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Hurricane Season:
How COVID-19 Could Impact Catastrophe Claim-handling

If you think the COVID-19 pandemic has all the makings of a nightmare scenario, take a deep breath. It's about to get worse. The official start of "hurricane season" in the United States is right around the corner. Although 2019 was relatively tame, 2017 and 2018 were not. Five major landfalling hurricanes over those two years continue to have an effect on the global re/insurance industry. In fact, Hurricane Irma, from 2017, has become the longest-developing loss estimate in PCS® history, at more than 30 months so far.

Even a moderately active 2020 hurricane season could be extremely problematic for the global reinsurance industry. The reinsurance market is still responding to issues from the 2017 (and 2018) losses. Retrocessional capacity remains tight, and the 2019 natural catastrophe losses in Japan have impacted global reinsurance capacity further, with implications for capital allocation up and down the risk and capital supply chain. And aside from tropical storms, recent memories of extremely severe wildfires and severe convective storm events have shown that significant catastrophe losses can accumulate from perils long believed not to be able to drive outsized insured losses.

Of course, the entirety of the 2020 hurricane season is framed by the COVID-19 pandemic. Reduced in-person interaction mandated by many companies, potential shortages of skilled and experienced labor due to infection, and the reluctance of claimants to interact with strangers (whose health is unknown) represent only a few of the factors that could strain claims operations if we were to see another year like 2017. While measures such as "social distancing" will ultimately benefit society as a whole, they could make claim-handling difficult in a gentle loss environment.

PCS recently reached out to more than 20 claims-related organizations, including independent adjusting firms, insurance company claims departments, wind pools/residual markets, and catastrophe reinsurance teams covering the United States and Canada (includes organizations based in Bermuda, the United Kingdom, and continental Europe focusing on North America) as well as for insights into how the industry would handle a major catastrophe during this year's hurricane season.

1. Is remote adjusting mature enough to scale sufficiently to make a dent in claims post-hurricane?

This is perhaps the most important question on the minds of reinsurers and ILS funds around the world, particularly ahead of the June 1, 2020, reinsurance renewal (focused on Florida). So far, our clients and partnering organizations have indicated that the technology certainly exists to support remote adjusting, with several specifically mentioning ClaimXperience® (produced by Xactware®, like PCS, a Verisk business) for interior inspections. Drones can be useful in expecting property exteriors, and we'll cover them in more detail in another section below.

We found from claims teams in the United States that as much as 40 percent of the claims from a hurricane could be handled remotely. This would include claims without payment, which would make up a good portion of the 40 percent, as well as claims where there is only exterior damage. Some reinsurers expressed some skepticism about the ability to scale the use of such tools quickly—while conceding that such solutions have been used on a more limited basis for several years. However, when discussing the pressures that insurers would face after a major catastrophe event, they did reveal that necessity could drive the adoption necessary for remote adjusting to become a significant help across the industry. In this regard, the insurers that will be handling catastrophe claims may be further along than some of their reinsurers realize.

As one respondent from the U.S. insurance industry stated, "The technology is there. We just have to embrace it."

For smaller claims, it seems, remote adjusting could help shorten the claim-handling lifecycle and obviate the need for boots on the ground. For larger losses, we're told, it could be a way to help provide advance and initial payments to claimants, verify total losses for companies who have streamlined total loss claim settlement procedures, as well as verify extent of damage to confirm the need for additional living expenses (although follow-up visits would be required). Even those advantages, though, provide for less face-to-face engagement, which would result in reduced risk of COVID-19 transmission and also manage the risk of elongated claim lifecycles.

Among the greatest barriers to remote adjusting is the presumed lack of technology adoption (or comfort) with aging populations. Elderly claimants, in particular, may not feel comfortable engaging with adjusters using smartphone apps (such as FaceTime) or other tools such as ClaimXperience. Unfortunately, this demographic has also been identified as being at the most risk when exposed to COVID-19. Younger generations, on the other hand, may see remote claim-handling as a better way to deal with an insurance company and help drive today's experiments to become standard in the future.

Ultimately, if the insurer can show a claimant the advantages of at least limited remote/self-help claim-handling, then it will be able to reduce cycle time and LAE while simultaneously improving the claimant experience. Further, it'll be important to emphasize that such remote services would presumably reduce the risk of COVID-19 transmission.

