

COVID-19 & climate change risk management

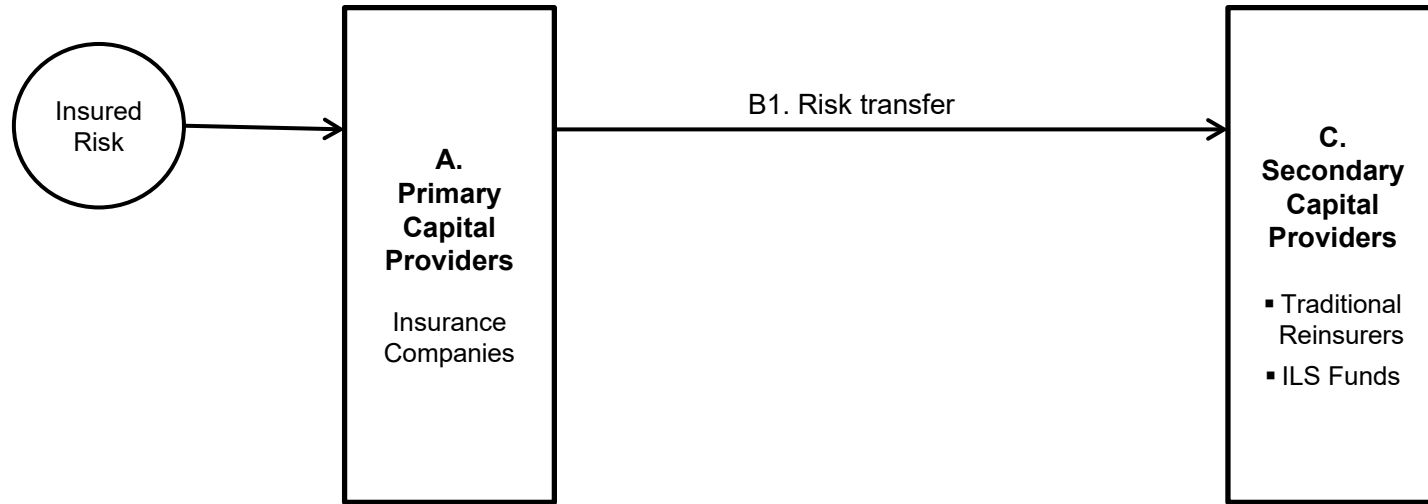




From Risk Transfer to Risk-Sharing: Time for a Paradigm Shift?

Professor Paula Jarzabkowski

Insurance is a process of risk transfer



- Risk
- Responsibility
- Reward

Solvent insurance matters

Principles of insurance

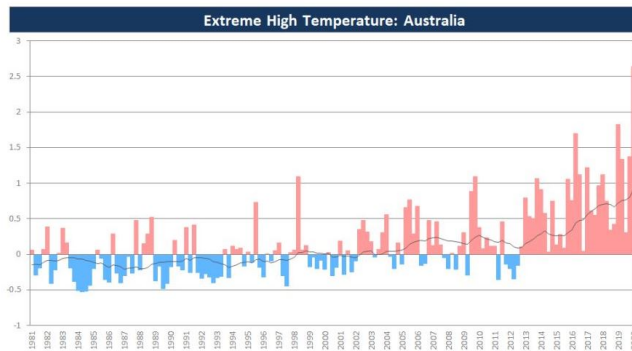
- Risk diversification
 - Multiple, non-correlated risks increase capital efficiency
- Risk pooling:
 - The premiums of the many pay for the losses of the few
- Risk-reflexive pricing
 - Solvency & a promissory note
- Reinsurance

Pandemic is an existential threat to the insurance industry

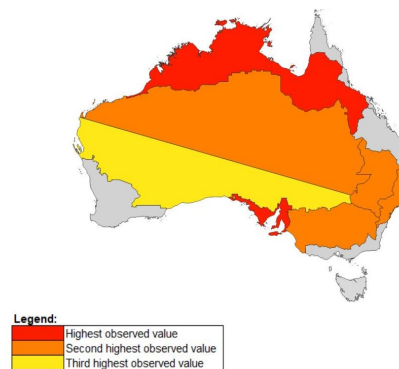
- Systemic and concurrent
- What about climate change?



