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When bad weather threatens, people are on the job well before a storm makes landfall. This article will discuss some of the people involved in disaster preparation, disaster response and managing the financial consequences of a catastrophic event. It will draw on some of the experiences related to recent Superstorm Sandy to show how various response activities are coordinated to a much greater extent than the public might imagine.

### ◆ THE ROLE OF THE FBIIC

The Financial and Banking Information Infrastructure Committee (FBIIC) is chartered under the President's Working Group on Financial Markets, and is charged with improving coordination and communication among financial regulators, enhancing the resiliency of the financial sector and promoting the public/private partnership. The FBIIC is chaired by the Treasury's Assistant Secretary for Financial Institutions.<sup>1</sup>

You might wonder why the U.S. Treasury Department is involved managing the country's response to a natural disaster. The FBIIC is a public/private sector partnership tasked with coordinating efforts to improve the reliability and security of financial-information infrastructure. On a day-to-day basis, the FBIIC is involved in planning activities such as identifying critical infrastructure assets, documenting their locations and figuring out their potential vulnerabilities. Then the FBIIC prioritizes their importance to the U.S. financial system. The FBIIC also establishes secure communications capability among the various financial regulators and develops protocols for communicating during an emergency.

When a disaster is about to occur, the FBIIC convenes to discuss the pending event. It serves a coordinating role while the disaster unfolds. Information is disseminated concerning the storm. Predictions from the National Weather Service are used to track the path of the storm. Information on power outages and other infrastructure relied upon by the financial sector are also provided to FBIIC members. These various pieces of information are useful to insurance regulators, as they provide information and insight regarding the most likely areas of damage. In addition, information is shared about open bank branches, hotels, food stores and gas stations, so that people can find out how and where to meet their basic needs. Gasoline supplies and cash for ATMs are also monitored and coordinated. Information is exchanged about any impact on regulated entities, such as banks, insurers and securities firms.

In summary, the important role of the FBIIC is little known to the public. It does, however, serve a crucial role in assisting with disaster response and recovery.

### ◆ TIMING OF ACTIVITIES

When a storm hits, it is the first responders (i.e., fire, police and emergency medical personnel) who are on the scene before others. Their task is to prevent loss of life and to move people out of harm's way. The needs of financial institutions differ greatly. Banks are required to seek approval from their regulator if they plan to close a branch office. Their immediate need is to provide a way for depositors to access needed funds. Thus, it is an important coordinating activity to make it known which ATMs have electricity available to them and have sufficient funds to dispense. If either of these are lacking, the public cannot access funds from the particular ATM.

Insurers have a less immediate concern. The insurers are part of the recovery crew. They come in after the storm has passed and provide financing for living expenses, debris removal and rebuilding. Insurers can be hindered by the efforts of first responders that deny them access to damaged properties. Without access, a claim cannot be processed. Insurance regulators work with law enforcement to provide early access to authorized claims adjusters. Most of the states have procedures in place to react promptly to a disaster. In some cases, it is too dangerous for a claims adjuster to access a damaged property. If that occurs, claim payment might be delayed.

### ◆ SUPERSTORM SANDY

Superstorm Sandy was an unusual and difficult-to-classify storm that started as a tropical storm, then became a Category 2 hurricane as it crossed the Caribbean, killing 71 people and causing millions of dollars in damage. As it approached the United States, it was downgraded to a Category 1 hurricane and, when it reached landfall (October 29, 2012, in the Northeast), it was technically classified as a post-tropical cyclone. Then, it met up with a nor'easter to become a most unusual 'superstorm,' exhibiting both tropical storm and winter storm characteristics. There were more than 100 people killed in the United States and one person killed in Canada.

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<sup>1</sup> [www.fbiic.gov](http://www.fbiic.gov). Accessed Jan. 24, 2013. .

Superstorm Sandy resulted in record numbers of power outages, hitting a peak of 8,511,251 homes and businesses.<sup>2</sup> The most highly impacted jurisdictions were New Jersey (2.6 million), New York (2.1 million), Pennsylvania (1.3 million), Connecticut (627,000), Maryland (311,000), Massachusetts (298,000), West Virginia (272,000) and Ohio (267,000). Power losses of less than 200,000 were also reported in Delaware, Kentucky, Maine, Michigan, New Hampshire, Rhode Island, Vermont and Virginia.

On November 7, the impacted states were hammered once again by bad weather as another nor'easter brought strong winds, cold temperatures, rain or snow, and coastal flooding. This storm knocked out power to an additional 150,000 homes and business and hampered recovery efforts.

