



White Paper

Q3 2024

Natural Disaster Strategies

A practical, tactical disaster preparedness
guide for financial institutions

The cost of natural disasters is rising - and financial institutions are feeling the impact.

Natural disasters are not a new problem in the United States. However, recent years have been particularly devastating with record-breaking, billion-dollar losses mounting across multiple disasters, including hurricanes, earthquakes, winter storms, severe flooding, and wildfires - all while we are still recovering from a global pandemic.

*In 2023, natural disasters in the U.S. cost **\$92.9 billion** in damages.¹*

While some natural disasters are more common in specific areas, financial institutions must be aware of the impact to business functions, potential risk exposures, and borrower experience should a climate catastrophe strike.

Following a natural disaster, consumers are left to rebuild both their living and financial situations. Lending institutions face the same concerns as they recoup and evaluate the losses of their loan collateral, navigate consumer finance concerns and defaults, and face a reduced lending capacity. In the months following a natural disaster, focus tends to fall on consumer communication and current loan portfolio management affected by the crisis. The most common direct impact of natural disasters is local default rates rising - up to a year after the event - for mortgages, auto loans, and credit cards. That takes resources away from building your loan portfolio and encouraging deposit growth.

To best prepare for a natural catastrophe - no matter where you are located - it is important to **prepare, continually evaluate, and execute a disaster plan.** Having a plan in place helps your institution evaluate your potential risk, communicate with your consumers, and maintain business operations in the midst of a climate crisis.

Recent Impact

Recent years have been full of climate catastrophes.

At the time of publishing, 2024 has already experienced damaging wildfires, winter storms with extreme cold, tropical cyclones, and tornadoes. These disasters are costly across the board. The NOAA (National Oceanic and Atmospheric Administration) reported nearly \$93 billion in total losses due to natural disasters in 2023.¹

DISASTER EVENTS IN U.S. (2013 TO PRESENT) ²			
Disaster Type	Number of Events	Total Losses (CPI Adjusted- \$ Billions)	Average Event Cost (\$ Billions)
Drought	10	\$90.8	\$9.1
Flooding	21	\$74.4	\$3.5
Freeze	1	\$1.3	\$1.3
Severe Storm	111	\$259.3	\$2.3
Tropical Cyclone (Hurricane)	24	\$690.7	\$28.8
Wildfire	9	\$105.7	\$11.7
Winter Storm	7	\$48.7	\$7.0
TOTAL	183	\$1.27 T	\$6.9 B

According to the U.S. Census Bureau, **2.5 million businesses** (31.9% of total businesses in America) operate in coastal states most threatened by hurricanes.³

Preparing for the Unpredictable

While most weather-related events are typically confined to a specific region, no area is exempt from any one type of natural disaster. These are the most common – yet unpredictable – weather events across America.

Flooding

Most active March-July



Flooding is the most common natural disaster to occur in the United States. Typically, there is some lead time as floods may develop over several days, however instances of flash flood are dangerous to an under prepared business.

Flooding presents a problem of rising water, but also the aftermath from receded water. Areas commonly are covered with mud and silt, buildings may be structurally unsound, sewage can overflow causing contamination, and electricity can go out.

Wildfire

Most active May-September



Wildfires may be easy to track at the onset, but their path is unpredictable - and wrought with destruction. They can completely devastate an area and shut down businesses long after the fire has been controlled.

Hurricanes

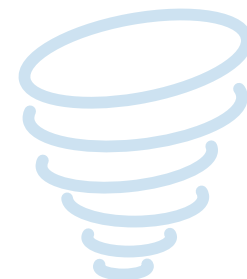
Most active mid-August to late October



Hurricanes can leave devastating and costly damage due to storm surges, flooding, high winds, and rain. A pending hurricane can shut down businesses across a large landscape. The initial and long-term impact vary based on the category of the storm and where it makes landfall. Coastline states are more prone to impacts from hurricanes, however, businesses in all states should prepare for the impact of one.

Severe Storms and Tornadoes

Active year round



Storms are common weather events that can turn severe with any combination of rain, snow, ice, lightning, hail, high winds, extreme temperatures, or tornadoes. Regardless of location, financial institutions will be impacted by one of these storms at some point.