Australian Actuaries Climate Index: Extreme High Temperature



Regions Breaking Records for Extreme High Temperature



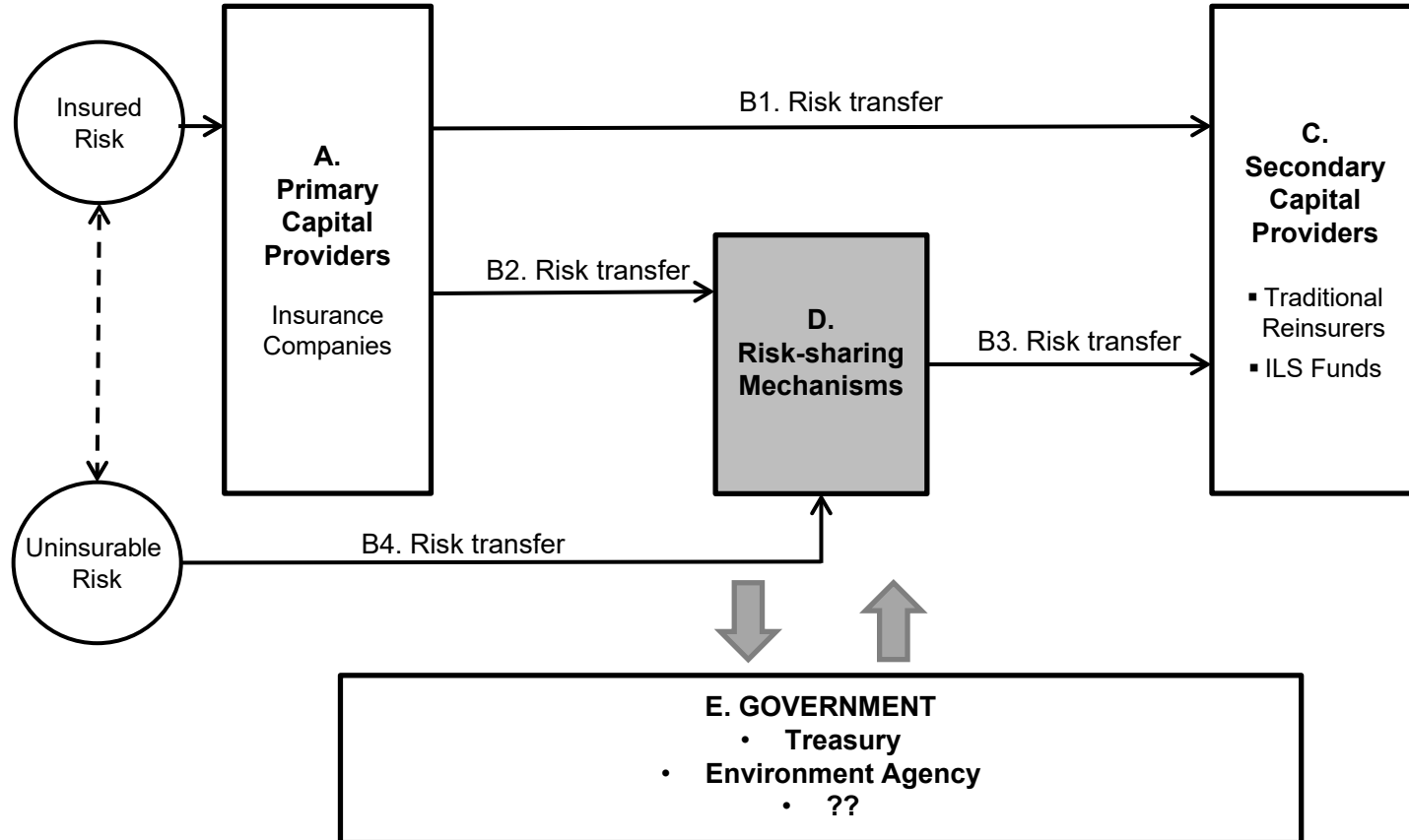
Will risk transfer suffice?



The principles of insurance

- Risk diversification => risks aren't correlated?
- Risk pooling – the premiums of the many pay for the losses of the few => what about losses of the many?
- Risk-reflexive pricing => affordability issues (legacy assets, yet assumes control over the sources of resilience)
- Reinsurance => insufficient global capital
- Systemic risk is uninsurable or only partially insurable

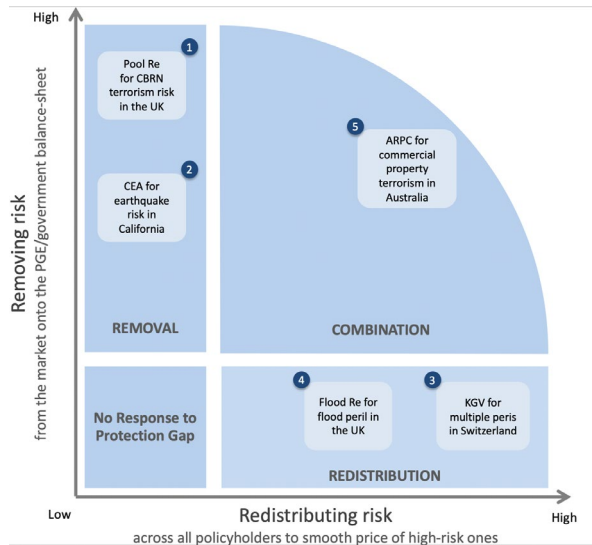
Moving to Risk Sharing



Insurance as part of the risk-sharing solution

Public-Private Partnerships for sharing risk

- Risk redistribution across policyholders & insurers
- Risk removal to reinsurers and government
- A dedicated risk-sharing entity: Protection Gap Entities (PGEs)



To go forward

- We need a new risk-sharing approach
- We need innovation in the product set
- We need to consider how we will fund the future, and who will pay