



STATEMENT OF THE
NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES
TO THE
NAIC'S PROPERTY AND CASUALTY (C) COMMITTEE
PUBLIC HEARING ON CATASTROPHE CLAIMS
DECEMBER 2, 2012

Introduction

Thank you for the opportunity to provide testimony to the Property and Casualty (C) Committee on the subject of catastrophe claims issues on behalf of the National Association of Mutual Insurance Companies (NAMIC). NAMIC members are 1,400 property/casualty insurance companies serving more than 135 million auto, home, and business policyholders, with more than \$196 billion in premiums accounting for 50 percent of the automobile/homeowners market and 31 percent of the business insurance market. We are the largest and most diverse property/casualty trade association in the country, with regional and local mutual insurance companies on main streets across America joining many of the country's largest national insurers who also call NAMIC their home. More than 200,000 people are employed by NAMIC members.

NAMIC views this hearing as a valuable opportunity for constructive dialogue among members of the property and casualty insurance industry and regulators on claims issues that arise in the wake of a catastrophic event. We believe there is an opportunity for industry and regulators to operate in a more collaborative fashion to serve insured consumers.

User-friendly Post-Disaster Claim Practices

Where the hearing notice's first section invites discussion on "how to make post-disaster claims-settlement practices more user-friendly," we would like to suggest at the outset that, as they exist today, claims settlement practices are already extremely consumer-friendly. Our members are acutely aware that when a catastrophe occurs, it is time for them to step up and meet their obligations to swiftly process and pay claims. They recognize that this is why their policyholders purchased coverage in the first place, and they take this responsibility as seriously as could be imagined.

Our members strive not just to meet their contractual obligations, but to exceed expectations in service of their policyholders. Operating in a competitive environment, they continually engage in innovation to make the claims process as consumer-friendly as possible.

To be sure, those who are victims of catastrophic loss face difficulties ranging from the inconvenient to the tragic. And there are aspects to the claims process that are by their nature complex and potentially challenging. But companies strive to serve their customers in these times as best they can, and they do a remarkable job of achieving positive results in these trying times.

The recent success of insurers in responding to consumers' needs following catastrophes was authoritatively documented by a third-party analysis in J.D. Power and Associates 2012 Property Claims Satisfaction Study.¹ The study focused on the impact of higher-than-normal catastrophe

¹ Available at http://img.en25.com/Web/JDPower/2012_PCS_MD.pdf.

losses in 2011, and its authors expected to find lower satisfaction levels due to the increase. Instead, they found just the opposite. Not only did satisfaction levels not decline in the year, they actually saw the largest increase during the 5-year period in which the study was conducted. We would suggest that this study represents unbiased evidence that insurers perform extremely well when it comes to serving insureds through the claims process following a catastrophe.

Additional evidence of insurers' excellent post-disaster performance can be found in analyses and statements of state regulators themselves.

In May of this year, the Massachusetts Division of Insurance released an analysis of the claims resulting from regionally rare tornadoes that produced catastrophic damage to homes, businesses and property in portions of Western and Central Massachusetts a year earlier.² The analysis of results for the top 25 home insurance companies and FAIR Plan documented that, of more than 11,000 claims totaling nearly \$200 million, more than 98 percent were processed within 120 days of the tornadoes.

In Connecticut, state officials reported that Tropical Storm Irene resulted in more than 60,000 claims totaling \$235 million, and the number of claims disputed enough to result in complaints to the Insurance Department's Consumer Affairs Division amounted to a fraction of one percent of those claims, a record that prompted the Division's manager to describe the industry's performance as "very good."³

Both examples demonstrate that insurers perform well following a catastrophe, processing claims as quickly as possible for the benefit of their insureds. Together with the customer satisfaction findings presented by J.D. Power and Associates, they make a compelling case that as they exist today, post-disaster claims practices are indeed consumer-friendly. This is not to say that they cannot become better, and indeed our members are constantly evaluating existing practices to determine if consumer-friendly innovations can be made. We are hopeful that this hearing produces ideas that can further benefit consumers in a post-disaster environment.

When it comes to some of the items specified in the hearing notice, we would suggest that not all but some of them would carry associated costs. It is always a challenge for consumers to balance coverage and cost considerations when making insurance-purchasing decisions, and we would caution against any outcome to these hearings that would be too prescriptive or restrictive so as to limit a consumer's choice.

