

Earthquake Insurance – Cover For The Inevitable

Despite living in one of the most seismic regions in the world, Indonesians were charged very little or no earthquake premium at all for the insurance coverage of earthquake exposures to their properties for a long time due to intense competition among insurers. It was only in 2003 that a compulsory earthquake tariff was introduced in the country.

Less Earthquake Covers Taken Up

“Now there is a perception that earthquake insurance is an expensive cover and most insurers are of the opinion that less consumers are taking up earthquake covers because of that,” said Mr Werner Bugl, President Director of PT Asuransi MAIPARK Indonesia.

According to him, the take-up rate of these covers has shown signs of slowing but he believes this can be countered by more market activities by all – the Government, insurers and brokers – to raise the awareness of the public to the necessity and importance of earthquake covers.

Memories Fade

“The problem is always that while many cities are prone to catastrophic exposures, major actual incidents do not occur frequently. They occur in decades or centuries. While this is fortunate, it also means that people tend to forget how vulnerable they are. But catastrophes do happen,” he said.

Sitting On Tectonic Plates

Indonesia is prone to a wide variety of natural hazards, and historical records show that earthquakes and volcanoes top the list. It sits on the convergence of three major tectonic plates: The Indian Australian plate; the Pacific plate; and the Eurasian plate.

The country has a meteorological and geophysics institute with a department focusing on earthquakes called the Bureau of Meteorology and Geophysics (BMG). The institute sets up monitoring points all over the country (some manned and some unmanned) which feeds data into the institute. It monitors earthquake activities in the country this way.

Study Done

However, for insurance, there are not much useful data as yet as the real collation of data started only last year with the formation of the Indonesian Earthquake Reinsurance Pool which is now transferred to the new company, PT Asuransi MAIPARK Indonesia, this year.

There was a study entrusted to Professor Russell Blong and Professor John

McAneney of Risks Frontiers – NHRC (Natural Hazards Research Centre) from the Macquarie University, Australia, to check on the earthquake-pricing equitability as well as probable maximum loss (PML) estimations based on the earthquake data.

Earthquake Tariff

“We provided all the data we collected in the Earthquake Pool such as the number of risks insured, the types of occupancy, the breakdown of geographical locations/exposures by zones and the simulation was made on those data provided by us,” said Mr Bugl. The earthquake tariff was derived from these analyses.

National Earthquake Reinsurance Company

PT Asuransi MAIPARK Indonesia was created specifically to handle the earthquake insurances of Indonesia and it has a mandate to become the national earthquake reinsurance company of Indonesia.

“We have a general insurance licence so we can write any risk. We do not have any licence restrictions, but because we have a specific objective and mandate, we will focus on that first. As a start, we intend to increase the earthquake cessions from the insurance companies to MAIPARK from next year,” said Mr Bugl.

Every general insurer in Indonesia, both domestic companies and joint ventures, including the four domestic reinsurers, is a shareholder of PT Asuransi MAIPARK Indonesia and there are plans to extend the scope of the business to cover other natural perils as well such as windstorm and floods.

“We will do this carefully as it depends on how quickly we can build our infrastructure and bring onboard qualified manpower as these risks will require different skills and handling,” he said.

Conclusion

In the meantime, Mr Bugl has his hands full. A veteran in the Asian reinsurance world, he looks forward to setting up this new company and helping the industry ensure that the country is well provided for in the event of the inevitable. ●

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**Mr Werner Bugl, President Director,
PT Asuransi MAIPARK Indonesia**

