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# **The Financing of Catastrophe Risk**

Edited by  
**Kenneth A. Froot**

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# The Financing of Catastrophe Risk



A National Bureau  
of Economic Research  
Project Report

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# The Financing of Catastrophe Risk

Edited by

Kenneth A. Froot



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*Chicago and London*

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*(Resolution adopted October 25, 1926, as revised through September 30, 1974)*

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## Acknowledgments

The subject of this book—the financing of catastrophe risk—is one of the most rapidly changing in all of insurance and finance. In just a few short years, we have gone from theorizing about possible capital market activities to watching new and innovative transactions occur in both capital markets and traditional insurance and reinsurance markets. Individualized securities, innovative insurance contracts, standardized exchange-traded securities based on indexes, over-the-counter derivatives have all come into being. And these transactions themselves are only the tip of the iceberg; beneath the surface are massive early changes in the relationship between the insurance and financial markets and the companies that operate in them. Insurance and reinsurance activities are becoming explicitly intermingled with investment and commercial banking. The greater fungibility of capital—belonging to banks, the insurer sector, and investors—means more opportunities to deploy savings and better ways to share risk. There is a decade of powerful change in the offing as new and changed companies develop responses to this greater array of opportunity.

This book is one attempt to bring these issues forward. As with any undertaking, it required many minds plus lots of energy and hard work. First and foremost, the book and its editor are deeply indebted to all the authors for their careful and interesting papers as well as their diplomacy and responsiveness in accommodating others' suggestions. The discussants, too, contributed important ideas, both in shaping the authors' comments and in their own statements. These individuals plus the attendees of the conference in November 1996 in West Palm Beach, Florida, made it one of the most stimulating I have attended.

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Ken Froot