

RIMS: FM Global Finds Engineering Study Superior to Actuarial Predictions

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HONOLULU April 26 (BestWire) — If Hurricane Katrina was a boxing match, FM Global would be a faintly bruised yet unbloodied fighter, brimming with confidence after a compelling performance.

The commercial property insurer's chief executive officer, Shivan S. Subramaniam, likely would be the uncompromising trainer, adamant about his fighter's indestructibility.

Portraying the soft-spoken Subramaniam as a hard-nosed fight trainer may be a stretch, but it's hard to overstate his confidence and belief in FM Global's nontraditional approach to underwriting property coverage.

For example, when most insurers talk about the 2005 hurricanes, they may point to the devastating effect it had on their balance sheets and steps they're taking to improve underwriting and strengthen industry catastrophe models; Subramaniam, on the other hand, talks about how well the company fared in the hurricanes and points to results that he says suggest FM Global's engineering-based loss-prevention strategy is superior to the actuarial approach to managing catastrophe risks.

"We have very tangible examples to show that the engineering approach that focuses on making sure buildings are in very good shape before the hurricane gets there, is a better solution," said Subramaniam in an exclusive interview with BestWeek at the Risk and Insurance Management Society's annual conference in Honolulu. "Despite all the losses in Katrina, despite our market share, our combined ratio last year was around 70%. When you think about it, it's an incredible result."

Subramaniam said FM Global found after reviewing locations of its insureds in the wake of Katrina that locations that had implemented the company's engineering recommendations sustained eight times less damage than the ones that chose not to do so.

FM Global insures a third of the Fortune 1000 in North America and about 27%, on a worldwide basis, of major industrial and commercial facilities.

Subramaniam says the reason businesses, many of them multinational corporations, come to FM Global is to tap all of its engineering knowledge and research that shows most losses are preventable.

"Our customers are the ones who don't want to have a loss," he says. "So, the actual insurance thing is almost a second or third step in the process. The first step is, can you help me put in place procedures that prevent something from happening, and even if it does happen, can contain it."

And so, as for how the company is preparing for what's expected to be another active hurricane season this year, the answer is, "more of the same."

The plan, he said, is to continue identifying clients' exposed locations, to come up with engineering recommendations and to make sure the clients implement them.

The problem with the industry's approach, he said, is that insurers look at vast areas, they make probabilistic estimates of what the damages may be, and when the wind blows stronger than was expected, they end up with much more damage than was expected.

For example, one carrier may take a building built in 1960 as posing a greater risk during a windstorm than a building built in 2005, he said. However, FM Global would know, having thoroughly examined the structure with its engineers, that the 1960 building may have been retrofitted to be very strong.

That's the approach Subramaniam calls deterministic, and more important, why he believes he has more than a fighting chance against any hurricane.