



## **Prepare to Handle U.S. Hurricane Claims Wherever the Storm Strikes**

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## INTRODUCTION

Natural catastrophes, seemingly one after another, occurred around the world in dramatic fashion in 2011. There were earthquakes, tornadoes, hurricanes, thunderstorms and floods. The insurance industry's tab for insured losses from these disasters was \$105 billion, according to Munich Re, the world's biggest reinsurer.<sup>1</sup> The insured losses were the second-largest in a single year, behind the \$123 billion in 2005, the year Hurricane Katrina walloped New Orleans.

In the United States, which incurred about \$40 billion of the global insured losses last year, tornadoes did far more damage than hurricanes. However, Hurricane Irene, a Category 1 storm, will be long remembered for its lashing of the Northeast Atlantic coast from North Carolina, where it made landfall on August 27, to Vermont. This is a Northeast region unaccustomed, and one could argue, unprepared to deal with hurricanes, their vast property damage, severe business interruption and the resulting extraordinary demands on claims processing and claims resolution. Indeed, this was the first hurricane to hit the Northeast and New England in 20 years since powerful Hurricane Bob in 1991.<sup>2</sup> Hurricanes in the United States most often are associated with Florida and the Gulf of Mexico.

Although Irene touched 14 states and was blamed for 40 to 45 deaths, it could have been a much costlier disaster for the insurance industry. According to the Property Claims Services unit of ISO, a leading source of U.S. property/casualty insurance data, this hurricane caused \$4.3 billion in damages to insured business and residential properties.<sup>3</sup> And it should be noted that a big portion of Irene's losses were due to flooding rather than wind, so they were covered by the National Flood Insurance Program rather than the private insurance marketplace.

Still, Irene should serve as a loud wake-up call to the entire insurance industry to take heed and not be complacent about preparing for a much harder blow in the Northeast from Mother Nature during the mid-Atlantic hurricane season in 2012—which began June 1 and ends November 30—and beyond. Remember: Irene's wind intensity fell to tropical storm levels by the time it made landfall in New Jersey, New York and the New England states. Yet, this hurricane—no stronger than a Category 1 when it reached land in North Carolina—disrupted virtually all air, rail and seaport traffic along the Atlantic coast and temporarily shuttered businesses up and down the busy Interstate 95 corridor. And electrical outages caused by flooding forced the temporary shutdown of the entire New York City subway system.

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Insurance carriers, brokers and claims management firms and vendors are quite experienced with predictive modeling, which enables them to price insurance risks for policyholders based on worst-case scenarios. This mentality and forethought is exactly what the insurance industry needs to be ready for a mighty destructive Katrina-like hurricane that barrels up the Northeast coast and passes directly over New Jersey, New York City, Long Island, Connecticut and New England.

The insurance industry probably has long forgotten or remains completely unaware this worst-case Northeast cyclone happened before in 1938. The powerful Category 3 hurricane was dubbed the Long Island Express. After killing 10 people in New York City and knocking out power north of 59th Street in Manhattan and in all of the Bronx, its eye passed over Long Island and New England, causing about 200 deaths, according to the New York City Office of Emergency Management.<sup>4</sup> *The New York Times* called it the most disastrous hurricane to ever strike the Northeast.<sup>5</sup> It could happen again, and with the high population density that nearly 75 years of residential, commercial and infrastructure development has brought to the Northeast, it would be far more catastrophic. This would be the monster storm the insurance industry faces and must prepare to handle in the Northeast—the storm that the National Hurricane Center has estimated could cause property damages between \$50 billion and \$100 billion.

Irene last year provided many lessons for the industry to carry forward and use to prepare for future storm seasons. Among the most important lessons are:

- the broad geographic spread of a Northeast hurricane makes adjuster logistics and claims field operations more difficult;
- the heavier population density means more claims to adjust per square mile;
- and the severity of the storm has the potential to be greater because Northeastern storms don't typically just puncture the coast, but tend to damage wider areas, causing massive coastal and inland destruction.

