4 – Investigating Causes of Loss

**1 – Handling Fire, Smoke, Lightning and Explosion Claims**

**Objective**: describe the perils-related considerations involved in handling property losses caused by fire, smoke, lightning, and explosion.

The process of adjusting property losses varies by the peril and property involved. So claim reps need to know how to accurately determine the origin and extent of damage in fire, smoke, lightning, and explosion losses to various types of property. They also need to be able to coordinate the activities of experts who can help investigate and resolve these types of claims.

Property loss claim reps may encounter a wide variety of losses - with each presenting unique challenges.

For example, fire losses can be simple as a small grease fire ono a kitchen stove and as complex as a multialarm arson fire in a warehouse. Smoke losses involve not only the cleaning and restoration of damaged property but also the removal of smoke odor.

Lightning damage can be caused directly or indirectly from a lightning strike, and the claim rep must determine whether the damage was caused by lightning and not something else. And when handling explosion losses, the rep needs to understand the difference between explosion damage and combustion damage.

**Fire losses**

Fire losses frequently involve multiple coverages, such as building, personal property, and other expenses. Plus, conditions within the policy may require that the insured be paid for things like debris removal; reasonable temporary repairs; fire department service charges; and damage to trees, shrubs, and other plants. Commercial policies can also provide additional coverages for electronic data, valuable papers and records, and outdoor property.

The claim rep must determine whether a coinsurance penalty applies to the loss as well. Further, the rep is responsible for hiring, managing, and coordinating the activities of experts and service providers needed to resolve a claim.

In a fire loss, regardless of the extent, the claim rep must be able to explain where the fire originated (origin) and what caused it (cause). The rep might need the services of an origin and cause expert to accomplish this. Sometimes, local fire reports and witness statements help determine origin and cause.

If its suspected that accelerants (which help fires spread) were used, then the claim rep may need to bring in a chemical analysis expert**. If an appliance such as a coffee maker or toaster is identified as the source for the fire, the appliance should be sent to a testing lab.**

Fire produces smoke, soot, and or charred wood that emit an odor, which a restoration expert may need to remove. Based on the specific claim, the rep may also need to use a number of other services providers.

Fire losses require photos and/or video of the damages. In property loss adjusting, a picture really can be more compelling than a thousand words.

Every fire loss requires a list of the damages. For personal property claims, the claim rep must maintain an inventory of damaged property. For buildings, the rep must complete a diagram with measurements and a scope that lists the damages in detail. From this scope, the rep can create an estimate.

The majority of fires require an on-site visit by either the rep or an independent adjuster. Sor simple claims, the insured may even be permitted to supply the claim rep with estimates.

Obtaining **a Good Origin and Cause Report**

This is a four-step plan for obtaining a rock-solid origin and cause report. (Note, these best practices can be applied to origin and cause reports for various types of losses.)

1. Tell any hired experts, consultants, and service providers exactly what you want in the report, as well as what your budget is. Remember the experts are working for you. If someone isn’t willing (or is unable) to accommodate you, find a new expert.
2. Gather these four essential elements:
   1. **Damage patterns** – the report should document all the damage through photos, videos, and a narrative. Show what conditions were like before the damage, and how things progressed to their final state. Document what (if any) evidence was taken from the scene.
   2. **Reconstruction of the original scene** – Photos and sketches can help set the scene for where things were and what was happening before the damage occurred. The end goal is to identify (with evidence) the probable origin and cause of the damage.
   3. **Elimination of other origins and causes** – The best way to prove a single origin and cause is to rule others out with evidence to support your position.
   4. **Show what triggered the damage** – In the case of a fire loss, for example, the goal is to show the mechanism of ignition. If a piece of equipment failed, begin by showing how the unit was supposed to work. Next, show what malfunctions and how that led to the fire.
3. Make sure your finished report can hold up to scrutiny. Prepare your report as if it will have to stand up to opposing experts and a possible jury in a trial. If the report shows that you can defend your position, it diminishes the chances that you’ll have to go to trial.
4. Make sure the report is easy to understand. This may require some back and forth among the parties involved, but it’s critical that the report, its conclusions, and how those conclusions were reached are clear to anyone who reads it.

**Homeowners Fire Losses**

Homeowner fire losses can be challenging because of the surrounding complexities and sensitivities around losing a home and/or its valuable. Collectibles, fine art, and items with sentimental value can be difficult to adjust, so the claim rep may need to employ an appraiser. In addition, specialist may be needed to restore artwork, photos, and rugs to their pre-loss condition. If items cannot be restored, replacement services can help the rep replace them at a reasonable cost.

A family displaced from its home because of a fire needs temporary housing. So the rep should know what local housing is available and appropriate. Temporary housing service providers can also help.

The reps might even have to relocate animals, such as dogs, cats, birds, and horses, as part of the loss. Understanding the family’s lifestyle is key to managing this portion of the loss.

**Commercial Fire Losses**

Commercial fire losses create challenges that homeowners fire losses don’t. For example, a commercial fire might produce hazardous materials that a special containment company has to clean up. Commercial policies generally contain an additional coverage for pollutant cleanup and removal from land or water at the insured location. This coverage has a limit that may be increased by endorsement.

Damaged stock may need to be dried and cleaned by a restoration company and then sold as salvage by a salvor. Repacking and relabeling might need to be done as well. If a loss occurs to stock and inventory, the claim rep may have to hire an accountant, who will review the business’s books and records to verify the loss amount.

Businesses suffering a loss want to resume operations quickly, so the claim rep should be prepared to discuss options for relocating, retooling, and obtaining products from other sources to meet delivery deadlines. Extensive fire losses may require the services of architects, engineers, general contractors, and many subcontractors if the building is to be repaired or replaced. Also, it’s likely that zoning issues, permits issues, tax issues, and increased costs stemming from ordinances or laws will crop up.

**Smoke Losses**

Fires produce smoke that can result in property damage. A fire doesn’t have to be on the insured’s premises or building to damage it. For example, a wildfire can cause smoke damage to a business or residence even if the building doesn’t catch on fire, a renter’s personal property can be damaged by smoke if a fire occurs in another apartment, and smoke losses can occur if an insured forgets to open the fireplace damper when burning wood.

Homeowners and commercial property policies provide coverage for smoke damage “including the emission or puffback of smoke, soot, fumes or vapors from a boiler, furnace, or related equipment”. However, these policies don’t cover smoke, vapor, or gas damage from agricultural smudging or industrial operations.

The type of smoke resulting rom a fire depends on the fire’s intensity. The material consumed in the fire, and the amount of oxygen consumed. Two types of smoke cause damage: hot smoke and cold smoke.

