

The use of insurance to improve flood resilience

1.	Introduction.....	1
1.1	Flood risk modelling: an overview.....	3
1.2	Managing natural disaster risk.....	5
1.2.1	Natural disaster risk reduction	5
1.2.2	Natural disaster risk transfer.....	6
1.2.3	Combing natural disaster risk reduction and risk transfer.....	8
1.3	This thesis’s research questions.....	13
1.4	The data and methodology employed	14
2.	Chapter 2: Impacts of flooding and flood preparedness on subjective well-being: A monetisation of the tangible and intangible impacts	19
2.1	Introduction.....	20
2.2	Data and methodology.....	21
2.2.1	Survey and data description.....	21
2.2.2	Methodology	26
2.3	Results and discussion.....	30
2.3.1	Results and discussion.....	30
2.3.2	Comparison with existing studies.....	33
2.3.3	Policy implications.....	36
2.3.4	Sensitivity analysis.....	37
2.4	Conclusion	39
3.	Chapter 3: Evaluating the effectiveness of household level flood risk reduction measures by the application of Propensity Score Matching	41
3.1	Introduction.....	42
3.2	The propensity score matching method	46
3.3	Data	52
3.3.1	Survey description	52

3.3.2	Variables	53
3.4	Estimation results	55
3.4.1	Treatment effect estimates	55
3.4.2	Sensitivity analysis	59
3.5	Discussion	62
3.5.1	Discussion of the effectiveness of the studied natural disaster risk reduction measures	62
3.5.2	Discussion of the application of propensity score matching ...	64
3.6	Conclusion	66
4.	Chapter 4: Moral hazard in natural disaster insurance markets - empirical evidence from Germany and the United States.....	69
4.1	Introduction.....	70
4.2	Theory and methods	74
4.2.1	Theory.....	74
4.2.2	Methods	77
4.3	Natural disaster insurance markets in Germany and the U.S., and the datasets.....	79
4.3.1	Flood insurance market in Germany	80
4.3.2	Windstorm and flood insurance in the U.S.	81
4.3.3	Survey data	83
4.4	Empirical models and results	87
4.4.1	Statistical method 1: Probit models	87
4.4.2	Statistical method 2: Bivariate probit models.....	93
4.4.3	Statistical method 3: Propensity score matching.....	96
4.4.4	Statistical method 4: Sample selection models and deductibles	100
4.4.5	Sensitivity analysis.....	104
4.4.6	Summary of overall results.....	106

4.5	Conclusion	109
5.	Chapter 5: Incentivising flood risk adaptation through risk-based insurance premiums - Trade-offs between affordability and risk reduction .	113
5.1	Introduction.....	114
5.2	Methods: Integrated insurance, household flood preparedness and flood risk model.....	116
5.2.1	Insurance model.....	116
5.2.2	Behavioural model of household flood risk adaptation investments	126
5.3	Results	131
5.3.1	Risk-based flood insurance premiums	131
5.3.2	Household-level adaptation: investments in flood risk reductions.....	133
5.3.3	Affordability of the risk-based priced insurance and insurance vouchers.....	138
5.3.4	Sensitivity analysis.....	139
5.4	Discussion	142
5.4.1	Premiums, flood risk adaptation, and insurance vouchers under the proposed insurance scheme in Germany.....	142
5.4.2	Premiums, flood risk adaptation, and insurance vouchers under the proposed insurance scheme in France.....	144
5.4.3	A comparison of changes in flood risk over time and household-level adaptation between Germany and France.....	144
5.4.4	Practical considerations for insurance related financial incentives for risk reduction.....	146
5.5	Conclusion	147
6.	Chapter 6: Efficient and equitable flood insurance market structures under climate change.....	150
	Abstract	150

6.1	Introduction.....	151
6.2	Methods	152
6.2.1	Flood risk model	157
6.2.2	Insurance sector model	158
6.2.3	Model of household insurance demand and risk reduction behaviour	166
6.2.4	Multi-criteria analysis.....	172
6.3	Results	174
6.3.1	Optimal flood insurance market structures for the future	174
6.3.2	Results for specific evaluation criteria	176
6.3.3	Sensitivity analysis.....	177
6.4	Discussion and conclusion.....	182
7.	Conclusion	186
7.1	Reflection on the core research question	186
7.2	Answers to research questions	187
7.3	Discussion of methods	195
7.4	Policy recommendations and implications for future research.....	199
7.4.1	Policy implications.....	199
7.4.2	Research implications.....	206
8.	References.....	210
9.	Appendix.....	235
9.1	Appendix A: Supplementary material for Chapter 2.....	235
9.1.1	Example SWB questions	235
9.1.2	Meta-analysis of studies investigating the relation between income and overall SWB.....	236
9.1.3	Systematic differences between sample sub-groups and possible endogeneity	238

