In a nutshell

Insured natural catastrophe losses in the first half of 2020 were higher than in H1 2019, but below the 10-year average. The active hurricane and fire seasons under way in North America will likely push up losses and may widen the global natural catastrophe protection gap by year end. In 2019 the gap increased slightly to USD 227 billion and natural catastrophe resilience remained low with 76% of global exposure unprotected. Insurance has a key role in strengthening societal resilience.

Losses from natural catastrophes ticked up in the first half of 2020 relative to H1 2019, primarily from "secondary peril" events such as thunderstorms and floods. We expect these to continue to impact the second half too, for instance as wildfires ravage the western US. Losses from secondary perils are expected to increase in both the near and long term, driven by the warming climate. Natural catastrophes pose a major threat to societies but there is a significant lack of protection against the cost of damage to businesses and property. The global natural catastrophe protection gap widened slightly to USD 227 billion in 2019 (2018: USD 222 billion). Insurance has a vital role to play in protecting families from the financial consequences of natural disasters, and so strengthening economic resilience.

Figure 1: Natural catastrophe protection gap by region, 2008-2019

Key takeaways

- Natural catastrophe losses in H1 2020 were higher than in the same period in 2019, with greater losses from secondary perils.
- The global SRI Natural Catastrophe Resilience Index stayed low at around 24% in 2019, with 76% of global exposure remaining unprotected.
- The natural catastrophe protection gap widened marginally to USD 227 billion globally in 2019.
- NatCat I-RI s for advanced Europe and advanced Asia Pacific improved slightly in 2019 but were lower for all other regions.
- Climate change is expected to weigh heavily on societal resilience, unless governments and private stakeholders implement mitigation and adaptation measures to withstand the impact.

Source: Swiss Re Institute

The annual Swiss Re Institute Natural Catastrophe Resilience Index (NatCat I-RI), which models exposure to three key perils (storms, earthquakes and floods) stood at about 24% in 2019, meaning 76% of global exposure was unprotected. This is largely on par with 2018 and slightly down from 2008.

1 sigma Resilience Index 2020: global resilience put to the pandemic test, Swiss Re Institute.
Economic Insights
Natural catastrophe resilience remains low as climate risks increase

Figure 2: Natural catastrophe index scores, 2008-2019

Natural catastrophe index scores improved slightly in advanced Europe and advanced Asia Pacific in 2019 but were lower for all other regions, including North America. The driver was higher frequency of floods relative to other peril events last year, since flood risk is typically less insured. The US protection gap remains large despite lessons learned from floods and hurricanes in recent years. The most resilient region, Oceania, had a NatCat I-RI of 68.1%, down marginally from 2018 but significantly improved since 2008, due to greater insurance penetration following devastating floods in 2010-11. In the least resilient region, Middle East and Africa, the score was just 2.4%, implying roughly 98% of losses were unprotected.

Climate change will amplify the scale of secondary peril events and their associated losses. How effectively societies mitigate and adapt to this evolving situation will determine their resilience to disaster risk. The long-term profitability of the insurance industry will also rely on successfully modelling and pricing secondary peril risk, which is harder to assess than primary risk. If the total economic cost of disasters continues to increase, the natural catastrophe protection gap will also widen (and resilience decrease) without taking measures to significantly increase protection through insurance and loss mitigation. Reduce greenhouse gas emissions – a societal challenge – is the major mitigation strategy against climate change. Insurers can support this transition to a low-carbon economy through innovation in the products and solutions they offer.

Source: Swiss Re Institute

About Economic Insights
Analysis of key economic developments and their implications for the global re/insurance industry.

Managing Editor
Jérôme Haegeli
Swiss Re Group Chief Economist

Authors
Lucia Bevere
Senior Catastrophe Data Analyst

Jurgen Dornigg
Economist

We welcome your feedback. For any comments or questions, please contact: institute@swissre.com

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