



2021 CLM Construction Conference

Sept 22nd – 24th 2021

San Diego, California

Fight Fire with Fire

1. Risk Underwriting

a. Changes in wildfire behavior

The number of wildfires each year is rising across America. According to ClimateCentral.org in 2017 and 2018, in 11 states alone across the Mountain and Pacific time zones wildfires killed 160 people and destroyed \$40 billion in property damage. In these same two years, California experienced 50 large wildfires which averages to over 2 large wildfires per month. With frequent droughts and forests being the most vulnerable to wildfires during such periods, changes in climate and wildfire behavior during such periods cannot be ignored. This panel will review more of these statistics and discuss how we might best respond to how climate change affects wildfire frequency and severity.

b. Zones of Risk

In October 2020 National Public Radio sponsored a study showing there are over 40 million Americans who live in high-risk fire zones. This is because towns are increasingly expanding into fire-prone landscapes, and even if a home may not be near vulnerable forest areas or grasslands, “wildfires can easily spread into towns and suburbs.” Many of us have witnessed this first-hand, either as victims of wildfires or more likely as adjusters who visit these locations after the damage is done. Yet, much can be done to limit the impact of living in a high-risk fire zone. This panel will discuss how to know your specific type of risk, and what steps can be taken to reduce exposure with proper annual area maintenance and some recent code changes which have helped save many homes through various fire-resistive construction materials.

2. Before the Loss

a. Homeowner Responsibility

With wildfire losses seemingly increasing on a yearly basis, it is important that homeowners understand and appreciate the need to take proactive measures to prevent property damage. Insurers working with property owners in fire-prone communities will benefit from gaining a more detailed understanding of local laws and ordinances concerning fire mitigation and property maintenance, and increasingly strict codes and mitigation standards. Adjusters who invest time in developing and strengthening relationships with local fire response officials will also benefit following an occurrence, through increased access to information, and the ability to better understand the basis for governmental response efforts. This panel discussion will focus on practical tools insurance professionals can implement in order to best be prepared to respond to developing claims scenarios.

b. Law and Ordinance

Many wildfires prone areas in the United States have adopted the International Urban Wildland Interface Code, or local codes that are like it. Upon rebuilding after a wildfire any new structure will have to comply with updated building codes that consider wildfire resistant construction. These building code changes typically require detailed architectural design and construction costs can increase significantly. Typical law/ordinance coverage, 10% of coverage A, may not be adequate in many cases to cover these cost increases.

3. During the Loss

a. Involving the Agent

Early involvement of the agent or broker provides an opportunity to facilitate open the lines of communication, establish trust and set expectations regarding the claim process including the preparation of damages and the coverage provided by the policy. Agents and brokers usually have established a strong working relationship with the homeowner or business owner and their knowledge of the insurance product and limits/sub-limits can assist in establishing reasonable expectations throughout the claim adjustment process. Brokers are advocates for the policyholder and can assist/provide input if there is a disagreement regarding the policy coverage.

Given the current hard insurance market, the agent or broker can also explain the impact the wildfire loss may have given the adverse loss experience.

Loss experience has a direct impact on rates and the homeowner or business owner needs to be educated on the fact that the wildfire claim may result in higher premiums and potentially more restrictive policy terms and/or limits.

Agents and brokers work with both carriers and insureds with respect to the original policy placement prior to the loss (terms, limits, rate), help educate and facilitate communication during the loss and provide insights on the impact of the wildfire loss on future coverage.

b. Public Adjusters During the Process

Insureds have three choices when it comes to hiring public adjusters after a loss: 1. Do not hire a public adjuster at all; 2. Hire a public adjuster shortly after the loss occurs; or 3. Hire a public adjuster after first attempting to reach a fair settlement with insurers. While each choice affects Insureds in different ways, when property owners hire a public adjuster before giving insurers a chance to reach a settlement, the greatest impact will be to property owner's net settlement. This is because the public adjuster's fee usually attaches as a percentage to the total settlement. While we do not want to interfere with the right of Insureds to hire public adjusters, this panel will discuss how we can explain to Insureds their right to hire a public adjuster at any time in the process should they need assistance beyond what the insurer's adjuster is providing. Further, we will show how much a difference hiring a public adjuster after first attempting to work directly with the insurer can make to the Insured's settlement.

c. Relocation of Insureds

When a homeowner or business owner loses access to their property for residence or for income, it can sometimes be a worse feeling than the property loss itself. The feeling of being without a place to live or having nowhere to operate your business is extremely difficult to face. Making sure we have in place the right residential and commercial realtors and agents who can quickly assist us to get our Insureds into a comparable home or continue operating their business at a suitable location is key to controlling the claim from the start and gaining the necessary confidence of the Insured. But when wildfires strike often our contacts are overwhelmed with needs from many clients. That is when we quickly find that out that, despite our pre-loss relationships for non-wildfire claims, we may not receive the priority we expect. This panel will discuss ways to stay ahead of the demands placed on realtors and agents by large wildfires including maintaining back-up contact lists and using online resources to assist our Insureds more quickly with maintaining their standard of living and reducing their business income loss after a wildfire.

d. Business Interruption

Here the panel will focus exclusively on the needs of our commercial Insureds after a wildfire, discussed only partially in relation to the relocation needs of Insureds addressed in the prior section. The panel will explore ways we can not only assist businesses with maintaining their brick-and-mortar operations (like the rental needs discussed in the prior section), but also how to continue their business online, maintain a marketing

presence even in a fire-ravaged community, and how to ensure key employees are not lost to competitors so the business returns to normal as quickly as possible. Emphasis will be placed on assisting Insureds with reducing their loss of business income in association with Extra Expense after a wildfire.

