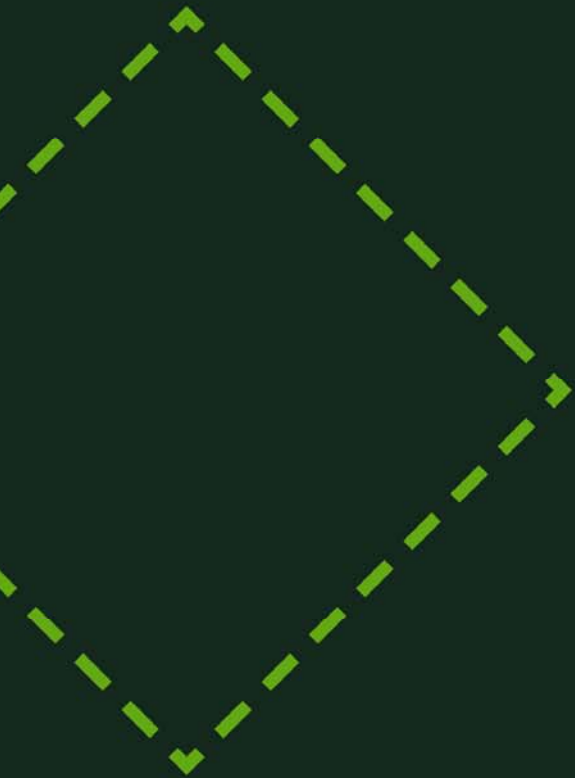


Financial Products

Thomas Loster
Munich Re Foundation



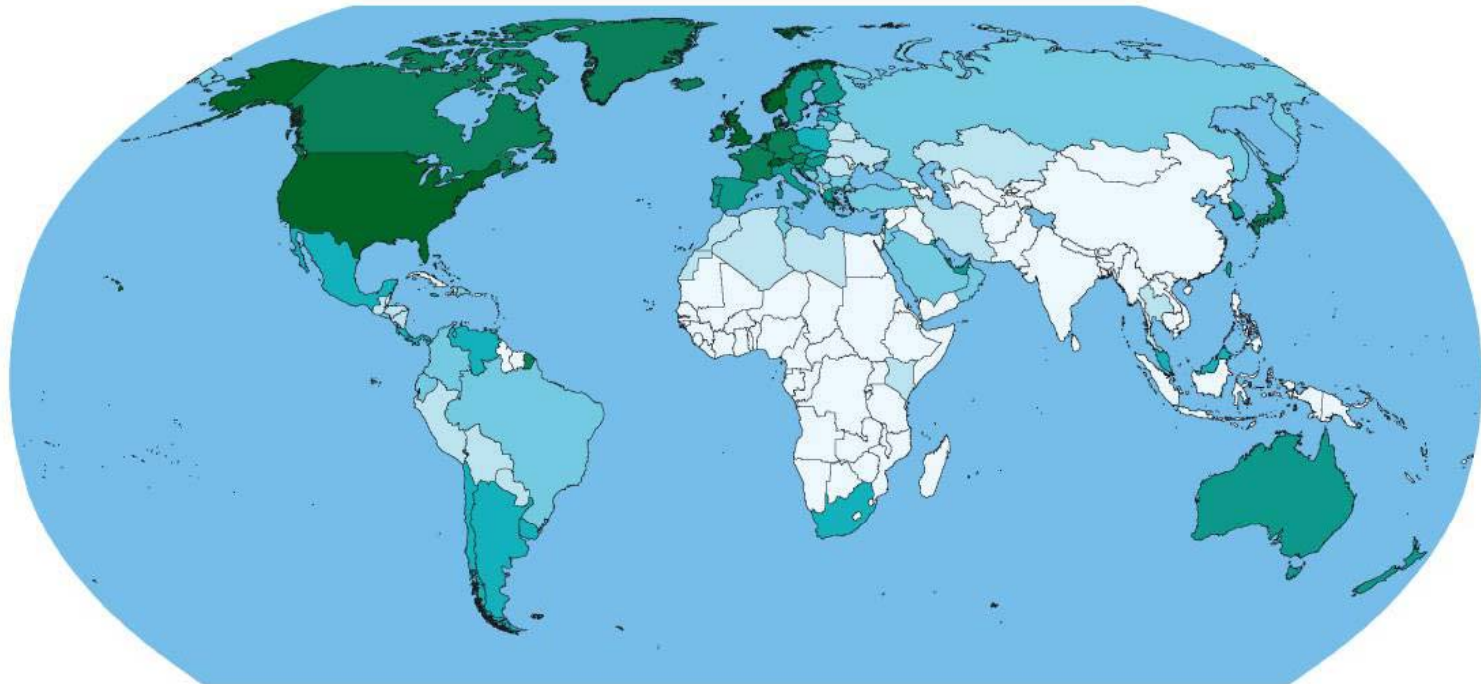
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Key Issue

What are the concrete challenges and opportunities to implement financial schemes for risk reduction and adaptation at the community level?

