

# *Identifying the effect of insurance markets on countries' resilience*

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LSE, Nov 21, 2012

# Motivating Question

- Does insurance market development affect a country's resilience to (natural) catastrophies?
- If this is the case this implies an important policy recommendation:  
Developing insurance markets in (developing) countries is of first order importance - in particular in light of the challenges posed by man-made climate change

- Establishing a causal link between insurance market development and resilience to natural catastrophies is very tricky:
  - Germany is more resilient than Haiti and its insurance markets are better developed
  - However, a great many other characteristics that likely affect resilience also differ.

- Find some exogenous variation that affects market development but is not (or at least less) correlated with “these many other characteristics”.
- Look at the Institutions and Growth literature that is faced with a similar problem.
- There are two prominent approaches:
  - Rafael LaPorta, Florencio Lopez-de-Silanes, and Andrei Shleifer (2008) “The Economic Consequences of Legal Origins,” *Journal of Economic Literature*, Vol. 46:2, 285-332
  - Daron Acemoglu, Simon Johnson, James A. Robinson (2001) “The Colonial Origins of Comparative Development: An Empirical Investigation,” *American Economic Review*, Vol. 91:5, 1369-1401

- Whether a country was colonized by England, Spain, or France at some point was largely random (certainly it was not influenced by today's growth patterns) but had a lasting effect on its institutional development.
  - In particular, English colonies tend to have more market based institutions (facilitated by stronger property rights protections and better contract enforcement).
- ⇒ This should also affect insurance market development.

- Mortality rates of early settlers had a large influence on whether a colony was established as a settler colony or as an extractive colony.
  - 90% of settlers die → no prospects of settling the place → no need to establish strong institutions as in the mother country → lasting negative effect on institutional development (and hence efficiency of markets)
  - most settlers survive → might make sense to settle the place → to attract settlers, establish institutions as in the mother country → lasting positive effect on institutional development (and hence increased efficiency of markets)

- LaPorta et al. and Acemoglu et al. provide their classification schemes
- OECD-GDP data (+ additional controls) to establish growth rates
- insurance market data (MRe)
- MRe-NatKat data to identify natural disasters (and their severity)
- additional co-variates (charitable donor money flows, ...)

# Preliminary Results

