

P&C Catastrophe Issues

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Association of Insurance Compliance Professionals

Gulf States Chapter Education Day

July 30, 2010

Atlanta, Georgia

Merlinos
& Associates, Inc.



Agenda

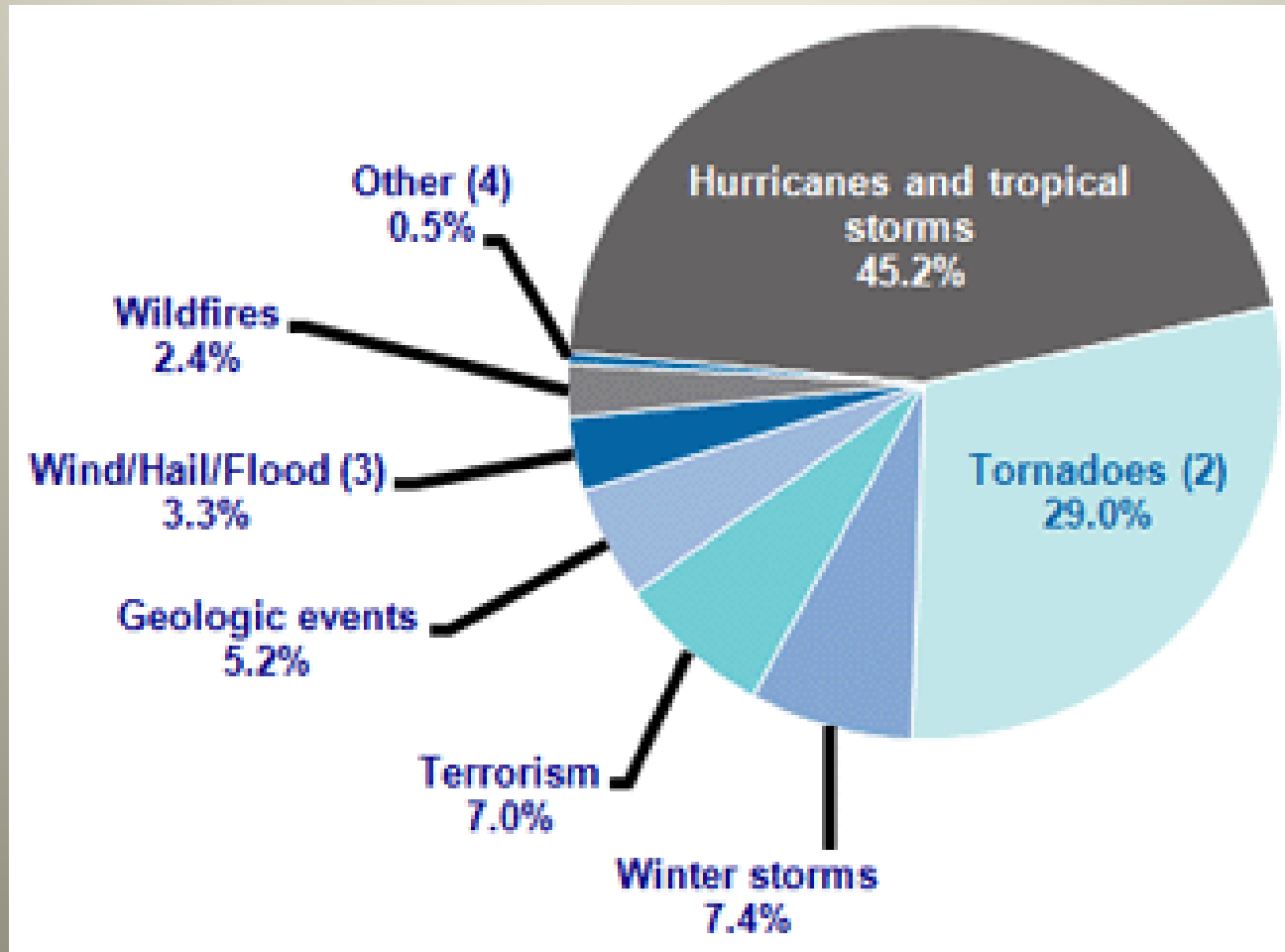
- What is a Catastrophe?
- Summary of U.S. Catastrophe Losses
- U.S. Exposure by Catastrophe Type
- Historical Catastrophes and Their Impact
- What the Filer Needs to Know...

What is a Catastrophe?



