Munich RE

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Press release

Study shows positive economic effect of insurance against natural catastrophes, particularly in emerging countries

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Measured in terms of their economic output, emerging countries are excessively affected by losses from natural catastrophes. At the same time, insurance against natural catastrophes makes particular economic sense in these countries. This statement is backed strongly by evidence from a Munich Re survey and a scientific study conducted by the University of Würzburg on the basis of loss data from Munich Re's NatCatSERVICE database.

Globally, natural catastrophe losses have increased substantially since 1980, due chiefly to rising economic values. Besides the urbanisation of exposed river and coastal regions, the greater frequency of loss-relevant natural events in some regions also plays a role in this context.

There is clear evidence that emerging countries are hit particularly hard by natural catastrophe losses. For example, a survey by Munich Re's economic research department found that in emerging countries direct losses from natural catastrophes total an average of approximately 2.9% of the gross domestic product each year. In industrialised countries, this figure was 0.8%; in developing countries 1.3%. Significant recent examples of major direct losses in emerging countries were the 2011 floods in Thailand (direct losses US$ 43bn, 12% of GDP) and the earthquake in Chile the previous year (direct losses US$ 30bn, 14% of GDP).

Michael Menhart, Chief Economist at Munich Re: "Whilst emerging countries already have a relatively substantial capital base, they often lack the resources or necessary effectiveness in their administration to protect themselves better against the consequences of natural catastrophes – for example, by means of structural measures. On top of this, there is the urbanisation of coastal regions, which in Asia, for instance, are at great risk from cyclones. This explains the greatly disproportionate burdens these countries suffer from natural catastrophes."

Empirical studies such as those conducted by economists at the Bank for International Settlements** indicate that major natural catastrophes can also cause losses in wealth in the long term, as even an exceptional economic boom driven by reconstruction cannot compensate for the damage and losses in wealth suffered previously. At the same time, there is strong evidence indicating that effective financial and insurance markets aid a country's recovery after a natural catastrophe. Accordingly, a lower insurance density would lead to higher government debt per capita resulting from major natural catastrophes.

Additionally, a study by the University of Würzburg*, supported by Munich Re Economic Research, has come to the conclusion that emerging countries benefit most in economic terms from insurance against natural catastrophes. Initially, insurance has an indirect loss-minimising effect as premiums represent an incentive to take prevention measures: insurance premiums give the respective risk a price. What is more, in the event of a catastrophe, losses are limited because the insurance benefits directly support reconstruction.

Ludger Arnoldussen, Munich Re Board member responsible for Asia-Pacific: "The study confirms how important it is for rapidly expanding emerging countries to develop a strong insurance sector and promote private-sector insurance solutions. In many countries, the establishment of public-private partnerships also makes sense in order to improve insurance penetration and thus increase financial protection against the consequences of natural catastrophes. In particular, insurance protection can minimise consequential losses from natural catastrophes, supporting a quicker and more comprehensive return to a normal economic and social situation."

Munich Re is already involved in state-subsidised insurance solutions in countries such as Mexico, Taiwan, Turkey, Romania and a number of Caribbean nations.

*** F. Englmaier, T. Stowasser (2013): *The Effect of Insurance Markets on Countries' Resilience to Disasters*, Mimeo, University of Würzburg.**
**** G. v. Peter, S. v. Dahlen und S. Saxena (2012): *Unmitigated disasters? New evidence on the macroeconomic cost of natural catastrophes*, BIS Working Papers No 394, Bank for International Settlements.**

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