



Trends in Coastal Property Risk in the Post-Katrina Decade

**National Hurricane Conference
Austin, TX
April 1, 2015**

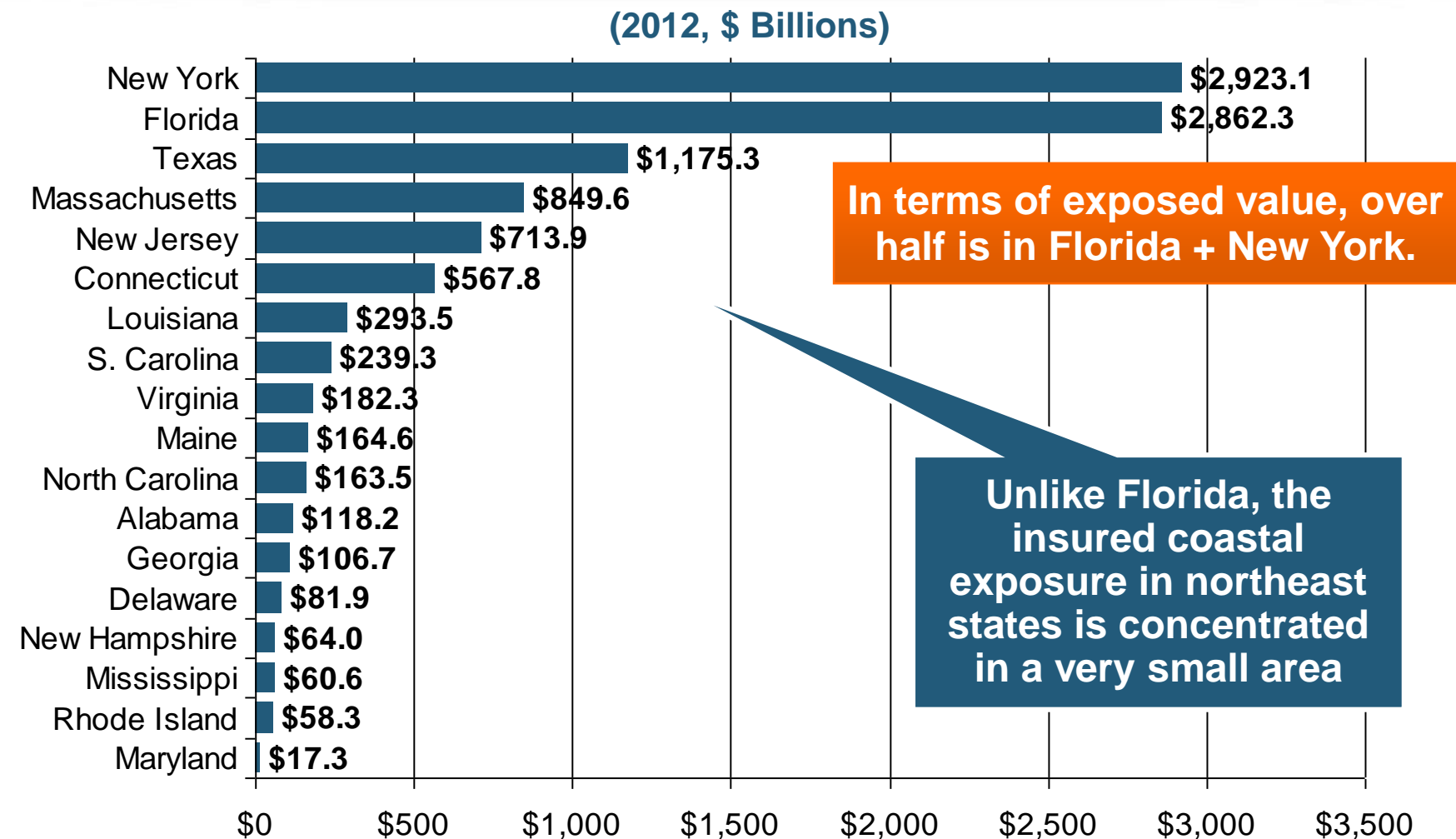
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2005-2014: A Bust for Hurricane-Force Winds...

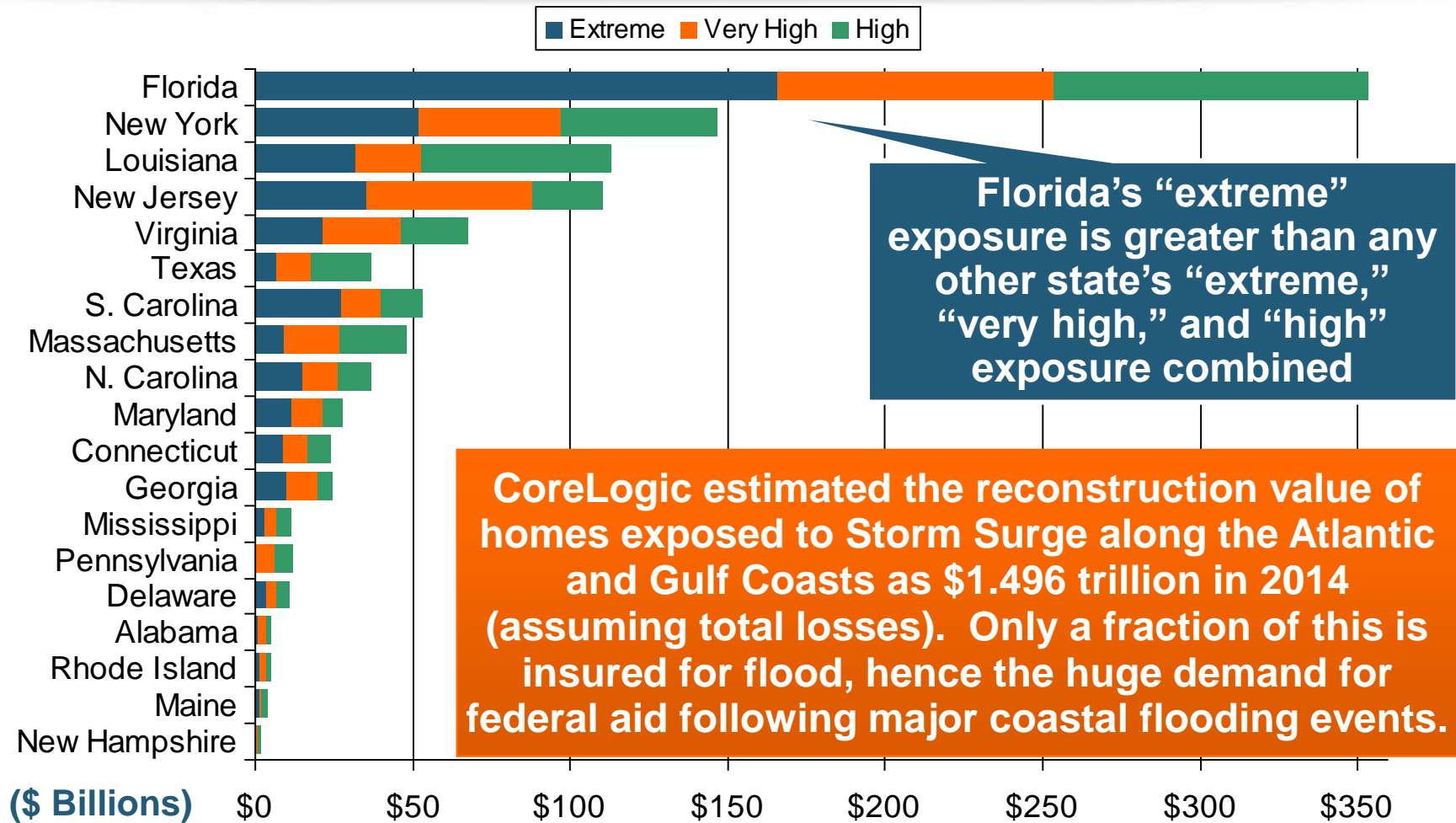
...but a **BOOM** in Catastrophe
Exposure

In 2012, Total Value of Insured Atlantic & Gulf Coastal Exposure: \$10.6 Trillion



The insured value of all coastal property was estimated at \$10.6 trillion in 2012, up 48% from \$7.2 trillion in 2004.

