When the models are flawed: Reinsurance risk-trading in practice

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There were approximately 1,000 new Lexus cars, very expensive, on the Kobe wharf the night before the 2011 Tohoku earthquake. The ship came along and took them all away. Had the earthquake happened the day before, it would have been a massive loss...So you're trying to hit a moving target.

Structures are young and in flux, so everything is changing...we cannot rely on what has been there last year. We have to be very careful when using historical data because the information looks usable, but actually the business behind that has totally changed. That is if we have historical data at all.
The technical versus market rate, that is an interesting one because actually it’s ... they are very, very different and ultimately it’s always a commercial decision.
### Evaluating risk in practice

#### Different ways of blending

<table>
<thead>
<tr>
<th>Modeled Risk</th>
<th>Specialized Risk</th>
<th>Frontier Risk</th>
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</thead>
<tbody>
<tr>
<td>Technicalizing and contextualizing are co-constituted</td>
<td>technicalizing co-constitute each other</td>
<td>and tools to technicalize</td>
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It’s crazy that we’ve only [got data] for 40 years and talk about 1-in-500 year return periods. How the fuck am I supposed to know [whether this model is accurate]?
In summary

• Models + Judgment

• What happens when models dominate and crowd out other forms of judgment?