

Uninsured Losses Project – Prototype Guidance Notes

AIM

The aim of the prototyping exercise is to ensure that the research is aligned with producing new business opportunities.

PROCESS

DEFINITION – By proposing *what* a new product will do, identify the attributes that need to be included in its description.

- Examples:
- (a) \$500m XS \$500m Polish Flood
 - (b) \$500m Polish Flood Catastrophe Bond
 - (c) \$500m 10 year Polish Flood Credit Line

EVALUATION – By discussing *why* a new product would be desirable, identify the criteria by which prototypes might be judged.

Examples: **“BASIC MUD”**

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| <p>B – A reasonably spread hook of business should be possible.</p> <p>A – Possible adverse selection should be avoided.</p> <p>S – The product should have a reasonable, sustainable, lifetime.</p> <p>I – There should be good quality, independent, information on the risks.</p> <p>C – The new business should be consistent with normal customs and practices.</p> <p>M – Attention should be given to potential moral hazard due to cultural differences.</p> <p>U – There must be uncertainty concerning the occurrence of the insured event.</p> <p>D – There needs to be a demand for the product.</p> |
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Courtesy of David Crichton

IMPLEMENTATION – By discussing *how* a new product might be created, identify the potential practical barriers that should be considered within (or in addition to) the research.

- Examples:
- (a) Through IMF/World Bank contacts, approach Finance Minister, offering catastrophe cover.
 - (b) Identify local communities most affected by past catastrophic losses and offer risk transfer for 50% of actual losses. Enter negotiations on defining loss, quantification of risk and on administration of payment.
 - (c) Introduce local mutual insurance model and services, working with Local Authorities/UN/Red Cross, with large losses pooled within regions and catastrophe cover placed in the reinsurance market.