Total Potential Home Value Exposure to Storm Surge Risk in 2014*

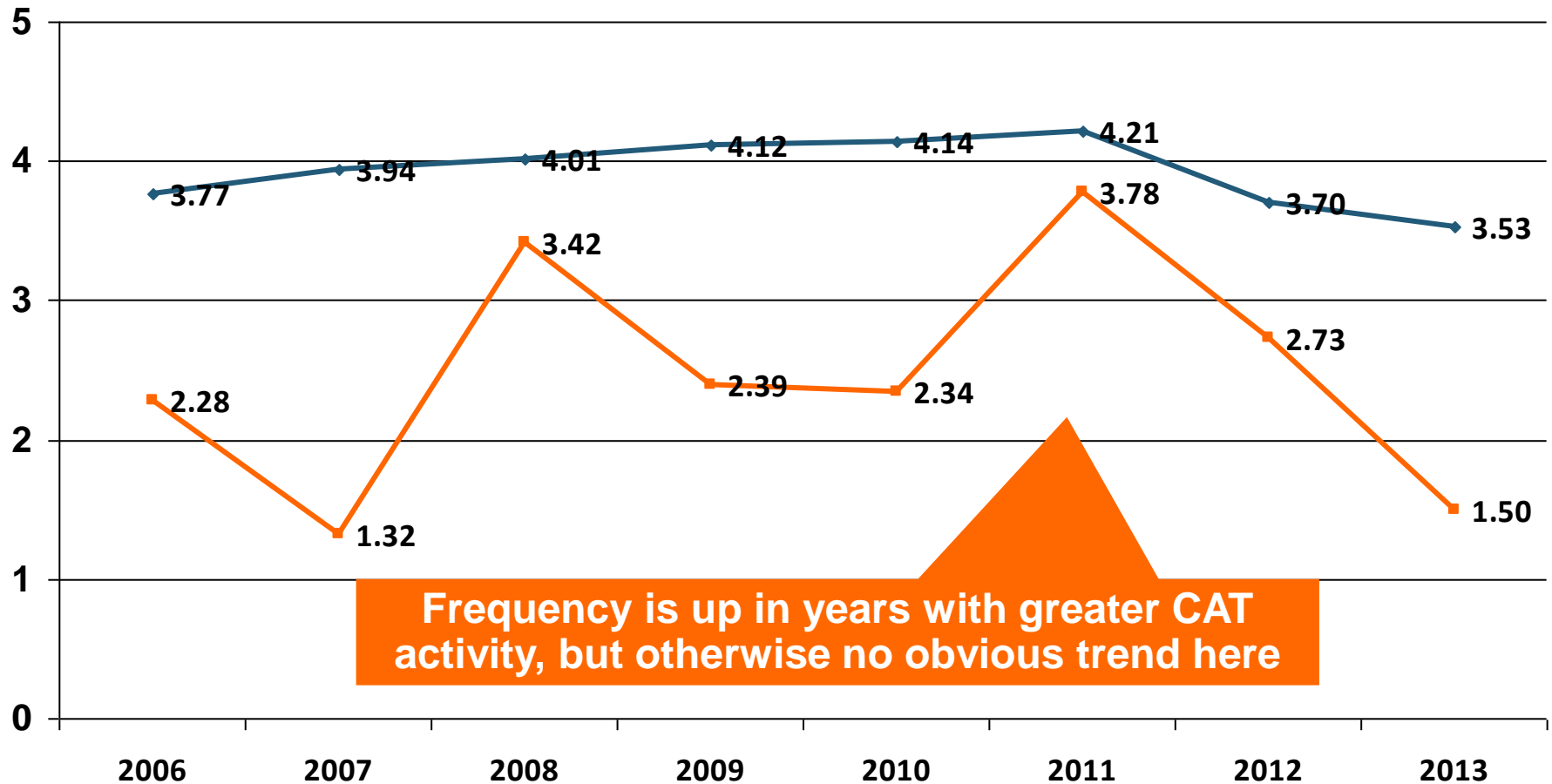


*Insured and uninsured property, assuming total loss of the home.
 Source: *Storm Surge Report 2014*, Table 2, CoreLogic, published July 2014.

Post-Katrina P/C Industry Homeowners Claim Frequency, US, 2006-2013

Claims Paid per
100 Exposures

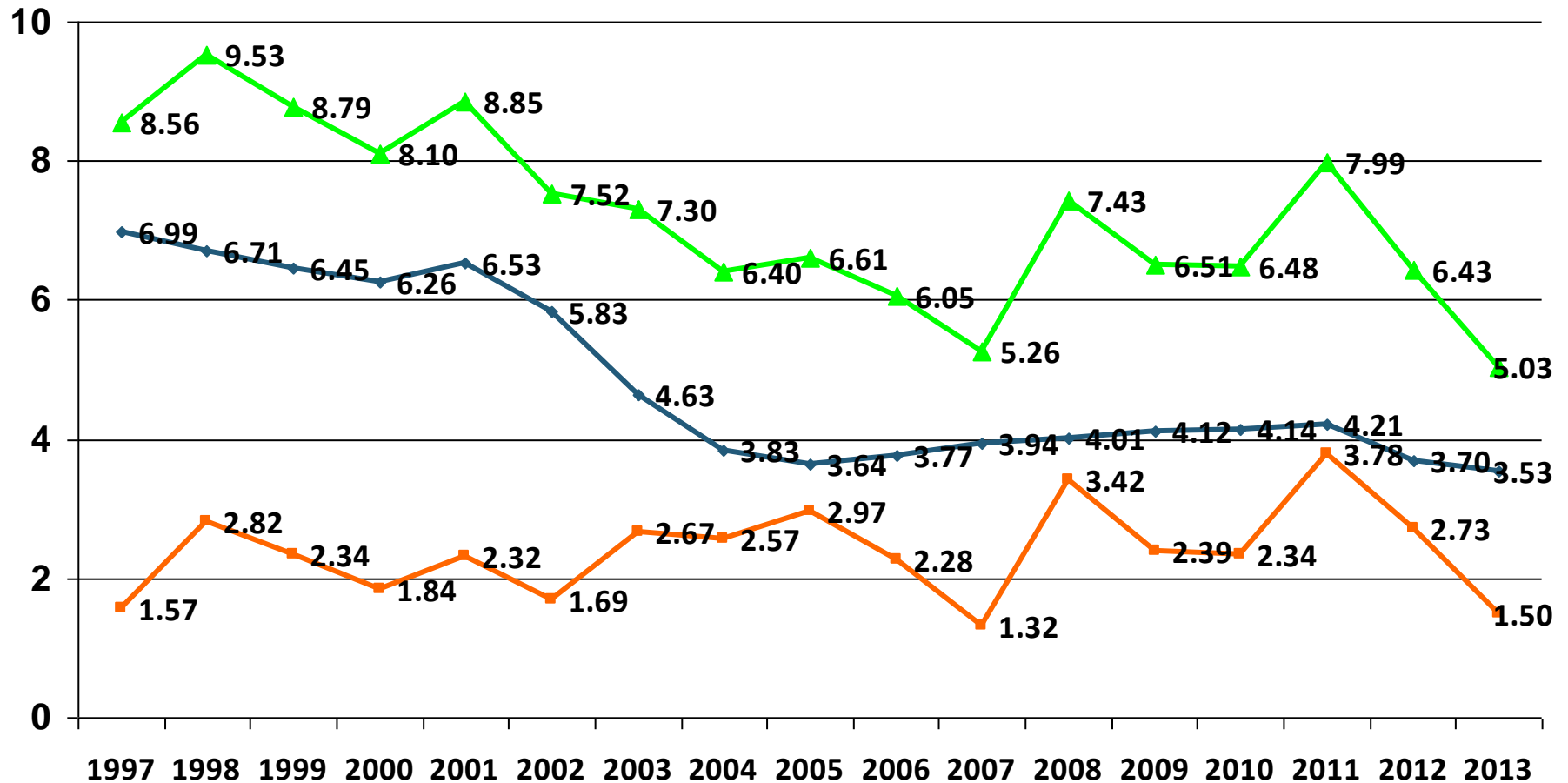
— CAT-related claims — Non-CAT-related claims



