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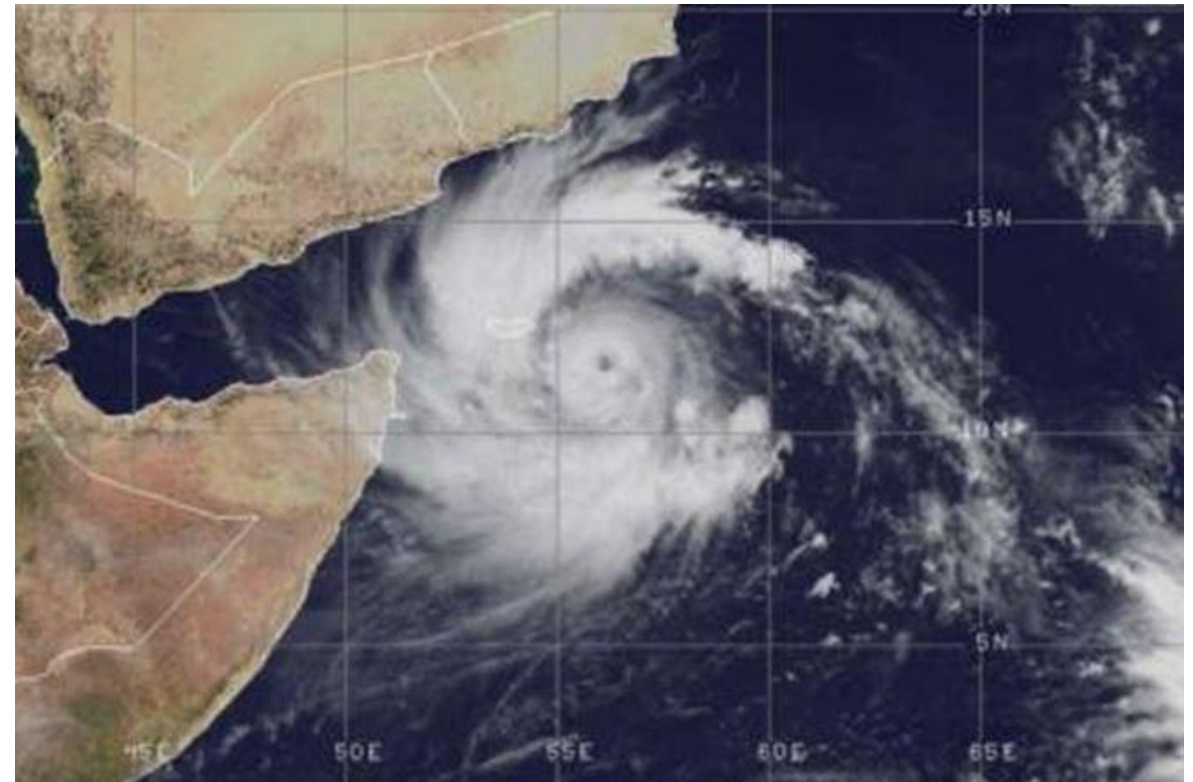
Natural Catastrophes in MENA

