Insurance Industry Share of Weather-Related Losses Rising, with 60% Tied to Small Events

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The insurance industry's share of the world's total economic losses from weather-related catastrophes is rising and 60 percent of these weather-related losses are attributable to small events as distinct from headline-catching catastrophes, according to a scientist who has studied the issue for decades.

The insured share of weather-related losses that was a negligible fraction in the 1950s has increased to 25 percent in the last decade, reports Evan Mills, a scientist in the environmental energy technologies division in the U.S. Department of Energy's Lawrence Berkeley National Laboratory.

Mills found that from 1980 through 2004, the global economic costs of weather-related events totaled $1.4 trillion (inflation-corrected), of which $340 billion was insured.

"To put the burden of these costs on insurers in perspective, recent average annual losses surpass those experienced in the aftermath of the 9/11 attacks in the United States," he notes.

Evans reviews the evidence that the global insurance industry is paying out more in claims caused by extreme weather-related natural disasters in an article published in the August 12, 2005 issue of the journal Science. His article is titled "Insurance in a Climate of Change."

According to Mills, the ratio has climbed more quickly in the United States, with more than 40 percent of the total weather-related losses insured in the 1990s.

Mills also found that 60 percent of total weather-related losses are attributable to small events, not major catastrophes. The industry is vulnerable to weather catastrophes in many ways, property damage is only the most obvious, Mills says. There are also business and supply-chain disruptions, loss of utility service, equipment breakdown arising from extreme temperature events, and data loss from power surges or outages. Extreme weather events can breach pollution containment, leaving industries open to liability, and power outages disrupt manufacturing and services.

According to Mills, these numbers are probably underestimates for a number of reasons. For one, damages from small events are rarely captured in such statistics. One claim service that aggregates statistics for U.S. insurers only captures those events with costs above a threshold of $25 million. Observed losses would have grown even faster in the absence of disaster preparedness and recovery efforts, he notes.

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