

THE ECONOMICS DISASTER RISK REDUCTION: RISK TRANSFER INSTRUMENTS

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AGENDA

1. FINDING A GOOD QUESTION
 2. ROLE OF ECONOMICS IN DISASTER RISK MANAGEMENT – DISASTER RISK REDUCTION?
 3. PRELIMINARY CONCLUSIONS
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THE ROLE OF ECONOMICS IN DRM - DRR

	Knowledge	Mitigation	Emergency Preparedness	Post Disaster Reconstruction	Risk Transfer
Earthquakes					

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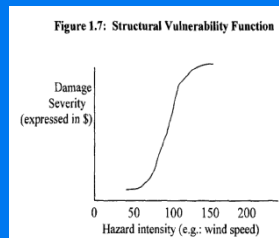
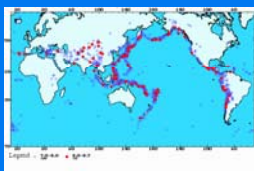
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The essence of Risk Transfer (RT), is to make provisions for future events (emergencies, disasters, catastrophes) by declaring a risk scenario (exposure of individuals) and then shifting this risk from one party to another

THE ROLE OF ECONOMICS IN DRM - DRR

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RISK
SCENARIOS



RECONSTRUCTION
COSTS

PROPERTY VALUE



THE ROLE OF ECONOMICS IN DRM - DRR

RECONSTRUCTION
COSTS



**HOW TO
ESTABLISH THE
TRUE MARKET
PRICE OF
CATASTROPHE
RISKS?**



INDEMNITY BASED ON
THE TOTAL COST OF
REPAIR /
RECONSTRUCTION

PROPERTY VALUE



INDEMNITY BASED ON
PROVIDE SUFFICIENT
FUND OF
REPLACEMENT OF
DAMAGED VALUES



THE ROLE OF ECONOMICS IN DRM - DRR

INDEMNITY BASED ON
THE TOTAL COST OF
REPAIR /
RECONSTRUCTION



**HOW TO
ESTABLISH THE
TRUE MARKET
PRICE OF
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RISKS?**



MARKET VALUE OF:

- Designs (architectural, structural, facilities, etc)
- Construction (direct costs of labor and supplies)
- Construction Management
- Legal and regulatory issues

INDEMNITY BASED ON
PROVIDE SUFFICIENT
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MARKET VALUE OF:

- New properties
- Used properties
- Properties for rent



THE ROLE OF ECONOMICS IN DRM - DRR

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**HOW TO
ESTABLISH THE
TRUE MARKET
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THEORY OF SUPPLY AND DEMAND

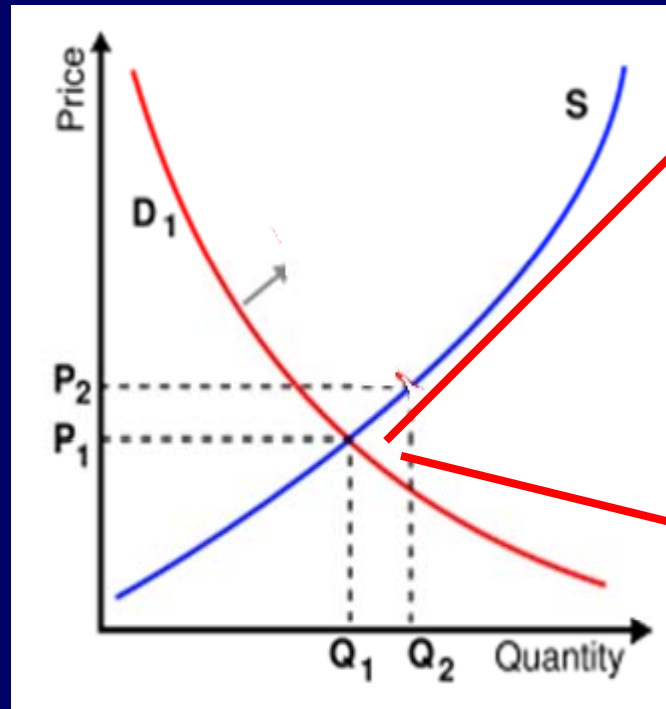
Describes the relations between prospective sellers and buyers of a good. These relations are commonly known as transactions, and occurred under an “agreement” or “institution” called the market.

