



## **SPECIAL BULLETIN MARCH 2011**

### **Will devastation in Japan affect my insurance costs?**

Although the Fukushima nuclear plants dominate current headlines, news reports have yet to define the full scope of loss – human, financial, operational – following the 9.1 magnitude earthquake and ensuing tsunami off the east coast of Japan. The information Impact Risk Solutions is trying to uncover for clients like you is the cascading **effect natural disasters like this one may have on insurance markets**, and more specifically, cost increases.

Early estimates of insured losses from the earthquake are between \$15 and \$35 billion, according to AIR Worldwide, an industry leader in risk modeling, making this event among the most costly in insurance industry history. This, of course, does not include additional losses from the tsunami or subsequent issues with the damaged nuclear plants. It also does not take into account medical coverage claims. Combined totals of up to \$60 billion in losses have been predicted by some industry experts.

While this can be described as a “big market event” for Japan, **it is unclear how much of a pricing effect it will truly have**. We look at this scenario from several points. First, it is acknowledged that the majority of these losses will be carried by the Japanese government, its domestic carriers and Japan’s earthquake reinsurance entity. Next in line will be global reinsurers, catastrophic bondholders and multinational carriers. Second, keep in mind commercial and industrial lines in Japan are under-insured. According to AIR, outside of Tokyo just 10-12 percent of commercial property is covered against earthquakes. **The financial loss will be greater than the insured loss.**

On the other hand, current available capital in the insurance market will certainly need to be re-directed to manage this event, taking some of what companies had available to keep prices down. And the industry already has the New Zealand earthquake and Australian floods on the books. Right now, **there is no consensus among industry experts** about whether or not the latest events in Japan are enough to harden the market and significantly impact rates any time soon. It is simply too early to tell.

We will continue to monitor the events in Japan and communicate their impact to you as we find appropriate to your business.