

I firstly thank the Organising Committee for their invitation to address this Seminar and also take this opportunity to thank our hosts for their hospitality.

I've been asked to speak on the general principles relating to the conduct of loss surveys and claim adjustments following catastrophic events, from a crop insurance perspective. My approach to the topic will focus on the fundamental nature of claims handling, the need for proper documentation of the claims process, and will consider the usual loss survey and adjustment functions. I'll then refocus on some of the peculiarities that can arise in terms of catastrophic events, or CAT events, as most here would describe them.

While it's often said that one person's disaster is another's catastrophe, that will hardly suffice as an appropriate definition for our purposes. In Insurance, a Catastrophic Event is generally held to be a low probability, high cost event, involving a large number of individual claims, even though I suspect that most Crop Underwriters would probably call those working losses.

Agricultural production is of course subject to many uncertainties. Adverse weather, insect infestations and plant diseases can severely reduce the yield or quality of a crop, effectively wiping out a farmer's entire profits for the whole year in a bad season, from a single event.

Many causes of loss to which farmers are exposed, such as heat and drought, freezing temperatures and excessive moisture, can also affect whole regions as well as multiple crop types. Indeed, droughts may also persist for extended periods so that farmers may suffer successive losses.

From an insurance perspective, an important consideration when looking at the development of an insurance product to meet these exposures is the potential for catastrophic losses resulting in an extraordinary number of claims over a widespread area.

However, unlike many other forms of Insurance in which single losses are the norm, Crop Insurance actually tends to be treated as a CAT product, because it's more usual for a huge number of claims to be generated from a single event. That's not to say that every loss event will necessarily be of catastrophic proportions, but this class of business certainly tends to generate high claim numbers. This of course presents unique challenges for those involved in Crop Insurance because they need to be in a constant state of readiness to respond to potentially large scale events.

Against that backdrop, it therefore stands to reason that the success or otherwise of claims handling in Crop Insurance will be totally dependent on the quality of pre season, or at least pre event, preparation. After all, there is no point trying to develop an action plan after the event.

Instead, the response mechanism of a Crop Insurance program must be thorough, instantly actionable and well managed if it is to have any chance of delivering a seamless claims procedure. After all, regardless of the class of business, there is no doubt that poor claims handling can produce an absolute catastrophe out of any claim.

Claims handling in the generic sense is often said to be the “Moment of Truth” for the Insurance Industry, just as it can be for the Insurer and indeed the very product under which the Claim is made. Expectations on both sides of the divide are usually high.

Insurers usually want the claims process to run efficiently and effectively, and at minimal cost, while the Insured want to be quickly and fully compensated for their loss.

For many organisations, the claims process is merely seen as a one dimensional function of the Policy. Once paid, the claim simply becomes part of the program’s history. However, more enlightened companies see the claim as a report card on their operational effectiveness and will seek to extract and leverage every possible benefit from the experience, whether good or bad, from both an operational, administrative or analytical perspective.

I have always been an advocate of the early development and implementation of detailed claims procedure manuals for crop insurance programs. When I say early, I mean that they should be developed as part of a program’s initial development phase and then form part of the program documentation used to obtain initial capacity support and for subsequent renewals.

Most organisations have various policies and procedures that guide or dictate how decisions will be made and how the work of the organisation will be done. Well written policies and procedures increase organisational accountability and transparency and are fundamental to quality assurance and quality improvement programs.

Even when policies and procedures are not documented in the traditional sense, they still exist in practice, guiding decisions and determining how the various functions of the organisation will be carried out.

The problem, however, with unwritten policies and procedures is that they are not subject to the usual organisational reviews and accountability processes and lack transparency. In the absence of written policies and procedures, unacceptably different approaches can evolve, making the organisation's response both inconsistent and inefficient.

