PLRB

Strategies for a Mega-Earthquake Response

Strategies for a Mega-Earthquake Response

An Update of the Earthquake Project's 1990 Report
CEO Strategies for an Earthquake Claims Response
"Failing to Plan is Planning to Fail"

Hugh O. Strawn, Editor
Vice President, Catastrophe Services

Property Loss Research Bureau
3025 Highland Parkway, Suite 800
Downers Grove, Illinois 60515

630-724-2200
www.plrb.org

Cover Photo

Hillside Apartments
Anchorage, Alaska
Damaged by The Great Alaska Earthquake, 9.2 Richter
March 27, 1964
Photo by U.S. Geological Survey

First publication: December 2009

Acknowledgements

This updated version of *CEO Strategies for an Earthquake Response, "Failing to Plan is Planning to Fail,"* published in 1990, was undertaken in recognition of the profound insurance industry-wide issues raised by the original authors. Many of the suggestions made in 1990 have been met during the past 19 years as the insurance industry responded to other non-earthquake mega-catastrophes such as Hurricane Katrina. Many of their suggestions have not been addressed, such as the combining of resources to provide an effective response to a mega-earthquake in a densely populated region of the nation. We salute the original researchers and are humbled to raise their concerns yet again.

Contents

Introduction

The Earthquake Project was a joint insurance industry group formed in the late 1980s to study the claims issues that could arise following a mega-earthquake in a densely populated region, such as Los Angeles, California. They issued a report, *CEO Strategies for an Earthquake Claims Response -- "Failing to Plan is Planning to Fail,"* with their recommendations. Some were implemented and many were not. PLRB Catastrophe Services revisited the document on the 20th anniversary of the Loma Prieta Earthquake to update it with information of value to claims executives of member companies. Even if a company does not write earthquake insurance in California or other known earthquake-prone states, it will need to plan an effective claim response because a mega-earthquake will likely have an impact on all insurers.

Earthquakes may occur in all 50 states. The USGS estimates that 39 states from New England and the Carolina Low Country to the West Coast may experience a moderate to significant seismic risk. The greatest risk of a major temblor is along the Pacific Rim.

Damaging Earthquakes in the U.S. 1750 - 2009

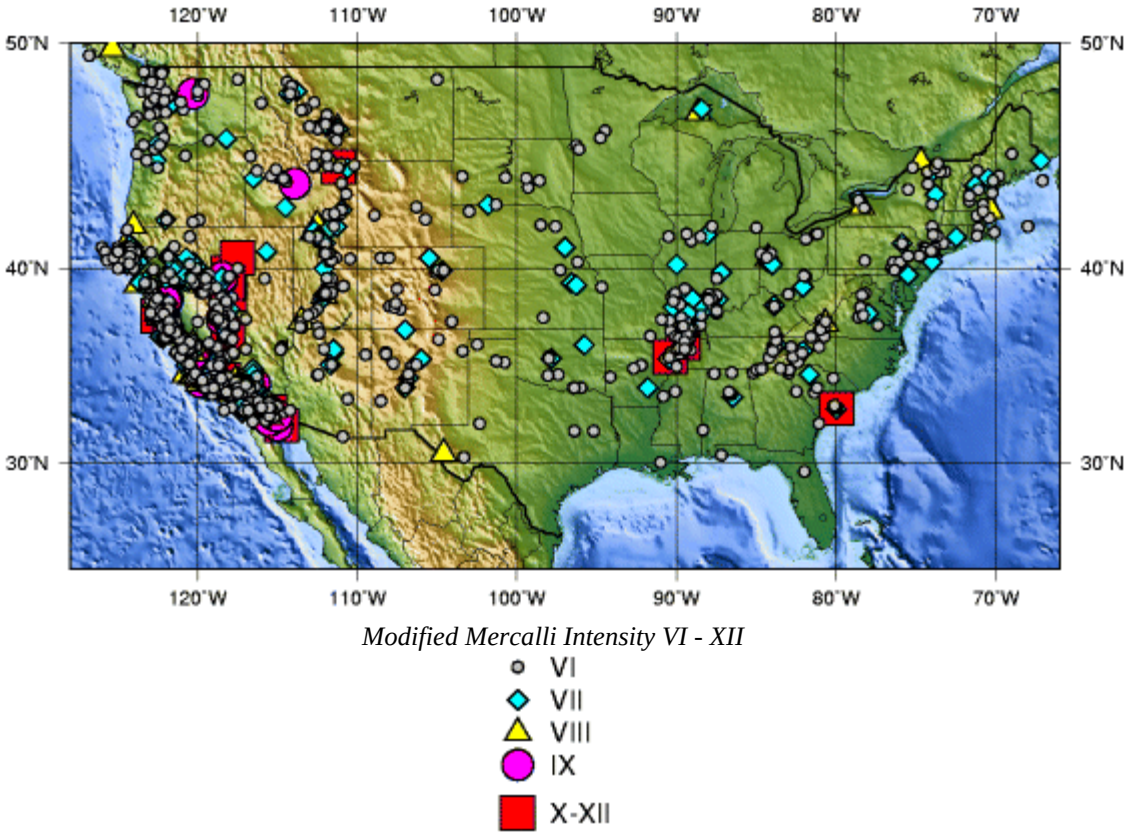
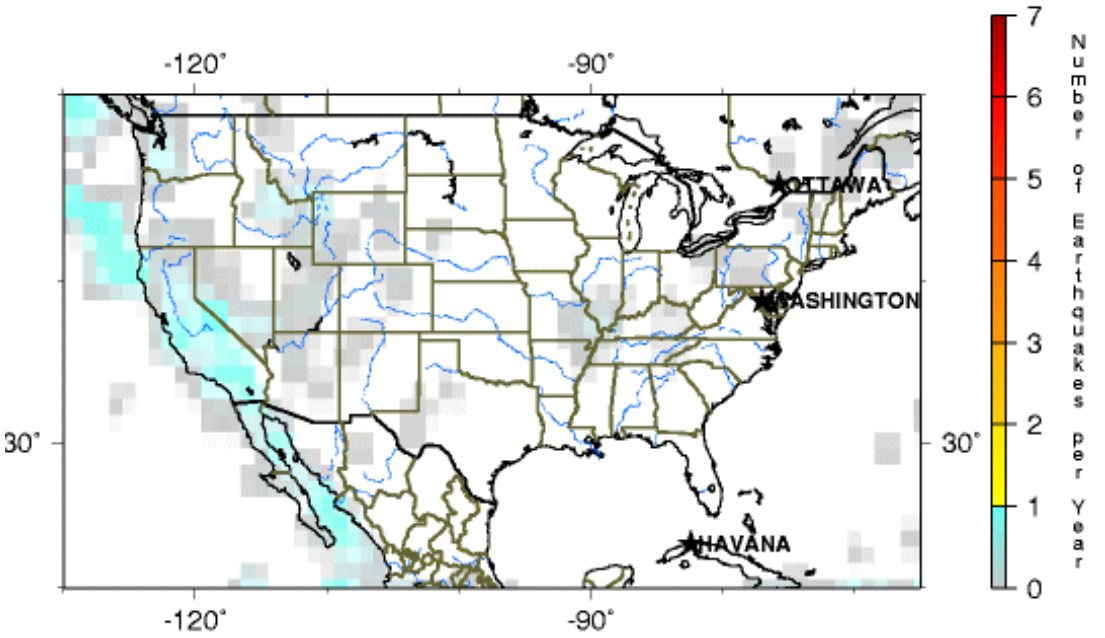


