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Loss Assessment – The Adjuster's Position

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Overview

The role of the Loss Adjuster is to impartially interface between the Insurer and its Claimant in order to bring about a settlement that is fair to both sides and commensurate with the promise provided by the policy of insurance.

It follows that Loss Adjusters (whether they be independent or employees of the Insurer) are invariably involved whenever natural disasters resulting in widespread damage occur.

The Loss Adjuster is usually the first formal 'face to face' contact from the insurance industry encountered by the Claimant and needs to be equipped with a range of interpersonal skills in addition to pure technical ability.

These include tools to deal empathetically, to listen, to advise, to communicate with clarity throughout the assignment and, importantly, meet the Claimant's reasonable expectations in terms of time lines and not to make promises that can't be kept.

The Adjusting resources in Australia are however limited but insurance, being a global industry has international resources to call upon just as the local profession is called upon to assist overseas on a fairly regular basis (eg Hurricane Katrina, 2005 Tsunami etc.).

Based on recent experience, my own estimation is that any event generating in excess of 20,000 serious or otherwise complicated claims will require off-shore assistance but this will depend on the nature of the event, location, severity of damage and degree of expediency involved (eg hail damage can generally be handled over a longer time span than say cyclone or bushfire damage where there is greater displacement of affected community).

Recent Natural Disaster experience

Every natural disaster, at least in recent history in Australia, is unique being characterised by a number of features all of which can add to the difficulty and complexity of returning the affected area to some degree of normality within time lines that meet community expectations. They include:

- Nature of event
- Location
- Extent of damage
- Access

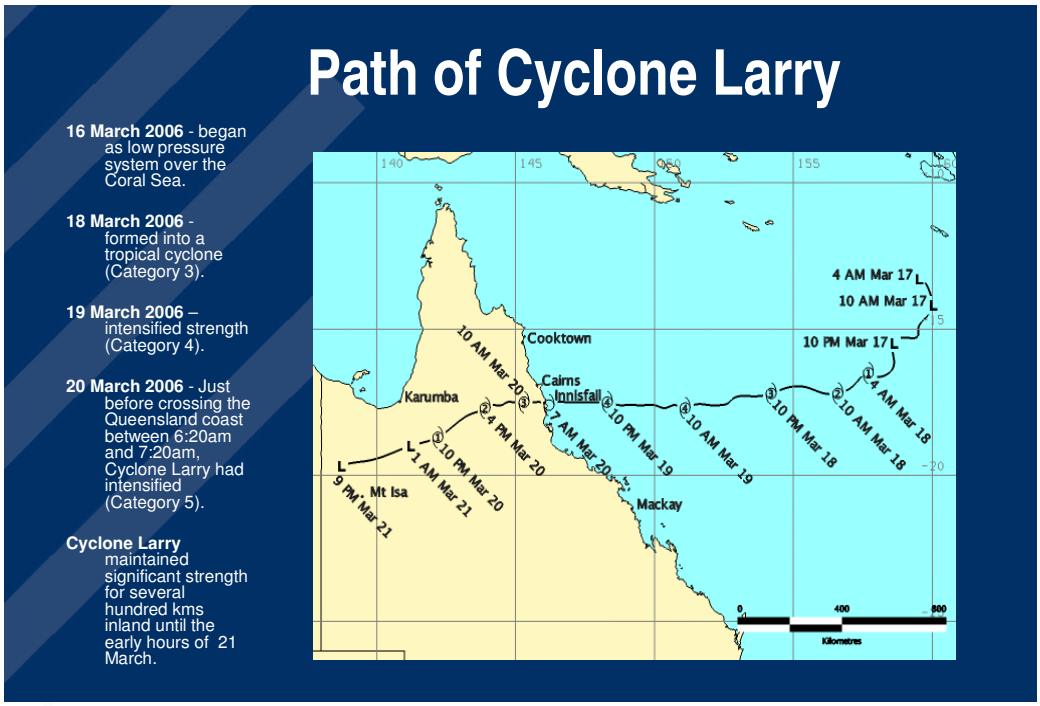
- Damage to infrastructure (eg power reticulation)
- Regulation/intervention
- Availability of repair resources, materials etc.