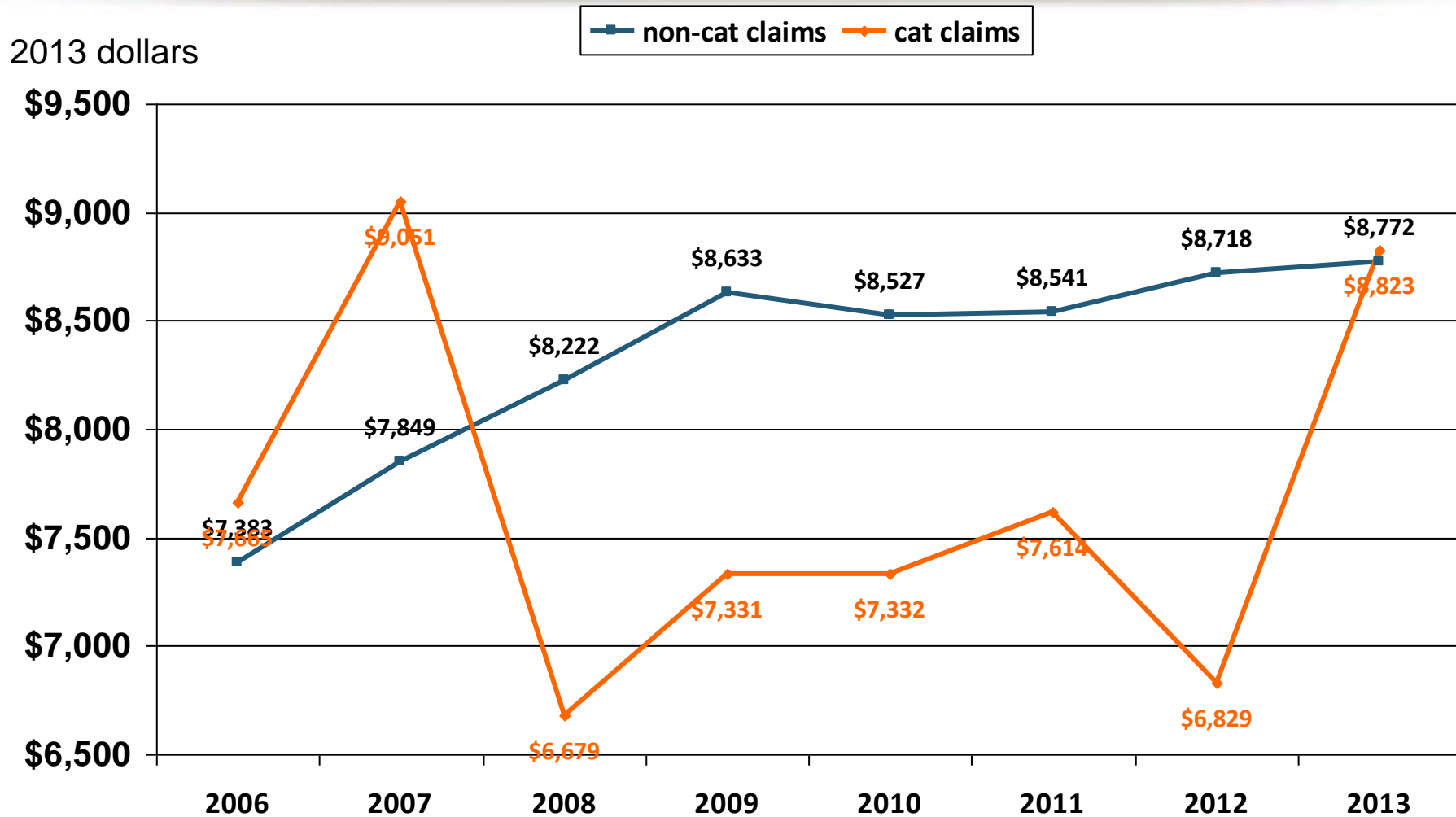
P/C Industry Homeowners Claim Frequency, US, 1997-2013

Claims Paid per
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—■ CAT-related claims
 —◆ Non-CAT-related claims
 —▲ All Claims