Preparing for the Uncommon

Not all natural disasters experienced on our planet are weather-related. It is important to recognize that there are additional, less common disaster events that can cause damage. While these extraordinary events are infrequent or more localized to certain regions or climates, their potential for catastrophic damage still exists. Some extraordinary events that financial institutions need to be prepared for include:

- Avalanches
- Landslides
- Earthquakes
- Meteorite events
- Tsunamis
- Volcanoes

These events are rare yet precipitous, causing rapid damage. Hoping to not need a preparedness plan isn't enough. A solid plan must be ready to be enacted as soon as a natural hazard strikes. **No financial institution is beyond the reach of the unpredictable or uncommon. (Remember the ice storm in Texas or the derecho in the Midwest?)**

Add natural disaster damages in the mix with the economic instability of recent years and we have a different kind of fallout.

In general, the industry is facing uncertainty since the pandemic resulting in:

- More vehicles being deemed total loss versus repairable
- Low originations due to high interest rates
- Decreasing home equity values for homeowners
- Rising costs of food, housing, and fuel

Let's take a closer look at the impact of these events. Or, if you're ready to dive into natural disaster preparedness strategies, jump to page 9.

The Compounding Problem of Natural Disasters

The industry trends data tell a tale of warning: **Larger loans with higher balances, more expensive insurance premiums and increasing maintenance prices mean two things:**

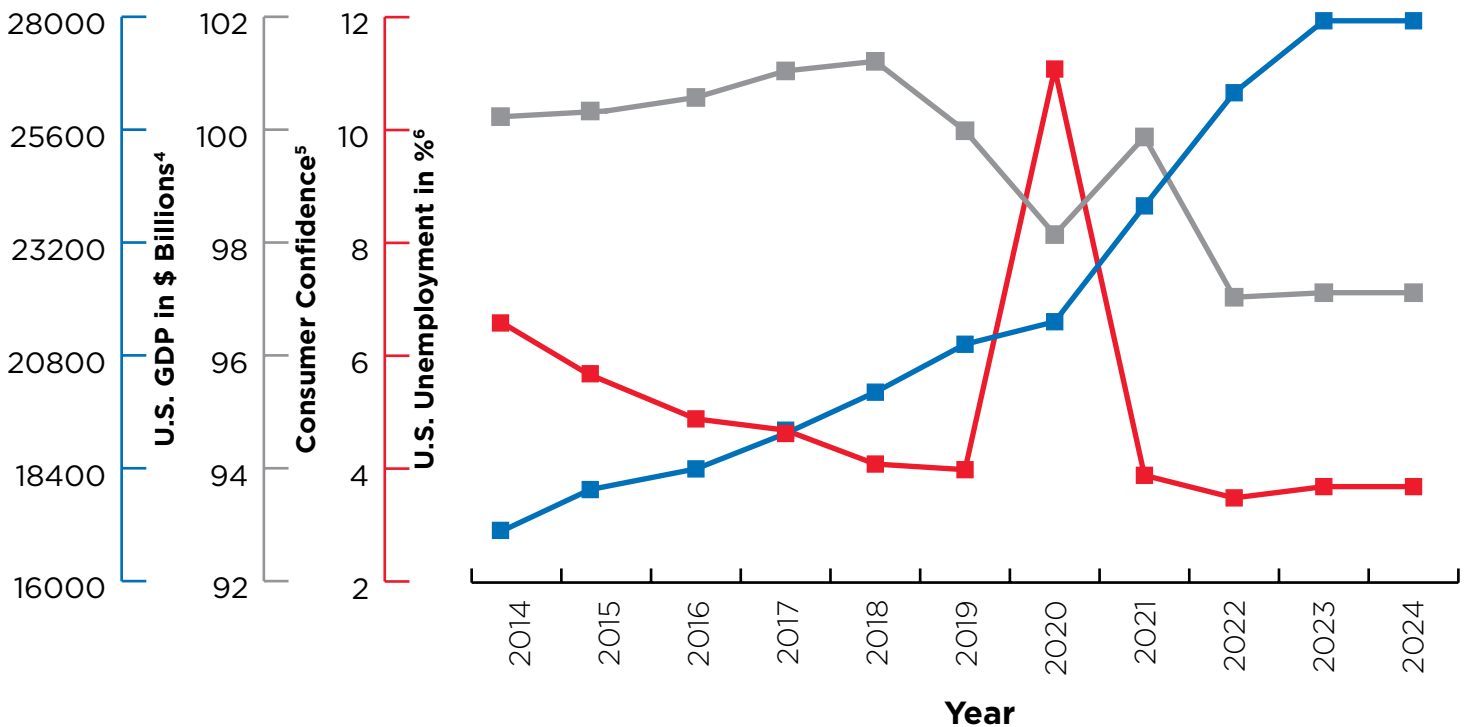
- 1) Financial strain for borrowers
- 2) More risk for lenders

Natural disasters and potential damage to collateral and homes only increase the financial strain for borrowers and risk exposure for financial institutions.

