# AUSTRALIAN BUSHFIRES

**DECODING THE DATA:**

## Is another Australian bushfire disaster looming?

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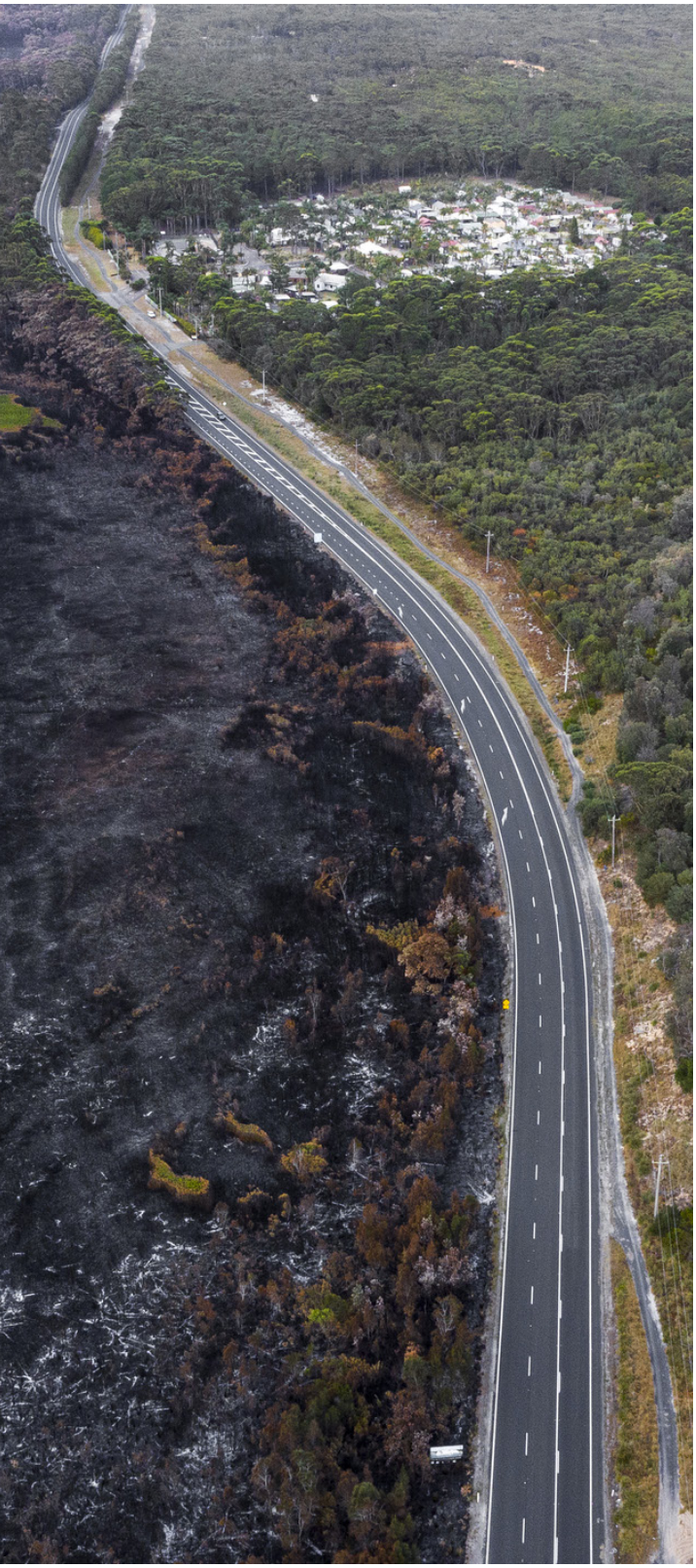


DECODING THE DATA:

# Is another Australian bushfire disaster looming?

*The devastating Black Summer bushfires of 2019/2020 in Australia had record-breaking insured losses — serving as a critical reminder of the intricate relationship between climate patterns and their impact on businesses. As we stand on the precipice of similar weather catastrophes, the question remains: can we improve the way we prepare for and respond to such events?*

While climatologists have long harnessed climate data to forecast environmental patterns, a parallel in the world of business interruption (BI) claims has been conspicuously absent — a gap we are now closing using data science.

In this article, we explore the potential for major bushfires in the 2023/2024 summer, as well as what our data indicates could be the implications for business interruption claims.

## Reading nature's signals

When nature's elements conspire, they rarely do so in silence. The interplay between El Niño and the Indian Ocean Dipole (IOD) serves as a prelude to what might unfold in our parched landscapes.

El Niño[1], characterised by warmer ocean temperatures in the Pacific Ocean, has long been associated with drier conditions in Australia. The IOD reflects the temperature difference between the western and eastern Indian Ocean, and its positive phase can exacerbate aridity. Its impact cannot be understated — the record breaking 2019/2020 bushfire season coincided with the most recent and extreme peak of the IOD.

The Bureau of Meteorology (BOM) declared both El Niño and positive IOD in September 2023, with the outlook of both persisting until early 2024. The last time these events occurred together was in 2015, the same year as the destructive 2015/2016 bushfires.