4. After the loss

a. Investigation

When investigating damage from a wildfire claims can range from smoke damage to structures located miles away from the fire to claims involving the entire loss of a structure.

Smoke, soot, char, and ash claims often involve the services of an industrial hygienist to determine if damage has occurred. A building materials expert may also be necessary. The specifics of these issues will be discussed by the panel.

Partial damage claims due to heat exposure often involve window and shingle damage claims. Investigating these claims requires a knowledge of those products or an expert in those areas. The specifics of these issues will be discussed by the panel.

Full loss claims often involve inspection of the concrete foundation to determine if it can be re-used. Attendees will be education on concrete as a building material and how it is affected by heat.

b. Dry Out

Strange as it seems, wildfires bring lots of water! This usually comes in the form of extinguishing efforts to mitigate damage to partially affected structures. To further save affected property from the effects water has on building materials if left in place too long, prompt, and efficient dry-out services are needed. At times Insureds rely on insurers' recommended vendors, with whom we may have more cost-effective scope and pricing agreements. Other times this is not the case, and we may end up with a service billing that either did not fully mitigate the effects of the water (for example, mold has resulted post-mitigation), or that is far beyond industry standard pricing for the work performed, or both. This panel will discuss ways to maintain communication with preferred vendors during a wildfire so they can handle a larger volume of claims effectively and according to pre-loss expectations, as well as how to deal with unfamiliar vendors who may seek to take advantage of claims due to the greater need which results from wildfires.

c. Asbestos and Mold

Completing any mitigation of damage to the affected property involves removal of any mold due to the claim and any disturbed asbestos. This does not require removal of all asbestos in the affected property unless it has not been disturbed according to AQMD

requirements. This panel will discuss how to proceed with identifying what mold and asbestos requires removal due to the loss and how to estimate and arrange for the abatement promptly and fairly. This is a critical part of the adjustment process, since only when the approved abatement work has been completed can a complete repair estimate be written, and the repairs take place.

d. Site Supervision

Depending on the size and type of loss, additional project management or supervision costs beyond what is already included in an estimate's General Overhead may be added as a separate line-item. But this is usually not necessary. The panel will address the misuse of Xactimate's "Overhead and Profit: What is and isn't included" White Paper by some public adjusters and contractors who wrongly claim line-item supervision. The panel will explain what is already included in the operational costs (General Overhead) of contractors and what supervision work they are required by the state to provide on every job as part of their license, as well as how to identify when it may be appropriate to add line-item supervision to repair estimates where a loss involves special access or security issues.

e. Cleaning

Where properties and contents have been mostly affected by smoke odor or soot, versus direct fire damage, how should cleaning be estimated? How should odor be removed? The panel will discuss when it is appropriate to estimate cleaning of surfaces and contents on an area-by-area and content-by-content basis or when it is better to use the more common industry method of hours for a cleaning crew. The panel will discuss how one method is more cost-effective than the other, and how public adjusters and contractors often abuse the item-by-item or area-by-area-surface cleaning line-items but then actually pay a cleaning crew by the hour. The panel will explain how we are often presented with estimates that do not reflect what was really done and actually paid by contractor. Additionally, when claims primarily involve odor-control, the panel will discuss the differences and comparative effectiveness of using hydroxyl generators and surface cleaning versus the more traditional thermal fogging and sealing or painting.

f. Pack Out, Storage, Pack Back

Depending on the extent of damage to the property, Insureds may need to be relocated and their contents removed for off-site cleaning or to prepare a property or structure for needed mitigation or repair work. But often contents can either be cleaned and treated on-site or relocated to a rental location for either continued use by residents or businesses. Certain odor-molecule-destroying products like hydroxyl can be used safely on-site, with occupants, and reduce certain mostly-odor claims pack-out and relocation exposures. At times pack-outs are required, but too often the billings far exceed what

regular, professional moving companies charge. The panel will discuss when claims require pack-outs and storage of contents, when the contents can continue use by residents or businesses at temporary locations, and how to address excessive billings for pack-out work often submitted by public adjusters and companies who are not regular, professional moving companies.

g. Cost Estimating

Cost estimates prepared by repair contractors or Public Adjusters sometimes have general condition and site supervision costs that are excessive and unnecessary. The panel will discuss what types of costs are typical and which costs are excessive.