Chart from U.S. Geological Survey

About 25% of property claims costs will be from actual shake damage should a temblor occur; 75% of the balance of the claims will likely be for such perils as fire, glass breakage, and theft, in addition to casualty lines claims for auto and workers compensation. These are typically insured even if they are caused by the excluded peril of earthquake. The prompt recovery of survivors and the communities in which they reside and work will depend in large part on an efficient and effective claims response to aid company policyholders. *Strategies for a Mega-Earthquake Response* can serve as a basis for additional catastrophe response planning.

Eventually, a mega-earthquake that will probably be more severe than any in recorded U.S. history will occur. Statistically it is more likely to occur along the Pacific Rim, but is by no means limited to that region. In any event, property damage could be in the hundreds-of-billions of dollars. The estimated numbers grow with every insurance industry and emergency management projection. The burden on claims departments to respond will likely be unprecedented.

Average Number of Magnitude 5.0+ Earthquakes per Year



Data from U.S. Geological Survey

If this earthquake were to strike a major populated area, it is conceivable that millions of claims could result. An adjuster working in a devastated environment, calculating the effects of enormous destruction, and facing an array of complex and unprecedented issues, will likely be minimally productive, when compared to "normal" catastrophe productivity measurements. It is realistic to expect each adjuster will be able to work on only one claim per day in such an environment.

Preparation is essential and needs to be an on-going activity in the claims departments of all insurers.

Catastrophe Services
Property Loss Research Bureau

Strategies for Individual Insurers

Contents

Human Resources (Staffing)

When a mega-earthquake occurs, the greatest challenge will be the deployment of staff and independent adjusters. Depending on the severity of the event, it may be necessary to mobilize many of America's adjusters to assist in the catastrophe. Those not assigned to the catastrophe will likely work significantly harder to compensate for the reassignment of adjusters to the catastrophe. An organized response is the key to success.

Expediting the Claim

Claims handling practices and procedures will need to be expedited. Even with the pressures to settle seemingly limitless claims with a limited staff, the need will still exist for controls, proofs of performance, documentation for internal auditing, and other routine requirements. A lesson continuously re-learned in mega-catastrophes such as the Oakland Hills urban/wildland interface fire, the Northridge Earthquake, and Hurricane Katrina is that insurance claim fraud will occur. Operations cannot be allowed to become so streamlined that an invitation to fraud is extended, as occurred with multiple fraudulent emergency assistance claims to the Federal Emergency Management Agency following Hurricane Katrina.

A solid understanding of the coverage applicable to an earthquake is essential to the proper adjusting of losses. The PLRB Property Legal Department issues Coverage Bulletins following major events, such as significant earthquakes. These bulletins are typically available within hours of an event occurring.