Today I want to touch on some recent events, most of which you will at least have some degree of familiarity.

Cyclone Larry (Innisfail) – March 2006
Canberra Bushfires – January 2003
Sydney Hailstorm – April 1999
Cyclone Winifred (Innisfail) – February 1986
Cyclone Tracy (Darwin) – December 1974
Unnamed cyclone (Gold Coast) – February 1954

In the main however, I intend to concentrate on the most recent experience which was Cyclone Larry where the reconstruction and settlement phase is still continuing and a number of interesting points and lessons have emerged.

Cyclone Larry began as a low pressure system over the Coral Sea well east of Cooktown on 16 March 2006 and formed into a Category 1 tropical cyclone by 4 AM on Saturday 18 March, virtually due east of Innisfail. By 10.00 AM Sunday it had moved rapidly due west and was upgraded to Category 4.[1]



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[1] Bureau of Meteorology - Severe Tropical Cyclone Larry available at http://www.bom.gov.au/weather/qld/cyclone/tc_larry/

Westward movement continued with the Cyclone being upgraded to Category 5 just prior to reaching landfall where the eye crossed the coast south of Innisfail between 6.20 – 7.20 AM on the morning of Monday 20 March.[2]

One characteristic of the cyclone was its relatively rapid movement, which although losing some intensity after crossing the coast, continued with destructive winds travelling in a westerly direction before eventually being downgraded to a tropical depression by 1 AM on Tuesday 21 March 2007.

'Larry' was accompanied by a 'storm surge' affecting lower lying communities. The surge was measured at 1.76 metres at Cardwell which compares with 4.0 metres experienced in Cyclone Tracy.[3]

As at October 2006 there were 30,594 insurance claims lodged[4] involving damage to approx. 14,000 buildings of which approx. 500 were considered to be total losses from the outset.[5] Costs are estimated by the Building Services Authority Queensland (BSA) at $1.5 billion[6] although the insurance estimate remains somewhat optimistically less.

McLarens Young International received a large number of appointments and utilised the services of over 50 Loss Adjusters, some sourced from overseas (New Zealand, Canada & UK). Our small Cairns office was in overload and we also utilised resources from other States (mainly South Australia) for data entry, call centre and management data assistance.

I arrived in Cairns on one of the first flights following reopening of the airport and spent 54 days continuously managing the 'event' followed subsequently by other trips.

Features of 'Larry' which have contributed to the event from a loss management viewpoint are:

Environmental Issues

- Most severe cyclone recorded in Queensland since an unnamed cyclone struck Innisfail in 1918.[7]
- Location in Far North Queensland along with climatic issues (high ambient temperatures and humidity resulting among other things in mould), natural hazards (reptiles - snakes and crocs) and potential for tropical diseases (eg

[2] Note 1.
[3] Charles Sturt University, 'Cyclone Hazards and Disasters', available at http://www.csu.edu.au/faculty/health/aemf/HDS/chapter_7.htm.
[4] See statistics available from the Insurance Council of Australia.
[5] I Jennings, General Manager BSA (Qld), 'Lessons from Cyclone Larry – Building Regulations Perspective', Claim Expo and Asia Pacific Fraud Convention 2006.
[6] Note 5.
[7] Note 5.

dengue, malaria etc.). Field staff required appropriate induction and were suitably equipped for the conditions.

