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"After reviewing the details of your accident, the company has denied your insurance claim because stupidity is a pre-existing condition."

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Executive Summary

Global businesses face an increasingly complex risk landscape. As well as having to combat the threat posed by a host of natural and man-made hazards, companies also have to deal with the demands of a less forgiving regulatory and legal environment. All of these factors can combine to impair successful running of operations.

Insurers have a vital role to play by minimising any disruption following a loss event!

This presentation examines global developments in

- 1. Insurance Claims
- 2. Highlighting the Top Causes of Loss
- 3. Trends of Business Losses
- 4. A number of emerging risks that will impact the claims landscape in future
- 5. Best Practices

Top 10 Losses by Value

Top causes of loss by total value (2009-2013):

- 1. Grounding
- 2. Fire
- 3. Aviation crash
- 4. Earthquake
- 5. Storm
- 6. Bodily injury (including fatalities)
- 7. Flood
- 8. Professional indemnity
- 9. Product defects
- 10. Machinery breakdown



Based on insured losses over €100,000

The top 10 losses account for almost 70% of financial losses, with the list dominated by non-natural catastrophe causes (7).

Top 10 Losses Analysis

1) Ship groundings, reflecting the high values of modern maritime risks 2) fires and 3) plane crashes are the top causes of business losses by total value, based on analysis of over 11,000 major business claims from 148 countries over a five-year period, across six sectors – Aviation; Energy; Financial Lines; Liability; Marine; and Property and Engineering.



Recent Loss Trends

- In 2014, 80% of the 10 major losses came from Aviation incidents or fires in the Oil & Gas with largest loss, a fire at Siberian Refinery complex in June for \$ 800 million
- In 2013, the 20 largest losses totaled to \$ 8.1 billion excluding Nat Cat losses
- Fire & Explosion caused 8 of the top 20 losses, totaling to \$4 billion

 On Average a single loss in Oil & Gas Sector stood at \$ 29 million which was over 10 times the loss amount across all other lines

10 Major Non Nat Cat Losses 2014

- 1) 4th Feb UK Shropshire
 Biomass Power Station
 Fire
 USD 230 million
- 2) 7th July USA Texas Chemical Complex Fire USD 670
- 3) **24**th **July Mali**Air Algerie AH5017
 Aviation Crash
 USD TBC
- 4) **22**nd **March Argentina Mendoza**Refinery Fire
 USD 180 million

- 5) **17**th **July Ukraine**Malaysia Airlines MH17
 Aviation Crash
 USD TBC
- 6) 15th June Russia Siberia Refinery Fire USD 800 million
- 7) **16**th **April South Korea** en route to jeju Sewol (ferry)
 Sinking
 USD 140 million
- 8) **16th May Kazakhstan**Satellite Loss
 USD 217 million

- 9) **14**th **July Libya Tripoli**Tripoli Airport
 Aircraft damage from fighting upto
 USD 750 million
- 10) 8th March Indian Ocean Malaysia Airlines MH370 Disappearance USD TBC

1) Energy

Fire is the number one cause of energy losses – both by number and value (45%/65%) – followed by blow-out (18%/19%). Machinery breakdown, explosion, natural hazards (storm) and contingent business interruption (CBI) are the other main causes of loss.

Higher asset values combined with increasingly complex and interrelated risks means that the cost of energy claims is increasing, particularly from large installations. The rising cost of BI and emerging risks from new technologies will also make for a more challenging future environment.



1) Energy



The energy industry's increasing reliance on technology also presents risks.

Rigs, floating production, storage and offloading units (FPSOs), onshore refineries and pipelines all rely on information systems and networks, which create cyber exposures.

These facilities are increasingly exposed to property damage and BI from malicious cyber attacks, operator error or data corruption.

"Average losses from business interruption are 32% higher than those from direct property damage"

2) Marine

Rising claims inflation, the growing problem of crew negligence and the high cost of wreck removal have all been contributing to a worrying rise in the cost of marine claims.

