

CATASTROPHE - an event causing great and sudden damage or suffering. This can be the loss of a loved one on a personal level or a fire, flood, or earthquake impacting an entire community.

Catastrophes happen to “other people”. It’s a movie theme like *The Day After Tomorrow*, or something we read about in newspapers. Nobody likes to contemplate the possibility of a catastrophe affecting them, which often leads to inadequate preparation. The corona pandemic managed to shake humanity from this sleepwalk for several months. Ironically, human behavior following a catastrophe often results in short-term thinking and living for the moment rather than preparing for future incidents.

The summer of 2023 delivered another wake-up call with climate events being reported nearly every day: wildfires across Southern Europe and Canada, a hurricane in California, local wind storms, heat records across southern Europe followed with hail and flooding in multiple locations. It’s been hard to distinguish extreme event from potential catastrophe or actual catastrophe.

The wildfire in Hawaii is an undeniable catastrophe. A combination of climate and human behaviour factors resulted in lives lost and homes destroyed overnight. Intense cyclonic winds and tinder dry forests exacerbated by global warming. On the human side errors such as not activating warning sirens and failing to disconnect electricity lines during intense winds. While insurance and government support can aid in rebuilding Lahana, the loss of life and culturally significant heritage is irreparable and recovery will take long.

Climate change is shifting the parameters of potential catastrophe scenarios. Historic data and insurance models used to mitigate financial damage and human behavioral shortcomings are becoming less effective in this evolving landscape. Climate models are clear however. The trend of summer 2023 will continue and escalate by 2024 due to the intensification of the current El Nino (ENSO Southern Oscillation). So clear that it evokes the same human tendency — short-term thinking. As actuaries continue to grapple with adapting models to assess financial implications of climate risk, criticisms regarding economic interpretations are on the rise. Critiques include the IPCC and NGFS not accounting for climate tipping points inherent in these climate models. The core principle of risk diversification in insurance also faces challenges when numerous events occur in various locations.

How can we, as an industry and as actuarial professionals, contribute substantial societal value?

1. Effective behavioral and financial risk management to reduce the impact of disasters. This involves both future fit modeling and encouraging societal risk readiness.
2. Enhancing communication and setting professional standards. Realistic, objective language is pivotal in conveying the extent of risks and uncertainties to community leaders, politicians, and CFOs/CROs of insurers and corporations.

Let’s proactively prepare for potential catastrophes in 2024 and beyond by acknowledging causes, communicating the risks, normalizing behavioral risk management, supporting climate mitigation as well as adaptation projects, and establishing financial safeguards including insurance and capital market structures for the residual risk.

Loudina Eramus

COLOPHON

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