

Property & Casualty Trend Spotlight

The nature of natural catastrophes is changing and traditional ways of preparing and responding are no longer as effective as they used to be. In 2017, global insured losses from natural and man-made catastrophes reached an all-time high of USD 144 billion, and 2018 was the fourth highest year on record. Insurers and reinsurers need to review their natural catastrophe response plans with a renewed perspective. The human resources available to respond are diminishing, while the technology is developing at pace that can be overwhelming. Not only is it important to have a plan, but to adapt that plan to the evolving claims environment.

Preparing for natural catastrophes is a continuous process and is at the core of what our industry does:

- **Prior to the event** – planning, preparing and rehearsing
- **During the event** – adapting to changing conditions
- **Post event** – reviewing, revising the plan and being better prepared for the next event

Our industry excels when we work together to respond to catastrophic events and help insureds rebuild their homes, their businesses and their lives. This paper will examine how insurers can adapt their claims practices and keep their promise to their customers in light of the new normal for catastrophes.

Prior to the event

Know your exposure and how it may be changing

The first step to effectively plan for a natural catastrophe is to understand the events you may face. Do you know the perils to which your book is exposed? You might think so, but catastrophic events are continually evolving. Changing climate

and shifting populations mean more frequent and severe losses from familiar perils.

- Recent natural catastrophes have taught us that *clustered events* strain our industry's resources and increase loss and expense costs. In the US and Caribbean, hurricanes Harvey, Irma and Maria occurred within weeks of each other and resulted in a critical shortage of adjusters. In 2018, Japan experienced earthquakes in Osaka and Sapporo, floods, and two category 5 typhoons – all within a short period. These events led to a significant shortage of contractors to repair and rebuild, which was exacerbated by the demand for contractors for the 2020 Tokyo Olympics. The Swiss Re Institute warns that these clustered events will continue with more frequency. (*sigma*, No. 1/2019)
- Markets are seeing perils in regions that were not historically exposed. Warmer temperatures and longer periods of drought are becoming more common. In recent years, Central Europe has experienced an increase in hailstorms, many of them moving to the north more often than before. "Tornado Alley" in the US is creeping farther to the south

and east. Warming oceans and rising sea levels are enlarging areas prone to storm surge and flooding. At the same time, population and development continues to grow in coastal areas.

- In 2018, more than 60% of global natural catastrophe losses resulted from secondary perils – independent, high frequency, low-severity loss events like hail and wildfires or events that occur as effects of primary perils. Examples include a tsunami after an earthquake or heavy rains and flooding after a hurricane. Losses from secondary perils have been increasing due to rapid development in areas exposed to severe weather and warmer temperatures. It's a trend we expect to continue given ongoing urbanization in areas exposed to flooding and fire risk. (Read more about the threat of secondary perils in *sigma*, No.2/2019, Natural catastrophes and man-made disasters in 2018: "secondary" perils on the frontline.)
- Rising temperatures promote more frequent and longer periods of drought, which creates ideal conditions for wildfires. More people and property in the wildland urban interface are exposed to wildfire losses. In 2016, Canada suffered its largest natural

catastrophe when the Fort McMurray fire caused USD 2.88 billion in insured losses. (Learn more about the growing wildfire risk in Canada in the Swiss Re Institute March 2019 publication, *Wildfire in Canada: fostering resilience through advances in modelling.*) In 2017, California experienced its costliest wildfire season in history until 2018, when insured losses from wildfires exceeded USD12 billion. And this is a global phenomenon. In October 2017, a wildfire in Portugal caused USD 323 million in insured losses, the highest insured loss in that country. Wildfires in Greece in 2018 damaged or destroyed more than 1,000 buildings, and tragically, left over 100 dead. In recent years, wildfires have caused significant losses in Sweden, France, Germany, Russia, Indonesia, Australia and New Zealand.

A natural catastrophe response plan must consider not only past events, but anticipate the types of perils that your company is likely to face in the future.

