

For Immediate Release:

Industry Thought Leader Discusses the State of Catastrophe Models at 2006 Society of Insurance Research Conference

Charleston, SC, Nov. 27 — At the 36th annual Society of Insurance Research (S.I.R.) conference held in Charleston, South Carolina, industry expert Karen Clark, president and CEO of AIR Worldwide (AIR) provided an overview of the fundamentals of catastrophe modeling and best practices for their use to an audience of over 150 insurance industry researchers. In her keynote, Ms. Clark also reviewed lessons learned from the 2004 and 2005 hurricane seasons and addressed the question of whether catastrophe models required drastic changes as a result.

“Even before Katrina, the AIR U.S. hurricane model contained hundreds of scenarios with greater losses,” said Clark. “Insured losses exceeding \$100 billion from a major hurricane making a direct hit on Miami or New York, or a large earthquake in Los Angeles or the central U.S. are not hard to imagine. However, many insurers were surprised by their Katrina loss because their exposure data was insufficient for an accurate assessment of their catastrophe risk.”

An accurate replacement value, which is the full cost to replace the building in the event of a total loss, is essential for accurate catastrophe modeling and loss estimation. Construction and occupancy information are also important for accurate estimates. For example, light metal structures are more than three times more vulnerable to hurricane force winds than are those built using reinforced concrete.

“Modeled loss estimates are only as accurate as the exposure data input into the catastrophe model,” continued Clark. “Insurers need to put more emphasis on improving the quality and completeness of their exposure data to improve the accuracy of the catastrophe risk information used by company management.”

Ms. Clark also emphasized that the main driver of the growth in catastrophe losses is not climate but exposure growth.

“There is a one percent probability of an insured property loss exceeding \$100 billion this year,” said Ms. Clark. “That may appear small to some, but the probability of experiencing this loss or greater over the

next 10 years is almost 20 percent when the continual growth in the number and value of exposed properties is included.”

The annual two-day SIR conference brings together insurance researchers interested in learning more about a wide range of topics, including catastrophe modeling, industry & consumer exposure to terrorism, homeowner insurance availability and affordability in catastrophe prone markets and other discussions regarding emerging issues and trends.

About the S. I. R.

The Society of Insurance Research (S.I.R.) is a not-for-profit organization founded in 1970 to provide a forum for the free exchange of ideas in all areas of insurance research. For information about membership; future conferences; and exhibiting or speaking opportunities; contact Ed Budd at sir.mail@comcast.net or call 317-398-3684.

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