



Presentation to the Federal Disaster Recovery Coordination Group

Sandy Recovery – Six Months Later

Queens, New York

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- What is the I.I.I.?
- I.I.I.'s role in the Aftermath of Sandy
- Small Business Insurance and Disaster Planning
- Economic ramifications of Sandy
- I.I.I. Resources

What is the Mission of the I.I.I.?

- The mission of the Insurance Information Institute is to build public understanding of insurance—what it does and how it works—primarily through the media.
 - The I.I.I. is dedicated to making sure the media covers our business fairly and accurately.
 - I.I.I. assists its member companies with their communications, information, research and planning needs.

I.I.I.'s Role Regarding Sandy

- During the storm and its immediate aftermath, I.I.I. staff worked from their homes, giving interviews and providing information to virtually every major news outlet.
- The I.I.I. appeared several times a day on local news stations. These broadcasts were also made available to stations around the country, amplifying the I.I.I.'s reach.
- The I.I.I. gave over 44 television interviews (including several in Spanish), which were aired nationwide 730 times to over 25 million viewers.
- Before, during and after the storm, we also issued a steady stream of news releases timed to be one step ahead of the news cycle—15 in total. This resulted in the I.I.I. appearing in nearly 3,000 Internet news publications, such as the New York Times website, and over 918 times in print publications, wire services and prominent blogs.

- For some residents with no electricity, battery-operated radios were their only source of information. Therefore, the I.I.I. created media opportunities with a number of local radio outlets.
- It is worth noting that outside of national and Tri-state media, Florida news outlets were the most likely to quote the I.I.I. or to cover Hurricane Sandy.
- Essentially, it was the I.I.I.'s relationships with national and local news outlets, our 24/7 availability to the news media as well the steady flow of information that we distributed which resulted in our significant media outreach.
- Coordinated with a number of federal organizations such as the NFIP and NOAA.

Hurricane Sandy: News Cycle

Before the Storm – There were two key questions:

1. What is this storm going to cost?
2. What is covered and what is not covered?

During the Storm – Media had specific coverage questions especially about flood insurance. Hurricane deductibles were also a prominent topic, as well as the financial strength of the industry and its ability to pay claims. There was also keen interest in historical data about other storms/disasters.

Immediately After the Storm – There was intense media interest in the claims process, especially how long it will take for an adjuster to visit. Lastly, there were questions on the impact of Sandy on the cost of coverage.

Note: While all disasters are different, the media's questions generally follows a very specific pattern.

- Media interest in Sandy has decreased substantially, but the types of questions are now more difficult and sensitive in nature—driven largely by claims disputes.
- Flood insurance continues to dominate media interest, particularly the lack of coverage, limitations in the NFIP policy itself and complaints about slow claims handling. In fact, a majority of the negative media coverage is regarding flood insurance.
- There are also ongoing questions and concerns about claims handling, business insurance and FEMA assistance.

Insurance Lessons Learned From Sandy for Consumers

- Homeowners, renters and small business owners need to understand the importance of purchasing flood insurance. There also needs to be greater education about what is and is not covered under a flood insurance policy.
- There was widespread confusion on the role of deductibles in an insurance policy. And, even more misunderstanding regarding wind and hurricane deductibles.
- Homeowners and renters did not understand their overall coverage and their various insurance options.
- Claimants need to have a better understanding of how the claims process works before there is a disasters.

Business Insurance Overview

Sandy provided a reminder that every business needs to have a disaster plan and appropriate business insurance for their specific needs.

How Business Interruption (Income) Insurance Works

- Business Interruption (also known as Business Income) insurance covers continuing expenses and the net profit lost during the period when normal operations are interrupted because of physical damage by a peril covered in the policy. BI applies when:
- **There is physical damage to property.** The absence of physical loss or damage will likely result in coverage being denied.
- **The damage must be from an insured peril.** In addition to the requirement that the insured property suffer actual physical damage, the cause of the damage must be from a covered peril for the policy to trigger.

How Business Interruption (Income) Insurance Works

- **The loss or damage must prevent, suspend, or at least reduce the ability of the business to operate.**
- **The inability of the business to operate continues only for the time required to repair or replace the damaged property, known as the period of restoration.** BI provides coverage only for the time required — in the exercise of due diligence and dispatch — to repair or rebuild the property so the insured can resume normal operations. The key requirement is “due diligence and dispatch,” as the period of restoration likely would last longer than anticipated if insureds did not make all reasonable attempts to restore their businesses quickly.

How Business Interruption (Income) Insurance Works

- **The business must sustain an actual loss.** The calculation of actual loss sustained will take into consideration whether the insured has recouped any of the losses it sustained once the business resumes. This method of calculating business interruption can be lengthy and complex and often requires forensic accountants to determine the quantum of loss. Additionally, the underwriter will consider the financial records of the entire corporation when determining the actual loss sustained by an operating entity.

How Business Interruption (Income) Insurance Works

- In order for businesses to tap into business interruption insurance, the disruption typically must go on for longer than 72 hours.
- It is also possible for business interruption coverage to come into play when access to the insured's property is prevented because of physical damage elsewhere, such as a bridge damaged in a storm. This coverage can be provided under ingress/egress or order of civil or military authority.
- Contingent business interruption is also available and provides coverage against the physical damage to third parties, such as suppliers or customers, or for damage at an attraction or leader property, such as a large department store in a mall.

