

November 23, 2011

## Thai Flooding Brings Industrial, Business Interruption Claims

Two typhoons and unusually heavy monsoon rains since July have triggered some of the worst flooding in Thailand in decades, causing more than 600 deaths and affecting more than 4 million families and 13 million people in 64 of Thailand's 77 provinces. After months of inundation, the floodwaters are finally beginning to recede, and the densely populated and economically critical center of Bangkok has escaped flood damage. As portions of Thailand begin to dry, uncertainty lingers over an event that is being called the costliest natural disaster in Southeast Asia and is likely to rank among the 10 costliest natural catastrophes worldwide (see **Exhibit 1**).

The vast majority of flood claims will be directly insured by the Thai market under policies governed by Thai law. With only 1% of household residential properties having flood insurance coverage, the losses related to this event will come almost entirely from the impact to manufacturing and supply chains, with some losses stemming from automotive captives as well. The Industry Ministry now estimates flood damage to the almost 10,000 impacted factories at USD 25.6 billion. With the true extent of the damage likely to remain unknown for quite some time, insured loss estimates for the industry vary significantly and now stand in a range of USD 10 billion to USD 20 billion. More than USD 4 billion in insurance claims have already been filed, mostly by businesses located in the submerged industrial complexes.

The majority of the multinational firms in Thailand either buy coverage from foreign insurers or self-insure through captive insurance operations. Japanese insurers write most of the commercial property/casualty (P/C) business in Thailand. As the primary carriers make significant use of reinsurance, the net impact to the Japanese insurers on a risk basis is not expected to be significant unless the event limit might be breached. The "Big 3" Japanese insurance groups have announced their expected net losses but not the gross losses because of significant uncertainty. Initial analysis suggests that the capitalizations of the insurance companies are strong enough to absorb the losses.

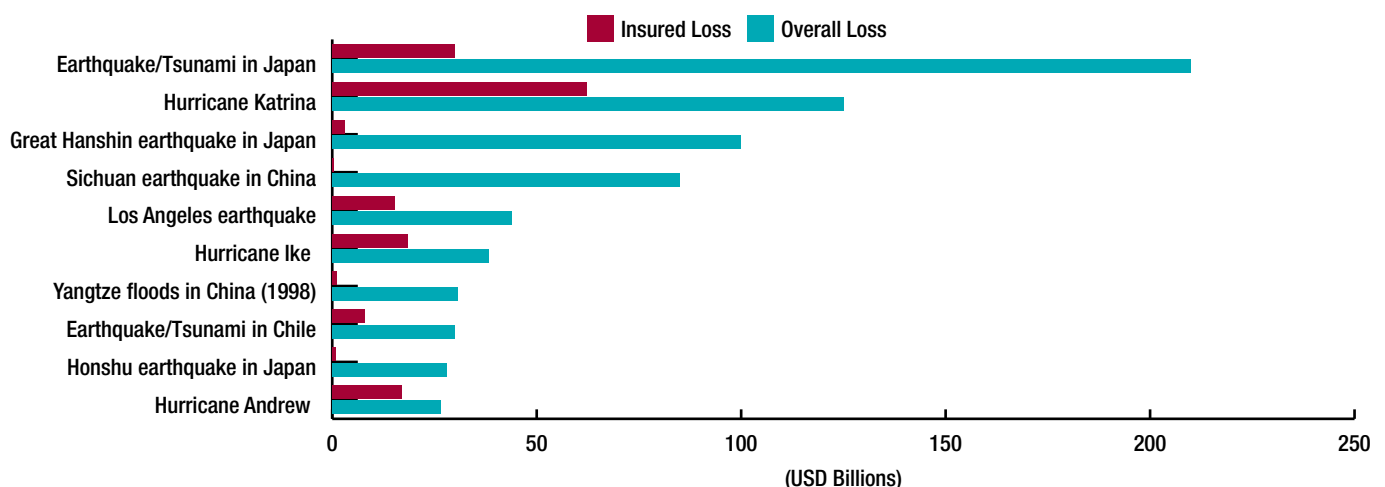
Company	A.M. Best Rating*	Est. Net Loss
Tokio Marine & Nichido Fire Ins. Co. Ltd.	A++	JPY 100 billion
Mitsui Sumitomo Insurance Co. Ltd.	A+	JPY 130 billion
NIPPONKOA Insurance Co. Ltd.	A	JPY 30 billion

\*As of Nov. 23, 2011.

