

CoreLogic®

CASE STUDY

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# Twin Storms Drive Home the Value of Hail Verification

*The Rio Grande Valley forecast on the morning of March 29, 2012 was typical for spring—sunny with a 20 to 30 percent chance of late afternoon thunderstorms. By early evening, however, the weather was anything but typical. Atmospheric forces had converged over Texas in a way no one could have predicted. Severe thunderstorms developed over Kenedy County and gradually inched west across Hidalgo and Starr Counties.*

The slow-moving thunderstorms dropped hail the size of golf balls and baseballs for more than 30 minutes, creating what the National Weather Service described as an “epic hailstorm,” especially in and around McAllen, Texas. Lightning from the storm started fires in at least two apartment buildings, while six inches of hail mixed with torrential rainfall to create icy rivers so deep they submerged cars. Fierce 75-mile-per-hour winds compounded the misery—and damage.

Three weeks later, on April 20, 2012, another hailstorm crossed the Rio Grande Valley, spawning small tornadoes and once again dropping hailstones, this time ranging up to the size of grapefruit.

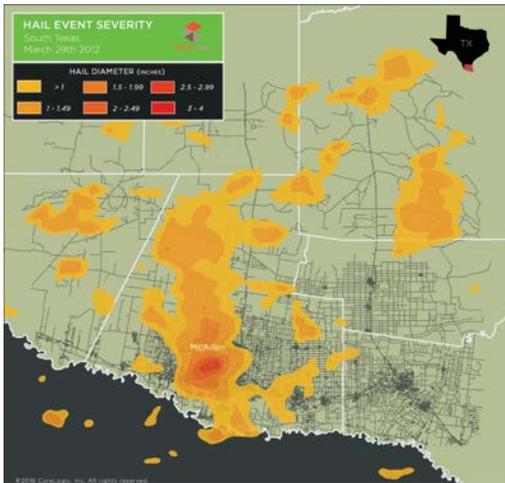
According to the Texas Department of Insurance, the extraordinary one-two-punch hailstorms caused close to \$600 million in property damage.

## Deeper Insights to Support Policyholders

Such unforeseen weather events take everyone by surprise, including insurers who incorporate severe weather

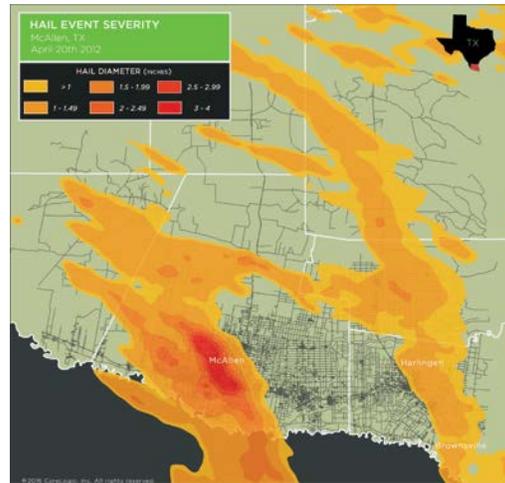
## South Texas Hail Event

March 29, 2012



## South Texas Hail Event

April 20, 2012



Custom Hail Alerts is a subscription service that provides them with real-time push notifications up to every three hours about hailstorms in progress within their specified territory. Hail Verification Reports by policyholder address provide dates and sizes of hail that fell on a given address from 2006 to the present. The added insight helped our client to associate damage to specific storms, which in turn helped the company prevent fraud and document why a claim was covered or denied.

CoreLogic hail verification services combined with proprietary hail-verification algorithms, which use advanced artificial intelligence and 3-D storm maps, provide

predictions into their daily planning. This is why our client, a large mutual insurance company, servicing rural and small community areas in Texas, chose CoreLogic® when handling a large influx of claims from the 2012 hailstorms and many others. CoreLogic Hail Size Maps showed the claims managers at the insurer, the specific impact areas and exactly where hail of different sizes fell during each of the two storms. Because the insurer now had access to the most accurate information about the hail size striking each policyholder's property, they were able to move quickly to settle legitimate claims and confidently detect potential fraud. Fast claims settlement also helped our clients' customers begin repairs before demand overwhelmed reputable roofing and other repair contractors.

Additionally, two other CoreLogic hail-related products that help deepen the understanding of hailstorms and related claims were also used in the portfolio analysis.

the best-available remote sensing and point-specific weather data. The result is a proprietary hail-verification model shown to be up to four times more accurate than other products based on hail-detection algorithms (HDAs).<sup>1</sup>

### Accuracy Protects Everyone

This level of accuracy protects the insurer and policyholder alike. Knowing the size of hail stones that fell at an exact address protects the insurer against paying:

- Claims for damage that happened outside the coverage window.
- Fraudulent claims by policyholders hoping to take advantage of a nearby hailstorm to replace an aging roof.

The combined benefits could potentially save the insurer millions of dollars in fraudulent claims.