Natural disasters have both short and long term economic impact. In the short term, property damage, evacuation, or disrupted flow of income can be devastating to consumers worried about their finances and upcoming bills. As a result, lenders are left to worry about managing lapsing payments, collateral recovery, and consumer communication.

The long tail effect for lenders - like loan default and loss in property values - after a natural catastrophe can sometimes happen years after the event, and the impact is felt long after the evacuation orders are over.

Recent U.S. Economic Health



INDUSTRY TRENDS						
	2019	2020	2021	2022	2023	2024
Gas (Annual average)⁷	\$2.50	\$2.07	\$2.91	\$3.80	\$3.40	\$3.95
Average Loan⁸	\$32,797 \$20,554 (Used)	\$35,228 \$22,467 (Used)	\$39,721 \$27,291 (Used)	\$41,445 \$27,768 (Used)	\$40,184 \$27,167 (Used)	\$40,634 \$26,073 (used)
Average Loan Payment⁸	\$554 \$393 (Used)	\$576 \$413 (Used)	\$644 \$488 (Used)	\$716 \$526 (Used)	\$726 \$533 (Used)	\$735 \$523 (used)
Average Vehicle Insurance Premiums⁹	\$572.98	\$545.38	\$567.88	\$629.98	\$750.25	
Total Loss Average Final Valuation¹⁰	\$9,498.00	\$10,448	\$13,394	\$14,472	\$12,979	\$13,505
Median Household Income of Homebuyers¹¹	\$93,200	\$96,500	\$112,300	\$112,300	\$88,000	\$107,000
Median home price¹²	\$327,100	\$358,700	\$423,600	\$429,500	\$417,700	\$419,300
Average Credit Score¹³	704	703	710	714	715	





Building a Natural Disaster Plan

One of the best risk mitigation steps lenders can take is to build a plan that is proactive in handling natural disaster impact. Risk exposure, collateral loan management, consumer communications, and loss mitigation are all important factors in preparing a strategic risk and recovery plan. The comprehensive plan can include creating new internal processes or working with a trusted provider.

HERE ARE SOME IMPORTANT QUESTIONS TO ASK WHEN BUILDING A NATURAL DISASTER PLAN:

- How many ways are we communicating with accountholders before, during, and after a natural disaster?
- How do we continue to receive insurance information and real-time monitor risk exposure?
- Do we geolocate collateral to determine damage?
- Are our claims processes efficient enough to handle the influx of claims?
- Do we use AI for sufficient day-to-day operations?
- Do we have a plan for delinquency management?

The next section will help your institution answer these questions.

6 Strategies to Prepare for the Impact of a Natural Disaster

Natural disasters can be impossible to predict, but with risk strategies in place, lenders can feel prepared and secure in handling the unexpected - before, during and after a natural disaster. Here are six strategies to consider.

1. Leverage Omnichannel Communication Tools

Consistent, omnichannel communication with consumers is one of the most valuable tools financial institutions can utilize to keep operations running smoothly. When local services are down, digital tools can give peace of mind and allow communication to continue between borrowers and lenders.

2. Maintain Coverages

Best prepare for collateral impact from a coming disaster by setting up a proactive plan with your loan and insurance tracking partners. This plan should determine when and how you receive information before, during, and after a catastrophic event. Third-party providers can help monitor your operation's risk exposure and provide reports highlighting collateral insurance lapses.

3. Geolocate Collateral

License plate recognition technology is invaluable after a natural disaster. Leverage this technology and its pooled data across the nation to track borrower migration due to evacuation orders. These systems help validate consumer information and recover collateral damaged and placed in salvage after devastating weather, or for repossession following delinquency.