Crew negligence is often a main driver behind three of the top five causes of loss (grounding; hull damage; and collision), with it being a potential contributing factor in over 60% of claims over €1m (\$1.36m). In the UK alone it is estimated that 60% of all hull and machinery claims are for machinery damage and the vast majority of these are due to crew negligence.



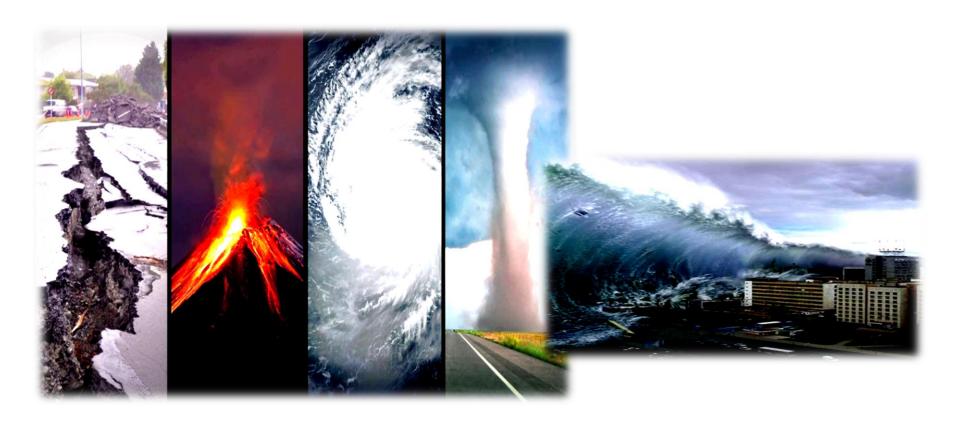
2) Marine



The Costa Concordia loss in 2012 drives grounding to the top of the top causes of loss list by value. However, this cause of loss is relatively infrequent (8%). Wreck removal is becoming more complex and expensive as environmental concerns and improved salvage technology place greater demands on ship operators and their insurers. As Costa Concordia demonstrated, wreck removal costs can easily be a multiple of the hull value.

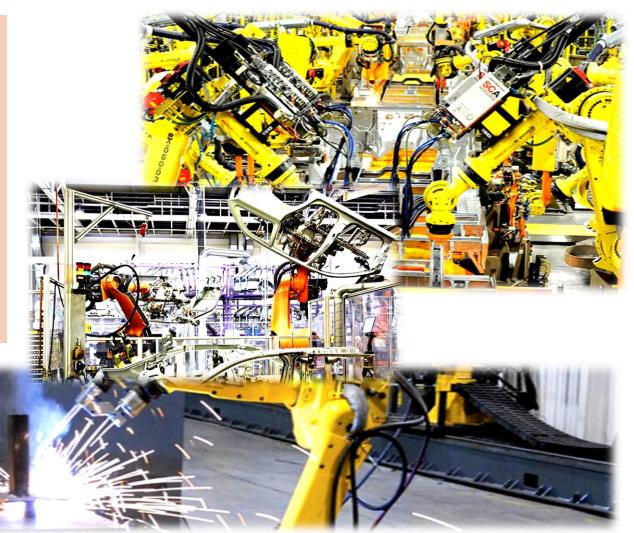
3) Property & Engineering

The cost of large commercial property and engineering claims is rising with the trend towards ever-higher values and risks that are increasingly interconnected and concentrated on areas with exposure to natural hazards. The cost of natural catastrophe claims is likely to rise as economic activity and the value of assets in hazard zones increases.



3) Property & Engineering

Property and engineering claims are following the trend set in the oil and gas sector, where major BI claims and high values have been a significant feature for some time. There is now increasing potential for similar size claims in certain manufacturing industries, such as the semiconductor and automotive industries.



3) Property & Engineering

Fire is the major cause of property losses both by number and value (26%/28%), with machinery breakdown a large driver of claims in terms of the number generated. Earthquake and human/operating error are the top causes of engineering losses by value (65%) and number of claims generated (30%) respectively.



