

## News Release

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### **Managing risks of weather catastrophes is essential**

*Business and individuals are under-insured for the impact of weather catastrophes*

Just little more than a year after devastating weather catastrophes hit South Africa, KZN, Gauteng and East London have once again been battered by torrential rain and hailstorms, causing devastating floods, mudslides and a tragic loss of life.

Mandy Barrett of insurance brokerage and risk advisors, Aon South Africa, says the damage wrought across the country highlights just how vulnerable we are to the changing weather patterns and climate change. “The reality is that Southern Africa is not a low catastrophe risk region, with the region having experienced a high frequency of major loss events in the last six consecutive years. One just has to consider the most recent devastation caused by tropical cyclone Idai little more than a month ago in March that left nearly 1,100 people dead in Mozambique, Zimbabwe and Malawi – the social, human and economic impacts of such catastrophic weather events are immense,” says Mandy.

According to [Aon’s 2018 weather, climate and catastrophe report](#) that was released earlier in the year, the economic cost of weather disasters cost the world a staggering \$214 billion. Though it was a notable reduction from the record-setting tally set in 2017 at \$435 billion, it was the sixth-highest total for weather disasters since 1980. With the magnitude of the most recent events, 2019 is rapidly building up to be one of South Africa’s costliest years yet in terms of weather catastrophes.

### **Under-insurance remains a fundamental problem for individuals and businesses**

South African property owners are by and large not taking the risks posed by weather catastrophes as seriously as they should. Many still believe that SA is not exposed to major weather risks and assume that the biggest and only threat to their assets is crime. “As a direct result, we see significant levels of under-insurance and in some instances, where people live in secure complexes and estates, no insurance at all, on the assumption that the threat of theft and burglary is highly unlikely. However, this completely ignores the fact that all outright losses of property and contents are typically the result of two perils – fire and flood,” adds Mandy.

The research and insurance data that came out after the Knysna fires of 2017 was telling of this under-insurance trend. It was reported that more than half of the formal homes affected by the Knysna fires were not insured. In some instances, properties were under-insured for the replacement costs of the buildings and assets at today’s prices by more than half, having

not revisited the insured sums since inception of their policy. Some who had settled their bonds with their banks had neglected to reinstate their buildings insurance after closing their bond accounts.

“It was heart-wrenching to hear reports that some people affected by the Knysna fires were left severely compromised with either inadequate or no insurance cover at all. How do you recover from an outright loss of your home when you still owe money on it, and have no insurance cover to replace the loss to return you to your former financial position? It points to the need to have a strong relationship with your insurance broker, to meet to review your needs at least every year, and to follow the sound advice given when it comes to insuring your most significant financial investment – your home and everything in it. Most of all, it highlights the folly in assuming that worst case scenarios are simply too unlikely to happen,” says Mandy.

For Business owners the considerations are the same, but there are two additional and important factors to consider. From a business perspective, the rallying exchange rate puts the replacement value of imported plant and equipment in sharp focus – consider the impact of replacing plant and machinery procured when the exchange rate was R10 to US\$1, versus the current R15 to US\$1. This is one of the key factors in businesses finding themselves underinsured when it comes to replacing major plant and equipment lost as a result of an insured peril.

Business Interruption insurance is another critical cover often ignored by businesses. While many businesses have the usual property and assets cover for their buildings, vehicles and other essential equipment, what happens if the business is unable to trade for weeks or months as a result of a fire or flood at its plant or premises? How would you pay staff, rent, taxes, suppliers and so on if your business and all your stock and assets were lost in a fire or flood?

“Business interruption insurance is designed to compensate the business for the financial impact of the interruption or interference as a result of the insured suffering physical damage to the insured property or other key external events, for example damage at a key customer or a supplier’s depot, or own operations that prevents the normal business operations from continuing and generating revenue. The fact that we see businesses that are often underinsured on their Business Interruption sums insured is indicative of the enormous complexity that comes with calculating the correct insured sums that takes account the knock-on effects and increased costs of working following an insured event,” explains Tony Webster, Aon South Africa. Business interruption insurance is vitally important to tide your

business over in terms of the lost income as a result of physical damage or insured peril, until you get back to operating your business as usual.

The growing risks presented by extreme weather patterns demands that individuals and businesses review their insurance needs in detail and get impartial and professional advice to ensure that the cover puts them back on your feet. Insurance is often seen as a grudge purchase and its one of the reasons why many people fail to pay the necessary attention to what is essentially a life line in times of crisis.

“One of the most important lessons to come out of weather catastrophe experiences is the need to put pro-active measures in place to manage your risk and exposures, to keep your insurance cover current and affordable and to engage the support and advice of a professional broker whose sole focus is the protection of your interests. If you are uncertain about any terms and conditions of your insurance policy, it’s time to meet with your broker and ensure your bases are properly covered,” concludes Mandy.

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