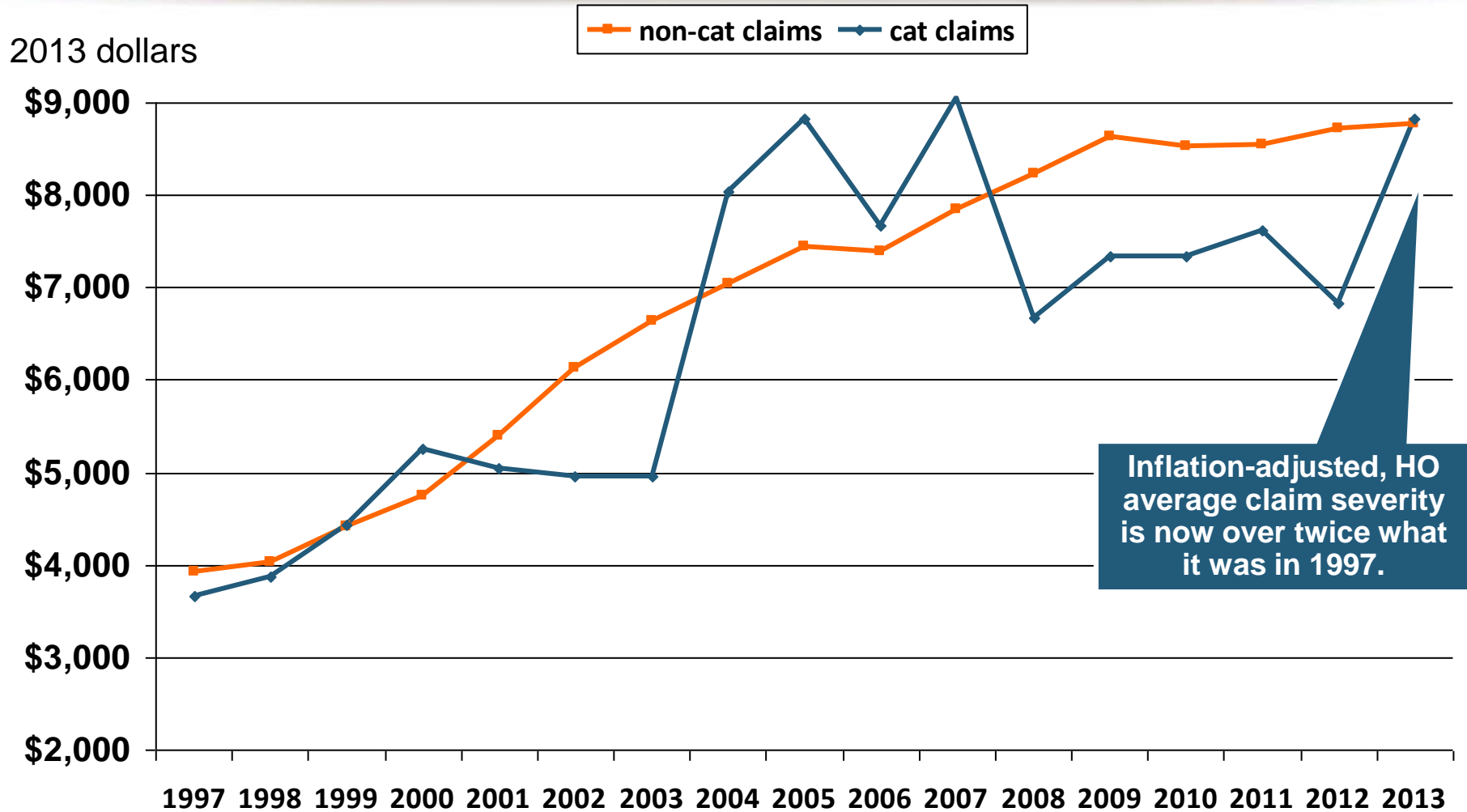


P/C Industry Homeowners Average Claim Severity, Inflation-adjusted, 2006-2013



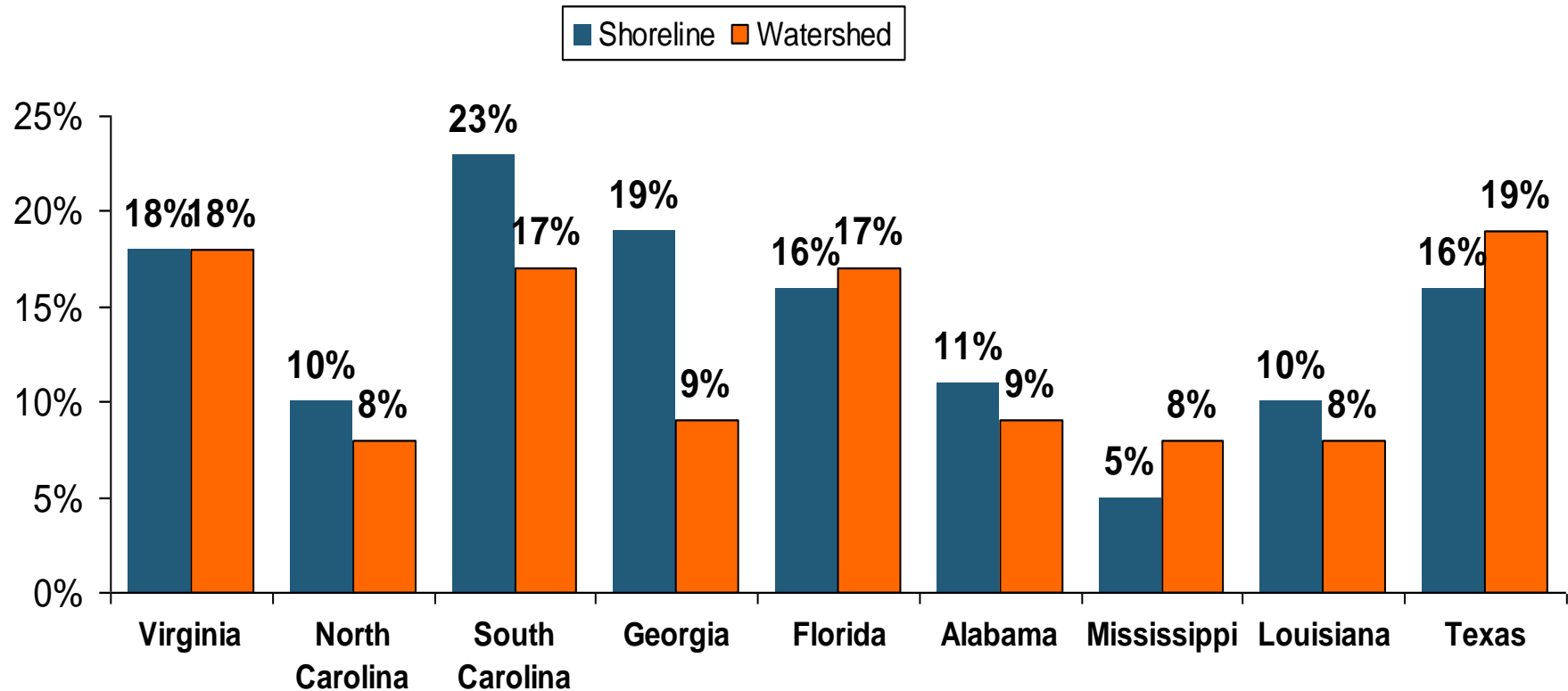
Sources: Insurance Research Council, "Trends in Homeowners Insurance Claims," 2015 edition, p. 41; BLS inflation calculator, with Insurance Information Institute calculations

