

What Property Underwriters Can Learn From Life Insurers

Property risks, like people, may seem similar on the surface. But asking the right questions reveals their unique characteristics.

By: [Berkshire Hathaway Specialty Insurance](#) | April 2017

Before two 35-year-old men purchase \$500,000 life insurance policies, a prospective insurer asks each of them many questions. Knowing the average lifespan is 76.7 years, the underwriter will collect dozens of additional data points to differentiate each of the men from the 'average' risk. They consider elements of each individual's lifestyle (e.g., does he smoke, exercise, take medications?), occupation and finances. The insurer will learn the candidate's and his family's complete medical history. Each man will undergo a clinical exam by a medical practitioner.

Now consider that these two men instead are risk managers looking to purchase \$100 million in property catastrophe insurance for their company's headquarters. A prospective underwriter has exponentially more capital at stake. Yet very few questions are asked. The workup will likely consider only the building's construction (concrete versus steel), size, and location, and potentially some 'secondary' characteristics of the building.

What's wrong with this picture?



Photographs purchased from stock.adobe.com

Property risks may seem very similar on the surface. But in actuality, seemingly comparable structures can perform very differently in a flood, hurricane or earthquake.

These 6 buildings all fall into a similar underwriting classification of tall buildings, with some differences because of construction type, age, and location. But the actual performance of each of these buildings under severe perils will likely be different due to their specific design and construction characteristics

that cannot be discerned in the standard information provided with typical property insurance submissions.

The Need for Informed Underwriting



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At Berkshire Hathaway Specialty Insurance, we believe that property underwriters should compile much more relevant information on a risk. For example, structural and geotechnical engineering details for earthquake exposed risks.

When more questions are asked and more relevant information is acquired, underwriting is more informed and everybody wins: Properties engineered to specifically withstand severe hazards can be differentiated from the ‘average,’ and priced accordingly. (For instance, beyond the automatic discounts applied for retrofitting in an earthquake zone.) When the true exposure is understood, informed decisions can be made on limits purchased, and in some cases measures can be taken to mitigate future losses.

Watch video at bit.ly/2oq03Ey

Seemingly similar buildings have markedly different performance rates in a catastrophe because one of them is retrofitted.



This video shows two model residential dwellings undergoing earthquake simulation testing in Japan. While the two structures seem identical on the surface, they have markedly different capacities. Imagine the difference at the skyscraper level.

Video provided by the National Research Institute for Earth Science and Disaster Prevention and E-Defense Hyogo Earthquake Engineering Research Center, also available at www.bosai.go.jp/hyogo/ehyogo/research/movie/movie-detail.html#10

From an underwriting standpoint, it's sometimes as simple as asking more relevant questions to determine how the building would perform in the face of various natural hazards. For example, to assess performance in a flood event, we would want to know the finished floor elevation of the building, presence of a basement, and values and type of assets in the basement. For the earthquake peril, we would want to understand, among other design and construction details, retrofit details to properly credit the building for what has been implemented. To understand how a building would perform in a hurricane, we inquire about the exterior envelope (e.g., cladding, windows, roofing) as well as design, condition and retrofits.

When more science and engineering are correctly integrated into property underwriting, all property risks benefit. At BHSI, our informed approach to property underwriting enables us to deploy our market-leading capacity in ways that provide our customers with stable, sustainable solutions for the long-term.

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