Background information that can be used for just-in-time training of staff following an earthquake, or as part of routinely scheduled in-house claims training is available. **Earthquake Coverage Issues** has been prepared by the Property Legal Department and is available on at **www.plrb.org**. This document is continually updated as new coverage issues develop.

Legal, Licensing, and Government Relations

Mega-catastrophe experience in recent years has demonstrated insurers will face legal, regulatory, and statutory issues. While these issues could hamper insurance industry efforts to reach policyholders and settle claims, they have been effectively managed with communication and cooperation in recent major non-earthquake disasters, such as Hurricane Ike. The insurance industry has anticipated and developed effective strategies to manage the following catastrophe-related issues:

Licensing

A large number of out-of-state adjusters will usually arrive at the disaster location soon after the event. The emergency adjuster licensing processes for them has usually been expedited by state insurance departments through cooperation with state insurance associations, such as the Florida Insurance Council. Additionally, the PLRB has a portion of its Web site that provides the most recent rules for each state relative to all licensing issues, including catastrophe adjuster licensing, to assist the catastrophe manager.

Adjuster Licensing Statutes
@ www.plrb.org

Adjuster Licensing Statutes © Property Loss Research Bureau 2004

Last Modified: Friday, May 25, 2007
Subject: Adjuster licensing statutes; table of contents; general reference; chart
Last Modified: 3/9/06 - See Document History

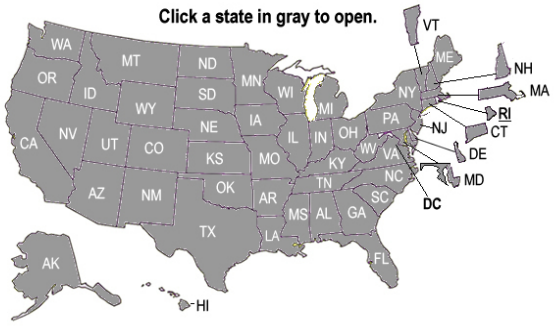


TABLE OF CONTENTS

State Specific

Claim Practices

Interruptions in telecom service, private message/package delivery, US Postal Service mail delivery, and air, rail, and road transportation, as well as time consuming claim-investigation-related tasks facing adjusters, will make it difficult to comply with some time requirements of the **unfair claims practice statutes**. The efficient use of technology, such as following Hurricane Katrina, has ushered in widespread use of new tools that allowed insurers to be in contact with displaced policyholders in widely scattered locations via cell phones, e-mail, and Web sites. The net effect was faster - than-anticipated claims settlements.

Regulation

Open, free, and frequent communication between the adjusting community and insurance departments is essential. Regulators must be free to quickly and effectively investigate complaints. Often PLRB Property Legal attorneys have worked with state insurance departments to ensure their requirements or directives are issued with an understanding of their impact on the adjuster community. The emergency regulations are often analyzed by the PLRB Property Legal Department and summarized in Catastrophe Bulletins that are available on-line to member company employees.

Northridge Earthquake Regulation Analysis

Catastrophe Bulletin Manual © Property Loss Research Bureau 2002

Edition Date: 04/14/1994
Last Modified: Friday, December 06, 2002
State: CA, California
Subject: California, earthquake, loss payment, mortgagee claims, mortgage clause, lender, loss payable

CA DOI Issues Latest Position on Claims Checks

Commissioner John Garamendi has issued a bulletin advising earthquake insured CA citizens they must seek a waiver from their mortgage lender, if they wish to be named as the sole payee on earthquake-loss claims checks. The CA Department of Insurance issued its latest position late Wednesday in a bulletin.

A PLRB Lawline analysis of the CA DOI position bulletin follows the full text.

The text of the CA DOI bulletin follows:

"It is the position of the California Department of Insurance that absent provisions in the deed of trust and/or other loan documents creating: 1. an obligation to purchase earthquake insurance or; 2. an enforceable assignment of the proceeds from an earthquake insurance policy to the lender, a policyholder has a separate insurable interest in the real property covered by the earthquake insurance and is entitled to receive the proceeds from settlement. Such right would preclude the lender from being named as a co-payee absent consent by the policyholder. In those circumstances where an assignment is at issue the Department has concluded that the enforceability of such assignment may turn on whether the assignment constituted a knowing and intelligent waiver of rights by the policyholder.

Available @ PLRB Search

Codes and Ordinances

Many laws exist covering the demolition of repairable structures. They include: debris removal and disposal, zoning, existing or emergency-enacted building codes for new construction, and retrofitting of existing structures. These laws have been reviewed and are continuously studied by insurance carriers and associations such as the Institute for Business and Home Safety to facilitate adequate codes and effective code enforcement to be put in place and maintained, helping to minimize and control future claims costs.

Training

A few adjusters have had personal claims experience with the damage caused by earthquakes. However, many are unfamiliar with the sort of damage they may find following a temblor. For example, there can be damage to both frame and masonry structures which is, obvious to the inexperienced eye.

