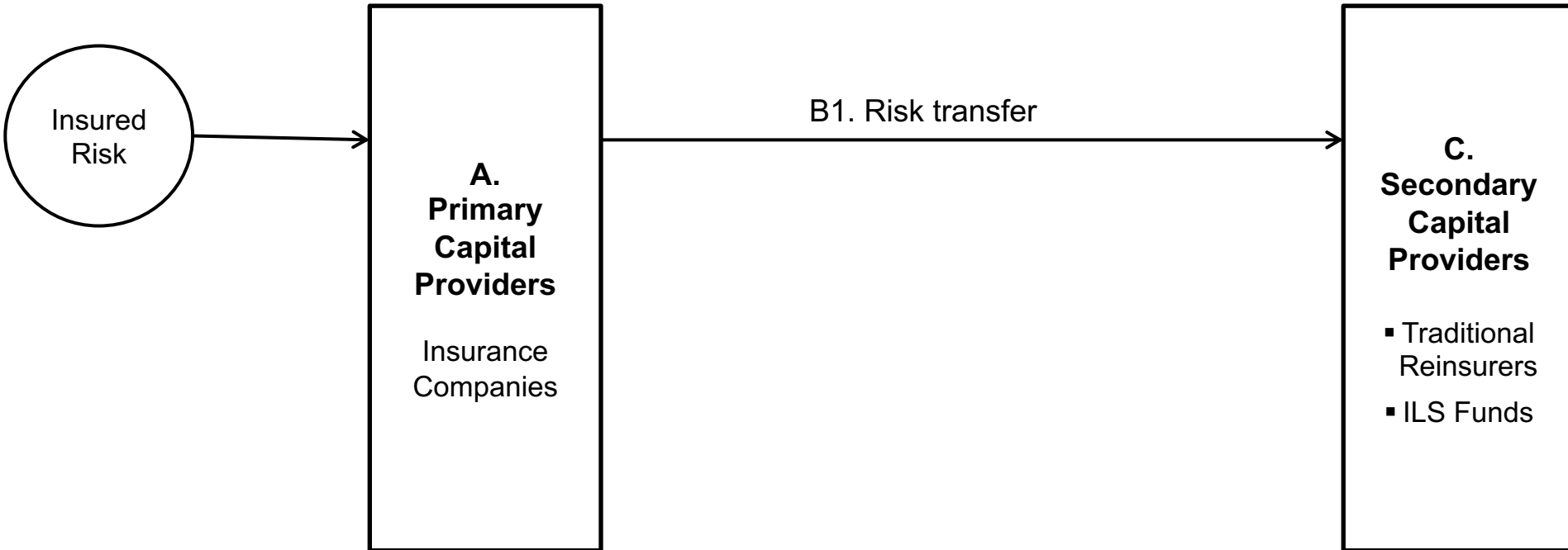




From Risk Transfer to Risk-Sharing: Time for a Paradigm Shift?

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?

The risks are getting riskier

- A growth in extreme weather events, combined with growing conurbations in exposed areas, means that traditional property risks are getting riskier
- Australian bushfires – remember them?
 - Extreme high temperatures (all regions), extreme winds, below average rainfall
- California wildfire – again!
- UK floods
 - Excess rainfall, three named storms in a row
 - Storm Francis

Will risk transfer suffice?