P/C Industry Homeowners Average Claim Severity, Inflation-adjusted, 1997-2013



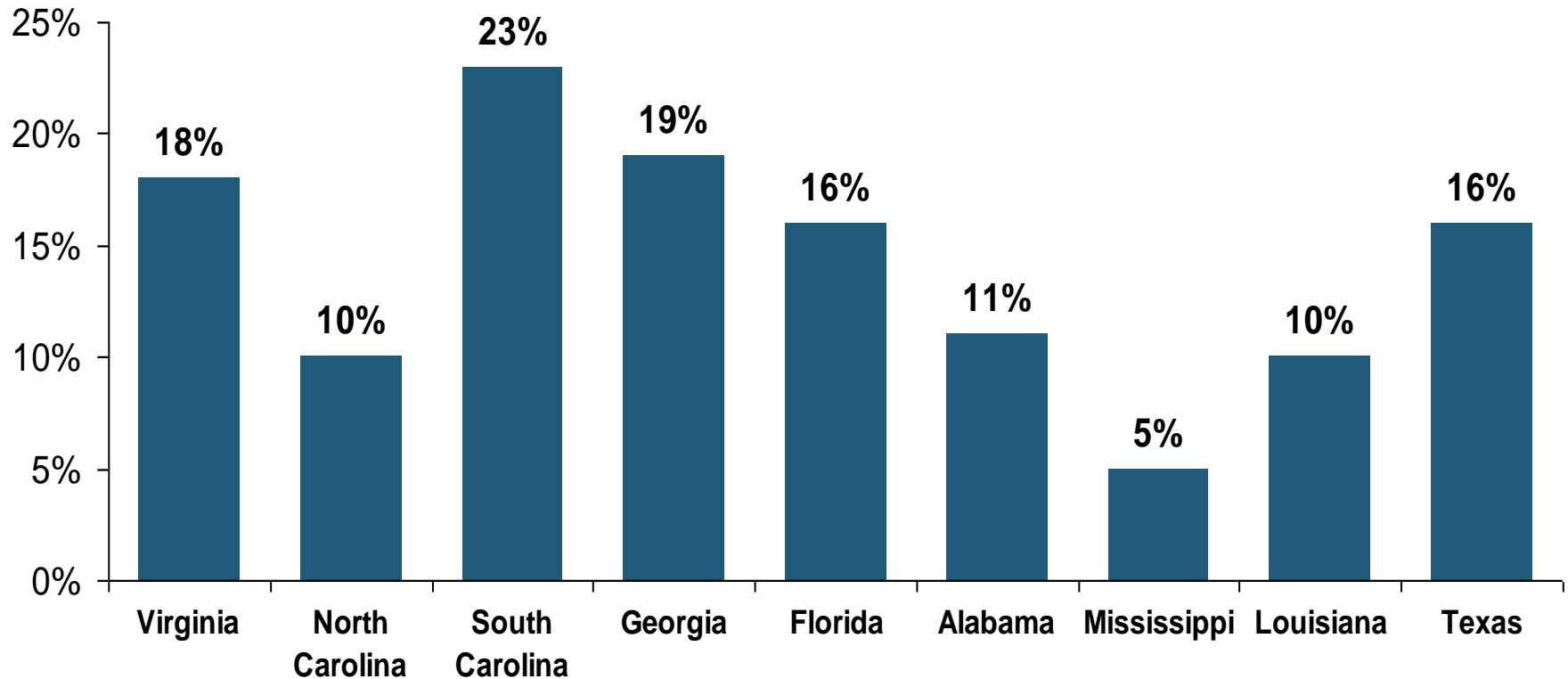
Sources: Insurance Research Council, "Trends in Homeowners Insurance Claims," 2015 edition, p. 41; BLS inflation calculator, with Insurance Information Institute calculations

Pct. Change in Population, Forecast for 2010-2020, for Coastal Shoreline/Watershed Counties, by State



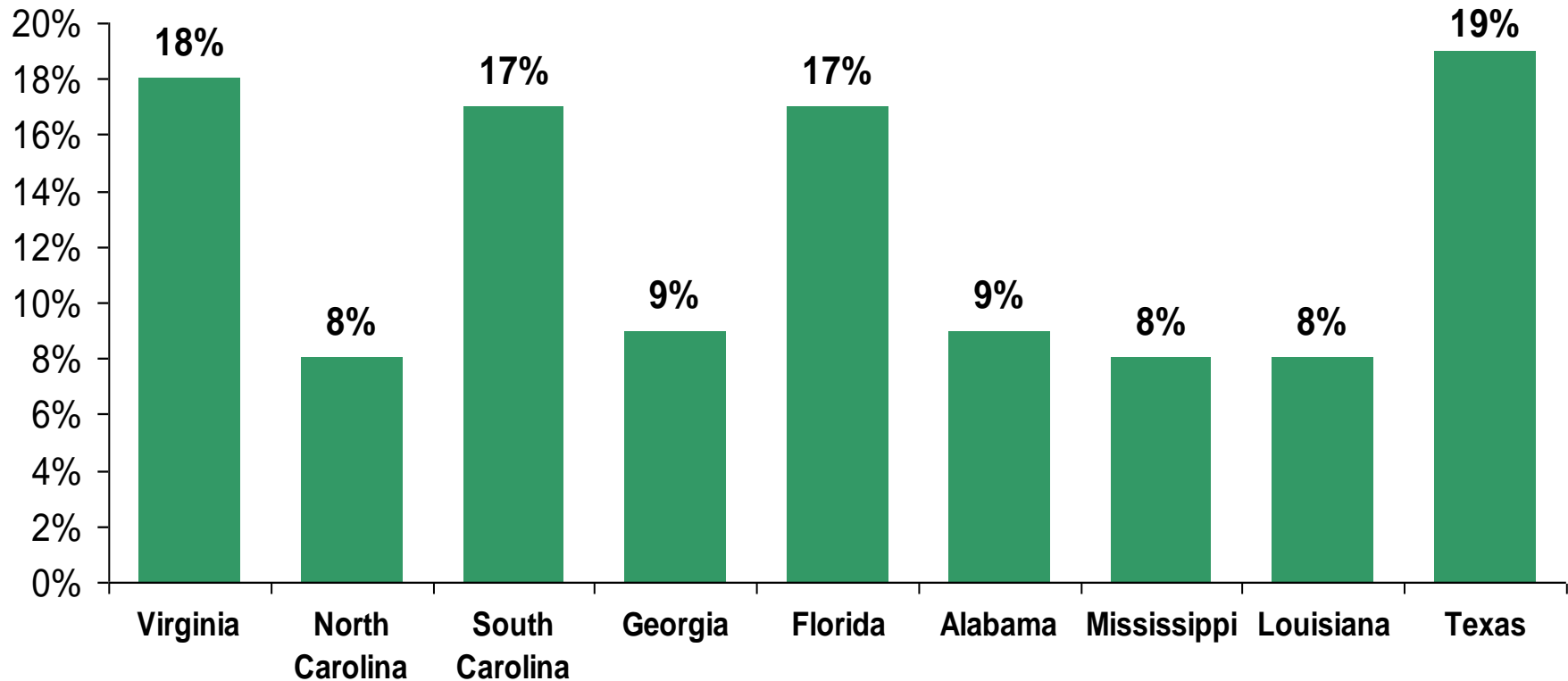
This population growth means not only more homes but more businesses, and more public buildings (schools, hospitals, etc.) and infrastructure in “harm’s way”

Pct. Change in Population, Forecast for 2010-2020, for Coastal Shoreline Counties, by State



