

# Today's Large & Complex Claims Landscape:

Preparing for the Perfect Storm



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Global Technical Services

# Executive Summary

As global disasters increase in scale and frequency, insurers must creatively align their resources to cope with increased demand for adjusters. How adjusting firms leverage client and industry relationships, deliver high-quality, customized claims data and strategically deploy for large-scale losses will be critical to meeting the amplified demand for services.



# Introduction

Early forecasting predicted that the 2017 hurricane season would be “busier” than usual.<sup>1</sup> None, however, could have predicted just how “busy” it would be—with four major (Category 3 or higher) storms,<sup>2</sup> dozens of fatalities, and billions of dollars in property damage across the United States and Caribbean. As insurers would soon find out, their adjusting resources were ill-equipped to manage the avalanche of claims stemming from these major weather events.

In addition to the higher claim volume brought on by hurricanes and other weather-related events, technological advancements have transformed the way we process claims. In the past 20 years, the proliferation of cell phones and electronic communication has revolutionized customer expectations and adjuster work flows. Claimants now expect communication throughout all points of the claims process—from first notice of loss to inspection to completion of the file.

The increase in technological capabilities has also been met with an increase in expected output for the average adjuster. A demand for highly customized services, along with a faster and higher quality customer experience, is shaping how the claims industry deploys large loss adjusters and has magnified the need for focus on the claimant experience.

As in other industries’ post digital-revolution, the end-result is key. “By focusing on the claimant and improving outcomes for them, the whole claims process becomes much more customized through

the use of on-demand technology and better data,” Andrew Bart, Crawford’s Global GTS president, said.

In addition to the quick turnaround time and high-level of customization expected from claimants, the claims management industry faces the more global, existential challenge of large-scale catastrophes increasing in number and frequency.

One need only look to the previously referenced 2017 hurricane season to see this played out in real time: the triple whammy of storms Harvey, Irma and Maria (known collectively as HIM) tested the resources and scalability of the industry on a nearly unprecedented level.

Not only did the hurricanes strain the industry, catastrophic weather events, such as the wildfires in California, added additional pressure. According to the National Oceanic and Atmospheric Administration, the cumulative costs of these 2017 events exceeded \$300 billion dollars—a new U.S. record, far surpassing the 2005 record of \$219.2 billion resulting from hurricanes Dennis, Katrina, Wilma and Rita.<sup>3</sup>

Unfortunately, the trend towards frequent, significant weather events isn’t going away. During the peak of the 2018 hurricane season, forecasters from the Colorado State University Tropical Meteorology Project had recorded 12 named storms and five hurricanes.

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<sup>1</sup> <https://weather.com/storms/hurricane/news/2017-hurricane-season-forecast-atlantic-colorado-state-the-weather-company-may>

<sup>2</sup> <http://time.com/4952628/hurricane-season-harvey-irma-jose-maria/>

<sup>3</sup> <https://www.ncdc.noaa.gov/billions/>

# Insurance Planning in an Age of Large-Scale Catastrophe

In order to manage heightened expectations and increased claim volume, insurers need to be prepared with robust, scalable contingency plans.

As many insurers learned in 2017, their contingency plans were woefully inadequate.

Increases in the occurrences of natural disasters has also meant increases in large or complex claims. From 2013 to 2017, Crawford has managed more than

29,000 large loss claims with \$75 billion indemnity dollars; catastrophe claims comprise over \$13 billion of that figure.

As higher claim volume due to weather events becomes the norm rather than the exception, insurers must continue to seek out time saving technology and innovative solutions; and consequently, independent adjusting firms must provide such offerings.





## Hurricane Harvey: Using Who You Know

When flooding from Hurricane Harvey reached Houston, Texas in August 2017, it caused damage to the tune of a staggering \$125 billion<sup>4</sup>. Among those affected were two Houston school districts – one suburban, one urban – which, respectively, had 45 and 220 different facilities affected by the storm (notably, the urban school district is one of the largest in the country). Gregory Barnhill, executive general adjuster for Crawford & Company Global Technical Services (GTS), oversaw the response to both districts.