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Introduction

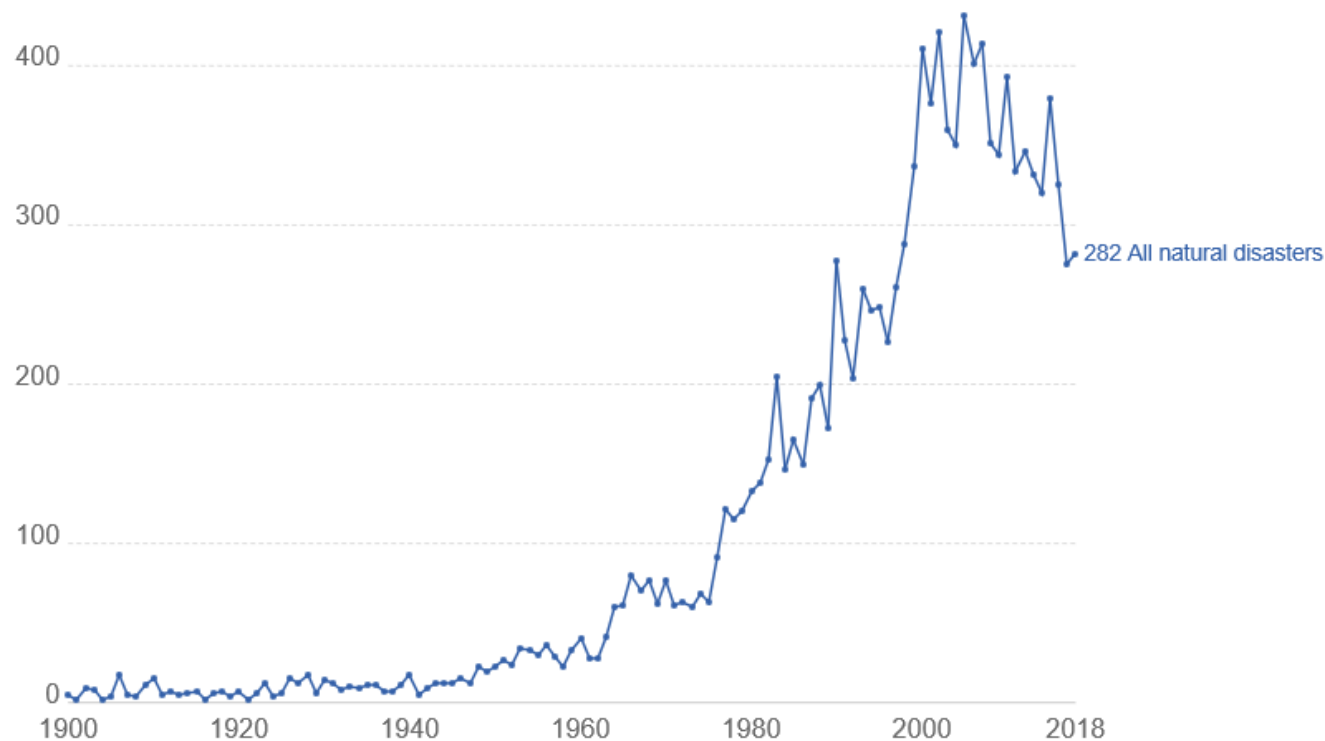
- Global and regional natural catastrophes trends.
- Natural catastrophe energy losses and coverage issues.
- Conclusions.



