Ignore CAT risks at own peril

In the absence of specialised Nat CAT models, companies can start building in worst-case scenarios in their capital models, says **Mr Hatim Maskawala** of **Badri Management Consultancy**.

"We do not need to worry about CAT risk. The GCC is not a CAT-prone region." This is what you hear when you speak to many of the senior management working in the GCC insurance sector. In fact, when reinsurers talk of CAT premium, direct insurers feel that they are using this as an excuse of increasing premium rates.

I remember being in a meeting where we were discussing how earthquake is not a risk in this region and the bottles of water on the table started shaking. This was due to tremors following the earthquake in Iran and Pakistan a few years back. Then there were floods in Oman and Saudi recently.

While the losses from Nat CATs are lower compared to other markets, the risks still exist. Insurers try to hide behind the phrase "not CAT prone" to avoid many of the operational elements that would come in a more CAT-prone market.

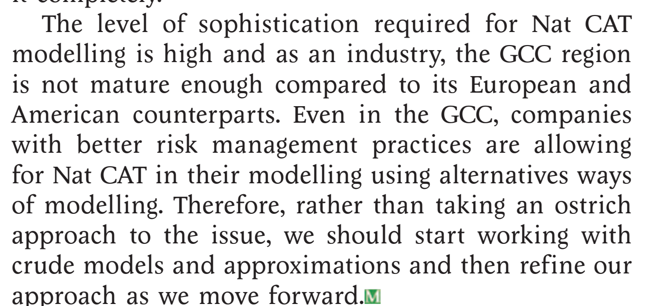
Even in the GCC, companies with better risk management practices are allowing for Nat CAT in their modelling using alternatives ways of modelling. Therefore, rather than taking an ostrich approach to the issue, we should start working with crude models and approximations and then refine our approach as we move forward.

Try to find solutions

The data captured by many policy administration systems is inadequate when it comes to monitoring accumulations and other coding information generally required for Nat CAT modelling. The lack of a standardised geo-coding system (for example, a postal code system) is normally cited by insurers to avoid capturing the information. While this problem exists, rather than just talking about the problem, we should be concentrating on developing a solution. Some companies have worked around this aspect and are making use of the wide-spread availability of GPS devices.

Ignoring Nat CATs can also have an adverse impact on the profit margins and capital positions of the insurers. While the quantum may be lower than other markets, some allowance still needs to be built into premiums. Once this has been done, we will also start keeping aside capital for such events.

Again, the lack of industry models are cited as an excuse. While specialised models like those of Eqecat and RMS might not be calibrated for this region, rather than ignoring the risk we need to build in some margins. In the absence of such Nat CAT models, companies can start allowing for the worst-case scenarios in their capital models. This might be less accurate, but it is better to have some provision for Nat CATs in pricing, solvency and capital calculations rather than ignoring it completely.



The level of sophistication required for Nat CAT modelling is high and as an industry, the GCC region is not mature enough compared to its European and American counterparts. Even in the GCC, companies with better risk management practices are allowing for Nat CAT in their modelling using alternatives ways of modelling. Therefore, rather than taking an ostrich approach to the issue, we should start working with crude models and approximations and then refine our approach as we move forward.

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