

The Impact of Wildfires on Loss Given Default: Evidence from Defaulted Consumer Credits

Abstract

Natural disasters are increasingly affecting the financial system. While most of the literature on natural disasters and credit risk focuses on the probability of default, very little is known about what happens after default. In this study, we combine two unique datasets to provide novel empirical evidence on the financial impact of wildfires through the loss given default channel. First, we determine Italian provinces' exposure to wildfires using geospatial data on burned areas derived from satellite imagery. Second, we exploit a proprietary dataset on defaulted consumer credits obtained from a third-party collection agency in Italy. Our results reveal a robust negative relationship between debtors' exposure to wildfires and the realized recovery rate. By focusing on wildfires that occur during the recovery process of already-defaulted consumer credits, we are able to isolate a loss given default channel, complementing existing evidence on default probabilities.

Full Paper

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