

Client Alert

Risk Management in the aftermath of two consecutive super typhoons

It has been over 50 years since Hong Kong and Macau were last hit by super typhoons in consecutive years. This unlikely series of events took place recently, in the form of Super Typhoon Hato in August 2017 and Super Typhoon Mangkhut in September 2018.

With the Hong Kong and Macau insurance market absorbing more than US\$1 billion (across both years) of the total losses suffered by commercial entities and individuals, something has to give for renewals in 2019 and beyond. In this alert, we summarise our observations (and recommendations) in light of the impacts of these two super typhoons on our clients and the insurance markets of Hong Kong and Macau.



Observations – General

It is often perceived that wind causes the most damage during a typhoon and certainly with Hato and Mangkhut, we have seen a significant amount of claims emanating from wind damage to windows, landscaping, as well as roofing structures including solar panels, signage, and vehicles. However, the most severe financial losses suffered by our clients (particularly from Typhoon Mangkhut) concern claims where flooding from either storm surges or rain water entered properties (often from initial wind damage) and caused extensive property damage within buildings to fixtures and fittings. This has on occasions also triggered business interruption losses.

Risk Management

- **Emergency / disaster planning** – Particularly in the case of Typhoon Hato, we discovered a lack of or insufficient emergency / disaster planning. It is a standard provision of most property insurance policies that an insured has a duty to mitigate its loss and may be penalized by insurers in the form of a reduced claim payment if failing to do so. An emergency plan that has been tested in a dry run goes a long way towards ensuring that the duty to mitigate is satisfied.
- **Pre-determined supply chain and unit prices agreed** – some of our clients were forced to wait extended periods for reinstatement works to commence due to high demand for contractors and supplies. We now impress upon our clients the need to ensure contractual arrangements are in place to ensure they are first serviced by contractors post typhoons.
- **Ensuring aesthetic / decorative items are fit for the climate of Hong Kong & Macau** – With Hong Kong and Macau being located in one (the “straight runner”) of the 3 general typhoon paths it is a certainty they will be hit with regularity. Therefore, ensuring fixtures and fittings are selected and / or designed to withstand strong winds should be a consideration. By way of example, we have found that certain landscaping, whilst pleasing on the eye, is known for not being able to withstand even moderate wind gusts. The same applies to certain window designs.

Policy wording and the insurance market

- **Average clauses** – we sense that insurers will start to rely more on average relief clauses with the effect that our clients will have to bear a rateable proportion of their losses when the loss exceeds a certain percentage over the declared values. To address this, we are working with our clients to ensure their valuations are regularly kept updated with insurers.
- **Scrutinizing coverage** – It is likely that cover for items of property such as landscaping and plate glass (that were the subject of a disproportionate amount of Typhoon Hato & Mangkhut claims) will be excluded or subject to much reduced limits of liability. This links back to our risk management point above about ensuring such items are suitable for the local weather conditions.
- **Typhoon Deductibles and / or sub-limits** – As alluded to at the outset of the alert, the insurance market of Hong Kong cannot absorb such typhoon losses year after year. Our clients should therefore be prepared to accept deductibles and / or sub-limits of liability specifically for typhoons. Acceptance of such may enable our placement team to obtain enhanced coverage for other property risks or premium savings (see below).

How Marsh can assist

- **Claims** - After providing real time advice in the immediate aftermath of the typhoon on mitigating the loss, preserving damaged property for inspection etc, our number one priority is to ensure our clients obtain the best possible claim outcome under their insurance policy.

We therefore encourage our clients to engage our Marsh Claims Solutions team. The team enables us to extend significantly beyond the traditional scope of broker claims support by affording our clients access to experts specialising in advocacy, business interruption, and property claims preparation. This also helps address the imbalance between insurers (who draw on their own experts in almost all claims) and our clients.

- **Placement** - Insurers will insist on improved data to underwrite the risks including but not limited to updated values, accurate loss records, updated risk surveys, and follow ups on risk recommendations. A proactive approach to risk management will need to be demonstrated by our clients in conjunction with Marsh. Particular focus will be on an insured’s ability to withstand typhoon damage and absorb part of that risk themselves through higher deductibles or self-insured retentions.

Marsh will make sure that it differentiates its clients in order to achieve terms that are better than its competitors. Through its centralized placement team Marsh has access not only to the local insurers but also to regional and global insurers and will use all the leverage that it possesses to obtain superior terms and coverage with ‘A’ rated insurers. By having a renewal strategy plan that is agreed and communicated with its clients Marsh understands the necessity to deliver what it promises.

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