

▶ SPECIAL REPORT:

WEATHER

RISK

Asia-Pacific lost nearly \$38bn as a result of natural catastrophes last year – but across the region, underinsurance and complacency are making matters worse

In association with

 **Swiss Re**
Corporate Solutions

All set for whatever nature has planned

With natural catastrophes mauling Asia for another year and insurance payouts falling short again, a collective effort is needed to solve the crisis

In October alone, South Korea and the Philippines were struck by super typhoons, North Korea was inundated with devastating floods and Japanese authorities issued alerts as Mount Aso volcano rumbled to life. Then in November, New Zealand and Japan were hit by major earthquakes, reminding both of similar, devastating events in 2011.

What all this shows is that Asia-Pacific continues to find itself in a pattern of regular natural catastrophes.

The statistics back this up.

Last year, there were 198 natural catastrophes – the highest number in one year, according to Swiss Re's sigma records.

Among this catalogue of disasters, Asia was the hardest hit from a financial perspective, with economic losses from all events in the region last year being close to \$38bn.



“IT IS IMPORTANT TO MAKE SURE THE SUB-LIMITS IN THE PROPERTY POLICY ARE REVIEWED REGULARLY.”

RIMS board member
Cathy Murray

Despite these figures, the issue of underinsurance still looms large. Only 40% of the global \$92bn bill from natural and man-made disasters was covered by insurance last year, Swiss Re's research shows.

So, why does this protection gap of nat cat underinsurance continue, seemingly unabated?

Peter Jackson, director of multinational clients at Lockton Wattana Thailand, says he is often surprised by how low the risk of natural catastrophes are on corporates' risk registers.

“Nat cat insurance is sometimes felt to be the solely the preserve of the big companies. Surprisingly, too, some companies do not really understand the implications of a nat cat. Some we have talked to are quite blasé about it,” he says.

“With certain types of nat cat, and an earthquake is a good example, they see it as a very localised event. So if they believe they can recover from localised events quickly, they would say it's not that big a deal.”

Lazada Group's head of group risk and internal audit, Gordon Song, agrees.

He argues that businesses are more likely to be “underinsured for business interruption, not property loss per se”.

This could be due to a variety of factors, he says, many of which boil down to a lack of understanding by the risk manager of their exposure. It may be that they don't quite understand their insurance coverage, their dependence on critical suppliers or the knock-on effects of the peril in question.

Inadequate indemnity periods and limits also pose an issue, as does improper testing of business resiliency and recovery plan, he says.

This highlights the need for greater clarity around what nat cat insurance can and can't do.

Indeed, Jackson says the industry needs to make nat cat insurance products easier to understand – both for brokers to sell and clients to get sign-off from their finance teams.

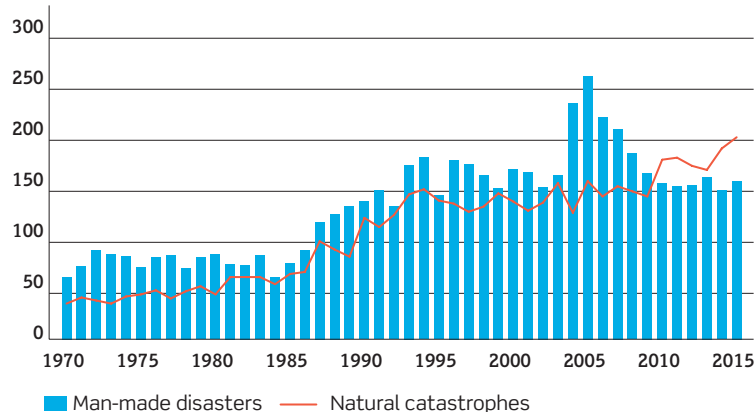
“Sometimes the issue is the genuine lack of nat cat data too, with flooding in China being a good example of this issue. What is encouraging is governments, as we have seen in China too, wanting the insurance industry to take the strain,” Jackson adds.

Underinsurance, especially in Asia, can also be a cultural issue, says Stanley Cochrane, head of property Asia-Pacific at Swiss Re Corporate Solutions.

“Some people take the view that [natural catastrophes] are the government's problem and they expect the government to bail them out if matters are really bad,” he says.

FROM BAD TO WORSE

The number of catastrophic events from 1970-2015



Source: Swiss Re Economic Research & Consulting and Cat Perils

GOING PARAMETRIC

Swiss Re Corporate Solutions' Stanley Cochrane says parametric-based products – which do not indemnify the pure loss of an event like traditional insurance, but pay out upon the occurrence of a pre-defined triggering event – are an increasingly popular risk transfer solution for nat cats.

“You have a fast payout at pre-agreed terms and it does not matter what kind of loss happens. I see this parametric solution as a building block, as a complementary protection component,” he says.

Lockton's Peter Jackson believes there is not enough uptake of parametric solutions, largely due to a lack of market understanding. “I know it is quite an involved process, so have clients got the time? The more simple you make it, the more relevant you make it,” he says.

