

The effect on insurance and incentives of government relief for natural disasters

Xiaolei Ma

ABSTRACT

This article discusses the effect of government relief on natural disaster insurance through a theoretical perspective. There are two points we concentrate on, insurance coverage rate and effort policyholder invests to reduce the loss of natural disaster. We first derive an optimal choice without government relief and use it as a benchmark. Then we analyze three different types of government relief to test if government relief will generate a better outcome. However, the results indicate that it is not necessary for government to intervene the market. Policyholders may count on government relief and reduce the effort. The proper role of government in natural disaster insurance market is regulator.