

# Thailand one year on

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## An evolution of Crawford Global Technical Services blueprint for catastrophic claims handling

Since Thailand suffered what was by far the biggest insured flood loss in history, some tough lessons have been learned.

The Thai floods hit nearly 1,000 factories feeding global supply chains - particularly in the auto sector - costing insurers an estimated \$20bn.

Crawford's own Bangkok office handled an unprecedented number of serious incidents, with many hundreds of individual claims valued at seven figures or over, in a disaster which placed the global underwriting community under significant pressure.

However, despite encountering myriad problems along the way, knowledge gleaned from the challenges faced by the market in Thailand over the past 12 months has encouraged the creation of a system at Crawford in which adjusters can respond more effectively when major disasters strike.

### Thailand adjusting challenge

The adjusting community has been managing the surge of claims caused by the Thai floods for over a year. Given the flooded area was the size of Denmark and contained seven major industrial facilities which were each the size of the City of Birmingham and contained the world's leading manufacturers of computer hard drives and major automotive part manufacturers, adjusters faced huge challenges.

Richard Martin, Crawford's CEO Asia Pacific, explains. "The flood waters took months to fully subside and the claims remain on-going. Japanese insurers issued their half yearly results in September and we were under increasing pressure from those clients to close or at a minimum update all losses so that they had current information for their own financial results."

With these objectives defined, Ian Baxter, Regional Director of Crawford Global Technical Services® in Asia Pacific, added: "We doubled the size of the Bangkok office to accommodate demand since October 2011 and despite the obvious pressures were able relatively quickly to deploy permanent and qualified staff in Thailand. We also knew the advantage that translation support would give us so we ensured there was a strong network of Japanese and Thai interpreters available for our adjusters and client relationship managers."

### General dynamics

One year on and the insurance response to the Thai floods is still on going and the impact on the country remains severe.

Outside of Japan, Thailand is Asia's most developed vehicle parts market and a hub for the likes of Toyota, Honda and Mercedes-Benz; making cars and car parts was the country's No. 1 export last year. The floods disrupted more than 100 of the industry's component makers.

Manufacturers such as Toshiba are moving machinery to the second storey, setting up sister operations in other countries and finding back-up warehouses and suppliers, though the bulk of operations remain in Thailand.

Toshiba's factories are in the Bangkadi industrial estate, one of seven parks built on former rice paddies on floodplains north of Bangkok that were inundated last year, affecting companies such as Sony, Canon and Honda.

Close to where workers are still toiling to build new flood defences to protect the complex is a bronze statue of an elderly couple standing on sandbags. They are the estate's founders and the statue commemorates a flood in 1995 in which 1 million sandbags were used to fend off high waters, a reminder that this is not the first time the estate and the country have been threatened.

### Insurers refocus on flood risk

For insurers the floods have seen all eyes turn to what other flood risks lie in wait for underwriters in the region.

In the rush for development that has lifted millions out of poverty in Asia, many factories have been built along coasts, especially in river deltas. According to insurance industry executives, most construction was done without long-term historical data on floods and storms.

"We currently have 140 staff working on the claims arising from the floods in Thailand and of that number around 50 have been brought in from overseas" confirms Richard. "That level of international engagement has been constant throughout. What we have clearly demonstrated is that insurance is a global industry and as adjusters we need to have a global resource to meet the needs of our clients."

The company's ability to bring in highly experienced adjusters, from Australia, the UK and the US, has been an added bonus, some of whom returned to the front line from management positions as the pressure on the adjusting community intensified.

### **Submerged for weeks**

As Richard Martin points out, what in many ways defined the Thai floods was the length of time that the waters remained after flood prevention measures taken to protect Bangkok ultimately left insureds' factories submerged for weeks.

"Clearly this flood is not like an earthquake which while catastrophic, is over in a relatively short space of time. We had significant problems with accessing the area immediately after the floods and the slow rate at which the flood waters receded meant that it was very difficult for access to be gained to take any steps to tackle the oxidation process which clearly caused greater levels of damage to plant and machinery."