MAJOR PROBLEMS FACED BY SMALL BUSINESS AFTER SANDY

- Separate endorsements were typically needed for losses resulting from utility service interruptions, blocked ingress or egress to particular locations and government-ordered roadblocks or evacuations. (For example, some restaurants in downtown Manhattan that were forced to close for days or weeks after superstorm Sandy caused a major power outage found that their business interruption insurance would not kick in because the cause of the outage was flooding.)
- Much like homeowners some business owners did not receive payouts from their insurers, if they had a mortgagee clause in their property policies directing the insurer to pay the mortgage holder.

MAJOR PROBLEMS FACED BY SMALL BUSINESS AFTER SANDY

- Companies that incurred time-element losses needed to calculate their losses and compare their actual earnings during the interruption period to their prior-year financial returns and projections of what earning would have been absent the storm's effects.
- New flood maps will require thousands of businesses to increase their flood protection or pay higher insurance premiums, and some will be required to purchase flood insurance for the first time.

Lessons Learned from Sandy for Small Business

1. Business owners need to read their policy thoroughly and understand what is covered and what is not, including flood insurance.
2. Business owners — along with their brokers — should evaluate the risk of loss from all perils before purchasing a property insurance policy.
3. Have an accurate accounting of the maximum damage that could occur as a result of any peril. Review all current policies to make certain the limits of liability are in line with the dollar value of the cost to repair or replace the damage.
4. Incorporate supply chain in a business continuity plan.
5. Finally, having a contingency plan in place which includes establishing relationships with remediation specialists, contingency services providers, engineers and contractors so that your business will be prepared for any future disasters.

Economic ramifications of Sandy

■ Difficult to Measure Effect of Sandy on the Region's Economy

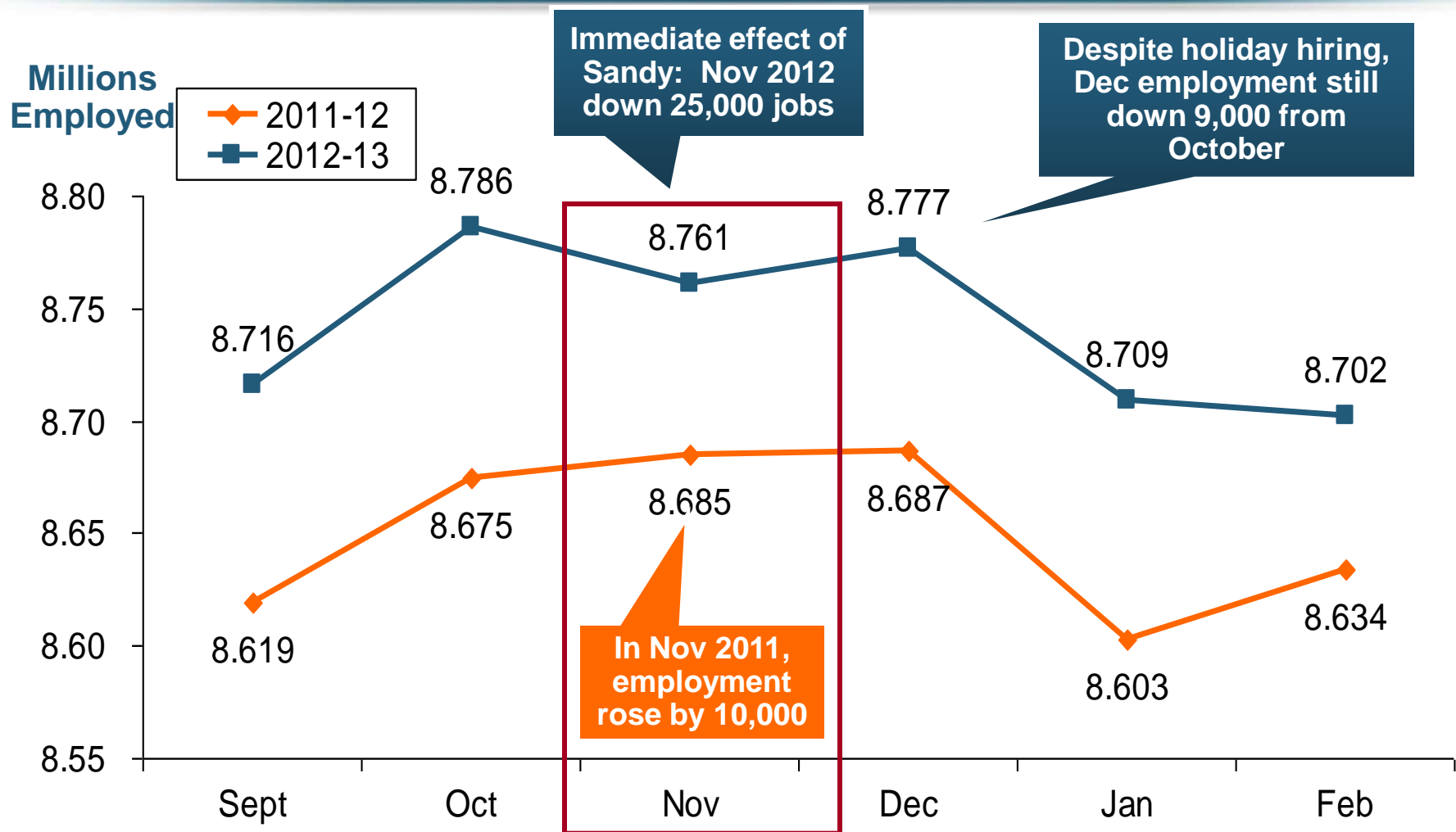
➤ **Offsetting Activity.** Examples:

