# Insurers relieved by low-level exposure to tsunami disaster

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Even as the death toll and destruction from the December 26 tsunami continues to climb, there is one section of the business community that has found something to celebrate. Major insurance companies are breathing a sigh of relief as they discover their liability will be, in the words of one leading insurer, "modest in comparison to the scale of the current disaster".

Since the tsunami struck coastal regions around the Bay of Bengal, causing billions of dollars of damage, calculators in the assessment and accounting departments of the major global insurers have been running hot. Some of these companies are pleased to report that their estimated payouts will be around $US100 million. Munich Re, one of the world's largest re-insurers, for example, puts its liability at about 100 million euros ($US135 million), while rival insurer Swiss Re calculates its exposure at below $US88 million.

The American International Group (AIG), the world's largest insurance group, confirmed it would "not have significant business exposure or losses" and Lloyds of London said the exposure of their syndicates "would be limited to holiday resorts, personal accident, travel insurance and marine risk". According to the Insurance Information Institute, the bulk of claims in tourist centres would "arise from hotel and resort facilities owned and operated by large foreign multinationals" Very few small traders and business people, whose livelihoods were destroyed, are likely to be covered.

The largest insurer in the UK, Aviva, reported it had received fewer than 1,000 calls from policyholders in the stricken regions for property losses, and only 25 calls from people making medical claims. A spokesman for QBE Insurance Group, the only Australian insurer with significant presence in the region, declared that: "in a financial sense it (the disaster) will have no particular impact". Payouts would be "covered by reinsurance and would not affect financial results," he said.

Investors welcomed the low estimates by pushing up insurance stocks. On December 28, just two days after walls of water swept away entire villages, towns and communities in Indonesia, Sri Lanka, India and Thailand, the S&P Insurance Index reported that, by the closing bell, insurance stocks had risen overall by 0.8 percent. AIG added 18 cents to rise to $65.89 while St Paul Travelers Co rose 1.4 percent to finish at $37.33.

The exceedingly low insurance liability confirms, yet again, what has become increasingly apparent to the tens of millions of ordinary people around the world who continue to be shocked by the scenes portrayed each day in television broadcasts and in the pages of the press. While the disaster struck all classes of people, the vast majority of those most deeply affected were the desperately poor and the chronically disadvantaged—the millions of people barely eking out a daily existence through fishing, subsistence farming or low-paid work in tourism.

Most of those who have lost everything—homes, fishing boats, livestock and farming implements, not to speak of family members, and, in many cases, the only breadwinner—could barely support themselves before the disaster, let alone afford to insure their lives or their possessions.

This fact is another indicator of the poverty afflicting the great mass of people in the underdeveloped countries. According to the Insurance Information Institute (III), in 2003 Sri Lankans spent about $US7 per capita on non-life insurance, Indonesians $8, Indians $4 and Thais $27.6. By comparison, expenditure in the US stands at $1,980 per capita, nearly 250 times greater than in Indonesia and more than 280 times more than in Sri Lanka, the two countries where the greatest loss of life and property occurred. According to Swiss Re, total expenditure on insurance per capita in the US, including life insurance, is around $3,638.

That is why the insurance exposure from the December 26 tsunami is so low. In contrast, damage caused by the hurricanes that hit the US, Japan and the Caribbean last year caused total losses to insurers of more than $US35 billion—by far the greatest amount in 2004. In the course of the year, 300 natural and man-made disasters worldwide cost insurers $US42 billion and claimed a total of 21,000 lives.

Other factors also worked to protect insurers from the damage caused by the tsunami. Most of the property carrying "high-level catastrophe coverage"—the factories, plants and offices owned by the major global corporations—in the affected countries were situated further inland, away from the coastline. According to reports, no large industrial facilities in Indonesia or Thailand suffered extensive damage—and the ports were also largely spared.

As well, only the most expensive policies provide compensation for damage caused by water and flood. The III lists three typical property policies. The most expensive All Risks Policy covers "unforeseen, sudden and accidental physical loss/damage/destruction to insurers property" but, even then, only states that "flood risk may be covered under this policy". It appears that many of those who did have insurance will receive nothing anyway, because a tsunami is not counted as a "flood," and most policies therefore provide no compensation for the damage it causes.