

As seen the week of:

December 7, 2009

## WOMEN TO WATCH PAST HONOREES:

### WHERE ARE THEY NOW?

#### Karen M. Clark

Karen M. Clark, among Women to Watch that *Business Insurance* honored in 2006, made a dramatic career shift one year later.

The recognition honored her work with AIR Worldwide Corp., the catastrophe modeling company she founded in 1987. She stepped down in 2007 as chief executive officer and founded Boston-based Karen Clark & Co., a new catastrophe modeling and consulting firm.

Following criticism of catastrophe modeling stemming from Hurricane Katrina in 2005, Ms. Clark met with clients and found two trends she described as “garbage in, gospel out”: Insurers and other companies used inadequate data in the catastrophe models and relied too heavily on the results.

Today, Karen Clark & Co. aims to help companies and insurers improve their exposure data.

She said companies often misunderstand the meaning of modeling results such as 1-in-100-year catastrophe loss estimates. While some may see that figure as the maximum loss for a storm that will not happen for a long time, it really means there is a 1% chance that a storm will occur in a given year that would cause damage equal to or above that figure.

Ms. Clark said her firm is trying to “wean” companies off of using such “point estimates,” which she said are inherently unstable because of a lack of scientific data. Instead, she helps clients develop a range of scenarios to represent their risk.

“So the insurance company can visualize, ‘OK, these are the kinds of events I’m managing to, but no one knows what the exact intensity or track is going to be,’” she said. “There’s no way any group of scientists or model can tell you with any certainty, for example, what the probability of a (Category) 4 hurricane is in the Northeast or even a (Category) 3 is. They don’t know because we just don’t have the data.”

Her company also has developed products to help evaluate and improve exposure data, allowing companies to show such evaluations to a rating agency, she said.



Ms. Clark

“Ratings agencies are relying on the model results, but the model results are very dependent on the quality of data and they have no way right now to independently assess the reliability of any company’s data,” Ms. Clark said.

She said her firm also has been working with rating agencies, which often base an insurer’s reinsurance requirements on “point estimates.” If the model changes its 1-in-100 year loss estimate, an insurer may need more reinsurance.

“Catastrophe risk is the risk now and it’s the risk of the future,” she said. “If you’re going to write any kind of property business, you need to understand (catastrophe) risk.”

—By Zack Phillips