- Vast area of damage, 200 km coastal front from Cardwell to Cairns northern beaches and 150 km and beyond inland.
- Substandard maintenance in many cases was a contributing factor with numerous examples of dry rot and termite damage exacerbating damage.
- Weather conditions subsequent were horrific with continuous rain falling throughout the rest of March and April. In fact in the 41 days through to the end of April 2006 there were only 3 days where nil rain was recorded at Innisfail. The 24 hour reading recorded at 9.00 AM Wednesday 22 March was 288.7 millimetres or close to 12 inches! Rain continued well into May and beyond.[8]
- Not only did the wet conditions exacerbate damage and make protection difficult but it also provided access problems through flood waters, fallen trees etc. with the result that inspection rates were very low and travel times to and from 'Ground Zero' (being the coastal strip south of Innisfail where the worst damage was experienced) were extended. Road access to the Atherton Tablelands was also subject to delay following rock falls and landslip.
- Initial shortage of tarpaulins and repair materials.

Regulatory Issues

- Nature of the buildings. There were many pre 1970s structures built prior to the introduction of modern building regulations which were particularly hard hit. There was widespread use in these structures of asbestos sheeting which created problems in terms of repair and environmentally acceptable disposal.
- Newer buildings demonstrated that the Building Code worked as there was minimal structural damage but they were, of course, equally susceptible to damage by flying debris, blown in garage doors etc.
- No fatalities or serious injuries attributable to good pre-warning mechanisms coupled with the time cyclone struck (i.e. early morning – daylight hours). Had 'Larry' struck at night with little warning (like Tracy) then there may well have been more serious consequences.
- Establishment of 'Cosgrove Taskforce' by Queensland Government including assistance from experienced insurance personnel able to deal with consumer enquiries. As at mid January 2007 a total of 781 insurance enquiries had been recorded,[9] most of which were capable of speedy resolution.
- Significant increases in labour and material costs (estimated by BSA to be between 30-40%).[10] Labour rates for trades of up to $130 per hour (including accommodation etc.) are not uncommon.
- Influx of certain classes of contractors too early. Painters and plasterers were in the main not required for some time.
- Undue haste in the commencement of repair only to see work undone or redone once full extent of damage determined by engineers.

[8] Bureau of Meteorology March and April 2006 Daily Weather Observations available at http://www.bom.gov.au/climate/dwo.
[9] Interview Mr I Jennings – General Manager Building Services Authority 29/01/2007
[10] Note 9

- Lack of appreciation regarding Building Code and ramifications including requirements for Development Approval (DA). Of the 5,000 roofs estimated requiring replacement, the Johnstone Shire Council had, at mid-January, only approved 928 DAs.[11]
- Introduction of a 20% self-assessment rule. If greater than 20% structural then DA required.[12]
- Establishment under umbrella BSA of the Building Co-ordination Centre (BCC) by the BSA for registering interest of contractors and fast tracking licence applications. A total of 2,742 contractors are registered with the BCC (as at January 2007) of which 236 were from interstate. These figures exclude labourers. Sites visited by BSA Inspectors total 2,298 and there have been 74 unlicenced contractors identified.[13]
- Goal of 'Taskforce' was to have every home at least waterproof by commencement of next wet season (1 December 2006). Accomplished by roof repair, temporary repair and in some cases 'engineered' tarpaulins.
- The BCC also had a mandate to assist those who were uninsured or underinsured and to determine their fair level of loss. They are assisting in recommendations for disbursement of relief overseeing the repair projects. There were in all 153 uninsured homes registered (excluding unimproved residences such as caravans of which there were 65) - 97 have been finalised and the bulk of the others approved.[14]
- The BSA, in anticipation of ongoing involvement in the reconstruction of the coastal area, has recently established a permanent field office in Innisfail.[15]
- Huge response by Government agencies. Ergon Energy deployed the largest task force in its history, more than 500 employees working a staggering total of 75,000 hours. State Emergency Service fielded more than 6,000 calls, mobilised 836 Volunteers who worked more than 24,000 hours to lay almost 10,000 tarpaulins. The presence of the Australian Army was a great morale booster and they played a huge and welcome role with the clean up of debris. The Army used a Chinook to transport a pylon tower from Townsville to near Babinda to assist Ergon restore power.[16]
- Problems now emerging with quality of repair work and BSA openly advertising for concerns to be registered with a view to resolution. To date, 3 licences have been cancelled for non-compliance.[17]
- In July 2006 a revised compliance code (Insurance Code of Practice) was introduced under the auspices of the Insurance Council of Australia aimed at increasing the levels of communication between Insurers, Claimants and other intermediaries.