MARKET VALUE OF:

- New properties
- Used properties
- Properties for rent

THE ROLE OF ECONOMICS IN DRM - DRR

THEORY OF
SUPPLY AND
DEMAND



\$ BRICKS
\$ STEEL
\$ CEMENT
\$ LABOUR
Σ RECONSTRUCTION VALUE

\$ NEW PROPERTIES
\$ USED PROPERTIES
\$ RENTED PROPERTIES
Σ REPOSITION VALUE



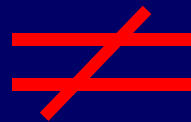
THE ROLE OF ECONOMICS IN DRM - DRR

THERE ISN ENORMOUS PRE-DISASTER CHALLENGE

TECHNICAL POINT OF VIEW: ECONOMIC ANALYSIS IS
NOT NEW, BUT IS UNDERWRITING A
COMPREHENSIVE PROCESS?

INDEMNITY BASED ON
THE TOTAL COST OF
REPAIR /
RECONSTRUCTION

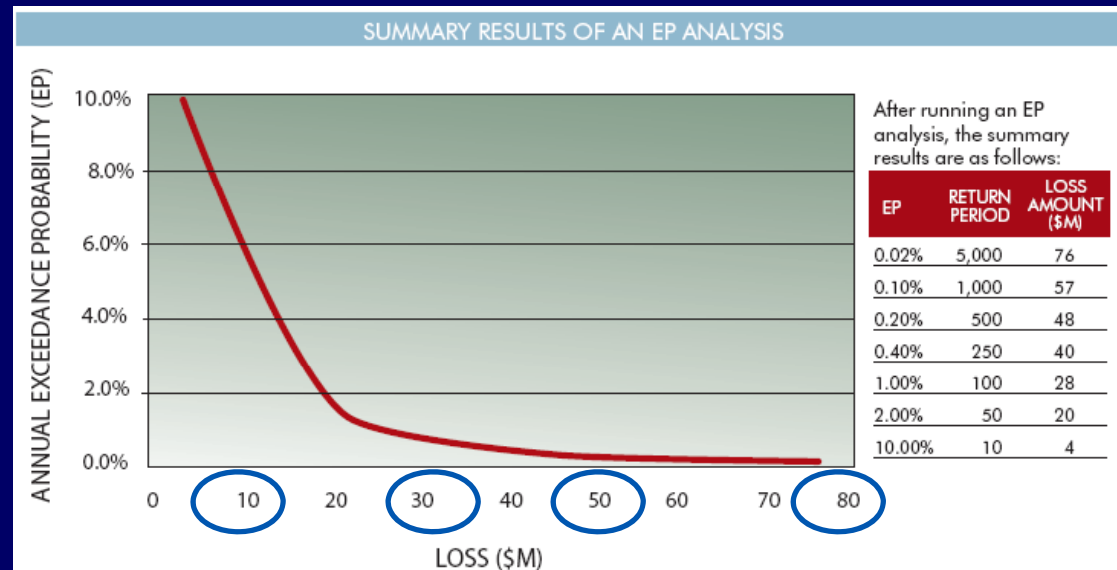
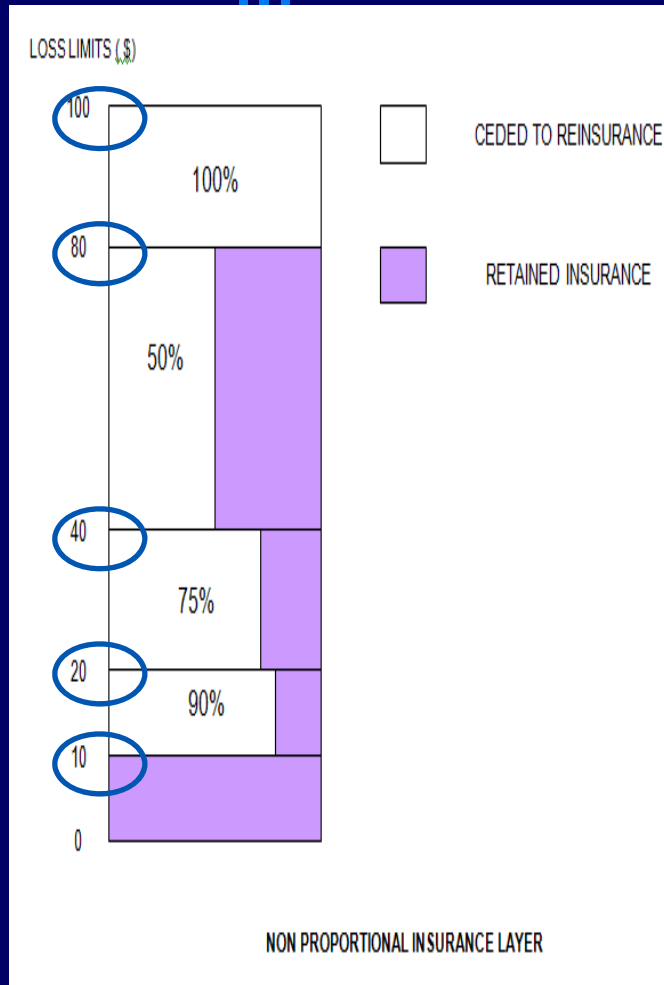
RECONSTRUCTION VALUE



