

Insurance Industry Responses to Weather

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There is an old saying that you cannot change the weather. However, the insurance industry can and does change how it responds to weather-related events. These responses include modifications of policy conditions, such as exclusions and special deductibles, and use of new technology including drones, storm tracking and measurement tools. In addition to deductibles and exclusions, some states allow moratoriums on binding new business when a storm is predicted. Helping clients understand the impact that weather events may have upon their coverage is another value-added service of the professional insurance agent.

Percentage deductibles, especially for hurricanes, are now standard in some areas. The impact on the policyholder in a claims situation can be the difference between paying for the damage themselves or having the insurance company do so. A 2% deductible on a \$400,000 house or business structure is \$8,000 versus the other perils flat \$500-\$1000 deductible. In October 2012, policyholders in the Northeast were spared the higher percentage deductible when Hurricane Sandy was reclassified to a tropical storm.

Hail and wind damage to roofs may be subject to valuation and reporting restrictions. Actual cash value settlement is often required for windstorm or hail damage to roof surfaces. Some insurers have imposed a time limit on reporting hail damage. Forensic engineers are often hired to determine whether hail was actually the cause of the damage.

Improvements in technology have expedited the claims handling process. The ability to forecast major events enables insurers to get their catastrophe management teams in place prior to the storm. These teams are avail-

able 24/7 and are trained to handle claims across product lines, thereby expediting the settlement process. Drones are used to take pictures of damage to areas that may be inaccessible. Some companies even use drivers for local ride sharing services such as UBER and LYFT to take pictures and perform other duties, including picking up police reports. Claims can be paid on the spot with a prepaid debit card that is also reloadable. This gives insureds access to money even if the banks are not open.

Catastrophe modeling is a tool that gained acceptance following Hurricane Andrew. Insurers were apparently unaware of the concentration of property values that were at risk. In fact, one early cat modeling company estimated the damage from Andrew at \$13 billion – a magnitude that many thought to be impossible (www.air-worldwide.com). In reality, Hurricane Andrew resulted in \$16 billion in insured damage, and the failure of numerous insurance companies (www.iii.org). Catastrophe modeling enables insurers and reinsurers to estimate potential losses from various perils, including hurricanes, wildfires and other weather-related events.

Flood damage is excluded from standard policies. Flooding is becoming increasingly more common, in part due to continued commercial and residential development. This can result in less open spaces, with inadequate drainage. The water has nowhere to go. For many years, the primary option for flood coverage was the National Flood Insurance Program (NFIP). NFIP coverage places caps on coverage limits available as well as restrictions on the type and location



of property covered. There is a 30 day waiting period for coverage to be effective under NFIP. Private flood insurance is growing in popularity, offering expanded coverage, lower premiums, and shorter waiting periods. It is estimated that the private flood market could reach \$40 billion (www.insurancejournal.com).

2017 was a record year for major weather events, with 216 events exceeding \$1 billion in damage each, for a total of over \$300 billion. Causes included hurricanes, wildfires, flood, drought, hailstorms and freezing. The insurance industry may not be able to control the weather, but it can adapt its policies and procedures to enhance coverages and claims handling. Helping clients understand the impact of weather on their insurance policies, and methods to avoid unpaid claims, is another value-added service of the true insurance professional.

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