*Allied Solutions tracks **22 million loans** every year.*

4. Invest In Efficient Claims Filing And Management Processes

It is imperative to your portfolio health that your risk management tools don't stop if your business operations do. Investing in a dependable claims process increases recovery on damaged repossessed vehicles, but more importantly, maintains a smooth operation process despite disruptions. Services like Allied's REPO Plus® provide timely and efficient assessment of damages and claim filing on behalf of your institution as the lienholder. REPO Plus® can be integrated with insurance tracking for increased recovery potential. Allied's EZ Claim®: GAP or Total Loss product help manage risk by filing claims on your behalf and providing the appropriate notifications to carriers. This increases claim recoveries or identifying lost dollars from total loss proceeds.

2023 ALLIED SOLUTIONS PRODUCT IMPACT¹¹

	Claims	Average	Total Recovery
Repossessed Collateral Damage Recovery	182,253	\$4,518	\$60.9 million
Total Loss Claim Recovery	14,103	\$1,234 (Lift)	\$712,142 (Lift Recovery)
Total Loss Assistance	4,029	\$1,028 (Lift)	\$121,263 (Lift Recovery)

5. Let AI Fill The Gaps

After a catastrophe, many FIs resort to tunnel vision and find it difficult to maintain business essentials like delinquency management, credit approval, and deposit growth – let alone make projections about the future. AI takes many shapes and functions, allowing business to remain on track with basic functions as well as stress testing and making predictions for future risk exposure. Data fed to AI helps FIs make better proactive and reactive decisions.

How is your FI leveraging AI for day-to-day operations?

6. Plan For Delinquency

Delinquency is inevitable, however, there should be a plan for managing delinquencies in the event of a natural disaster. Even if the event disruption itself is short, there can be a long-term disruption due to inconsistencies in income, transportation, or access to public services.

An off-site database provides a system back-up in the event of severe weather and allows ongoing access and monitoring of loan details. Utilizing collection technology encourages loan repayment, reduces the administrative workload, and improves delinquency rates. Outsourcing these processes to a trusted partner helps lenders alleviate administrative burden or worries about compliance, and instead keep their focus on the borrower.

Know Your Accountholders' Concerns

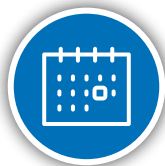
The effects of a natural disaster linger long after the storm passes. Consumers will be concerned with any, or possibly all, of the following. Knowing these concerns can help lenders proactively address them before, during and after the disaster.



UPSIDE DOWN AUTO LOANS AFTER A TOTAL LOSS

In a natural disaster evacuation, households may choose to take only one vehicle, usually the primary vehicle that is of more value. In situations of total loss, consumers are then faced with upside down loans.

Be prepared: Clarify with borrowers that if their insurance coverage is more than what is owed, they will gain the difference. Otherwise, they will owe the difference. Be willing to discuss financing options or protection products for these situations.



MISUNDERSTANDING AROUND DEFERRALS OR FORBEARANCE

During an evacuation or other natural disaster impact, payment due dates may not be top of mind. It is common for consumers to assume that any missed loan payments will be tacked onto the length of their loan.

Be prepared: Take the time to clearly communicate the terms and differences of a deferral and forbearance with consumers.



RISING RATES

Once a claim is submitted, renters, homeowners, and auto owners alike worry about their insurance rates raising at a time when they are already struggling financially.

Be prepared: Remind consumers of the consequences of not holding adequate coverage on their vehicle and provide them with financial planning resources to prioritize their bills and payments.



EMERGENCY OVERDRAFT

Only 14% of Americans could pay cash for a \$100-\$499 emergency expense.¹⁴ Unexpected costs from a natural disaster (and possibly unexpected lack of income) may cause even the best consumers to overdraw their accounts. Overdraft fees can cause additional stress and frustration.

Be prepared: *Discuss and decide if your lending institution wants to implement emergency overdraft limit changes during natural disasters, and what limits those will be.*



BALLOONING FINANCIAL DIFFICULTY IN KEEPING UP WITH BILLS AND LOAN PAYMENTS

Trying to keep up with bills and loan payments after a natural disaster can lead to unexpected credit card debt. This is discouraging news considering that the average American card balance is \$5,910.¹⁵

Be prepared: *Initiate multiple forms of communication with your credit card holders about expectations and interest rates, regardless of a natural disaster.*



ACCOUNTS GOING TO COLLECTION

Due to evacuation, damage, or other hectic aftermath of a weather crisis, consumers may not have realized their accounts were going to go to collection.