Damaged Frame and Masonry Structures - Obvious & Not So Obvious
Anchorage, Alaska

The Great Alaska Earthquake, 9.2 Richter, March 27, 1964
Photo by U.S. Geological Survey

A growing number of adjusters have had classroom training provided at the 2009 PLRB/LIRB Claims Conference in sessions taught by Dan Dyce of the California Earthquake Authority, John Orteraas of Exponent Engineering and Scientific Consulting, and Alan Anderson of Vale Training Solutions that provide them with basic background information to recognize earthquake-related issues with structures. The materials are available on-line for use by companies in training adjusters, as well as for self-study by adjusters. Available on-line at www.plrb.org are:

- Earthquake Claims Handling
- Attic Inspection Checklist
- Crawlspace Inspection Checklist
- Earthquake Coverage and Handling Earthquake Claims
- Earthquake Damage Assessment and Repair

Additionally, the California Earthquake Authority has information important to adjusters on its Web site. Their Resources for Claims Representatives page includes: the *CEI Claims Manual*, a coverage course, *Homeowners Coverage - CEA 2003 Policy*; a presentation on *How to Calculate CEA Policy Deductibles*; and more.

Types of Claims Adjusters Faced Following the Loma Prieta and Northridge Earthquakes & Will Face in the Future

- Repairing damaged or disturbed footing and foundations;
- Moving buildings back onto their foundations;
- Righting buildings twisted out of plumb;
- Detecting and estimating hidden damages; and,
- Analyzing damages to electrical conduits, plumbing, heating, air conditioning, and other mechanical systems.

In a mega-earthquake it is likely that only limited support will be available from contractors and engineers who will likely be over-burdened. An adjuster will need to have basic recognition skills in the early stages of the adjustment process following a mega-earthquake to enable the decision-making process to begin. Professional engineering expertise may not be available until late in the claims process, because of the volume of damage.

Adjusters will also need some basic training in managing the traumatized policyholder. In recent years, the PLRB/LIRB Claims Conference and Large Loss Conference have offered instruction in dealing with the psychologically battered policyholder, in the session *Managing the Psychological Trauma*, by Dr. Ray Shelton, PhD. Many of these policyholders may not be in or near the disaster area. They may have relocated to distant states. A lesson learned from the Hurricane Katrina displacement of hundreds of thousands of people from the Gulf Coast to 49 states was that adjusters who were well-removed from the disaster site often had to work effectively with a traumatized policyholder/refugee displaced by the mega-disaster.

Applying Strategies

Contents

When a mega-earthquake occurs insurers will likely be faced with the responsibility of putting as many adjusters at the location of the catastrophe as possible. They will also have the responsibility of maintaining so-called "normal" claims production in areas not affected by the temblor.

Mobilization of Human Resources

A successful claims response to a major earthquake will undoubtedly involve the active participation of all company claims personnel. An insurer's strategy should include not only its own staff adjusters but independent adjusters, support personnel, as well as engineers, contractors, salvors, and other experts needed to assist adjusters in the evaluation of claims.

One of the most critical problems the claims executive will face will be the proper allocation of human resources to the catastrophe site. The company should have identified earthquake-qualified claims adjusters prior to an event as part of its routine catastrophe claims response planning. These people can be strategically positioned to enter the catastrophe area as soon as local authorities permit access.

Local personnel sometimes cannot be counted on during a major catastrophe. The event may be too personal. They may have to attend to their own physical and psychological needs. However, experience in Hurricane Katrina demonstrated that many adjusters, and agents, who had sustained catastrophic personal losses responded immediately to meet the needs of the policyholders in some of the most severely damaged regions of Louisiana and Mississippi.

Insurance carriers typically do not staff for catastrophes, but instead manage by reallocating staff adjusters or by using independent adjusting companies. Staff adjusters are "borrowed" from other offices and dispatched to the catastrophe site. The on-going work of the adjusters sent to the catastrophe is handled by those who remain behind. Sometimes an independent catastrophe adjusting company is brought to the site to handle the entire operation on behalf of the insurer.

When a mega-earthquake strikes, however, such routine catastrophe arrangements will likely be inadequate. The claims manager must plan for an alternative supply of personnel if staff adjusters have been sent to the earthquake site, some have been held back to manage the normal day-to-day claims handling business, but all of the independent catastrophe adjusters are committed to other carriers and unavailable for additional assignments.

Possible Strategies

- Insurer dispatches as many staff adjusters as can be made available.
- Insurer assigns excess catastrophe claims to independent adjusters.
- Assign ongoing non-catastrophe claims to local/regional independent adjusters, freeing additional staff for catastrophe duty.
- Encourage local/regional independent adjusters who handle your normal claims business (but do not normally accept work outside their territory) to make an exception and supply adjusters to assist the catastrophe team.
- Cross-train non-claims employees, hire and train other people, or recruit retirees.

Some of these strategies are discussed in detail below.

Independent Adjusters

Following a mega-earthquake, insurance companies will likely need to make maximum use of the independent adjuster work force. Arrangements will need to be made in advance since these firms are independent businesses with obligations to regular clients.

Some insurers routinely use independent adjusters for all their claims. Others use independents for catastrophe work only. As a result, many of the larger, independent adjusting firms already have pre-catastrophe commitments to some insurers.

Insurers may need to carefully maintain claims service for all their policyholders as well as provide the best possible claim response for catastrophe survivors.

Insurers that have a relationship with independent adjusting firms will need to discuss the adjuster's availability in the event of a major earthquake. They also need to determine the experience and training these firms have had for earthquake losses, which require skills and knowledge that exceed those needed for other types of catastrophe claims.