According to EQECAT, preliminary estimates of total economic losses are in the \$30 billion to \$50 billion range. It is possible that economic damage estimates will go higher. Preliminary insured loss estimates are in the \$16 billion to \$22 billion range according to AIR Worldwide and in the \$10 billion to \$20 billion range according to EQECAT. The modeling firm RMS placed its damage estimates in the \$20 billion to \$25 billion range.

### ◆ COORDINATED DATA-COLLECTION EFFORT

Impacted states agreed upon a coordinated data-collection effort to gather necessary regulatory information while causing minimal interruption for insurers. The following jurisdictions participated in the common data-collection: Connecticut, Delaware, Massachusetts, New Jersey, New York, Pennsylvania, Rhode Island and West Virginia. Maryland used a data-collection form already included in a promulgated regulation. Other states decided that their losses from the storm were not significant enough to warrant special data collection. Collectively, more than 1 million claims were reported related to the storm. By early January 2013, more than 80% of the residential claims had been closed, with almost 72% of all claims closed. Incurred losses reported were slightly more than \$8.2 billion, not including losses reported under the National Flood Insurance Program. Interestingly, the magnitude of the losses correlated closely with the power outage numbers mentioned above.

### ◆ COORDINATED CALL CENTER

Due to the extensive damage in New Jersey, a call for assistance from other states was made. The New Jersey Department of Banking and Insurance asked for help in meeting the demands for consumer assistance. The NAIC coordinat-

ed a phone bank in its Kansas City office to provide a place for regulators to gather to meet the needs of their fellow regulators. Regulators from several states (Iowa, Kansas, Missouri and Nebraska) volunteered to assist New Jersey, thereby allowing New Jersey to deploy its staff in the affected communities to meet directly with consumers.

### ◆ EXPLORING ISSUES RELATED TO HURRICANE AND NAMED-STORM DEDUCTIBLES

Insurers began to introduce hurricane and windstorm deductibles in the mid-1990s after the Hurricane Hugo (1989) and Hurricane Andrew (1992). A hurricane or named-storm deductible applies only to a particular hurricane and only if it meets certain parameters spelled out in the insurance contract and often proscribed or limited in state law. In contrast, a windstorm deductible applies to any wind damage.

These deductibles were introduced when reinsurance became more expensive and less available following Hurricane Andrew. Reinsurers were encouraging primary insurers to take steps to better manage their catastrophe risk. One of the answers for insurers was to limit potential losses through higher deductibles. Hurricane deductibles are often expressed as a percentage of the home's insured value, although they can be a flat amount. Alabama, Connecticut, Delaware, District of Columbia, Florida, Georgia, Hawaii, Louisiana, Maine, Maryland, Massachusetts, Mississippi, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Texas and Virginia have legislation in place regarding the use of hurricane deductibles. Other states may allow insurers to include hurricane deductibles in property insurance products. It is safe to say there are similarities among the state laws; however, no two laws are identical.

Insurers and consumers have issues with the use of hurricane deductibles. Insurers are concerned about the clarity of state laws and the actions of state officials that might limit the use of hurricane deductibles. Consumers are concerned about what (to them) seems an unjustified cost-shifting at a time when they can least afford it. Consumers also complain about lack of meaningful disclosure about the deductibles

Insurers and consumers desire certainty for different reasons. Insurers want to know the policy provisions containing hurricane deductibles will be enforced, so they can rely on

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<sup>2</sup> U.S. Department of Energy, Office of Electricity Delivery and Energy Reliability.

the expected loss costs used as the building block for their rates. Consumers want meaningful disclosure so they can know what they are buying and prepare for funding the portion of a loss not transferred to the insurer. Insurance regulators are working on improving transparency and disclosures through the NAIC Property and Casualty Insurance (C) Committee.

One of the possible solutions being explored is the introduction of pre-tax deductible savings accounts. Conceptually, the savings account would allow a homeowner to pre-fund disaster-related costs in a tax-free or tax-deferred manner. The Property and Casualty Insurance (C) Committee will explore the implications of deductible savings accounts and determine whether it should recommend that the NAIC support legislation to allow or encourage them.

### ◆ CONCLUSION

There are many issues related to disaster response and recovery. There are considerable efforts by a number of parties working together to make responding to a disaster possible. Coordination is the key. Each party has a role to play and the timing of each deployment is critical to successful disaster response and recovery. Insurance regulators play key roles in several areas. Participation in the FBIIC, working with first responders, working with claims adjusters, collecting pertinent regulatory information and helping each other are all important to a successful recovery for all involved.



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