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## Southeast News

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### Hurricanes Insurance Claims Expected to Exceed \$22 B

October 4, 2004

Thanks to Charley, Frances, Ivan, and Jeanne, insurance claim payments are expected to exceed \$22 billion, far surpassing the claims for hurricane Andrew in 1992, which totaled \$15.5 billion. According to the Insurance Information Institute (III), only the \$32 billion in insured losses from the 9/11 terrorist attacks exceeds the payments from this year's fury.

Already, more than 2 million claims covering 30,000 square miles, which is three times the number following Andrew, have been filed, said Cary Schneider, Programs and Operations senior vice president at III.

"While it is too early to tell the impact from this natural disaster; it is definitely going to put pressure on property prices in Florida," Schneider said. He added that insurance companies have pricing models designed to anticipate a single disaster, but a wave of hurricanes occurring within a short span and the severity of the storms is something no one could have predicted. Therefore, "no one knows the future of insurance pricing, but replenishment of the capital base to meet the demand in Florida comes from pricing."

Schneider was careful to point out, however, that insurance pricing would not affect states such as New York, and other less susceptible hurricane disaster areas.

There was massive dislocation in the insurance market following Andrew, and insurance prices in Florida escalated to 200 percent, said Schneider. As a result, certain measures were enacted by the state, which enhanced the ability of the insurance market in Florida. For example, insurance policyholders were able to add a "hurricane deductible" to their policy, which accounts for 2 percent value of their home in case of a disaster.

Additionally, the Florida Catastrophe Fund was created—a reinsurance policy that makes it easier for Insurance companies to write home insurance business in the State. And the state created the Citizens Property Insurance Corporation (Citizens) to provide high-risk homeowners with insurance

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According to Risk Management Solutions, which provides models of risk and losses for Citizens, preliminary estimates Citizens may face based on computer analyses and not actual claims are approximately \$1.78 billion. Expected losses from hurricane Charley would be \$925 million; Frances \$290 million; Ivan \$232 million; and Jeanne \$332 million.

Dick Luedke, spokesman at State Farm Insurance in Florida, said the company was still assessing how much it would have to pay in claims.

"It is apparent that the series of hurricanes was unprecedented and will add some pressure on rates (due to labor, home repair, cost of reinsurance, and cost of capital), but what that is, is not apparently clear at this time." On the other hand, just because hurricane claim rates are greater than average does not necessarily mean rates are going to go up. "It's just like a baseball game, if you acquire an exceptional player, it doesn't necessarily mean that you are going to win."

An Allstate spokesman, Michael Trevino, also agreed that it is still too early to tell the kind of impact the hurricanes would have on the company's bottom line. "We have not reported third quarter results yet; we are still working on final estimates. The benefit of good information would decide whether or not changes need to be made as per policy, rates, etc."

Jeanne Salvatore, vice president for consumer affairs at Allstate, said that based on the economic ramifications, "we do have assets to pay for claims." She explained that before the hurricanes, homeowners' rates had been escalating because many coastal areas are at risk for catastrophic losses.

She noted that insurance rates look forward, not back. Consequently, the underlying cost factor changes. Salvatore disclosed that before hurricane Andrew, insurance premiums for homeowners were low and did not accurately reflect risk. The reasoning was that insurance companies were willing to lose money, that is, become a "loss leader," on homeowners' policies to attract additional insurance business. However, after Andrew they realized homeowners' insurance policies needed to match risk.