Know your coverages and make sure insureds do as well

Insurers are intentional about the coverage they provide, carefully drafting policies that clearly state what is and is not covered. Before the event, make sure your terms and conditions are consistent with previously enforced language and anticipate unique and changing exposures. Be aware that regulators, courts, insureds and their advocates are going to make every effort to find or expand the limits of coverage following a loss event.

After catastrophic events, insureds are often surprised to discover the coverage available is not enough to rebuild their home or reopen their business. Demand surge increases the costs of repairing or rebuilding and it is important to factor those costs into limits for risk exposed to natural catastrophes.

- For commercial and residential building coverage we noted higher than expected demand surge. The California wildfire losses in densely populated developments and to high value homes resulted in a shortage of materials and trades to repair and rebuild. The clustered hurricane events in the Caribbean drove a higher demand surge on islands where materials and

labor were in short supply. For many insureds, properties were not insured to value, leading to the application of the coinsurance or average clauses. Insurers and their agents need to consider demand surge when determining appropriate limits in areas exposed to natural catastrophes.

- Following the flooding in Queensland, Australia last February, we found that contents were significantly underinsured. In many cases, homeowners had opted to take the default contents coverage limit, which covered less than a quarter of the loss. In a flood loss or any other water loss, the damage to contents is extensive. Insureds and their agents need to take that exposure into consideration when setting limits.
- Insureds can find themselves not covered for new types of risks or unanticipated exposures. In the Caribbean, many homeowners participate in vacation rental programs but did not have coverage for loss of rental income. Following the floods in Thailand, many businesses outside of the country that were dependent on parts manufactured in the impacted areas found themselves without alternative manufacturers or contingent business interruption coverage.
- Increasingly, natural catastrophes bring flooding as a secondary peril. Hurricane Harvey hovered over Houston for days, dumping record rainfall and causing flooding in large areas of the city, yet many did not have flood insurance.

Know your available resources and be creative

In the past, a company's natural catastrophe response plan would simply list the independent adjusting firms to contact after a loss. However, that is no longer adequate. Our industry is having trouble attracting talent to replace the professionals who are retiring and there is a shortage of adjusters in the market. When there are multiple, consecutive, catastrophically severe events, that shortage can be crippling. The industry experienced it after hurricanes Harvey, Irma and Maria and after the wildfires in 2017 and 2018. It is naïve to think that we can continue to rely on the same adjusters and other expert firms to handle the losses. The challenges we heard from clients were eye opening:



Swiss Re is committed to closing the natural catastrophe protection gap. Our focus in the past has been on regions or perils where insurance penetration is low. During the catastrophic events of 2017 and 2018, however, we discovered a growing protection gap in developed markets. Even in regions with known perils, coverage and limits were not adequate to make the insured whole.

It isn't a matter of having no insurance, but not having enough insurance.

We can do a better job of educating our insureds and their agents about perils, risks and policy terms, so insureds are covered to the full loss. Not only is it the right thing to do, it also eliminates disputes over policy terms and limits which can take valuable time and cost to resolve.

- When adjusters responding to Harvey were unavailable to respond to Irma a week later and to respond to Maria a week after that, the shortage was acute. Companies were recruiting qualified adjusters away from competitors to meet the overwhelming demand. Other companies were forced to renegotiate vendor agreements to retain the resources to adjust claims. In these situations strong vendor relationships are an advantage, but they can be strained by demand.
- In the Caribbean, insurers faced not only an adjuster shortage but also difficulty getting access to islands and approval of work permits. Many adjusters came from Europe or other regions, were unfamiliar with the market or the specifics of hurricane losses and often did not speak the local language. All of this increased the burden on insurance company staff to manage the adjustment process and led to escalating loss adjustment expenses.

It's time to rethink the way we manage the claims process in natural catastrophes because traditional resources may not be available. For instance, consider if there

are technologies your company can use – satellite imagery or drones – to quickly assess damage, triage resources or even determine total losses. After the Fort McMurray wildfire, satellite photos were analyzed to confirm total loss to homes. Drone technology was less effective in assessing losses following typhoon Debbie, as water damage was not detected.

