



Chilean Earthquake

27 February 2010

“The challenges of handling claims and managing the expectations of international clients, whilst working within the strict regulatory framework of the Chilean insurance market”

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The Earthquake – the facts



- The magnitude 8.8 earthquake struck Chile at 3:34 am on Saturday, 27 February 2010
- The earthquake occurred offshore of the Maule region at a depth of 35km / 21.7 miles under the earth's crust, 105 km NNE of Concepción and 335 km SW of Santiago
- At least 432 people are confirmed dead (at 30 March), and many more injured. In excess of 200,000 homes were damaged
- The earthquake was felt in most of Chile and Argentina, and also in parts of Bolivia, southern Brazil, Paraguay, Peru and Uruguay
- A Pacific-wide tsunami alert was triggered and saw damage as far north as San Diego, California

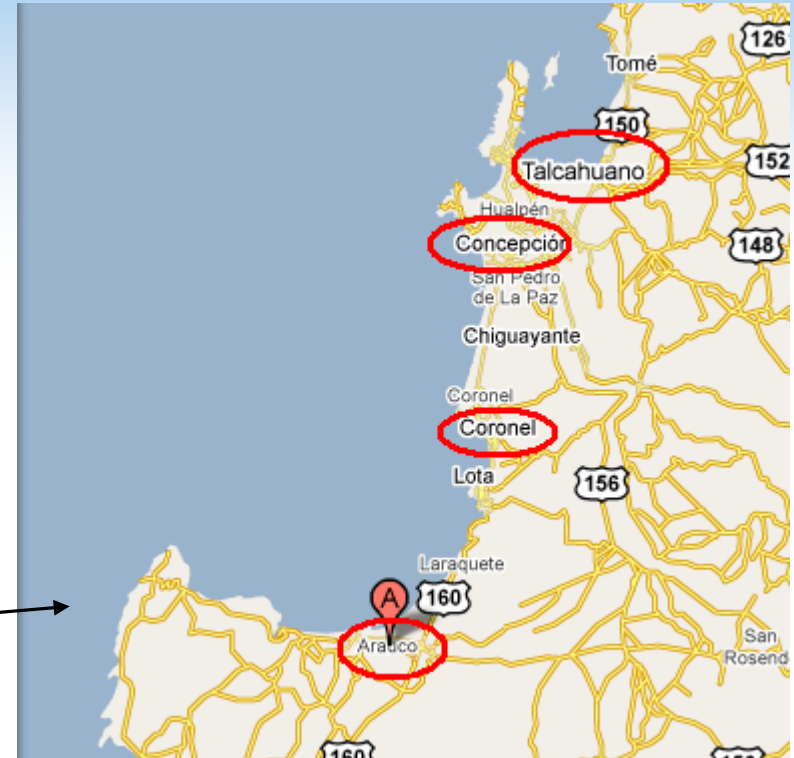
The Earthquake – the facts (cont'd)



- The earthquake occurred along the fault that separates the Nazca plate and the South American plate.
- The fault rupture, mostly offshore, exceeded 100 km in width and extended over 500 km parallel to the Chilean coastline
- As well as triggering the massive earthquake, the fault slip also warped the ocean floor which in turn generated the tsunami along the fault-rupture area
- At the time of writing (24 March), the UGCS had registered 262 aftershocks of magnitude 5.0 or greater, 18 of which had magnitudes greater than 6.0 on the Richter scale
- Precise GPS measurements show that the entire city of Concepción has moved 3.04 metres (10 ft) to the west as a result of the EQ.

Map of affected area

Chile earthquake



Earthquake Damage

- A collapsed warehouse complex near Concepción



Earthquake Damage (cont'd)

- The collapsed “Puente Viejo” bridge



Earthquake Damage (cont'd)

- Liquefaction during the earthquake caused extensive damage



Earthquake Damage (cont'd)

- A collapsed new-build 12-storey apartment block



Earthquake Damage (cont'd)



Earthquake Damage (cont'd)

- A city-centre office building with major structural damage (new-build)



Earthquake Damage (cont'd)

- Concepción city-centre damage



Earthquake Damage (cont'd)



Tsunami – destructive power

- Fishing boats carried ashore by the tsunami in Talcahuano



Tsunami (cont'd)

- A collapsed warehouse containing 3,600 tonnes of fishmeal was carried 800m from its original position by the tsunami



- In accordance with Article 18, CAR, an adjuster must be appointed within 3 days of notification of loss to the insurer
 - This has provided in many cases to be impossible, since for many areas in and around the epicentre there was no cell or fixed line telephone communication for upwards of 3 days after the earthquake. Furthermore until the airports reopened for civilian flights (approx. 1 week after the EQ) the only way of getting to Concepción from Santiago was by driving 550 km. This journey, which usually takes about 5 to 6 hours, was taking approximately 10 hours due to the extensive damage to the highways and the need for emergency temporary repairs.
 - Once the adjuster is eventually appointed, there is increased pressure to get information to the local insurer as soon as possible, so as to not delay the remainder of the claim process