3) Property & Engineering

Non-damage BI will become a much bigger issue in the future, with businesses looking to mitigate against a range of exposures, such as the financial impact of events like a government authority closing down an area linked to an outbreak of communicable disease, or from political risks like civil commotion and riots.





The 10 major reported losses of the 2014 accident year to date from across the insurance industry, excluding those caused by Natural Catastrophes, have been dominated by a number of aviation losses.

Airline Losses

On March 8, 2014 Malaysian Airlines flight MH370 left Kuala Lumpur bound for Beijing China with 239 passengers and crew on board.

An hour later it vanished with the fate of all those aboard the aircraft unknown, triggering a huge international search operation across vast swathes of the Indian Ocean.

Then four months later Malaysian Airlines flight MH17, a scheduled international passenger flight from Amsterdam to Kuala Lumpur crashed – reportedly after being shot down by a missile – on July 17, resulting in the deaths of 283 passengers and 15 crew.



Reunion debris: Boeing 777 flaperon from flight MH370

The plane lost contact over eastern Ukraine before crashing near Torez in Donetsk Oblast, Ukraine, a short distance from the Ukraine/Russia border.

Further Aviation Activity:

Investigations into both of these extraordinary and unconnected incidents are still ongoing. At the same time the aviation sector has sustained further losses including a reported potential bill of up to \$750m¹ (€550m) from another extraordinary event at Libya's main airport in its capital city of Tripoli. Fighting between rival militia battling for control led to the damaging of many aircraft through shelling.

Although the aviation sector is responsible for four of the 10 major non-natural catastrophe losses of the year at time of writing (the Air Algerie AH5017 crash being the fourth) this year's loss activity is contrary to the low catastrophe rate of recent years.

Despite a big increase in airline fleet sizes, the long-term trend shows that fatal or catastrophic passenger airline losses are now less frequent, especially in the US and Europe. However, the cost of aviation claims is rising, driven by widespread use of new materials, regulatory demands and growth of liability-based litigation.

Oil and gas sector activity

Meanwhile, the oil and gas (energy) sector, which was responsible for nine of the top 20 losses on the non-catastrophe loss list in 2013 collectively accounting for \$3.2bn (€2.34bn) or 40% of the top 20 total, has continued to see loss activity through this year, despite a relatively benign first quarter.



To date it is responsible for the largest insured loss on the 2014 list – an explosion and fire at a refinery in Siberia, Russia. Insured losses are currently estimated to be in the region of \$800m¹ (€586m).

Of the 10 major insured losses to date fire and/or explosion is the main cause, accounting for four losses (Refinery, Siberia, Russia; Chemical Complex, Texas, US Refinery, Mendoza, Argentina; and a Biomass Power Station, Shropshire, UK).

