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News Release

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Guy Carpenter Reports on Kumamoto Earthquake, Seismic Risk and Earthquake Cover in Japan

New York, May 11, 2016 – Guy Carpenter & Company, LLC, a leading global risk and reinsurance specialist and a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), released today a briefing and analysis of the Kumamoto Earthquake that struck Japan in April 2016.

On April 14, 2016, a moment magnitude 6.2 earthquake struck approximately 7.5 miles west-northwest of Kumamoto city in Kyushu, the southernmost main island of Japan. Only a few hours later, a 6.0 magnitude earthquake occurred approximately 6.2 miles south of Kumamoto city. These strong events triggered a series of foreshocks and aftershocks over a four day period that are collectively known as “The 2016 Kumamoto Earthquake.”

Industry estimates on the insured losses for property risks stemming from the Kumamoto Earthquake range from USD1.7 billion to USD2.9 billion. The Japan Fire and Disaster Management Agency (FDMA) recently reported that the event had caused 65 fatalities, 332 severe injuries, and total damage to more than 2,000 buildings. Nearby companies including Nissan, Honda and Toyota Motor Corporation also felt the significant impact of the events, with Toyota alone expected to lose 80,000 units of production after shutting down nearly all of its assembly plants in Japan.

“The Kumamoto Earthquake was once again a reminder of the intense power of seismic activity and the potential effect of such events on both businesses and communities,” said Edward Fenton, Regional Manager, Japan, at Guy Carpenter. “Japan is known for its earthquake potential. The risks associated with this peril are dealt with by a combination of the private sector and, similar to many other earthquake-prone countries, the government, which plays an important and active role in insuring the risks associated with these catastrophes.”

EARTHQUAKE COVERAGE IN JAPAN

In Japan, there are two major sources of earthquake insurance for houses and residential buildings: commercial non-life insurance companies that operate with support from the government, and cooperative insurers. For all buildings and man-made structures other than houses and residential buildings, earthquake insurance is available from commercial non-life companies, though on a strictly controlled basis.

Residential earthquake insurance provided by non-life insurers is strictly governed via regulations enacted following the Niigata earthquake of 1964. Under the law, earthquake insurance is provided for an additional premium as an endorsement to fire insurance policies, which cover buildings with a residential use. Furthermore, earthquake insurance on residential risks written by commercial non-life insurance companies is 100 percent ceded to the Japan Earthquake Reinsurance Company, Ltd (JER). The JER in turn retrocedes most of this risk to the Japanese government via an excess loss structure, with a small portion retroceded back to the non-life insurance companies and reinsurer Toa Re. As of April 1, 2016, the program’s limit was raised to JPY11,300 billion (USD 105.607 billion) with the government retaining the vast majority of the limit (JPY10,990.2 billion or USD102.712 billion).

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The other source of residential earthquake insurance is through a limited number of cooperative insurers, which have no government support. Almost all cooperatives in this class purchase non-proportional reinsurance from the international reinsurance market and, in certain cases, also access the capital markets for protection via catastrophe bond issuance.

For all commercial and industrial risks, earthquake insurance is only available from commercial non-life insurance companies. Because of high loss potential, insurance companies strictly control their earthquake aggregate exposure by sub limiting the potential payments and typically provide only very limited coverage for business interruption.

The full briefing is available at www.GCCapitalIdeas.com.

TAGS/KEYWORDS
Guy Carpenter, earthquake, Japan, catastrophe bond, Edward Fenton, commercial insurance, business interruption

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