- Tourism was down, but hotels and restaurants hosted residents without power or livable homes
- Retail sales dipped in early November but were strong in October and strong again in December (holiday shopping)

➤ **Overall:** Widespread dips in first week/10 days but bounce back from mid-November on

- Insurance claim payments undoubtedly helped spur the recovery

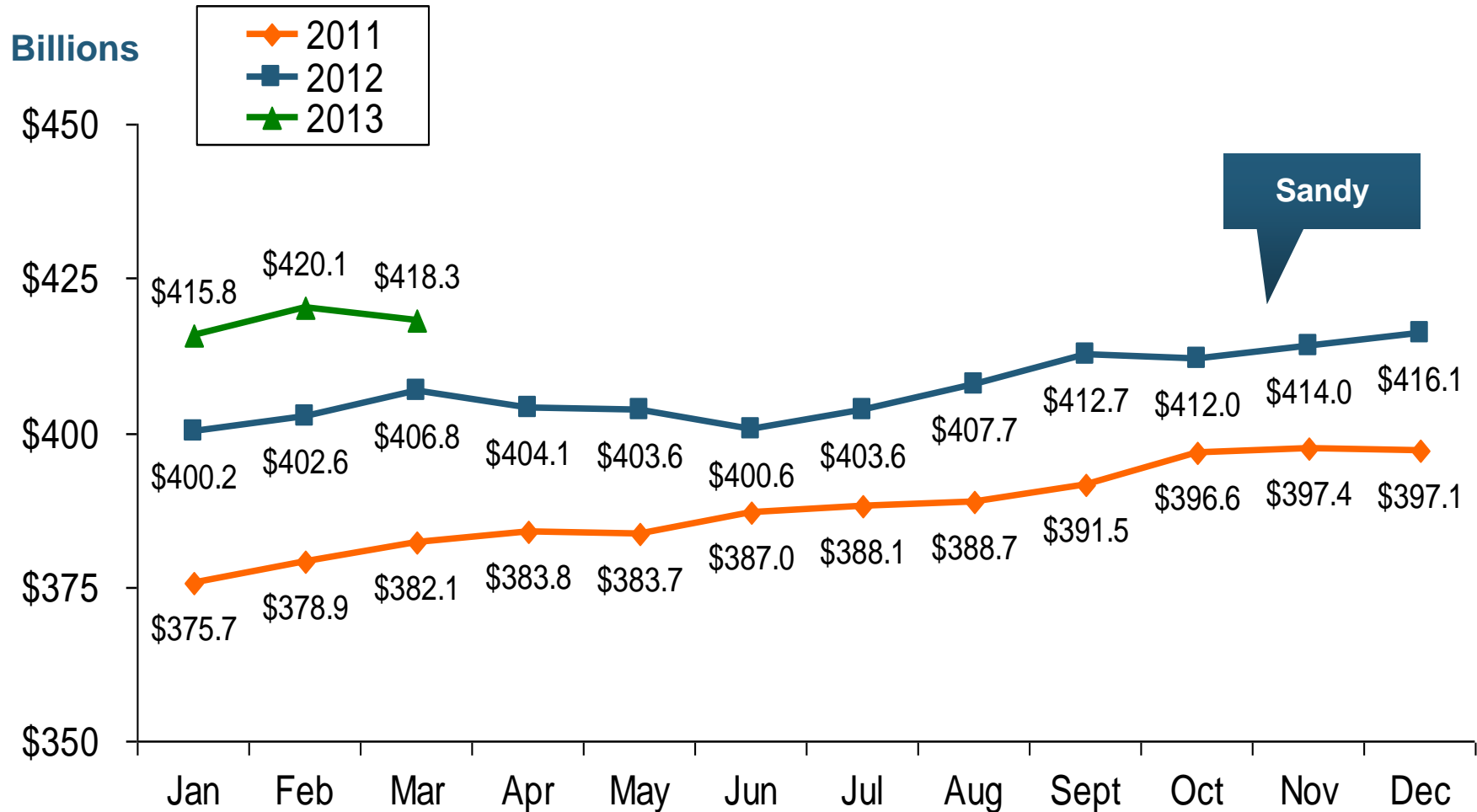
Employment* in the NY-NJ Metro Region, Sept-Feb 2012 vs. 2013



*not seasonally adjusted

Sources: U.S. Department of Labor; Insurance Information Institute.