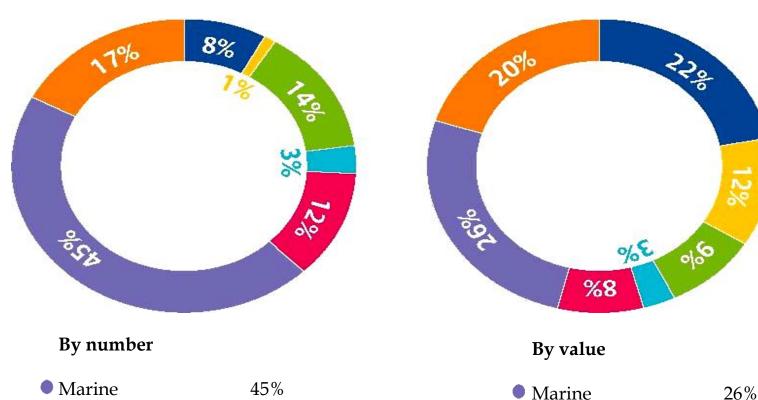




Claim Dashboard



Breakdown of claims by business sector Claims Value >€100,000



Marine	45%
Property	17%
Engineering	14%
Liability	12%

Aviation 8%

Financial Lines 3% 1%

Energy

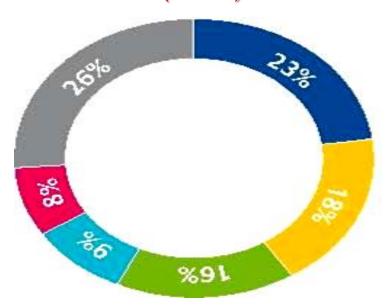
22%
20%
12%
9%
8%
3%

Average Value of Claim per line of business Claims Value >€100,000



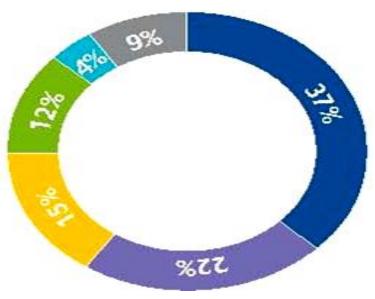
Top Causes of Losses:

Aviation Claims (€1m +)



No. of Claims

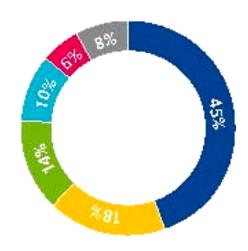
	Plane crash	23%
	Ground handling	18%
	Mechanical failure	16%
	Hard landing	9%
	Damage by foreign object	8%
0	Other	26%



By value

Plane crash	37%
Over/undershot runway/taxiway	22%
Ground handling	15%
Mechanical failure	12%
Hard landing	4%
Other	9%

Top Causes of Losses Energy Claims

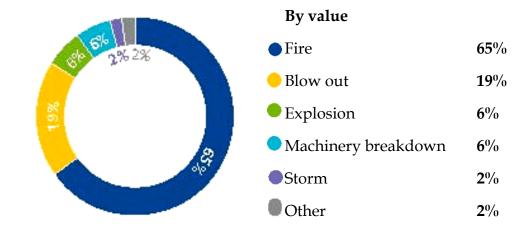


No. of Claims

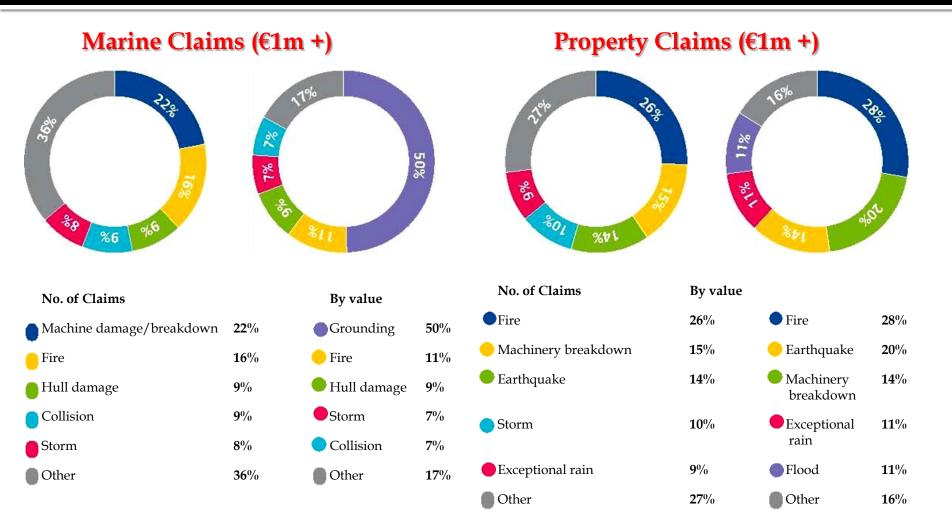
Fire	45 %
Blow out	18%
Machinery breakdown	14%
Explosion	10%
CBI Loss	6%
Other	8%



Higher values combined with increasingly complex and interrelated risks means that the cost of energy daims is increasing. Business interruption and a number of emerging risks will also make for a more challenging future environment.