Insurers also need to periodically review how contractually committed their adjusting firm may be to other insurers with similar concentrations of business. These agreements should be reviewed and updated at least annually.

Use of Independent or Staff Adjusters for Catastrophe Assignment

Many of the same considerations would be used for catastrophes as for normal times, such as quality of performance and cost. Some insurers use staff adjusters almost exclusively, believing that approach is more cost effective and allows for better quality control. Since the estimating and adjusting of earthquake claims requires advanced skills, the insurer may want to consider a balance between the comparative talents of its staff and that of available independent adjusters.

Rotation - The strategy might also involve rotation. Settlement of a million or millions of claims is time consuming. Experience has shown that adjusters can physically and mentally withstand on-site catastrophe duty only for limited periods. Therefore, replacements will be needed for the on-site work. An insurer might consider using regional independent adjusters for one period and then have them switch places with staff adjusters for the next. A lesson learned following the Oakland Hills Fire was the importance of maintaining adjuster continuity with the policyholder. Insurers should consider keeping the file assigned to the original on-site adjuster, after that adjuster has

been removed from the on-site catastrophe office to ensure continuity of the claims process and reduce potential policyholder frustration.

Advice and Training - A company could also employ an experienced earthquake adjuster to serve as a technical advisor to the less-experienced staff adjusters. The coaching and counseling provided by an experienced independent could allow the insurer to utilize staff adjusters who otherwise lack the skills required for earthquake adjusting.

Retirees and Other Human Resources

An ever-growing "grey" work force potential can be utilized. Insurers may want to consider utilizing this resource by maintaining a list of retirees with claims experience. There are some limitations however, including:

1. Technical knowledge and skills, if not regularly used, gradually decrease or slip away entirely. An insurer needs to either use only recent retirees --which would limit this resource --or pro-actively help retirees maintain their skills and stay current on changes. This can be accomplished through courses for retirees and/or part-time (vacation, holiday, storm) employment.

2. Catastrophe duty is always physically and mentally demanding. An insurer should consider the health and fitness of retirees in its selection for catastrophe duty or consider assigning retirees to routine losses to free active staff for the catastrophe.

Cross training of non-claims employees could also be considered. Underwriters, marketing people, and others typically have knowledge of policy coverages. They would likely require training in estimating and adjusting procedures. Some of the basic training could be incorporated into the insurer's continuing education program, or through PLRB's Claims Conference, Regional Adjusters Conferences, or the **Distance Learning Module** program, as well as participation in the **Insurance Institute of America's** Associate in Claims (AIC) program.

Other Potential Personnel Resources

Also consider utilizing teachers and graduate students. Insurers have successfully recruited these people for catastrophe duty in the past. When schools and universities are not in session, students and teachers have been found to be a valuable resource. They are typically readily trainable and can be articulate in their communication with policyholders. Insurers may wish to contact local colleges and universities to explore the availability of staff and design quick response procedures.

Support Personnel

Many of the strategies to marshal an adequate adjusting force apply equally to meeting the need for catastrophe support personnel. These include hiring and training temporary personnel, dispatching experienced personnel from home office or field offices, using retirees, cross-training non-claims employees, and rotating personnel.

Engineers, Contractors, Salvors, and Other Experts

Adjusters do not settle major claims in isolation. The assistance of engineers, architects, contractors, and others is sometimes required by law, by the nature of the damage, or by the policyholders themselves. Unfortunately, these disciplines also lack an adequate number of experienced and trained people to meet the potential demands of a mega-earthquake.

Expediting the Claims Process

Adjusting numerous claims under adverse conditions with an inadequate number of adjusters will require new and expedient methods. The claims response to a mega-earthquake will be extraordinary. Strategies, experiences, and lessons learned in other earthquakes such as the Loma Prieta or the Northridge events will be helpful, but will need to be augmented with new procedures and plans.

Each insurer has its own procedures, standards, and other specific expectations of the adjusters in providing claims service to their policyholders. Insurers have quality control or other audit criteria used to measure adjuster performance. In preparing a claims response to a mega-earthquake, insurers may want to consider modifications to their prescribed practices in order to provide maximum service with limited personnel.

Internal Procedures

In a disaster of extraordinary magnitude, few tasks can be accomplished at a normal pace. The civil authorities' emergency response teams will have new priorities and will not be able to exercise the same degree of thoroughness and care as they would in "normal" emergencies. Municipalities may have to eliminate many steps, procedures, forms, and other normal rules to avoid obstructing a higher priority: the prompt restoration of their cities. Insurers faced with the settlement of an overwhelming number of insurance claims within an acceptable time frame will also require new and expedient methods, as well as a balance between maximum productivity, auditing needs, and legal requirements.

Insurers should consider making decisions on procedural modifications in the following three areas before a mega-earthquake.

1. Insured's Duties in the Event of Loss

   Property policies require policyholders to take various steps and provide certain documentation to present their claim. Typically, insurers waive some of these requirements following a disaster. The magnitude of the situation following a mega-earthquake, with large numbers of fatalities, injuries, and displaced people, will likely compel insurers to carefully examine these requirements and consider exceptions. Emergency modification of the rules however must be balanced with the need to protect the insurer against arson or other fraudulent claims.