Barnhill, who had been working as an adjuster in the region since 1976, was well-positioned to align resources for quick response: as the pre-nominated adjuster for both districts, he was able to use his strong, established relationships within the region to expedite the claims process.

His expertise was particularly effective in the case of one large suburban high school – a claim classified as a total loss, which was not expected to

resume operations until the 2018-2019 school year. Coordinating with the insurance risk managers, Barnhill was able to deploy resources from GTS Houston, Phoenix, Arizona, and Los Angeles, California offices. Working in concert with the carrier, Barnhill developed an agile response team – one that included not only adjusters, but also outside experts such as building consultants, engineers and forensic accountants. As the single point of contact on the loss, he was able to streamline communications with the insured and work directly with their vendors.

Barnhill's day-to-day working relationship with the risk managers translated to an already-intimate knowledge of the components of their policies, and pre-established relationships, which he was then able to leverage for fast response time. He tapped experts he had worked with before – experts who understood the practicalities of responding to a school or municipality loss, which uses public funds, thus following different protocols than response to a traditional business loss.

<sup>4</sup> <https://coast.noaa.gov/states/fast-facts/hurricane-costs.html>



## Crawford was able to leverage drone technology to expedite Houston disaster response times despite extensive flooding in the area.

“We were able to work hand in glove with the insured’s personnel and their vendors, as well as our team . . . Early on in that loss, not only were we onsite every day, but we had weekly conference calls [to update the team on progress at the loss sites],” explains Barnhill.

In one particular instance, the working relationship was especially familiar: the large suburban high school’s district employs Contractor Connection® (a division of Crawford that specializes in managed repair services) as their mitigation vendor.

“Working with these insurers who have relationships with [Crawford] folks helps everybody, it helps the carrier; it helps the insurer; it helps us... Plus, [Contractor Connection has] a pre-existing price structure, so we know we’re not going to get these gouging prices that often happen after a storm.”

While Barnhill’s team worked to mitigate the loss, a nearby school adjusted hours to cover the displaced students from the affected school—no easy feat,

as there were approximately 4,000 enrolled. The accommodating high school’s regular attendees attended school from the early morning to the early afternoon, while displaced students attended from the early afternoon until the evening.

Drone technology was another critical component of the catastrophe response. Drones make it possible for adjusters to easily access difficult to reach and potentially dangerous areas, such as rooftops and unstable buildings. Without drones, adjusters in a flood zone are only able to perform inspections at about a rate of three per day, but with drone technology, that number jumps to 10.<sup>5</sup>

Hurricane Harvey marked the second hurricane ever in which the Federal Aviation Administration (FAA) lifted airspace restrictions on non-commercial drones.<sup>6</sup> Crawford was able to leverage drone technology to expedite Houston disaster response times despite extensive flooding in the area.

<sup>5</sup> <https://money.cnn.com/2017/09/23/technology/hurricanes-drones/index.html>

<sup>6</sup> <https://www.reuters.com/article/us-storm-harvey-redcross-drones/red-cross-launches-first-u-s-drone-program-for-disasters-idUSKCN1B12X9>

“We had 893 Lookers, our on-demand workforce, within 100 miles of Houston. Some areas were closed off due to fallen bridges, but Lookers and drone operators were nearby and able to get footage of those locations,” said Robin Smith, founder of WeGoLook®, a division of Crawford.

While cutting-edge drone technology provides an undisputed boon for claims adjusters, ultimately, the business of claims is all about relationships. A pre-nominated account adjuster’s understanding of the insured’s business and risk management practices ensures the most successful outcome of the adjustment process—and can lead to much shorter turnaround times and better cost management.

“When there is pre-established familiarity with the insured and their business, there is the potential for

claims to be handled exponentially faster than they would be otherwise,” explains Tom Carstens, senior vice president, Property Claims Services – U.S. “Handling one aspect of the claim two days ahead of schedule can have a compounding effect, especially with complex claims, and may result in a much greater reduction in period of restoration and costs.”