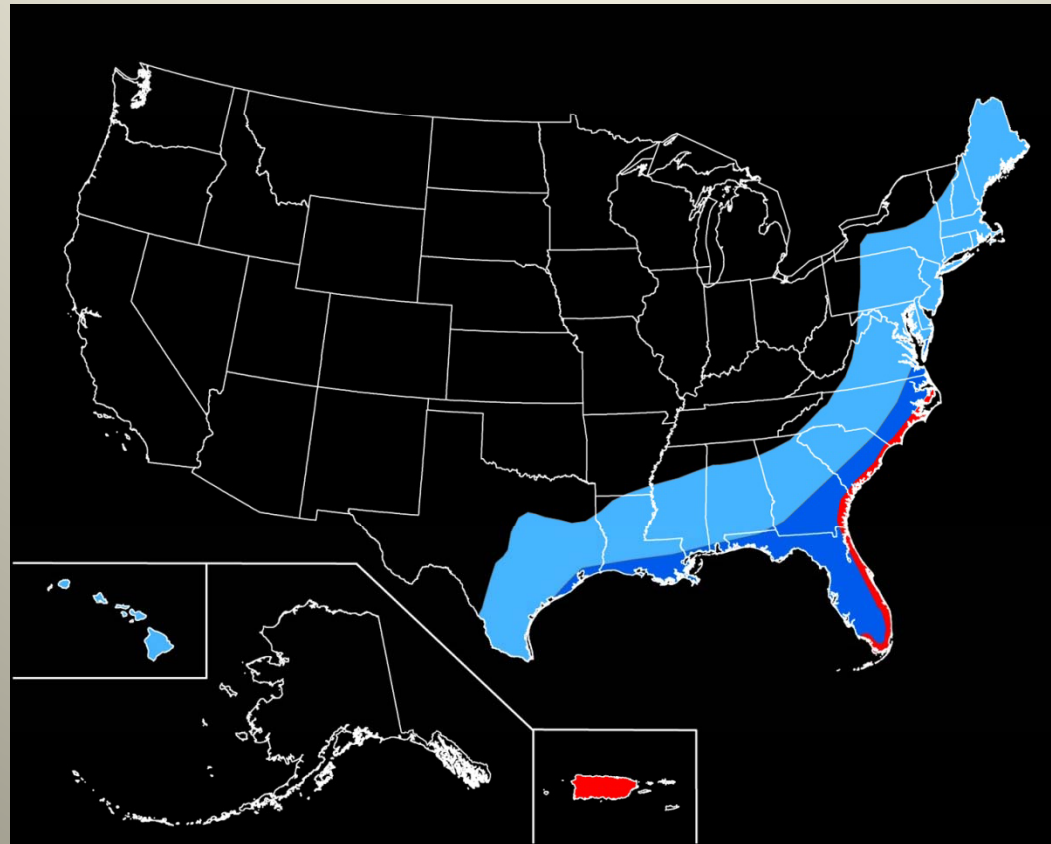
Summary of U.S. Catastrophe Losses

Inflation-Adjusted U.S. Catastrophe Losses by Cause of Loss, 1990-2009



U.S. Exposure by Catastrophe Type

HURRICANES & TROPICAL STORMS



Number of hurricanes expected to occur during a 100-year period.

