



New Swiss Re report reveals low earthquake insurance penetration globally, even in countries with high seismic risk

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- **Much of the world is still vastly underinsured against earthquake risk, study finds**
- **Underinsurance often due to low risk awareness in earthquake-prone areas**
- **Earthquake models should consider secondary-loss factors more comprehensively**

Zurich, 17 January 2012 – According to Swiss Re’s latest expertise publication “Lessons from recent major earthquakes”, several big earthquakes resulted in a devastating number of fatalities and injuries and have caused widespread property damage over the past two years. The cumulative catastrophic impact of earthquakes on society is overwhelming. Seismic events caused economic losses of over USD 276 billion in 2010 – 2011, yet highly earthquake-prone countries remain underinsured.

Lucia Bevere, Senior Catastrophe Data Analyst at Swiss Re Economic Research & Consulting and co-author of the publication, says: “The insurance industry is playing a key role in post-disaster financing of the countries affected. While insurance cannot replace lost lives and livelihoods, appropriate insurance and other risk transfer mechanisms can greatly accelerate the recovery process.” However, the insurance industry’s contribution to the reconstruction effort differs dramatically from country to country.

The insurance industry will pay an estimated 80% of the overall cost of the February 2011 earthquake in New Zealand, but no more than 17% for the disastrous event in Japan in March 2011. Earthquake insurance penetration, in fact, is highest in New Zealand, and is very low in Japan, particularly for commercial properties.



Table 1: Recent major earthquake events

		Economic losses, USD bn	Economic losses as % of GDP	Insured losses, USD bn	Insurance industry contribution
11.03.2011	Japan	210 to 300	3.8% to 5.4%	35	12% to 17%
27.02.2010	Chile	30	18.60%	8	27%
22.02.2011	NZ	15	10.00%	12	80%
12.01.2010	Haiti	8	121%	0.1	1%
04.09.2010	NZ	6	5.30%	5	81%
06.04.2009	Italy	4	0.20%	0.5	14%
23.10.2011	Turkey	0.75	0.10%	0.03	4%
04.04.2010	Mexico*	0.95	0.09%	0.2	21%

* excluding minor losses for US

Source: Swiss Re *sigma* catastrophe database

Overall, earthquake insurance coverage is still quite low, even in some industrialised countries with high seismic risk. Low insurance penetration attests to a population's low perception of risk. Bevere adds: "The low frequency of earthquake events, compared to other natural catastrophes, tends to shape the perception that earthquake risk is much lower than it actually is, even in places where there have been very deadly and damaging occurrences, like California." Without insurance coverage, post-disaster reparations come from government funds and ultimately must be borne by taxpayers.

Table 2: Insurance penetration, premiums as % of GDP

	Non-life	Property	Commercial property	Residential property	Commercial earthquake	Residential earthquake
Chile	1.61%	0.51%	0.46%	0.05%	0.25%	0.03%
NZ	5.09%	0.83%	0.35%	0.48%	0.09%	0.07%
California	2.89%	0.80%	0.44%	0.36%	0.03%	0.05%
Mexico	0.99%	0.18%	0.16%	0.02%	0.08%	0.01%
Japan	2.11%	0.26%	0.06%	0.20%	0.01%	0.03%
Turkey	1.06%	0.21%	0.14%	0.07%	0.01%	0.03%
Italy	2.32%	0.36%	0.18%	0.18%	<0.03%	<0.01%

Source: Swiss Re Economic Research & Consulting estimates

For underwriting as well, there are key lessons to be learnt from the recent earthquakes. Although earthquake models are quite accurate in predicting the immediate physical damage caused by tremors, Balz Grollmund, Head of Earthquake Perils at Swiss Re and co-author of the study, points out: "Secondary loss factors, such as liquefaction and particularly business interruption, add to the complexity of claims assessments for major earthquakes. These factors should be considered more comprehensively in earthquake models."



Notes to editors:

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