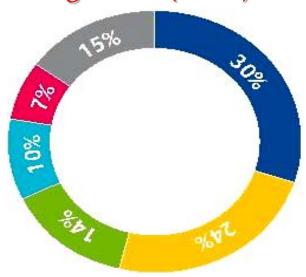


Top Causes of Losses:



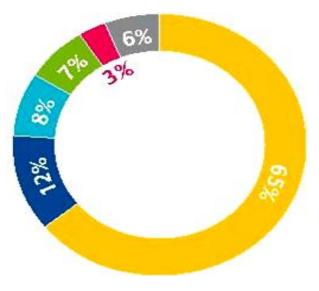
Top Causes of Losses:

Engineering Claims (€1m +)



No. of Claims

Human/Operating Error	30%
Earthquake	24%
Fire	14 %
Explosion	10%
Flood	7 %
Other	15 %



By value

Earthquake	65 %
•Human/Operating Error	12 %
Fire	8%
Explosion	7%
Damage by foreign object	3%
Other	6 %

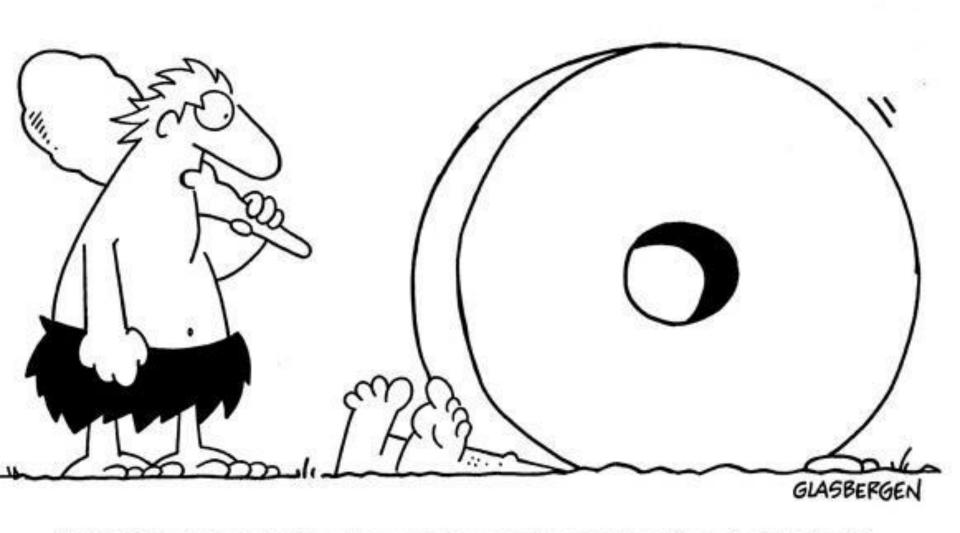
Emerging Risks

Hydraulic Fracking

It is used to exploit previously inaccessible shale oil & gas reserves.

It introduces new risks such as exposures for liability, specialized equipment's and transportation

- One Area that would challenge Energy claims would be drilling in Polar regions with vast reserves
- The effects of cold and ice on Rigs are largely unknown



"That's the risk you take when you're an early adopter of new technology!"

Impact of Changing Technology

Today, technological developments continue to drive energy operators into uncharted waters.

"Increased technology is always present in the energy sector," "Companies are looking to drill deeper, better and longer – it's a natural part of the industry's development. We just have to stay alert to the fact technology will keep changing,".

When new technologies are introduced into the sector they often impact claims, making them yet more complex and expensive. For example, advances in sub-sea technology are allowing energy companies to operate in ever deeper water, but pipelines in deep water are much harder to access and repair. The energy industry's increasing reliance on technology is also a risk.

For example, floating production, storage and offloading (FPSO) units typically use global positioning systems (GPS), which could potentially be disrupted by massive solar storms.

Rigs, FPSOs, onshore refineries and pipelines all rely on information systems and networks, which create cyber exposures. These facilities are increasingly exposed to property damage and business interruption from malicious cyber attacks, operator error or data corruption.