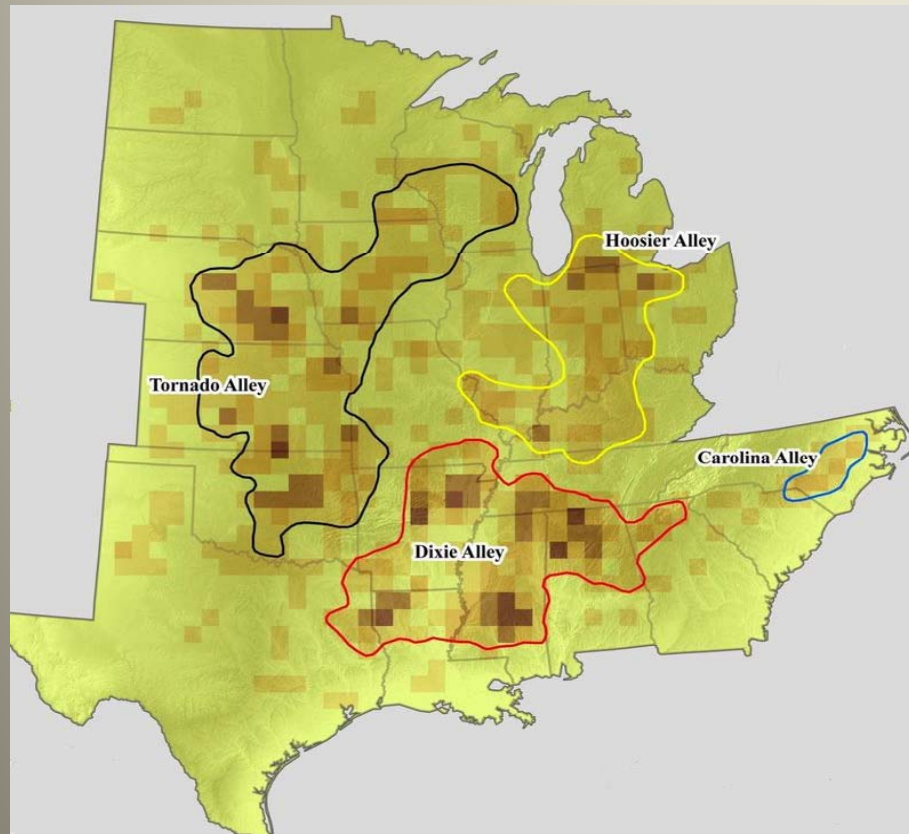
Light blue: 20 to 40

Dark blue area: 40 to 60

Red: > 60

U.S. Exposure by Catastrophe Type

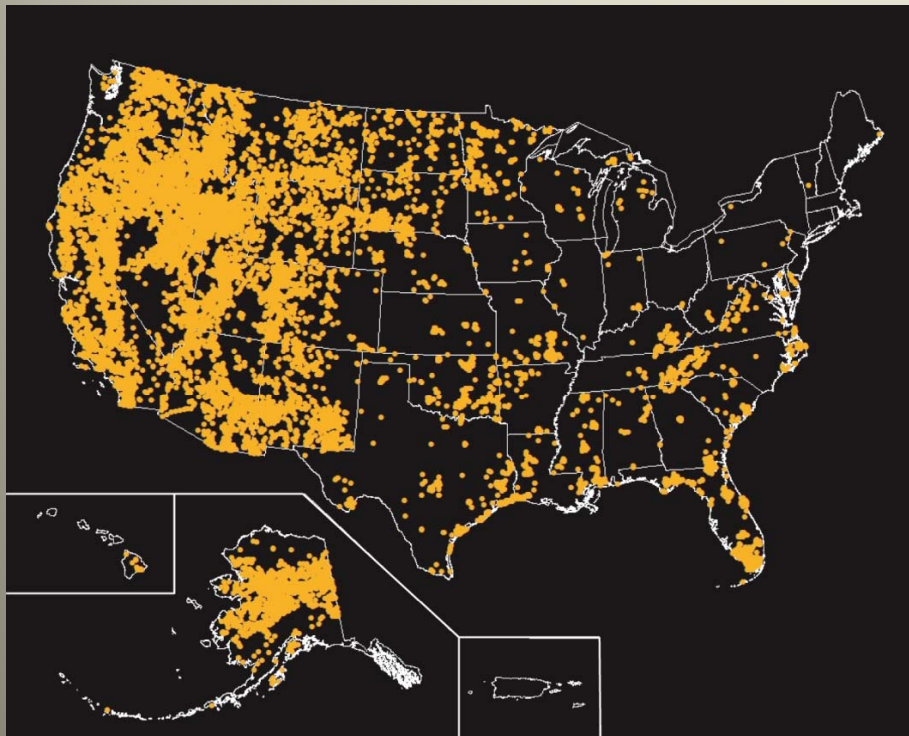
TORNADOES & HAIL/WIND



- Tornado exposure in central and eastern US based on occurrences between 1950 and 2006.
- Considerable exposure in the Southeast (“Dixie Alley”), in addition to the well-known “Tornado Alley” in the Midwest.

