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For immediate release

'Black Swan' events now considered the norm for insurance industry

- Australian region presents serious natural catastrophe exposures
- Insurance industry well placed to handle natural disasters
- Significant trend showing businesses are looking to free liquidity

Melbourne, 13 September, 2011 – 'Black Swan' events are occurring with such frequency around the globe that they now appear to be more normal events, according to Stephen Cross, Chief Executive Officer of Aon Global Risk Consulting.

Speaking today to an audience of over 240 Risk Managers, CEOs and CFOs at Aon's Advanced Risk Finance Conference in Melbourne, Mr Cross said 'Black Swan' events which are, usually considered high-impact, hard to predict and rare, are not really considered as such by the insurance industry anymore.

Mr Cross explained a good example of this was the Icelandic volcano Eyjafjallajökull last year which was at the time touted as a 'Black Swan' event, but is now considered more commonplace. "The reality is that there were significant insured and uninsured losses, but volcanic clouds happen and continue to happen," said Mr Cross, who pointed out that the Puyehue volcano in southern Chile has been erupting for the past couple of months disrupting flight activity in Latin America and Australia.

Mr Cross also noted that the catastrophes occurring around the world, including those in the Pacific region, are different to those of the past. "For example, in the US there has been more tornado activity and more tornado losses in 2011 than for many years past. The unprecedented number of tornados, have collectively eroded billions of dollars of losses from the market. I believe losses associated with Hurricane Irene are going to be very large, and could fall into the top 10 most expensive economic losses in the US," he said.

Catastrophes in Australia

It is also unusual that there have been a series of so many natural disasters in such a short space of time in both Australia and New Zealand, according to Paul Venning, National General Manager, Corporate Risk Services – Aon Risk Solutions, Australia.

Also speaking at the Advanced Risk Finance Conference, Mr Venning said these catastrophes have caused a realisation among global insurers and reinsurers, which bore a bigger share of related losses, that our region presents some serious natural catastrophe exposures. "There is a perception that for some of those perils, in particular the New Zealand earthquakes, have been underpriced in the past," he said.

As a result, Mr Venning said there has been a material impact on commercial property insurance in Australia and New Zealand, with significant cost and coverage implications for companies.

"Floods tend to be location specific, so some insurers have been more impacted than others, and people with flood exposures are probably paying a bit more than they have in the past," he said. "Overall, there has been a reduction in capacity for catastrophe peril in general, as insurance companies look to avoid similar sized losses should we have similar catastrophes occurring," said Mr Venning.



Impact on the insurance market

While Australia and New Zealand have suffered from a spate of significant natural disasters over the past 18 months, Mr Venning said the good news is that the insurance market is well capitalised and has been able to withstand the losses.

“We’ve managed to cope pretty well with these disasters over the years. When you think about the scale of some of these events, we have come out of the last series of catastrophes well. Our regulatory environment is such that we’re arguably better equipped to cope with large insurable disasters than most. We have a strong prudential regime around capital adequacy to ensure that insurance companies have the ability to pay claims, so I think we’re in very good shape,” he said.

Mr Cross said the Australian market is interesting because it has a mixture of insurance capital, with some local carriers relying on local capital and global carriers with global capital. “So you have two totally different markets operating within one market,” he said.

“For the global carriers with global capital, they have an opportunity to move and shift things around and structure their reinsurance in different ways as needed, whereas for local companies the impact of what is going on is far more strenuous because they don’t have the opportunity to diversify their portfolio outside of Australia,” said Mr Cross.

Mr Cross believes this presents global insurers with a number of benefits in the Australian market, which is relatively small on a global scale but had a concentration of risk exposure combined with a concentration of catastrophes.

Market trends

Mr Cross also pointed to a significant trend in that companies were looking to free liquidity as a result of the economy and recession. “A lot of our corporate clients have been looking very closely at their reserves, their reserving philosophy and the levels of collateral that have been requested of them from insurance carriers. A lot of the activity we’re doing now is around managing the total cost of risk,” said Mr Cross.

As such, he said there had been an increase in enterprise risk management activity with companies taking a more holistic view of risk. “Clients are increasing their awareness of the risks they face and the interdependency of those risks. There is a deeper understanding that insuring or dealing with supply chains is something clients need to do,” he said.

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Now in its seventh year, Aon’s Advanced Risk Finance Conference brings together experts in risk financing to discuss the needs of organisations from a financial, regulatory and insurance market perspective. This year the conference explored the theme Building Resilience in a Risky World through interactive panel discussions, presentations and practical case studies.