Communication & Insurance: Before, During & After Disaster

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What do Consumers Know About Insurance?

More important? What they don’t know
Homeowners Understand the Key Provisions in A Policy

Most homeowners understand the key provisions of a standard homeowners insurance policy. A majority of homeowners recognize that their policy will provide coverage for damage caused by fire, wind and hail. Most also know that items stolen from their house are covered (Fig. 7).

Most consumers understand these perils are covered:

- Fire
- Theft
- Wind
- Hail
- Burst Pipes
Most policyholders know homeowners insurance provides liability protection.
Consumers are Fuzzy on the Details

- They understand the basics, yet many are unaware of some additional coverages included in their policy.
- For example, 79% know homeowners insurance covers possessions stolen from their home, but don’t always know those items are covered if they are stolen from them outside the home.
Confusion about water damage vs flood damage

Key Findings
Two broad conclusions can be drawn from the I.I.I.’s survey. First, the majority of homeowners do understand the basics of their homeowners policy. They recognize that they will be covered if their house is damaged by a fire, if property is stolen from their home or if someone is injured on their property (Fig. 1).

But second, homeowners have gaps in their knowledge of their coverage. For example, many policyholders do not recognize that most flood damage is not covered by their basic homeowners insurance.

Fig. 1
Homeowners Understand the Basics
Percentage of homeowners who knew key perils are covered

- 91% Fire damage
- 79% Theft from house
- 69% Medical costs for someone injured on property

Misunderstanding of Flood Damage Coverage

- 43% of homeowners incorrectly believe damage from heavy rain flooding is covered under their standard insurance policy

A water heater burst feels like a “flood,” but it’s not.

At Peak (2007), Only 5% of Occupied Residences Had an NFIP Flood Insurance Policy In Force

Since 2007 the number of occupied residences has grown by 7.25% but the number of flood policies in force fell by 10.25%.

A 2016 Insurance Information Institute poll found that 93% of homeowners had homeowners insurance.

And 41% renters had renters insurance.

But only 12% had a flood insurance policy, despite the fact that flooding is the most common natural disaster in the U.S.
What Insurers Learned from the Hurricanes of 2017

- Flood damage is the least understood peril, and yet it is the most common one.
  - False sense of security in some high-risk areas, and overstated risks in other areas.

- It’s not all about homes. Personal autos and business interruption coverage had larger-than-expected losses.

- Trend is for consecutive disasters and increased losses.

- There is a protection gap: Insured vs uninsured losses.

- Proactively addressing risks isn’t an option; it’s an imperative.
  - Partnerships, communication, preparedness mindset.
Business are Not Prepared for a Disaster

A Nationwide Insurance report shows a 26% increase in the average severity of commercial catastrophe claims.

Most small-business owners (68%) do not have a written disaster recovery plan — even though about half (49%) said it would take their business at least three months to recover from a natural disaster.

These findings stem from Nationwide’s second annual Small Business Indicator, which was conducted online by Harris Poll on behalf of Nationwide from June 10-23 among 502 U.S. small-business owners with fewer than 300 employees.
Critical Need for Small Business Owners to Understand their Options

Too often, they ask about coverage….after a disaster!
Home-based Businesses at Risk

Most of the 11 Million Home-based Businesses Do Not Have Proper Coverage

- A survey, conducted by International Communications Research, reveals that one in 10 U.S. households operates some type of full or part-time home-based business. However, nearly 60% do not have insurance coverage.

- Nearly 40% of home-based business owners say they thought they were protected by some other type of coverage, while almost 30% say their businesses are too small to insure.