He believes parametric solutions are particularly useful when a client is trying to hedge any losses. “You are trying to protect against volatile and violent swings,” he explains.

He gives an example: “If you are heavily reliant on commodities that are not traded in a way you can hedge, such as food, then you are at the mercy of weather and market forces, and can use a parametric solution to put a certain floor below a change in a business's financial performance.”

“There are other people who do not think about the government, but have the view that if it happens, it happens. That is an aspect which should not be underestimated.

“Tackling underinsurance is a matter of educating the population, and getting local governments to make [insurance] affordable and workable.”

An Australian risk manager from a construction and engineering firm told *StrategicRISK* that underinsurance resulting from natural catastrophes typically results from two causes: the incorrect valuation of reinstatement works following damage, and appropriately assessing the impact that a natural catastrophe can have on business operations.

“Following historic natural catastrophes, we have seen trade costs skyrocket as labour shortages drive costs up – these costs need to be considered when setting declared value and a per-location limit of liability under a property damage insurance policy,” he says.

“Furthermore, as global demand for materials changes, their availability and cost will also fluctuate. An appreciation of these factors should be considered by the professional valuers that are appointed.”

Australian RIMS board member Cathy Murray also stresses the importance of conducting regular reinstatement valuations on all property and ensuring

the valuation matches the basis of settlement in the property policy.

She adds: “It is important to make sure the sub-limits in the property policy are reviewed regularly with both your broker and your insurance valuer – remembering that the reinstatement valuation estimates are for costs under normal reinstatement conditions and do not include escalated costs in a natural catastrophe situation, where costs can increase due to high demand of labour or materials.”

NUMBER OF EVENTS, VICTIMS, ECONOMIC AND INSURED LOSSES BY REGION, 2015

Region	Number	Victims	in %	Insured losses		Economic losses	
				in US\$bn	in %	in US\$bn	in %
North America	51	278	1.1	17.3	47.1	28.6	31.2
Latin America and Caribbean	25	746	2.8	3.2	0.7	7.5	8.2
Europe	41	2,612	9.9	6.2	17	12.6	13.7
Africa	49	3,431	13	0	0.1	1.2	1.3
Asia	159	18,916	71.8	7	19	37.7	41.1
Oceania/Australia	13	57	0.2	2.1	5.7	3	3.3
Seas/space	15	319	1.2	0.9	2.4	1.1	1.2
World	353	26,359	100	37	100	92	100

BI insurance and nat cats

As well as picking suitable business interruption cover, risk managers need to anticipate and prepare for a worst-case scenario

In the hours, weeks and months that follow a natural catastrophe, corporates and insurers can find themselves in a tango around what is – and isn't – covered by their insurance policy.

Business interruption (BI) insurance often plays a major role in a company's ability to rebuild following a nat cat, so risk and insurance managers must get their coverage right.

An Australian risk manager from a construction and engineering firm says traditional BI insurance is predicated on a loss or event occurring at the insured's premises.

"Whilst this is still a key risk which should always be considered, the increasing reliance on a network of suppliers and organisations needs to be better addressed in standard insurance policies.

"Extensions for coverage for damage – caused by natural catastrophes – at suppliers' premises should be explored by risk managers and their brokers."

Stanley Cochrane, head of property Asia-Pacific at Swiss Re Corporate Solutions, says the challenge with BI in relation to natural catastrophes is around wide-area damage and accumulation.

"For example, in the event of a major earthquake or flood, we have thousands of policy owners affected, so we have thousands of BI covers triggered.

"Then, because the resolution of BI damage is based on the time it takes, there can be problems in terms of not having enough loss adjustors to investigate the damage.

"Then there is the shortage of critical suppliers and tradesmen to do the repairs in order get businesses back up and running, so there are many aggravating circumstances when you have nat cat events," Cochrane explains.

Of course, insurance is just one aspect of an organisation's resilience to nat cats.

The Australian construction risk manager says: "Aside from insurance alone, which takes time to quantify losses and negotiate settlement, risk managers should be proactive in their response plans to natural catastrophes."

He says a business should have well-drilled crisis management and business continuity plans that give the organisation resiliency in operations. This may include having back-up 'warm-locations' for critical operations while ensuring support activities can be delivered remotely.

"Also, understanding the supply chain exposures and alternatives are key for a prudent risk manager. Knowing where goods and services are being supplied from and how they can be augmented or replaced quickly should give the risk manager confidence in their ability to respond to natural catastrophes."

Australian RIMS board member Cathy Murray says it is important to have good relationships with your

TAKING CONTROL OF A CRISIS



Mike Campbell-Pitt, managing director of Crawford Hong Kong, offers a loss adjuster's view of crisis management and business continuity after a nat cat

Q. What are some of the major crisis management and business continuity planning considerations in relation to natural catastrophes?

A. There can be very different approaches when you are dealing with a natural catastrophe. Some organisations are well-prepared, have emergency response plans in place and designated staff to oversee implementation. Other organisations, however, may not have the people or experience to proactively manage complex

situations and ensure the efficient restoration of business operations.

