Risk management is a puzzle with many pieces. We start with assessment and understanding of risk and then look to the insurance marketplace for protection. We continue with the claim process and loss control efforts. Along the way, we must track the changing marketplace and evolving risks for which we may find little protection at all. Throughout, we work with many partners: management, brokers, carriers and our fellow employees. Weeks after the initial shock, Japan provides lessons in just about every aspect of the puzzle.

5 LESSONS FROM AN UNPRECEDENTED CATASTROPHE

1) Worst-case and multiple disasters

One of the most awful aspects of the catastrophe in Japan was the fact that one disaster, an earthquake, quickly turned into three: an earthquake led to a tsunami which led to nuclear contamination.

Another shock was the sheer size of the earthquake, which was first reported at 8.9 on the Richter scale but then was elevated to the rare 9.0 threshold. Japan, known for being well prepared for earthquakes, was not adequately prepared for a 9.0 quake and the tsunami that followed. A look at the records shows that 9.0 earthquakes are indeed rare – yet five have been recorded since 1952. And history also tells us that earthquakes out to sea will generate tsunami waves.

We must ask ourselves: do our worst-case scenarios really encompass the worst cases? Do we allow for the fact that a catastrophe of one type may generate catastrophes and losses of another? Those of us familiar with hurricane risk should have an inkling: we have struggled many times with the question of wind damage vs. water damage, just as the Japanese will need to sort out the confusion of what is earthquake damage and what is tsunami damage. After every gut-wrenching disaster, those in charge of disaster recovery and business continuity take out their plans and review their adequacy. Those undertaking such reviews should be sure to assess the severity of the disasters they are planning for.

2) Coverage questions

Several lines of insurance beyond standard Property cover may be involved when catastrophes occur around the world. These include:

- **Business Interruption.** If physical damage to an insured's property or goods interrupts cash flow, the loss may be covered under a BI policy.
- **Contingent Business Interruption.** If business is interrupted by damage to a partner's or supplier's property or goods, coverage may apply if CBI is part of a Property program.
- **Supply Chain Coverage.** BI and CBI are triggered by physical damage. Supply chains can be interrupted without physical damage, and supply chain coverage, while expensive, is an option that should remain on the table.
- **Civil Authority Coverage.** In times of emergency, governments may close off certain areas or order evacuations, potentially shutting down the operations of any business in the area. Coverage is available.
- **Ingress and Egress.** Access to physical locations may be inhibited by several factors in addition to government edict - radioactive contamination for one. Again, products are available for such a peril that is otherwise not protected by the typical Property policy.

As always, the devil is in the details of these policies. Risk managers should be sure to understand their business need and what their coverages include – as well as what they do not include. Some policies, for example, exclude certain perils, such...
as earthquake or tsunami. Virtually all polices exclude nuclear risks (more on that below). Some policies covering losses stemming from damage to suppliers will extend that coverage to include suppliers of suppliers; some will not.

3) Challenges in claims adjusting

Claims adjusters are no strangers to destruction. Few, however, have faced the threat of radioactivity or the scope of devastation seen in Fukushima, Japan. Adjusters have still not entered the area faced with radiation contamination and it is unclear when they will be given the all-clear to begin their work. The sheer number of claims involved will likely be too much for the claim adjusters on the ground in Japan. Bringing in support from other countries is one way to get help, but the number of adjusters fluent in Japanese may fall short of the need. The lesson? When the worst happens, claim adjusting may be slow, in addition to being complex and problematic.

4) The nuclear question

Large-scale radioactive contamination is an unthinkable calamity and fortunately for risk managers they do no have to think about it directly very often – in the U.S., there is no commercial cover available, as all liability is funneled by law through nuclear power operators. Risk managers should know how nuclear cover works, however, especially if they are even reasonably close to a nuclear power plant.

Nuclear coverage in the U.S. is like earthquake cover in Japan – a national insurance pool offers limits to nuclear plant operators when needed. That cover is in turn backed up by the federal government itself.

The federal Nuclear Regulatory Commission is in the process of reviewing the safety of nuclear plants in the U.S. Experts believe that the U.S. plants that could be vulnerable to tsunamis, San Onofre and Diablo Canyon in California, would fare better than the Fukushima Daiichi plant in Japan because their backup power systems and backup power fuel tanks are better protected. This would decrease the risk that the plant cooling systems could fail even in a catastrophic event.

5) Is it global or is it local?

We are constantly hearing that the world is a global marketplace – and yet the losses in Japan are mostly being absorbed in the local market or by the Japanese government. So do we live in a global village? Or should we say about insurance what is often said about politics: it’s all local. The answer is both: the marketplace is global and local, a reality that varies country to country and taken together is exceedingly complex. Knowing the marketplace is really a matter of knowing as many marketplaces as you are in, a challenge that underscores the urgency or working with a risk adviser and partner with both global and local reach around the world.

If there’s one overarching lesson from the tragic devastation in Japan, it is probably the lesson we should take away from any bracing loss: Know your insurance needs, know the marketplace and know your coverages. And above all, avoid the trap of complacency.