



## The Impact of Catastrophic Events on Claims Handling: Superstorm Sandy

When Superstorm Sandy made landfall near Atlantic City, New Jersey, on October 29, 2012, the results were catastrophic. Record storm surges of nearly 14 feet in New York and 15-plus feet along the New Jersey coast, as well as wind damage in both New York and New Jersey and across 15 additional states, resulted in more than 8 million power outages. When the storm ended, the economic losses across the United States had hit \$50 billion with insured losses of \$25 billion, making Sandy the second costliest storm in history.

The following analysis focuses on the impact of Superstorm Sandy on claims handling and on claimants' perceptions of how insurers handled these claims. Comparisons related to damage from Sandy are made with those from Hurricane Irene in 2011, as well as with non-CAT claims in the same East Coast region from 2012 prior to Sandy making landfall.

### Claim Comparison Overview

Superstorm Sandy resulted in more claims related to exterior damage than both Irene and non-CAT claims filed earlier in 2012. Sandy also led to a three-fold increase in claims for damage to items in yards—a result of high winds. Average settlements were lower for claims resulting from Sandy, which may reflect the higher rate of damage to yard items.

Insurers' processes appear to have been more streamlined during Sandy—perhaps due to lessons learned from Hurricane Irene—as initial payments during Sandy were made faster than non-CAT claims and 3.5 days faster than during Irene. Consequently, Sandy claimants perceived the claims process as less complicated and shorter than expected, resulting in higher overall satisfaction.

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#### CATASTROPHE CLAIMS COMPARISON

Claim Type:	SANDY	IRENE	Non-CAT	
Property Claims Study Year:	'13 Study	'12 + '13 Study	'13 Study	
Time frame of claims:	Sep' 12-Jan' 13	Jul-Dec' 11	Dec' 11-Jan' 13	
Types of Damages	Damage to exterior of house	65%	58%	51%
	Damage to yard/fence/shed	53%	37%	15%
Severity of Damages	Average settlement	\$5,517	\$8,375	\$7,085
	Settlement >\$10K	21%	23%	30%
Streamlined Process	Issued one payment	80%	70%	62%
	Initial payment made	13.9 days	17.4 days	15.1 days
Outcome	Less complicated than expected	44%	41%	37%
	Shorter than expected	35%	33%	27%
	Overall CSI	846	831	832

Source: J.D. Power and Associates Property Claims Satisfaction Study<sup>SM</sup>—2012-2013

## Protracted Claims from Hurricane Irene Drive Down Satisfaction Levels in 2013 Study

Lower satisfaction with Hurricane Irene claims is heavily influenced by claims gathered in the *2013 Property Claims Satisfaction Study*, which had a higher level of severity than Irene claims in the 2012 study, with average settlements of \$10.5K vs. \$7.0K, respectively. The 2012 study fielded from November 2011 through January 2012 and did not include Irene claims that took longer to settle.

The more severe Irene claims in the 2013 study took much longer to settle, and it took longer for insurers to issue final payments, which resulted in lower satisfaction, particularly in the Settlement factor. Furthermore, a high percentage of Irene claims in the 2013 study had been partially denied (16%), which is a dissatisfier.

Customer satisfaction with the handling of the initial Irene claims included in the 2012 study was rated very similarly to satisfaction levels with the handling of Sandy claims, suggesting that overall claimant satisfaction with Sandy claims may erode during the next fielding period due to the inclusion of claims that are more severe.

## Improvements in Insurers' Claims Processes

Initial results for claims related to Superstorm Sandy indicate that claimants are more satisfied with the handling of these claims. This may be the result of a combination of less-severe claims because of the timing of the survey and the impact of improved claims processes based on lessons learned from handling losses related to Hurricane Irene in the prior year. Improvements in insurers' claims processes are reflected in several findings:

- More centralized claims handling through Direct FNOL has allowed for quicker processing of some claims, including a higher rate of insurer estimates not being needed. Claimants perceived FNOL representatives as owning more of the claims process after Superstorm Sandy, which has yielded higher satisfaction levels in the Direct FNOL sub-factor than both Irene and non-CAT claims.
- Payments have been processed more quickly for Sandy claims, and a higher rate of single payments made. By quickly moving claims along, insurers are able to minimize the need to keep claimants informed over a longer period of time, and the need to follow up is reduced. Thus, there is less time for ambiguity with the process from the claimant's perspective, which has resulted in higher rates of compliance with Key Performance Indicators (KPIs).
- Independent appraisers have been used at a higher rate than they have been for non-CAT events. Claimants reported these appraisers responded quicker than insurer's appraisers, which resulted in higher levels of satisfaction.



It remains to be seen whether these improvements will successfully offset the negative impact observed in handling claims related to Hurricane Irene when more complex claims with protracted settlements were included in the survey that was fielded again in 2013. Regardless, insurers still need to focus on two key areas: 1) improving claimant interactions when a separate claims professional is involved, as satisfaction is notably lower among these claimants; and 2) despite intensified focus on the appraisal process for claims related to Sandy, insurers still need to develop approaches that accelerate the appraisal process and that allow more time for explaining the repair work needed to claimants.

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