Allied Solutions

White Paper
Q2 2025

A Natural Disaster Preparedness Guide

Practical, tactical strategies for financial institutions to prepare and respond to year-round natural disasters

Are natural disasters creating financial disasters?

The recent years of natural disasters have been particularly devastating with record-breaking, billion-dollar losses mounting across multiple disasters, including hurricanes, earthquakes, winter storms, severe flooding, and wildfires.

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, people are left to rebuild both their living and financial situations. Lending institutions face the same concerns as they recoup and evaluate the losses of loan collateral, navigate consumer finance concerns and defaults, and face a reduced lending capacity. In the months and years 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.

Natural disaster preparedness is a critical component of business continuity management. Having a natural catastrophe plan in place - no matter where you are located - will save your institution time, money, and accountholder relationships.

> *In 2024, natural disasters in the U.S. cost **$182.7 billion** in damages.*[1]

Let's take a look at the high price tag of recent natural disasters.

Billion Dollar Weather

Wildfires in New Mexico. Flooding in the mountains of North Carolina. A freeze in Texas. Droughts scattered across the country.

These climate catastrophes have cost a whooping $180 billion in losses and have made up a bizarre stretch of costly natural disasters.[1]

2024 Events[1]

Disaster Type	Number of Events	Event Cost - CPI Adjusted ($ Billions)
Drought	1	$5.4
Flooding	1	$1.1
Severe Storm	17	$46.8
Tropical Cyclone (Hurricane)	5	$124
Wildfire	1	$1.8
Winter Storm	7	$3.6
TOTAL	32	$182.7 B

> *Fintechs have a leg up over credit unions and banks when it comes to natural disaster impacts. Without robust recovery strategies, traditional, branch-based FIs will struggle to insulate their bottom line from the impact of natural disaster events.*

Preparing for the Unpredictable

While most weather-related events are typically confined to a specific region, no credit union or bank is protected from any one type of natural disaster. Even the most common weather events across America are unpredictable - and bring tremendous damage.

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.

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 impacts vary based on the category of the storm and where it makes landfall. Coastline businesses are more prone to the direct impact from a hurricane. However, all FIs should prepare for the impact of cross-country collateral losses from a hurricane.

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.

Severe Storms

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. 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

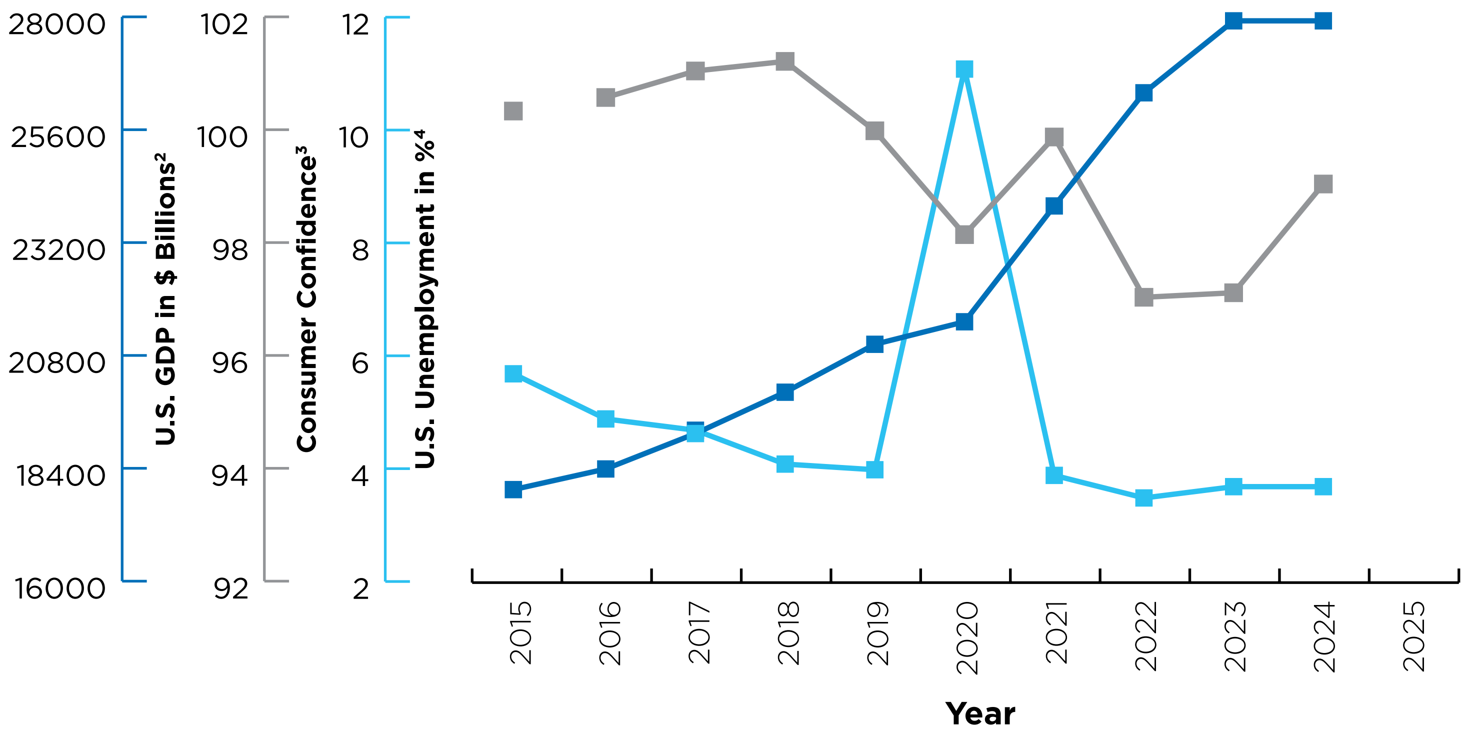
These events are rare yet precipitous, causing rapid damage. Hoping to not need a preparedness plan isn't enough. A solid plan must be ready to be enacted as soon as a natural hazard strikes.

