

The Costs Of The Italian Earthquake Will Fall More On The Government Than Insurers

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We expect the domestic Italian insurance sector to face low final costs from the earthquake that hit central Italy in the early hours of Aug. 24, 2016. The 6.2-magnitude quake resulted in a final death toll of over 290. The town of Amatrice in the province of Rieti was particularly severely damaged, as were the neighboring towns of Arquata del Tronto and Accumoli. Because property insurance in Italy is not particularly well developed, the cost of rebuilding will fall mainly on the government.

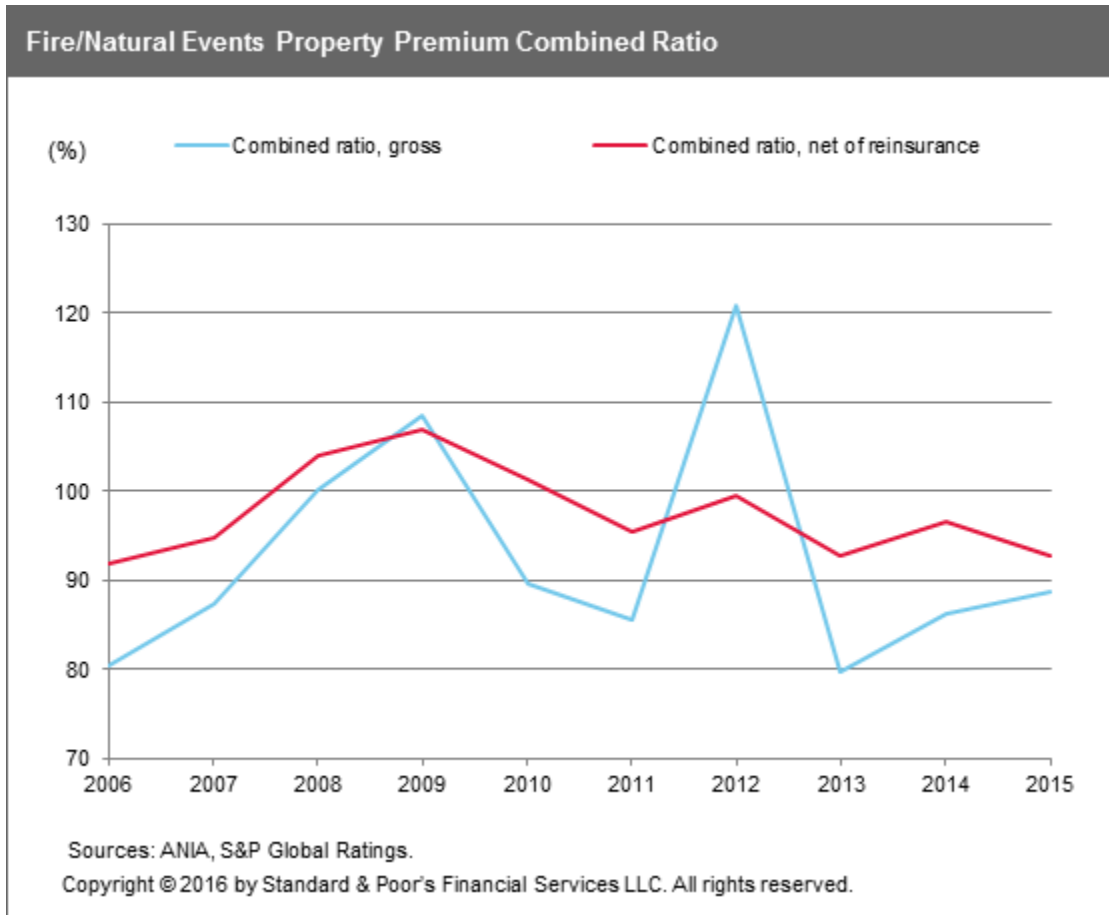
Taking into account the modest population of the Province of Rieti (see table) and in particular the low level of industrial activity, we estimate the gross costs of the earthquake to be lower than those of the two previous Italian earthquakes in 2012 and 2009. Given the low level of penetration for earthquake insurance coverage, which in Italy essentially only covers industrial buildings, the insured loss is also expected to represent only a fraction of the overall cost. Based on a comparison with the two previous earthquakes, we estimate that the gross insured losses will not exceed about €200 million.

Italian Earthquakes Since 2009

Year	Province	Inhabitants	Magnitude	Economic losses (mil. €)	Insured losses (mil. €)
2016	Rieti	158,000	6.2	N.A.	N.A.
2012	Modena	700,000	6.0	12,742	1,256
2009	L'Aquila	300,000	6.3	2,727	382

Note: Losses are inflation-adjusted. N.A.--Not available. Sources: Swiss Re and S&P Global Ratings.

Furthermore, Italian insurers generally take substantial reinsurance protection against property catastrophe risk, which significantly reduces the impact of such events on their net combined ratios, as in 2012 (see chart).



We believe that the cost of rebuilding the area will be essentially borne by the Italian government, as property insurance in Italy is underdeveloped. Fire/natural events property premium represent only about 7% of total Italian life premium. According to the Italian National Association of Insurance Companies (ANIA), only around 44% of residential homes have a fire insurance policy and less than 5% of these include earthquake cover. As a result, insured losses cover at best around 10% of the total economic losses of earthquake events in Italy (see table).

By contrast, in New Zealand, for example, about 90% of residential buildings have earthquake cover according to the government's estimates. As a result, insured losses covered about 80% of the total US\$15 billion economic losses following the 6.3 magnitude earthquake in February 2011.

The insurance industry in Italy shoulders this relatively low share of the post-catastrophe reconstruction costs primarily because earthquake insurance policies remain unattractive to consumers due to their high cost and Italians' expectations of government intervention. For premium to be more affordable, the insurance protection against such risks would need to be spread among a very large share of the buildings in the country. As some of the wealthier and more developed parts of country are less prone to earthquakes, we believe it's difficult for earthquake insurance cover to gain wide acceptance in the country in its current form. We consider that some form of government funding or tax credit, as exists in other countries, could incentivize private sector subscription to coverage of these risks.

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