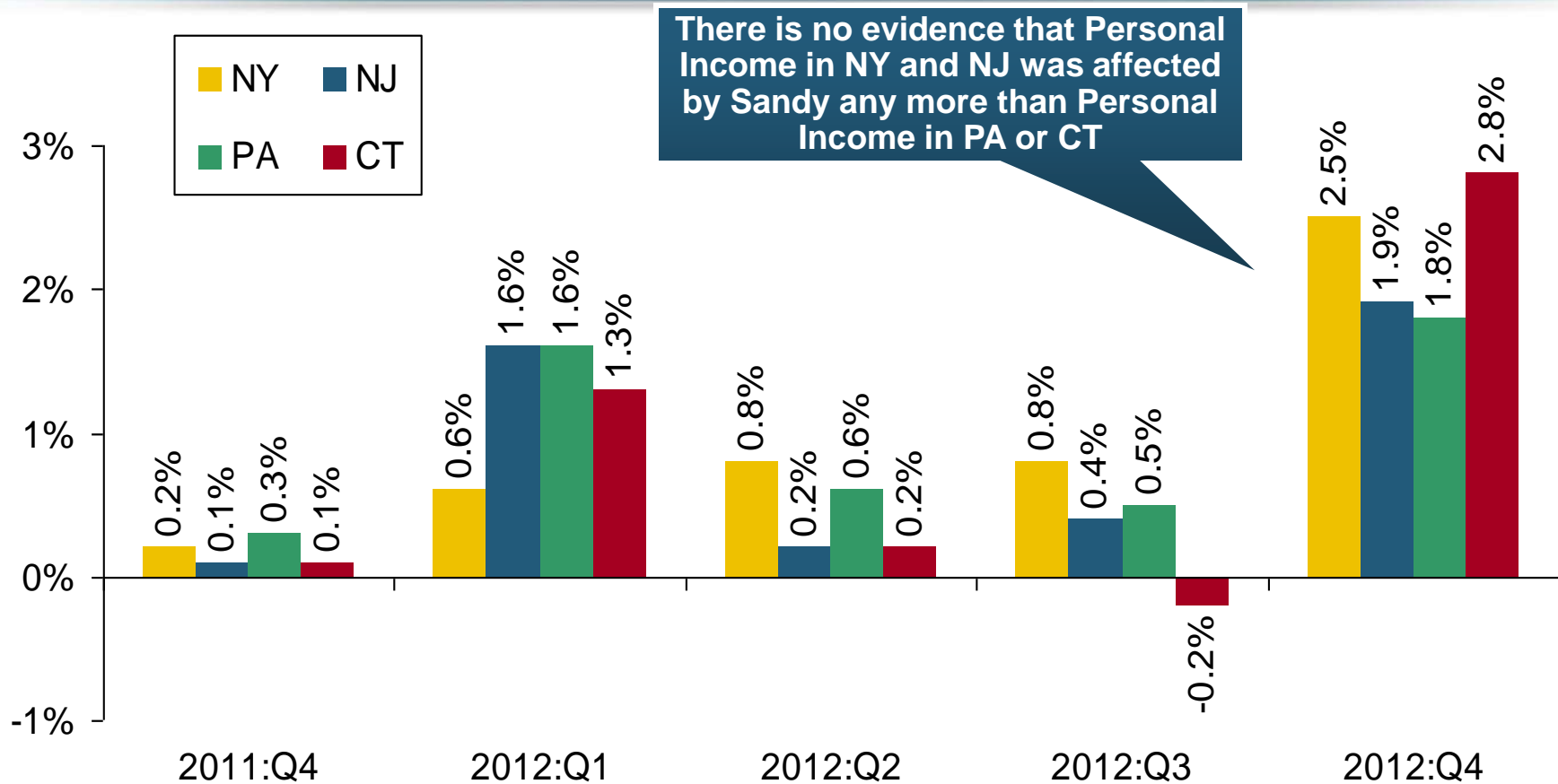
Retail Sales,* U.S.: 2011, 2012, 2013



*seasonally adjusted

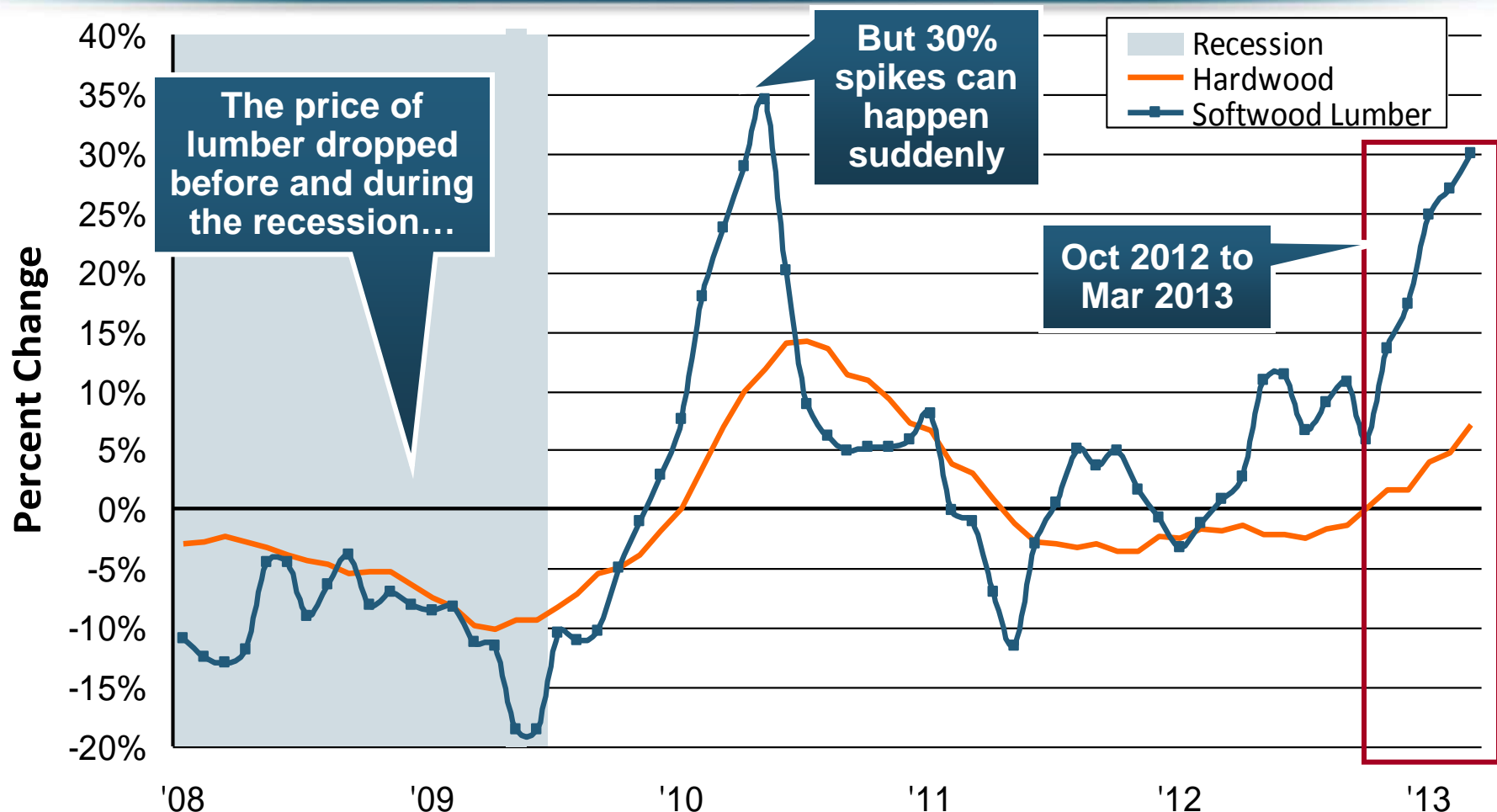
Sources: U.S. Census Bureau; Insurance Information Institute.