The rest of this white paper details thoughts and solutions for claims management vendors and carriers to help them be as prepared as possible for the worst natural disaster that could occur in the Northeast during the mid-Atlantic hurricane season. Some of these thoughts and solutions also would apply to storms making landfall along the Florida coast or Southwest Gulf coast. No matter the geographic area, each hurricane requires a claims response and management plan that accounts for the nuances in location, timing, severity and angle of attack. Will it be the fourth in a succession of hurricanes like Ivan in 2004? Will it slam the Gulf like Katrina in 2005? Or will it scrape the coast from North Carolina to Maine like Irene last year?

## **PRE-HURRICANE SEASON (DECEMBER THROUGH MAY)**

During the off-season, claims vendors and carriers do the crucial preparation internally and externally to have the capability to efficiently handle storm claims during the six-month mid-Atlantic hurricane season, which officially started on June 1. The level of readiness for the storm season depends on how thorough and comprehensive the preparation. Three key components of this external preparation for claims vendors are negotiating catastrophe agreements with carrier and wind pool clients, securing an adequate number of independent licensed catastrophe

claims adjusters, and then engaging the adjusters in continuing education to ensure they understand and achieve expectations set by claims vendors.

Each of these items should be included in any storm season preparation plan by claims vendors, no matter if a hurricane or tropical storm makes landfall anywhere in your clients' coverage areas. Each is especially critical, and also can prove challenging, when it comes to getting ready for a potential storm in the Northeast. Let's examine each item in more detail.

### **Clear and candid communication and negotiation between claims vendor and insurance carrier and wind pool clients.**

These discussions should be open and honest about possible outcomes and effects of a storm so the vendor can learn enough information about a client's policyholders, their respective loss histories and unique policyholder needs. Then the vendor can make a reasonable estimate of how many trained catastrophe adjusters should be assigned to a client in various cities and states to document and determine the cost of repairing storm damage to insured property.

The vendor and carrier both benefit from candid off-season communication because it allows the vendor to determine before a storm hits how many adjusters likely could be needed in geographic regions to adjust, process and resolve catastrophe claims for the carrier. Carriers who share updated policyholder demographics and claims data with claims vendors can expect to have the best claims resolution outcomes in the aftermath of a hurricane.

This communication between claims vendor and carrier client is prudent no matter the size of the carrier, but it should be deemed a necessity for large property/casualty carriers with policyholders spread throughout the Southeast, Southwest and Northeast. Vendors will be able to give carriers a solid estimate of costs likely to be incurred to hire the adjusters, most of whom work as independent contractors.

In the best-case example, communication and negotiation between a claims vendors and client carrier yields a meaningful catastrophe agreement, including a stipulated adjuster commitment from the vendor and the client possibly agreeing to share a portion of the adjuster costs for meals, hotels and security when adjusters are doing work on the ground. Although a cost-sharing arrangement to cover adjuster costs is considered rare in the industry, it can be appropriate if a claims vendor can bring added value to a carrier.

### **Securing an adequate number of independent licensed catastrophe claims adjusters.**

The claims vendor operates with the commitment to have a licensed and properly trained catastrophe adjuster personally examine damaged property involved in a claim as quickly as possible after a storm passes. To accomplish this, the aforementioned claims vendor-carrier client communication has to be coupled with ongoing recruitment of adjusters.

Before the storm season is the best time for claims vendors to reach out to adjusters and build solid professional working relationships with them. One way to formalize this is for claims vendors to host one- or two-day catastrophe conferences and invite

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adjusters, prospective adjusters and carrier clients to convene to get acquainted and learn the expectations of vendors and clients. If a claims vendor has a market territory covering the Southeast and Northeast, for example, separate conferences should be hosted in those respective regions for adjusters from those areas.

Now that Irene has hopefully reminded the insurance industry that Northeastern states are certainly vulnerable to a wide-ranging, extremely destructive hurricane, it would be prudent to hold a pre-season conference for adjusters in the Northeast. These catastrophe conferences serve another very important purpose, and that leads to the third key component of claims vendors' external preparation for hurricane season.

