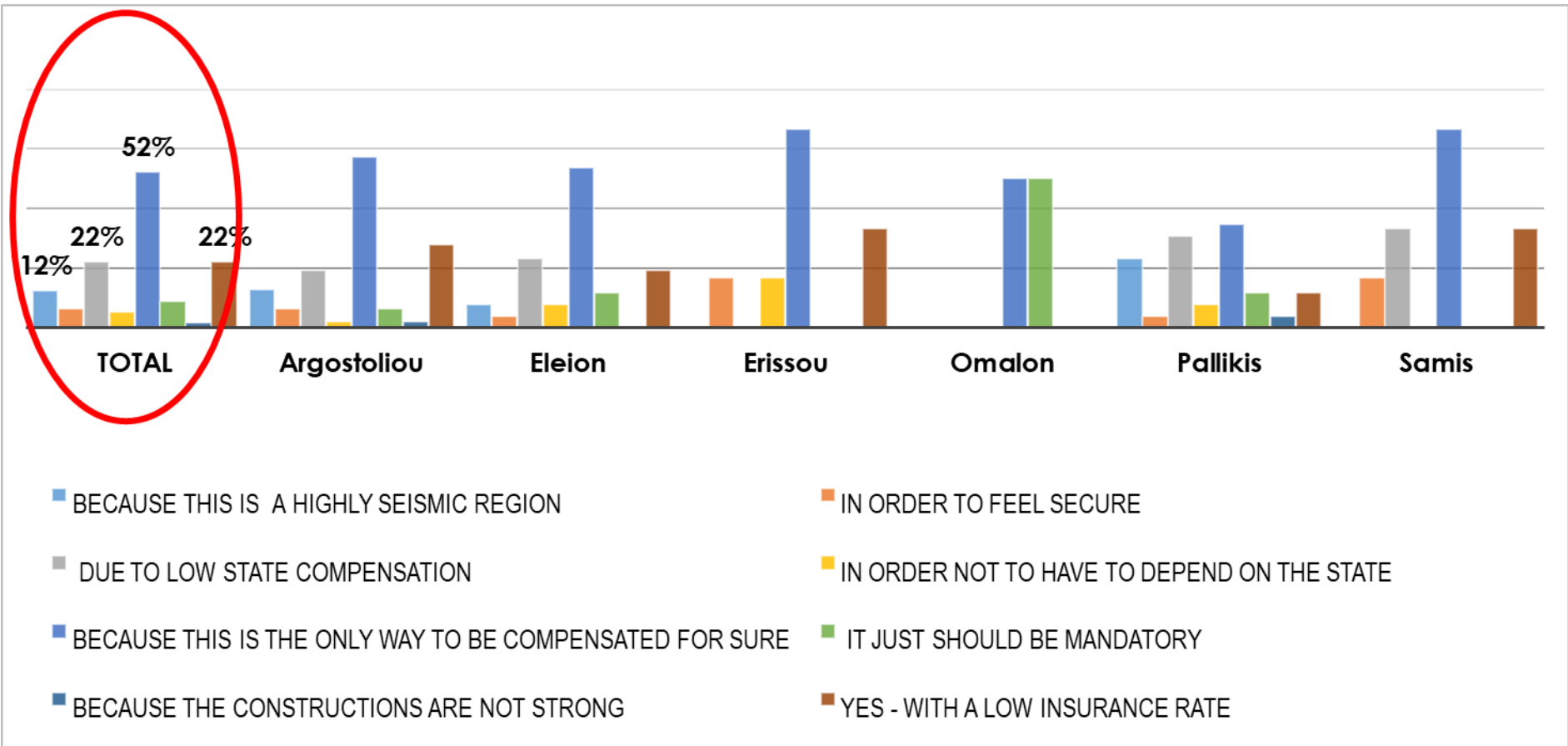


1.8. Carpenter Turner – Munich Re – Kefalonia Market Study

Question 6 – Compulsory Insurance ?



Why do you have a positive attitude towards compulsory house insurance?



1.9. Carpenter Turner – Munich Re – Kefalonia Market Study

Executive Summary



- 48% are unaware of the possibility to buy private house insurance.
- 73% have “no clue” regarding how much EQ insurance costs.
- Those who are aware of house insurance, anticipate its annual cost at €330 for a SI €100,000.
- 16% are privately insured for building/content damages due to earthquakes.
- Among those uninsured, the majority believed that their houses are not threatened by earthquakes .
- 33% had approximately 2 damages from the recent earthquake, mainly cracks and house contents.
- The mainstream belief is that in Kefalonia major earthquakes happen every 20 years on average.
- The majority expresses doubt as to whether they will be compensated by the State at all.
- There is a general disbelief towards private insurance.
- Overall spontaneous predisposition to buy home insurance is low.
- 62% dislike the idea of compulsory insurance but 38% do.
- Those who do like the idea believe that this is the only way to get compensated for sure.
- Those who do not like the idea, believe that they will not be able to sustain the cost and/or do not trust private insurance.
- In either case, they all believe that state compensation is limited.

2. Key Considerations for a successful pool

1. Insurance penetration should be maximised

- As the insurance pool increases so does diversification and therefore cost reduces (to the consumer)

2. Cover should be offered on a First Loss Basis

- Conceptually very Simple and easy to manage
- Cannot be misinterpreted
- Easily understood and appreciated by the original insured

3. Insurance industry should maintain policy administration

- Greek insurance industry is the de facto expert to undertake this project.
- Will ensure an optimized claims handling process as workload spread over many entities and not just one.
- Free market competition – as is the case on Motor Third Party Liability business.
- Solvency II, is the right regulatory framework and offers the right set of tools to avoid dumping practices. In other words, the Solvency Capital Requirement for NatCat depends on Sums Insured and not Premium Income.

4. The Pool should be Adequately protected through a combination of Reinsurance & Reserving

5. State needs to “buy in” the solution

3. Final thoughts....



KISS is an [acronym](#) for "**Keep it simple, stupid**" as a design principle noted by the [U.S. Navy](#) in 1960.^{[1][2]} The KISS principle states that most systems work best if they are kept simple rather than made complicated; therefore [simplicity](#) should be a key goal in [design](#), and that unnecessary complexity should be avoided (Wikipedia)

CARPENTER TURNER S.A. Insurance and Reinsurance Broker & Consultant
7, Granikou Str., Maroussi, 151 25 Athens, Greece
t +30 213 0119 000 f: +30 213 0119 090
www.carpenterturner.com

A company affiliated with [Guy Carpenter](#)