Percent Change* in Personal Income, NY, NJ, PA, CT, Quarterly, 2011:Q4 - 2012:Q4



*from preceding quarter, seasonally adjusted
Sources: U.S. Department of Labor; Insurance Information Institute.

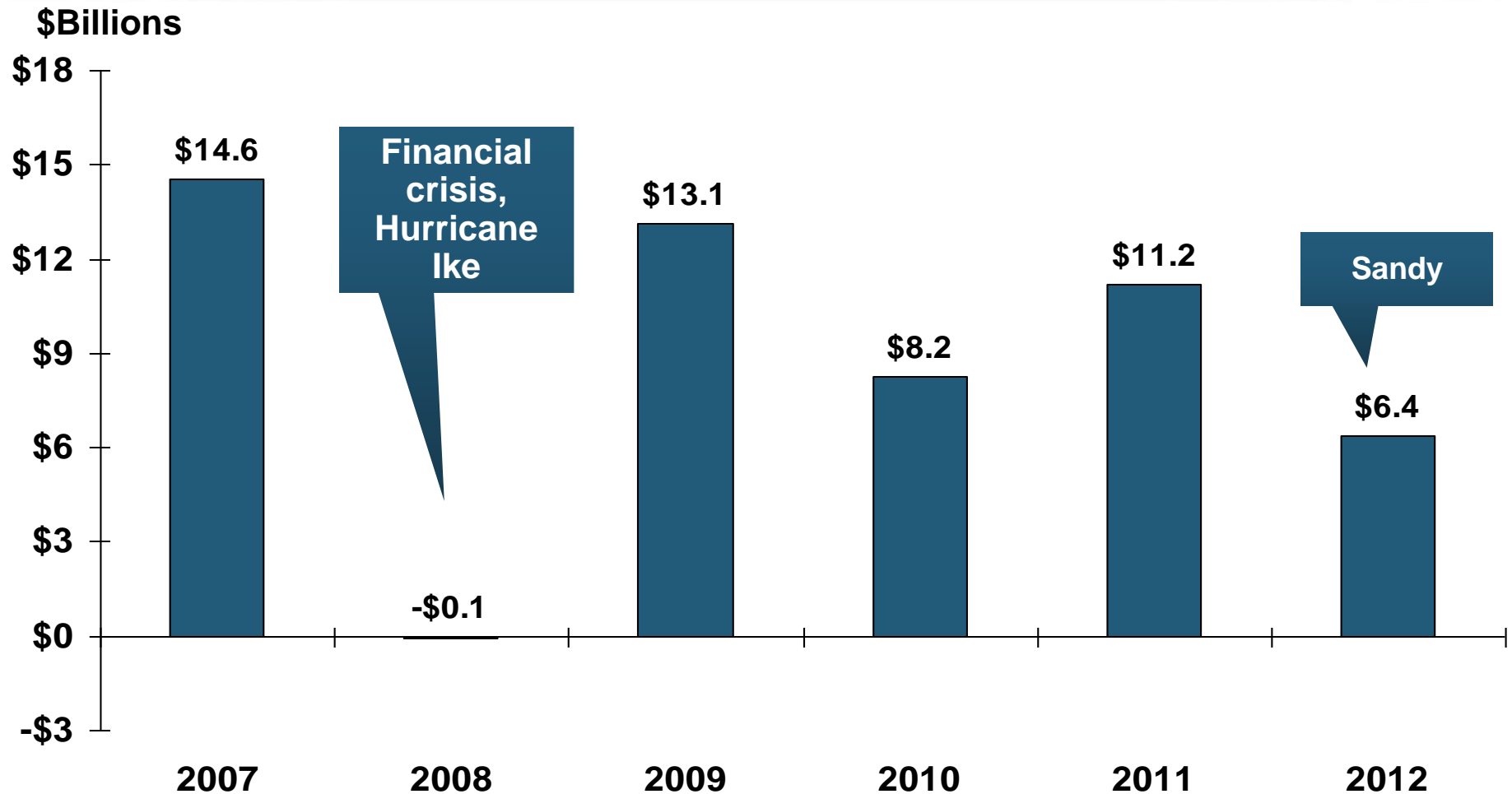
Change* in Price Index for Lumber: Sudden Spikes, 2008–2013



The prices of building materials vary wildly and change levels rapidly. Prices for hardwood have been much less variable than softwood lumber.

