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**‘HOW WOULD YOUR BOARD RESPOND
TO A CATASTROPHE EVENT?’**

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SCALE OF GLOBAL CAT EVENTS

1ST 6 months of 2018

\$20 billion US

1st 6 months of 2017

\$30 billion US

10 year Average

\$35 billion US

Sources – Swiss Re & Aon



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CATASTROPHE (CAT) CLAIMS

Since the company's inception, we have worked on numerous such catastrophe events, including –

9/11 Terrorist attack – New York

Hurricanes Wilma, Emily and Stan – Mexico

Hurricane Ivan – Grand Cayman

Hurricane Ike – Texas

Explosion – Buncefield, UK

7/7 Terrorist attack – London

Grenfell Tower – London

Floods – NE England

Earthquake – L'Aquila, Italy

Earthquake - Chile

Earthquake – New Zealand

Floods - Canada

Earthquake – Ecuador

Floods - Thailand

For our work in Chile, FitzGerald Consulting won a prestigious British Insurance Award – Major Loss category.



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Case study – New Zealand Earthquakes CAT 2010/11



BACKGROUND DATA



- Population of New Zealand 4.4m (people)
- Population of New Zealand 30m (sheep)
- Population of South Island 1.0m
- Population of Christchurch 400k
- Size of insured EQ losses \$20 billion NZ
- Size of overall EQ loss \$40 billion NZ



MAIN EQ EVENTS

Earthquake	Magnitude (ML)	Depth (km)	Distance (km)
4 Sep 2010	7.1	10	40 W
26 Dec 2010	4.9	5	3 W
22 Feb 2011	6.3	5	10 SE
13 June 2011	6.3	6	10 E
23 Dec 2011	6.0	7	10 E



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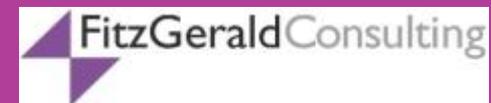
OUR TWO MAIN CLIENTS IN NZ

Ecclesiastical Insurance Group Appointed October 2011

Australian-based insurer Appointed October 2014

Both appointments at main Board/HO level

NB - Involvement of NZ subsidiaries; in EIG's case twice removed from UK parent company. Consequent difficult Board-level and other management issues



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- **CAT PRESENTS SIGNIFICANT FINANCIAL RISK**
- **Specifically, full and prompt recovery of funds from reinsurers**
- **Breach of reinsurance limits**
- **Correct Reserving is critical**
- **NB - also other risks, not covered in detail here, include reputational; HR staff issues; to 'Business as Usual'; key relationship with Reinsurers**



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‘What’s the number’



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□ OUR INITIAL TASK FOR EACH INSURER

‘What is our correct reserve?’

We carried out a wide-ranging and detailed review

Our recommendations were –

EIG Reserve should be increased by \$300 million NZ to \$1 billion NZ

- Australian insurer’s Reserve should be increased by \$1 billion + NZ to \$7 billion + NZ



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REASONS FOR THESE RESERVE INCREASES

Scale of Earthquakes – Christchurch City and surrounding suburbs massively damaged

Multiple events – Unique sequence of 5 separate EQs over a period of more than 1 year

Not surprisingly, NZ insurance companies overwhelmed – plus their service suppliers, e.g. adjusters, engineers, forensic accountants

Claims handling and settlement strategies often wrong



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REASONS FOR THESE RESERVE INCREASES (Cont'd)

Delay in bringing in sufficient and high-quality professionals with specialist CAT adjusting experience and expertise. (NB – distance of NZ from main insurance centres)

Desire of NZ Government and local Christchurch Council to 'future-proof' re-built city by increasing building codes post – EQ

Under estimated complexity of building repairs required, especially to foundations



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REASONS FOR THESE RESERVE INCREASES (Cont'd)



Out-of-the-Blue insurance coverage issues – in NZ, Average not applied to Commercial property policies and no limits on household Building policies

NB also – Lack of appreciation of crucial effect of 5 separate events on insurers' Reinsurance programmes. For EIG, our 'Allocation' project transferred \$65 million from February 2011 event to September 2010

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CLOSING RECOMMENDATION

**Great benefits of pre-CAT planning,
including Scenario Testing**

**This drives out issues which may
otherwise become ‘nasty surprises’**

**Recent example for Canadian insurer –
scenario test on modelled \$75 billion US
insured loss after potential earthquake
in Vancouver**



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THANK YOU

Any questions?



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OUR METHODOLOGY

- Detailed technical file audit of comprehensive sized sample



Interviews with client's management, Claims Dept; Reinsurers; local loss adjusters; insurers; policyholders; lawyers; governmental and local authority representatives

Establish key insurance policy, local and international insurance Market and wider Governmental, construction etc. issues

Site Surveys