INDEMNITY BASED ON
PROVIDE SUFFICIENT
FUND OF
REPLACEMENT OF
DAMAGED VALUES

REPOSITION VALUE

THE ROLE OF ECONOMICS IN DRM - DRR



ARE RISK TRANSFER INSTRUMENTS
TECHNICALLY DESIGN FOR THE
RECONSTRUCTION OF PROPERTIES, BUT
PRACTICALLY DIMENSIONED FOR THE
REPOSITION OF THEM?

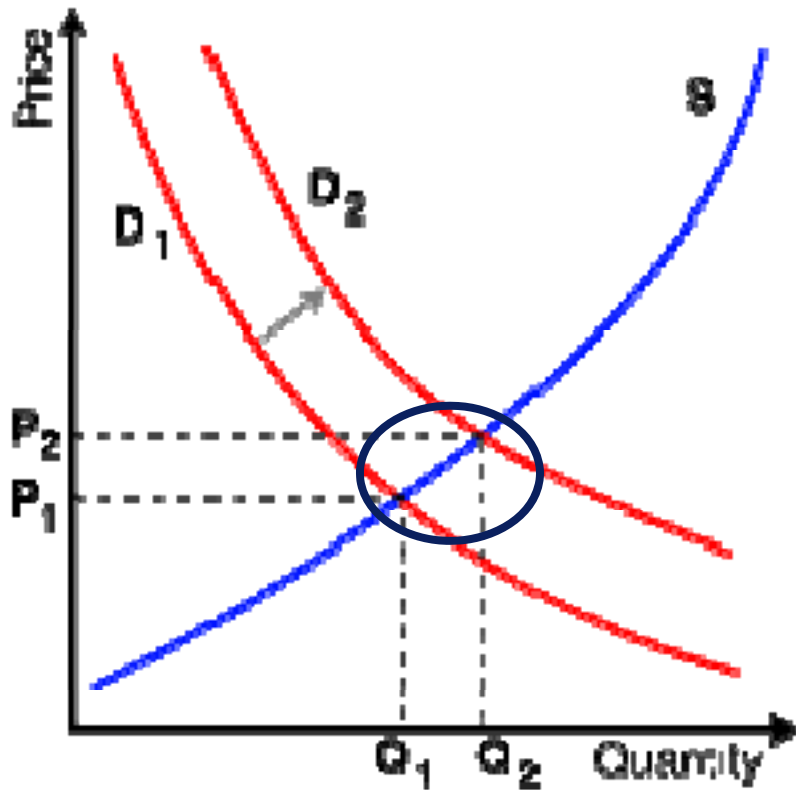


FINDING A GOOD QUESTION

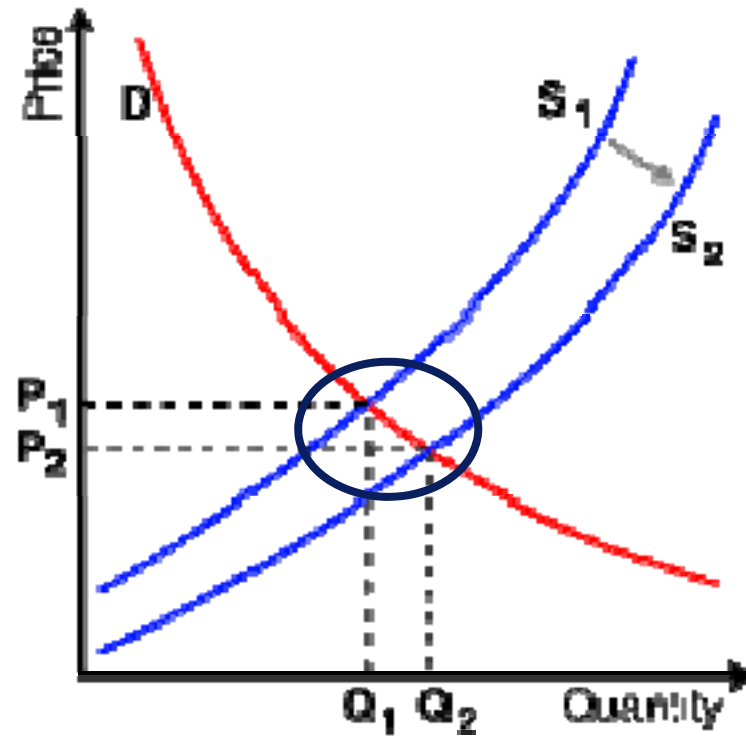
**HOW TO ESTABLISH THE TRUE MARKET PRICE OF
CATASTROPHE RISKS?**

**WHAT ARE THE POST DISASTER ECONOMICSFROM A
VERY FUNDAMENTAL POINT OF VIEW**

THE POST DISASTER CHALLENGE



DEMAND CURVE SHIFTS !!



SUPPLY CURVE SHIFTS !!