State Government Actions Following a Catastrophe

Where the second section of the hearing notice raises the issue of "diverse regulatory mandates" following a catastrophe that might "divert resources that are needed to respond to claims," we

² "The June 1, 2011 Massachusetts Tornadoes: A Special Examination of Property and Casualty Insurer Claims Payment Practices," May 22, 2012, available at <http://www.mass.gov/ocabr/docs/doi/final-report-2011-tornadoes.pdf>

³ "After Irene, Insurance Lessons Learned," *Hartford Courant*, August 27, 2012, available at http://articles.courant.com/2012-08-27/news/hc-storm-insurance-coverage-20120827_1_hurricane-deductibles-higher-deductibles-standard-homeowners

agree that this is a concern. Insurers recognize that there is a high level of desire following a disaster for public officials to obtain information about the effects of the event, and that this includes insurer claim information. But it is true that responding to data requests requires resources in the form of employee time spent, and that they come at the precise time when the necessary people and systems are devoted to claims processing. So we urge regulators to recognize this challenge when they formulate data requests.

Particularly for insurers that write in more than one state affected by a catastrophe, such requests are most difficult when they are ad hoc and inconsistent among states. We recognize that regulators in many states have worked to enhance consistency; we commend those efforts and recommend that more be done in this area. There is similarly a need for predictability and consistency among states in regard to any directives that may be issued following a catastrophe.

Of great concern to NAMIC members are state actions regarding the applicability of percentage deductibles such as hurricane, named storm, and wind deductibles. These deductibles are important risk management tools developed by insurers to manage their exposure to catastrophic risk. They affect pricing, reinsurance, tolerable concentration of risk, and ultimately solvency. They are used to keep coverage available and affordable and they help keep coastal insurance markets competitive. But in order for deductibles to serve their intended purposes, insurers need to know they will be able to rely on such deductibles in the event of a triggering catastrophe.

With Hurricanes Irene and Sandy, we have seen repeated situations in which commissioners, governors and other public officials have issued press releases, advisories or other statements regarding the applicability – or rather inapplicability – of deductibles. While we recognize the intent behind such declarations is to assist consumers, they raise a number of problems.

In some cases, such declarations have been overly broad, seemingly applying to a range of deductibles rather than a specific kind. In at least one case, a released statement essentially pressured insurers to waive deductibles even if they had been triggered by the storm. Even in cases where the statements were accurate, their very issuance carries the implication that application of a deductible is a matter of discretionary public action rather than a function of contractual terms. The result of this activity raises questions about the viability of percentage deductibles as a catastrophe risk-management tool. In NAMIC's view, whether deductibles are applicable in a given instance should be determined solely by the contractual language in an insurance policy. Their applicability should not be subject to political pressures.

That in some situations the declarations were consistent with the terms of statutory or regulatory restrictions on deductible application does not resolve our concerns about the applicability of deductibles. These storms were major events; they were precisely the kinds of events for which insurers intended to reduce their exposure through the use of percentage deductibles. In order for deductibles to serve their purpose, it may be that statutory and regulatory restrictions will have to be revisited.

There are additional concerns regarding the way declarations regarding applicability of deductibles have been handled, in that some statements have caused confusion and/or carried implications suggesting that insurers would be doing something morally wrong if they applied a

deductible. We believe that, following a catastrophe, public officials should look to the property and casualty insurance industry as a vital partner in helping to respond to the event. They should view the industry as working in common purpose to assist consumers rather than using public channels to portray the industry in a negative light.

Conclusion

NAMIC members take seriously their role in responding to insureds' needs following a catastrophe. They devote resources to processing claims as quickly as possible. Operating in a competitive marketplace, they constantly evaluate processes with an eye toward innovation and enhancement. We believe that every indication suggests that property and casualty insurers perform well in responding to catastrophes, but we also recognize that there is potential for improvement. We look forward to the exchange of ideas resulting from this forum.

We further believe that there is a need for changes in the ways public officials sometimes respond to insurance issues following a catastrophe. We believe that the industry and government should view themselves as working together following a catastrophe to respond to the needs of consumers.