

Context, Responsibility and Financing the Burden of Catastrophic Risk Management

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Dear Mr. Kindler, Mr. Chairman and audience.

It is a great pleasure for me to be back at IIASA for this conference and to share some thoughts on the flooding in Poland. I was a summer student at IIASA last summer and I spent some time thinking about the Polish case as well as some ideas about catastrophic risk management and ex ante risk financing.

I think the presentation was very comprehensive, and I will just here, very briefly, complement with some notes about the societal context, responsibility, and financing the risk.

When “catastrophic risks” and “disaster management” is discussed in general terms, it is sometimes easy to forget that these events take place in time and space. Also, the events take place in a social context, which means that the cultural and institutional setting will color perceptions and interpretations of the issue at hand. We have today heard about the flooding in Poland, and while on the one hand much can be said about flooding in general and on the other hand about Poland in general, the interaction of the two is very interesting. I am not an expert here, and certainly many of you know much more than me, but we could start thinking about what does the “Polish mean”, and more generally what does the context mean? What does the context imply for the public understanding of catastrophic risks - and in the context of this conference: what does the context imply for new ways of spreading the financial burden of catastrophic risks.

Human responsibility or act of God?

When we think about public issues in general, we can view them as located on a spectrum ranging from non-politicized to politicized. When the issue is *non-politicized* this means that the state does not deal with the issue and it is not in any

other way a part of a public debate and decision. And when the issue is politicized this means that the issue is part of public policy, requiring government (or communal) decision and resource allocation. Politicization occurs when some measure of human responsibility replaces the role of fate or God. Issues can end up on any part of the spectrum and if we compare over time or between countries, large differences in placement of the issues will be found. In countries that are structurally exposed to extreme natural events (earthquakes, volcanoes, floods etc.) the risks are often very explicitly politicized and managing the risk could even be a prioritized national interest. Flooding in the Netherlands is an example thereof.

In the Polish case, the flooding was a very rare event, but interestingly, the issue became quite soon politicized in the public Polish discourse and questions about responsibility were posed - Who was to blame, and what should be done?

In the Polish case it seems as if the public's and the government's perceptions of the issue was not congruent. Mr. Kindler makes a good point by naming Prime Minister Cimoszewic statement "uninsured individuals had no one but themselves to blame, and should expect no governmental help" as a political blunder. According to a survey from July 1997, more than 50 percent of the Polish people believed that the damage could have been avoided and more than 70 percent believed the government was to blame. The public reaction is quite interesting, and perhaps can we put forward the hypothesis that in post-communist societies, there may still be a widespread belief that the state should take care.

Transboundary tensions

The flooding, and the response to the flooding, also revealed some transboundary tensions. With a German outlook, the flooding originated outside the German border, which means that the flooding was perceived as an outside threat. The flooding thereby created languishing solidarity within a divided country. The flooding changed the present re-unification discourse with increasing discord about western support to the west. In contrast to Prime Minister Cimoszewic statement, Chancellor Helmut Kohl interrupted his holiday twice to visit the disaster zone in order to "show the spirit of solidarity that unites the German people in the hour of catastrophe". What Kohl did was to raise the priority of the issue through a nationalistic framing.

However, this intra German solidarity created a sore interpretation in Poland. It was described as a “solidarity that results in generous help for German victims, but much less help for their hard hit neighbors”.

Financing Catastrophic Risk Management

Mr. Kindler had an interesting section on pre- and post flood financing showing different options, their availability and feasibility. What is at stake here is the allocation of costs in an efficient and equitable manner. We can think about financing as *ex ante* – in advance of the event or *ex post* – after the event. The costs can also be located on different levels in society ranging from individual (the victim), local community, national (taxpayers), and up to the international community.

We can discuss and compare these different societal mechanisms for spreading the financial burden in terms of efficiency and fairness. A complicating feature of this type of comparison is that while there normally is consensus on what efficiency means, there is seldom consensus on interpretations of equity or fairness. Whether the mechanisms for risk spreading should be private or public are also discussed in terms of efficiency and fairness.

If we think of *ex ante financing* this has this mainly been allocated on the individual level as first party insurance and on the national level as public savings for catastrophe funds. In recent years there has been an emerging discussion on securitization as filling the gap with its *ex ante* coverage and a voluntary international spread of the risk. Securitization is a new mechanism useful to the insurance industry to assure the supply of adequate financial capacity, and the approach may also be interesting to governments, who are the insurers of last resort. I think will here more about this approach, especially during this conference, and it will be interesting to contrast it on grounds of efficiency and fairness and to generate ideas about in which societal context might this approach be a feasible and valuable option.