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The Indian Ocean tsunami: lessons for the future

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The tsunami of December 26 2004 is one of the worst disasters in human history. While our thoughts and prayers are with the victims and those ushering relief to the area, we must turn our attention to any lessons that might be derived from such an event. In particular, we can review potential ways to prevent such a large loss of life and to promote long-term recovery from such disasters.

One clear fact we have learned is that tsunamis are not as rare as initially thought: there have been 790 around the globe in the last 100 years.

Damage from tsunamis, however, has been a relatively minor contributor to insured earthquake losses, according to Risk Management Solutions (RMS), a modelling company.

We can distinguish three stages of human distress following mega-catastrophes. The first stage is the immediate impact of the disaster with its frightening toll of death and injury. The second stage is the emergency stage, where people live like refugees, subject to malnutrition as well as food and water contamination. The third phase is the rebuilding stage.

There will be valuable lessons to be learned in all of these phases. Most obviously, it would appear that a fairly inexpensive early warning system would have prevented many fatalities. For the most part, the focus of the insurance industry is on the rebuilding phase. In this arena, we can observe major differences between countries with deep insurance penetration versus countries with low insurance penetration. Currently in Florida, over £10bn of insurance money – equivalent to 10% of the state's GDP – is being spent to rebuild the homes and businesses damaged or destroyed during the four hurricanes that hit that state last year. Unfortunately, the impacted countries around the Indian Ocean will not have much in the way of insurance funds to rebuild their economies. The rebuilding effort in Asia and Africa will depend to a large extent on foreign donors.

In the 1990s, the World Bank, the United Nations and similar global organisations began to re-examine their respective roles in relation to post-disaster funding. The World Bank calculated that it had provided over £20bn in post-disaster funding. This meant that funds earmarked for economic development projects were being used to simply maintain the status quo, at best. Equally disturbing to analysts at these institutions was the growing realisation that their post-funding relief efforts, laudable and necessary though they might be, were reducing the incentives for countries to develop viable pre-funding mechanisms. If countries know that donor agencies will provide funding after a disaster, it is more than likely that they will scale back on efforts to create viable risk-transfer systems for natural hazards.

A great benefit of insurance systems, particularly where private capital is at risk, is that they encourage mitigation efforts, both in terms of preventing loss of life and also in regard to reducing property damage. Over the centuries, the insurance industry has played a critical role in mitigation, going back to the early days of Lloyd's. The underwriters at Lloyd's created their Register of Shipping, including the services of surveyors to inspect vessels, thus contributing to a reduction in loss of human life and property. Today, the industry plays a major role in this area of loss mitigation in many areas of insurance, including catastrophe-related initiatives. Examples include working with governmental and other organisations to promote appropriate construction codes in windstorm and earthquake prone areas, and supporting management and abatement initiatives in flood-prone regions.

Governments willing to consider risk-transfer mechanisms for natural hazards have a wealth of data and experience to draw upon. Currently, there are more than ten different government catastrophe programmes in place around the world. One of the critical benefits of insurance programmes is that they provide more certainty that long-term recovery efforts will be sustained.

As related in a front-page article in the *New York Times* on January 11, 2005, "For Honduras and Iran, World's Aid Evaporated", when disaster strikes – from Hurricane *Mitch* in Honduras to Iran, where the ancient city of Bam was shattered by an earthquake a year ago – aid efforts seem to last only as long as the media attention. As time passes and public attention shifts, governments cut back on spending, pledges are withdrawn, many private relief organisations leave and local communities are left to finish reconstruction projects.

In 1998, scenes from the devastation caused by Hurricane *Mitch* in Honduras led to a public outpouring of sympathy and support. Heads of state offered to provide large amounts of aid. International relief agencies announced that they were committed for the long term. But these efforts flagged with the passage of time. Three years after *Mitch*, some 20,000 people remained homeless.

Similarly, in Iran, after the devastating earthquake that destroyed the ancient city of Bam in 2003, the immediate response was a strong outpouring of aid. According to the article in the *New York Times*, recovery appears stalled and the Iranian government reports that it has received only $17m of the $1bn pledged by the global community.

The Indian Ocean tsunami was a reminder to all of us of the fragility of our life on this planet when confronted by the powerful forces of nature. However, as intelligent beings, we can develop means to lessen the destruction caused by natural perils. And we can design and implement insurance schemes that effectively aid in the recovery following disasters. re

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