

## News release

### Underinsurance in property is a global, and growing, challenge, says latest Swiss Re *sigma* study

- The global natural catastrophe property protection gap has risen steadily over the last 10 years, and 70% of the economic losses, or USD 1.3 trillion, were uninsured
- Catastrophe models estimate the global uninsured losses from future natural disaster events to be USD 153 billion annually
- Out of these, the largest uninsured natural catastrophe exposures are in the US, China and Japan
- In the emerging markets, 80-100% of the losses are uninsured
- Combined with other "general property risks", there is global total property underinsurance of USD 221 billion in expected losses
- Dealing with property underinsurance requires coordinated efforts and innovative thinking by insurers, governments and others

Zurich, 14 September 2015 — Underinsurance of property risks is a global challenge, says Swiss Re's latest *sigma* study *Underinsurance of property risks: closing the gap*. Much of the underinsurance is due to global natural catastrophe risk, which has risen steadily over the past 40 years. In the last 10 years, cumulative total damage to global property as a result of natural disaster events was USD 1.8 trillion, and about 30% of those losses were insured. In other words, the total shortfall in insurance cover – the protection gap<sup>1</sup> – was USD 1.3 trillion. The *sigma* research also reveals significant property underinsurance for perils other than natural disasters, and that many high-growth markets are underinsured relative to the size of their economies. Here, while a rapidly growing middle class has been accumulating wealth, insurance buying still lags.

The global property protection gap against natural catastrophe risk has widened steadily over the past 40 years, even though claims payments have increased significantly in that time. With economic development and ongoing urbanisation, particularly in emerging regions, the value of global property at risk has outpaced the purchase of insurance.

#### Modelling the global protection gap for natural catastrophes

Complementing historical data, the global loss potential is estimated using models of the three main natural catastrophe perils (earthquake, flood,

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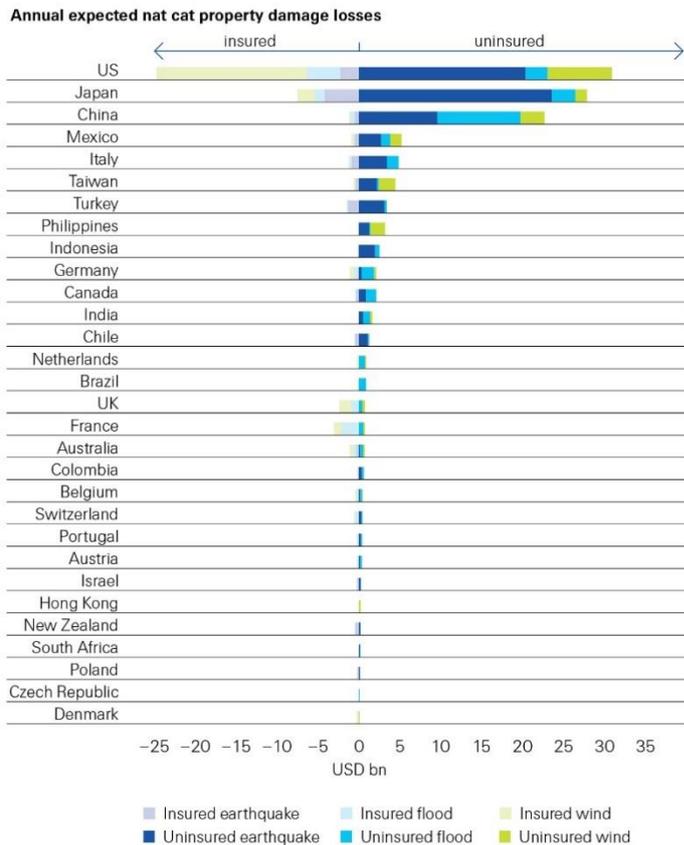
<sup>1</sup> The protection gap is the difference between insured and total losses.

windstorm). Low-probability events such as major hurricanes or earthquakes may not appear in recent historical data, and so loss models provide a more comprehensive view. For example, Florida has not experienced a severe hurricane in 10 years, but there is nevertheless a very high risk of property damage from hurricanes.

The result of the modelling exercise is a current annual protection gap of USD 153 billion, assuming an average catastrophe loss year. In absolute terms, the US, Japan and China account for more than half of that, with a combined insurance shortfall of USD 81 billion. In emerging markets, on average 80-100% of economic losses are uninsured, which means that natural hazards could significantly deplete resources of smaller and more vulnerable economies.

"The greatest extent of underinsurance is in the world's largest three economies," says Kurt Karl, Chief Economist at Swiss Re. "Earthquake risk makes up the majority of the gap in the US and Japan. There are areas of high property value concentrations in both, a large amount of which is uninsured against earthquake risk, despite the relatively high frequency of quakes." In China, the main threats are floods in major industrial zones with high population and property values.

**Figure 1:** Expected insured and uninsured property losses from natural catastrophes



Note: see the Appendix for details by country.  
 Source: Swiss Re Economic Research & Consulting and Non-life Risk Transformation.