Here are some additional alternatives to consider which can reduce reliance on adjusters:

- A managed repair program with trusted trades might bypass the need for an adjuster's estimate.
- Insureds could inspect their own losses with a smartphone app.
- Reporting procedures could be streamlined so independent adjusters spend less time completing reports and more time managing the repair process.

Whether you rely on adjusters, other experts or technology, the time to test the process is not during a large event. Work with staff and systems for non-cat losses to ensure they provide the services you need and provide a good customer experience.

Know the regulatory environment and anticipate emergency orders

Regulators, legislators and other government officials are eager to provide relief to their constituents after a natural catastrophe. In the US, for example, they issue emergency orders, interpretive memos and public statements with regularity. These actions can have a big impact on how we adjust losses and what we pay.

It's critical to consult with officials on potential challenges and ways for insurance companies and regulators to work together to respond to insureds' needs. Many of these officials may be responding to their first natural catastrophe and may not be aware of the impact these orders can have on our industry's ability to resolve claims. The time to develop relationships and provide information to regulators is before an event.

Work with industry associations and councils to prioritize regulatory issues and develop a strong message. Leverage the power of an industry organization. If you operate in multiple jurisdictions, work with

regulators to see if data calls or other orders can be standardized.

Know your business continuity plan and make sure your natural catastrophe response plan aligns

If your claims office is in a catastrophe exposed area, make sure you have a business continuity plan that allows you to continue to operate at peak capacity during the event. It may be helpful to have another regional office manage the extra volume of claims or non-cat claims, but make sure staff is trained prior to the event.

If you're going to rely on adjusters and other experts, make sure they have a business continuity plan that allows them to deliver the services you need. Ask for a copy of your vendor's business continuity plan and discuss it prior to the catastrophe. Adjusters may need to be creative to access the affected area and set up the necessary facilities to promptly service insureds.

During the event

There is often some warning – from a meteorological agency, alert system or news reports – that can give companies hours or even days to prepare for a catastrophic event. The key is to execute the plan you developed and tested, but understand there may be instances when you need to adapt to unique and changing environments.

Use real-time data to make smart decisions

You analyzed the type of event you are likely to face. Make sure you have real-time data – damage reports from satellites or public information, locations of reported losses, lines of business impacted – to confirm your assumptions or revise your plan. Tracking reported losses is important, but using public source data or your own technology to stay ahead of the reported losses is better.

Use your loss adjusters, other experts and technology effectively and creatively

An effective natural catastrophe response plan will list the loss adjusters and other experts with whom you are going to work. Ideally, these companies know the unique technical and legal issues of the country where the catastrophe occurred and have



The Adjuster Challenge

The challenges of recent catastrophic events reinforce what we already know: our industry is facing a critical shortage of adjusting talent. We need to focus on being responsive to the needs of insureds without being over-reliant on diminishing human resources. The adjuster of the future will act as a primary contact with insureds and the arbiter of coverages, but focus on managing a host of additional and expanded resources to resolve the claim.

- We need to better use the technology available to us. Much of it is cost effective and does not take a significant amount of capital. Satellite imagery is available, while drones are becoming more affordable and easier to use. Aerial views can often provide enough information to assess damages. With that data in hand, we can better deploy our resources elsewhere. Beyond that, we need to think about how to develop more effective technologies that will make our industry more responsive.
- Insurers are increasingly using smartphone apps to streamline reporting of losses as insureds demand faster and easier service. Many of these apps give insureds the ability to "self-inspect" their loss during a video chat with the insurers. The technology allows a company to resolve a loss or authorize quick mitigation or emergency repairs that prevent further damage before an adjuster is available to inspect the loss. And the apps can generate a real-time video record for the claim file.
- We also need to use other professionals to supplement adjusters. Enlarge your pool of vendors such as engineers, general contractors, roofers or other trades to inspect losses, provide estimates and where appropriate, perform the repairs. Equip and train more people to use the software available to provide consistent and reliable repair estimates.

staff to manage the volume of claims. But that's not always going to be the case. When adjusters are in high demand and short supply you often have to rely on other resources or methods.

Consider implementing a fast track process with lean documentation and quick payments. Can you give independent adjusters authority to settle losses and make smaller payments? A fast, fair, full and final settlement satisfies the insured and frees up valuable and limited staff to concentrate on more complex claims.