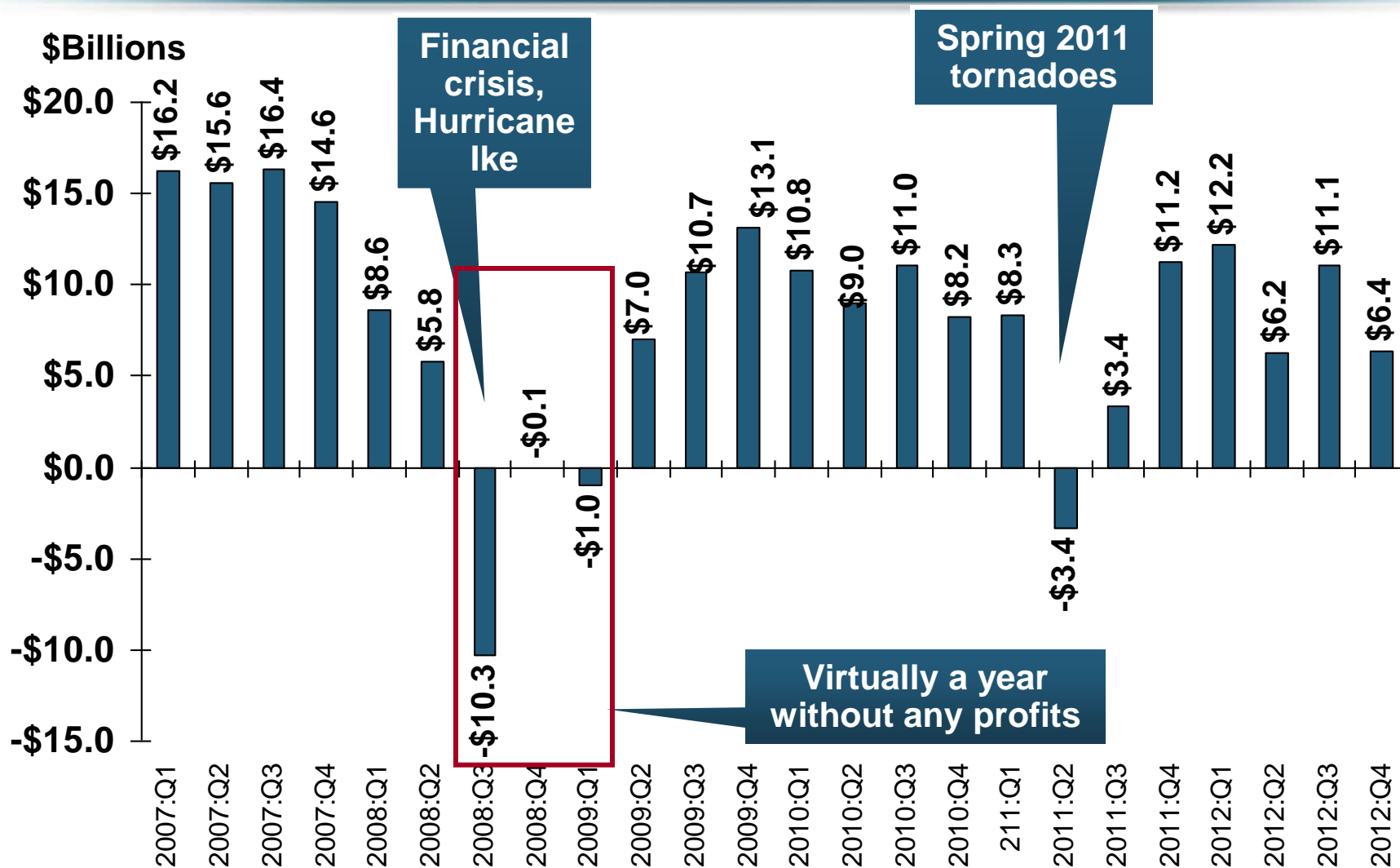
*Monthly, year-over-year, through March 2013. Not seasonally adjusted. Dec. 2012 and Jan., Feb., and Mar. prices are preliminary.
Sources: US Bureau of Labor Statistics, Producer Price Index series WPS0811; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

P/C Industry Net Income, Fourth Quarters, 2007-2012



Over the past 6 years, the fourth calendar quarter usually has been more profitable for the P/C industry than it was in 2012.