**Hot smoke is usually found closer to a fire’s source and can penetrate surfaces**. As smoke moves away from the fire, it cools. This cold smoke rests upon, rather than penetrates the surface it contacts. **Hot smoke damage is more sever than cold smoke damage. Making hot smoke impractical or impossible to clean.**

Hot smoke can deeply stain masonry. For example, ceramic tile has hairline cracks that aren’t visible until they are exposed to hot smoke. Then these cracks become pronounced and usually need to be cleaned. Stonework, brick, and cement surfaces are also difficult to clean after exposure to hot smoke, but they can sometimes be cleaned with steam or boric acid.

**Cold smoke is easier to remove from surfaces, but it can still extensively damage items such as wallpaper, drapes, and carpeting**. **Both cold and hot smoke residue should be removed from aluminum windows, metal fixtures, and ceramic kitchen and bathroom fixtures as soon as possible because the residue is usually acidic and can eat into those surfaces**.

Cleaning and restoring smoke-damaged property often requires special knowledge. The preferred cleaning process depends on the type of smoke, depth of penetration, and material composition of the property. The claim rep can use a fire restoration company to determine property cleaning methods and remove the smoke odor. The earlier a fire restoration specialist is involved in a claim the more that cleaning costs will be minimized.

**Lightning**

Direct lightning strikes can cause an explosion or start a fire. Indirect lightning strikes that hit near a utility line, inducing a ground surge, can also cause significant damage. The surge may dissipate before it reaches a building – or it may be strong enough to overcome safety devices on the power line and enter a building through the electric or phone service lines. Homeowners policies provide coverage with limits for trees, shrubs, and other plants under the peril of lightning.

The challenge a claim rep will have in handling a lightning loss is determining whether the damage was caused by lightning or something else. Property policies don’t provide coverage for mechanical breakdown, latent defect, or inherent vice. **To verify that a loss was caused by lightning, the claim rep should take these steps:**

* **Confirm that lightning occurred in the area at the time of the loss – The National Weather service, lightning reporting services, local TV Stations, and power companies are all good sources for this information.**
* **Physically inspect the damage – A claim rep may see damage on a building or to an appliance’s exterior. Evidence of burning or scorching will appear on wood and siding. Block walls and chimneys can be split or shattered. Roof flashing, gutters, and siding may be twisted or melting. Roofing nails may have popped up. Several fuses can blow, and breakers can trip. Wall switches and wall outlets will have evidence of arcing. If a ground surge occurs, a burrow will appear along the ground.**
* **If no visible evidence of lighting strike exists, the rep should determine whether multiple electronics/appliances were damaged and if any neighbors also suffered lighting damage.**
* **Have competent repair professionals or consultants examine the internal workings of the damaged property.**
* **It’s also good practice to have a repair professional sign an affidavit in the presence of a notary asserting that the damage was caused by lighting**.

Normally, lightning destroys electrical equipment and its components in an expected order. It doesn’t damage pipes or rotors. It damages more fragile parts first. For example, if it’s believed that lightning damaged an electric dryer, the repair professional should state that there is damage to the time (which has the smallest wire) and not just to the heating coil (which have the heaviest). If an insured claims that a well-water pump was damaged by lightning, barring a direct strike, only the motor should be damaged, not the entire pump.

**Explosion Losses**

The claim rep needs to be able to distinguish between damage resulting from explosion and damage resulting from combustion. An explosion is a violent release of energy, while combustion involves a burning process.

For explosion damage. The claim rep can consult with a mechanical engineer who specializes in explosions. Evidence that a loss was caused by an explosion usually includes shattered glass, broken or displaced masonry, splintered timbers, and widely scattered debris.

Commercial property policies exclude explosion of steam boilers, steam pipes, steam engines, and steam turbines. However, they do provide coverage for damage when such explosions result in fire or when such explosions are caused by burning. Damage caused by the explosion of gases or fuel within a furnace, its flues and passages is also covered. Coverage for boiler explosions can be purchased in an equipment breakdown policy or by endorsement to a commercial property policy.

When it is not clear whether an explosion occurred, a claim rep might want to ask these questions:

* Is there evidence that sudden and rapid combustion or another similar process took place? (Not all instances of combustion by which other property is ignited are considered and explosion. The suddenness and rapidity of the process are important)
* Did a violent expansion of air occur?
* Was loud noise reported along with the occurrence?
* Did a sudden and violent outbreak of physical forces occur?
* Did a sudden or violent bursting or breaking up from an internal force occur?

Determining the type and cause of an explosion can be difficult at times, and reps should also consider these related questions:

* Were any explosive materials normally used or housed in the building?
* If so, where were they used or housed in the building?
* In what kind of containers were they kept?
* What safety precautions were taken in using and storing these materials?
* What are the chances that the containers might have accidentally been broken and materials accidentally spilled or that fumes accidentally escaped?

Claims are often submitted under the explosion peril when construction is nearby and explosives are being used. A common claim is that the use of nearby explosives cracked an insured building’s interior walls. However, claim reps need to investigate these claims carefully because many times, cracks are a result of normal shrinkage or expansion of building materials and are completely unrelated to any blasting explosions.

Newly occurring cracks should look fresh and be free of dust and dirt. The rep investigating these claims should check with the party conducting the blasting for seismic information. Those who do blasting work should know the likelihood of causing damage to nearby buildings.

**2 – Handling Windstorm, Hail, and Water Damage Claims**

**Objective:** Describe the perils-related considerations involved in handling property losses caused by windstorm, hail, or water

Property claim reps must be prepared to handle losses caused by a wide variety of perils. Losses caused by windstorm, hail, and water can be very damaging to covered property – and challenging for claim reps.

The key to successfully adjusting a covered windstorm, hail, or water damage loss is speed. Temporary repairs must be made promptly to prevent further damage. Restoration services are needed to begin the process of drying out the property as soon as possible after water damage occurs.

The claim rep must determine what is an isn’t covered under the policy. Not all windstorm, hail, and water losses are covered automatically. The rep needs to be familiar with the policy language and endorsements to effectively handle these losses.

**Windstorm and Hail Losses**

Windstorm and hail are both capable of causing catastrophic losses over large geographical areas. In policies that cover on a specified perils basis, windstorm and hail are typically combined as a single peril – “windstorm and hail” – because they both can occur in the same event.

**Hurricanes, tornadoes, nor’easters, and sandstorms are examples of windstorms that cause significant property losses. Hurricanes and tornadoes are the most destructive types of windstorms. In addition to damaging buildings by direct force of their winds, windstorms can lift unsecured property and debris and propel them into buildings. Windstorms can also uproot trees and topple them into structures, vehicles, or other property**.

Hailstorms often accompany violent thunderstorms that involve wind and rain. The size and speed of the failing hail and the wind direction affect the location and severity of impacts on property. Materials react to hail differently, absorbing the impact to varying degrees before sustaining damage. For example, aluminum siding and asphalt shingles will display dings, while vinyl and wood shakes will crack.