- Additionally, home-based businesses without insurance are slightly more likely (11%) to have experienced a financial loss than are those that do have insurance (9%).
Communicating When a Storm is Imminent
Responsiveness to Hurricane Messages
It depends……

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Out</td>
<td>Anxious and eager to leave if a hurricane is in the forecast</td>
</tr>
<tr>
<td>21%</td>
<td></td>
</tr>
<tr>
<td>Constrained</td>
<td>Aware of risks &amp; willing to evacuate but face barriers</td>
</tr>
<tr>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>Optimists</td>
<td>Doubt that a hurricane will occur but willing to evacuate</td>
</tr>
<tr>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>Reluctant</td>
<td>Reluctant to evacuate but will leave if ordered to</td>
</tr>
<tr>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Diehards</td>
<td>Confident they can safely ride out hurricanes at home</td>
</tr>
<tr>
<td>22%</td>
<td></td>
</tr>
</tbody>
</table>
“You Are if You Think You Are”

Storm preparedness index by segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>Number of preparations</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Out</td>
<td>4.3</td>
</tr>
<tr>
<td>Constrained</td>
<td>4.3</td>
</tr>
<tr>
<td>Optimists</td>
<td>3.9</td>
</tr>
<tr>
<td>Reluctant</td>
<td>5.0</td>
</tr>
<tr>
<td>Diehards</td>
<td>5.1</td>
</tr>
</tbody>
</table>
Hurricane Response

Belief that it is safer to evacuate or stay during a Category 2 hurricane by segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>Much/Somewhat safer to stay</th>
<th>Much/Somewhat safer to go</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Out</td>
<td>6%</td>
<td>67%</td>
</tr>
<tr>
<td>Constrained</td>
<td>27%</td>
<td>27%</td>
</tr>
<tr>
<td>Optimists</td>
<td>18%</td>
<td>30%</td>
</tr>
<tr>
<td>Reluctant</td>
<td>51%</td>
<td>17%</td>
</tr>
<tr>
<td>Diehards</td>
<td>66%</td>
<td>7%</td>
</tr>
</tbody>
</table>
The brain gets stuck on a timeframe and misleading information.

- Most people consider a 1-in-100-in-a-year chance event quite unlikely, and many are unwilling to insure against it, even if it could cause a devastating loss.
  - However, the chance of such an event happening over a 30-year period is 1-in-4.

- Perspective: From Aug. 2015-Aug. 2016, there were eight 500-year flood events, according to the National Weather Service. (Houston in 2017). In the five years prior, there were six 1,000 year flood events.*

Source: *http://www.jbarisk.com/5lessons
Messaging that Works
Something for Everyone

Present approach:

- Simple, instructive messages, which appeals to about 40-45% of the population.
- So, 55-60% are not as responsive.

A Better Approach:

- Multiple types of messages so important information is accessible to people of all kinds of personality types and cognitive dispositions
Considering Individual Differences

People are attentive to hurricane forecasts, get similar information, but react differently

- Predictions – how likely a hurricane is to occur, and how bad it would be
- Priorities – personal safety, guarding one’s possessions, staying with pets, or even watching the storm
- Preparedness
- Belief as to whether evacuating or staying was safer
- Willingness to evacuate

THE CHALLENGE: How can we more effectively deliver (and design) critical information, especially if different people react differently to the same information (and need incentives to act)?
Personal Circumstances Matter
Life Safety and Property Protection Decisions Depend Upon:

- Financial situation
- Access to transportation
- Dependents (children, elderly relatives, pets, other)
- Age
- Religion
- Language

WHO MATTERS MOST in delivering messages? Experts and credible peers
Approaches as Different As Individuals

- Apps
- Blogs
- Checklists
- Consumer Articles
- Infographics
- Media Interviews
- Social Engagement
- Videos
The I.I.I. homepage is updated regularly with content relevant to consumers.
Many businesses are not prepared to respond to a man-made or natural disaster. Small businesses are particularly at risk because they may have all of their operations concentrated in one location that is damaged or destroyed.

Business continuity planning is vital to survival and should not be put off indefinitely as you focus on today’s challenges. It’s important to devote enough time and attention to planning for the future, even when that future may involve events that are unpleasant to think about and, hopefully, not likely to happen. IBHS offers a variety of resources to assist with this important planning process.

**IBHS’ Business Continuity Toolkit is OFB-EZ®**

OFB-EZ (Open For Business-EZ) is a free business continuity tool designed to help even the smallest businesses focus on planning for any type of business interruption, so they can quickly re-open and resume operations.
NAIC Resources for the Industry and Consumers

NEWSROOM

NAIC Updates Congress on Federal Government Role in Insurance

Connecticut Insurance Commissioner Katharine L. Wade testified before Congress today representing the NAIC. Wade responded to questions from the Committee on Financial Services Subcommittee on Housing and Insurance about the appropriate role for the federal government in insurance issues. The hearing focused on the federal government's international and domestic engagement.