[11] Note 9
[12] Building Co-Ordination Centre – Cyclone Larry Reconstruction Guidelines
[13] Note 9
[14] Note 9
[15] Note 9
[16] Note 5.
[17] Note 9

Social Issues

- Reticence by Claimants unwilling to leave property (many were on farms) and subsequently there were cases of several family units residing under one roof. Caravans were purchased and in some cases less damaged sheds were modified to provide accommodation.
- General resilience of population at large. Many 'stood their ground' and most Insurers responded by paying for generators in lieu of other temporary accommodation benefits.
- Latest estimate is that repairs/reinstatement expected to take 24 months from event, possibly up to 30 months (September 2008).[18]
- Some degree of fraud and greed was evident. Mainly exaggeration of specifications (eg claiming higher spec. technology) although the odd case of deliberate damage and also failure to reasonably mitigate loss. We are aware one case where a Claimant deliberately obstructed attempts to have roof tarped in an obvious attempt to secure a total loss settlement.
- Suitable accommodation was impossible to find along the coast in the initial stages with many resorts being either damaged or without electricity. Demand was huge from emergency workers and others and the bulk of the relief effort were forced to be accommodated in Cairns.
- Barriers by Claimants wanting all repair work to be completed by 'locals' and scepticism regarding 'outsiders'. Unfortunately, the task was beyond the capabilities of local contractors.
- General level of underinsurance that, in numerous cases, has seen sums insured insufficient and, because of cost escalation, many buildings originally considered repairable have now been deemed to be a total loss. This of course leaves the Claimant in the unfortunate position of having a structure that is theoretically repairable but with insufficient insurance funds to do so.

Insurance Industry Issues

- The Insurers' approach to handling cases varied from resolving minor cases in house, project management by Loss Adjusters (both internal and external) to using specialist building consultants where construction was involved.
- Some established a presence in the area, at least on a temporary basis, either with 'hands on' case managers with the ability to handle issues as they arose, others essentially 'flew the flag' from a public relations viewpoint.
- All Insurers for whom McLarens Young International acted demonstrated a willingness to be flexible, they generally provided us with adequate levels of authority, were generous and swift with urgent settlements including liberal interpretation of temporary accommodation and other 'extra benefit' entitlements.

[18] Note 9

- Because of the magnitude of the event some struggled with quickly determining their preferred method for handling more complex building claims. Processing delays were also frequently a feature because of volume (also a problem for Loss Adjusters). 'Business as usual' models were just unable to cope and there was a general shortage of trained claims staff.
- Inspection rates by Loss Adjusters were much lower than normally expected because of travel times, access problems and the fact that many Claimants were farmers and there were often multiple buildings to assess.

Comparisons

Canberra Bushfires – January 2003

- Easy access, accommodation not a major issue.
- Tight geographic area resulting in less difficulty in servicing.
- Approx. 500 homes lost, the majority being in suburbia. Many others repairable. Generally, little required in way of 'first aid' repairs.
- Materials supply not a major issue.
- Vast support resources available.
- Regulatory intervention also a feature. ACT Bushfire Recovery TaskForce.
- Underinsurance a feature – up to 27-40% on average[19]
- Many opted for cash settlements and did not rebuild

Sydney Hailstorm – 14 April 1999

- Widespread damage but tight geographic area.
- Approx. 40,000 property claims (45,000 motor).
- Delays with repairs arising from material & labour shortages.
- Dwellings generally still occupiable although some major contents claims where asbestos and tiled roofs compromised.
- Poor workmanship issues.
- Long delays with completion.