To handle windstorm and hail losses property, the claim rep must know the coverage that the policy provides for these perils.

**Determining Coverage**

Determining coverage for windstorm or hail can be complicated, requiring careful analysis of policy provisions. Some provisions that are pivotal to coverage for windstorm or hail claims are contained in exceptions to exclusions or in additional coverage extensions, which may be difficult to find.

Coverage for windstorm or hail claims is often subject to an exclusion like this one from the ISO Homeowners 2 – broad Form (HO-2).

This peril does not include loss to the inside of a building or the property contained in a building caused by rain, snow, sleet, sand or dust unless the direct force of wind or hail damages the building causing an opening in a roof or wall and the rain, snow, sleet, sand or dust enters through this opening,

In homeowners policies, this type of exclusion typically applies only to those coverages that apply on a **specified perils basis**, but not to coverages that apply on an **open perils basis**. So for example, the exclusion applies to Coverage A (Dwelling), Coverage B (other Structures), and Coverage C (personal property) in an HO-2 policy.

In an HO-3 policy, the exclusion applies only to Coverage C because Coverage A and Coverage B both apply on an open perils basis. In commercial property policies, a similar exclusion typically applies to windstorm or hail, regardless of whether the policy covers on a specified perils or on open perils basis.

Various provisions in homeowners policies or commercial property policies may affect coverage for windstorm or hail losses. These are examples taken from homeowners policies:

* Watercraft, their trailers, and related items (which are typically subject to a sublimit such as $1,500) are not covered at all for windstorm or hail damage unless they are located inside a fully enclosed building at the time of loss.
* The trees, shrubs, and other plants additional coverage does not apply to loss caused by windstorm or hail
* A windstorm or hail percentage deductible may apply. The stated percentage applies to the applicable policy limit, not to the amount of damage. For example, an insured may have a windstorm or hail deductible of 3%. If the dwelling limit is $300,000 and the building sustains $20,000 in hail damage, the deductible is $9,000 (3% of $300,000), not $600 (3% of 20,000)
* Coverage for roof surfacing may be limited for windstorm and/or hail damage. Roof surfacing is defined as materials covering and securing the roof and all materials applied to or under the roof surface a s well as roof flashing. Actual cash value rather than replacement costs applies. As long as the roof provides the function of keeping the elements out, cosmetic damage will not be paid.
* The debris removal additional coverage pays for reasonable expense to remove trees felled by windstorm or hail that have damaged a covered structure, blocked a driveway on a residence premises, or blocked a ram designed to assist a handicapped person. The felled trees may belong to the insured or a neighbor. A limit (such as $1,000) applies to any one loss, with no more than a smaller sum (such as $500) payable for removal of any one tree.

**Claims Handling Considerations**

Many insurers contract with vendors that provide wind and hail reports such as dates, locations, wind direction, wind speed, size of hail, and type of hail. This data helps the insurer and the claim rep verify the geographic areas that could have received damage and what kind of damage was possible. For example, for buildings located in an area of hail that was accompanied by strong winds from the west, the claim reps should expect to see damage only on the west side of the building.

Wind events often occur in a given geographic area affecting numerous insureds. Insurers can use drones to quickly determine the extent of the damage and the insureds that may have losses. Claim reps can then be sent to locations with the greatest damage first.

Drones and aerial apps can promptly provide the claim reps with accurate roof images, dimensions, and slopes. Reps can also use apps that identify the singles and siding materials on a building, which can help them determine the best available match and cost in the area.

The rep must determine whether the damage was caused by windstorm or hail – or by wear and tear, marring, deterioration, which are excluded under homeowners and commercial policies.

**Water Losses**

**Most property insurance policies contain a standard water exclusion that eliminates coverage for many sources and types of water damage, including:**

* **Flood**
* **Surface water**
* **Waves**
* **Mudslide**
* **Mudflow**

Despite this broad exclusion, other sources of water damage may be covered.

Under certain circumstances, water damaged resulting from a covered peril is covered. For example, if a building is on fire (a covered peril) and firefighters spray water, property may become damaged by the water, even if it escapes the fire. Or a falling object (covered peril), such as a tree limb, may pierce a roof allowing rain to enter the building. In addition, many property policies cover certain causes of water damage as specified perils or because they are not excluded by an open perils policy.

**The key to successfully adjuster a covered water damage loss is speed.** Whether it’s a leaking shower, a burst water pipe flooding a basement, sprinklers saturating the contents of a retail clothing store, or the roof torn off a warehouse during a hurricane, the faster the water is stopped from flowing and the earlier the drying process starts, the better. The claim rep must dispatch contractors and restoration companies to the scene of covered losses to mitigate damages.

**Homeowners Coverage**

Homeowners policies contain the standard water exclusion, but they also cover certain causes of water damage. A specified perils policy typically includes these three perils that cause water damage:

* Accidental discharge or overflow of water or steam from within a plumbing, heating, air conditioning or automatic fire protective sprinkler system or from within a household appliance.
* Sudden and accidental tearing apart, cracking, burning or bulging of a steam or hot water heating system, an air conditioning or automatic fire protective sprinkler system, or an appliance for heating water
* Freezing of a plumbing, heating, air conditioning or automatic fire protective sprinkler system or of a household appliance

Each of theses perils is subject to important provisions that the claim rep must carefully consider and sometimes act upon when determining coverage. For example, a water damage loss resulting from the third peril in the list is covered only if the insured has used reasonable care to maintain heat in the building or shut off the water supply and drained the systems and appliances of water. However, heating and water must be maintained for an automatic fire protective system; draining this system is not an option.

Reasonable care is generally considered to be maintaining heat in the building at a temperature that will prevent freezing. If the insured is away for an extended time period, the building should be checked on a regular basis. The claim rep needs to determine what efforts the insured made to maintain heat and if those efforts were reasonable based upon the claim facts.

An open perils homeowners policy contains the standard water exclusion and covers at least the same causes of loss covered in specified perils homeowners policies, because these perils are not excluded. Some or all of the exclusions or conditions applicable to the water related perils listed previously are also contained in an open perils form. For example, the open perils coverage applicable to Coverages A and B in the HO-3 form is subject to an exclusion of loss caused by:

(1) Freezing of a plumbing, heating, air conditioning, or automatic fire sprinkler system or of a household appliance, or by discharge, leakage or overflow from within the system or appliance caused by freezing. This provision does not apply if you have used reasonable care to:

(a) Maintain heat in the building, or

(b) shut of the water supply and drain all systems and appliances of water. However, if the building is protected by an automatic fire protective sprinkler system, you must use reasonable care to continue the water supply and maintain heat in the building for coverage to apply.

