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2010 Catastrophe Update: Part I, Global Insured Losses in 2010

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2010 has proved difficult for the reinsurance industry. Spiraling costs from disasters in the first six months of the year particularly, coupled with overcapitalization in the reinsurance sector, created a difficult operating environment. Despite the lack of big U.S. losses in what was one of the most active Atlantic hurricane seasons on record, insured losses from global catastrophes reached USD36 billion in 2010, up from USD27 billion in 2009. Natural hazards continued to be the largest source of losses in 2010 at USD31 billion, while man-made disasters cost (re)insurers USD5 billion (1). Total losses (both insured and uninsured) reached USD222 billion¹. Some 260,000 people lost their lives to worldwide disasters in 2010, including around 220,000 people in the Haiti earthquake (1).

Global Insured Losses in 2010

Figure 1 shows Swiss Re's estimate of global insured losses since 1970 with the provisional amount for 2010 at constant prices. The 10-year moving average of insured losses increased slightly, rising from USD36.3 billion in 2009 to USD38.4 billion in 2010.

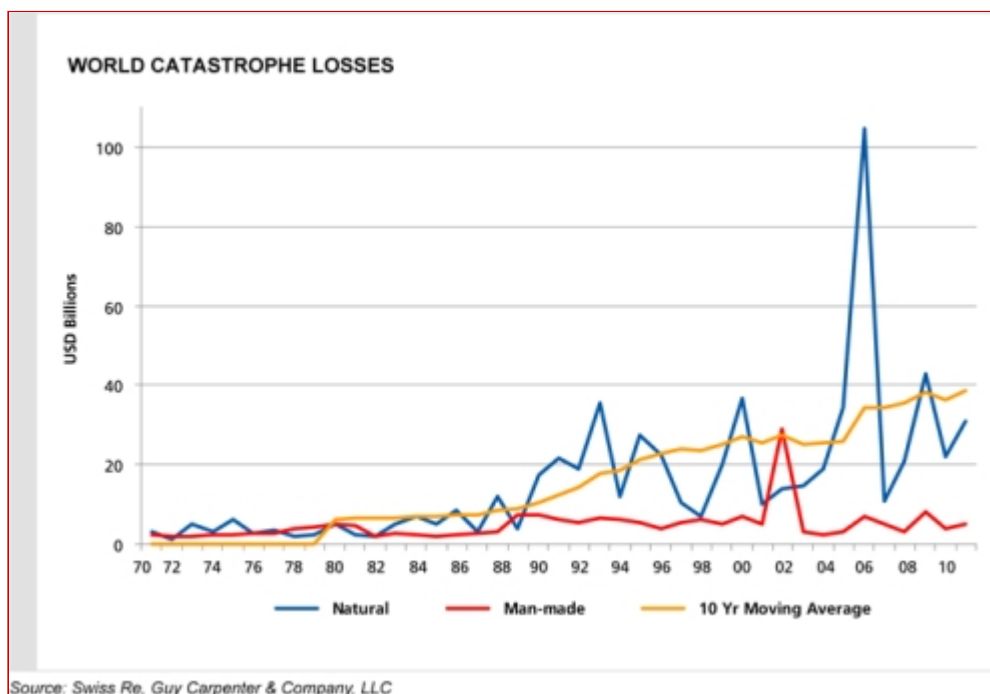


Figure 1: Source: Swiss Re, Guy Carpenter & Company, LLC

As shown in Table 1 below, eight events incurred insured losses of more than USD1 billion in 2010. Five were related to severe weather and storms in the United States, Australia and Europe, while powerful earthquakes in Chile and New Zealand also caused heavy losses. The Deepwater Horizon oil rig explosion was the only man-made event to cause a loss in excess of USD1 billion after it exploded in the Gulf of

Mexico. Up to 62,000 barrels of oil per day were released into the Gulf after the rig sank on April 22, resulting in the biggest accidental oil leak ever. Repeated containment efforts did not prevent the oil slick from reaching the Gulf coastline and causing disruption to local residents and businesses. The well was permanently sealed in September after spilling around 4.9 million barrels of oil into the Gulf. Although the economic costs from the disaster could reach USD35 billion, reports said insured losses would be restricted to around USD3.5 billion as BP and its captive are expected to cover most of the expenses.

Table 1:

SIGNIFICANT CATASTROPHIC EVENTS OF 2010			
Date	Event	Region/Country	Insured Loss (USD million)
January 12	Earthquake	Haiti	200
February 26-28	Windstorm Xynthia	Europe	2,900
February 27	Earthquake	Chile	8,000
March 1-3	Hailstorms	Melbourne, Australia	1,040
March 13-15	Severe Weather	United States	1,045
March 22	Hailstorms	Perth, Australia	1,050
April 20	Oil Rig Explosion	Gulf of Mexico	Up to 3,500
May 12 -16	Severe Weather	United States	2,000
May	Riots	Bangkok, Thailand	500
May/June	Floods	Central & Eastern Europe	280
June 15-16	Floods	France	675
September 3	Earthquake	New Zealand	4,000

Source: Guy Carpenter, Swiss Re, Munich Re, PCS ISO, Insurance Council of Australia, French Federation of Insurance Companies

The costliest weather-related event of 2010 came when Windstorm Xynthia hit parts of Spain, France and Central Europe in late February. Xynthia's wind gusts reached 200 kmph (130 mph) over the summits of the Pyrenees and around 160 kmph (100 mph) along coastal regions, causing significant damage to residential and commercial properties and costing (re)insurance companies around USD2.9 billion.

