

Weather Advisory: Effective Claims Management Starts Ahead of the Storm

By Rick Kuzmanoff
Head of Property Claims US & Canada

AS INSURANCE COMPANY CLAIMS EXECUTIVES, when a major storm is predicted, we can't just sit around holding our collective breaths, hoping our clients' properties won't be damaged and their businesses ruined. Since Katrina in 2005 devastated New Orleans and much of the Gulf Coast, XL Insurance has sharpened our catastrophe modeling technology, so that no one on the cat management team is sitting around, or even heading home for the weekend, for that matter, when a potentially disastrous hurricane first appears on the weather radar screen. We know we have to be proactive to protect our clients' properties, so we can help them effectively manage their losses.

According to the Insurance Services Office's Property Claim Services unit, last year's total insured property claims soared to \$25.2 billion from 37 catastrophes, the fourth highest costs and the highest frequency in a decade. Commercial claims accounted for 340,000 of those claims, or 27 percent of the total. Not surprisingly, it's estimated that hurricanes were responsible for nearly half of the total insured property damage — nearly \$13.3 billion — followed by other severe weather events: flooding, damaging winds, large hail and tornados.

Fortunately, due to XL Insurance's proactive cat modeling approach to risk saturation, our losses were only a small percentage of those major claims.

The Katrina cat experience refined our view regarding what we needed to know about cat modeling, and how to spring into action well before those mean-looking churning waves and brutal gusty winds approach the shore in any hurricane-prone area. In an industry that's been slammed in recent years by tornadoes, hailstorms, floods, wildfires, winter storms, and —yes, hurricanes— it's necessary to take a proactive approach when anticipating claims so that we can focus our attention where it's needed the most.

Today our highly sophisticated cat modeling operation maintains a database —including financial data, property values and related information—of all our clients, which are geo-coded by longitude, latitude and zip code.

XL CAT RESPONSE TIMELINE

2-3 days prior

- Cat modeling team employs XL modeling technology to identify clients whose properties are at risk, in the potential path of the storm.
- Notifies cat committee members (underwriters and claims personnel).
- Team and committee evaluate exposures and identify accounts which may require claims advice and resources.

1-2 days prior

- With updated storm path and wind speed projections, Cat modeling team provides updated list of clients who are likely to be affected.
- Team notifies cat committee members, who inform underwriters, brokers and risk managers to start contact list.
- Cat committee members have already contacted necessary resources — adjustors, contractors, accountants, engineers, safety experts and others — who are mobilized and ready to respond quickly.

STORM STRIKES

- Contact clients' risk managers and receive condition reports.
- Dispatch adjustors, contractors & other resources as needed.
- For property with major damage, include accountants, engineers, salvage and safety experts.
- Make sure property is at least temporarily protected.

Within Hours

- Respond to claims — usually takes only a few hours.
- Evaluate the coverage and deductibles, as well as the cash flow requirement of the insured.

2 Days After

- Typically process an advance payment based upon this information often within just a few days and usually by wire.

1-2 Weeks After

- Assist client by using gathered info to create loss projections for client reports.
- Follow up by personally attending meetings to see that the process continues to conclusion.

Today our highly sophisticated cat modeling operation maintains a database including client financial data, property values and related information, which are geo-coded by longitude, latitude and zip code. Each risk is assigned a value, based upon the information provided to the underwriters when we contracted with the client. Over the years, we've honed our property underwriting standards, taking into account the type of structure and condition of a property, its proximity to coastal areas and other related factors. Using these engineering techniques also enables us to determine whether a risk measures up to XL's standards. We also participate in structured and layered programs, so in some cases we'll only take a percentage of a particular risk at market.

This is how we proceed when a cat loss is anticipated:

– When a storm is estimated to be two-to-three days away, the cat modeling team, using their comprehensive database that includes the most current data, starts notifying the various cat committee members consisting of global underwriters and claims personnel whose clients have properties in the potential/projected storm path. The cat modeling team tells us which of these accounts in a particular geographic area are at risk, depending upon the location and concentration of the projected impact of the event. Armed with this information we begin to evaluate the

exposures and can identify accounts that might require claims advice or resources in order to mitigate their losses.


- As the storm approaches, a day or two before it actually hits, the modelers send out an updated list of clients who are likely to be affected by virtue of their locations and the current projected path and wind speeds. That list might be short or, in the case of Hurricane Ike, might be very long. The closer a storm moves toward landfall, the more accurate these predictions become. This information is passed along to the cat committee members and claims executives by our business units.
- During this time, we contact property account underwriters, brokers and risk managers to identify who they should contact in the event of damage. Additionally, we've already contacted the necessary resources—adjustors, contractors, accountants, engineers, safety experts and others—who are mobilized and ready to respond quickly.
- Once the storm makes landfall, we contact our clients' risk managers via e-mail, phone, or however we can get in touch with them, asking for condition reports so we can determine what resources they may need (or, if they were lucky, scratch them from our list) and dispatch the adjusters,

contractors and whichever resources those with damaged properties might need. Should an account suffer major damage, we'll form an adjustment team that consists of the required experts, such as accountants, contractors, engineers, salvage personnel and safety experts. We want to make sure the damaged property is at least temporarily protected. With this initial step, we begin to manage the claim in a proactive manner to assist our policy holders.

- We appreciate that it is critical for both the insured and XL Insurance to respond to claims as quickly as we can. This usually takes only a few hours. Recognizing that quick decision making is critical, we quickly evaluate the coverage and deductibles, as well as the cash flow requirement

of the insured. Then, we typically process an advance payment based upon this information often within just a few days and usually by wire.

- We can also use these techniques to assist in putting together loss projections that the insured can use in creating reports for their principals and stakeholders. We follow up by attending meetings whenever possible to see that the process continues to conclusion.

We believe this proactive approach, relying upon our continually updated cat modeling tools, has allowed XL Insurance to keep current with all our clients located in potential disaster zones, to provide the damage control experts when a catastrophe hits, and to manage the claims process in an efficient manner that our clients appreciate. 

About the Author

Rick Kuzmanoff is XL Insurance's Head of Property Claims in North America. "XL Insurance" is the global brand used by member insurers of the XL Capital Ltd (NYSE: XL) group of Companies. Through its operating subsidiaries, XL Capital is a leading provider of insurance and reinsurance coverages and services to industrial, commercial and professional service firms, insurance companies, and other enterprises on a worldwide basis. More information about XL Insurance and its products is available at www.xlinsurance.com or at www.xlcapital.com.



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If you have any feedback or suggestions on INsight_Americas, please contact Sarah German, Vice President, Marketing & Communications, Americas. Sarah.German@xlgroup.com

Editor: Chris Weirsky; Creative Director: Anita Janney; Legal Advisor: Sarah Mims

505 Eagleview Blvd, PO Box 636, Exton, PA 19341 • 888-609-2518 • 800-327-1414 • www.xlinsurance.com