The exception to the exclusion (beginning with “This provision doe not apply if….”) allows coverage for the excluded causes of loss as long as the insured uses reasonable care to take either of the measures described in (a) and (b).

It’s possible that an open perils policy will cover a water damage loss that is not covered by a specified perils policy. For example, if an open perils policy does not exclude water damage to the insured’s property resulting from accidental discharge from pipes located off the residence premises, that damage is covered by the policy. In contrast, a specified perils policy may cover accidental discharge from within a plumbing system but exclude loss occurring n the residence premises caused by accidental discharge occurring off the premises.

When determining coverage for water damage losses under an open perils policy, the claim rep should never make the assumption that because a particular type of los sis not covered under a specified perils policy it’s also not covered under the open perils policy. As always, the particular policy must be carefully analyzed to determine whether it covers the claimed loss.

**Commercial Property Coverage**

Commercial property polices contain a water exclusion similar to the water exclusion in homeowners policies. The ISO Causes of Loss – Broad form also includes a covered causes of loss titled “Water Damage, meaning accidental discharge or leakage of water or steam as the direct result of the breaking apart or cracking of a plumbing, heating, air conditioning or other system or appliance that is located on the described premises and contains water or steam”.

The water damage perils is similar to the accidental discharge peril in homeowners policies except that the water damage peril does not include discharge or leakage from an automatic sprinkler system. The Causes of Loss – Broad Form has a separate peril for sprinkler leakage, “meaning leakage or discharge of any substance from an Automatic Sprinkler Systems, including collapse of a tank that is part of the system.

Another difference from the accidental discharge peril in homeowners policies is that the water damage peril includes loss resulting from freezing, if ”(a) You (the named insured) do your best to maintain heat in the building or structure; or (2) You drain the equipment and shut off the water supply if the heat is not maintained.” The phrase “your best” is similar to “reasonable care” in the homeowners policy. The other provisions that apply to the water damage perils should be carefully reviewed when determining coverage under this peril.

If the claim rep is determining coverage for a water damage claim under an open perils commercial property form, the rep should analyze the form carefully against the circumstances of the loss. The ISO Causes of Loss – Special For, for example, contains a long and detailed definition of water damage that can in some circumstances provide broader water damage coverage than the Causes of Loss - Broad form.

The ISO building and Personal Property Coverage Form, also referred to as the BPP, contains a Vacancy condition that may come into play in claims for damage to vacant buildings. The Condition states that if the builder where a loss occurs has been vacant for more than 60 consecutive days before the loss occurs, the insurer will not pay for any damage caused by sprinkler leakage unless the insured has protected the system against freezing. Maintaining a certain level of heat in the building; having the building checked on a regular basis, such as weekly; and promptly inspecting all aspects of the building when notified by the police, neighbors, or others of irregularities on the building’s premises are examples of the insured protecting the sprinkler system.

**Claims Handling Considerations**

If a falling tree pierces a roof and allows rain to enter the building, finding the source of the water is easy. Finding the source when a water stain is noticed in the middle of a living room ceiling, for example, is not as easy. Water doesn’t necessarily travel in a straight line, so finding a leak within walls and ceilings can be difficult.

Sometimes, a visual inspection will show only the result of a leak, be it a water stain, a puddle, or mold growth. Handheld moisture-detection devices can help the claim rep.

**It’s also often necessary to tear out parts of walls to find the source of the leak and make repairs. Property insurance policies ordinarily cover the cost to tear out and replace part of a building or structure when necessary to repair a leaking system or appliance**.

Hurricanes’ high wind damage buildings, allowing rain to enter, and their storm surges and flooding cause water to enter buildings and cause a total loss. With some hurricanes, one the flood waters recede, all that is left of the insured building is a concrete slab or pilings. Nothing else remains for a claim rep or engineer to inspect to determine what damage was done by wind and rain (which is covered) and what was done by storm surge and flood (which is excluded).

**Under an open perils policy, the insurer must prove that the loss claimed isn’t covered**. As a result, insurers need insights into the timing and progression of damage associated with hurricanes and significant storms to determine whether the damage as predominantly caused by water or wind. Models are being developed that use data of site-specific wind speed, wind direction, surge areas, and wave impact over time that may further assist insurers in separating covered wind damage and excluded flood damage.

**3 – Handling Property Claims Involving Mold**

**Objective**: Explain how to handle property claims that involve mold

Claims representatives encounter mold loses in their work most often after the insured has suffered a water event, such as a hurricane, tornado, windstorm, or fire.

Mold is a microscopic organism that drifts through the air waiting for just the right conditions – moisture and warmth – to grow. Water damaged property can provide the perfect environment for mold growth if the proper drying process is not undertaken promptly. Mold grows rapidly, so a quick start to the remediation process is essential – which not only makes mold claims costly but also means that special knowledge is needed to handle them.

**Mold Losses**

Despite the fact that most mold does not cause serious problems, mold claims are having a significant effect on the insurance industry. Both the volume of mold claims and the bad-faith verdicts for improperly adjusting them have cost the insurance industry in both dollars and bad publicity.

**Causes of Mold Growth**

Molds are group of fungi that live by feeding on other organisms. They grow from spores that drift through the air and reproduce on a wide variety off natural and synthetic surfaces. When the spores land on damp surfaces, they begin to grow by digesting the surface material, gradually destroying it. While mold colonies can exist only on damp surfaces, they can extend their short distance through dry materials in search of moisture and digestible material. Under favorable conditions, wet drywall can become covered with millions of spores per square inch within a week or two.

Water is essential ingredient needed for mold to grow. **Three types of water are found on residential and commercial properties: Clean water, gray water, and black water**.

Clean water escapes from sources such as a broken or leaking pipe, an overflowing sink or tub, or a leaky roof or window. Thoroughly drying areas soaked in clear water for 48 hours helps eliminate the risk of mold. The United States Environmental Protection Agency (EPA) has developed specific cleaning recommendations for clean-water saturation.

Sources of gray water include overflow from dishwashers, washing machines, or toilets; broken aquariums; leaking waterbeds, and stagnant water. The gray color results from food, dirt, or other particles in the water. These particles contain high levels of bacteria, which mold feeds on. Cleaning up gray water requires drying and the use of disinfectants to prevent mold growth. **Gray water that sits for more than 72 hours can become black water.**

Sources of black water include sewage, seawater, and water that has collected contaminates by flowing over organic material. Bacteria thrive in black water and can cause illness in people exposed to it. Black water damage usually requires professional remediation.

Property damage caused by mold can range from minor to extensive. In serve cases, mold may go unnoticed because it can look like an accumulation of black dirt. And while such accumulation can usually be cleaned with a disinfectant, this will not remove the spores. Mold can even cause a building’s structural components to decay, which could cause the building to be condemned and demolished.