Newcastle Earthquake – 28 December 1989

- Widespread damage but tight geographic area.
- 13 deaths & 150 injuries.
- 35,000 homes and 3,000 other buildings moderately to seriously damaged, 70,000 in total suffering some damage.[20]
- Insured losses in 2006 dollars $1.4 billion, overall losses $5.6 billion.
- Long delays with completion of repairs consequent upon shortage of manpower.
- Poor workmanship issues.
- Problems in with completing repairs too hastily.
- Difficulty in differentiating minor earthquake damage from normal settlement (subsequent weather conditions contributed to the latter).

[19] ASIC report # 05-269 available at http://www.asic.gov.au/fido/fido.nsf/byheadline/05-269+Australian+homes+underinsured:+ASIC+report?openDocument

[20] Emergency Management Australia Newcastle Earthquake http://www.ag.gov.au/agd/EMA/emaSchools.nsf

- Conflicting engineering views led to difficulties on some large losses.
- Long tail – new claims up to 10 years later.
- Assistance from New Zealand Adjusters provided.

Cyclone Winifred – February 1986

- Similar problems to 'Larry' but category 3 only and damage less widespread. Structural damage to older buildings significantly less. 50 homes in total destroyed.
- 3 deaths, 20 injuries and severe crop damage.[21]
- Estimated cost in 2006 dollars $425 million.
- Technology such as mobile phones non existent
- Extensive involvement by Insurance Council of Australia (Insurance Disaster Response) who co-ordinated inspection of damage on behalf of many companies.

Cyclone Tracy – 24 December 1974

- No real comparison to 'Larry' in terms of the severity of damage. Although 'Tracy' was only category 4 she was far more destructive because of the time of the direct hit in the late evening, lack of pre-warning and was a slower moving system exposing Darwin to destructive winds for several hours.
- Wind speed estimated at 250 km/h (max 217 km/h recorded) but longer duration.[22]
- 65 deaths.[23]
- Pre introduction of regulated building standards
- Only 400 of 11,200 homes remained reasonably intact.[22]
- Insured losses in 2006 dollars of $1.1 billion and overall losses estimated at $5.4 billion.[24]
- City evacuated
- Legislation enacted to manage rebuild (Darwin Reconstruction Act 1975).
- 3 years to rebuild.
- Similar logistical problems, access, disease, accommodation, resources etc.

Gold Coast Cyclone – 19/20 February 1954[25]

- Little is remembered about this event, which occurred between 19/20 February 1954.
- Rain & storm surge combined to cause devastating flooding.
- Boats in trees at Beachmere.
- 900 millimetres of rain in 24 hours recorded at Springbrook.
- 26 fatalities.

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[21] Queensland Government State Disaster Management Group, 'Cyclones', available at http://www.disaster.qld.gov.au/disasters/cyc_history.asp.
[22] Charles Sturt University, 'Cyclone Hazards and Disasters', available at http://www.csu.edu.au/faculty/health/aemf/HDS/chapter_7.htm.
[23] Note 22.
[24] Note 22 as updated in 2006 dollars using Consumer Price Index (all groups).
[25] Bureau of Meteorology, 'Climate Education', available at www.bom.gov.au/lam/climate/levelthree/c20thc/cyclone3.htm.

By comparison if a similar event were to occur today, given the development on the Gold Coast, it would undoubtedly result in massive losses.

It's also worth comparing our record of natural disasters in terms of loss with recent experience in the US with Hurricane Katrina:

- 1.6 million claims.
- Estimated US$38 billion in losses.

Building Issues

Building in Queensland is, inter alia, subject to the Building Act 1975 & Integrated Planning Act 1997. The requirements essentially mirror the Building Code of Australia.

All contractors are required to be licensed by the BSA and there were 'fast rack' provisions introduced by the BSA to assist with the 'Larry' rebuild.

