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LAE: Losses Are Escalating

Reinsurers are being told that LAE's from the 2017 storms will be far more than the historical average. By now everyone knows the reasons: multiple large storms over a short period of time caused a significant strain on a limited supply of licensed independent adjusters. The good news is that the LAE figures are transparent. They are shown on the loss runs. So, perhaps a better question is-

How will the shortage of adjusters impact the incurred loss?

Before I answer that let's review the market dynamics. After a storm the insureds are eager to get money for their damage. Insurers are eager satisfy their customers, but a cat event stretches their resources. Most Florida domiciled insurers are small. They may have some field adjusters for daily claims but will need many independent adjusters for a cat claim. Independent catastrophe adjusters are self-employed businessmen and women who make their living on volume. They will take on large workloads, work long days under tight timeframes, and spend weeks away from home. So, all the parties want claims handled quickly.

In addition, the Florida market is notoriously difficult for insurance claims. There is the AOB issue, of

course. There is also the very cumbersome appraisal and arbitration process, and a legal system that allows plaintiffs to recover attorney's fees. No one wants to go down any of these paths, so, as one claims executive said, "the goal is to pay as much as you can as fast as you can..."

This means...

Based on my audit work of Matthew claims, I would expect the following:

Roof replacement claims, normally subject to an ACV holdback, could be paid in full, less the deductible. This makes economic sense because it closes the claim and reduces handling costs, although it can mean higher than average initial incurred losses. The risk is that the insured could just repair the roof, not replace it.

More closed claims will be re-opened. The downside of closing the claim early is that it will have to be re-opened when a contractor comes out and sees hidden damage.

Continuing AOB problems. AOB started with cat claims and moved to inside plumbing during the quiet cat years.

Extra costs due to law and ordinance upgrades. Older roofs had more damage and will need to be brought up to code.

As Yogi Berra said, "It ain't over till its over".