

'NATURAL CATASTROPHES - CHALLENGES FOR INSURERS AND REINSURERS'

Milind Bhatawadekar

Challenges

- ▣ Pictures speak better than the words they say.
- ▣ Devastation caused by the floods taken anywhere in the world would show identical pictures except for the race/humanity involved.
- ▣ I have attached few photos below, taken in three different countries which prove this.

Save our cities

The threat grows from rising water and
sinking buildings- Economist



Thialand



Thailand continued.....



Thailand continued.....



This is Mumbai--- 3 days after the deluge



Mumbai...



Mumbai....



Asian Cities

- ▣ Mumbai, Manila, Bangkok pictures from three different Asian countries looked eerily similar.
- ▣ All Asian Megacities face similar problems.
- ▣ Asian Development Bank ADB says that most attention tends to focus on inhabitants of low-lying islands in the Maldives, and say—coastal plains, notably in Bangladesh.

Cities continued

- ▣ Yet the megacities are where climate migrants are expected to move to, and they are often in the coastal areas most at risk from rising sea levels. In East Asia such cities include Guangzhou, Seoul and Nagoya. In South Asia Bangladesh's capital, Dhaka, is vulnerable, as are Kolkata and Chennai. Substantial parts of Mumbai, a city of around 20m people, are already below sea level.

Asian cities continued

- ▣ Most at risk is Ho Chi Minh City on the Saigon river, just north of the Mekong. The city has a population of 6.3m and growing, and accounts for over a fifth of Vietnam's economy. The ADB predicts disaster if the city's defences are not drastically improved. Projecting to 2050, it warns that seven-tenths of the city could be affected in cases of "extreme" flooding.

Asian cities continued...

- ▣ Last year heavy rainfall overwhelmed the Chao Phraya river system, on which Bangkok sits. The World Bank estimates the floods cost Thailand \$46 billion in economic damage- with Bangkok almost untouched.
- ▣ The huge industrial estates just north of Bangkok sit on land that was once Paddy fields, precisely because the land floods regularly.

Courtesy- Economist

- ▣ Concreting over flood plains does not help. Governments could do much more to encourage businesses and residents, including slum-dwelling migrants, to settle in less vulnerable areas.
- ▣ This will require changes in zoning and planning, maybe at a short-term cost to economic growth. Yet the experience of Thailand last year illustrates the greater cost of doing nothing.

Lessons from Mumbai

- ▣ After the floods we had done flood mapping for city of Mumbai.
- ▣ This was to be used for avowed purpose of good underwriting- by allowing underwriter to enter the PIN code number of the risk and the name of the road.

Lessons.....

- ▣ This would allow the underwriter to know the flood prone area and the gravity of water accumulation and decide about the loading of rates, the deductible and the appetite for participation in the risk.
- ▣ The exercise was commissioned by one of the insurers and had promised that similar exercise he would like us to repeat for 8-10 other cities.

Lessons ...

- ▣ Forget the enhanced scope of work, even the Mumbai flood mapping is consigned to archives without being used even once.
- ▣ I am also associated with Thailand floods and based on this as also the Indian experience and whatever one reads about climate changes one has to conclude that:

Lessons...

1. Nat Cat disasters would strike us with the increasing frequency .
2. As the concentration of values grows and the awareness and penetration of the insurance increases, the severity of losses will anyway increase.
3. Insurers & reinsurers now must adapt the principles of Business Continuity planning, which accept that the inevitable will anyway happen.

Measures

4. With acceptance of such inevitability starts the preparation to manage the crisis.
5. I see this seminar as the first step of acceptance of the inevitability by the Insurers & Reinsurers.

What could be the preparations?

- ▣ Probable – if feasible, delinking of Nat Cat covers from Standard Fire Policies & Coverage for these perils on add-on cover basis.
- ▣ Re-defining- & delineating if feasible, the rain related inundation- particularly during monsoon period with that of flooding induced inundation.

- ▣ Urban infrastructure development without any control leading to inundation during normal monsoon period and not more than average monsoon, cannot be considered as flooding.
- ▣ Insurers need to view these covers and the admissibility of claims due to such type of eventuality more critically.

- ▣ Insurers must engage every stakeholder- as the brochure for this seminar advocated, including the city development authorities to ensure that flood mitigation measures are well implemented prior to monsoon.
- ▣ City authorities do have such plans but they remain on paper.
- ▣ Constant interaction may improve the execution.

- ▣ Flood mapping of cities and industrial areas or larger projects is inevitable.
- ▣ All enumerated above is just trying to avoid the inundation or avoid the claims or when the claims would occur you have already taken higher premium.
- ▣ What happens when the floods do occur?

- ▣ Good underwriting information as regards the exposure to value concentration and type of exposure - in specific area as regards the machinery and the stocks etc. must be available at the tap of keys.
- ▣ This should be used to rush in specialized agencies that may help in reconditioning of the water drenched

- ▣ Insurers need to have pre-identified agencies for preservation.
- ▣ Last Mumbai & Thailand floods prove that in all these areas the available agencies fall too short and hence loss adjusters/Insurers have to settle claims which otherwise could be settled at lower levels.

- ▣ Wherever required I believe that Insurers and reinsurers also need to engage with the Regulator on continuous basis and convince them that changes in the policy structures and wordings needs to be approved without delays.
- ▣ On the industry forum basis immediate and detailed review of all

- ▣ Court decisions- particularly supreme court decisions which warrant changes in policy wordings- need to be brought about at Industry level by getting these changes agreed and got approved from regulator as early as possible.
- ▣ Wherever warranted by such court decisions- definition of different terms used in the policies must be incorporated in the policies.

Risk information

- ▣ I have specifically used the article from The Economist specifically as Indian Insurers & Reinsurers are supporting the Indian business expansion and many a times almost blindly, without any knowledge of the Risk & or surroundings.
- ▣ This demand for insurance from Indian business community would increase as our companies would start owning more international assets.

Risk information...

- ▣ Good information on the Nat Cat exposure would be very vital to limit the down side.
- ▣ While in Sri Lanka for Risk Inspection for telecom installation I was first time exposed to what is called as Lightning Band.
- ▣ Countries under influence under this band are supposed to have very high incidence of Lightning induced damages to electronic installation and need special protection.

Risk Information...

- ▣ Obviously it calls for higher deductible for Lightning damages.
- ▣ Mumbai has been experiencing rains +350 mm/24 hr basis- for all the years- without inundation- except only in 1-2 areas.
- ▣ Post 2005- everybody panics when the rains start becoming heavy.
- ▣ Probably even at +175 mm/24 hr basis, Mumbai starts getting inundated.
- ▣ If as a Risk engineer/underwriter I have to comment, I see no fortuity in this.

Conclusion

- ▣ More information on risk and use of available information.
- ▣ Meticulous data gathering and usage of data &
- ▣ Change in approach to underwriting has no alternatives.
- ▣ As John Keynes the famous economist said....

“The difficulty lies in not in the new ideas, but in escaping the old ones”.

Conclusion

We must escape our old ideas on underwriting, coverage, deductibles, as the present times and the increasing losses will anyway force them on insurers if they don't.