Chapters 2 and 3 focus on the organizational strategies of insurance firms. Chapter 2 analyzes the disparity between transnational and domestic life insurance firms’ strategies. Insurance firms from both camps faced a conflict between local preferences and profits when designing their products. However, they handled this conflict very differently. While transnational firms defined life insurance as modern risk management, and offered products for managing unexpected misfortunes; domestic firms defined life insurance as money management, and launched products for savings and investment purposes. The former adopted a profit-oriented model by attempting to change local preferences; whereas the latter took on a market-share approach by accommodating local preferences. Through a chronology of the ebbs and flows of the market’s development, this chapter demonstrates the tension between the local cultural logics and the profit-oriented institutional logic of life insurance. It documents the battle between the transnational and domestic players in the field, explaining how their battle is rooted in their different ways of handling cultural obstacles, and in their divergent institutional logics of operation.

Acts of God and Man
Michael Powers

This book examines traditional insurance risks such as earthquakes, storms, terrorist attacks, and other disasters. It begins with a discussion of how the risk of such “acts of God and men” impact on our lives,
health, and possessions. It then proceeds to introduce the statistical techniques necessary for analyzing these uncertainties. It explains that quantifying the risks that such disasters pose is difficult but that it is crucial for achieving the financing objectives of insurance. The book guides readers through the methods available for identifying and measuring such risks, financing their consequences, and forecasting their future behaviour (within the limits of science). It also considers the experience of risk from the perspectives of both policyholders and insurance companies, and compares their respective responses. The discussion of the risks inherent in the private insurance industry leads to a discussion of the government's role as both market regulator and potential “insurer of last resort.” The book concludes with an interdisciplinary investigation into the nature of uncertainty, incorporating ideas from physics, philosophy, and game theory to assess science's limitations in predicting the ramifications of risk.

Disaster Economics
Gilles Carbonnier

in Humanitarian Economics: War, Disaster, and the Global Aid Market
Published in print: 2016 Published Online: September 2016
Publisher: Oxford University Press
DOI: 10.1093/acprof:oso/9780190491543.003.0006

This chapter focuses on the distribution of disaster costs and benefits over both the short and long run, and looks at the humanitarian consequences of earthquakes, floods, drought, hurricanes and other natural hazards. The chapter discusses the rise of financial instruments such as disaster-risk insurance and risk-linked securities, which transfer disaster costs onto global capital markets. It examines the political-economy constraints that prevent the scaling-up of such financial products, and questions the role of public-private partnerships in overcoming these barriers.

Specters of Uncertainty
Jamie L. Pietruska

in Looking Forward: Prediction and Uncertainty in Modern America
Published in print: 2017 Published Online: May 2018
Publisher: University of Chicago Press
DOI: 10.7208/chicago/9780226509150.003.0007

This chapter surveys transformations of uncertainty into calculable risk from the 1920s to the early twenty-first century, beginning with economist Frank H. Knight’s influential 1921 work Risk, Uncertainty, and Profit. It focuses on the emergence of war risk insurance, weather insurance, and crop insurance in the 1910s and 1920s as both manifestations of a cultural recognition of the unpredictability of economic life and new forms of risk management. The chapter briefly examines federal risk-management efforts during the Great Depression and World War II as well as Cold War forecasting and futurism. It concludes with a discussion of how probabilistic forecasting, big data, and predictive analytics have promised new, ostensibly objective, methods for calculating the future in the late twentieth and early twenty-first centuries but are actually shaped by and indeed perpetuate their ideological, political, and cultural contexts. The chapter ends with a consideration of the failure of pollsters and political commentators to predict the result of the 2016 US presidential election.

The Shapes of Things to Come
Michael R. Powers

in Acts of God and Man: Ruminations on Risk and Insurance

This chapter examines complex probability distributions whose shapes make them appropriate for characterizing insurance and other financial risks. In particular, it introduces two important families of distributions: the Pareto family and the symmetric Lévy-stable family, both of which are frequently used to model particularly “risky” random variables with heavy tails (i.e. with large amounts of weight spread over the more extreme values of the random variable). To describe the measurement of risk, the chapter begins by defining the statistical moments of a distribution. It then shows how these quantities are used to compute the expected value (mean), standard deviation, and other helpful parameters.

The Alpha and the Omega of Risk
Michael R. Powers

in Acts of God and Man: Ruminations on Risk and Insurance
This chapter argues that the problems of risk, which form the basis for insurance and other financial services industries, all flow from the same source: the specter of mortality. Professional risk managers often construct extensive lists of pure and speculative risks, including every imaginable type of uncertainty to which individuals and firms are exposed. However, despite the great number of individual sources of risk, there are only a very few exposures subject to risk. These fundamental exposures are life, health, and possessions. The life exposure underlies all traditional insurance policies, whether held by individuals or commercial enterprises, because the policies are designed to provide reasonably quick medical attention or restitution of property, presumably before the policyholder's life terminates. The remainder of the chapter discusses the ways to depict the risk of mortality and the possibility of protecting the life exposure from all mortality risks.