However, it was the Chile earthquake in February that left the (re)insurance industry with the most expensive loss of the year. The earthquake, measuring 8.8Mw and located around 100 kilometers (60 miles) northeast of Concepción City, was the joint-fifth largest earthquake ever to be recorded. Officials in Chile said about 1.5 million homes were damaged, a third of them severely. Several copper mining operations and oil refineries in the area sustained some damage while the country's pulp, fishing and wine industries were also badly affected. Insured losses from the Chilean earthquake totaled USD8 billion, making it the second most expensive earthquake on record.

The 7.0Mw earthquake in New Zealand also caused significant damage when it struck 45 kilometers (30 miles) west of Christchurch. The New Zealand Institute of Geological and Nuclear Sciences said the earthquake was the most destructive to hit the country in almost 80 years. Around 100,000 of the 160,000 homes in the Christchurch, Selwyn and Waimakariri areas sustained some damage, including chimney collapses. Recent estimates suggest insured losses from the earthquake could be higher than initially expected and reach around USD4 billion.

The four other events to trigger losses in excess of USD1 billion occurred in Australia and the United States. Two severe hailstorms hit the Australian cities of Melbourne and Perth in March. Insured losses of

AUD/USD1.04 billion for the Melbourne event and AUD/USD1.05 billion for the Perth storm demonstrated the destructive power of hailstorms when they hit densely populated urban areas.

In the United States, meanwhile, severe weather and tornadoes hit eastern and midwestern regions of the country in March and May, respectively. The March event triggered insurance claims totaling around USD1.05 billion (2) while the storms in May caused insured losses of USD2 billion (3). The lack of U.S. landfalling hurricanes in 2010 meant losses generally matched those of 2009 (see Figure 2). The ISO PCS said insured losses in the United States totaled USD11.2 billion in the first nine months of 2010. This compares with losses of USD25.2 billion in 2008 when hurricanes Gustav and Ike came ashore in Louisiana and Texas (4).

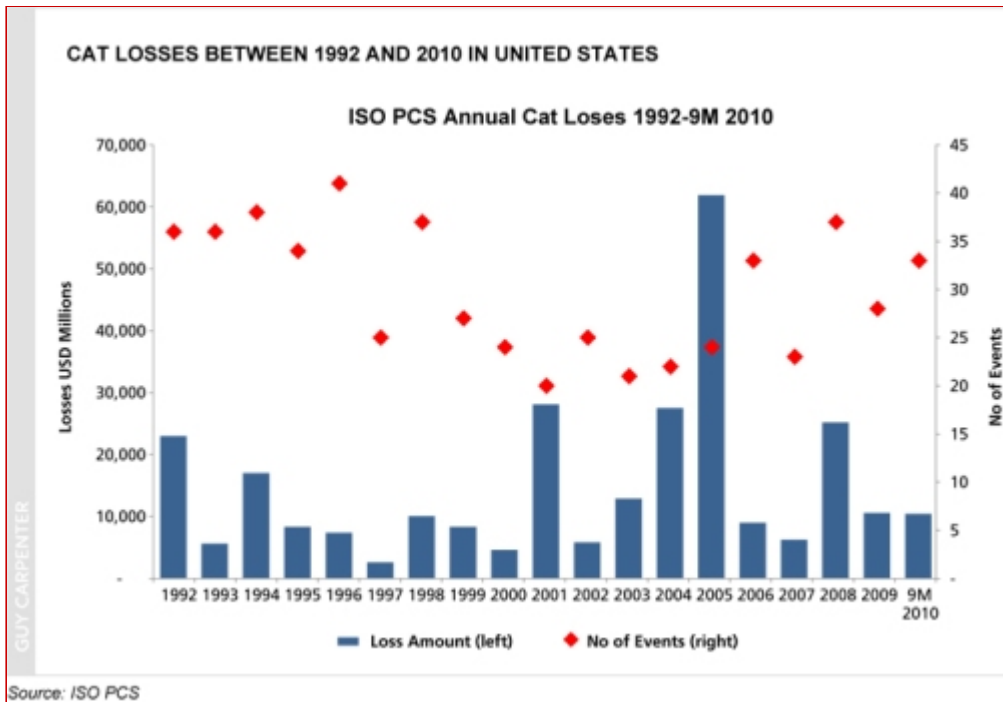


Figure 2: Source: ISO PCS

Notes:

1. Swiss Re Press Release - November 30, 2010.
2. ISO PCS Catastrophe Bulletin Serial No. 96.
3. ISO PCS Catastrophe Bulletin Serial No. 14.
4. Hurricanes Gustav and Ike caused combined insured losses of USD14.7 billion in 2008 (USD2.2 billion for Gustav and USD12.5 billion for Ike).

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