U.S. Exposure by Catastrophe Type

WILDFIRES

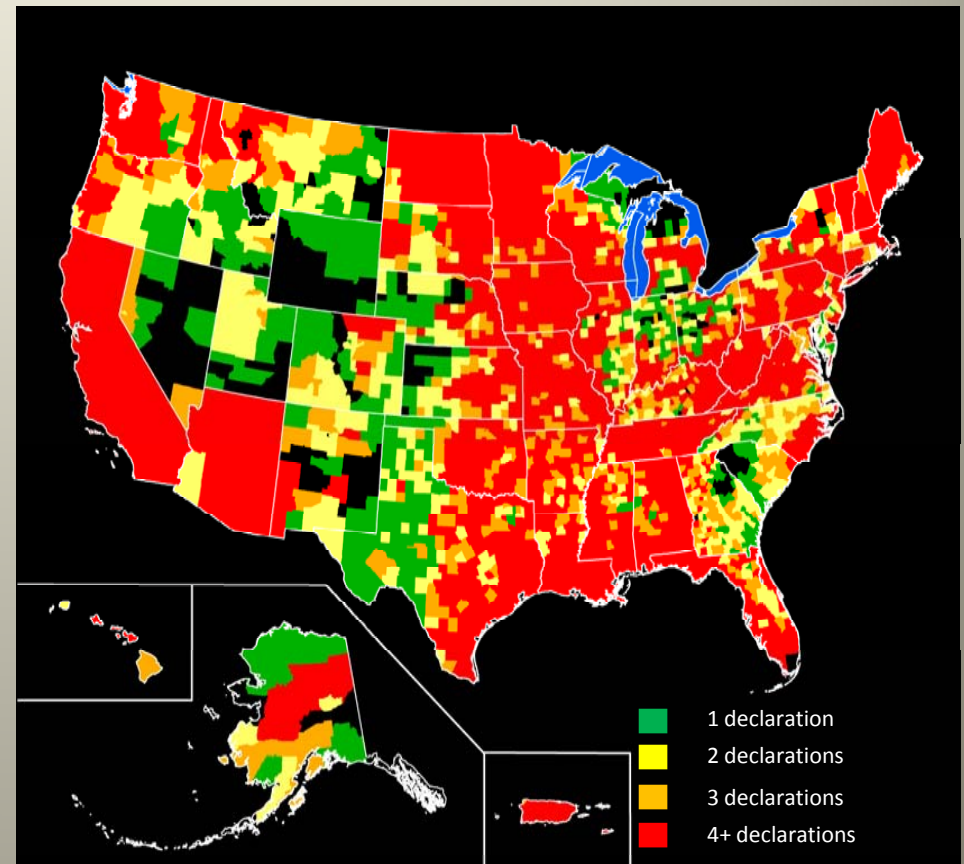


- Locations that have experienced wildfires greater than 250 acres from 1980 to 2003.
- Wildfires occur more frequently in the western United States, although the entire continental U.S. is vulnerable.

U.S. Exposure by Catastrophe Type

FLOODS

- Historical flood frequency based on number of Presidential disaster declarations, 1965-2003.
- Considerable exposure in most of the US.

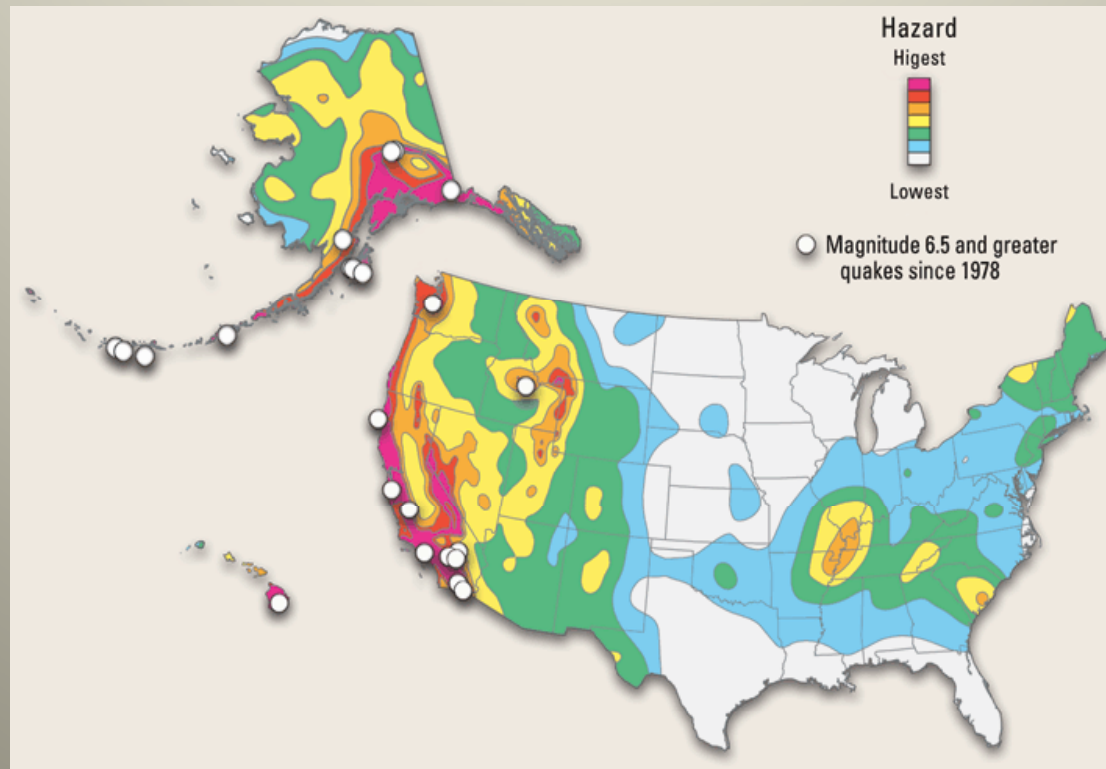


Green areas represent one declaration; yellow areas represent two declarations; orange areas represent three declarations; red areas represent four or more. Sources: FEMA, Michael Baker Jr., Inc., the National Atlas, and the USGS.

