

Financial Compensation for Victims of Catastrophes: A Law and Economics Perspective

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PDF

Abstract

This article examines the various approaches legislators may use to compensate victims of catastrophes. Traditional law and economics of insurance literature, with respect to government relief and insurance solutions towards financial compensation, is used to analyze (highly diverging) approaches in Europe and the United States. First, the importance of liability (insurance) is discussed in cases where a liable injurer can be identified; second, the possibilities of first-party insurance are examined, whereby various regulatory solutions (particularly the French model of providing mandatory coverage for catastrophes) is critically discussed. The (first-party) insurance solution is compared with public intervention, and a distinction is made between ad hoc government relief on an ex-post basis and structural compensation funds. The solutions applied and discussed in many countries are critically analyzed for their ability to provide adequate compensation at low costs and their effects on incentives for prevention and for developing private (insurance) solutions.

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