Such was the case with the large suburban high school. The expert deployment of a skilled adjusting team and a close coordination of resources—all made possible by Barnhill’s status as a pre-nominated adjuster—made for a far better outcome for the students and for the insured than expected: the school reopened its doors to students in March of 2018, about five months ahead of schedule.



# Business, Interrupted: The Danger of Unforeseen Costs

In the wake of catastrophic events, accurately determining business interruption costs is often a massively complicated factor when it comes to reaching a final settlement.

For the sixth year in a row, business interruption (or BI) ranked as the most important global risk in the 2018 Allianz Risk Barometer<sup>7</sup>. While property and building losses are somewhat straightforward due to their tangible nature, financial losses, particularly as they pertain to supply chain, can be much trickier to resolve. Many organizations fail to thoroughly stress test their BI coverage, not accounting for the ripple effects that may occur when one unit of the business is affected.

Case in point: When Hurricane Maria slammed Puerto Rico, it wreaked havoc on two of the island's burgeoning, heavily interdependent industries—hospitality and manufacturing.

Regarding the hospitality industry, Jenna Morgan, director of Crawford Forensic Accounting Services (CFAS) at GTS, explains, “It is an extension of the community in which it operates, and that is what leads to a lot of the coverage challenges. The big issues relate to dependent properties and loss of attraction.”

But how does hospitality relate to manufacturing?

As Terry Hunt, senior vice president and head of GTS U.S., explains, “Puerto Rico sees thousands of people traveling to the island each month on business-related visits to manufacturing facilities. If [the facilities] are shut down, that influx stops, which has a knock-on effect on occupancy rates and negatively impacts the wider leisure and hospitality sector, as restaurants, bars and casinos see a downturn in trade.”

Of course, these complexities and interwoven business interruption costs can be mitigated with pre-scenario loss planning before an incident occurs, or by bringing forensic accountants into the claims adjudication process in the immediate aftermath of an event. Likewise, corporates can benefit from integrating forensic accountants into their business interruption planning to quantify the intangible assets within their business.

“Bringing forensic accountants into the process early on can ease the ultimate cost burden on the insurer,” said Morgan. “We can assist with the mitigation planning. . . we can be instrumental in [key] decisions early on in the process.”

Furthermore, the value of a closely aligned adjusting team—from accountants to adjusters to outside expert consultants—cannot be oversold when it comes to cost mitigation. Whether or not the team works together on the ground or maintains communication remotely, the 2017 hurricane season demonstrated that a dedicated, knowledgeable team response is essential for fast recovery, with the best possible outcomes for the insured and the insurer.

“[When I've worked] in the niche [insurance] space before, you may not even know who the adjuster is,” said Morgan. A coordinated team response, however, can make all the difference: “We can directly align ourselves with adjusters. We're maintained by their KPIs . . . we're in constant communication. We're working hand-in-hand.”

<sup>7</sup> <https://www.agcs.allianz.com/insights/white-papers-and-case-studies/allianz-risk-barometer-2018/>



# Knowledge in Action: The Value of an Expert Response

Despite 2017's uptick in hurricane activity, fire remains the predominant peril by claim volume for adjusters from 2013 to 2017. When wildfires swept through California last fall, they affected some of the most expensive acreage in North America: vineyards in the state's wine country. Many thought the region would take years to recover from flame damage.

California, however, is not the only part of the world susceptible to frequent wildfires—a fact that figured heavily in the adjusting response to one particular vineyard, initially claimed as a total loss. Using protocol developed in Australia, one expert viticulturist was able

to determine that the vineyard was actually 69 percent salvageable—a determination that saved the insurer approximately \$1 million. Not only was the consultant able to save money for the insurer, he was also able to provide valuable recommendations to the winegrower to salvage and/or replant the vines hurt by the fire.

With claims, what you don't know can cost you—especially with complex claims that require highly specialized knowledge. The importance of a large knowledge base with expertise from all over the world can literally mean a difference of millions of dollars.



