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## THE VIRTUAL CAT - BANE DESTROYS BROOKLYN BRIDGE



ONCE UPON A TIME it was the job of Hollywood alone to imagine what might happen if the bad guys took control of the nuclear launch codes or a catastrophic event demolished an entire city. That tradition continued in 2012, when Crawford & Company helped GQ

Magazine map out the consequences of a criminal mastermind on the rampage. We entered Gotham City on GQ's behalf to adjust claims arising from Bane's campaign against The Dark Knight, estimating a total loss of \$30.2bn.

BLAM!



# BE 'CAT READY'

## IMPLEMENTING LESSONS LEARNED AFTER THREE OF THE BUSIEST NATURAL CATASTROPHE CLAIMS YEARS ON RECORD.

It has become an unfortunate fact of life that insurers, brokers and risk managers must increasingly think the unthinkable as the past several years have, for this industry at least, been stranger than fiction.

In less than 36 months, Crawford & Company's global network of adjusters has responded to earthquakes that completely destroyed large areas and cities in Chile, New Zealand and Japan; a resulting tsunami from the latter incident caused a catastrophic loss of life and nuclear fallout from the Fukushima plant. Floods deluged Thailand with a resulting severe strain on the globe's supply of key manufactured products and in Superstorm Sandy we saw a storm whose tidal surge damaged vast swathes of the eastern United States with wind, rain and snow moving inland to wreak havoc and cost billions in losses.

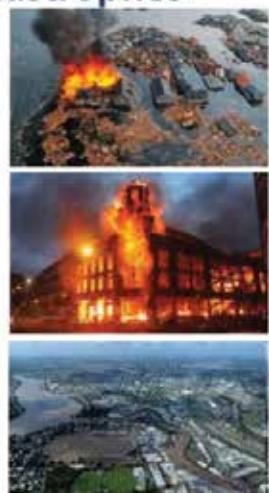
This is by no means an exhaustive list as insureds from regions of Australia will testify; there wildfires, cyclones and floods continue to beset agriculture, neighbourhoods and businesses, while the UK's exposure to floods has severely tested that country's infrastructure.

In an attempt to pull together the principal themes, challenges and lessons learnt by Crawford over this period this paper has been created to provide reference for claims and risk professionals when considering the dynamics and challenges they may face in establishing their own risk management and business continuity strategies, so they can be "CAT ready". Crawford has a truly global perspective and the experience of dealing with the key claims challenges, be they commercial, cultural, logistical, legal or even reputational.

## Unprecedented global catastrophes

27.02.10 – Chile: Earthquake  
 20.04.10 – Deepwater Horizon: Oil Spill  
 21.12.10 – Australia: Severe Flooding  
 02.02.11 – Australia: Cyclone Yasi  
 04.02.11 – Australia: Severe Flooding  
 05.02.11 – Australia: Bushfires  
 22.02.11 – New Zealand: Earthquake  
 11.03.11 – Japan: Earthquake & Tsunami  
 --.10.11 – Thailand: Floods  
 29.10.12 – Sandy





Catastrophe management has taught us that being "CAT ready" is above all about ensuring robust business continuity planning is in place, correct response resource and skill sets are available from all the interested parties and alternative supply chain networks are able to respond. Aligned to this is the need to have clarity of coverage, open and trusted dialogue between stakeholders and a deep understanding of how to best tackle the logistical, local market processes including legal, regulatory and cultural challenges that will be faced. We have carefully noted where bottlenecks appear and what the major constraints are when settling global CAT claims.

### UNIQUE, UNPRECEDENTED AND INCREASINGLY INTERCONNECTED

With every major claims event the insurance industry and their customers are tested by a range of dynamics with consequences rippling across the global economy.

The period 2010-2013 represented one of the most active periods in history for insured losses, and as such it is helpful to demarcate these events and compare or contrast some of their unique claims characteristics.

On opposite sides of the Pacific Rim, devastating earthquakes hit first Chile and then New Zealand. The former incident registered as the sixth most severe in history, striking at the heart of that country's most populous region, where 80% of the people live and while insured losses of \$6bn were incurred, it was the region's potential exposure to chaos and disorder which quickly became apparent.

As Crawford adjusters continued their work in Santiago, Chile and its surrounds, Christchurch, New Zealand was then hit by a string of earthquakes, destroying large parts of the South Island capital, Christchurch. There, the challenges for insurance claims handlers have been significant. These have included questions around indemnity rebuild values of domestic and commercial risks associated with highly complex engineering challenges, ground liquefaction foundation principles with solutions having to be established and the recognition of "demands" caused by political interference, especially around changes to the building code and who should take financial responsibility for making restored buildings "earthquake proof". It is also evident that both in scale and complexity the indigenous claims industry has struggled to cope with a truly significant event, requiring the urgent and sustained assistance of those loss adjusting businesses, like Crawford, with true global resource.

