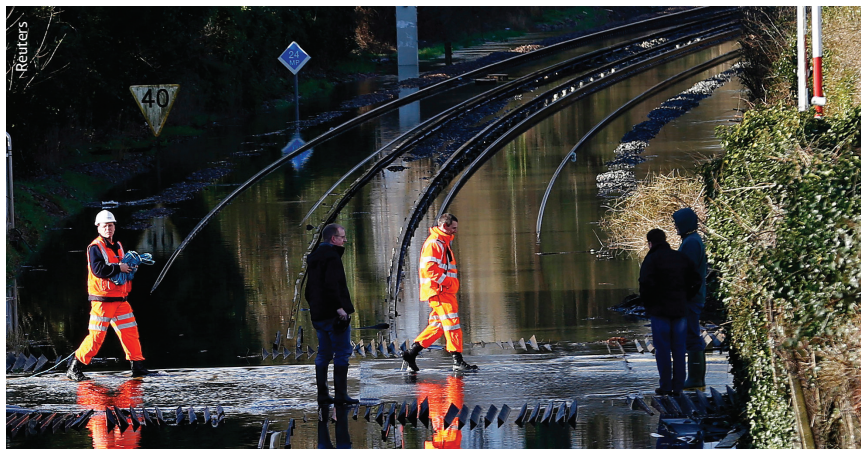


Planning for a rainy day

Extreme weather events seem to be increasing and organisations need to be prepared or face high costs



'It is too early to tell whether the weather will affect insurers' results for next year'

Mohammad Khan
PwC

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AST DECEMBER AND JANUARY were the wettest two months in England and Wales on record for 248 years.

The rainfall caused landslips, disrupted rail travel and flooded entire towns. Although it is too early to report total insured losses inflicted by the most extensive flooding to hit the UK in living memory, PwC estimates insured losses to reach about €600m.

Worryingly for businesses and insurers, the severity of the weather seems all too familiar.

Between 26 and 31 October 2013, the St Jude storm killed at least 17 people in Northern Europe and caused about €1bn worth of damages, according to Aon's *Impact Forecasting* catastrophe insight report. A month later, Windstorm Xaver battered Northern Europe, killing at least 15 people in less than a week. Hitting the UK on 5 December, Xaver caused insured losses of about €800m, with Scotland, Germany, the Netherlands, Belgium, Scandinavia and Poland being most affected, according to Aon.

Businesses are therefore increasingly concerned that extreme weather, including excessive rainfall and 150km/h+ winds, is becoming a regular risk. Indeed more than 700 experts rated "greater incidence of extreme weather" as the sixth highest concern for their business in 2014 according to the *World Economic Forum Global Risk report 2014*.

A likely link

The weather experienced in the UK and Northern Europe in December and January can be attributed to the up-stream perturbations to the jet stream over North America and the North Pacific according to a February Met Office report, *Recent Storms*.

The report also highlights that the sea level along the English Channel is rising, having increased by 12cm in the past 100 years. An 11cm-16cm rise is expected by 2030, which would equate to 23cm-27cm of total sea level rise since 1900.

Experts are unable definitely to confirm the link between the recent storms and rainfall in Europe and climate change, but researchers at the Met Office believe they are likely to be linked. A Met Office spokeswoman said: "We can't definitively link the recent storminess, rainfall and flooding to climate change partly because of the highly variable nature of UK weather and climate. However, some studies suggest an increase in Atlantic depressions taking a similar track to those we've seen recently."

"There is also evidence that daily rainfall totals are becoming more extreme. That would be consistent with the basic physics of a warming world – a warmer atmosphere can hold more water."

Extreme seasonal weather also affects insurers, as they feel the squeeze of increasing claims. The cost of cover for companies in Europe may also increase.

The estimated economic damage caused by the December and January weather in the UK is about €757m, according to PwC insurance partner Mohammad Khan. However, he said the excessive January rain was not as damaging as the weather in December and estimates the cost for insurers at about €600m.

He said: "It is too early to tell whether the weather will affect insurers' results for next year. Last year, the weather was benign from January to October and insurers' results from household and commercial property business were positive, even allowing for the December storms and floods."

Worst-case scenario start

Businesses can also be significantly affected by severe weather. For example, organisations made up for about a quarter of all claims after the 2007 summer floods in the UK.

Supply chain and business interruption are the most common claims arising out of severe weather, and PwC insurance catastrophe expert Dom Del Re believes that preparation for such events can make a difference.

He said: "Claims arising from business interruption could be a significant driver of the overall insured loss. Home and business owners who have planned for flooding will be better equipped to deal with the disruption and damage."

"Policyholders continually affected by flooding – even those not in traditional flood plains – should consider taking [preventive] action on their properties to help mitigate and prevent damage caused by flooding."

Irrespective of whether the volatility of the European winter is increasing, firms should be proactively preparing for the worst-case scenarios according to FM Global vice-president manager of global services Nicholas Batten.

"It should come as no surprise that fires still burn, rivers and oceans still flood and hurricanes and tornadoes still hurl debris – all with the potential to cause huge amounts of damage."

"If I see a trend, it's the industry's continued approach that these types of losses are considered the norm – when, the majority is preventable."

Batten added: "Organisations today should start with the worst-case scenario and work their way backwards. Ultimately, businesses or individuals purchase insurance because they believe they may need to make a claim."

"So, partner with an insurance company that can help you prevent the loss from occurring. Ensure the insurance company can honour its promise to pay and it is financially sound. Make sure the policy terms and conditions are sufficient – not only at the corporate level but globally." **SR**

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