Learning from Extreme Catastrophes

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This article studies the effect of extreme catastrophes on the expectation of the likelihood of future events by investigating Japanese households' earthquake insurance take-up after the top two costliest disasters in history. Direct loss experience led the strongest reactions to extreme catastrophes while risk belief updates were nation-wide phenomena. Sharing personalized information contributed the strong and persistent indirect experience effects. Both availability bias and representativeness help explain the effect of past loss experience. Further, a dominating effect of gambler fallacy in the sense of Tversky and Kahneman (1973) is observed after indirect experience of a 1000-year earthquake.