Natural Disaster Trends: Globally

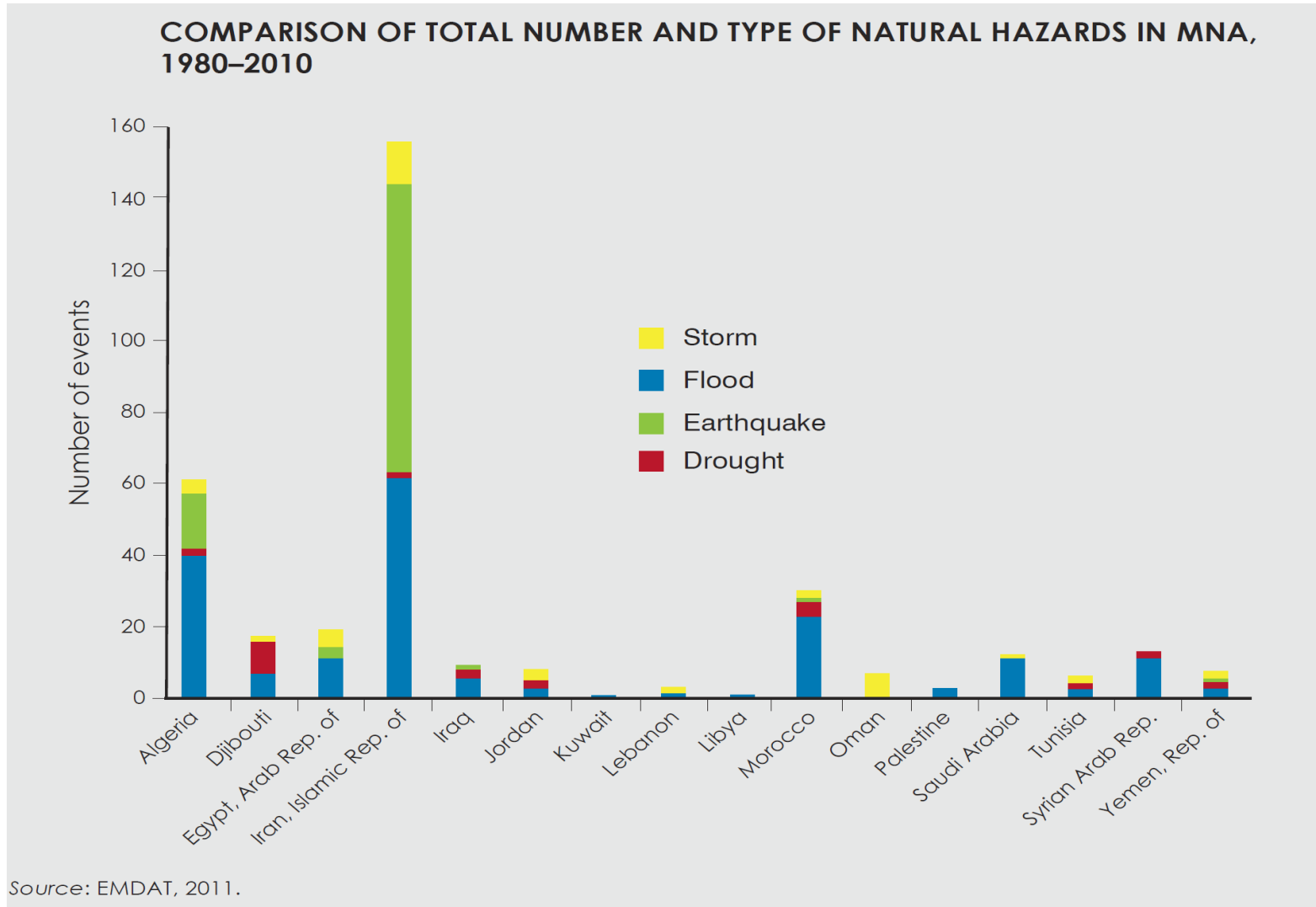
Number of recorded natural disaster events, All natural disasters

The number of global reported natural disaster events in any given year. This includes those from drought, floods, extreme weather, extreme temperature, landslides, dry mass movements, wildfires, volcanic activity and earthquakes.



Source: EMDAT (2019): OFDA/CRED International Disaster Database, Université catholique de Louvain – Brussels – Belgium
OurWorldInData.org/natural-disasters/ • CC BY

Natural Disaster Trends: Middle East & Africa



Natural Disaster Trends: Middle East & Africa

- Over the past 30 years natural disasters in the Middle East and Africa have affected more than 40m people and have cost the region's economy over \$20bn.
- 80% of disasters between 1981 and 2010 concentrated in 6 countries:
 - Iran and Algeria (seismic hazards)
 - Djibouti (flood, drought, desertification and earthquake)
 - Egypt (flood, earthquake, landslides - \$1.3bn damage over last 20 years)
 - Morocco and Republic of Yemen (recurrent floods, landslides and earthquakes)
- More recently increase in disasters in other MENA countries – 2019 flash floods in Saudi Arabia resulting in heavy loss; Cyclone Gonu in Oman in 2007 and Cyclone Mekunu in 2018; sand storms in Bahrain and drought in Jordan.
- Climate change increases the risk of natural disaster: temperatures rising on average by 0.3 degrees C per decade. Climate models indicate that the frequency and intensity of natural disasters will increase in the region in coming years.