Some of the specific issues which arose in the initial stages and are ongoing in Far North Queensland are:

- Failure of interstate contractors to appreciate the Building Code implications for construction in a cyclone area including the role of the BSA in Queensland.[26]
- Failure to fully appreciate the extent of damage, much of which was 'invisible' without a degree of invasive investigation resulting in difficulties and further delay (and in some cases resulting in the house being uneconomic to repair).
- Failure to fully appreciate the harsh local conditions and associated problems with personnel retention.
- 'Fast buck' syndrome, emergence of rogue operators doing the 'pub' circuit. Although there were high level threats made by Government a certain amount of exploitation was inevitable and is difficult to police especially where Insurers have effected cash settlements.
- Poor workmanship issues. Likely to be an emerging factor as many major repairs are completed.
- Shortage of quality trades, eg painters and plasterers.
- Supply problems with material (eg roof trusses ballooned out to 8 weeks delay).

Dealing with a Stressed Community

The Loss Adjuster is frequently exposed to situations involving traumatised Claimants but in the event of a catastrophe, it is "the community at large".

The professionalism and skill of the Loss Adjuster can often appease concern through appropriate advice, prompt action, effective communication and by progressing the claim to the client's expectations or indeed the community's expectations.

[26] Note 9

There will always be demanding elements within a community and a range of skills (acquired over time) will be required to satisfy their needs.

A Loss Adjuster, skilled as he/she may be can only do so much when events beyond their control, such as the weather or upgrades required by Building Regulations delay expected progress and they must then rely very much on the forbearance and cooperation of the Claimant.

In most instances this reliance is not misplaced and the majority of Claimants accept and understand the reality and the complexity of the situation where there are difficulties in having repairs completed.

Many, still waiting patiently for repairs to commence, however, are still in a better position than those who earlier accepted a cash settlement because at least the former still have an independent arbiter to whom they can relate.

Lessons

The single most important lesson that Loss Adjusters can take from recent experience is the need for regular and meaningful communication with the Claimant. This is particularly so where long delays are expected in the repair process and hardship and inconvenience continue to be experienced. Initial communication needs to include a clear outline of the claim process.

Continuing education is necessary for Loss Adjusters to keep abreast of technical issues particularly in relation to building repairs.

There was criticism regarding the use of interstate Loss Adjusters, which allegedly caused problems through failing to have an appreciation of building requirements in far North Queensland.[27] However in a catastrophe situation there will always be the need to call on the services of interstate and even overseas Loss Adjusters and it is an onerous task to train them within a short time frame of local requirements.

There is a need for further rationalising in the method of prioritisation of repairs. The way in which most repair contractors operate is too dependent on a ‘place in the queue.’

More streamlined and suitably trained ‘back office’ support assisted by cutting edge technology from the site is required to accommodate a sizeable event outside ‘business as usual.’

Summary

History has taught us all catastrophes are unique. They demonstrate varying features demands and challenges all of which need to be quickly overcome. This is best achieved through robust planning coupled with a mobile and flexible workforce.

[27] Note 9

The secret is to learn from past experiences and I believe that events in the future will continue to be dominated by regulatory intervention and driven by consumer expectations.

A continuing feature will be the lack of cohesion by the Insurers as they jostle for market position.

The Insurance Council of Australia are to applauded for their latest initiative 'The General Insurance Industry Catastrophe Coordination Plan' currently in draft[28] which has the goal for '*the industry to speak with one voice and to co-operate cohesively in the best interests of the affected community, and most importantly to ensure that aggregate service delivery is innovative and appropriate to the needs of the particular community.'*

Overall, I believe the Loss Adjusting profession in Australia has the necessary flexibility, experience and skills to respond to whatever demands are placed upon it, wherever that may be and under whatever circumstances. In short, they possess the best overall skill sets necessary to produce the optimum outcome.

The secret is to be better prepared from the experiences of the past and in the future I foresee much greater use of technology including streaming of data directly from the scene of loss as time frames inevitably become more demanding. MYI in Australia is currently experimenting with the latest technology and field trials are in train.

[28] Insurance Council of Australia – General Insurance Industry Catastrophe Coordination Plan Draft 15/1/07