One respondent put it best: If the "old way" would take 30 to 60 days, and the "new way" would take less than a week, they'll be more likely to adapt. However, PCS notes that such enthusiasm or compliance by claimants wouldn't mitigate the risk of their misuse or inaccurate use of technology, and adjusters should be ready to help claimants get comfortable with the tools they'll literally have at their fingertips.

Beyond demographic concerns, we learned that claims where a determination on wind or water is necessary would more likely require an on-site inspection, and strain on global internet infrastructure provides a risk point that claims teams (and other re/insurance industry stakeholders) shouldn't ignore. Furthermore, regarding interior damages, additional feedback we have received from multiple sources indicates that insurers should prepare for elevated water mitigation and mold remediation expenses, which historically have been a claim expense of concern for insurers. The inability to swiftly have water mitigation performed on a loss that requires the service could result in mold and organic growth in a structure, which would cause the loss expense on a claim to multiply significantly. Finally, risks with multiple losses may require on-site inspections.

In the near term, respondents suggest that our industry prepare for a mixed bag. We should be able to see an increase in claims closed through remote means with reduced-touch or no-touch experiences. And remote adjusting should at least make a dent in claim loads following a major event like a hurricane. Other opportunities that could reduce (but not remove) the need for on-site interaction include: allowing confirmation and documentation of covered peril/loss, enabling appropriate advance payment on claims prior to physical inspection, and concluding smaller claims without any physical inspection at all.

2. What new key tools and practices currently being piloted could be ready for broad adoption and implementation this summer?

Adapting to a post-catastrophe claim-handling environment shaped by COVID-19 wouldn't necessarily require the claims community to figure out new tools and systems on the fly. Rather, it would merely require accelerating the broader implementation of tools that were already being evaluated before the pandemic, or even simply expanding implementations that were already in place. The integration of new tools and practices may involve much less uncertainty than one might think initially.

Quite frankly, the claims community is quite well-prepared.

Perhaps the most important opportunity claim handlers have is to bring the insured into the process more. Accepting claimant photos to establish scope of loss would help. Then, the adjuster could write an estimate based on that claimant-provided supporting material. Live-streaming, video collaboration, and measuring applications (for interior features) can also help the claimant support the adjuster. One respondent noted that many of these new technologies are already in use with auto claims to great effect. For events with disproportionate auto losses (e.g., where there's significant damage from flood), new technology in the claims community should make a bigger difference.

There is some concern that new technologies—from collaboration tools with claimants to artificial intelligence—aren't going to be ready for a major catastrophe event this summer. Our respondents seem divided on this issue, and the context of the claim does make a difference (as described in the previous section). Older claimants may struggle with the technology intended to empower them, and insurance agents may try to re-intermediate themselves, ostensibly to "benefit" their clients.

Concerns about potential lack of (or even significantly degraded) internet or cellular access during and after major catastrophe events came up several times in the responses PCS received. Increased app and device use for remote adjusting is of limited value at best if bandwidth is strained by overuse—a lesson many likely learned with two adults working from home recently, and perhaps children consuming even more bandwidth for online schooling. Impact to internet reliability could limit remote adjusting alternatives, especially in remote areas. As a result, apps and tools could help but may not be able to wholesale change claim-handling overnight.

Ultimately, the claims community had made considerable progress in developing, adopting, and implementing the tools that could help prevent claim backlogs and manage cycle time during a catastrophe. Because of this, the industry is well-positioned to use those advances to alleviate the elevated pressure they would experience following a catastrophe as a result of COVID-19. According to our respondents, the industry is unlikely to automate the majority of claims, at least in the near term, but they have made great strides toward being able to reduce the need for traditional face-to-face activity.

3. Will drones make a meaningful difference?

The overwhelming response we received on drones is that they can be very helpful in a fairly narrow range of situations. Many indicated that drones tend to be most useful on a claim when there's still an adjuster assigned to physically verify findings. In fact, most of the drone benefits conveyed to PCS were heavily caveated—best used for wind claims, exterior and roof damage only, and so on. One respondent noted that drones take too much time to set up to be a viable alternative, adding that human eyes are "far superior." Drone imagery tends to be most helpful when paired with other sources of information, from phone conversations with claimants to the use of apps such as ClaimXperience.

Drones are "extremely effective when the loss situation allows them to be," according to several of our survey respondents. Line-of-sight restrictions and the requirement to have qualified unmanned aerial vehicle (UAV) pilots are among the limitations of drone usage. At best, this approach would be an enhancement to other approaches to investigating and assessing a claim. Additionally, some respondents noted that state departments of insurance may not be comfortable with claim denials from drone or other remote inspections—and that drones may be most effective in catastrophe-prone states other than Florida, Texas, and California.