BI Claims

One of the most significant trends over the past five years, and continuing through the last year, has been the steady increase in business interruption (BI) claims as a proportion of the total loss. Energy companies are buying more BI cover, while the price of oil, complex supply chains and a trend for clients to seek independent consulting advice are among the key drivers.



The increasing cost of BI claims is linked to the complex and sometimes concentrated supply chains in the energy sector. Petro chemicals are used in an increasing number of products and processes, with many sectors and companies relying on their timely delivery, a risk that can be picked up by supply chain and customer extensions.



BI Claims

Operations are also growing more complex and interrelated in other ways.

For example, there can be three or four oil fields all feeding into one offshore processing facility. As a result, one event can impact many facilities and lead to claims for a number of insured's



What is CBI?

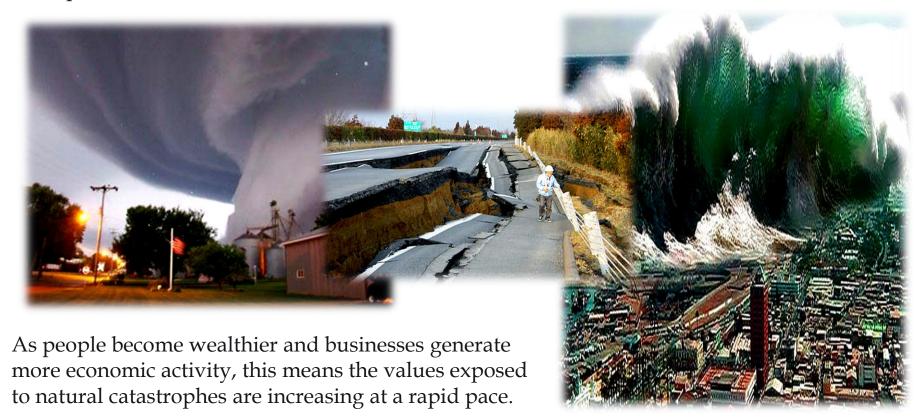
Contingent business interruption is when a business is unable to operate because of an event that damages one of its suppliers, thus preventing it from engaging in normal trade.



The 20 largest reported losses of last year from across the insurance industry, excluding those caused by Natural Catastrophes, totaled up to \$8.1bn.

Natural Hazards

Large commercial property claims are also becoming more costly as increasing numbers of people and businesses are based in the world's growing number of cities, which are often located in areas exposed to natural hazards, such as windstorms, tornadoes, floods and earthquakes.



Natural Hazards

"The cost of natural catastrophe claims is likely to rise further as economic activity and the value of assets in hazard zones increases,".

And as wealth creation and economic activity in emerging markets has accelerated in recent decades, so has the potential for large natural catastrophe property claims.

Claims in emerging markets can also be more expensive because the associated costs can rack up. "For example, if you built a power plant in a remote location in Brazil, repair and transport costs will be much higher and experts will not be available locally, which all helps lead to an inflated total sum of loss,".



Claims settlement best practice: Meeting Insured's expectations

As property and business interruption values rise, and as risks become more complex and interconnected, insurers require more relevant information and data from insureds in order to better understand their businesses and processes.

At the same time, insureds are becoming more demanding and have higher expectations when it comes to service delivery.

"Insureds can't wait months for their insurers to assess a claim

"They want to know they are covered, start thinking about rebuilding and get back to business straight away."

The challenge for claims handlers, therefore, is to respond quickly, and start communication immediately. "If we respond quickly we can help our clients with the best options to get their claim settled as quickly as possible,

"And by getting money to the client quickly, it helps build trust for the future,

Fast claims settlement is all about good communication and relationship-building. "It can sometimes be a real challenge to get all parties around the table. But once we have built a good relationship, clients are more inclined to spend the time explaining their risks and making sure we, as insurers, have the right information,

CONCLUSION

- Organizations don't accomplish anything, Plans don't achieve anything, theories of management does not matter much.
- Endeavors succeed or fail mainly because of people involved
- Only by attracting the best people will you accomplish great deals