Be prepared: *Periodically verify email address and mobile phone number on file. In cases of evacuation, the mail system should not be the sole form of verification. Mail forwarding through the United States Postal Services can be arranged only if the resident plans to be away for two weeks (15 or more days) and up to 1 year. During a crisis it is difficult to determine how long an evacuation might last, or if the damage is minimal enough to safely return to normal living conditions. It is best to instruct your consumers to have their mail held at the post office, rather than having it forwarded.*



FRAUD AND SCAMS

Natural disasters leave those affected fearful and uncertain. While consumers are sifting through the fallout of a natural disaster, there will likely be many communications with many parties. Unfortunately, scammers prey on those affected by natural disasters, causing more loss if taken seriously by your consumer.

Be prepared: Work with all third-party vendors to ensure their communications with your consumers are clearly labeled on your behalf and are specific to their issue. (e.g., 'We are calling on behalf of Financial Institution ABC in regard to the recent water damage to your home on 123 Main Street.')



The impact to accountholders after a natural disaster is far more than financial; it is emotional as well. Helping your consumers financially prepare for a natural disaster can lighten the emotional load consumers will bear in the weeks and even years ahead.

Build Your Program: 6 Steps to Build a Comprehensive Natural Disaster Program

Building a disaster preparedness program doesn't have to be daunting. With the right next steps you're on your way to developing a strong program.

1. Plan

- Establish a planning committee with individuals who will bring a variety of perspectives
- Task this committee with developing an immediate action plan (immediate to 6 months) as well as a long-term strategy (6-12 months)
- Keep this committee in place for as long as it takes to put a plan together

2. Data

- Determine how your data will be accessed and protected during an emergency
- Create a protocol to back-up print and electronic data

3. Chain of Command

- Define a clear chain of command and authority to employ during a disaster
- Clearly state who would make decisions and take charge of the staff if key personnel are unavailable
- Communicate the defined chain of command to all employees

4. Uncover Vulnerabilities

- Be sure to consider how each scenario would affect your core business and ability to serve consumers including:
 - Alarm system and/or building security failures
 - Blizzard/freezing
 - Drought
 - Earthquake
 - Extraordinary events (avalanche, mudslide, tsunami)
 - Fire
 - Flood
 - Hurricane
 - Pandemic response
 - Phone and/or internet outages
 - Power outage
 - Road closure
 - Severe storms
 - Supplier shipment issues
 - Tornado
- Take everything into account and think about anything that could go wrong in each disaster scenario

5. Safety

- Determine a safe place employees (and customers) can retreat to if a natural disaster should occur during business hours, also taking into consideration those with accessibility needs.
- Establish and communicate safety measures for remote workers
- Stock first-aid kits, flashlights, and other emergency essentials
- Train employees in basic first-aid and CPR techniques

6. Test the Program

- Let employees know you are going to test disaster plan procedures at random times
- Simulate some of the scenarios set out in your plan to see how the employees will react
- Educate your employees about the finalized plan, making sure they understand what to do and where to go in the event of a disaster



Prepare Your Staff: Questions to Address Before the Disaster

Disaster recovery planning is a relevant topic for all financial institutions, regardless of size and type. But, depending on the size of your institution, you may need to involve more or fewer employees to respond to the disaster. Ask these questions to make sure your financial institution has a solid plan developed and communicated, and your staff knows what to do when disaster strikes.

1. Business as Usual

- Can employees get to work safely?
- What is the minimum number of employees (and rank) needed for operations?
- Is there an alternate way to get in touch with staff members?
- Can the building remain open or can employees work off site in a backup commercial space?
- Do we have access to adequate backup equipment to keep business running?
- If staff are unable to get to work, can they work remotely?
- If staff are unable to work on site or remotely, will this time be paid or unpaid?
- What equipment do we need to keep business running?
- If certain parts of our business shut down or are destroyed, how would we stay open to serve our accountholders?
- What people, supplies or services would we need to tap for assistance?

2. Communication

- What is the priority for our consumers?
- How will we communicate with consumers the level of financial service they can expect during and following the crisis?
- Is a brief script written for staff to follow when calling accountholders?
- Does an employee roster exist with alternate employee contact information? (e.g., Home/cell phone numbers, and non-work email addresses)

3. Alternate Work Spaces

- What would we do if something happened to our primary base of operations?
- Where would we operate our business and serve consumers?
- Would we be able to share another financial institutions' facilities until we could rent or buy space at a new location?
- Which employees could work out of their homes?