Water Damage – Cleanup and Mold prevention guidelines for response to Clean water damage within 24-48 hours To Prevent Mold. Dry-out items, accelerate drying process with dehumidifiers, fans, and/or heaters, Discard insulation, ceiling tiles, wallboard (drywall and gypsum) if swollen discard, ventilate cavity if possible. Paneling should be pried away from wall for drying. If object has been wet for more than 48 hours refer to table 2 guidelines.

**Loss Exposures That Can Result in Mold Damage**

Mold problems are common in areas where moisture can seep into or run through building components, such as improperly fitting windows and doors or unrepaired roof damage. Ice dams in gutters can cause moisture to back up under the roof shingles and leak into attics, which can go undetected while mold and mildew flourish.

Other water damage that can cause mold growth includes plumbing leaks, appliance failure (such as freezers, water softeners, and distillers), sewage intrusion, weather-related water intrusions (floods, windstorms, hurricanes), sprinkler leakage, and fire suppression efforts. Shoddy construction practices, such as failure to use flashing around windows; the misapplication of synthetic stucco exteriors or other materials; faulty heating, ventilating, air conditioning systems; and improper grading along foundation walls can also foster mold growth.

**Claim reps play a critical role in mitigating potential mold damage. It is important to start the drying out process immediately after a water event is reported to the insurer. Many insurers train their personnel taking the loss notices to immediate recommend that the caller begin the drying-out process. After receiving the claim, the rep must determine whether the dry-out process has begun, and if not, arrange with the insured for it to be done**.

**Determining Coverage for Losses Involving Mold**

For damage to be covered under property policies, it must result from a sudden and accidental covered cause of loss. **Mold in itself is neither sudden nor accidental. Mold is neither a covered cause of los nor a covered peril under property policies because they have a mold exclusion**. However, coverage may exist for certain mold related claims because mold growth resulting from a covered water damage is covered unless specifically excluded.

Personal and commercial insurance policies typically contain a variety of complicated provisions that may exclude or limit mold damage claims. Although these provisions are beyond the scope of this discussion, claim reps should analyze all relevant mold provisions in the applicable policy. In some cases a senior member of the Claim Department or a qualified coverage attorney may need to be consulted.

**Investigating Mold Losses**

Early mold growth can resemble dirt on the surface of walls, flooring carpets and other materials. Mold can migrate through materials and affect both sides. The unexposed side of the material often reveals extensive mold growth and damage, so removing a potion of the material to visually inspect the back might be appropriate. Ventilation systems should be visually inspected when damp filters are observed. A borescope can be used to view spaces in ductwork and behind walls. A moisture meter can be used to detect moisture in walls, ceilings, and other building surfaces.

**These are some indications that mold likely exists in water-damaged areas:**

* **Color changes in linoleum or wallpaper**
* **Discoloration, cupping or warping of wooden floors**
* **Discoloration of drywall or blotches on the surface**
* **Discoloration of fabrics, carpets, and draperies**
* **Earthy odors**
* **Noticeable humidity**
* **Rot on baseboards and carpet backing and around windows and doors**

Whether or not the visual inspection reveals mold, further investigation is warranted if the building’s occupant report symptoms of a mold-related illness. The investigation may require air-quality testing or an expert’s services.

Fully remediating a mold claim is a challenge. Strong cleansers can sanitize a moldy surface, but unless every microscopic spore is removed, the mol can flourish again when a new water source is presented. This makes it difficult to determine what caused the mold growth.

For example, suppose that natural humidity caused unnoticed mold growth in a basement, and then a covered cause of loss exacerbated the mold growth. How can a claim rep properly assess the insurer’s liability for the mold growth without risking a bad-faith suit? Careful investigation into preexisting conditions and knowledge of the law in the relevant jurisdiction would help resolve this issue.

**Remediating Mold Damage**

One source that has been used as a standard for remediating mold identifies 5 levels of mold damage and appropriate remediation methods for each.

1. The first step is to immediately dry any moisture and correct the source of water infiltrations
2. Repairs to buildings, pipes, or appliances will prevent recurrence of mold growth
3. Cleaning and drying the affected area
4. Removing water damaged materials
5. Maintaining humidity levels below 60% will prevent mold growth

Recommendations for mold remediation in schools and commercial buildings published by the EPA include a checklist for mold remediation that can serve as a guide for claim reps in dealing with remediation contractors.

The choice of remediation contractor is an important decision for the insured. If the mold is not property remediated, the problem will likely recur, and whoever occupies the affected building will be exposed to further health risk. The EPA has issued nonbinding guidelines to homeowners and business owners to assist in evaluating mold existence, effects, prevention, and cleanup.

**Fraud Potential**

Mold claims have created an environment for potential fraud:

* Remediators can prolong the amount to work they do by dragging it out or charging for equipment that is not actually used
* Insured may buy a home, furnish it with cheap property, then crack the pipe and seal the doors and windows to encourage mold growth
* Medical providers may diagnose symptom and attribute the cause to mold exposure so that they can overbill for the alleged treatment.

**Insured’s Duty**

Following any loss, an insured has a contractual duty to protect the property from further damage. **The insurer can protect itself from a breach of good-faith claims handling by advising the insured of the appropriate steps to protect the property from additional mold damage. Any verbal instruction given to the insured should be immediately documented in writing. The appropriate policy form numbers should be listed, along with quotations from the forms that describe the insured’s duties after a loss, and the letter should provide suggestions for preventing mold growth. The letter should clearly stat the insured’s failure to take actions to prevent mold growth could result in denial of coverage for further loss resulting from the same source**.

**4 – Handling Losses Caused By Theft**

**Objective**: Describe the considerations involved in handling property losses caused by theft

Claim reps encounter a wide variety of loss types in their work, including theft, which is the taking of personal property from its rightful owner, without the owner’s consent, with the intent to deprive the owner of its value.

The broad definition of theft encompasses burglary, robbery, fraud, and deception. Regardless of the type of theft, claim reps can take certain actions to investigate a theft claim.

**Investigating a Theft Claim**

To begin an investigation, **the claim rep ascertains whether theft is covered under the policy** and then determines whether any policy limitations apply. The rep confirms who owns the property and who has an insurable interest in the property. Depending on the insurer’s guidelines, the rep takes statements from the parties involved and from any witnesses and obtains a police report of the incident. Also depending on the insurer’s guidelines, **the claim rep reports the loss of certain types of property to the appropriate index bureau, such as:**

* **National Insurance Crime Bureau (NCIB)**
* **National equipment Register (NER)**
* **Art Loss Register (ALR)**

**Evidence of Theft**

Thefts often leave physical evidence to support the claim. The claim rep should confirm signs of forced entry, disabled or malfunctioning alarm systems, and - for example – even dust rings or scratch marks on the surface of the cabinet where a stolen TV once stood. If evidence of a malfunctioning or nonfunctioning alarm exists, the claim rep must investigate those circumstances. Did someone forget to set the alarm? Was the alarm broken, and if so, for how long? Did the alarm have a maintenance contract? Had the alarm been recently serviced? Was the alarm installed properly? Thinking along these lines will ensure that subrogation possibilities and potential fraud indicators are uncovered.

