

Keeping up with Nat CAT perils in the Middle East

Enhancing tools to understand and assess regional Nat CAT perils will help to create a strong and sustainable CAT excess-of-loss market in the Middle East and benefit both insurers and reinsurers, says **Mr Rainer Lehner** of **Asia Capital Re**.



From earthquakes to floods and droughts, the Middle East has seen its fair share of natural disasters. Yet, catastrophe experts have made little headway in raising awareness of Nat CAT perils in the Middle East. For better or for worse, things have taken a turn in recent years – amidst rapid urbanisation and an increasing rate and intensity of these disasters, the region is starting to look seriously at disaster risk management. The job, however, remains a challenging one for CAT risk experts and professionals.

Awareness of catastrophe risks took centre stage two years ago in 2013 when the impact of two large quakes originating from Iran – one of which was the strongest in the country in 40 years – were felt all the way in Abu Dhabi and Dubai. For a brief period following these events, there was concerted effort by (re)insurers to raise the awareness of the potential exposures to earthquakes risks. However, with the freshness of events gradually fading, efforts in building this awareness have also receded, even in the face of industry warnings that parts of the Middle East are classified as high-quake risk zones.

Flooding is another natural peril that has had significant but short-lived (industry) impact on the region. After a series of cyclones hit Oman in 2002, 2007 and 2010, (re)insurers woke up to the potential destructive impact of strong winds and the associated rains and floods for the region. Saudi Arabia also had its share of flood losses. While large investments were made in both countries to mitigate future losses through the construction of dams, new and stronger storms subsequently caused even greater or new losses from damages in different areas.

Risk management measures needed

To prevent the region and the industry from being caught off guard again in the event of another seemingly unlikely major natural disaster, a comprehensive set of necessary precautions and post-disaster management efforts must be put in place. For one thing, significant effort must be put into filling the gap of models and data on Nat CATs in the region. This has been an Achilles' heel in the work of convincing the market that natural disasters are a clear and present danger to the region. Without such concrete evidence of the region's disaster potential, many – (re)insurers and cedants alike – take the more convenient route of burying their heads in the sand.

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To be better prepared, the industry needs to begin quantifying the potential exposures faced by cedants and (re)insurers in the event of major CATs like an earthquake. Economic devastation aside, these disasters can lead to widespread damage of infrastructure, loss of lives and protracted social and humanitarian costs, such as we have already seen in the recent past in Iran, Jordan and Yemen.

Both insurers and reinsurers will benefit

The emergence and enhancement of tools to understand and assess regional Nat CAT perils will help to create a strong and sustainable CAT excess-of-loss market in the Middle East, benefitting both insurers and reinsurers by supplying strongly rated capacity at a sustainable price for the long term.

As a strong proponent of raising the awareness and bar on risk management, the (re)insurance industry can also be the beacon leading the region's other industries, engineering and construction for example, towards more sustainable disaster risk management practices.

Clearly, more needs to be done to manage Nat CAT risks in the Middle East. In the current market environment however, insurance premiums still do not reflect the related exposures adequately. It may unfortunately require another large loss in the industry before premiums reach adequate levels and the necessary stakeholders spring into action again. 

Mr Rainer Lehner is Senior Executive Officer, Dubai Branch Office, Asia Capital Reinsurance Group Pte Ltd (Asia Capital Re).



People evacuating their offices in Dubai following earthquake tremors on 16 April 2013. A major 7.8 magnitude earthquake struck Iran near the border with Pakistan and tremors were felt in India and Gulf states.