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Geo Risks Research: Storm surge major loss driver in 2008

The very high natural catastrophe losses incurred in 2008 again show the crucial importance of risk research for the insurance industry. In its annual review published today, “Topics Geo – Natural catastrophes 2008”, Munich Re’s geo risks experts take an in-depth look at Hurricane Ike – with losses of US\$ 15bn, the industry’s most expensive natural catastrophe in 2008.

Hurricane Ike, which hit several Caribbean States, the USA and even Canada, although by then weaker, claimed 168 lives. Ike bore several distinct features:

- Primarily due to the enormous area it covered, Ike had the greatest destruction potential ever recorded in a tropical North Atlantic hurricane. Known as “integrated kinetic energy”, this factor is calculated from the wind speed and dimensions of a storm. It is also used as a measure for storm surge.
- The vast extent of the storm caused a very large storm surge in the Gulf of Mexico. In all, 50 oil platforms were destroyed, and nearly 100 more reported minor to severe damage. A 500-km stretch of the Gulf Coast between Texas and Louisiana was under several metres of water.
- Ike ultimately merged with a low-pressure system above the land mass, producing gale-force winds and torrential rain in the Midwest (primarily Ohio, Kentucky and Indiana) and even on the East Coast of the USA and in Canada.

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Torsten Jeworrek, member of Munich Re’s Board of Management:
“Hurricane Ike clearly illustrates the importance of thorough risk research in identifying loss potential. It is this which enables us to explore new and continuously evolving risk complexes so as to render them manageable and push back the frontiers of insurability. We will continue to insist on a commensurate price for the risks written, particularly since climate change

and settlement dynamics will further increase losses due to weather-related natural catastrophes”.

The 2008 hurricane season, with 16 tropical storms well above the long-term average of 10.3 (1950–2007), confirms Munich Re’s assessment that the current warm phase will probably result in higher loss potential. However, Hurricane Ike also made it abundantly clear to the insurance industry that loss estimates undertaken in the immediate aftermath of complex individual events are particularly fraught with uncertainty. Aggregate losses caused by Ike exceeded initial estimates by modelling firms and the industry. Since insurance companies’ first estimates were too low, Munich Re’s final claims burden was also higher than originally anticipated. Munich Re now expects a claims burden of approximately US\$ 680m (after retrocessions). This claims burden is already taken into account in the preliminary figures published on 4 February 2009 for the financial year 2008.

The new “Topics Geo – Natural catastrophes 2008” also takes a detailed look at the substantial loss potential from winter damage in China, and analyses the severe earthquake that shook the Chinese province of Sichuan in May 2008. According to Munich Re’s geo risks researchers, the insurance industry should interpret the Sichuan earthquake as a warning signal. This catastrophe shows that the risk of earthquake should on no account be neglected in comparison with that of typhoon and flood.

2008 loss figures

On the basis of figures adjusted for inflation, 2008 was the third most expensive year on record in terms of insured and economic losses. Overall losses came to US\$ 200bn, a figure exceeded only in the hurricane year of 2005 and in 1995, the year of the Kobe earthquake in Japan. Last year’s most expensive catastrophe in macroeconomic terms was the earthquake in Sichuan, with direct losses of at least US\$ 85bn. Insured natural catastrophe losses totalled US\$ 45bn in 2008.

Munich Re’s review of these losses, “Topics Geo – Natural catastrophes 2008” can be downloaded or ordered in magazine format from Munich Re’s website (www.munichre.com). Free downloads of the latest analyses and statistics from Munich Re’s NatCatSERVICE database are also available at our website.

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