

## Hurricane Sandy: calculating the damage

It struck last month with a force which made headlines round the world. Hurricane Sandy. In the Caribbean, it caused death and destruction. As it continued up the eastern seaboard of the United States, dramatic images of its effects on New York and New Jersey were sent around the world.

But was it a hurricane? Or just a 'post-tropical cyclone'?

US authorities have just downgraded Sandy to a 'post-tropical cyclone'. By the time it struck New York, they say it had lost some of its force. Many in NYC disagree. If it had been declared a hurricane, householders would have to bear a greater proportion of rebuilding costs. Now however, the amount insurance companies will pay out goes up.

This distinction may seem like a technicality to you or I. In the insurance world, it is critical for calculating claims.

Already, Sandy seems like a complex insurance case. Southern Manhattan, which was badly affected, has some of the highest property prices in the world. A lot of office space is now out of commission. The biggest assumed damage is likely to be for 'business interruption'.

Two things are clear. Firstly, the compensation will be huge, the second-costliest Atlantic hurricane in history, surpassed only by Hurricane Katrina in 2005. While it is still too early to calculate reliable estimates of the damage, some predict \$10 billion costs to the insurance industry. Others double that figure. Secondly, calculations may tie up the legal system for years. Maybe even until 2020.

Mere money cannot, of course, compensate for all the misery and human suffering caused by such natural disasters as hurricanes, tsunamis, floods or earthquakes. I feel lucky that I have never experienced a natural disaster. My recent experience claiming from insurance companies seems trivial in comparison – a 'lost or stolen' mobile phone. However, the process of claiming was endless. I ended up in a battle over technicalities. Finally, I was successful, but weary of the endless letters and phone-calls. Why do insurance claims have to be so lengthy and complex?

The process of claiming on insurance can be daunting. Yet, as a recent editorial in the Financial Times points out, it must be even worse to live without insurance, common enough in many of the world's poorest areas: Haiti, for instance. The insurance industry has been described by some as a 'necessary evil'.

Questions you may to ask your students:

- 1) Have you ever experienced a catastrophic event such as a hurricane or natural disaster?
- 2) Has your company ever experienced 'business interruption'? What happened?
- 3) Have you ever claimed on insurance? Were you successful?