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Lessons Learned: What Hurricanes Have Taught the Insurance Industry

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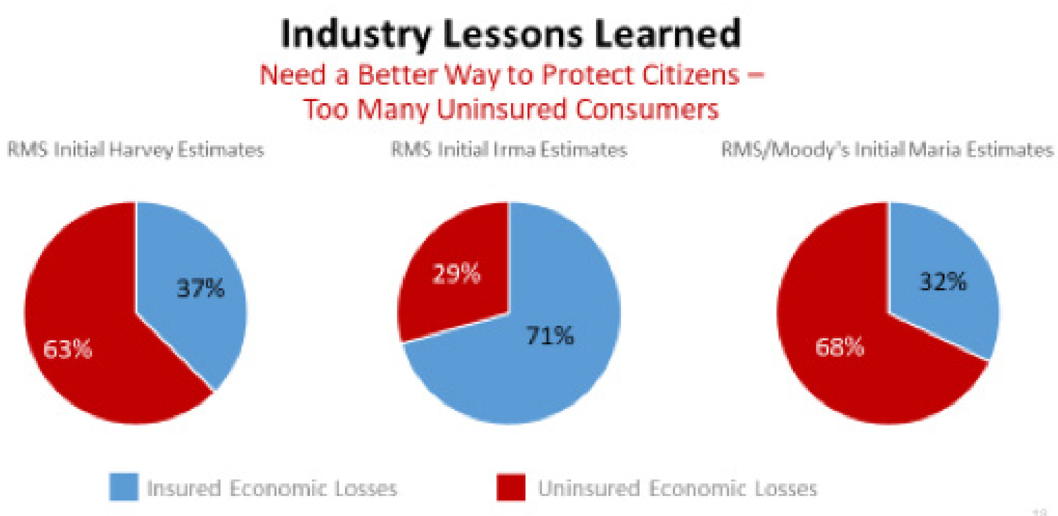
Lessons Learned: What Hurricanes Have Taught the Insurance Industry

Large natural disasters create important opportunities for insurers, reinsurers, federal, state and local officials, business leaders and community leaders to learn and make necessary adjustments to respond to future catastrophic events. The insured losses and damages caused by three extreme hurricanes (Harvey, Irma and Maria) and massive wildfires make 2017 one of the costliest years on record. Valuable takeaways from these events can be used by insurers in collaboration with other stakeholders to review operations and policies and determine how to more effectively manage catastrophic risks and educate the public to be better prepared for future disasters.

A CRISIS IN COVERAGE: TOO MANY UNINSUREDS AND UNDERINSUREDS

One of the most important takeaways from studying the 2017 hurricanes was the large number of uninsured individuals and businesses. Hurricanes can cause a great deal of flooding, and many people do not realize that flood damage is not covered under a standard homeowners policy. As a result, many homeowners who[1] sustain flood damage to homes and autos are often not eligible for insurance support because they did not have flood coverage. Insurance proceeds are the best source of recovery after a natural disaster. While flood victims may get federal aid, it is not a substitute for insurance.



Early estimates by Risk Management Solutions reveal about 63 percent and 68 percent of losses stemming from Hurricanes Harvey and Maria, respectively, were uninsured. About 29 percent of losses from Hurricane Irma also were uninsured.

These uninsured loss statistics are supported by a McKinsey analysis[2] that shows the uninsured flood rates among homeowners in Texas, Florida and Puerto Rico are as high as 80 percent, 60 percent, and 99 percent, respectively. Although flood insurance is not required

1 Flood is only covered for automobiles insured with comprehensive coverage.
2 McKinsey & Company, "Insuring hurricanes: Perspectives, gaps, and opportunities after 2017," Dec. 2017.

for those who live outside high risk flood-prone areas designated by the Federal Emergency Management Agency (FEMA),[3] homeowners can still obtain this important coverage through FEMA's National Flood Insurance Program (NFIP) or a private flood insurer.

Reasons why people may not have flood insurance, include the following:

- Mistaken belief flood damage is covered under their homeowners' policies.
- Mistaken belief that if they reside outside a high risk flood-prone area, a flood will not occur. While this belief may have been valid at one time, recent studies show that extreme coastal and river flooding is emerging as "the new norm" prompted by rising sea levels and climate change.[4]
- Liquidated or defaulted mortgages lead to a drop of flood insurance.
- Difficulty understanding the coverage and policy exclusions.
- Mistaken belief that flood insurance may to be too expensive.
- Mistaken belief governmental assistance will be available in the event of a flood.

Another key takeaway from studying the 2017 hurricanes was that many people do not have sufficient homeowners coverage to pay for their losses stemming from non-flood hazards such as heavy winds. For example, appropriate coverage amounts for losses from wind may often be underestimated by thousands of dollars. While insurers help homeowners evaluate their coverage needs, homeowners are ultimately responsible for making an informed decision about their policy limits.

