Catastrophe models a must for marine risks

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After a year defined by major losses, Munich Re’s modeling expert has told marine underwriters that even a catastrophe model that is wrong is better than no model at all.

Hjortur Thrainsson, told delegates at the IUMI Annual Conference that the biggest issue for the marine market when it came to probabilistic modelling was the fact that many of its risks were moveable. He explained while the property risks which are static made it easier to assess the vulnerability hull and cargo risks were transient and as such it was difficult to look at true exposures and the assets may or may not be in the affected area.

He was speaking at a special session at the conference which was moderated by Dieter Berg member of the IUMI Executive Committee. He said the marine market has been hit by a series of major losses culminating in Superstorm Sandy which was the biggest catastrophe loss in the history of the marine insurance market.

Mr Thrainsson said: "Using such models I believe will be of great benefit to the marine insurance community. The models are a combination of science and fiction, it is like some Hollywood movies the models are based on real events but is not the whole truth."

He said by their nature the models cannot predict the future but are of huge benefit when it comes to the ability to arrive at the right price for the risk and the understanding of the potential accumulations from a major catastrophe.

He said the biggest issue from the marine market remains not the earthquake or the windstorm risk but the flood or storm surge which accompanied such events.

"I would say having a model which is wrong is better than having no model at all," he explained. "With no model you are flying blind. With a model, even if it is wrong, you have your eyes open and at least you can see something."