We observe the BOM's forecasts of both the IOD and El Niño in the coming months, which show they will peak as we enter the 2024 bushfire season. There is a striking similarity of these conditions to those experienced in late 2015 and late 2019, each time preceding catastrophic bushfires.

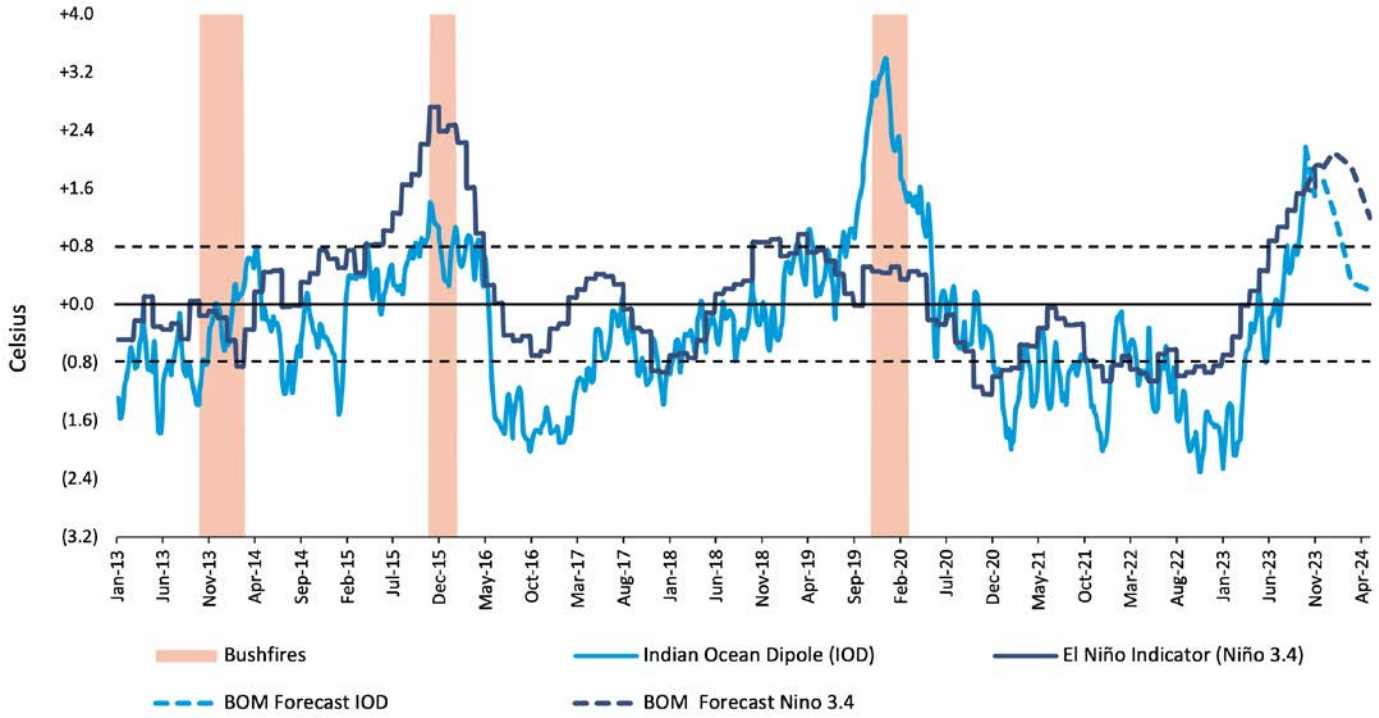
## Predicting bushfire impact

As specialists in forensic accounting, we don't venture into the realm of climatology predictions. At Sedgwick, we concentrate on what follows — the claims management implications of these weather disasters. By integrating early warning signals from climatologists — such as the BOM's outlooks on El Niño and IOD — with our insights on business interruption claims, we achieve a heightened level of readiness and service excellence for CAT events.

Our 'crystal ball' is our proprietary database, rich in anonymized historical business interruption settlement data, which enables us to deeply understand major catastrophe (CAT) events and offer unparalleled guidance in BI claims management. It is the culmination of a multi-year effort by Sedgwick's forensic accounting experts to build the digital foundation required for the development of artificial intelligence (AI) tools to predict BI losses.