Help your Accountholders: Steps to Recover Quickly

Most likely, consumers have not considered the risks and fallout of a natural disaster until they have experienced one. Like many of us, until a problem actually happens, it is hard to actually worry or recognize that anyone can be impacted by a natural disaster.

Equipping accountholders with the education and tools they need for disaster preparedness and recovery can turn a major crisis into a mere inconvenience for them, while minimally impacting your revenue. Educated accountholders are prepared accountholders.

1. Communication

- Define which accountholders need to be contacted and how they will be contacted
- Consider alternate forms of communication (e.g. texting, email etc.) to maximize reach and employee productivity

2. Education

- Encourage accountholders to take detailed inventory of their home and possessions, including identification, medical and insurance documents, outdoor furniture, cars, boats and power sports vehicles
- Provide opportunities to meet with your staff and discuss their insurance coverage and options
- Reinforce the value of having an emergency savings account with three to six months of expenses saved

3. Service

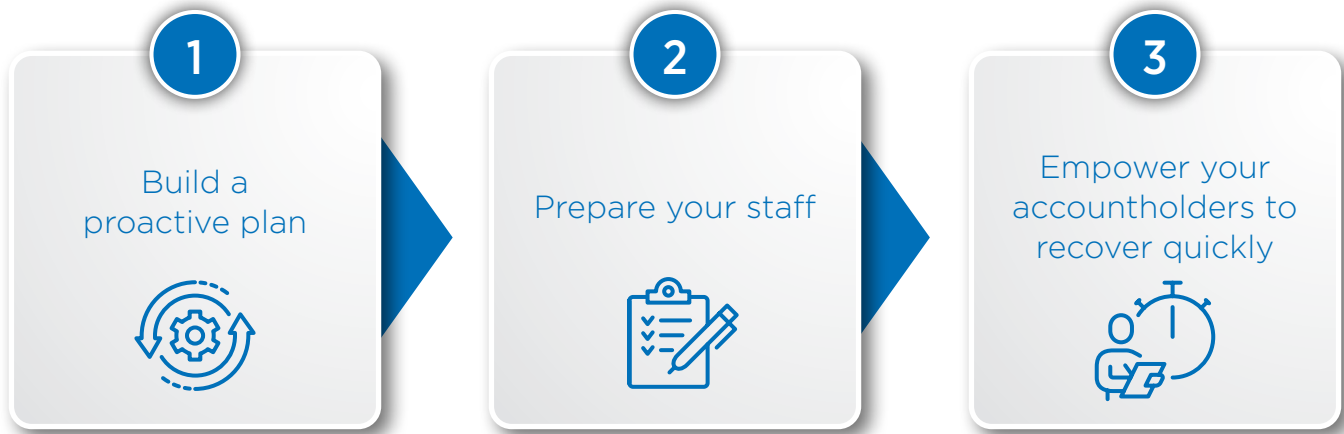
- Determine what services will still be available to consumers
- Determine what back up services will be available digitally when location-based services are limited

4. Fraud

- Ensure all communications are properly updated with your official logo and do not include any grammatical errors that could be misinterpreted for spam/ fraudulent communication

If there's one thing we hope you gain from this white paper it's this: **preparedness is crucial.**

Proactively preparing and quickly responding to a natural disaster (or even a *string* of natural disasters) requires more than just a plan. Preparedness requires a comprehensive program. Your preparedness program needs to include:



Disaster recovery preparedness and response planning can determine the difference between mitigating risk for your business, maintaining employment stability for employees, and ensuring that you can serve your consumers following a disaster, or not.



