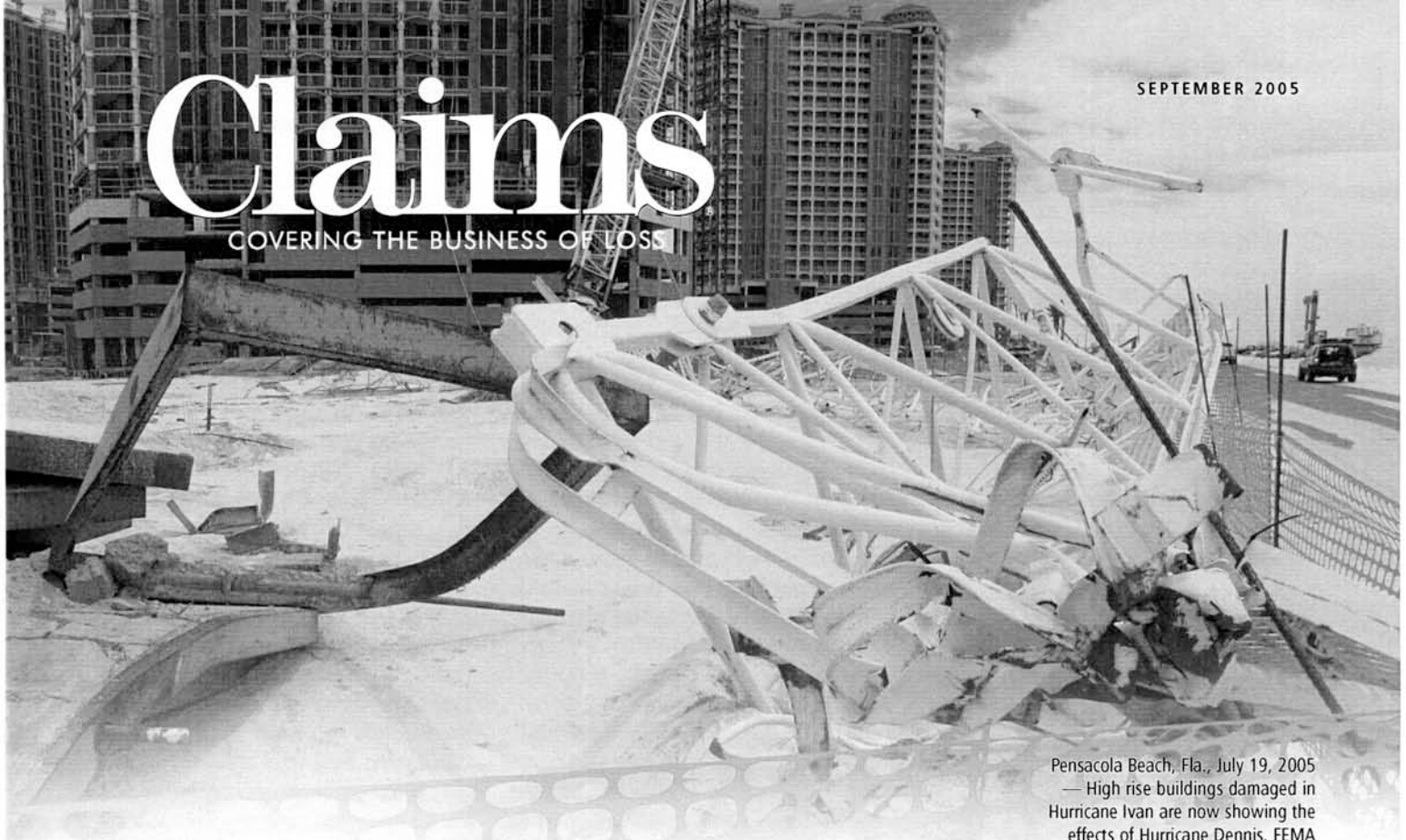


Claims

COVERING THE BUSINESS OF LOSS

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Pensacola Beach, Fla., July 19, 2005
— High rise buildings damaged in Hurricane Ivan are now showing the effects of Hurricane Dennis. FEMA
Photo/Leif Skoogfors

FINE-TUNING HURRICANE PREPAREDNESS

By Franklin Horowitz

Hurricane season has a way of creeping up on us. Even though hurricane winds and rain already have beset the southern United States, it is not too late for insurers to finetune advance disaster programs before the next bout of swirling winds turns up on the weather forecasters' radar screens. By the time the next hurricane hits and insurers try to implement the standard second step of a catastrophic recovery process, protecting property from further damage, they just might be out of luck in finding the restoration contractors that insureds need.

Insurers must be sure to remind insureds of their first duty to contain claims: giving prompt notice. Every minute that water is allowed to seep into the walls, ceilings, and floors of hurricane-ravaged buildings results in unnecessary downtime and business interruption. Those dollars can quickly add up, for insurers, as well as their clients.