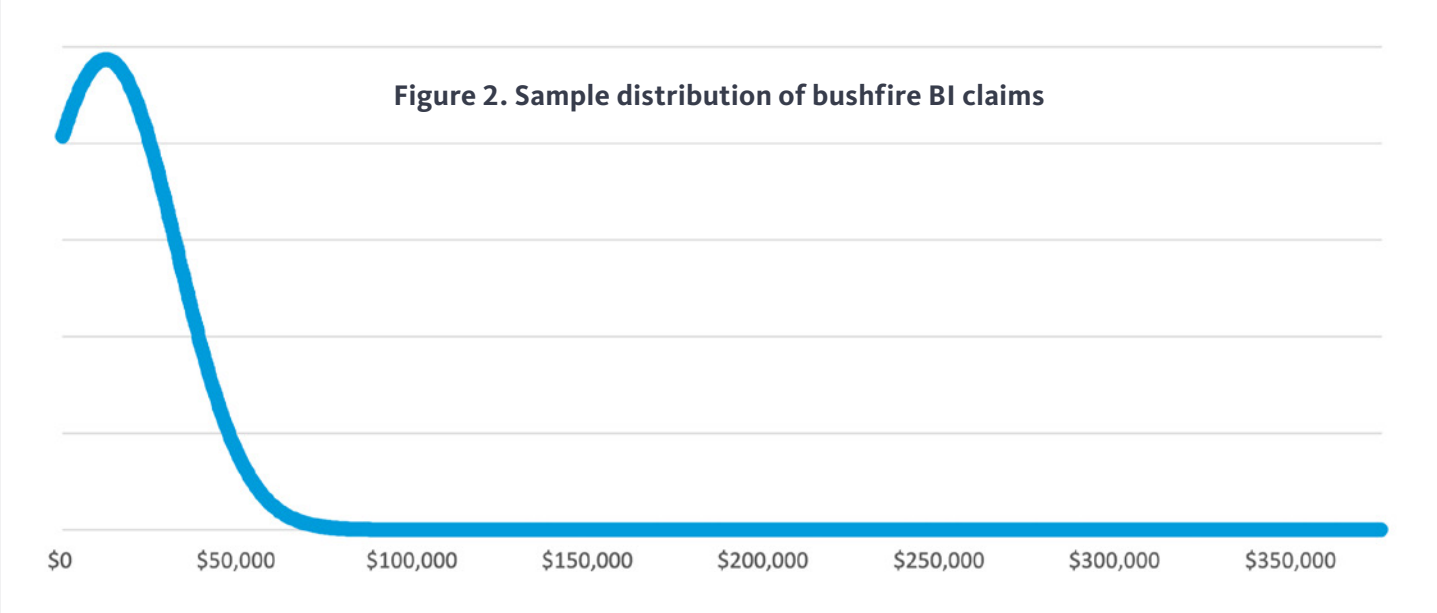
Our 'crystal ball' is also a multi-dimensional resource that encompasses both CAT and non-CAT events and spans across diverse industries, regions, enterprise sizes and other key factors. We can use these different facets to anticipate multiple scenarios of what kind of insurance impact a potential bushfire might have in this upcoming 2023/2024 summer season.

**Figure 1. Historical IOD and El Niño indicators with major bushfire occurrences**






[1] A Nino 3.4 index higher than +0.8 °C




## What is the potential for business interruption losses if we experience a significant bushfire event this summer?

After a comprehensive analysis of prior major bushfire events and their associated claims in our database, a striking yet consistent pattern emerges: a vast majority of claims are sub $100,000, while only a minority of claims reach high-value losses, yet those few losses account for over half of the total damages. The data not only underscores the importance of specialised experts adept at navigating high-value claims, but also highlights the crucial need for robust processes, scalable teams and the right technology to efficiently manage the surging volumes of low-value claims.

Though this pattern may seem readily apparent, a deeper analysis of our data can reveal critical insights for optimising reserve allocation, expertise mobilisation and resource management. Accurate interpretation ensures resources are strategically deployed — preventing costly misallocation and inefficiency. These trends also serve as a benchmark by which to measure claims management performance in a future event.

For example, should we experience a bushfire similar in magnitude to the 2019/2020 season, the industry could expect upwards of 10,000 claims, of which our data indicates that one-third of these would have an associated business interruption loss. In this scenario, one might see close to 2,800 smaller business interruption losses (less than $100,000 in value). The median business interruption loss[2] is estimated to be approximately $21,000 and the median duration of these business interruption claims would be in the vicinity of 24 days. These estimates could change depending on whether the bushfires impact different regions, or whether commercial zones are hit harder than residential areas.

It's important to recognise that in catastrophic events like bushfires, whilst the median BI loss and interruption period might seem quite moderate, there will always be complex claims with substantial business interruption losses. For example, the data indicates that approximately one-third of business interruption losses would span over four weeks, however the largest losses extend to two years.

Our experience tells us that bushfire losses vary significantly in both size and complexity, and it's crucial to ensure the experts appointed can navigate the nuances of business interruption claims, including policy extensions such as prevention of access or supplier/customer damage.

## How Sedgwick can help

By synthesising climate forecasts with Sedgwick's multi-faceted digital assets, we offer an invaluable tool for strategic preparation and response, going beyond traditional risk management. The fusion of these data science efforts with the unique depth of our forensic accounting team allows us to provide not just a reaction plan, but a proactive strategy for potential bushfire scenarios. If you would like to learn more about potential bushfire impacts tailored by industry, region or scope of natural disaster, please contact us.

### Learn more

Contact domenic.quartullo@sedgwick.com to explore the potential impact of bushfires and how we can help.



[2] Measured as loss of gross profit after savings.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