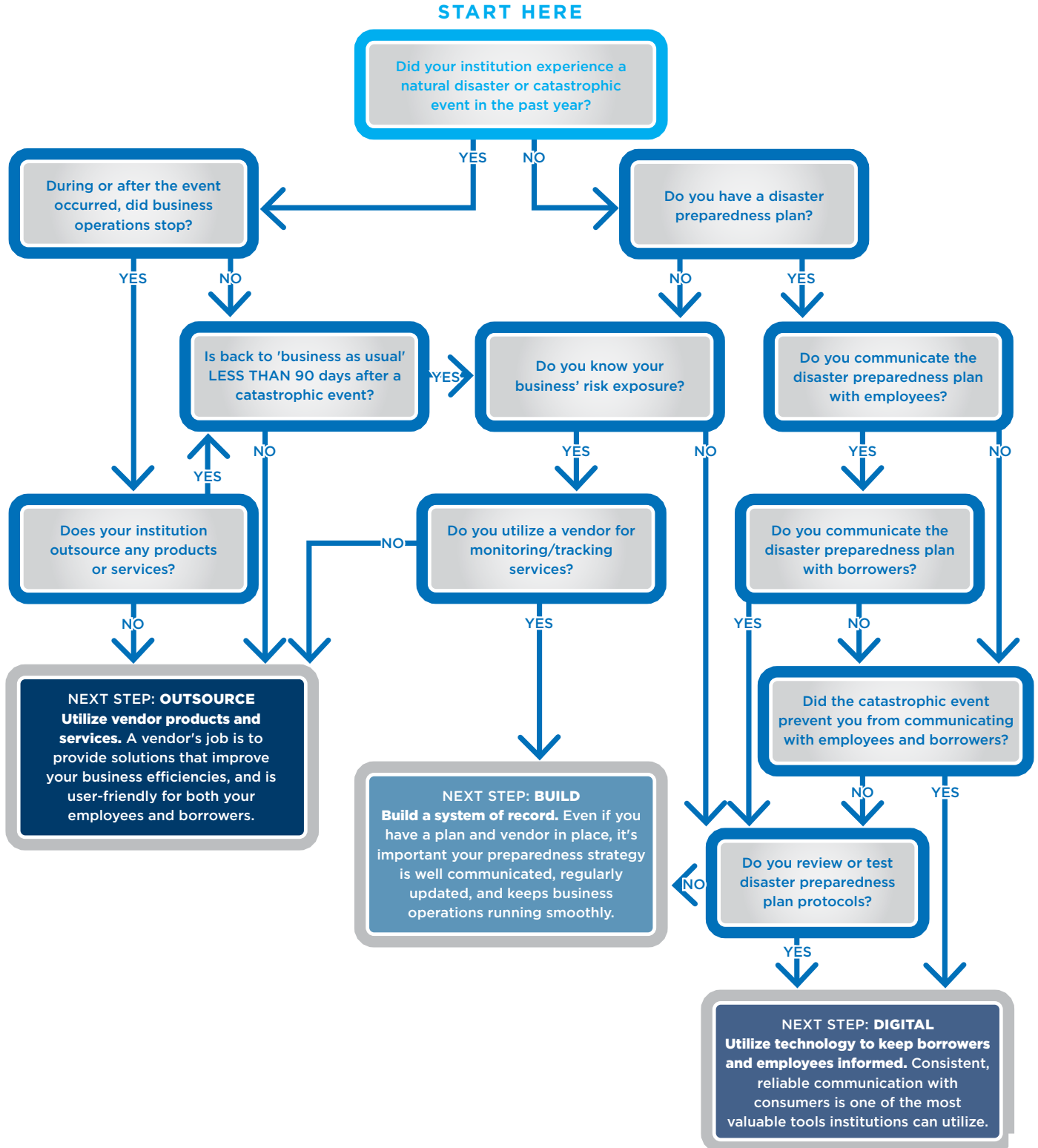
Next Steps

Now that you know what a disaster preparedness program can look like, you are ready to take steps towards implementing it. While hoping you never have to activate your program, when natural disasters do strike your area, you can feel confident in responding to the crisis. By having a natural disaster program, you are keeping your business grounded with risk mitigation strategies, your employees safe with sharp communication, and your consumers educated along the way.



What's Our Next Step in Disaster Preparedness?

A GUIDE FOR FINANCIAL INSTITUTIONS



About Allied Solutions

Allied Solutions is one of the largest providers of insurance, lending, risk management, and data-driven solutions to financial institutions in North America. Allied Solutions uses technology-based solutions customized to meet the needs of over 6,000 banks, credit unions, finance companies, mortgage servicers, and auto dealers, along with a portfolio of innovative products and services from a wide variety of providers. Allied Solutions is headquartered in Carmel, Indiana and maintains several offices strategically located across the country. Allied Solutions is a wholly owned and independently operated subsidiary of Securian Financial Group.



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