



OECD International Network for the Financial Management of Large-Scale Catastrophes

For AFPCN Meeting of EU-Country National Platforms
for Disaster Risk Reduction (7-8 December 2006)

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Background

- Frequency and severity of catastrophe events appear to be rising
 - Related economic and insured losses
- Potentially increased vulnerabilities:
 - Technological innovation
 - Globalization of economic activities
 - Interdependence of critical networks
 - High concentration of populations and assets
 - Cumulative impacts of modern societies (e.g., environmental/health damage, climate change)

Impact of large-scale catastrophes

- Damage to systems and infrastructures on which societies depend, and injury to people
- Challenges to policymakers and a wide-range of private-sector players, including insurance and reinsurance companies
- Broader issue of vulnerability of financial sector to major operational disruptions
 - Greater dependence on telecommunications, energy, and business outsourcing highlight vulnerabilities
 - Small incidents can have large systemic consequences if there is insufficient business continuity planning

OECD Insurance and Private Pensions Committee

- Insurance and Private Pensions Committee
 - 30 member countries
 - Finance ministries, regulators, and industry
- In response to 9/11 and perception of increasing risk of catastrophes, initiated work on terrorism and catastrophic risks

OECD IPPC

- Mandate from OECD Ministers in 2002:
 - how to define and cover terrorism risks
 - assess the respective roles of insurance industry, financial markets and governments, including for coverage of mega-terrorism risks
- Task Force on Terrorism Risk Insurance
 - Recommendation on definition of terrorism
 - Conclusions and policy options for coverage

OECD IPPC

- International Conference on Catastrophic Risks in November 2004
 - Insurability of catastrophic risks, including terrorism
 - Financial market solutions to managing catastrophic risks
 - Role of governments, including public-private partnerships (e.g., reinsurer of last resort)
- Key OECD publications:
 - Emerging Risks in the 21st Century: An Agenda for Action (2003)
 - Terrorism Risk Insurance in OECD Countries (2005)
 - Catastrophic Risks and Insurance (2005)

OECD International Network on the Financial Management of Large-Scale Catastrophes

- Announced in 2005
- Launched under the aegis of the IPPC and Committee on Financial Markets
- Objectives:
 - **Identify emerging financial threats and vulnerabilities**
 - **Exchange information and experiences**
 - **Review tools and schemes** implemented in countries
 - Develop **policy analysis, options and advice** aimed at improving catastrophe mitigation and compensation strategies and addressing financial or systemic risks



Key topics

- Risk prevention and mitigation; catastrophe contingency plans
- Impact of disasters on insurance industry and financial markets
- Development of disaster risk awareness
- Risk assessment and modelling
- Experiences with financial management of disasters
- Catastrophe risk reserving
- New financial market risk transfer instruments



High-level Advisory Board

- First meeting of the High-Level Advisory Board in September 2006
- 21 members
- Academia, industry, and governments
- Objectives:
 - Provide advice to the Secretary General
 - Provide leadership for the Network
 - Contribute to the Network through work projects



High-level Advisory Board

- Some discussion themes at first meeting:
 - Pro-active identification of risks and need to distinguish between types of catastrophic risks
 - Notion of “maladaptive” societies
 - Distinction between developed and developing countries
 - Evolving role of insurance industry and financial markets
 - Careful identification of role of government
 - Building a more risk literate society
 - Possible framework for analysis and policy principles

First Conference

- First Conference organized under the auspices of the Network to take place in Hyderabad, India on **26-28 February 2007**
 - For further information, contact Timothy Bishop at timothy.bishop@oecd.org