Direct Financial Impact on Homeowners and SMEs

The middle class is projected to more than double globally from nearly 2 billion people today to 4.9 billion by 2030 (Kharas 2010). The middle class is an essential driver of countries' economic growth, and this group tends to have a significant portion of wealth invested in property—specifically the family home. In the United States, the primary residence represents on average at least 58 percent of a family's total assets for middle-class adults (Trawinski 2013).

A natural disaster shock to an uninsured middle class homeowner can thus easily destroy much of a family's wealth, up to nearly 60 percent in the United States. Disasters affecting a large, uninsured portion of a country's middle class can have a devastating social and economic impact on the country as a whole. Additionally, most homeowners go uninsured against natural disasters. In the United States, the National Flood Insurance Program provides highly subsidized rates for existing homes in flood prone areas. Yet the percentage of homeowners in Louisiana with flood insurance at the time of Hurricane Katrina ranged from only 7.3 percent to 57.7 percent in affected counties (Kunreuther and Pauly 2006). Loss due to direct damages to homes accounted for 69.1 percent of economic loss from Katrina (Property Casualty Insurers Association of America 2010).

The adverse effects of disasters on the middle class go far beyond the destruction of a family's home, however. SMEs—another key indicator of a thriving middle class—often go uninsured as well. In Chile, 70 percent of small businesses with property damages from the 2010 earthquake had no insurance, generating losses of up to $500 million (2010 figures) that had to be shouldered by these SMEs. Indeed, the Organization for Economic Cooperation and Development (OECD) observed that the increased poverty rates in Chile, as discussed previously, were partly driven by the closure of small businesses following the earthquake (Muir-Wood 2011).