P/C Industry Net Income, Quarterly, 2007:Q1-2012:Q4



Sources: SNL Financial; Insurance Information Institute

If They Hit Today, the Dozen Costliest (to Insurers) Hurricanes in U.S. History

Insured Losses,
2012 Dollars, \$ Billions



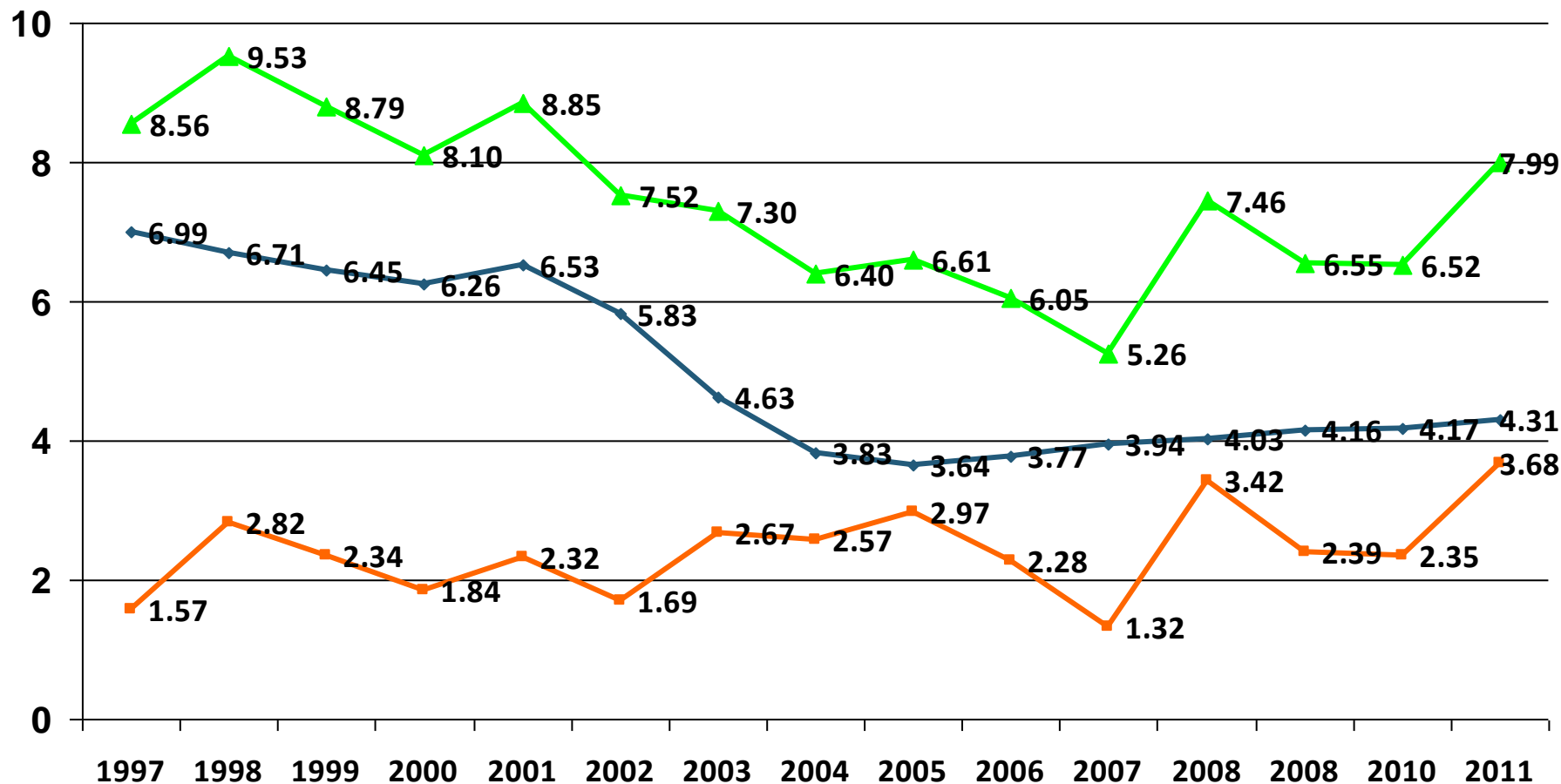
When you adjust for the damage prior storms could have done if they occurred today, Hurricane Katrina slips to a tie for 6th among the most devastating storms.

*Estimate as of 12/09/12 based on estimates of catastrophe modeling firms and reported losses as of 1/12/13. Estimates range up to \$25B.
Sources: Karen Clark & Company, *Historical Hurricanes that Would Cause \$10 Billion or More of Insured Losses Today*, August 2012; I.I.I.