The insurance industry's confidence in the commercial and technical "know how" of our most experienced adjusting, embedded within our Global Technical Services remains a critical factor especially given the increased early involvement of the reinsurance sector.

In South East Asia, the Monsoon Season has been brutal in recent years, most recently with the Indonesian capital Jakarta badly hit. One year earlier Thailand's manufacturing heartland suffered its worst deluge in history.

From a claims handling perspective, Thailand's floods may have represented the greatest challenge of all, as the exposures in and around Bangkok quickly became interconnected with those experienced by the still recovering Japanese.

As production of vital components in the automotive and electronics industries in many cases switched from Japan to Thailand in the aftermath of the March 2011 earthquake, business interruption and contingent business interruption (CBI) have emerged as defining issues. Building damage in Thailand was largely superficial in comparison to machinery and business interruption losses incurred by manufacturers in the region; the impact on global supply chain across markets such as semi-conductors and automotive parts led to CBI exposures growing significantly and question marks have been raised about whether policy wordings/coverage can live up to the demands of modern economics and the risk management community.

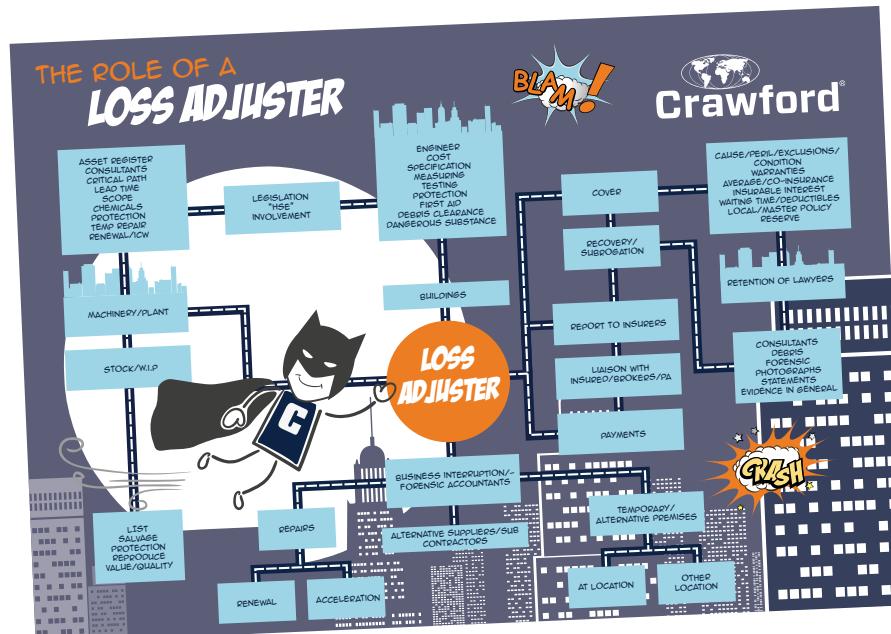
## CRAWFORD CAT RESPONSE

### LOGISTICS

Having considered those broad characteristics the real and practical elements of CAT response are never far away, given market demand for immediate and sustained expertise. Resource is, however, finite and at the most complex spectrum there is an ever growing need for specialist adjuster knowledge. In itself, this has presented relationship challenges for Crawford as our clients, including those corporates who have retention or Captive programmes, seek primacy response. In this respect our investment in Global Account Management has enabled open and realistic discussion around available capacity and how we might best respond to need.

Geography, combined with frequency and the particular characteristics of the CAT event have been evidential in our aggregated response. Notwithstanding the fact that one side of the Pacific to the other represents a considerable travel challenge for those reassigned, adjusters have also faced harsh realities; from wading through flooded regions the size of Denmark; to negotiating with Japanese authorities over access to potentially radioactive sites, to trying to find living accommodation in New Zealand.

Despite the obvious and stringent logistical challenges the focus must always be to maintain delivery of quality resource, now aided by new technologies and which works within local regulations and market conventions. For example, seismic and engineering modelling techniques have been invaluable to support the Christchurch effort and aerial photography pre and post loss were essential for the Thai and Japanese experience.



### DAMAGE ASSESSMENT AND COVERAGE DISCUSSION

One of the prevailing themes aside from the catastrophic property damage has been the complex questions raised around business interruption coverage including contingent business interruption (CBI) as it relates to interruption in the supply chain. Significant claims have arisen over this recent CAT period and this is now shaping risk management assessment, brokers demands or lobbying for more innovative wording/coverage and, of course, the need for specialist adjusting. This is particularly important in relation to supply chain resilience; risk managers have always been cognisant of their logistical issues such as denial of access but they are increasingly considering the consequences of supply chain failure.

Over and above these themes, the whole issue of wider area damage remains relevant.

This issue was recently brought home by the landmark court case Orient Express Hotels about which Crawford adjusters have had to become expert. The hotel suffered significant physical damage from wind and water after Hurricane Katrina and was closed throughout September and October 2005.