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 into the mix with the economic instability of recent years and we have a different kind of fallout.

Let's take a closer look at the impact of these events.

10 Year Lookback of U.S. Economic Health



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 - is felt long after the evacuation orders are over.

Disaster-Proofing Your Risk Strategies

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. A comprehensive plan should integrate internal processes and collaboration with trusted providers.

Here are some important questions to ask when building or refining 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?
- Are we maximizing our AI capabilities?
- Do we have a plan for delinquency management?

The next section will help your institution answer these questions and develop a strategic, comprehensive plan.

6 Strategies to Prepare for the Impact of a Natural Disaster - or a String of Disasters

The financial impact of a natural disaster is impossible to predict - but it's not impossible to plan for. Consider these six strategies to feel prepared and secure in handling the unexpected before, during, and after a natural disaster.

1 Leverage Omnichannel Communication Tools

Consistent, omnichannel communication with accountholders and employees is one of the most valuable tools financial institutions can utilize to keep operations running smoothly. When local services are down, digital communication tools - like chatbots, text alerts, and email campaigns - can give peace of mind and allow communication to continue between borrowers and lenders, employees and employer. The most effective communication digital tools are in place *before* a disaster strikes. Omnichannel digital tools require borrower data to be integrated - not fragmented - across all systems and platforms.

2 Maintain Coverages

Aside from accountholder communication, it's no surprise that maintaining coverage on your portfolio is of critical importance.

Set up proactive plans with your loan and insurance tracking partners to determine when and how you receive information before, during, and after a catastrophic event. Leverage your providers to monitor your operational risk exposure and provide highlights of collateral insurance lapses so you can focus on your essential business functions. Consider lender-held insurance coverage to protect against collateral located in uninsurable, high risk areas.

3 Geolocate Vehicles

Collateral often migrates after a disaster and vehicles no longer reside at the address on file. Alternatively, some collateral may be left behind during evacuation orders. License plate recognition (LPR) pools data across the nation to track borrower migration and disaster-induced damage to collateral. This is why lenders who leverage LPR technology have a more accurate measure of risk exposure and are more efficient in collection efforts. These technologies help validate borrower information and recover collateral that is either damaged and placed in salvage after devastating weather, or repossessed following delinquency.

4 Invest In Off-Site 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 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.

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 is taking many shapes and functions, allowing business to remain on track with basic functions and making a plan for future risk exposure. Data fed to AI helps FIs make better proactive and reactive decisions.

Use machine-learned artificial intelligence wherever and whenever possible—because in the face of a natural disaster, you can't afford not to.

6 Plan For Delinquency

Delinquency is inevitable, however, there must be a plan for managing delinquencies specific to natural disasters.

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 like Allied Solutions helps lenders alleviate administrative burden or worries about compliance, and instead keep their focus on the borrower.

The True Cost of Being Unprepared

The effects of a natural disaster linger long after the storm passes, and the cost of being unprepared is a high price to pay.

Downtime Disaster

Shutting your doors or going offline due to a natural disaster is, well, a disaster. Each minute of downtime could cost your institution $9,000.[5] Since nearly every business will experience downtime at some point, it's a matter of *when* it happens to yours.

Rising Delinquencies and Defaults

During an evacuation or other natural disaster impact, payment due dates may not be top of mind. Borrowers often don't realize that accounts have gone into collection until they are in late stage delinquency. The hidden costs of defaults go beyond principal and interest. Lost dollars from non performing loans (NPLs) are also baked into diverted operational functions, higher capital requirements and loss reserves, and legal fees. These hidden costs erode at profit margins.

Rising Rates

With the influx of claims, insurance coverage rates will inevitably be driven up - for your institutions and your accountholders. The cost of risk has to go somewhere and it will eventually land in your rates.

Americans' Worsening Credit Condition

Overall credit health is declining and natural disasters are only part of the equation. 15% of Americans anticipate missing at least one loan payment this year.[6] Sadly, 37% of Americans could not cover an unexpected expense of $400.[7]

Claims, Claims, and More Claims

Whether it's damage to property, collateral, or branches themselves, claim volume inevitably goes up across the board. This becomes problematic (and expensive) as more and more areas, specifically coastal regions, are becoming uninsurable all together.

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. Every $1.00 lost to fraud costs a financial institution $4.41.[8]

Build Your Program: Tactical 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?
- Are scripts drafted for how and when employees should contact accountholders?
- Does an employee roster exist with alternate employee contact information? (e.g., Home/cell phone numbers, and non-work email addresses)

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 the true emotional, physical, mental, and financial impacts of 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

1. Build a proactive plan
2. Prepare your staff
3. Empower your accountholders to recover quickly

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.

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

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 natural disaster program, you are keeping your business grounded with risk mitigation strategies, your employees safe with sharp communication, and your consumers safeguarded along the way.

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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2051-R10-5/25