"The specialist nature of the businesses affected by the floods was underscored at this point. We have been dealing with claims where valuable, specialist machinery needed to be replaced or repaired if at all possible," he says.

As project managers for many aspects of the clean up, Crawford GTS® made substantial efforts to co-ordinate resources in the region so that contractors who specialise in the preservation, restoration or replacement of this machinery could be on hand as quickly as possible. Ian Baxter explains further: "What is perhaps unique about the Thai floods is that building damage was largely superficial in comparison to the machinery and business interruption losses incurred by manufacturers in the region. Where possible, we were able to deploy the resources of specialist contractors to help insureds protect their assets and even to liaise with the original manufacturers of the industrial equipment where necessary."

Adjusters have faced a challenge of diplomacy as a result, particularly where negotiations between parties looking to manage down costs would tend to pursue restoration over reinstatement. Richard Martin says in many instances this was done successfully but in others, because of the high degree of sophistication and tolerance, restoration efforts were impractical.

Rising sea levels, increasing rainfall and more intense storms - together with more people and infrastructure - mean the risks have multiplied. Brokers and underwriters say the industry is vulnerable to another major flood, with scientists identifying the coastal plains of southern China as one area at great risk.

"When I go and look at these industrial parks and ports in some of the low-lying coastal areas, I just have to stand back and think: Who's insuring these things? Who's done the risk assessment?" said Adam Switzer, a coastal scientist at the Earth Observatory in Singapore.

The goal, insurance executives say, is to break the cycle of paying for the same losses over and over again.

### **China and Indonesia concerns**

After the Thai floods, reinsurer Swiss Re reassessed flood risk in emerging markets. Its No. 1 risk was China, whose vast industrial estates are at the heart of global manufacturing, making everything from iPads to brake pads.

Many in the insurance sector agree that an even bigger loss is likely in China, the motor of global manufacturing, where large areas of factory estates are vulnerable to flooding and storms. "If we have a really extreme event in China, I am quite certain there would be some surprises for the insurance industry," said Jens Mehlhorn, head of Swiss Re's flood group. "The flooding we see currently in China is just average flooding. We haven't seen a 50- or 100-year flood event in the past 5 to 10 years."

Insurers and reinsurers are also worried about dense concentrations of factories in other parts of Asia, particularly in and around the Indonesian capital Jakarta, where floods in 2005 and 2007 hit large areas. This low-lying coastal city has 13 rivers flowing through it, is subsiding in parts and faces rising sea levels. It is the nation's manufacturing base with U.S., European and Japanese firms operating factories.

“Ultimately we’ve gathered a lot of knowledge about what is possible from a large scale commercial, industrial manufacturing loss after one of the severest floods the world has ever experienced. We had at all times to consider that insureds needed to get back in to production as quickly as possible.”

### **Maintaining morale**

Early on in the process, Crawford recognised that its experience in Thailand would provide a framework of knowledge and transferable skill which can be implemented for future events. Richard Martin points out how human resources will be an important component in that framework.

“Thailand has been a tough place to operate from an overseas adjuster point of view and given the conditions that we have faced, we have been keen to put in place a programme to rotate staff to reduce the risks of stress and burn out,” he says. “There have been a lot of challenges for those working in the area and while we have had a core team that has been involved throughout, we have monitored our employees’ wellbeing carefully.

“In addition, like any project in which one has an interest, the needs of our insurer and reinsurer clients have been our major objective. Those with the very largest exposures in the region were provided with constant liaison and I’m confident the business has the right approach to putting senior individuals in customer facing roles so that lines of communication can be kept open and effective.”

No CAT claim is the same as another, and each will present its own challenges for adjusters at the coal face. Working with a global client base means there is no one size fits all approach to adjusting and Crawford has a robust system of peer review and audit so its reports to the insurance market stand up to scrutiny.

Ian Baxter concludes: “Culturally, geographically, and logistically: ours is a responsibility to adapt to the local conditions. On one hand that simply means the physical challenges of the environment in which we find ourselves, but on the other we must also adapt to the needs of the insurers we represent. The experience of handling CAT claims in an industrial context within South East Asia has been invaluable.”

Source: Reuters – 22 July 2012