



CONSUMER SERVICES

Department of Financial Services

TO: Mike Chaney, Chair,
NAIC Property and Casualty Insurance Committee

FROM: Tasha Carter, Director,
Florida Department of Financial Services' Division of Consumer Services

DATE: November 15, 2012

SUBJECT: **Comments Regarding Post-Catastrophe Claim Settlement Practices**

Much of our nation has been touched by some kind of natural disaster in recent years, making a review of post-catastrophe claim settlement practices a very timely and urgent matter. In Florida, we have experienced a range of natural disasters from hurricanes to fires, and the Florida Department of Financial Services, overseen by Florida's Chief Financial Officer Jeff Atwater, has a response plan that gets insurance consumer specialists into hard-hit areas quickly to assist disaster victims with claim filing. We are among the earliest witnesses – just behind first responders – and we see the initial shock and impact as well as the dismay and anger of desperate consumers frustrated with the claims process.

Following are our observations and suggestions relating to insurance companies:

Additional Living Expense (ALE)

Issue: Immediately following a disaster, many homeowners are displaced and need immediate financial assistance. However, the timeframes within which the first ALE payment is disbursed often varies and can be prolonged due to the number of claims filed.

Recommendation: Require insurance companies to advance the first ALE payment to the policyholder without requiring the submission of receipts and other documentation; however, the policyholder would be required to submit receipts for expenditures and other items in order to receive future ALE payments. This will help in alleviating some of the stress the policyholder is experiencing and provide them with faster relief. The first ALE advance can be deducted from future claims payments.

Denial of Claim

Issue: Insurance companies can deny a claim based on material misrepresentation. However, it is becoming more prevalent for some companies to wait until a major claim is filed to deny the

claim based upon misrepresentation on the original application. The denial can occur years after the original application was filed and after thousands of dollars of premium have been paid. This puts the policyholder under the false pretense that their home is covered and their family protected.

Recommendation: Insurance companies should be required to review all applications for material misrepresentation during an initial review period and follow appropriate cancellation procedures, if necessary. They should also make every effort to ensure they have correct policyholder contact information so that Proof of Loss forms, checks and necessary documentation reaches the policyholder.

Adjusters

Issue: Due to the high volume of claims typically filed following a disaster, insurance companies often must hire additional adjusters. In Florida, we have seen adjusters with no residential adjusting experience recruited to work on behalf of insurance companies, which can create complications that prolong the claims process for the policyholder.

Recommendation: All adjusters that are hired to adjust residential claims must have residential adjusting experience.

Issue: Adjusters have the option to work in multiple states and for multiple insurance companies at any given time. Florida has seen situations in which adjusters have adjusted claims on behalf of one insurance company and then decided to leave to go work for another insurance company without providing the first insurance company the documentation related to the claims they had been working on. This results in stalled claims and a prolonged process.

Recommendation: Require adjusters to submit their current adjusting documentation for all claims worked prior to leaving the area.

Issue: Insurance companies and/or adjusters can lose documentation submitted by the homeowner to validate their claim.

Recommendation: Improve processes to reduce the loss of policyholder documentation. Nothing is more frustrating to a policyholder than hearing that documentation they submitted, such as pictures, has been lost or misplaced and has to be resubmitted.

Claims Toll-Free Helpline

Issue: Insurance companies may not have enough staff to handle the increased call volume resulting from a large disaster.

Recommendation: Insurance companies should plan to increase the number of toll-free claims helpline staff and helpline hours to accommodate the increased number of calls that will be received as a result of a disaster.

Company Policies and Procedures

Issue: Insurance company policies and procedures should be clear and be disseminated to all staff and middle management for better tracking of responses to policyholders and state regulatory authorities.

Recommendation: Ensure that communication within the company is clear concerning claims and settlement issues so that senior management and front line call staff are fully informed.

Claims Settlement Process

Issue: Claims need to be settled as quickly as possible.

Recommendation: Companies must have clear processes to move disputed claims to either mediation or the appraisal process.

Following are observations and recommendations for what states may be able to do to better assist their insurance consumers in the aftermath of a natural disaster:

Mandate Insurer Response

Issue: Disaster victims with insurance coverage need to be able to make quick contact with their insurance company.

Recommendation: States should consider establishing “insurance villages” and ensure that companies with a significant policy base in the affected area send representation.

Insurance Company Contacts

Issue: States need management contact information for all involved insurance companies.

Recommendation: Require maintenance of current contact information for managers of insurance companies transacting insurance in the state.

Mediation

Issue: States must be prepared to process complaints and requests for mediation.

Recommendation: Ensure appropriate staff and resource levels to handle influx of consumer requests.

Our Department offers tips and resources year-round, and aggressively pre-hurricane season, to help consumers protect their homes and families. The following tips for consumers can make for a much smoother claims process and perhaps can be promoted as part of a consumer education awareness campaign by the NAIC:

Contents Inventory

Issue: Policyholders fail to complete a documented content inventory prior to a disaster. This creates a long and laborious claims process and typically results in an inaccurate accounting of items which in turn may result in lower claim payments for the policyholder.

Recommendation: Consumers must complete a room-by-room content inventory annually to ensure complete and accurate information is provided to the insurance company following a disaster. The more detailed documentation that is provided during the claims process, the faster the claim can be processed.

Policy Information

Issue: After a disaster, policyholders typically do not have a copy of their policy, declarations page or even their policy number, and further do not know the terms of their policy.

Recommendation: Policyholders should perform an annual review of the type and amount of coverage they have to ensure they are adequately protected in the event of a loss. Policyholders should also maintain their insurance policies, inventory records, agent or company telephone numbers and other important documents in a safe place that is easily accessible after a disaster.

Understanding the Deductible for a Disaster

Issue: Policyholders must be aware of the deductible amount when filing a post-disaster claim.

Recommendation: Policyholders must be educated on the different deductibles that can exist in a policy. In Florida, most homeowners' policies include a larger deductible for hurricane damage and a smaller deductible for other damage.

Additional Living Expenses

Issue: Most homeowners' policies pay ALE "as earned," meaning that the company will reimburse the policyholder only after expenses have been incurred for food, clothing and shelter and often only when a disaster makes the home uninhabitable. In some cases, however, a policyholder may be ordered to evacuate even though their home is not damaged, and different policies will cover these circumstances differently.

Recommendation: Consumers must keep all receipts during this period and know whether lodging and meals are covered if they must evacuate even though no damage has occurred to their property. They also must know whether any deductible or coverage limits apply.

Secure Documents

Issue: Documenting policies and financial records before a disaster is critical, but having access to them after the storm is even more important.

Recommendation: Policyholders, particularly business owners, should have access to back-up copies of important documents. Electronic and hard copies of important records should be stored in multiple sites, even in another city or state, in the event of extensive or widespread damage.

Our nation is struggling through a challenging economic recovery. Every dollar spent on insurance must count, and policyholders must be able to count on their insurance coverage. Please let me know if I can provide any further information to assist in your review of these important considerations.