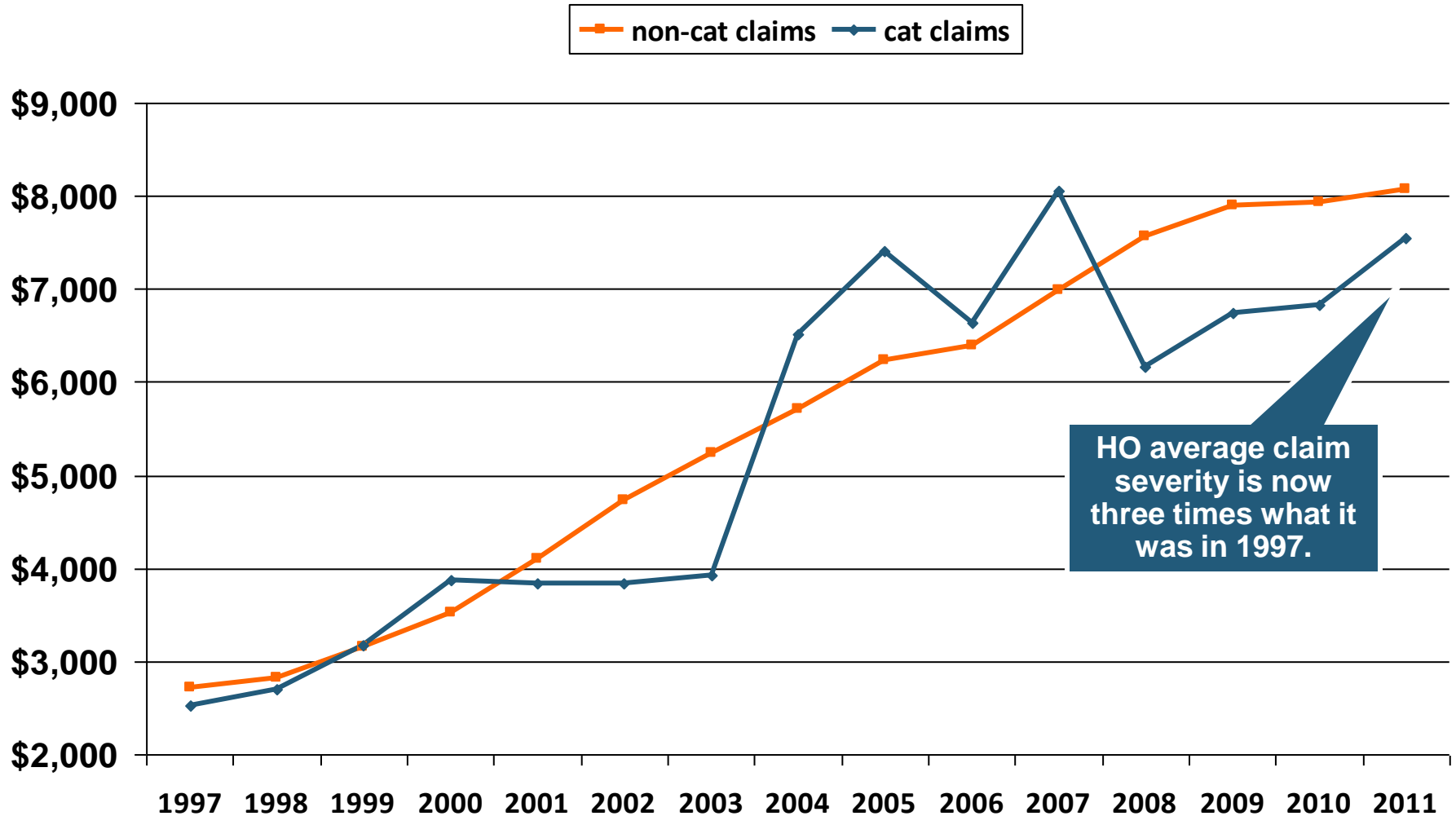
P/C Industry Homeowners Claim Frequency, US, 1997-2011

Claims Paid per
100 Exposures

— CAT-related claims — Non-CAT-related claims — All Claims



P/C Industry Homeowners Average Claim Severity, 1997-2011



Sources: Insurance Research Council, "Trends in Homeowners Insurance Claims," p. 29, BLS inflation calculator, and Insurance Information Institute

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I.I.I. SPOTLIGHT

Workplace Safety

APRIL 22, 2013 - The fatal fire and explosion at the West Fertilizer plant in Texas calls attention to the issue of workplace safety in the state. A massive 1947 fire in the Monsanto Chemical Company plant in Texas City ranked among the top 20 multiple death fires in U.S., while a 1989 fire in a Pasadena, Texas, polyolefin plant was the seventh most costly large-loss fire in history. Two of the 11 costliest large-loss fires in 2011 were in Texas industrial properties.

[Full Story](#)

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Economic Trends Affecting Insurance

APRIL 10, 2013

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Hurricanes

Over a dozen states were impacted by superstorm Sandy in October 2012. Sandy caused \$18.75B in insured property losses (excluding flood insurance), making it the third costliest U.S. storm.

All Facts & Statistics

I.I.I. WIRE

I.I.I. VIDEO



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I.I.I. Mobile Apps – Disaster Resource

The I.I.I. is developing a branded suite of apps to provide guidance to consumers in making decisions about their insurance and preparing for a disaster.



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Hurricane and Disaster Preparedness



TIPS FOR HURRICANE AND DISASTER PREPAREDNESS

Jeanne Salvatore gives the four basic steps to take to prepare for hurricane season and other potential disasters.

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Making Your Home More Hurricane Resistant: Five Steps

I.I.I. SPOTLIGHT



Workplace Safety
The fatal fire and explosion at the West Fertilizer plant in Texas...

I.I.I. VIDEO



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When it comes time to buy that dream house, the cost to insure...

FACTS & STATISTICS



Hurricanes
Over a dozen states were impacted by superstorm Sandy in...

All Facts & Statistics

I.I.I. BLOG / TERMS & CONDITIONS



Texas Fertilizer Plant Explosion
Media reports over the weekend suggest some residents were allowed...

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Ahorre, pero

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GENERAL

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This brochure, based on the questions consumers most frequently ask, explains what is covered in a standard homeowners policy and what is not....

[Disaster Victims: Beware of Crooked Contractors](#) Video[Catastrophes: Insurance Issues](#) Issue Update[Catastrophes: U.S. Fact and Stat](#)[Webinar: 2012 Natural Catastrophe Year In Review](#) Presentation

Munich Re and the Insurance Information Institute jointly present an overview of natural catastrophe activity for 2012

[Frequently Asked Questions about FEMA Disaster Assistance](#) Article

In the wake of Hurricane Sandy survivors continue to have questions about federal disaster assistance

[Out of the Storm News: Fire Podcast](#) Article

Dr. Hartwig discusses the year in insurance.

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Over a dozen states were impacted by superstorm Sandy in...

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and your attention!***