Communicate with your staff, your experts, your insureds and the public

Catastrophic events are stressful. Days are long and the work is difficult, so provide clear and consistent messages and establish effective lines of communication. Daily briefings with staff and key vendors are a good practice. Be candid. What challenges should the team be aware of and possibly help solve? Get the latest information from the field; is there unexpected damage, are there coverage issues, or are there unanticipated delays? If communication is compromised due to damaged infrastructure, many companies will send a team of managers to the affected area to facilitate the exchange of information.

Insureds expect easy and complete communication and they want it in a way and at a time that's most convenient for them. Consider alternatives to the traditional call center. Leverage the Internet, text messaging and apps to make the customer experience easier and free up valuable human resources.

Insurers can provide valuable information to the public at a time when there is a lot of confusion. Establish clear guidelines for responding to media inquiries and use traditional and social media to communicate with the public and demonstrate the industry's response.

Communicate with regulators and industry associations

A wave of regulatory actions will typically follow a natural catastrophe, and it is a good idea to have a person or a team dedicated to tracking orders, directives and guidelines. Ideally, this is someone who has a strong relationship with regulators and is outside of the claims organization so those

resources are not further strained. If your own resources are limited, take advantage of industry associations and councils to get information from and interact with regulators.

Confirm that the claims department and retained adjusters are aware of and complying with regulatory orders. It is also important that regulators are aware of any unnecessary burden their actions may place on insurers.

Regulators will request data and information from all companies in order to report on the development of the event. Your data analysts should have reports ready to respond to these requests.

Communicate with reinsurers

Your reinsurers are valued partners and want to help during these events. They also need to understand their own exposure. Know how your insurance program responds and update reinsurers with information they need to set their own reserves and issue payments quickly.



After the event

Review your response and adjust your plan

Our industry does an admirable job responding to global disasters, but we can always do better. Once the dust settles, the wind stops blowing or the fires are under control, it's time to review the event and see how we can do better the next time.

- **Pulse customer satisfaction.** What can you improve to make filing a claim less difficult?
- **Calibrate your internal modeling.** Were your initial estimates high or low? What factors impacted the estimates most? Can you control for those factors or do a better job of incorporating them in your estimates?
- **Review loss expenses.** LAE has become an increasing concern for our industry. Do you have data to analyze unexpected drivers of LAE? Was there increased litigation around any coverages? Did adjuster fees spike due to high demand?
- **Take a fresh look at your natural catastrophe preparedness plan.** Identify your strengths and weaknesses. Did you find any deficiencies? How did your

independent loss adjusters and other experts perform against established agreements and expectations? Improve where you can, but remember to celebrate your successes.

Work to prevent, not simply indemnify, losses

Natural catastrophes can teach us a lot about sustainability: where and how to build structures that can withstand perils of increasing severity. Insurers need to be actively involved in the discussion with industry associations, regulators and local governments to ensure more resilient construction and development. After recent large events we have seen updating of building codes and those efforts must continue. The recent wildfires in heavily populated areas of the wildland urban interface and the urban flooding in Houston after Hurricane Harvey underscore the need to look at broader zoning and development issues.

Our industry supports the testing of materials and construction methods that can withstand hurricanes, hail and fires, and that research has led to the conclusion that more resilient homes and business can be built at little or no additional cost. For example, the Insurance Institute for Business and Home Safety (IBHS) offers Fortified™ building standards and certifications for structures designed to withstand wind and hurricanes. With the certification, homeowners and businesses can offset the cost through premium discounts with partnering companies. Recent inspections following Hurricane Florence showed the homes built to the Fortified™ standards suffered less damage than other homes.

Conclusion

The rapid emergence of new natural catastrophe risks and growing complexity of more mature risks will stress claims organizations unless we adapt to this new normal. Increasingly erratic and severe weather patterns are threatening communities, businesses and residents on an expanded scale, which will require insurers to rethink their preparation and action plans, leveraging new resources and technology and using talent more wisely.

We're smarter together