THE POST DISASTER CHALLENGE

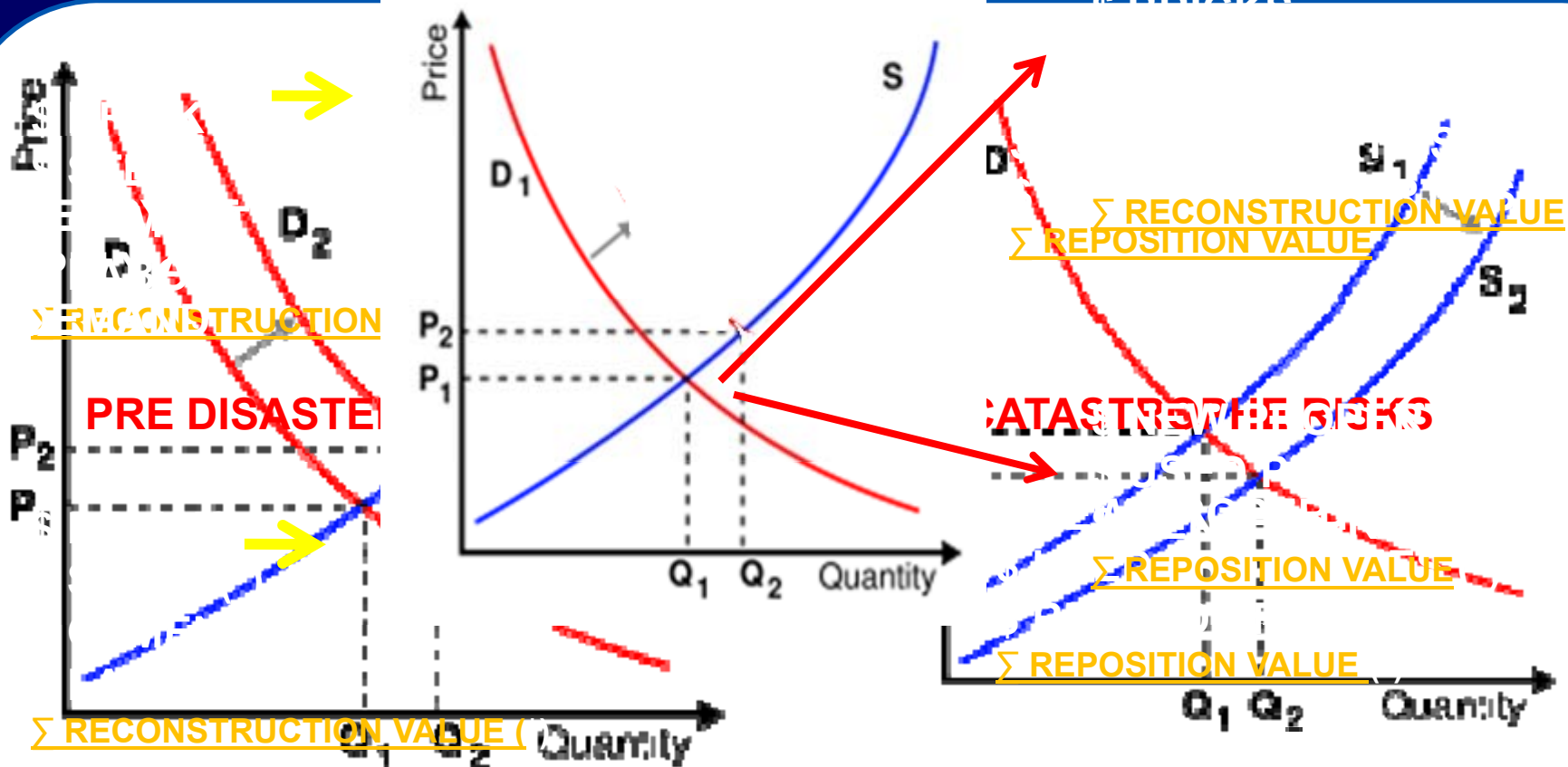


The impact of disasters on houses, buildings, facilities are a clear example of how the quantity demanded of construction resources can increase in extraordinary proportions (in high density populated areas affected) due to the necessary projects of recovery and reconstruction.

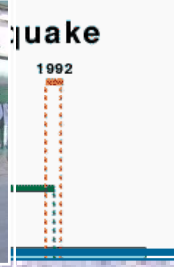
This change is typical of a post disaster scenario. An increase in suppliers' costs can be a consequence of disasters. Limited access to labour force, resources, funding, among others, conduce to a change on the supply curve

(AP PHOTO)

THE POST DISASTER CHALLENGE



POST DISASTER TRUE MARKET PRICE OF CATASTROPHE RISKS

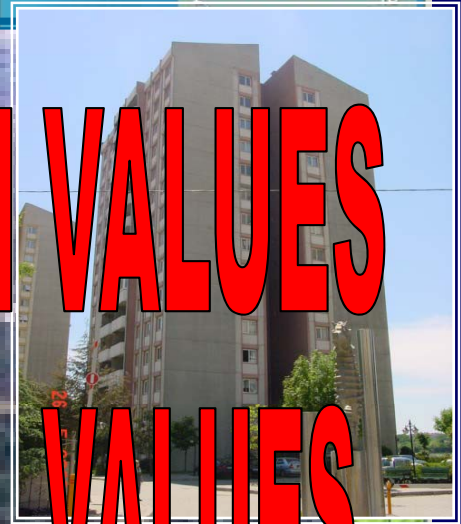


SIMILAR RECONSTRUCTION VALUES

VERY DIFFERENT REPOSITION VALUES

VERY DIFFERENT POST DISASTER

MARKET CONDITIONS





PRELIMINARY CONCLUSION (MORE QUESTIONS)

HOW TO ESTABLISH THE TRUE MARKET PRICE OF CATASTROPHE RISKS?

Insurance companies will generally seek to charge each policyholder a premium close to the market value of the risk being transferred.

¿THE RISK BEING TRANSFERRED IS:

- 1.RECONSTRUCTING THE PROPERTY?
- 2.REPLACING/ BUYING A NEW ONE?

The market value will reflect the vulnerability of the property?



PRELIMINARY CONCLUSION (MORE QUESTIONS)

HOW TO ESTABLISH THE TRUE MARKET PRICE OF CATASTROPHE RISKS?

- IS ECONOMIC ANALYSIS OF RISK TRANSFER INSTRUMENTS **CONSISTENT** WITH IT'S PRIME PURPOSE?
 - ARE RISK TRANSFER SCHEMES **INDIVIDUALLY** OR **COMMUNITY** BASED?, AND IN THAT SENSE , RECONSTRUCTION OR REPOSITION LESS IS MORE IMPORTANT THAN PROVIDING SUFFICIENT FUNDS "FUNDS TO ENABLE THE AFFECTED COMMUNITY TO GET BACK ON ITS FEET AS QUICKLY AS POSSIBLE?"
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THANKS FOR YOUR ATTENTION

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