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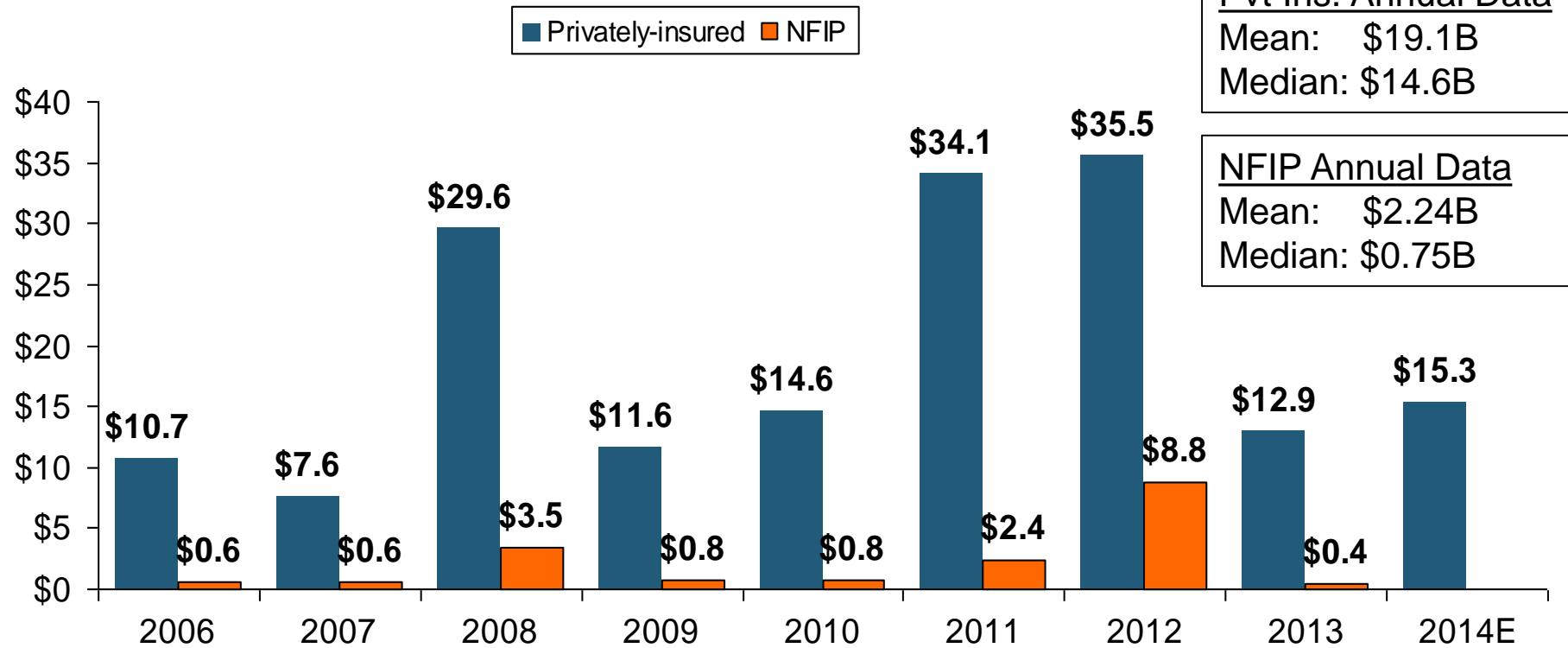
Pct. Change in Population, Forecast for 2010-2020, for Coastal Watershed Counties, by State



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Post-Katrina U.S. Insured Catastrophe Losses

(\$ Billions, \$ 2013)

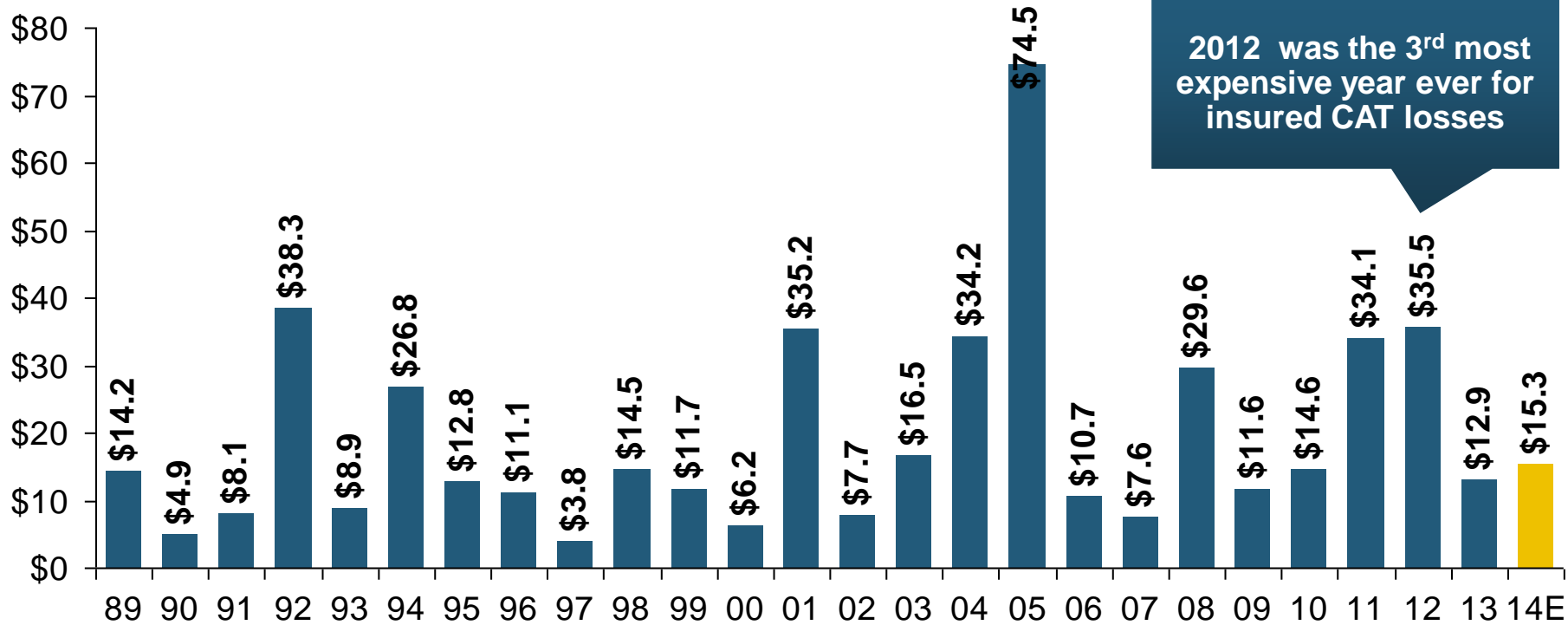


These numbers are national, not coastal, but are often largely coastal in origin. The volatility is obvious.

Sources: Property Claims Service/ISO; <https://www.fema.gov/statistics-calendar-year/loss-dollars-paid-calendar-year>
 Insurance Information Institute.

U.S. Insured Catastrophe Losses

(\$ Billions, \$ 2013)



2012 was the 3rd most expensive year ever for insured CAT losses

2013-14 were welcome respites from 2011-12, which were among the costliest years for insured disaster losses in U.S. history. Longer-term trend is for more—not fewer—costly events.