Natural Catastrophe Energy Losses: Coverage



IS THE LOSS COVERED, AND HOW SHOULD THE POLICY RESPOND?

- Every loss differs on its facts - wordings will always have room for interpretation.
- Whether and how a policy will respond will turn upon:
 1. The scope of coverage under the policy wording;
 2. The assured's compliance with policy conditions; and
 3. The policy's aggregation provisions.
- We will cover the kind of issues that arise in each of these stages, using as an example property damage all risks and business interruption cover.
- Jurisdiction and local law.

The Scope of the Wording – What is Insured? Property Damage



Property Damage

- English law definition: ordinary meaning of the word.
- Physical alteration or change which impairs the value or usefulness of the thing said to have been damaged.
- Policy's definition of damage may be broader – e.g. mechanical breakdown causing stoppage.
- Whether and when damage has occurred is central to many coverage disputes, however less likely an issue for natural catastrophe losses.
- Issues may arise where the damage is caused by a combination of insured and uninsured perils, or insured and excluded perils:
 - Sometimes possible to separate damage caused by covered v excluded perils (Fukushima and radioactive contamination exclusion CL370)
 - If not, and the damage was concurrently caused by both insured and *excluded* perils, the entire loss will fall outside cover.
 - If damage was concurrently caused by insured and uninsured perils (e.g. a combination of flood and windstorm) the policy will respond.

The Scope of Coverage – What is Insured? Business Interruption



Business Interruption

- Loss of revenue that would have been achieved were it not for the interruption caused by insured property damage.
- Distinguished from CBI - interruption of business caused by an insured peril to property that the insured does not own, operate, or control (supply chain).
- Increased cost of working extension covers additional necessary costs to maintain operations (e.g. provisional repairs).
- Insured peril is the occurrence of physical damage under the policy.
- Permanence of damage?
- Not sufficient to show that BI flows from the natural catastrophe. Instead a causal link with damage required. Orient Express Hotels Limited v Assicurazioni Generali S.p.A. [2010].
- Once coverage is confirmed, issues typically relate to quantum, i.e. whether the presented loss reflects lost revenue and application of waiting period.
- Dialogue between assured and insurer in relation to quantum from an early stage is essential to the smooth running of a claim.

The Scope of Coverage – What is Insured? Sue and Labour



Sue and Labour / Loss Prevention

- Cover for costs incurred in preventing or reducing damage to insure property.
- Must be an express policy provision.
- Particularly relevant to natural catastrophes – loss typically needs to be imminent.
- What if there ultimately is no catastrophe event? E.g. if a cyclone takes a different path. Arguably no loss – unattractive defence.
- Typically sue and labour is treated as separate cover under English law and may be paid even where total loss (reflecting section 78(1) MIA).

The Assured's Compliance with Policy Conditions



- The assured's compliance with policy conditions is important in any onshore energy claim.
- Frequently an issue in NAT CAT claims, where the assured's priority will be preparing for the catastrophe and then responding to the subsequent loss.
- Notification:
 - E.g. prompt notification of a claim or circumstances likely to give rise to a claim.
 - Potentially condition precedent status.
 - Affords the insurer the opportunity to promptly engage with the claim.
- Claims Co-Operation or Control:
 - Twinned with the obligation to notify.
 - Again, potentially condition precedent.

Aggregation

- Central issue in natural catastrophe claims: should losses fall to a single deductible and limit?
- Numerous ways in which losses may aggregate under a policy:
 - Per occurrence / event based aggregation.
 - Further limitations under hours clauses.
 - Cause based aggregation (more applicable to liability covers).
- Event is a particular happening at a particular time in a particular place.
- Difficulties can arise in identifying damage caused by separate events. E.g. Hurricanes Irma and Maria.
- First party property – event is defined with reference to the unities of time, location, cause and (if applicable) human intent.
- Hours clauses – further defines event with reference to losses which occur within a specified period. Intended to introduce certainty.
- Cause – less restrictive basis of aggregation.