2. File Documentation

   Insurers may consider relaxing claim file documentation requirements. However, such planning should recognize the need for essential documentation under some circumstances, such as potential fraud, subrogation, litigation, and regulatory requirements. Furthermore, since multiple adjusters may be required, files may be transferred from one adjuster to another before the claims are settled, unless the insurer has an adjuster retain the claim until final resolution. If the files are transferred, sufficient documentation will be needed to ensure adjustment continuity. Finally, there will be claims reopened because of previously undiscovered damage. The closed file will need to reflect the details of the previous payment, so that a supplemental claim for damage can be readily verified and adjusted.

   In other instances, there is a significant potential for expediting the claim, with total losses frequently presenting the greatest opportunity. Generally, all that would be required in the total loss is a factual realization that the loss exceeds policy limits. This applies to structural, personal property, and sometimes time element losses. Companies may even elect to discontinue file reporting requirements during the initial phases of the catastrophe operation.

In all considerations, flexibility is needed. Internal procedures and safeguards must be weighed against the need to grant adjusters the maximum flexibility and authority to get the job done.

3. Claim Payments

While control of check issuance authority is essential for the security of any organization, in the event of a mega-earthquake, insurers may want to examine their policy to seek areas where they can safely broaden the allocation of responsibility to:

Agents

Many insurers permit agents to issue checks. Although many local agencies will be seriously disrupted, an insurer may want to consider expanding the agency's check authority. They could authorize the agent to issue advance payment checks. In large agencies, they could place an adjuster in the agent's office to obtain preliminary information from the policyholder and issue advance payments.

Adjusters

While the practice of granting limited check authority to staff adjusters is common, insurers may wish to evaluate the risk/benefit ratio of extending check authority to independent adjusters. As with agents, check authority might be increased.

Supervisors

Many transactions, including payments, will occur at a catastrophe office site. Adjusters may not be readily available and supervisors could issue checks if granted the appropriate authority.

Internal Realignment

A mega-earthquake will place a severe strain on the staff. In many instances, the tasks will exceed individual skills. There will likely be a major shift of skill emphasis from normal duties to claims handling. An analysis of all tasks should be undertaken, internally in the claims and other department, as well as at the catastrophe site.

Staff should be realigned to put qualified or potentially qualified people on the "front line." The planning should also provide adequate replacements for the staff members reassigned to the catastrophe.

To further maximize use of all qualified personnel, an insurer might consider realignment of work by finding the best ways to use available talent and experience. For example, only a relatively limited number of adjusters will be qualified to handle structural and mechanical losses. Procedures could be developed that permit these qualified personnel to concentrate on this type of loss. If implemented, this would mean assigning personal property losses, even those involving the same loss, to other adjusters who are not qualified to adjust the more complex structural and mechanical issues.

The use of *telephone adjusters* can be expanded. Claims that could be acceptably settled over the telephone could be handled from offices that are remote to the catastrophe area. Increasing the scope and/or limits of a telephone adjuster's settlement authority, along with a cursory review field audit or final check by the field adjusters, might be considered. Similar

procedures have been successfully used in recent major hurricanes such as Katrina and Ike. The result was that policyholders received expedited service and significant claim volume was transferred from field personnel operating under disaster conditions to office personnel who were remote from the disaster area and able to operate in a normal office environment.

Other Expedient Methods

Typically, in the adjustment of substantial building claims, the insured obtains an estimate or *estimates* from a contractor. The estimate is either reviewed by or compared to an estimate prepared by the adjuster. Estimates are time consuming and are difficult to obtain quickly, even in lesser disasters.

In a major disaster, the delay in waiting for estimates might exceed reasonable expectations. Furthermore, estimates reflect the concerns, doubts, and apprehensions of the estimator, all of which are "cushioned" into the estimate. To accomplish all this while estimating earthquake damage is time consuming and might prove to be unrealistic.

An alternative strategy would be a *cost monitoring approach.* This permits the contractor to proceed with the repairs, with the ultimate costs controlled by field monitoring. Labor and material records could be audited later. There is successful precedent for this practice both within and outside the claims industry when emergency restoration has been undertaken in the past, such as with critical infrastructure in Gulf Coast cities following Hurricane Katrina.

Industry-Wide Strategy Possibilities

Contents

Perhaps the most critical problem the insurance industry will face following a major earthquake is the potential need for all legally permissible cooperation between property and casualty insurance companies, despite the fact they are competitors in a normal insurance environment. There comes a time when the competitive position of individual companies must be moderated for the good of the industry and the survivors themselves.

A mega-earthquake might be such a situation. Companies must be prepared to share human resources to provide the best possible service following the earthquake. This can only be accomplished if each company CEO is willing to offer critically needed personnel to other insurers faced with substantial earthquake claims exposure.

Strategies for Individual Insurers described steps companies could take to prepare for and execute their individual major earthquake catastrophe plans. We wish to again suggest concepts for industry-wide cooperative programs, as did *The Earthquake Project* report of 1990, that will make maximum use of limited resources and best serve survivors.