**Documenting a Theft Claim**

To document a theft loss as part of a claim investigation, a claim rep might request the insured prepare an affidavit of theft, a proof of loss, or an inventory. Bills, receipts, credit card statements, warranties, instruction manuals, books and records, photos, or any other documents that end to prove ownership and value should support the inventory. **The best type of document is the original bill or receipt. The least credible is a photocopy of such a document.** If the retailer makes up a duplicate receipt for the insured, a phone call to the retailer can verify the information supplied on the duplicate receipt.

**Recovery of Stolen Property**

With theft claims, there is always the possibility that the stolen property might be recovered. **The claim rep should remember to place the investigating law enforcement agency on notice of the payment of the claim so that the insurer will be notified if recovery occurs**. **This notice will also be useful if an arrest and a conviction occur, because the court can order restitution as part of the penalty**. It is also a good practice to remind the insured to contact the insurer if recovery occurs, because the police might fail to do so. Also, the claim rep should recall that both homeowners forms and commercial property coverage forms have provisions regarding recovered property.

**Inflation of Theft Claims**

**Theft claims are, by far, the easiest to inflate or fabricate.** So while the claim rep should be empathetic, he or she should also be alert to the possibility of fraud when dealing with theft losses. For example, a claim rep should question whether all of the items that the insured claims were stolen from the trunk of his or her car could have actually fit in it. If the circumstances of the loss are questionable, the claim rep should investigate further and even enlist the assistance of the insurer’s special investigations unit to confirm of deny suspicions.

**5 – How Catastrophes Affect The Claims Environment**

**Objective**: Describe the causes and characteristics of catastrophe property losses that affect the claims handling environment

When a single event creates a large volume of property claims in a concentrated area, claim reps must be prepared to assume a lot of on-sit adjusting responsibilities. They often have to work in teams and put in long hours and many days under trying conditions. The ultimate goal is to help insureds settle their covered claims.

Catastrophes are single events that cause widespread losses. Property Claim Services (PCS) of Verisk had defined a catastrophe in the US, Puerto Rico, and the US Virgin Islands as an event that causes $25M or more in direct insured property losses and affects a significant number of policyholders and insurers. After determining that an event is a catastrophe, PCS assigns it a serial number recognized throughout the insurance industry.

Catastrophes inflict tremendous suffering on those who experience losses and severely strain insurers’ adjusting resources. But in the aftermath of such events, insurers’ financial support and professional and compassionate treatment of the victim’s showcase the value and importance of insurance.

**Many types of events cause catastrophes. Each type present special challenges, but catastrophe also share common characteristics, including geographic concentration, disruption of services, political sensitivity, and great emotional stress.** Insurers have learned to respond to catastrophes by planning ahead and by adapting their standard claim handling procedures.

**Causes of Catastrophic Loss**

**Windstorms**

Windstorms feature violent, damaging winds. Hurricanes and tornadoes are the most damaging windstorms. Tornadoes are intense local storms of short duration that are often spawned by thunderstorms. A tornado can be both a wind and water event. Hurricanes are tropical storms that grow to be hundreds of miles wide with sustained winds in excess of 75 mph. In addition to powerful winds, hurricanes deliver enormous amounts of rain and cause tides to surge well above normal levels.

Most structures can withstand winds between 75 and 90 mph with minor damage. However, as wind speeds increase, structural damage becomes severe, and trees and power lines are knocked down. The winds drive rain into the damaged structures. And even after the winds subside, the rain often continues to cause more damage to the interior and contents of damaged buildings. Tidal surges and flooding also increase hurricane damage.

**Hailstorms**

Hailstorms can occur anywhere. Hail that is big and dense enough to cause damage generally falls during violent thunderstorms. The damage it causes can be minor to severe. **In addition to damage from impact, hail can lead to water damage if it creates an opening in the structure, for example, breaking a window.** Minor hailstorms may cause no more damage than scratches and dings to siding and roofing, but stronger hailstorms can strip paint off wood siding and cause extensive damage to roof surfacing.

**Floods**

Floods can result from heavy rain, hurricanes, melting snow, rising bodies of water, or dam failures. Moving water is a powerful force that can easily make its way through openings in buildings, such as doors and windows, and inundate the property. Rushing flood water can also carry property away from its location. Along with the obvious water damage, the mud and debris carried by the flood waters can also damage property. After floodwaters recede, it can leave behind a foot or more of muddy sediment. Floodwater may also contain toxic materials.

**Earthquakes**

A strong earthquake can damage thousands of buildings at once. Immediately after an earthquake, highways water pipelines, gas lines, and electric lines might be severed. Damage to gas lines can cause fires to break out, which may destroy buildings that survived the quake itself. Aftershocks can continue for days or weeks after a major earthquake, possibly inflicting significant damage on already weakened structures. Although California is known for its susceptibility to earthquakes, all states face some level of seismic risk.

**Fires**

Fires are usually limited to one property, but some are extensive enough to cause a catastrophe, especially wildfires. Wildfires begin in forests or other habitats that produce combustible vegetation. In the past, wildfires were most often caused by lightning strikes. Today, humans are mostly to blame. Sparks from a vehicle, campfire, or trash fire and arson are common causes of wildfires. Buildings and property within the path of the wildfire are highly susceptible to total loss. Although cities throughout the US have sophisticated fire departments, the high concentration of properties in cities can still lead to widespread fire damage. A fire sever enough to cause a catastrophe will incinerate the property involved, many owners return to their homes to find nothing but the brick chimney still standing among the ashes.

**Characteristics of Catastrophes**

**Almost all catastrophes have certain interrelated characteristics: the losses are concentrated in a geographic area, necessary services are disrupted or in short supply, response to catastrophes is politically sensitive, and the local residents (and the claim reps trying to help them) are under a great deal of stress**.

**Geographic Concentration**

Catastrophes strike one community or geographic area. Typically, thousands of people in a relatively small area need the same services after a catastrophe. Existing services in that area, even if they survived the catastrophe, are likely inadequate to meet the increased demand.