Most hurricanes, of course, engender numerous types of loss. The most

common are wind and flooding. Just about every hurricane property loss has an element of water damage, such as wind-driven rain and wind damage to roofs, which create openings for water penetration. Water losses can be the trickiest because there are many different kinds, and water damage can be so insidious that even Columbo would have problems determining whether the water-caused damages were covered.

One thing is clear, however: any kind of moisture left untouched for at least 72 hours is mold moving into rapid growth, which makes advanced planning even more important. Waiting for restoration contractors to show up can be akin to waiting for the mold to grow. Over the past few years, an increasing number of lawsuits have been filed related to mold complications, so this is one problem to avoid at all costs.

Advance Planning Pays

When a catastrophe hits, it is critical for an insurance company representative or adjuster to visit the client's site to review the damage as quickly as possible and take whatever emergency steps are necessary, including authorizing advance funds to help clients take the first step towards recovery. The steps taken *prior* to the hurricane-related floods' washing out entire neighborhoods are just as critical, however. They can determine how quick-

ly the damage can be assessed and repairs made, and how quickly insureds can regain normalcy.

This is where insurance companies can use their bargaining positions to identify restoration contractors and register with them or execute emergency response agreements, so that they will be available when the needs arise. Perhaps those who have not experienced a major loss, such as hurricane damage, will not appreciate the significance of the pre-approval or registration process. Restoration probably is the quickest and most cost-effective way of getting clients' operations back up and running, avoiding later lawsuits.

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With that in mind, it is a good idea to continually refine a request-for-qualification program by developing approved vendor lists. This is a relationship business, and vendors will treat adjusters' phone calls much differently if agreements already have been crafted. Certainly, every insurer handles this advanced planning, but no matter what kind of process is in place, it must be fine-tuned. It can save a lot of money, and perhaps legal headaches, down the road.

Questions to Ask

To hurricane-proof themselves as much as possible, insurers should address vendor capacity. With this year's hurricane season predicted to be even worse than last year's, capacity is one of the most important issues, both for the number and type of available people and equipment, such as trucks

and drying equipment for water damage to prevent mold problems. Some of the largest vendors with national capabilities — such as All Risk, Belfor, BMS Cat, Disaster Services, Servepro, and ServiceMaster — could not possibly meet the needs of all their customers when a major hurricane churns through several states blowing off roofs and flooding well inland. Do not ignore the many local vendors, as well.

Assess overall vendor capabilities, including where the vendor is located, what territories it serves, and whether it has been approved by other insurance companies. A vendor's knowledge of the treatment of moisture versus mold, and its experience with these problems may be determined by asking questions such as how it approached a major water loss in a commercial property. Ask for references. Were the insured and insurer pleased with the outcomes?

Refine catastrophe management plans. This can chop an estimated 30 percent off legal, building estimating, and other adjusting costs. Streamlining the system and shortening the claim process can translate into millions of dollars annually. Precise planning can keep the claim file running smoothly. This is no place for an exercise in chaos theory.

Build an adjuster network. Although insurers typically have cat adjusters on staff, it may require a network of many more adjusters to handle a major catastrophe. That is why it is important to pre-arrange and pre-approve relationships with adjusters, establishing an independent infrastructure to draw from in the event of a catastrophe. Knowing staff — local, domestic, and independent adjusters — in advance makes it easier and quicker to assemble a team of adjusters from all over the country who are available to travel to affected regions and begin the process of restoring insureds' property and getting their businesses up and running.

Case History

Every adjuster can point to at least one example of the significant role that planning plays in nailing down repair and restoration vendors. In one case, a real estate company that owns multiple apartment complexes throughout the United States was in the process of designing a claim management system when Hurricanes Charley and Frances struck. The storms caused extensive damage at the company's locations in Florida and Alabama.

When Charley resulted in a \$300,000 claim, the real estate company's supposedly pre-approved restoration contractor already was inundated with work on several losses in excess of \$10 million. Property managers and maintenance staff were directed to board up the buildings to protect against further damage while awaiting the eventual arrival of a contractor who could effect long-term repairs.

This story illustrates why it is so critical for insurers to perform advanced planning and register or draft emergency response agreements with restoration contractors, so that clients will not be left holding their phones, wondering what to do. Could the real estate company's properties have suffered additional damage because the contractor could not come out immediately? Probably. Would that claim have cost the insurance company more than the \$300,000? Again, maybe so, if the maintenance staff had not performed the emergency tasks itself. If the emergency services had been performed by professional contractors, maybe the claim could have been reduced. We do not know.

What we do know is this: there is no such thing as too much advanced planning. It can only save money and save clients much worry and stress when disasters hit. ▲

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