Public Information

Insurance Information Center

Scattered bits of information, ranging from factual to conflicting or erroneous, can have a damaging impact on the claims operation and the insurance industry.

Insurance Information Demands Following a Major Disaster

- The disaster survivors collectively need generic information
- Individually, survivors need specific information
- The public-at-large wants factual news
- Public officials need answers to their questions
- Regulators need clear and effective communication with the insurance industry
- The insurance industry needs well-considered but immediate responses to news media inquiries

A central source of insurance information might best serve these needs. Utilizing technology such as Internet Web sites, social networking programs such as Twitter, and I-phone applications, a flow of information could be provided directly to policyholders. Reaching policyholders within the disaster area may be complicated by loss of electrical power or the collapse of cell-phone towers. However, in past mega-disasters many policyholders who were not in the disaster area, or were in areas with functioning utilities, were communicated with via the Web and cell phone quickly and effectively.

Questions regarding procedures and expectations could be answered by the staff of the center, which could also issue news releases and public service announcements to inform other survivors.

It could also be a focal point of information for the news media, consumer groups, and government officials.

It could serve to counter disinformation campaigns with factual information.

Insurance Villages

The clustering of insurance company mobile catastrophe offices in so-called "insurance villages" can provide a central point for policyholders to file claims and get factual insurance information. The "insurance village" concept has been effectively utilized in major hurricanes in Florida and in mega-tornadoes in the Plains states.

The "insurance village" can be set up in the parking lot of a major shopping center, at a community center such as a high school, or any other high visibility and easily found location. The public information value of the "insurance village" is that it provides a highly visible statement that all insurers are there to aid their policyholders.

In Florida the "insurance villages" have been set up following hurricanes and major tornadoes in cooperation with the insurance regulator and the emergency management departments. Similar cooperation would serve policyholders well following a mega-earthquake.

Legal Licensing and Government Relations

Coordination with governmental authorities will be part of the adjusting process following a mega-earthquake. Some areas of coordination include:

Access

Early access to the disaster area will likely be limited. Even after the initial emergency restrictions are lifted, governments will likely seek to control the number of outsiders permitted into the area.

Advance arrangements, similar to those in place in Florida through that state's Partners in Recovery program, are needed for the identification and admission of insurance adjusters with local government, state government, or other emergency management officials. This preparation will enable the insurance industry to begin its work sooner and expedite the rebuilding process.

The Florida Partners in Recovery program includes pre-occurrence registration of adjusters and distribution of official state emergency management vehicle identification cards. These cards are known to law enforcement authorities in Florida and provide ease-of-access for adjusters into a disaster area. Information on the Florida Partners in Recovery adjuster access program is available from the **Florida Insurance Council**.

Licensing

Adjuster licensing laws vary between states. Some apply only to independent adjusters. Others have catastrophe exemptions. An up-to-date listing of state-by-state adjuster licensing requirements is available on-line from PLRB by clicking here.

Unfair Claims Practices Statutes

Many Unfair Claims Settlement Practices statutes or regulations contain time restrictions for claims response and actions. Some of these will likely be difficult to meet following a mega-earthquake. However, in past major hurricanes some state regulators have relaxed restrictions. The insurance industry's trade associations generally work together to obtain an emergency waiver or modification of unfair claims practices statutes. A state-by-state listing of Unfair Claims Settlement Practices Laws is available on-line from PLRB by clicking here.

Demolition

One of the many emergency actions is the evaluation, condemnation, and demolition of buildings that present an obvious threat to public safety. Following the emergency action, however, building departments will evaluate lesser-damaged structures to issue either repair or raze orders. A tagging code has been developed to identify the life-safety risk of a damaged building. Engineering research continues to develop methods of salvaging and repairing some damaged buildings following earthquakes. In a mega-earthquake there may be many thousands of such damaged structures that will need to be evaluated and subsequently repaired. Engineering service providers have gained considerable expertise in these fields and can be of assistance to insurers in negotiating with building departments regarding the possibility of repairing damaged structures.

Debris Removal

There will be an enormous amount of debris following a mega-earthquake. The removal of the debris will most likely be undertaken by a government agency, either using contractors or military engineers. This has been the procedure utilized in recent major hurricanes, major tornadoes, and large urban wildland interface fires.

Seismic Codes

California has taken the lead in seismic building codes. A few other states are working on the development of such codes. But many vulnerable states have no seismic building codes. Even where codes exist, there are many buildings that do not comply due to grandfather provisions, lack of enforcement, or other reasons.

In the event of a mega-earthquake, there could be action by governments to strengthen existing codes or create new codes, and rigidly enforcement them.
Most property policies provide only limited coverage for increased costs due to building ordinances or codes. While policy endorsements exist to increase the amount of code coverage afforded, the difficulty in rating the exposure makes some insurers reluctant to provide coverage for the earthquake peril.

Training

Significant insured earthquake damage is rare. It is limited to larger earthquakes in more seismically active regions of the country. A catastrophic earthquake occurs infrequently, meaning that few people have experience in evaluating and repairing earthquake-damaged structures. This fact applies to architects, engineers, contractors, building inspectors, as well as adjusters.

