

DIRECTED RISK RESEARCH PROBLEM STATEMENT

Risk Theme	Operational Risk	Problem Nr.	PS16010
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Client Name	Suzanne Harrop-Allin	Client Org.	SASRIA		
Designation	Chief Risk Officer				
E-mail	suzanneh@sasria.co.za	Tel (w)	011 214 0800	Mobile	082 851 0327

PROJECT TITLE: Modelling and pricing risks associated with civil commotion, social unrest and strike action.

PROJECT GOAL:

Derive a framework that can be used to estimate the risk associated with civil commotion, social unrest and strike action, and to study the natural progression of these types of risks.

HIGH LEVEL DESCRIPTION OF PROBLEM:

Understanding losses arising from civil commotion, social unrest and strike action is a complex problem, as it depends on a large number of social, economic and other factors. The potential losses due to these risk factors is potentially significant and need to be assessed by the relevant insurance providers. Various quantitative aspects of such loss events, as observed in South Africa, is unknown and little researched. This includes questions regarding the incidence as well as severity of these events. The spread of civil commotion, social unrest and strike action episodes is a further significant aspect where little research exists. In order to assess the probability of occurrence and severity of losses associated with such events, a study is required that will investigate relevant events that occurred in South Africa in the past 10-20 years and consider aspects that may alter (either increase or decrease) the probability and severity of losses from these risk factors in South Africa.

PROJECT OBJECTIVES:

Derive a modelling framework that can establish a baseline of the estimated risk of a civil commotion, social unrest or strike action event occurring in any given year. A contagion model will also be set up to study escalation scenarios for such events in a South African context.

OUTPUTS REQUIRED:

- A paper in the academic financial literature
- Practical Guidance to the industry on local / international best practice

STRATEGIC VALUE TO DIRECTED RISK RESEARCH:

This study aims to find a method that can be used to model civil commotion, social unrest and strike action risks. This may then make it possible to better account for these types of risks and enable pricing of products that cover these risks. The model can be used for scenario testing, including stress scenarios, that is useful for pricing as well a regulatory requirements.