\$15.3 billion in insured CAT losses estimated for 2014

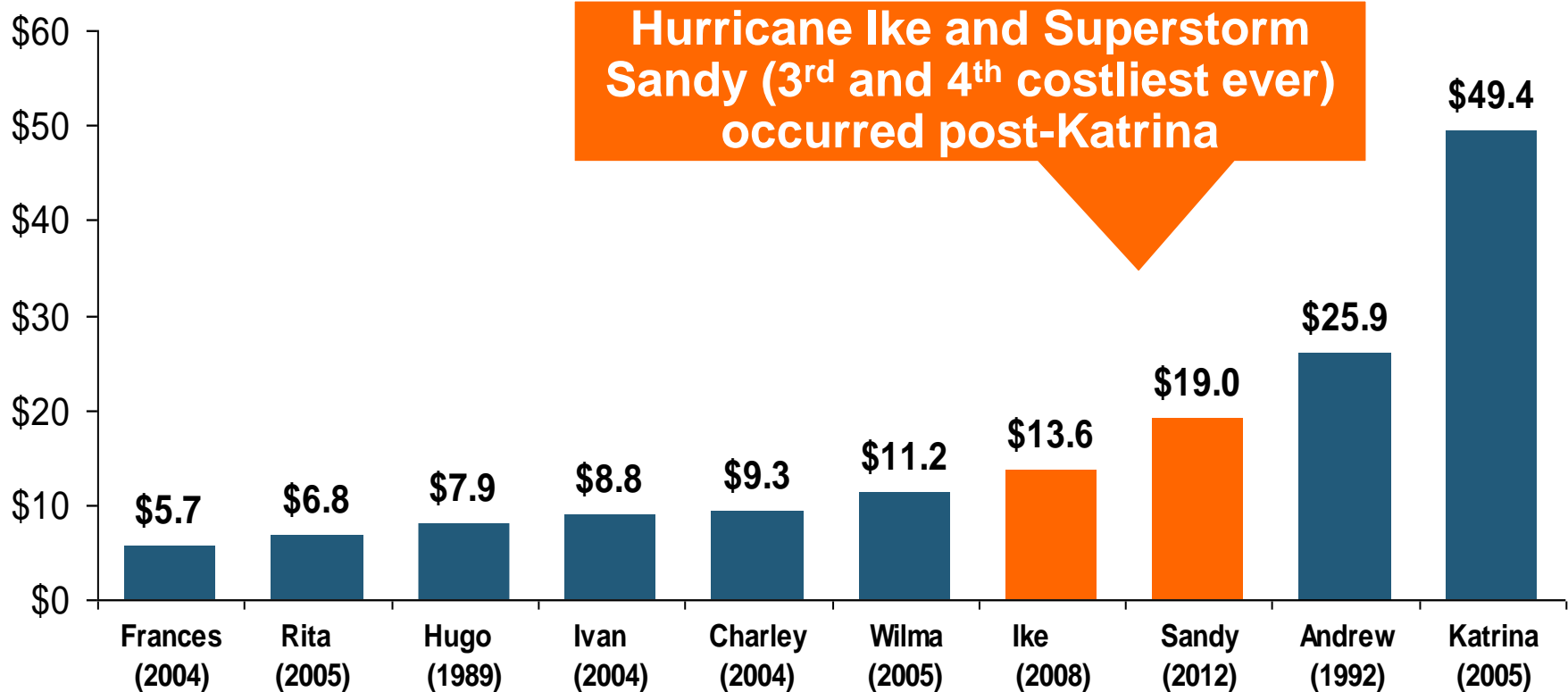
*Through 12/31/14.

Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01 (\$25.9B 2011 dollars). Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B (\$15.6B in 2011 dollars.)

Sources: Property Claims Service/ISO; Insurance Information Institute.

10 Costliest Coastal Storms in U.S. History

(Insured Losses,
2013 Dollars, \$ Billions)

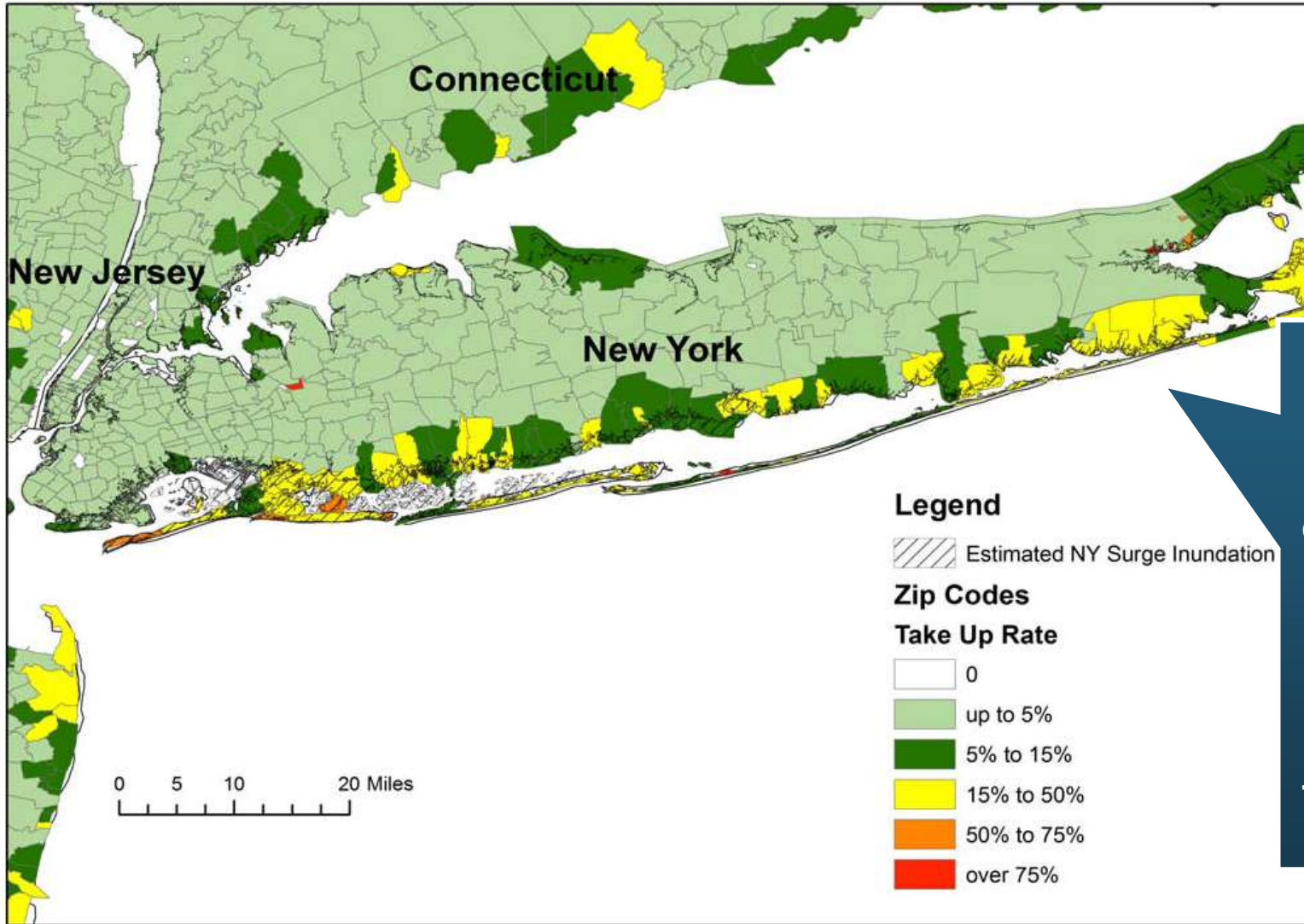


2 of the 4 most expensive coastal storms in U.S. history have occurred in the decade after Katrina (and Rita and Wilma). A \$15 or \$20 billion storm isn't that unusual anymore.