In particular, there aren’t enough property claim reps to service all the insured in the area following a catastrophe, so most insurers set up catastrophe teams (CAT Teams) to temporarily increase their regular claims staff. Typically, the CAT Team’s claim reps leave home for at least a few weeks to work long days out of cars and motels rooms. Many experienced personnel go from one catastrophe site to another with only brief periods of time off to return home. To prevent burnout and keep errors to a minimum, the cat team is usually rotated out of the area after a few weeks or after having handled a specific number of claims.

**Contractors are in short supply following a catastrophe, which attracts contractors from outside the area. This influx helps in rebuilding a community, but it also raises potential problems. Unlicensed or incompetent contractors can take advantage of insureds who suddenly and simultaneously have large amounts of money and a significant need for contractor’s help. An unscrupulous contractor might take an assignment as part of the insured’s claim settlement, then disappear from the state. An incompetent contractor might be unwilling to correct his or her work because lots of other work is available**. Claim reps can provide valuable advice to insureds who are new to this situation.

**Interruption or Shortage of Services**

In addition to claim reps and contractors, just about every other necessary service or product is in short supply or unavailable following a catastrophe. Essential utilities such as electricity, water, gas, and communication services might be disrupted as well. Such disruptions can make an area unlivable and dangerous. Fortunately, public authorities can usually resolve the most pressing and dangerous situations in a few days.

Even hotels and motels far from catastrophe areas may be filled to capacity. It’s also likely that rental cars in the area will be scooped up quickly. And if the roads are blocked or severed, supplies in supermarkets might run low.

Building supplies are often unavailable immediately following a catastrophe. Supplies usually become available within a few weeks, but prices can increase because of demand and may remain high for months. Claim reps preparing estimates in catastrophe environments must be aware of pricing fluctuations.

**Political Sensitivity**

Public authorities and elected officials also face challenges from catastrophes: They’re responsible for the immediate response of emergency personnel and getting threats to personal safety under control. Public authorities decide whether an area must be evacuated or kept off-limits until it’s safe.

After the initial danger passes, public officials must process an enormous number of licenses and building permits stemming from repair work. As construction progresses, they must inspect and issue occupancy permits for a lot of properties. They also enforce building codes for new construction. Public authorities aren’t staffed to handle the unusual amount of work caused by catastrophes, which can cause delays, frustration, and stress for insureds who’ve suffered a loss.

Most public officials recognize that insurance settlements are crucial to rebuilding efforts, so they cooperate with claim reps as much as possible. However, tensions can result when public officials involve themselves in the claim settlement process because they believe that their constituents are being treated unfairly. After a catastrophe, community members, community leaders, and public officials may talk about perceived obstacles to insured’s recovery.

Nevertheless, public officials usually aren’t qualified to resolve specific differences that arise in claim settlements. Some public officials might make highly publicized pronouncements about how claims should be settled, and while these pronouncements are not usually legally binding, they can create an adversarial atmosphere.

Local insurance department officials are more knowledgeable about insurance than other public officials are, but they’re under just as much political pressure to show results, and a catastrophe presents an obvious opportunity to enforce an unfair claims practices act. Insurers with significant losses from a catastrophe often designate a liaison to the state insurance department to facilitate communication of complaints and concerns. After a catastrophe, an insurance department determines which insurers performed well and which didn’t.

**Emotional Stress**

Virtually everyone involved with a catastrophe will experience a lot of stress, including community members, public authorities, contractors, and claim reps. Stress affect people differently. Some people become agitated and unable to concentrate Others get depressed. When stressed, people also find it harder to control their emotions or communicate effectively.

Monitoring staff morale is a key challenge for claim managers in catastrophe environments. While claim reps who work in catastrophe areas are aware of the emotional climate, they can still be subject to stress and may become impatient, impersonal, distracted, or unreasonable.

Major catastrophes command the attention of senior claims officers, who must realize that the insurer’s reputation is at stake in such situations. Claims officers and managers also need to understand that because of the volume of work, the emotional stress, and the amount of time spent away from home during a catastrophe, claim reps require regular rest intervals.

Claims reps experienced with catastrophes know that listening to insureds is necessary and valuable. Insureds who’ve suffered great loss need an outlet for their feelings. Most experienced reps have encountered insureds who seemed to need sympathy more than cash. Reps who regard catastrophe work as a way to relieve human suffering are more motivated and often get more satisfaction from their work than do reps who believe that their job is to just close claims.

**6 – Handling Catastrophe Property Claims**

**Objective**: Explain how insurers prepare for catastrophe property claims and how those claims differ from normal property claims.

It’s not always possible to be prepared to handle a large number of catastrophe property claims under challenging conditions, such as with some hurricanes or other natural events. However, advancement in technology can enable more dependable on-site communications and more rapid inspections of damaged property.

Every major catastrophe illuminates flaws in existing catastrophe plans, providing valuable opportunities for improvement. And while claim reps and managers must always improve to some degree in the wake of a major disaster, planning is still essential to an effective catastrophe response.

Insurers must have plans to provide the equipment, services, and staff necessary to adjust claims in catastrophe environments. A catastrophe plan should also address an insurer’s internal communications so that all company employees are clear about who should respond and within what timeframe.

**Equipment**

Most catastrophes require a huge number of resources in response, by way of people, such as claim reps and volunteers, and supplies, such as food and water. In general, insurers try to be fully operational within two or three days after a catastrophe, so catastrophe planners must arrange for office supplies and major office equipment to be available quickly.

Many insurers can now assign claim reps to investigate damage and assist communities’ recovery efforts through mobile catastrophe facilities. Taking the place of brick-and-mortar buildings, these traveling offices house computers, servers, copiers, files, and manuals.

Claim reps rely heavily on laptops to verify coverage, record estimates, and write notes and reports on the investigation. Communication equipment is standard in the mobile facility and allows the rep to contact affected policyholders contractors, and the insurer. Some mobile facilities also allow reps to survey the scene of a catastrophe with drones that provide a bird’s eye view of the damage.

Damage Inspection by Drone – drones have become useful tools for visually inspecting damaged property that may otherwise be hard to access. They efficiently capture data necessary to evaluate losses and prepare repair cost estimates and allow claim reps to evaluate asset deployment in real time, helping an insurer best serve a catastrophe stricken area.

Before an approaching catastrophe strikes, local drone operators can be trained and drones placed with claim reps. Once conditions normalize, the drones help capture information and data that can be transferred in real time to other claim platforms within the company.

**Services**

**Catastrophe planners must prearrange various services such as lodging, rental cars, office space, and telephones. Many insurers have price agreements with motel and car rental chains, accordingly. Catastrophe planners also prearrange prices and service with contractors, salvage companies, replacement services, engineering and architectural firms, and independent adjusters**.

Although catastrophe planners also previously need detailed maps of the affected area today’s numerous GPS applications have simplified navigation. Just a few clicks can produce driving directions, aerial satellite views, and even street views that offer photos of the property before the catastrophe struck.

