Denis Kessler, CEO of reinsurance group SCOR: “The world has become a troubled village”

Kessler believes that the successive climatic and financial shocks are bringing about a change in paradigm

Interview : Denis Kessler

Le Monde

5 May 2011

Wednesday 4 May, following SCOR’s General Meeting. Denis Kessler’s appointment as CEO of the fifth global reinsurance group, which he has directed since November 2002, was renewed. He considers his position to be “a balcony from which to view the world”. With SCOR present in 160 countries and in all risk areas, Mr Kessler analyses the start of 2011, marked by significant natural disasters. Due to these events, the group has recorded net losses of €80 million for the first quarter of the year.

What lessons can be learned from the earthquake that hit Japan on 11 March?
The impact of this earthquake proves that we have changed era. We have shifted from a more linear period with clear trends to an era shaken by global shocks of all kinds. This shift started with the terrorist attacks on the World Trade Center and continued with the global financial crisis punctuated by the bankruptcy of Lehman Brothers bank in September 2008. Today, a natural disaster is affecting the entire world. What is new is that these three shocks have one thing in common: they have repercussions on a global scale.

A decade ago, these same events would only have affected a fraction of the planet as the world was still fragmented then. The propagation mechanisms were not in place and the division of labour was not on such a global scale. The last millennium had “global cities”, to use the words of historian Fernand Braudel. Today, we have entered into an era of a “global world”. There are no longer any distribution times or buffer zones to soften the blows of these shocks before they reach the rest of the world. We are all now in a state of permanent interaction.
What are the consequences of this change?
Images of the disasters are instantly broadcast and this adds to the widespread feeling of vulnerability. Each person feels affected by an event taking place on the other side of the world. All catastrophes affect and weaken the global system. The 9/11 attacks brought about military decisions across the world that weigh down on government budgets. The collapse of Lehman Brothers sped up the weakening of financial institutions and almost caused a global systemic crisis. The Japanese tsunami shows just how interdependent companies are while waiting for spare parts in the USA or Germany. It brings into question each country’s energy policy decisions.

Does it go beyond these ramifications?
Yes, because market interaction has unforeseeable effects. For example, the drought and resulting fires in Russia and the Ukraine in 2010 led to shortages, which in turn caused a sudden rise in grain prices. This may partly explain the popular uprisings, particularly in Arab countries which import large quantities of wheat.
These shocks affect the “global economy” and destabilize politicians, who seem powerless when dealing with the consequences. It is thought that this widespread vulnerability triggers a withdrawal reflex and may lead to populist and protectionist reactions. The disillusionment with globalisation, seen as a source of new risks that are difficult to manage, leads to a potentially dangerous radicalisation.

Has such an upheaval already occurred in history?
This sudden awareness of our vulnerability is just as significant as the change in mentality following the Lisbon earthquake. The resulting tidal wave destroyed the city on 1 November 1755. For people, it marked the end of destiny: if God did not want this destruction, while its inhabitants were praying in churches on All Saints’ Day, there must be other forces at work. Voltaire rightly saw the event as a shift to a new era.

“People, and therefore wealth, gather in the most dangerous places on the planet such as coasts, rivers or volcanoes”

Does the intensity of these catastrophes force reinsurers to revise their models?
This question comes up each time there is a rare disaster. It is true that no reinsurer foresaw an earthquake of this magnitude in Japan, this is the first of this scale there in 140 years! Statisticians invented the concept of ambiguity, to see if the event corresponds to a known statistical law or if it marks the beginning of a new law.
How can we know? It is even more difficult as we are working on periods of a hundred to five hundred or even a thousand years. We must look in the very long term to find out if the Japan earthquake indicates the emergence of a new statistical series. What is exceptional this year is that there were floods in Australia and earthquakes in New Zealand and Japan concomitantly.
**Will their cost lead to a rise in premiums?**

Since the beginning of the year, the cost of these three events for insurers fluctuates at around $50 billion (€33.7 billion, of which approx. €350 million for SCOR). This figure is very high. It does not include the tornadoes that hit the USA. These events come after 2010, during which the cost of natural disasters was already three times higher than the average historic level. The Japanese earthquake alone, causing at least 15,000 deaths (with more than 10,000 people still missing), is set to bring about a hike in reinsurance policy rates, as was the case after 9/11. These events will lead to a revaluation of the earthquake risk, which has been on the rise since the very serious disasters in Haiti and Chile in 2010.

It has been observed that people, and therefore wealth, gather in the most dangerous places on the planet such as coasts, rivers or volcanoes. In the USA, two of the wealthiest states, California and Florida, are by far the most at risk. It must also be said that the cost of the destruction increases more rapidly than the frequency of events. Whether we like it or not, the rates will follow this trend…

**Are there other risks?**

In a report published in 2010, the CIA estimated that one of the major risks for the next twenty years will come from population migrations caused by a shortage of water, space and the need to find arable land. Shocks of all kinds can be expected, which interact with increasingly complex consequences: the world has become a troubled village!

Interview by Dominique Gallois