Insured and Uninsured World

Average Property Premium per Capita per Year



Inadequately insured

0-5 US\$

Basically insured

6-25 US\$

26-50 US\$

Well insured

51-100 US\$

101-500 US\$

501-1000 US\$

> 1000 US\$

Average premium levels, property (non-life) per capita and per year in US\$

Quelle: MR-Economic-Research/MRNatCatSERVICE

Macro – Meso – Micro different impacts/scales/products

Micro-scale

focus

Micro-insurance

health, Life (funeral): yes

property (home, house, plough, boat): ?

Meso-scale

focus

Derivatives

weather, drought: yes

(only in the developed world)

Macro-scale

focus

Cat Bonds

storms, floods, droughts etc.: yes

(only in the developed world)

Cat Bonds

positive

- applicable for almost every area
- any construction, type of disaster, trigger
- can buffer major losses
- very transparent
- good return for investors
- high diversification for investors
- covers several years

Cat Bonds

negative

- complex structure
- complex legal framework
- market up to now only in the DI/RI world
- trigger windows not necessarily wide
- many players (emitter, SPV, consultant, buyer)

- risky business
- low rating (BB, BBB)
- high interest rates costly
- trading whole volume

What if trigger is triggered?

Meso-scale Weather Derivatives

- continuous growth (annually 130% 1997 bis 2001)
- high ENSO sensitivity
- US only (European and Asian business small)
 - . deregulation
 - . weather patterns
 - . business culture
- energy sector dominant

Derivatives

positive

- insuring relevant issues, e. g. yield losses:
big advantages due to early money flows
- ENSO events (South America, South East Asia)
- Insuring renewable energy, e. g. solar, wind, water

Derivatives

negative

- completely new market concept
- complex construction
- price
- access to marketplace
- who is the client? who pays?

What if derivatives are not triggered?

Key Issues

Different people – different worlds:
people at risk, GOs, financial institutions, donors

- Understanding risk (easy, but care for details)
- Understanding culture and demand
- Understanding products (difficult in many ways)
- Technical know-how (available, no big issue)
- Creation costs (relatively high)

- Strong and sustainable will to prevent (!)
- Premiums (maybe high and need to be payed)
- Long-term commitment (governments critical factors?)
- Financial market appetite (variable)
- Loss events (none, rare or frequent)

Without products in place
we will never get things moving

Key Issue

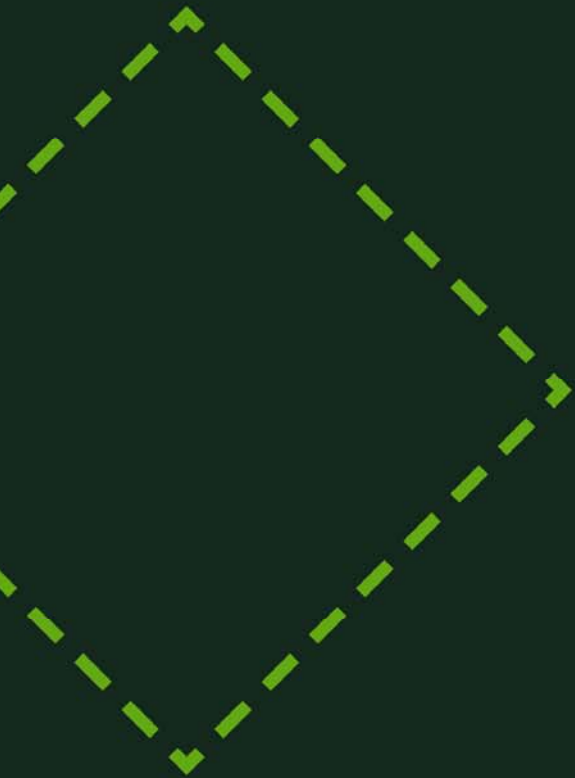
What are the concrete challenges and opportunities to implement financial schemes for risk reduction and adaptation at the community level?

Further:

To what extent are risk reduction and adaptation measures implemented in global risk reduction initiatives?

Tell me more about the last mile...

Thank you



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22 June 2005