9.2	Appendix B: Variable number, name, and description for Chapter 3	240
9.3	Appendix C: Variable number, name, and description for Chapter 4	244
10.	Summary	247
10.1	English summary	247
10.2	Nederlandse samenvatting	249
11.	Acknowledgements	252
12.	About the authour.....	253
12.1	A short biography	253
12.2	List of publications.....	253

LIST OF FIGURES

Figure 1.1	An example of a probability-exceedance curve	4
Figure 1.2	Work scheme of this thesis	18
Figure 2.1	Visualization of this chapter's methodology	30
Figure 3.1	An example of a common support	48
Figure 3.2	A map of the survey locations and river catchment areas.....	52
Figure 6.1	Flow chart of the Dynamic integrated flood and insurance (DIFI) model version 1.0 modelling scheme	154
Figure 6.2	Market structure reforms suggested by the DIFI model results for the period 2035-2055.....	174
Figure 6.3	Example consequences of the insurance market reforms suggested by the DIFI model results for the period 2035-2055.....	175
Figure 9.1	Share of total national income earned by the n^{th} quantile of income (left); Income of the n^{th} quantile (right)	237

LIST OF TABLES

Table 2.1 List of variable definitions.....	24
Table 2.2 Summary of descriptive statistics of key variables.....	25
Table 2.3 Estimated parameters of the regression models	32
Table 2.4 Characteristics and results of other studies, which examined the impacts on subjective well-being or compensating variation of floods or other major life events	35
Table 2.5 The estimated compensating value required to compensate for changes in subjective well-being due to flood experiences, risk perceptions, or preparedness decisions	36
Table 3.1 Flood risk reduction measures	54
Table 3.2 Estimates of the effectiveness of private disaster risk reduction [in euros]	57
Table 3.3 Sensitivity analysis	61
Table 4.1 Probit model results of the relationship between any flood risk reducing behaviour and flood insurance coverage for Germany	91
Table 4.2 Probit model results of the relationship between any hurricane risk reducing behaviour and insurance coverage for the U.S.	92
Table 4.3 Bivariate probit model results of the relationship between any flood risk reducing behaviour and flood insurance coverage for Germany.....	95
Table 4.4 Coefficient estimates of U.S. bivariate probit models.....	96
Table 4.5 Estimates of the difference in average flood damages due to having a flood insurance policy (in EUR). The average treatment effect on the treated (ATT) is estimated using Propensity Score Matching with different matching methods	98
Table 4.6 Natural hazard summary statistics	99
Table 4.7 For those with homeowners insurance the relationship between the likelihood and number of preparation activities undertaken and deductible coverage	104
Table 4.8 Estimates of the difference in average flood damages due to having a flood insurance policy (in EUR) for households located in the Elbe and Danube River catchment areas separately. The average treatment	

effect on the treated (ATT) is estimated using Propensity Score Matching with different matching methods	105
Table 4.9 Difference in damage reduction measure usage between the insured and non-insured groups within the Elbe and Danube River catchment areas	106
Table 4.10 Coefficient estimates of the U.S. bivariate probit models between knowing the size of the deductible and the employment of risk reducing measures	108
Table 5.1 Features of a public-private flood insurance scheme	120
Table 5.2 A summary of the benefits and costs of household flood risk reductions.....	123
Table 5.3 Calibrated parameters of the Generalised Pareto distributions	129
Table 5.4 A summary of the estimated average insurance premiums (EUR/per year) for Germany and France in 2015 and 2040.....	132
Table 5.5 Estimates of the average flood risk reduction due to household flood-proofing measures within French NUTS 2 regions, with and without financial incentives, under three risk perception scenarios	136
Table 5.6 Estimates of the average flood risk reduction due to household flood-proofing measures within German NUTS 2 regions, with and without financial incentives, under three risk perception scenarios	137
Table 5.7 Costs in Net Present Value (NPV) of an insurance voucher scheme to maintain insurance affordability.....	139
Table 6.1 Summary and definition of the evaluation criteria estimated by the DIFI model	153
Table 6.2 A summary of flood insurance structures to which European countries are allocated.....	160
Table 6.3 Estimated cost functions and cost surcharges	165
Table 6.4 Calibrated parameters of the Generalized Pareto distributions of subjective flood occurrence perceptions.....	170
Table 7.1 Core implications emanating from this thesis.....	201

Table 9.1 Results of mean comparison tests, which examine differences between sample sub-groups in relation to key explanatory variables (in columns)	239
Table 9.2 Included confounders	240