In terms of claims procedure manuals, they should clearly address all the component parts of the proposed claims handling process, linking, for instance, the description of the defined events contained in the Policy with the required validation criteria, or, the basis of settlement provisions with the loss adjustment procedures. They should cover every element of the organisational chain naming the key people responsible for service delivery and should document the various steps associated with the procedures in sufficient detail, to clearly demonstrate how the claims process will be handled.

The starting point for a claims procedures manual will be the actual Policy of Insurance, because after all, the claims process only exists to meet the obligations of the Policy. The manual should address the implications of each section of the Policy, and should equally clearly, highlight any important interpretation issues.

In developing the claims procedure, it's essential that the Policy is tested in a claims sense to ensure that the cover will respond as intended. There have been cases in the past where wordings have produced unintended consequences due to the language of the contracts, and I certainly recommend that the wording of triggers particularly, be tested by those entrusted with claims responsibilities well in advance of their implementation.

While the words chosen to define an insured event must mean what they say, for an event to be insurable, it must also be measurable, and unless the measurement process is capable of delivering the outcome required, and then be described and presented in a logical and objective manner, it will most surely fail when put to the ultimate test. It can also be helpful in the pricing phase to better understand the limitations of the assessment of losses, because the cost of the subjective elements of a procedure will all accrue to the bottom line of the program.

This early pairing of loss adjustment and pure insurance considerations in the design and development of new and existing crop insurance products simply ensures that the focus of both is harnessed at the earliest opportunity for the ultimate benefit of the program and both the internal and external participants.

There is of course a huge disparity between assessment methods used for various crop insurance programs. Mono peril or named peril covers, require a substantially different assessment approach to multi peril schemes, just as Index type covers have a completely different claims approach to traditional insurance products.

The fact is that if damage due to any specific cause is excluded or simply uninsured, there will usually be a need to either verify that no loss or damage from the excluded or uninsured cause exists, or that any related loss has been isolated from the claimable loss. The real challenge is selecting the best and most appropriate assessment method for the cover type. That decision however, has to be made in consultation with Insurers and Reinsurers, because it will very much influence the amount of any claim they pay.

An assessment approach based on the physical inspection and individual testing of each and every claim by agronomists or qualified adjusters, should of course, produce the most accurate result, but it will do so at the highest probable cost.

In contrast to that approach, an assessment approach that relies on an active Index or an externally measured parametric trigger, will cost next to nothing to implement and operate, but will expose the program to the greatest basis risk.

A cost benefit analysis of cost versus accuracy will always be problematic because there is often no simple answer. In the absence of available expertise, and in both the numbers and regions required, there may be no option but to adopt a less invasive assessment solution. Either way, these decisions need to be made at the very beginning, so that product pricing and claims documentation can reflect and support the approach to be adopted.

I've made the point previously that claims documentation is an important part of the claims handling process, because not only does it provide the recipient of the benefit with a summary of how the claims, and thus their compensation, was assessed and calculated, it also provides an audit point for overall program results.

Obviously, the basis of measure will dictate the nature and extent of documentation required but generally speaking, all claims regardless of the type of scheme, have to be documented at some stage in the process.

For example, a mono peril claim will probably generate considerable documentation, ranging from field test and survey sheets through to assessment and claim calculation forms, whereas the documentation associated with an Index type product could probably be limited to a copy of the Index, as and when it is triggered.

The extent of documentation required in the claims process can also sometimes be dictated by consumer expectations or the legal and regulatory framework under which the program operates. In either case, it's obviously quite important that claims procedures and the claims related documentation generated, at least meet the prescribed standards.

Rather than delve too deeply into the specifics of the survey process, I'll just make a brief comment on an area that I rate as being quite important in the overall landscape of the crop claim. Even in the most consumer driven crop programs, where detailed physical surveys are required at each and every loss location for the purpose of testing and assessment, I would like to see the Insured take a greater role in their own assessment of the loss.

