Summary of the 14th Joint Seminar of the European Association of Law and Economics (EALE) and The Geneva Association

by Reimund Schwarze

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The 14th Joint Seminar of the International Association for the Study of Insurance Economics ("The Geneva Association") and the European Association of Law and Economics (EALE) took place at the Leopold-Franzens University in Innsbruck on 24-25 February 2011.

The main topic of this seminar was "Law and Economics of Natural Hazard Management in a Changing Climate". The seminar dealt with a broad range of legal and economic analyses on risk assessment, risk mitigation and risk finance in catastrophe insurance and climate change. It also considered the role of governance, federal structures and recent legal initiatives at the European and Member State levels in this field.

Keynotes were delivered by Paul Kleindorfer (INSEAD, Paris) and Jason Johnston (Virginia Law School, U.S.). Both speakers focused on the role of climate science and its inherent uncertainty, which could lead to exacerbating the problems of risk perception and misunderstanding of the financial consequences. Jason Johnston demonstrated how a multi-level governance structure of federal development programmes, coupled with federal disaster aid, could lead to serious moral hazard when risk management is sitting at the local level.

Swenja Surminski (London School of Economics) discussed the new international regulatory challenges for the insurance sector in the face of climate change, while Irina Zodrow and Silvia Llosa, both from United Nations International Strategy for Disaster Reduction (UNISDR), stressed the importance of national legislation on disaster risk reduction for an effective climate change adaptation within the Cancun framework. Only if disaster risk reduction (DRR) is systematically integrated into international funding policies to adapt to climate change, could we avoid waste, redundancy and duplication of efforts, and use the "new and additional" Cancun funds to close the gaps in existing DRR funding.

Michael Faure and Klaus Heine (Maastricht University and Erasmus School of Law, Rotterdam) discussed if insurance for systemic risk in the financial sector could learn from natural catastrophe insurance. The structure of a private layer of insurance and state guarantees for mega damages could be a blueprint for a somewhat similar public-private partnership (PPP) structure in the financial sector. The consequential debate in the seminar was controversial as discussants argued that the financial sector has developed its own sophisticated means to deal with risks other than insurance, and that financial risks may be basically uninsurable, as insurances are heavily involved in financial markets through securitisation.

Other contributions came from Jeroen van Aerts and Wouter Botzen (Free University of Amsterdam) on New York's flood risk management, which demonstrated the importance of zoning for an effective and efficient risk management, and how it could be promoted through the National Flood Insurance Programme (NFIP). Eva-Christina Petrescu from the Academy of Economic Studies in Bucharest introduced Romania's new mandatory home insurance, and Donatella Porrini (University of Salento) and Reimund Schwarze (UFZ Leipzig and University of Innsbruck) discussed the effectiveness of the various insurance models in Europe. Both contributions shared into the finding that government involvement in the financing of losses due to natural hazards cannot be avoided, but should be risk-based (ex ante)
rather than *ad hoc* (in the case of a disaster) and combined with efforts to stimulate private precaution and the take out of private insurance, e.g. by stipulated premium decreases offered in the case of private precautionary measures.

Moreover, young researchers from the University of Innsbruck’s research centre on “Environmental Economics and Regional Development” presented outcomes of their recent research.

The seminar discussions were lively and demonstrated once again the importance and innovative potential of legal economic reasoning for the development of insurance products and regulations. Participants, in closing, appreciated this opportunity to develop and intensify international collaboration in research of natural hazard management.

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