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### **Engaging the adjusters in continuing education so they understand and meet the catastrophe needs of claims vendors.**

When recruiting independent adjusters to work on catastrophe claims, claims vendors need to be sure they can depend on adjusters who live in the states and regions where their carrier clients operate and have clusters of policyholders. Vendors use catastrophe conferences to determine regions they can easily cover with adjusters and areas of the country in which they need to recruit more heavily. Then vendors have to make sure adjusters are trained so they can obtain the proper licensing to work on claims in their home state and surrounding states.

It's a given that plenty of adjusters will be available and licensed to work in a hurricane-prone state like Florida. However, in many states in the Northeast, this proved to be a stiff challenge with Irene. States such as New York, Connecticut and Vermont have different licensing requirements that claims vendors need to learn so they can get adjusters from those states trained and licensed.

For example, New York requires that claims adjusters be sponsored by an insurance carrier to obtain a license. And if vendors plan to handle claims in New York for multiple carriers, they will need to secure a sponsorship from each carrier client. It's extremely important that vendors with clients in New York secure these adjuster sponsorships and licenses before the storm season. Trying to do this on the fly after a hurricane will at least cause big delays in adjusting and at worst prove chaotic or unworkable.

Internally, claims vendors should aim for a productive pre-season that focuses on reviewing and potentially upgrading technology used in-house and in the field to process, review and resolve catastrophe claims, and dashboard technology used to monitor claims handling activity from a central home office. It's also efficient for vendors to empanel a dedicated and multidisciplinary storm preparation and action team. This team will have myriad duties, including leading pre-season preparation and coordination, serving as the liaison between vendor catastrophe managers, adjuster team leaders, and the 24-hour claims in-take center after a storm, and helping monitor claims activity and quality control from a vendor's central home office.

When adjusters are on the ground examining claims after a storm, this team should be prepared to maintain daily communications with team leaders and vendor catastrophe management personnel in the field. In addition to systems protocols, staffing and technology reviews, another central element of planning is a claims

vendor decision on a tactical strategy for handling claims after a storm. It's crucial for claims management firms to select an approach that fits with the framework of their staff expertise and clients' needs to have claims adjusted and processed expediently. That approach then needs to be clearly communicated to essential personnel inside and to the carrier and wind pool clients.

## **DURING MID-ATLANTIC HURRICANE SEASON**

The hurricane season officially starts June 1, but outside the Southeast and Gulf Coast nobody pays too much attention. That's because storms typically have made landfall along the Atlantic coast during the peak of the season in August, September and October. Particularly during these most active three months of the season, claims vendors need to be monitoring reports of potential hurricane activity from the National Hurricane Center.

Once a tropical storm forms, becomes a named hurricane and is within five days of making an expected landfall in the United States, claims vendors should actively prepare to launch a catastrophe claims handling ground operation. That means identifying catastrophe team field supervisors, placing adjusters on standby and convening daily the storm preparation and action team at the central home office to get up-to-the-minute reports on most likely storm tracks and ongoing preparation in the field. Also, catastrophe sales personnel should be contacting clients to make final projections of their expected needs for claims adjusters. The client contacts should continue, particularly with large carriers, when a hurricane is within 72 hours of landfall and National Hurricane Center models and meteorologists specify the most likely storm path.

It's at this juncture that vendors should move to make tentative plans for locating a central induction center, a starting spot for all catastrophe adjusters to converge after the storm passes. Multiple cities should be considered for the eventual center location. There should be flexibility on the eventual location until reliable weather reports seem to pinpoint where a hurricane will make landfall. The goal should be to open the induction center in a central location as close as safely possible to the storm-damaged region.

Another of the many lessons Irene taught was induction centers in Pennsylvania, New Jersey, or somewhere in the Northeast, rather than in the Carolinas or further south, would have been more efficient and effective. With Irene as a dry run for future Northeast storms, more claims vendors should be better prepared to set up an induction center in the Northeast or New England if the storm track and client demographics dictate that.