For the programs we deal with, we always insist that the Insured thoroughly inspect their own crops before our attendance, and provide us with a property map on which the various areas of damage have been shaded. We make the point that it's not our function to find the damage, merely test it. Taking that one step further, we always insist that the Insured accompany us during the course of the testing and assessment process, and after explaining and demonstrating the testing procedure, we will always offer the Insured the opportunity to conduct a test or preferably a number of tests themselves.

While this serves to make the entire loss quantification process more transparent, my view is that once properly instructed, there is no reason why an Insured couldn't assess and test their entire crop, presenting us with their assessment for validation. Strategic spot checking will quickly reveal whether the Insured's assessment is accurate and where it's found to meet acceptable criteria, no further inspection would be required. If however, it failed the spot checking guidelines, a normal assessment would be carried out.

This approach is currently used to some extent on broadacre claims, which in our market, usually have a 5% or 10% excess. Our procedures require that the most severely damaged areas be checked first, because if the damage in the worst areas doesn't exceed the excess, there's no point testing other affected blocks. Of course, if the Insured haven't checked their crops before we attend, we could waste a day checking a 2,000ha crop only to find no claimable damage.

Encouraging the Insured therefore to participate in a form of self assessment, would certainly reduce the cost of the assessment function, and could well be an important strategic initiative when dealing with a Catastrophe event.

Turning now to issues peculiar to Catastrophe events, I said earlier that large claim numbers being generated by single events is not necessarily unusual in Crop Insurance. That said, the difference between the usual experience and one which would properly qualify for the title of Catastrophe, would simply be a question of size and severity.

At the end of the day, Catastrophe events will certainly test even the best prepared crop insurance programs. Quite apart from the significant monetary losses likely to arise, which can place a strain on the best placed slip, the sudden influx of a huge number of serious claims places stress on the front and back office functions as well as those charged with the responsibility for dealing with the claims at the coal face.

The claims space following a catastrophic event for crop insurance can certainly be somewhat different to the usual environment. To begin with, we can't always rely on the phone and fax for communications, because when floods or hurricanes occur, entire regions can be left without basic services. This means that not only are the Insured farmers often unable to provide timely notification of their loss, even if they could somehow reach someone somewhere to lodge the claim, we wouldn't be able to contact them.

It also not unusual for there to be no accommodation facilities available for the survey and assessment crews, quite apart from a lack of fuel for the vehicles and other related facilities. If access is possible, all parties entering the region will be required to be totally self sufficient in terms of food, water and any other resource required.

These challenges are not really that different from those which face property adjusters when they respond to natural disasters, but in the rural areas, there are often few facilities available even before a disaster occurs.

In these times of crisis, one simply needs to think outside the square, and take whatever actions are necessary to achieve the desired outcome. In terms of communications, we have often resorted to the use of public radio as a means of keeping farmer's informed of the efforts being taken to deal with their claims. In widespread events, Insurers are usually able to identify which policies will have claims and radio broadcasts can then become more regionally relevant so that affected farmers can take some comfort from the fact that their Insurers are aware of their plight.

In situations where road access has been made impossible, we have in the past resorted to the use of aircraft to obtain a better appreciation of the extent of losses, using local guides to assist in the identification of properties. In situations where damage over a large area has been extensive, particularly in respect of plantation type risks such as banana crops, some Insurers have been prepared to declare a constructive total loss on the basis of aerial photography alone.

Remote sensing can also be of significant benefit, if not for use in the loss assessment and quantification process, then certainly in terms of assisting in the process of validating causation in the case of flooding, drought and freeze injury.

The response to catastrophic events will of course be different in almost every circumstance, given the variables of location, crop type, peril and product. Rather than necessarily create procedures specifically for the purpose of dealing with catastrophic events, I believe that the basic claims handling process underpinning all crop insurance programs should be designed to be sufficiently flexible and effective in all environments.

In conclusion, can I simply say that regardless of the task, there is no substitute for good preparation.