U.S. Exposure by Catastrophe Type

EARTHQUAKES

The U.S. has large faults in California, Alaska, Hawaii, Mississippi Valley and South Carolina.



U.S. Exposure by Catastrophe Type

TERRORISM



- Exposure thought to be concentrated in major urban areas.
- Prior to September 11, 2001 – Commercial property policies provided terrorism coverage essentially free of charge.
- After September 11 – Terrorism coverage became scarce.

Historical Catastrophes and Their Impact

HURRICANE ANDREW, 1992

Insured Losses: \$15.5 billion

- Primary losses in South Florida
- 600,000+ claims filed
- 25% of nation's insurance adjusters sent to South Florida
- 11 insurance companies went bankrupt
- 30 others lost up to 20% or more of their surplus



Historical Catastrophes and Their Impact

HURRICANES KATRINA, RITA, WILMA, 2005

Insured Losses: \$55 billion



- Losses mostly in Louisiana, Florida, Alabama, and Mississippi.
- Flood water damage resulted in almost another \$55 billion of loss.
- Massive shortage of reinsurance in aftermath.
- State residual markets grew dramatically

Historical Catastrophes and Their Impact

OAKLAND FIRESTORM, 1991

Insured Losses: \$1.5 billion



High insured losses driven by the prevalence of guaranteed replacement cost coverage for homeowners.

Historical Catastrophes and Their Impact

NORTHRIDGE EARTHQUAKE, 1994

Insured Losses: \$15.3 billion



- Threatened availability of coverage.
- Regulatory and State intervention to maintain access to coverage.

Historical Catastrophes and Their Impact

SEPTEMBER 11, 2001

Insured Losses: \$35.6 billion



- Subsequent to 9/11, it became apparent that terrorism does not have the standard characteristics of an insurable risk.
- Primary insurers and reinsurers started to withdraw from the commercial property insurance market.
- The economy faltered.
- Congress passed the Terrorism Risk Insurance Act (TRIA).

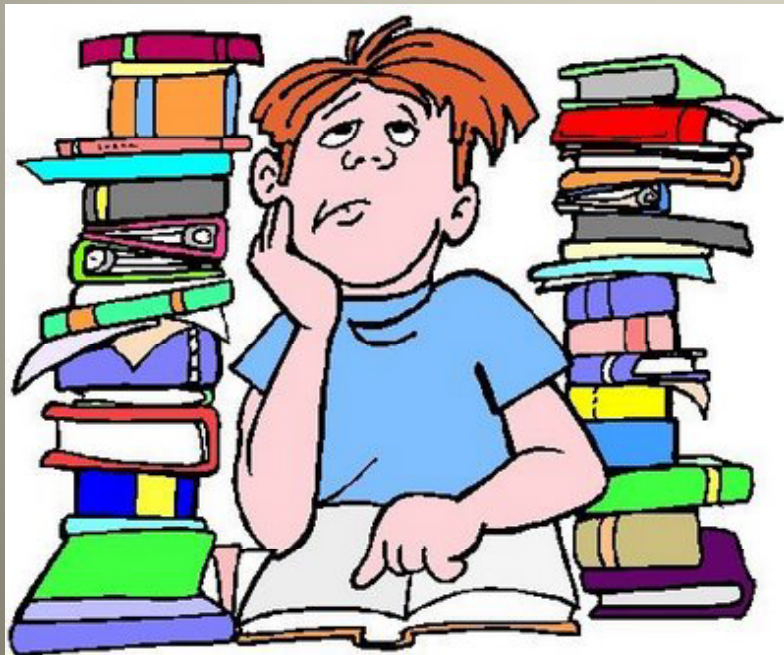
What the Filer Needs to Know...

Build good relationships with regulators



What the Filer Needs to Know...

Research



What the Filer Needs to Know...

Hurricanes

- Comply with Requirements Related to the Hurricane Model
- Consider Interaction of Credit Score with Catastrophe Rating
- Hurricane Deductible and Ex-Wind Credits
- Be Aware of Required Wind Mitigation Credits



QUESTIONS



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