When we talk to clients, we try and help them with their preparation and look at their business continuity plans to make sure the right people are involved. When we are working with some of our multinational clients, it is important to make contact with them prior to major events to ensure we have a relationship with the responsible personnel and they know what to do in the event of a catastrophe.

Q: What are some of the common mistakes you see companies make in crisis management and business continuity plans?

A. One thing we see is organisations trying to manage the event on their own. They may be reluctant to involve specialist support, but they may not be able to fully comprehend the implications for the business. Later on, when they realise the severity of a situation, they may

SPONSORED WORD

NON-INSURABLE? MAYBE NOT



CHRISTIAN WERTLI

Global head of non-standard solutions,
Swiss Re Corporate Solutions

According to the latest sigma study, there were 353 catastrophic events across the world in 2015. Of those, 198 were natural catastrophes, the highest ever recorded in one year. Asia-Pacific was the most impacted, accounting for 56% of the events, of which \$7bn of the estimated \$38bn of total economic losses was insured.

With the frequency and severity of natural catastrophes increasing year on year, corporations across Asia-Pacific are increasingly exploring the use of tailored parametric products to insure assets where cover has been difficult to obtain in the traditional market.

A parametric product is related to the measurement of a natural catastrophe, such as a flood, storm, earthquake, drought, bush fire, heatwave, frost or typhoon. Unlike insurance, which indemnifies for a physical loss, parametric products provide a pre-agreed payout that is based on an index, such as the magnitude of an earthquake or the wind speed of a storm.

For example, there was interest from a corporation in the Philippines for a parametric product. The company had been impacted by losses from tropical cyclones to their power transmission and distribution network. These losses were not covered by the traditional insurance programme. The company was concerned about future losses and were exploring parametric products to get quick access to cash flow immediately after an event to avoid excessive business interruption.

To help the client, Swiss Re Corporate Solutions provided the first parametric tropical cyclone and earthquake product in the Philippines. The coverage pays out within 30 days if a given intensity of tropical cyclone or earthquake occurs. The previously non-insurable assets are now covered in the event of a natural catastrophe. After years of being told that such assets are non-insurable, this client finally has coverage.

> For more information visit:
<http://goo.gl/urGtuh>

suppliers and service providers, so that in the event of a major loss, they might be more inclined to serve you first – something that could help mitigate the scale of the loss.

“Another point is to have a claims protocol established and, most importantly, written into the policy, which could include: preferred loss adjuster for both material damage and business interruption; ability for the insured to contact and appoint the loss adjuster out of hours, as not all claims personnel have mobile phones; and KPIs around response times and communicating with the insured,” she says.

“THERE ARE MANY AGGRAVATING CIRCUMSTANCES WHEN YOU HAVE NAT CAT EVENTS.”

Head of property
Asia-Pacific, Swiss Re
Corporate Solutions
Stanley Cochrane

request such help. But an early implementation of a structured response plan is a much more ideal scenario.

Often there is insufficient work done by an organisation to deal with loss mitigation at an early stage. If we are dealing with water or fire damage, it might take a great deal of time to recover from a catastrophe. As such, a thorough understanding of the damage is required in order for an appropriate course of action to be identified and commenced. This should see a material reduction in the period of interruption to the business.

Catastrophes often create unique and new questions on insurance policy coverage that need to be addressed.

Q. What are the defining characteristics of the best crisis management teams?

A. They have a robust continuity plan in place, they have tested it, they have a team of people with defined roles and they have

performed tests. From a ‘getting back to business’ perspective, the most successful organisations after natural catastrophes are the ones who have planned well and have run different ‘event’ scenarios.

Organisations that know what they are going to do during a catastrophe and welcome the support available from knowledgeable loss adjusters and other appropriate consultants are the types of firms likely to be most proactive in terms of dealing with an event and the most successful in terms of getting back to business.

The best crisis management teams are also able to accept external advice in terms of how to deal with situations. They will engage specialist services where they do not have the expertise and make decisions quickly. There is sometimes a reluctance to involve other companies to help, but the ones getting early expert support will more often than not benefit from superior outcomes.



Your
insights

+

Our
strengths and
expertise

=

Top-class
protection around
the world

 **Swiss Re**
Corporate Solutions

You know your business inside out. You know your markets, your customers, your competitors. Above all, you know the risks facing your business. At Swiss Re Corporate Solutions, we have the capabilities and the financial strength to meet the risk transfer needs of businesses worldwide. But that's only half the story. Whether your risk is basic or complex, whether the solution is off-the-shelf or highly customised, we believe that there's only one way to arrive at the right solution. And that's to work together and combine your experience with our expertise and your strengths with our skills. Long-term relationships bring long-term benefits. **We're smarter together.**

swissre.com/corporatesolutions

Swiss Re Corporate Solutions offers the above products through carriers that are allowed to operate in the relevant type of insurance or reinsurance in individual jurisdictions. Availability of products varies by jurisdiction. This communication is not intended as a solicitation to purchase (re)insurance. © Swiss Re 2016. All rights reserved.