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**SYNOPSIS**

**Catastrophe Pricing: Abstract**

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In the hardening reinsurance market of the past few years, it has been natural for insurers, finding that their reinsurance expense has increased, to ask themselves a number of questions about their reinsurance programmes, such as why catastrophe premiums are so volatile, what loadings reinsurers incorporate into their catastrophe rates, and what would be the consequences of retaining a significant catastrophe exposure in an otherwise balanced portfolio.

This paper suggests a number of reasons why market property catastrophe premium rates are observed to be volatile. The paper then considers the implications of the “standard deviation” pricing principle for the profit loadings that reinsurers charge for various layers of a catastrophe reinsurance programme, and demonstrates that much higher loadings are required for the infrequent losses expected to be sustained by higher layers. Next, the paper examines ways in which the profit loadings charged might be varied by a reinsurer to reflect pre-existing accumulations of risk in a particular geographical area. Finally, the paper considers the issue of pricing catastrophe risk if an insurer elects (instead of reinsuring) to retain a significant volume of one particular catastrophe risk in the context of an otherwise balanced risk portfolio.