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News Release

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"Cold Spot" Catastrophe Losses Reveal Potential Emerging Market Risks, According to Guy Carpenter Report

New York, September 11, 2012 - Guy Carpenter & Company, LLC, a leading global risk and reinsurance specialist, published a new report today that offers insight into catastrophe risks in developing economies and how they are likely to affect the (re)insurance sector as companies target growth opportunities in these new markets, including emerging Asia and Latin America.

According to *Cold Spots Heating Up: The Impact of Insured Catastrophe Losses in New Growth Markets*, available at www.GCCapitalIdeas.com, growth opportunities in emerging economies pose a unique set of challenges to (re)insurers. The recent and remarkable clustering of global natural catastrophes revealed increasing risks in non-peak zones at a time of increased insurance demand in emerging markets. The result has been unexpectedly expensive "cold spot" losses in areas not previously considered as risky.

The report further examines significant issues and developments relating to global natural catastrophes and rapid economic growth in emerging markets, including:

GLOBAL CATASTROPHES

- **Changing Risk Perceptions Following Recent Loss Experience** – With the clustering of costly global losses in 2010 and 2011, (re)insurers are re-assessing certain portfolios and accumulated risks in non-peak zones.

- **Increasing Non-Peak Zone Losses** – Between 2009 and 2011, natural catastrophes in Asia, Australia and New Zealand and Latin America accounted for 60 percent of total insured losses, compared to 11 percent between 2002 and 2008.

- **Managing Natural Disaster Risks in Emerging Markets** – Many emerging economies are exposed to wide-ranging and severe natural catastrophes, with tropical cyclones, earthquakes and floods regular occurrences. In addition, weather patterns such as El Niño and La Niña can significantly influence extreme weather events by shifting the risks of storm and flood damage in recognizable ways. As (re)insurers increasingly look towards emerging economies for new growth opportunities, gaining a better understanding of catastrophe risks in these territories will be vital to establishing a successful future in emerging markets.

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IMPLICATIONS OF EMERGING MARKET GROWTH ON THE (RE)INSURANCE SECTOR

- **Increased Insurance Demand in Emerging Markets** – With developing economies currently accounting for approximately two-thirds of overall global economic growth, the rapid expansion of wealth in regions like emerging Asia and Latin America are creating opportunities for (re)insurers. The establishment of manufacturing facilities, strong infrastructure investments, land development, construction, growing personal wealth and increased international trade has driven demand for various types of insurance products in developing regions and resulted in rapid rates of growth in (re)insurance premiums.

- **Enterprise Risk Management (ERM)** – As carriers target new opportunities in emerging markets, there is a growing need for better and more comprehensive tools for modeling risk. Companies need to improve their risk management capabilities in order to closely monitor their risk exposures, especially since insurers’ ERM frameworks in developing markets have generally lagged those in the developed world.

- **Diversification** – Increasing losses in non-peak zones have implications on carrier’s geographic diversification strategies. Following the heavy global losses of 2011, (re)insurers with a geographically diversified book of business suffered bigger losses than companies writing business in traditional peak zones. A lack of quality data and modeling tools in emerging markets highlights the risk of adding inadequately priced business to a company’s portfolio when pursuing aggressive geographic diversification strategies.

- **Catastrophe Models** – Although catastrophe modeling solutions for developing markets have improved in recent years, significant gaps in coverage and model limitations still remain for countries outside the established markets of the United States and Western Europe. (Re)insurers are currently struggling to monitor and measure exposures in non-modeled countries and are calling for improved model coverage for these territories. Flooding in particular is a major concern, as flood risk is prevalent and increasing in almost every emerging market and modeling solutions for this peril are virtually non-existent.

- **Reinsurance Protection** – Reinsurance remains the best form of protection against catastrophic losses and many insurers are revisiting aggregate coverage, due to the increased frequency of major catastrophic events seen in 2010 and 2011. Demand for non-traditional reinsurance cover is also likely to increase in developing economies as insurers strengthen their presence in these new markets.

QUOTE

David Flandro, Managing Director and Global Head of Business Intelligence

“As rapid economic growth continues to center around emerging markets and insurance penetration rises in these economies, (re)insurers will need to be prepared to handle the expensive cold spot losses that are occurring in non-peak zones. As (re)insurers look for opportunities on the frontiers of developing markets, we see an immediate need to plan and manage risk exposures in order to ensure profitable growth in these regions.”

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TAGS/KEYWORDS
Guy Carpenter, emerging, developing, markets, insurance, reinsurance, cold spots, David Flandro, catastrophes

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