**Staffing**

Providing adequate staff is the most challenging part for an insurer when responding to a catastrophe.

Unless an insurer is exceedingly overstaffed during normal times, it will have a shortage of people to deploy after a catastrophe. Major national insurers can draw staff from around the country, but this can also be problematic because normal claims volume includes major losses that inexperienced personnel cannot handle. Because of this, many insurers use retirees to cover normal claims volume in offices throughout the country.

Staff assigned to catastrophe duty must be rotated out after a certain period of time or number of claims. Traditionally, insurers assigned reps to a catastrophe zone for two or four weeks, then allowed them to return home. As a result, insureds faced a parade of claim reps, each of whom had to become acquainted with that insured’s claim. Those claim reps did not always act consistently, resulting in insured dissatisfaction. In response, many insurers now assign a claim rep to a certain number of claims that he or she handles to conclusion.

Independent adjusting firms also employ personnel experienced in fieldwork that is integral to catastrophe claims adjusting. To supplement the number of people they can deploy to disaster areas, some insurers use independent adjuster on a continuing basis. This allows the adjusters to become familiar with the insurer’s computer systems and claims handling procedures. That way, once a catastrophe strikes, they are already trained and ready to assist in the catastrophe area.

An often-overlooked aspect of catastrophe planning is the need for adequate support staff. Technology allows support staff to work remotely, away from the disaster area. But filed claim reps must be able to communicate with support staff.

Qualified claim reps should be focused on the adjusting work. Technology allows for continuous balancing by seamlessly transferring information from one platform to another.

**Catastrophe Property Claims handling**

Adjusting catastrophe claims is markedly different from adjusting typical claims. This is largely seen in the initial response and reserving practices, communications with insureds, price increases and settlement costs, and adjusting standards.

**Initial Response and Reserving Practices**

Immediately after a catastrophe, insurer typically deploy an initial survey team to determine the scope of damage. This team, using drones, can efficiently and readily identify affected areas and then, through a computer search, every insured in the corresponding zip codes.

The initial survey can also identify the degree of damage typical of properties in the affected area – which, in turn can help inform the level of expertise needed from catastrophe team claim reps and the extent to which the insurer can rely on telephone reps.

Information from the initial survey, along with information provided by vendors, is used to set proper reserves for the catastrophe. Typically, insurers set loss reserves for catastrophes in bulk. Bulk reserves are gross estimates of losses; individual loss reserves are determined claim by claim. Without accurate reserves, senior officers may be unaware of the insurer’s true financial state and make improper underwriting and reinsurance decision. Correct reserves also help claim department managers determine proper staffing for a catastrophe.

Another important aspect of an insurer’s initial response is hiring specialists to provide restoration services. Restoration companies perform a variety of tasks valuable to mitigating losses after a catastrophe, such as drying, dehumidifying, decontaminating, cleaning, removing soot, inventorying, and packing away property. Restoration companies can work with salvage companies to save and recover as much of the damaged property as possible.

Every year, the technology used by restoration companies improves. Property damage once deemed hopeless can now be repaired. The success of restoration work depends on timely retention of services. Insurers that wait until after disasters strikes to look for restoration contractors may find that there aren’t any available.

**Communications with Insureds**

After a catastrophe, insureds are often in shock. They may need an outlet for their emotions and a source for specific advice about recovery. Claim reps can be both.

Effective communications with insureds is as important to claims adjusting as verifying coverage or preparing estimates. But several obstacles can hinder good communications in a catastrophe environment.

**Telephone service might be disrupted by a catastrophe or be jammed immediately afterward. Today’s communication technology allows for automatic and transparent redirection of call volume, first for the catastrophe and second to maintain current levels of everyday activity**.

Insureds in the catastrophe area who can make outgoing calls should succeed in reaching their insurer. An insurer’s catastrophe operation, meanwhile, should inform affected insureds how to reach claim reps in their area by providing insureds with reliable phone numbers.

In addition, many communities have installed community-wide notification software through their local disaster-services coordinator. And insurers operating in a catastrophe areas have also started connecting people with emergency services through social media.

Insureds whose homes are unfit to live in can be hard to reach. Such insureds usually contact their insurer eventually; however, they should be told their duties following loss as soon after the catastrophe as possible. With most households having at least one cell phone, the previous hindrances to communications are no longer prevalent.

**Price Increases and Settlement Costs**

Prices of many goods and services, especially building supplies and contractor services, often increase after a catastrophe.

Local, regional, and national economies are organized to provide a flow of goods and services that meets a predictable, normal demand, but catastrophes create unpredictable, abnormal demand. If a catastrophe causes a busy market with more work than resources, labor costs can increase rapidly. Building materials, such as lumber, plywood, sheathing, and copper, can also see incremental increases.

**Claims reps can make two mistakes when prices are high. The first is insisting that normal prices should prevail and refusing to settle claims for higher amounts. Normal prices are unlikely to return until most damaged properties have been repaired, and insureds will not want to wait to repair their property. Plus, from the insurer’s point of view, delaying settlement might not make sense if it causes increased living expense or business interruption claims**.

**The second mistake claims reps can make is the other extreme: paying whatever amount it takes to close claims. Not every significantly damaged structure will be a total loss or exhaust the policy limits. Even in a catastrophe environment, claim reps must evaluate losses and pay an amount that indemnifies, not enriches, the insured.** Claim reps need not pay exorbitant prices that appear because of acute shortages immediately after a catastrophe nor accept contractors estimates at face value.

**Challenges for Claim Representatives**

Claim reps face some tradeoffs among the cost of claim settlements, the speed of claim settlements, and the thoroughness of their adjusting work in catastrophes.

In a catastrophe environment, rapid, efficient work is essential. So claim reps are likely to be less thorough in their adjusting procedures and more flexible about settlement cost. For example, if claim reps do not require sworn proof of loss, an alternative may be to require realistic estimates or damage inspections.

Some documentation or verification of the extent of loss is essential to know what settlement amount is appropriate and to discourage fraud. Insurers special investigation units should have a catastrophe capability so that catastrophes do not become open invitations to fraud. However, reps must recognize that severely damaged buildings are susceptible to fires and looting. Owners are required to protect their property from further damage but, claims reps can enforce this duty to the extent feasible under the circumstances. Repair materials, generators, and pumps might not be available at any price shortly after a catastrophe, so the claim rep cannot require them.

**Claim reps may have to reopen numerous files from a catastrophe, making many settlements at actual cash value, pending repair of the insured’s property, and concluding the claim later with replacement cost settlement. A rep may need to reopen files if the initial adjusting work was too hasty or hidden damage was not apparent until repairs began. Redoing adjusting work is inefficient but understandable**.