

## Hurricane Season: How COVID-19 Could Impact Catastrophe Claim Handling

The information you're about to read came to us thanks to the contribution, collaboration, and effort of our industry. As we all know, the COVID-19 pandemic has created more work for everyone, with business continuity, adapting to work from home, and 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 that we did ... well, words aren't enough to thank them. We appreciate the support and are happy to pass along their knowledge and insight in the consolidated form below. Additionally, we expect more responses to our recent outreach in the coming days and will publish further on this subject. 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*

### Overview

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. We are now approximately two months from the official start of "hurricane season" in the United States, and although 2019 was relatively tame, 2017 and 2018 were not. Hurricane Irma, from 2017, has become the longest-developing loss estimate in PCS history, at 30 months so far.

Even a moderately active 2020 hurricane season could be extremely problematic for the global reinsurance industry. Retro remains tight, and 2019 losses in Japan have kept the global market vigilant. And outside 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, all of this exists within the context of COVID-19. More and more companies have encouraged or required employees to work from home, and governments have likewise encouraged or required people to stay home, avoid large groups, and adopt measures such as "social distancing" (an odd term with important implications) in order to help slow the pandemic. While containment will ultimately benefit society as a whole, the measures required can make claim handling difficult in a gentle loss environment. One or more significant catastrophe losses, however, could result in considerable strain on an industry attempting to adapt to an already difficult environment.

PCS recently reached out to more than 20 claims-related organizations, including independent adjusting firms, insurance company claims departments in the United States and Canada, as well as wind pools/residual markets. We will continue to update the findings presented below as more information comes in, but given the importance of this issue and the profoundly useful and actionable feedback we've received so far, the PCS team decided to provide an immediate report and offer a commitment to deliver more information quickly after we receive it.

## **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 with the Florida reinsurance renewal coming. So far, our clients and partners have indicated that the technology certainly exists to support remote adjusting, with several specifically mentioning ClaimXperience (produced by Xactware, which is also part of Verisk) for interior inspections. Drones can be useful in inspecting property exteriors, and we'll cover them in more detail in another section below.

We found an indication 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.

For smaller claims, it seems, remote adjusting can help reduce 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, help reduce the need for boots on the ground and also provide for less face-to-face engagement, which would result in reduced risk of COVID-19 transmission and also reduce the risk of elongated claim lifecycles despite the constraints on traditional adjusting that would be imposed if COVID-19 remains a problem during a major catastrophe event.

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. Meanwhile, some generations 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. As one respondent stated, "the technology is there we just have to embrace it". If the insurer can show to 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 30-60 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 are historically have been a claim expense of concern for insurers. The inability of swiftly having water mitigation performed on a loss which 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 prime time this summer?**

Adapting to a post-catastrophe claim handling environment shaped by COVID-19 wouldn't necessarily require the claims community to jump into new technologies and have to figure them out 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, and then the adjuster could write an estimate based on that supporting material. Live-streaming, video collaboration, and measuring (e.g., interior features) applications can also help the claimant support the adjuster. Drones and satellite imagery, of course, could help differentiate natural and man-made roof damage.

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 reintermediate themselves, ostensibly to “benefit” their clients. Concerns about potential lack of or scattered connectivity to cell phone networks and the internet during major cat events impacting adjuster and customer self-service is still a concern of those who want to broaden the use of new technologies. Apps and tools could help but may not be able to wholesale change claim handling overnight.

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.

Ultimately, the claims community had previously made considerable progress in developing, adopting, and implementing the tools that could help alleviate the pressure on departments that would be exacerbated by COVID-19 after a major catastrophe event. We're unlikely to automate the majority of claims, but the industry has 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 field with many respondents indicating that drones are only good resource to use on a claim while still having an adjuster assigned to physically verify findings. For wind claims, for reviewing exterior damage only, for roof damage, and so on – most drone benefits were heavily caveated. One respondent noted that drones take too much time to set up to be a viable alternative and says 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.” Line-of-sight restrictions and the necessity to have qualified UAV pilots to utilize drones are several challenges cited by respondents. Also, drone usage generally needs to be combined with other tools and should be seen as complementary to investigation and assessment of a claim. Additionally, it was noted that state departments of insurance may not be comfortable with claim denials from drone or other remote inspections. Further, drones may be most effective in catastrophe-prone states other than Florida, Texas, and California.

The bottom line is that drones can be helpful in a variety of situations that could reduce the need for adjuster interaction, but the tool won’t be able to drive a significant reduction in traditional interaction. When combined with other tools, though, drones could certainly become part of a broader solution that reduces the need for traditional human interaction in post-catastrophe claim handling.

### **4. Can deal adjusting be done effectively from home?**

Now, this is the most interesting question to be answered right now. The number of companies requiring or suggesting that their employees work from home is growing as a result of the pandemic. 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. For large claims departments, though, adjusting from home can be challenging.

Most respondents so far have expressed a considerable amount of skepticism about the scalability of adjusting 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 QA process and allow some leakage, but to keep a closer eye on fraud indicators and address those claims quickly. 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, QA, 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 and 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.

**If you have information that could be useful to PCS or the industry and would like to share it with us, please contact Tom Johansmeyer (+1 441 799 0009 / [tjohansmeyer@verisk.com](mailto:tjohansmeyer@verisk.com)), Ted Gregory +1 201 253-6866 / [tgregory@verisk.com](mailto:tgregory@verisk.com)), or your regular PCS contact. We'd be happy to connect with you. All information supplied will be held in the strictest confidence and only be used to inform industry-wide analysis that is fully anonymized.**