Insurance is essential to recovery efforts after a natural disaster. Not only does insurance support efforts to rebuild lives and property after a large loss, but it also helps to stimulate the economy after a large loss. Recognizing the importance of this role, the private and public insurance sector, along with regulators, is taking steps to educate consumers about the importance of having the right type and right amount of insurance to effectively protect against losses after a natural disaster.

INSURER LESSONS ON PRE- AND POST-STORM OPERATIONS

There are other major lessons learned that may help reduce future losses and help disaster recovery efforts function more smoothly in the future. Some of these lessons[5] include:

Communication with Policyholders

- Pre-storm communications with policyholders may help emphasize safety and lead to greater protection of property.
- Post-storm communications with policyholders may help with early reporting of claims.
- Early utilization of electronic communication, including social media may help to create continuous communication with CAT victims to advise on emergency services and answer questions.

3 Federally regulated or insured lenders require flood insurance on mortgaged properties that are located in high risk flood areas. Even if a property is not a high flood risk, a mortgage lender may still require the homeowner to have flood insurance.
4 National Oceanic and Atmospheric Administration.
5 Most of these lessons, or variations of these lessons, are extracted from a presentation given by Florida Farm Bureau Insurance before the Federal Advisory Committee on Insurance on Dec. 6, 2017. To see the entire presentation, go to: https://www.treasury.gov/initiatives/fio/Documents/December2017FACI_FLFarmBureau.pdf.

Pre-storm Operational Preparations

- Facilities – Ensure generators and out-of-state call centers are functional.
- Staffing – Prepare in advance for out-of-state and independent adjusters (including emergency licensing and housing needs).
- Systems –Create plans to immediately implement changes in regulation issued by Insurance Departments, such as, suspended premium billings and cancellations/nonrenewal. Update claims systems as needed.
- Communicate with reinsurers to make sure funds are readily available for paying claims.

Post-Storm Operations

- Advanced technologies (e.g., drones and granular satellite imagery) may improve the accuracy of damage assessments and speed in handling claims.
- Geocoding and blockchain technology may increase claims assignment and settlement efficiency.
- Meeting and talking with victims may help process claims as quickly.
- A local call center may help with initial claim volume and increased communication needs of victims.
- Changes to e-titling rules at the state and federal level may help banks and insurers to expedite procedures to settle total loss auto claims.

ANOTHER LESSON: BEWARE OF SCAM ARTISTS

Insurers are constantly investigating potential fraud practices, especially after natural disasters. These events tend to bring out numerous scam artists who look for ways to take advantage of victims during times of crisis and make a profit. Unscrupulous third-party vendors, unlicensed contractors and public adjusters often reach out to victims and have them sign an "assignment of benefits" to start repair work. By doing so, policyholders essentially give up their claims rights, which can result in exorbitant costs, delays and even lawsuits that ultimately hurt everyone.

Dishonest public adjusters and contractors may charge large upfront fees – e.g., after Superstorm Sandy (2012), some New Jersey residents were "*charged as much as 50 percent of their insurance recovery*."[6] Work done by a dishonest contractor may be poor or incomplete and some individuals often file false and inflated claims or use their position of trust to access the homeowner's Social Security number and other personal data for identity theft. Since public adjusters have a vested interest in the final settlement amount, some commit fraud to increase insurance payouts. In one case, a public adjuster in North Miami Beach pled guilty to first-degree fraud for pocketing $360,000 from 82 clients.[7]

Insurance fraud is a very serious criminal activity, not to be taken lightly. During 2004-2009, the Florida Division of Insurance Fraud made 31 arrests related to public adjuster fraud.[8] State, national and local authorities regularly issue urgent consumer alerts about shady contractors just before and after disasters. More states have passed laws establishing tougher licensing requirements for public adjusters and to prevent contractors from offering inducements to get business. Insurers and regulators are also working together to improve public awareness

6 NJ.com, "Assemblyman looks to cap public adjuster fees after Sandy-gouging complaints," Nov. 27, 2012.
7 South Florida SunSentinel.com, March 10, 2011.
8 Florida Office of Program Policy Analysis & Government Accountability Report No. 10-06, Jan. 2010.

of fraud. Their anti-fraud messages include avoiding door-to-door contractors, verifying licenses and doing background checks, getting a signed contract, working with insurance agents, and understanding one's rights. These types of coordinated partnerships have proven to be effective, and more are needed to get the word out.

BETTER PREPARATION FOR THE GROWING FLOOD THREAT

Communities can also gain valuable insights from past natural disasters. Local authorities may recognize the need to plan for and adapt catastrophic events and ensure the community infrastructure (roads, bridges and dams, etc.) is fortified to withstand the forces of a possible natural disaster. Loss mitigation systems along with a strong, uniform statewide building code may help minimize property damage and protect the environment. This is important because responsible land-use policies that ensure loss prevention may spur future growth and land development. In addition, less property damage following a CAT event reduces the need for federal/state disaster aid and can help expedite a community's recovery. Recovery is a benefit both to society and to the economy.