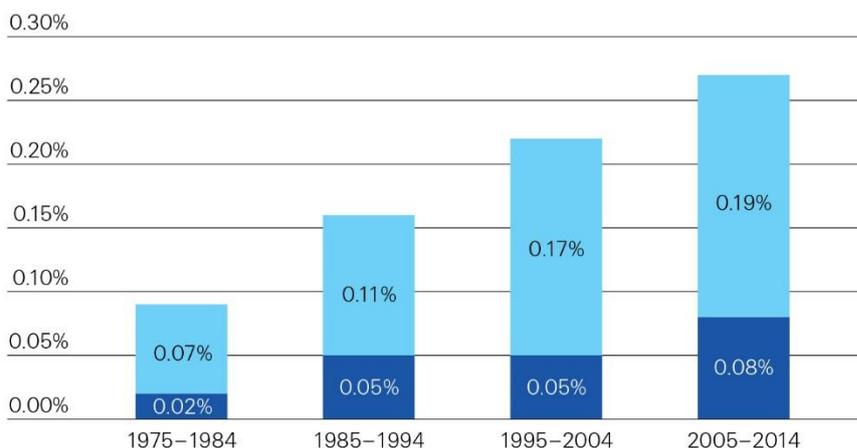
### Underinsurance against other property risks

Property is at risk from perils other than natural catastrophes. These "general property risks" include fire, water damage, and burglary, etc. Many countries are underinsured for these risks relative to their peers with similar income levels. Using these higher insured countries as a benchmark for less insured ones, the study finds an additional significant protection gap of USD 68 billion for these general property risks. Among the countries most underinsured are many high-growth economies. Here, while a rapidly growing middle class has been accumulating substantial new wealth, insurance buying still lags. An increase in asset values without a concurrent increase in take-up of insurance could lead to yet further underinsurance.

The estimated underinsurance for general property risk is conservative as it implies a zero protection gap in highly insured countries, which is not the case. There is still plenty of uninsured property arising from incumbent and recently emerging risks such as cyber and contingent business interruption.

Adding the general property risk number to the modelled natural catastrophe-related losses suggests a global property protection gap of USD 221 billion per annum. That's the level of expected claims which could have been pre-funded by a wider risk community rather than inflicting financial hardship on individual families, corporations and government entities.

**Figure 2:** Global insured and uninsured natural catastrophe losses as a % of GDP



Source: Swiss Re Economic Research & Consulting and Cat Perils.

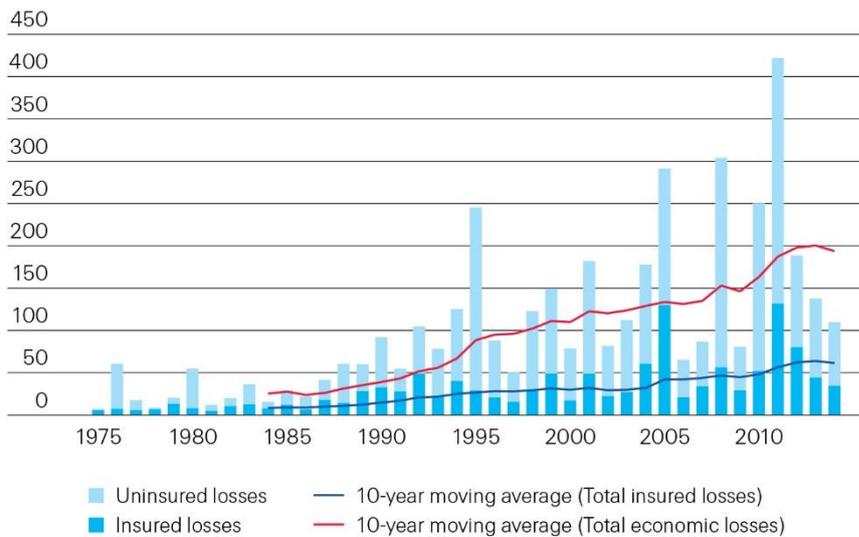
### Closing the underinsurance gap

There are different reasons for underinsurance, including factors like perception of risk, insurance knowledge, affordability, reliance on government post-disaster relief, lack of trust in insurers, and limited access and ease of doing business. Undervaluation of assets due to lack of information and awareness is another contributing factor. Certain risks – such as some peak natural catastrophe, terrorism, cyber or contingent business interruption risks – can challenge the bounds of insurability.

The challenge for the insurance industry is to focus on the needs of those who are totally uninsured or insufficiently insured. Closing the underinsurance gap will require that the industry continues to develop data and analytical tools to track the evolving landscape of new risks and exposures, not only of natural catastrophes, but also of perils that are difficult to quantify such as terrorism, cyber, and supply chain risks. Further innovation in products, processes, and distribution are needed to reach previously uninsured consumers and risks.

Insurers cannot act alone. They require supportive regulatory environments, risk information and, in specific cases such as terrorism or high-risk flood zones, government involvement to extend coverage capacity. Successfully addressing property underinsurance requires a coordinated effort and innovative thinking by both the public and private sectors.

**Figure 3:** Natural catastrophe property losses, in USD billions



Source: Swiss Re Economic Research & Consulting and Cat Perils.

## Notes to editors

### Swiss Re

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### How to order this sigma study:

The English, German, French, and Spanish versions of the sigma study No 5/2015, "Underinsurance of property risks: closing the gap", are available electronically on Swiss Re's website: [www.swissre.com/sigma](http://www.swissre.com/sigma). The versions in Chinese and Japanese will appear in the near future.

Printed editions of sigma No 5/2015 in English, French, German and Spanish are also available now. The printed versions in Chinese and Japanese will be available shortly. Please send your orders, complete with your full postal address, to [sigma@swissre.com](mailto:sigma@swissre.com).

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