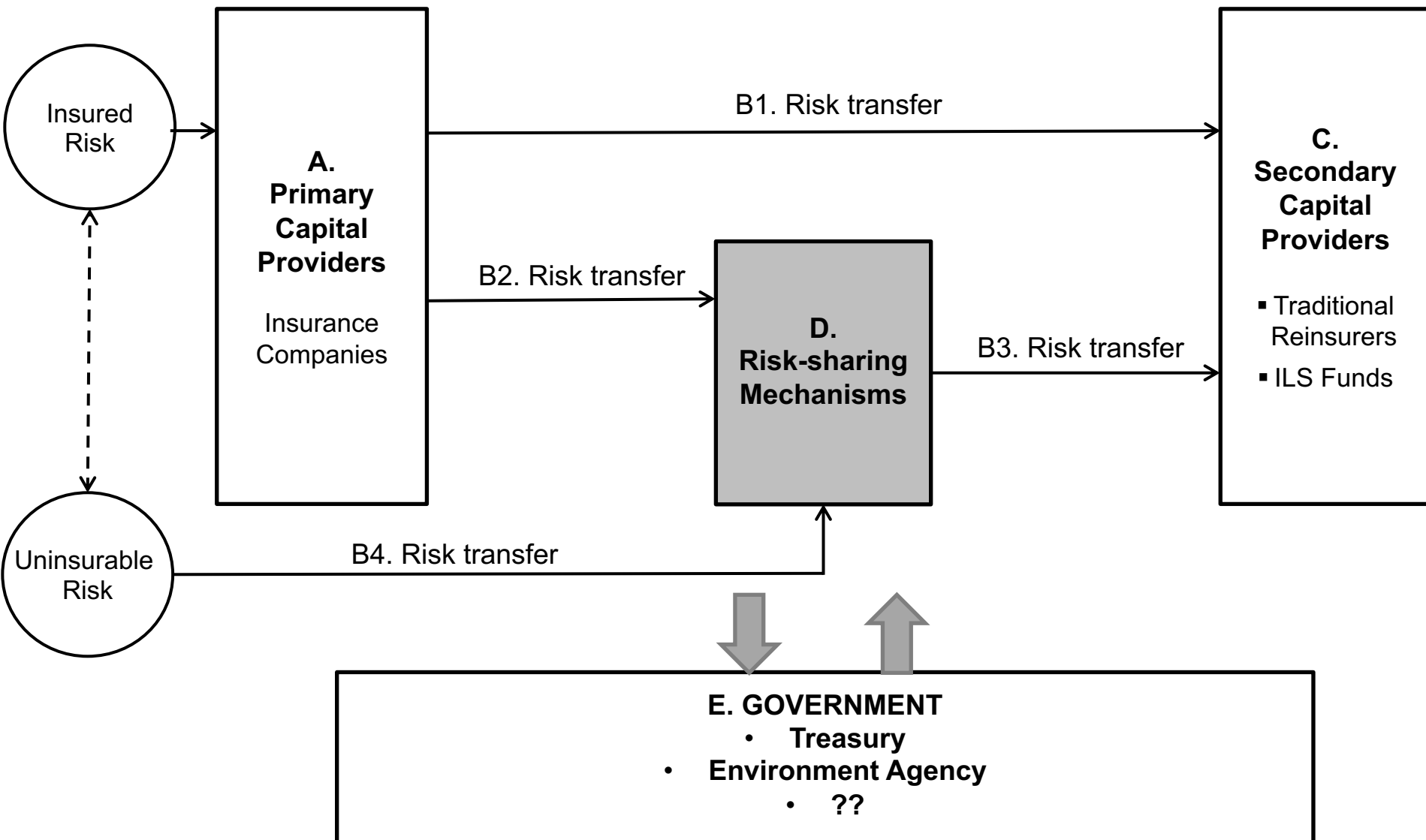
The principles of insurance

- 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



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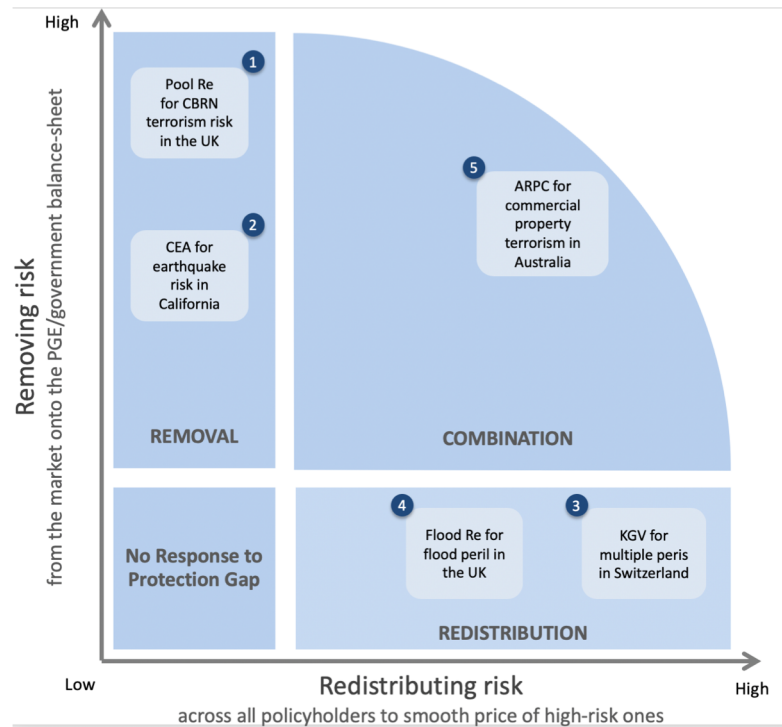
Moving to Risk Sharing



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)



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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