## **AFTER THE HURRICANE: ASSESSING THE DAMAGE**

A claims vendor should open the induction center for catastrophe adjusters and catastrophe services field staff within 24 hours after the storm passes. Although that should be the goal, all hurricanes are different and unpredictable events on the ground could delay the opening. The important thing to remember is you never want adjusters to put themselves in danger to get to the induction center. Ideally, after they are told where the induction center will be, they will plan to take

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the safest route and mode of transportation to get there. At the same time, claims vendors should plan to begin taking claims on the telephone and online 24 to 48 hours following the storm. Of course, vendors need to communicate necessary information to carrier clients for them to file the claims.

Once the claims processing operation starts, it should operate 24 hours a day, seven days a week for as long as necessary to process, follow-up and resolve most or all the storm claims. After adjusters gather at the induction center, the vendor's catastrophe team will give them their initial claims caseload, make sure they have proper licensing, give each a team leader or supervisor contact to touch base with daily and help them load the latest pricing software into their laptops.

Again, it's important to emphasize that if a hurricane makes landfall in Northeastern states, claims vendors should plan to have adjusters from those states to process claims there. They will better understand the culture and expectations of policyholders in their home areas. This will allow for better rapport and human interaction between adjusters and policyholders and should reduce the number of complaints about claims handling.

Before the adjusters fan out into the field, claims vendors should check if clients have any special needs or emergency requests. Larger clients with hot spots of major storm damage might want to have a team of adjusters dedicated to handling those areas. For certain other carrier clients, it might be best to embed adjusters within their claims operation. It's also necessary to keep a group of adjusters inside to support telephone claims processing and the claims vendor's central home office.

The vendor's senior catastrophe management team huddled at the home office should plan to hold at least daily conference calls with catastrophe operations managers and adjuster team leaders in the field to identify and quickly respond to client inquiries or issues that develop because of the severity of the storm damage. To gain intelligence or to better triage certain claims, the vendor can invite clients to participate in conference calls. This brings them into the communications loop and allows them to offer helpful input. It also demonstrates good customer service.

While the extensive claims handling operation unfolds in the field, a vendor's senior catastrophe team at the home office should monitor storm claims open-and-close activity via risk management computer dashboards. This important internal oversight of the overall operation also enables the claims vendor to keep track of claims costs and anticipated revenue.

The senior team at the vendor's home office also must ensure that the safety, health and personal security of all adjusters and catastrophe services staff in the field remains a top priority. This can mean certain employees in the field are given inoculations, mandated breaks from the stressful work to avoid fatigue, private security in high-risk areas and grief counseling. It's important for the home office to delegate claims handling operational authority to the catastrophe managers on the ground so they can make tactical decisions and deal with client quality control issues as they arise.

In the end, it's in the best interest of the claims vendor and carrier clients for the vendor to adjust each and every property damage claim. Remember that policyholders will be satisfied if an adjuster visits their respective properties as quickly as possible after a hurricane.

## Contact Us

For more information on Crawford Catastrophe Services and how we can help you prepare for any hurricane, contact us at 866.572.8772 or via email at [whitepaper@us.crawco.com](mailto:whitepaper@us.crawco.com).

## About the Author

*Paul Bomberger is a veteran business writer and editor who directed the property insurance coverage at the **Palm Beach Post** newspaper during hurricanes Frances and Jeanne in 2004 and Hurricane Wilma in 2005. After that, he directed the property insurance coverage at the **South Florida Sun Sentinel** newspaper in Fort Lauderdale from 2006 to 2009. More recently, Bomberger was editor-in-chief of **Risk & Insurance**<sup>®</sup>, a national monthly trade publication that covers commercial insurance, including property/casualty, and risk management trends.*

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## Endnotes

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- <sup>5</sup> "Historic Hurricane Could Catch Northeast With Its Guard Down," *New York Times*, Aug. 23, 1994.







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