# Working with the Insured to Mitigate Business Interruption Loss

When organizations deal with serious interruptions to their business, they are, quite often, out of their depth—and rightfully so.

“They’re in the business of doing whatever it is they do. They’re not in the insurance business,” explained Rick Locke, executive general adjuster for Crawford GTS. “The easier we can make life for them, the faster they can get their operation back up and running, and the better it is for all parties.”

Timely, expert response is critical, particularly as business interruption claims account for a larger percentage of loss than property damage. According to one 2015 report, the average large BI property insurance claim now exceeds \$2.4 million, 36 percent higher than the average property damage claim.<sup>8</sup>

Having pre-nominated adjusters in place during HIM significantly expedited that expert response. “During HIM, there were numerous facilities scrambling for adjusters when resources were being stretched to the max, while those with nominated adjusters were dealing with the aftermath almost immediately,” said Hunt.

Through a streamlined team response facilitated by the existing adjuster relationship, the burden of documentation is removed from the insured and is expertly handled by the adjusting team. At every step of the process, the team checks in with the insured, winning trust at the ground level.

“Clients want people with experience to handle large and complex losses . . . [they] may have had a bad experience in the past. The best way to win their trust is through a team chosen based on their areas of expertise,” said Locke.

In the case of Hurricane Maria, Crawford was able to deploy adjusting teams almost immediately, operating out of its Puerto Rico offices. That home base provided a significant advantage in a territory where much of the infrastructure was destroyed. Teams of five – including CAT adjusters to assess the scope of the damage, GTS adjusters to coordinate the claim and provide the report and a forensic accountant to calculate business income and stock loss—worked sunup to sundown to cover a range of large and complex loss claims, including industries such as hospitality, pharmaceuticals, logistics, manufacturing, technology, communications and finance.

Adjusters were able to draw on the deep knowledge base of the company to handle losses across a spectrum of industries. As Locke put it, “I might never have handled a claim involving a diamond mine, but I bet you someone in the company has.”

Crawford’s resources and quick mobilization established the adjusting teams as the pre-eminent force on the scene. “We became the go-to,” said Tom Carstens, senior vice president, Property Claims Services. By working in concert, the teams were able to eliminate overlap between their functions and work towards a settlement in the most streamlined way possible. As a result, Crawford experts completed immediate loss control within 30 days.

While the technology to capture high-quality data and the ability to deploy resources quickly provides undeniable benefit for the insured, ultimately, it is the commitment to high-caliber, well-positioned and expertly equipped claims adjustment teams that makes the difference when it comes to quality.

<sup>8</sup> <https://www.iii.org/insuranceindustryblog/business-interruption-risks-and-losses-on-the-rise/>

# Summary

The past 20 years have revolutionized the claims industry, and with that revolution has come tremendous strain, as well as opportunity. Technology demands that claims be highly customized, and insureds expect a high degree of communication and personalization throughout the settlement process.

In addition to (and in tandem with) technological advances, property claims—particularly as they relate to large and complex losses—have gotten more expensive. And as 2017 showed the world, traditional contingency plans for insurers are far too often inadequate to deal with the realities of large scale catastrophe response. Moreover, many

organizational policies fail to account for complexities and compounding risk factors within their business interruption plans.

To adequately respond to today's evolving catastrophe landscape, insurers need to be prepared with contingency plans for their contingency plans to make sure the “perfect storm” of 2017 doesn't happen again. Through streamlined, coordinated team response, expert scenario planning and the vast knowledgebase of worldwide claims expertise, insurers can rest easy knowing they're getting the best possible resources working on the frontlines of catastrophe.

## Experience and Expertise You Can Trust

Since 1941, [Crawford & Company](#) has delivered “top quality, promptly” to the insurance and risk management industries. As the world's largest independent provider of claims management solutions, Crawford's vast network can deliver the right experts at the right time. From daily to catastrophe, residential to commercial, and large or complex losses, Crawford's Global Technical Services brings to the market a comprehensive solution for all our clients' claim handling needs. Whatever the challenge, Crawford can provide top-quality support to insurers and self-insured entities worldwide.

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