The Hotel reopened on 1 November 2005 albeit not fully repaired and with its services and amenities not fully operational. A state of emergency had been declared and a curfew imposed in August 2005; a mandatory evacuation of the City was ordered on 28 August. The City was only re-opened and the curfew lifted at the end of September.

Orient Express Hotels claimed for business interruption losses suffered during the closure period and thereafter. Insurers rejected their claim for Business Interruption losses during the closure period by applying the Special Circumstances Clause. As during September 2005, New Orleans was effectively "closed" and the adjusted Standard Turnover should be zero.

Orient Express Hotels contested this application of the policy wording but the High Court dismissed their argument. This outcome gives a strong case for the UK policy wording to be reviewed and highlights the need for brokers and corporates to test their policy wordings through scenario planning.

Coverage discussions also need to address the terms and conditions of primary and reinsurance layers; in particular, time and event limits which can complicate the process. For example, flood is flood, but how many events? Earthquake is earthquake but in New Zealand there were 15 000 aftershocks. A CAT claims handling system has to ensure its clients are aware of these potential obstacles.

## DATA, GOVERNANCE, FINANCIAL ANALYSIS AND DECISION SUPPORT

As the eyes and ears of insurer clients facing major CAT exposures, it has become increasingly important to provide decision support wherever possible. This includes proving data presentation support (trending/causation movements/forecasts), particularly around reserve portfolios to reinsurers. There is a growing sense that reinsurers, particularly with events occurring in emerging markets where there is less robust claims management resource, are taking a more active interest in cedent management of their claims portfolio. This plays mainly to where treaty reinsurance contracts are in place; Crawford has seen this both in New Zealand and Thailand. For example, there is an ever increasing demand for financial analysis at portfolio level which can manifest itself in a variety of ways including:

- › Peer review and audit aimed at reserve releases
- › Renewal management
- › Alignment with cedent quarterly financial reporting
- › Supporting cedents drawing cash flow from reinsurers

Governance and compliance are key elements of Crawford's global CAT management. Our clients rightly expect us to have key controls in place when dealing with events, producing numerous major and complex losses, across different countries and legal jurisdictions. Issues are plentiful and range from avoidance of claims in sanctioned territories to full data compliance and security to ensuring appropriate management of our own costs and work in progress.

The adjuster's role in a modern context even extends to supporting insureds around their external communications strategy, to include brand management. With businesses relying on their insurance programme to return them as quickly as possible to the position they were in pre-CAT, the early demand for loss estimates is often a perilous requirement. A hasty calculation could be over or under estimated and certainly has the capability to even influence share price.

## CULTURAL CHALLENGE

As a global practice operating in over 700 locations there can be few more challenging businesses in which to operate from a cultural perspective. It is incumbent upon us to understand the idiosyncrasies of each jurisdiction we're working in and to acknowledge how this will affect the claims handling process. For example, the presence of local carriers who often front programmes where countries mandate the practice is an important dynamic and one which has been highly influential these past three years.

Fronting insurers can take as little as 1% of a risk and frequently reinsurance that exposure as has been the case with a number of Japanese companies in the aftermath of Fukushima. Japan is a fascinating cultural case study; its insurers take a very long term view, many have cross-holdings in the insureds they underwrite and the country itself has a much less aggressive claims culture than western nations. Contrast this with practising in the US where one of the greatest compliance issues is managing exposure to litigation and the East-West picture is shown in sharp contrast.

Questions of socio-economics are also increasingly being factored into the claims handling mix. With the rioting and looting that took place in the aftermath of Chile's devastating earthquake, who is to say a similar situation could not arise in London were the Thames flood barrier to fail? The UK capital's streets have certainly experienced such events with August 2011 still very much fresh in the memory.

## MOVING FORWARD

Natural catastrophe claims handling is hugely challenging, technically, logically and culturally. Having experienced this unprecedented 36 month period of CAT claims around the world, it is our belief that brokers and risk managers now have a unique opportunity to consider their position and address the following priorities.

- › Logistics: Can the indigenous adjusting and general claims community be relied upon to have the manpower and skill sets to provide the requisite service at scale or competency.
- › Technical: Assets and Business Interruption claims management requires specialist engineering, seismic, data analysis and financial support – who do you have in your camp?
- › Nomination and programme management: Expertise is finite, early appointment is always recommended to ensure loss mitigation. Crawford works with numerous brokers and corporates where we have prior nomination to act in the event of a major claim.
- › Business continuity planning: Carry out regular CAT mitigation planning and reviews. How much real scenario testing is undertaken?
- › In addition, it has been made abundantly clear after Thailand and Japan that the world has moved on substantially since the original market wordings for business interruption were formulated. Whilst within traditional BI coverage an insured is generally well covered for measurable exposures (because the risk is better understood and brokered). CBI claims have proven to be a more difficult issue in our increasingly supply chain driven economy. Our own modelling has begun to reflect this and there is an increasing realisation around the insurance market that CBI wordings are going to have to evolve to respond more appropriately following major CAT events.

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