

The power of partnership

“Never in my life have I experienced a quake like this; it’s like the end of the world.”

Those were the haunting words of a resident in the Chilean city of Temuco after he survived the devastating earthquake that struck the Latin American country in February 2010.

Key facts

Response team:

**Faraday, Liberty Syndicate,
Talbot, Lloyd’s, Xchanging
Claims Services**

Class of business:

Reinsurance

Claim payments:

US\$1.5 billion

Background

The magnitude 8.8 earthquake led to the loss of life of more than 500 people, and affected and displaced more than 800,000 people as buildings, bridges and roads were destroyed, and water and phone lines cut. The damaged area was huge – 260,000 km² – even reaching as far afield as the capital Santiago, more than 300km from the epicentre.

As a result, the Chilean Government was left with an enormous clean-up and rebuilding operation. According to the United Nations, the Chilean earthquake was the most costly natural disaster in the world that year, accounting for \$30bn – almost a fifth of Chile’s GDP at the time.

Lloyd's swings into action

Crucially, insurance penetration in Chile was, and still is, relatively high, which meant that after the earthquake struck there was a local insurance and foreign reinsurance market, including Lloyd's, to swing into action and provide an injection of capital to help the country rebuild.

For local insurers the situation was extremely challenging - this single event generated eight times their normal annual claims volume which needed to be responded to. They had the additional priority of helping employees, family and friends, many of whom were personally affected by the disaster.

Back in London, the Lloyd's market quickly assembled a coordinated response. After waiting for the local insurance market to get back on its feet, a Lloyd's delegation travelled to Chile, with broker support, to offer to help get more information on the impact of the disaster.

Putting customers first

Phil Godwin, head of claims at Lloyd's, who was in the delegation, says: "The visit had two impacts. First, it showed that we cared about our customers – in this case the local insurers we were re-insuring. By being on the ground we were able to see in real terms the challenges being faced and where we could best help.

"Second, it allowed us to relay detailed information about the disaster back to the Lloyd's market – in some cases that information flow had dried up as local insurers had other priorities to address.

"In both senses, the visit was a success. It helped the Lloyd's market understand the complete situation, and use that insight to respond to the reinsurance claims faster and find solutions for some of the challenges being faced. This gave local insurers confidence in their reinsurance, and helped with their cash-flow and financial stability."

The value of communication

"The trip was vital," says Charles Glaisher, head of claims at Faraday. "It was a defining historical moment in the relationship between the Chilean and Lloyd's insurance markets.

"By visiting Chile and meeting with the cedants, loss adjusters and brokers, the Lloyd's team was able to see for ourselves the scale of the challenge involved, understand what was going on, and gather detailed local information for reserving and to get funds flowing. It opened a communication channel which we used after we returned to London to keep things moving.

"We also saw the tremendous positive spirit that exists in the Chilean culture to respond to adversity, and we built strong and trusted relationships with the Asociación de Aseguradores de Chile [the Chile Insurance Association] which endure to this day."

A few months later, the Lloyd's market returned to Chile, this time with Lord Levene, the Chairman of Lloyd's at the time, in attendance. The Lloyd's team spent three days visiting Chile's major insurers and authorities, including Chile's finance minister at the time, with whom they discussed the effects of the earthquake, reconstruction efforts, total estimated losses and Lloyd's support for the Chilean insurance market. The delegation also visited the Chilean Red Cross to present a cheque for £25,000 to help the ongoing relief effort.

Building a lasting relationship

Overall, the Chilean earthquake generated an estimated \$8.8 billion in insurance claims. The majority of the local insured loss (\$6.6 billion) was reinsured out of Chile, with Lloyd's as the largest reinsurer.

Lloyd's supportive response to the earthquake helped build its reputation in Chile and the wider region. As an Asociación de Aseguradores de Chile official said at the time to Lloyd's Phil Godwin: "The Lloyd's market played a key and important role in this event, and you and your colleagues' support allowed the Chilean insurance industry to face this event without any serious issues. Today it is considered the benchmark in the region for this sort of situation."

Today, Lloyd's and Chile continue to work closely together to make the country more resilient and better able to recover should disasters strike in the future.

That's the Lloyd's standard.