



Dear Sir,

The time for Reinsurance Programme reviews and renewal negotiations are with us once again. It is also the time when we give quotations on the risks that we want to have in our books in the next year 2013.

As we go through this important period in our business calendar, we wish to bring to your attention and consideration the risk of Natural Catastrophes that expose our companies to mortal danger yet we never seem to give them enough attention.

A natural disaster is a major adverse event resulting from natural processes of, or effecting, the earth; examples include floods, severe weather, volcanic eruptions, earthquakes, and other geologic processes. An occurrence of a natural disaster can cause loss of life or property damage, and typically leaves some economic damage in its wake, the severity of which depends on the affected population's resilience, or ability to recover.

The region is exposed to the natural perils of earthquakes, volcanic eruptions, floods, limnic eruptions (eruption of gases under water), tsunamis, cyclones especially in the countries that boarder the oceans, droughts, hailstorms, wildfires etc.

An adverse event will not rise to the level of a disaster if it occurs in an area without vulnerable population. However, in a vulnerable area such as densely populated cities like Nairobi, Dar es Salaam, Kampala, Addis Ababa, Harare and Lusaka, earthquake can have disastrous consequences and leave lasting damage, requiring years to repair.

Up to October 2012, the region did not experience any major Natural Catastrophes in the form of earthquakes and floods in the magnitudes that were experienced in other parts of the World.

There were however cases of flooding reported in Kenya, Ethiopia, Sudan, Southern Sudan, where lives were lost and property damaged. In Tanzania, flood alerts have been issued for the months of November and December.

Southern Africa and Mozambique experienced severe flooding that caused loss of life and property damage.

Elsewhere in the world serious floods were experienced in Great Britain and Ireland, Nigeria, North Korea, The Philippines, Romania, Nepal and Russia. In the US, Hurricane Sandy's has also set off massive floods, causing serious damage to property and loss of life.



It is worth noting that flood losses are increasing at an alarming rate and in 2011, the cost of flood damage was estimated at US\$. 15billion. This poses serious challenges to the Industry as a whole as no other natural catastrophe impacts as many people as flooding, which affects as many as 500 million people every year.

Earthquake occurrence were however more widespread and more so in the APAC Region where the natural catastrophes of 2011/12 prompted a major change in mindset for the entire insurance industry.

Indonesia, Canada and Russia suffered Earthquakes of above magnitude of 7.7 on the Richter's scale. In total 105 Earthquakes of magnitude ranging from 6-9.9 were reported in the first nine months of year 2012.

Towards the end of the month of October, the consequences of the occurrence of Earthquake off the coast of Haida caused Hurricane Sandy's, which has devastated parts of the Eastern United States of America. There has been loss of human life and damage to other amenities such as roads, power lines, railway lines, telephone and computer cables etc. Economic damages from Hurricane Sandy, which is expected to affect some 20% of the U.S. population, could be in the range of US\$10 to \$20 billion, according to EQECAT, a catastrophe-risk modeling firm. This compares to Hurricane Irene, which caused \$10 billion in damage last year.

Insured losses from Hurricane Katrina in 2005 alone topped \$45 billion, adjusted for inflation. Hurricane Katrina was the deadliest event and the insurance industry's most costly natural disaster.

Although the regional Insurance market is growing, growth as in other developing economies is hampered by relatively low risk awareness and in consequence low demand. This is particularly true for our region where 70% of the population live in the rural areas. The rural population in particular lacks the financial means to insure against natural catastrophes and even other ordinary risks.

Going by the reported catastrophe loss figures, we can emphatically say that the regional companies are not adequately covered by catastrophe. One reason for this is lack of risk /exposure data. The regional companies do not use any Catastrophe modeling tools which can give accurate data on the exposures.

Secondly Catastrophe covers do not come cheap. Given the tendency to cut costs and report high profits in the short run, the covers are trimmed downwards. This would definitely result in serious repercussions should there be a serious occurrence of a natural catastrophe.

Without adequate Insurance/reinsurance protection, economic and social developments are likely to be impeded by the enormous destructive potential of the natural forces.

The region is however definitely exposed to the danger of Great Natural Catastrophes.



According to United Nation's definition, natural catastrophes are classified as great if a region's ability to help itself is distinctly overwhelmed making supraregional assistance necessary. As a rule, this is a case when there are thousands of fatalities out of an occurrence, hundreds of thousands are left homeless and/or overall losses are of exceptional proportions given the economic circumstances of the country or region concerned.

Typically, the various countries in our region, in their various stages of developments are undergoing the following experiences which can turn events that are entirely natural into devastating catastrophes:-

1. Population growth:-There is enormous growth in the regional population. This drives the people to create necessary settlement areas by making use of new sites, where natural hazards exposure can be very high.
2. Settlement and Industrialization: - Cities are spreading rapidly, frequently in highly exposed areas such as floods and wild fire zones. Above all, progressive settlement of coastal areas brings with it the risk of storms and tsunamis. Quite a number of people live within 50kms of the coast.
3. Concentration of population and Values: - The more conurbations there are, the greater the probability that a natural hazard event will affect one of them. The number of cities worldwide has risen and the existing ones expanded. Already more than 30% of the region's population live in cities, and the figure is steadily rising.
4. Improved living standards: - In virtually all regions in the world, population growth is associated with arise in aggregate property value.
5. Vulnerability of modern societies: Modern technologies are more sophisticated and harbor new risks, which make events like power cuts, computer network failures and infrastructural breakdowns entail huge losses.
6. Rising Insurance density and global networking: - The increasing prevalence of Insurance cover inevitably leads to an increase in insured events. In addition greater global networking e.g. tourism means that natural catastrophes have more wide-reaching effects. This was highlighted by the tsunami of December 2004, which like no other catastrophe before, effected many nations. 220,000 people from 40 different countries lost their lives.
7. Climate Change: - Climate change is leading to arise in extreme weather events and its effect on natural catastrophe losses will increase.

Insurers and Reinsurers should take into account the fact that climate change has boosted natural catastrophes and according to recent studies conducted on this, climate-driven



disasters accounted for \$510 billion of insured losses in North America alone between 1980 and 2011, the highest amount anywhere for claims against natural catastrophes.

Accordingly Insurers and reinsurers should prepare to face more weather-disaster claims in the future and seek to mitigate the losses the industry is experiencing.

The consequence of all this is that prices of Reinsurance covers for disaster Insurance will go up, and to mitigate this, it is imperative that the Insurance companies charge commensurate premiums despite the intensifying competition for business.

We take this opportunity to thank you for your continued support and look forward to stronger business ties in 2013.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'K.O. OBALLA', with a long horizontal line extending from the end of the signature.

**K.O.OBALLA,**  
**TRAINING MANAGER**  
**ZEP-RE (PTA REINSURANCE COMPANY)**