Typhoon Hagibis: Alert On Potential Claims Issues

Typhoon Hagibis made landfall in Eastern Honshu, Japan on 12 October, bringing heavy rainfall, flooding and mudslides in rural areas. The Typhoon reportedly affected over 6 million people, leaving thousands without electricity and water for a few days. The potential exposure for insurers from Hagibis is likely to be significant. Hagibis is reported to be as powerful as last year’s Typhoon Jebi, but unlike Jebi was concentrated around more populated and industrial areas, so insured losses could be higher (losses from Jebi are estimated to be between USD 13 billion and USD 15 billion).

Weather / entertainment insurance

Three Rugby World Cup matches were cancelled because of Hagibis, with fans set to receive a full refund of the ticket price. Early reports suggest that the tournament’s broadcasters might seek compensation from the organisers for lost television revenue. The Japanese Grand Prix also postponed qualifying sessions although the race proceeded as planned. The cancellation of major sporting matches / events highlights the importance of weather related insurance products, particularly in Asia (which is prone to annual natural catastrophes). This type of contingency insurance generally covers direct financial losses resulting from the cancellation or postponement of an event due to circumstances including adverse weather. This insurance is different from a traditional property or business interruption policy because it generally does not require physical damage and insures specific financial losses (like refunded ticket sales). With more large international sporting events coming to Asia, including the Tokyo Olympics next summer, it is a timely reminder for organisers and vendors to consider purchasing appropriate weather related insurance for future events, particularly those taking place during typhoon season.

Reinsurance and loss creep

Hagibis looks likely to generate claims for the excess reinsurance market after September’s Typhoon Faxai appears to have eroded deductibles on aggregate excess cover – RMS currently estimates losses from Faxai at between USD 5 billion and USD 9 billion. According to media reports, reinsurers were already talking in September (when Faxai made landfall) about a push for rate increases on loss-hit wind covers of between 25% and 30%. Reinsurers might target higher increases at renewal if Hagibis results in further losses.

Jebi has shown the potential for significant loss creep and this could be expected for Hagibis too. The early estimates for Jebi assessed losses as low as USD 3 billion. In February 2019, estimates had increased to USD 10 billion and it is now expected that losses could reach between USD 13 billion and USD 15 billion. Accordingly, overall loss estimates for Hagibis provided over the next few months should be treated with caution.

Underlying claims considerations

Some of the issues which clients might wish to consider when assessing property damage and business interruption claims include the following:
Is "flood" an insured peril? A global broker has reportedly estimated that up to about 500,000 buildings were damaged by Hagibis, which, if correct, would be about 50,000 more buildings than were damaged by Typhoon Faxai. Around 320,000 buildings were reportedly damaged by Hagibis’ winds and roughly 170,000 by flooding. Initial reports suggest that flooding might have caused more severe damage than Hagibis’ high winds. The peril of “flood” is not as commonly insured in Japan as “wind”. Data from the Swiss Re Institute estimates that about 30% to 40% of flood risks in general (not just in relation to Hagibis) are insured in Japan, although market sources suggest that the penetration rate is in fact higher than this. Consideration should be given to whether any claimed flood damage is insured under each particular policy; it should not be assumed that it is.

Reinstatement works. Hagibis followed a similar path to Typhoon Faxai. The reinstatement of property damage from Faxai had not been completed when Hagibis hit. Hagibis could have potentially damaged construction works which were reinstating damage from Faxai and/or worsened the pre-existing damage. Allocating damage and indemnities between the Faxai and Hagibis events is important and might not be straightforward. Damage to construction works is typically insured under a construction all risks policy, not operational / industrial all risks insurance which usually excludes damage to such works (subject to any endorsements for minor construction works). Clients should consider these when assessing claims and allocating losses to the correct insurance (if there is more than one).

Business interruption losses. Hagibis interrupted production in Chiba Prefecture, one of Japan’s largest industrial areas, and transportation links were closed. Downstream supply chains could be affected as companies reliant on timely receipt of goods from this area might suffer production delays leading to contingent business interruption claims. If such claims are presented, the cause of the property damage interrupting the business will need to be determined and it would need to be insured under the relevant property policy. The extent of any such interruption should become clearer in the coming weeks.

Assistance

Should you have any queries relating to policy coverage or claims arising from any of the Typhoons, please feel free to contact Nicholas Sykes, who is based in our Singapore office.