# UN says natural disasters cost $2.5 tn since 2000

May 15 2013, by Jonathan Fowler

A destroyed home on the beach at Bell Harbor, New York City, on April 29, six months after Hurricane Sandy struck. The cost of natural disasters has hit $2.5 tn so far this century, far higher than previously estimated, a UN report said Wednesday, urging companies to face up to the risks.

The cost of natural disasters has hit $2.5 trillion so far this century, far higher than previously estimated, a UN report said Wednesday, urging companies to face up to the risks.

The study by the UN International Strategy for Disaster Risk Reduction (UNISDR) said the figure, representing only direct losses, was more accurate than traditional tallies.

Most tallies "just represent the picture from internationally-reported disasters, the big disasters which get into the headlines," said Andrew Maskrey, author of the UNISDR's latest Global Assessment Report.

"If you add in all the nationally-reported disasters, which don't get into the international media and the international databases, our impression is that losses are about 50 percent higher than is currently being reported, and losses are going up rapidly," he said.

As governments strive to limit the economic and human impact of catastrophes such as hurricanes or floods—which experts warn will strike increasingly amid climate change—Maskrey said business has been missing from the debate.

Businesses have been outsourcing to disaster-prone locations without taking adequate catastrophe-proofing precautions, a move which could be potentially costly in case of a disaster, he noted.

In 2011, for example, rains swamped factories located on a flood plain in Thailand, hitting a plant that supplied the global auto sector and thereby halting output in countries such as the United States, Britain, China and India.

"Businesses over the last 20 or 30 years have been gradually decentralising their production to areas with cheap labour costs, that offer access to export markets, good infrastructure," said Maskrey.

"This has obviously enabled a number of global businesses to become competitive, more profitable, more productive, but in doing so, this has meant there's been an awful lot of investment in capital assets in highly hazard-prone locations."

Unthinking investment in risk regions could be dubbed "toxic assets", he added.

And any damage could have long-term effects, he added.

"Say your business does stop, you're out of business for two or three months, your customers are likely to migrate to an alternative business, skilled workers may go elsewhere, your market share may go down and your reputation may suffer," he added.

Maskrey said locating in such regions was not wrongheaded, but that government investment agencies and analysts needed to be frank about risks, while companies needed to make wise decisions, for example by using disaster-proof buildings.

The report showed that even firms with risk-management departments tend to frame the issue in terms of political and market threats, currency fluctuations, or litigation.

Another problem is that companies tend to let insurers do the thinking, he said.

"But insurers only ever cover a segment of the risk. Insurance definitely has to be part of the solution, but not the solution itself," noting that while coverage can be around 90 percent in a country like the United States, it is often less than 10 percent in emerging markets.



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