*“We’re happy to pay legitimate claims for covered damage,” says the director of claims. “But with \$8,500 as the average cost for a new roof, we want to be sure the damage was caused by hail that did, in fact, fall during the coverage period. Policyholders switch carriers fairly often, so timing accuracy is important.”*

*“On the other hand,” he continues, “hail patterns are erratic. Very large hail can fall in a very small area, so accurate mapping and reporting ensure that policyholders are paid promptly on claims that might otherwise be questioned or even denied.”*

## Seeing the Complete Picture

As the residents of McAllen, Texas can attest, severe thunderstorms bring more than just hail. Flash floods, straight-line and tornadic winds and lightning also damage property. To complete the storm-damage picture, the CoreLogic Weather Verification suite offers Wind Verification services and STRIKEnet® lightning verification reporting on the same easy-to-use storefront. The insurer’s customers will always want a clear understanding of everything that happened during a storm and appreciate the ease and accuracy the services provide.

*“I’ve always had almost instant turnaround when doing lightning verifications and hail searches,” says the front-line manager. “The site is very user friendly, and the reports that come back are extremely easy to read. I love the services!”*

## Why Hail Verification Accuracy Matters So Much

Hail claims often present carriers with issues that complicate processing. The 2012 Rio Grande Valley hailstorms were especially challenging for several reasons:

- Roof damage is the most common cause of hail-related claims—and it’s also the hardest to see. As a result, many homeowners file claims weeks or months after a hail event. Other times, the damage goes undetected until a home inspection when a house sells. The delay problem is compounded by policyholders switching carriers or letting coverage lapse. Two major hailstorms

in quick succession—in a hail-prone area—make it hard to determine when the damage actually occurred.

- As mentioned earlier, hail damage is a common source of fraudulent claims. In studies CoreLogic conducted with actual claims, data showed that approximately 10 to 15 percent of paid hail claims were considered questionable. The widespread damage caused by the two closely timed storms increased the likelihood of fraud.
- Primary insurers rely on reinsurance to cover major catastrophes. Reinsurance policies stipulate a 72-hour coverage window for each event. If the damaging event extends longer than 72 hours, the event is split into two separate events. The narrow window makes it imperative that carriers pinpoint when damages occurred on each property to properly aggregate reinsurance claims. The timing of the two hail storms within a month complicated the process of determining which event caused what damage.

Fortunately, the solution for each of these issues was the same. Having accurate, address-level knowledge of the date and size of hail that fell on each policyholder’s property enabled our client to pay policyholders with confidence and submit correctly aggregated claims to its reinsurer.

*“The data obtained from CoreLogic helped us pinpoint which losses should be assigned to each date,” says the director of claims. “This had a big impact on reinsurance recovery. The information we gained from the data obtained helped ensure there was integrity surrounding our decisions and provided documentation for review, if requested. This helped establish us as a good business partner from a reputation standpoint among reinsurers.”*

## Managing a Unique Twist in the Claims Process

The 2012 Rio Grande Valley hailstorms have generated significant press coverage for an unusual, but increasingly common, reason. It wasn’t the unexpected weather extremes or the fact that, according to the Insurance Journal, about 30,000 residential claims were eventually filed for damages from the freak storms. What captured the media’s attention were the thousands of policyholder lawsuits filed against insurers months after claims were settled. The high number of lawsuits was especially

shocking to insurers who had long enjoyed a 98 percent success rate in resolving hail damage claims without litigation.

The lawsuits were not filed because insurers suddenly decided to treat policyholders unfairly. They were filed by law firms, one Houston-based law firm in particular, that actively solicited lawsuits by promising policyholders more insurance money. The scheme capitalized on a loophole in the Texas Insurance Code that allows law firms to collect legal fees if they show that the insurance company owes a policyholder more than the original claim payment. In a jury trial lost by the Houston law firm, the Insurance Journal reported that that suit was seeking \$13,000 to \$14,000 to repair additional damage, while the law firm was seeking between \$147,000 and \$150,000 in legal fees. The discrepancy in what the policyholder and law firm would have received gives a clear picture of what's behind the sudden spike in lawsuits.

Regardless of the motivation or merits of a case, fighting such lawsuits requires insurers to spend considerable time and money on each one filed. The barrage of lawsuits tied to the McAllen storms has led to rising insurance premiums and fewer insurers willing to provide hail coverage in the Rio Grande Valley and other affected regions. Though any lawsuit requires carriers to invest time and resources, the ability to use the Custom Hail Alerts, Hail Size Maps, and Hail Verification Reports helps insurers avoid getting caught up in unwarranted lawsuits.

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<sup>1</sup> Product Performance Assessment. An internal study was completed by a top-five insurance carrier claims department which showed 83 percent of policies predicted by the CoreLogic Hail Verification Model to have  $\geq 2.5$ " hailstone diameter filed and had paid claim, but only 20 percent of competitor policies with  $\geq 2.5$ " hailstone diameter had a filed and paid claim. The competitor algorithm overestimated the hailstone diameter while the CoreLogic Hail Verification Model was more realistic.

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*"The bottom line is that the CoreLogic hail tools cut expenses. The science and technology deliver credible, reliable, timely data we need. And the return on investment is very appealing."*

CoreLogic Client

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