The Thai flooding compounded losses already incurred from the Tohoku earthquake in March 2011; insurers that provide coverage to Japanese manufacturers will see larger business interruption claims, because many businesses shifted production to Thailand to mitigate losses from the quake.

Thailand plays a significant role in the global supply chain, particularly in production of vehicles and

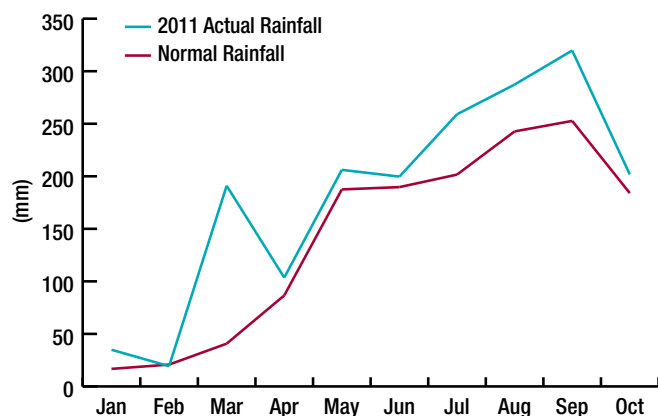
**Exhibit 1**  
**Top 10 Natural Disasters Since 1980**  
Ranked by overall loss.



Source: Munich Re



## Exhibit 2 Thailand – 2011 Rainfall



Source: Thai Meteorological Department

computer hard drives. As manufacturing plants were shut down for weeks, business interruption claims are expected, though they may be muted by the low take-up rate of business interruption. Auto manufacturers through captive or third-party insurance will likely see an impact. Additionally, seasonal demand is at a peak since the Christmas season has begun, which is likely to increase the claims of electronics manufacturers.

Coverage disputes due to the extent of damage to the industrial estates exacerbate an already difficult situation. Reynolds Porter Chamberlain LLP (RPC) warns that “(i)nsurers could, in principle, exclude claims where a building collapsed or was washed away due to design or structural defects. Even if there is no express exclusion in the policy, such losses would automatically be excluded under Thai law.” Timing will be key for reinsurers. RPC notes that a typical “hours” provision in a reinsurance contract limits damage caused by one event to 168 hours, but some Thai policies are limited to a 72-hour period. As the flooding spread across most

Thai provinces over several weeks, the losses may constitute several events under the hours provisions, leading to issues regarding the number of applicable deductibles and policy limits.

As shown in **Exhibit 2**, although flood waters are receding, A.M. Best remains concerned about the areas still affected by the floods, as rainfall in Thailand continues to trend above normal and wetter than usual conditions are expected to continue.

The severity of the losses in Thailand will not likely be repeated from a flood of this size. Flooding in Bangkok, while not wholly uncommon, was never so damaging as it was in 2011 due to the rapid buildup of infrastructure and manufacturing facilities over the past decades. This event has not discouraged foreign manufacturers’ commitment to their investments in Thailand, but it does give them leverage to demand that the local government take measures to prevent such losses from recurring.

At the moment, the take-up rates for flood coverage and business interruption are expected to increase among Thai companies. Meanwhile, the government is pressuring market participants to write coverage as a national economic priority so that manufacturing does not relocate abroad.

At this time, no rating action is anticipated in response to the Thai flooding. A.M. Best will continue to monitor the situation as it develops and as damage and coverage estimates are released.

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