- Read Full Release
- Testimony (PDF)

MEETINGS & CONFERENCE CALLS

- Fall National Meeting
  - Tentative Agenda Available
- National Meetings 2018

ANALYSIS, ISSUES & POLICY

- Securities Valuation Office (SVO)
- Structured Securities Group (SSG)
- Capital Markets Bureau

- Financial
- Health
- International

FEATURED CONTENT

- RETIREMENT SECURITY INITIATIVE
- LIFE INSURANCE POLICY LOCATOR
- 4 OUT OF 10
- INSURANCE WEEKLY
10 Rules of Successful Communication

1. **Simplicity: Use small words.**
   ✓ Simple, plain language is more easily understandable.

2. **Brevity: Use short sentences.**
   ✓ Consider how ad slogans of 2-3 words pack punch.

3. **Credibility is as important as philosophy.**
   ✓ The words you use become you.

4. **Consistency matters.**
   ✓ Repetition, repetition.

5. **Novelty: Offer something new.**
   ✓ Can your message generate an “I didn’t know that” response?
10 Rules of Successful Communication (cont.)

6. **Sound & Texture Matter.**
   ✓ “Snap, Crackle, Pop”

7. **Speak Aspirationally.**
   ✓ “The only thing we have to fear is fear itself.”

8. **Visualize.**
   ✓ Paint a picture.

9. **Ask a Question.**
   ✓ “Can you hear me now?”

10. **Provide Context & Explain Relevance.**
    ✓ Give the “why” before the “therefore” and “so that.”

Source: “Words That Work,” by Dr. Frank Luntz
Auto/Home Insurers Tie with Banks as Highest Rated of Industries Surveyed

What Should We Be Communicating?
Need to Educate Business Owners

About all their options…so they can make sound financial decisions!

40 Percent Don’t Open After a Disaster

Another 25% Fail Within a Year!

- Property insurance
- Liability insurance
- Business interruption insurance
- And, Professional liability, Employee practices liability, Workers’ comp, Health and disability, Flood and sewer back-up, Cyber risk insurance, Terrorism insurance…
Need to Clear Up Confusion About Coverage

- Explain water damage vs flood coverage.
- Talk coverage AND limitations of flood coverage.
  - No additional living expense.
  - No coverage for basements.
  - Also need to clearly explain coverage for mudslides, landslides and back-up of sewers and drains, as well as “law and ordinance” coverage.
Details

- Conduct a home inventory
- Explain deductibles AND hurricane deductibles
- Actual Cash Value vs. Replacement Cost Value
- Comprehensive auto insurance
- “Optional coverage” – Flood, building ordinance & law, inflation guard, sewer backup, sinkhole
- Flood insurance limitations
  - 30-day waiting period
  - No coverage for basements
  - No Additional Living Expenses
  - Limits in coverage to $250,000 for home, $100,000 for contents
- No coverage for tree damage, unless it hits an insured object
“Surround Sound” Approach to Consumer Communications
The Property Insurance “Protection Gap:” Definition and Measurement
The Global “Protection Gap,” the difference between Economic Losses and Insured Losses generated by catastrophes, is growing

$Billions, in 2016 dollars

In terms of 10-year rolling averages, between 1991 and 2016, insured losses grew by 4.6% per year but economic losses by 5.6% per year.
The Drop in Flood Coverage Isn’t Due to Lower Insured Flood Claims Payments

In 2016 there were 4 separate multi-billion-dollar inland flood events – the highest number in a single year since 1980.

The $10 Billion Flood Protection Gap: What Can We Do?

- Risk awareness
- Simple insurance products (flood endorsement policies)
- Continue to improve risk assessment tools
- Public/private partnerships that support financial resilience

Source: SwissRe/III webinar, April 27, 2017.
Helping consumers make good decisions

Helping them understand:

• The types of losses/claims that they might sustain

• The likelihood/probability of those various kinds of losses/claims—what we call “frequency”

• The potential severity of those losses
Thank you