4. Can adjusting be done effectively from home?

This is probably the most fascinating and impactful question to be answered right now: Can adjusters really be effective from home? The number of companies requiring or suggesting that their employees work from home grew quickly as a result of the pandemic, and the process of returning to the office will presumably be slow. A resurgence of COVID-19 could cause another wave of working from home … if employees are even able to return to the office before another wave of the virus. It's safe to assume at least some increased amount of working from home relative to the historical norm, and that introduces a fair amount of complexity into the catastrophe claim adjusting workflow.

> The PCS team, for example, is currently spread across four states (New Jersey, New York, Texas, and Florida) and Bermuda. And we've had no trouble operating as we always do. The fact that most of us travel a lot and that we enjoy some work-from-home flexibility made the transition seamless when COVID-19 gained momentum in the United States. PCS could continue to operate on this basis for as long as necessary. Throughout the pandemic, PCS has experienced no impact to our operations.

Most respondents so far have expressed a considerable amount of skepticism about the effectiveness and scalability of adjusting exclusively (or nearly exclusively) from home. It's important to remember that the overarching goal is to settle claims as quickly and accurately as possible. Some believe that technology solutions have made it much easier for adjusters to be effective in a work-from-home setting. And for claims that aren't too complex or expensive, adjusting from home (because of the pandemic) should largely be effective. However, it might be necessary to increase flexibility on the claims quality assurance process and allow some leakage—while keeping a closer eye on fraud indicators. With this approach, insurers may have a higher average claim payment, but they could offset it by managing fraud and possibly reducing LAE. For larger, complex claims requiring on-site—along with other factors, such as structural damage and wind versus flood—work from home won't be sufficient.

Several respondents focused on claims administration and workflow software. They suggested that better capabilities could help adjusters work from home more effectively. If claims administration systems don't address the workflow sufficiently and adjusters have to continue to rely on voice interactions, they believe it'll be more difficult for adjusters to work from home.

Again, we've learned that the complete removal of the claim-handling process from the office to a distributed work-from-home environment likely isn't possible, but there are aspects of the claim lifecycle that can be adapted to working from home, minimizing the need to put adjusters into potentially riskier situations relative to COVID-19. In fact, we learned that in some companies many claims resources already work from home, as do independent adjusters. The challenges here are more supervisory, quality assurance, and managerial, but that issue preexisted COVID-19 anyway.

5. Other considerations

What seems to be most important to post-catastrophe claim handling in an environment constrained by COVID-19 is communication—both within a claims organization and between that organization and the claimant. So, as an industry, COVID-19 really just requires us to address the key challenges we were focused on already. Now, we may not have as much time, and we may have to endure a few extra bumps in the road.

In addition to communicating around the claim lifecycle, it'll also be crucial for insurers and independent adjusting firms to convey to their teams how to stay safe and healthy when handling claims. After all, our industry isn't at a point yet where it's possible to fully handle all claims remotely. Adjusters will have to go into the field, and they'll have to know how to protect themselves, and companies will have to perform their due diligence to ensure that their adjusters are healthy prior to engaging customers in the field. Again, this isn't completely new. Adjusters do encounter risks when handling a wide variety of claims, and they are given the information and tools to protect themselves while they do so. Now, they'll have to prepare themselves for an additional risk.

A Note of Thanks to Our Supporters Across the Global Insurance Industry

The information you've read came to us thanks to the contribution, collaboration, and effort of many in our industry. As we all know, the COVID-19 pandemic has created more work for everyone—with issues from business continuity to juggling priorities at home (while working from home) to the general uncertainty added to everyone's day-to-day responsibilities. So, for our community to take even more time to provide us with the interesting, thorough, and important feedback in this report … well, words aren't enough to thank them. We appreciate the support and are happy to pass along their knowledge and insight for the upcoming hurricane season. If you have any questions or ideas you'd like to share with us after reading this, we'd love to hear from you!.

Best,

Tom and Ted

The PCS Leadership

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To learn more about PCS and activate your subscription, contact:

Tom Johansmeyer | Head of PCS

+1 441 799 0009

tjohansmeyer@verisk.com

Ted Gregory | Director of PCS Operations

+1 201 469 3144

tgregory@verisk.com

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