- Failure to obtain relevant information at the outset and during the life of the claim can limit insurers' ability to challenge the final settlement, and therefore careful consideration must be given to the information obtained during the adjustment process
 - However, despite time-pressures, many commercial losses are of such magnitude that the process of collecting the required information to progress the claim is likely to take weeks, and in some cases, months
- Once a final report is submitted to the local insurer, the parties (including international insurers and reinsurers) have **10 days** to raise any objections / queries to the adjuster's conclusions
- The adjuster has **5 days** to respond once said objections / queries are received

- The final report is released to both the insurer **and the insured**
- Whilst the final report is not binding upon the parties, it is important to note that the **failure by either party (insured or insurer) to object to the adjuster's findings within the specific time limits creates a presumption of acceptance** by both parties.
- Due to the time-limits laid down by the regulatory body, the local insurers (and if applicable, their non-admitted international partners) are under pressure to provide their reinsurers with all information relating to the adjustment in a timely manner, to enable all parties to raise any queries or objections
- It is yet to be seen whether these ordinarily accepted time-limits are going to be manageable for local insurers with such a large volume of claims to consider under these circumstances

- Chilean regulations prohibit the release of information on claims to insurers outside of Chile by adjusters (and brokers), unless written authorisation has been granted by the local / fronting insurer
- This creates a great deal of pressure on the local insurer to process information quickly in order to facilitate the release of the information to those insurers for whom they are “fronting”, and so that those companies can in turn provide information to their Reinsurers
- The earthquake has produced an unprecedented number of claims, both on the personal lines and commercial side, which is putting all adjusting firms registered with the local insurance regulator (a legal requirement) under significant pressure.
- One leading insurer in Chile has over 6,000 commercial losses, but at the time of writing this presentation (almost 4 weeks after event), it only had concrete reserves established for 200 of those losses

Other challenges



- Linguistics! Fluent Spanish is essential... Can't just fly English speaking adjusters in to handle losses
- All reports for local insurers must be in Spanish. Support staff stretched to maximum and no time for translating (where skills even exist)
- Logistics
 - Accommodation in short supply due to many properties having reduced room availability due to 'quake damage, and increased demand for those remaining rooms from adjusters, engineers etc
 - Availability of adequate vehicles (large 4x4s needed) due to many being damaged by the earthquake, and also increased demand for those remaining in use from the aforementioned experts
- Risks associated with continuing tremors in and around Concepción (daily occurrence, and most above magnitude 5.0)

- Looting and Fire after the Earthquake
- 72 hour clause – how many incidents?
- Tsunami or Earthquake (or both?)
- Coverage issues (EQ limits etc)

- This catastrophic event has shown that the vast majority of international insurers' claims personnel were unaware of the regulatory environment in Chile
- This poses challenges for loss adjusters, as although we are aware of the need to obtain and release information to international insurers, we are prohibited from doing so without first having obtained authorisation from the fronting company irrespective of the size of the local retention
- Due to the huge volume of losses being reported to the local insurers and the staff being inundated with work, the knock-on effect is that there are delays in processing the loss adjuster reports as they start to come in, which in turn delays the release to non-admitted insurers

- Whilst reports must be submitted by the licensed Chilean adjuster to the local insurer, a foreign adjuster could issue a separate report for “information purposes” as long as the information has been gleaned by the foreign adjuster
- Ideally, the Chilean adjuster would coordinate their reporting with their international office for review / comment before it is released to the local insurer. The foreign adjuster could then communicate with the international insurer / reinsurer, whilst the “official” report is awaited via the fronting insurer / Cedant
-however, fees for the international adjuster would need to be paid by the international insurer / reinsurer
-and these reports have no validity in Chile – only the official report from the Chilean adjuster will be admissible

Crawford Response (1)



- 305 Personal Lines adjusting staff
- 130 Commercial Lines adjusting staff
- Dedicated teams formed to handle specific segments of work / clients
- All losses seen and short format reports issued

Crawford Response (2)



- The Chile Desk in London
- Dedicated to the International Insurance and Reinsurance Markets
- Co-ordination of information and support
- Reporting

Crawford Response (3)



- Losses with reserves in excess of \$5.0 million have been segmented
- Specific strategy set for handling these losses with the support of senior international GTS (Global Technical Services) personnel from the UK
- Adjustment expertise and advice with qualitative reporting to international market standards
- Designed to meet a specific market need around the handling of major claims