The State of California has developed a certified earthquake adjuster program. Training in this program was offered at the 2009 PLRB Claims Conference. The materials are available on-line for use by companies in training adjusters, as well as for self-study by adjusters. Available on-line from PLRB are:

Earthquake Claims Handling
Attic Inspection Checklist
Crawlspace Inspection Checklist
Earthquake Coverage and Handling Earthquake Claims
Earthquake Damage Assessment and Repair

Additionally, the **California Earthquake Authority** has information important to adjusters on its Web site. Their **Resources for Claims Representatives** page includes: the *CEI Claims Manual*, a coverage course, *Homeowners Coverage - CEA 2003 Policy*; a presentation on *How to Calculate CEA Policy Deductibles*; and more.

For training to be effective and cost-efficient, application of the learned skills must immediately follow the training. Since adjusters will not be allowed into the disaster area for several weeks, refresher training, as well as first-time training for adjusters assigned to the earthquake catastrophe can occur at this time.

Sharing of Physical Resources

As the Northridge Earthquake and Hurricane Katrina demonstrated, disruption of utilities, communication systems, and transportation networks can be widespread and long-term. In a mega-earthquake, these factors, along with the damage itself, will seriously impact the housing, feeding, mobility, and effectiveness of adjusters.

In the typical catastrophe environment, each insurer and independent adjusting firm takes care of its own requirements. When physical resources are scarce, there is competition among insurers, as well as between insurers and other catastrophe response services.

In the event of a mega-earthquake, the insurance industry cannot usurp housing and other essential needs required by victims or emergency response teams. Our needs can only be met through available resources found on the distant fringes of the disaster area. For example, during the recovery from Hurricane Katrina, some companies chartered airliners to fly adjusters from distant cities, such as Houston, Texas, into and out of the New Orleans area on a daily basis.

It is possible that a mega-earthquake could even exceed the operational challenges presented by Hurricane Katrina. The result may be that insurers will have to consider the sharing of physical resources in two main areas: a central claim services facilities and the overall damage survey.

Central Claims Service Facilities

Housing, feeding, transportation, and communication needs may best be accomplished through a cooperative and coordinated effort.

Large blocks of hotel and motel rooms or other temporary living quarters could be arranged on behalf of catastrophe adjusters. Mass transportation from the housing areas to the catastrophe scene would be more economical, efficient, and avoid adding to serious traffic problems. Meals for adjusters could be centrally catered. Water and sanitary facilities could be provided.

Until post-mega-earthquake circumstances permit insurers to establish self-sufficient individual catastrophe offices, industry-sponsored central claims services offices could efficiently meet essential needs, such as early voice and data communication via satellite, photocopy equipment, and so on. They could also serve as a central source of information regarding local conditions, directions, facilities, medical assistance, and available services. Security issues can also be more easily addressed collectively than individually.

The prompt and effective establishment of a shared facility would require pre-event preparation, which might involve the creation and maintenance of a pre-occurrence database. It could contain potential physical facilities, sources of needed materials, and equipment, identification of experts, and so on. Insurance company purchasing departments could assist in this effort utilizing their knowledge of local vendors and resources.

Overall Damage Survey

Specific damage estimate information is needed for reserving and claims action.

After the initial major earthquake and aftershocks, civil authorities will likely need days or weeks to stabilize the situation before adjusters can enter the area. Insurers can use this time to evaluate the impact on their companies and assemble their claims forces.

Individual companies may not each gain quick access to the area to conduct a survey. Therefore, a joint industry survey team might be economically feasible and acceptable to the authorities.

Geo-enabled data from video, aerial reconnaissance, satellite-imaging, and Geographic Information System (GIS) geocoding of ground surveys could be made soon after the over-flights and/or ground entry are permitted. The geocoded imagery will permit insurers to determine their policy counts and the general level of damage to insured structures. It can also be used to determine the affected ZIP codes, in general.

Satellite-imagery documentation of the immediate aftermath can provide a spin-off benefit. Conflagrations are expected following a mega-earthquake. So is arson. An arson investigation, however, is unlikely to be conducted by either the authorities or the private sector for each fire occurrence.

The strategy then is to identify those fire claims that require special attention. Fires erupting immediately after the quake might be accurately labeled as accidental. Arsonists will not likely have the time to plan and prepare to set fires in the chaotic aftermath of a mega-earthquake. The potential arsonists will need time to gather materials before igniting the property.

Through prompt and regular satellite imagery, fires occurring days after the event can be distinguished from immediately ensuing fires. The cause of fires identified by satellite imagery as post-earthquake or post-aftershock can be investigated as normal.

Besides the satellite imagery, joint insurer inspection teams, in cooperation with emergency management disaster evaluation teams, would be able to gain access to the area sooner than individual company representatives. Their assessments should be communicated quickly to all involved insurers.

Conclusion

Hopefully, this re-visit to the potential insurance claim issues that might arise following a mega-earthquake has generated an idea or two that will be helpful to your company in its pre-occurrence planning and training. Maybe it has produced an idea that is not included in this report, but one you want to share with other claims executives of PLRB member companies. We invite your comments and suggestions. Please send them to Hugh Strawn, Vice President, Catastrophe Services, PLRB at hstrawn@plrb.org. All replies will be treated confidentially.

Index