Public Attitudes About Flood Insurance

**Too Many People
Are in Denial About the Risk**

Residential NFIP Flood Take-Up Rates in NY, CT (2010) & Sandy Storm Surge



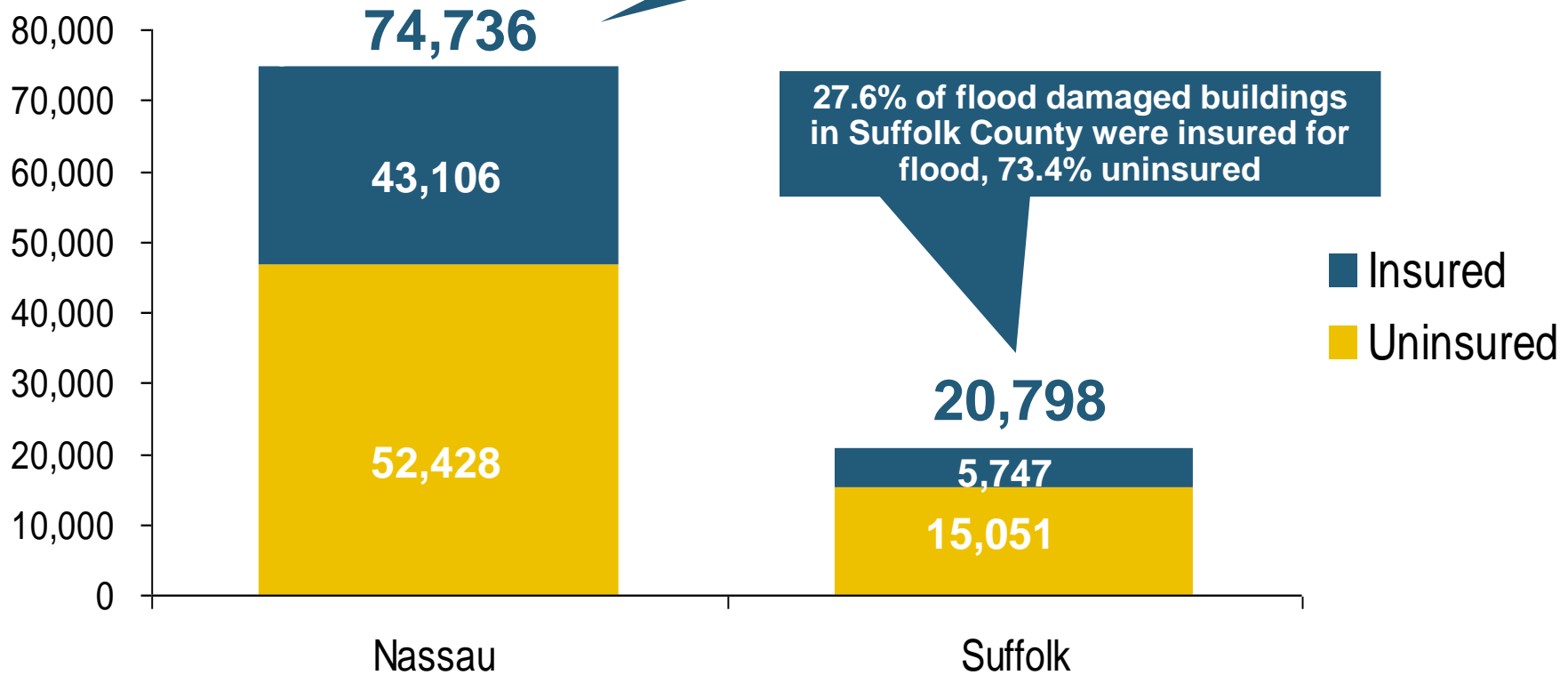
Flood coverage penetration rates were extremely low in many very vulnerable areas of NY and CT, with take-up rates far below 50% in many areas

Share of Flood Damaged Structures with Flood Insurance: Long Island

Only 37.5% of flood damaged buildings in Nassau County were insured for flood, 62.5% uninsured

27.6% of flood damaged buildings in Suffolk County were insured for flood, 73.4% uninsured

Number of buildings



The Maximum FEMA Grant is \$31,900. The Average Grant Award to Homeowners and Renters on Long Island is About \$7,300

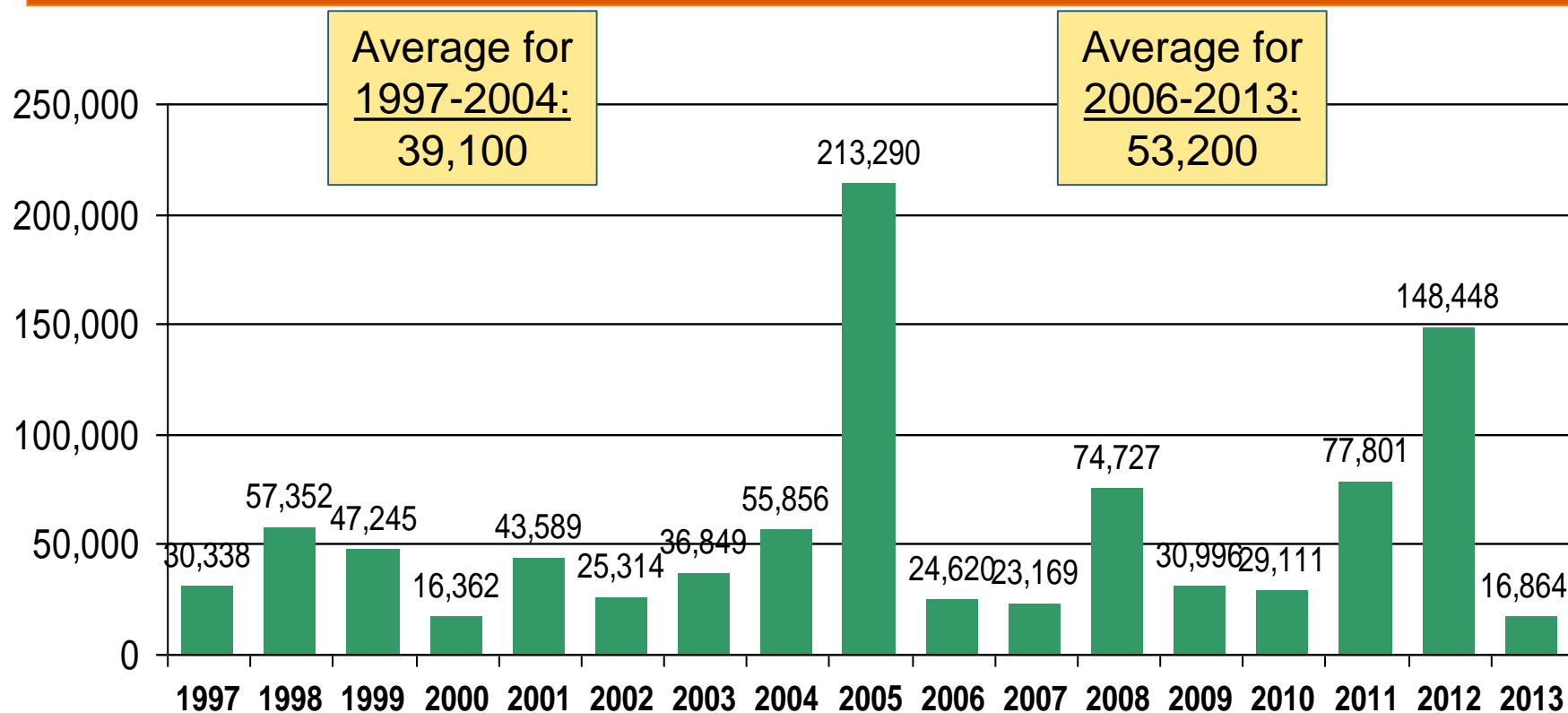
Claims Management

Following KRW*, the P/C Insurance Industry learned that it needed more claims adjusters

*Hurricanes Katrina, Rita, and Wilma in 2005

Number of NFIP Claims Paid, Yearly, 2005-2013*

How many adjusters are needed each year to handle flood claims? Three times since 2005 NFIP has paid 75,000 claims in a calendar year; that never happened before. (And this excludes claims closed without payment.)

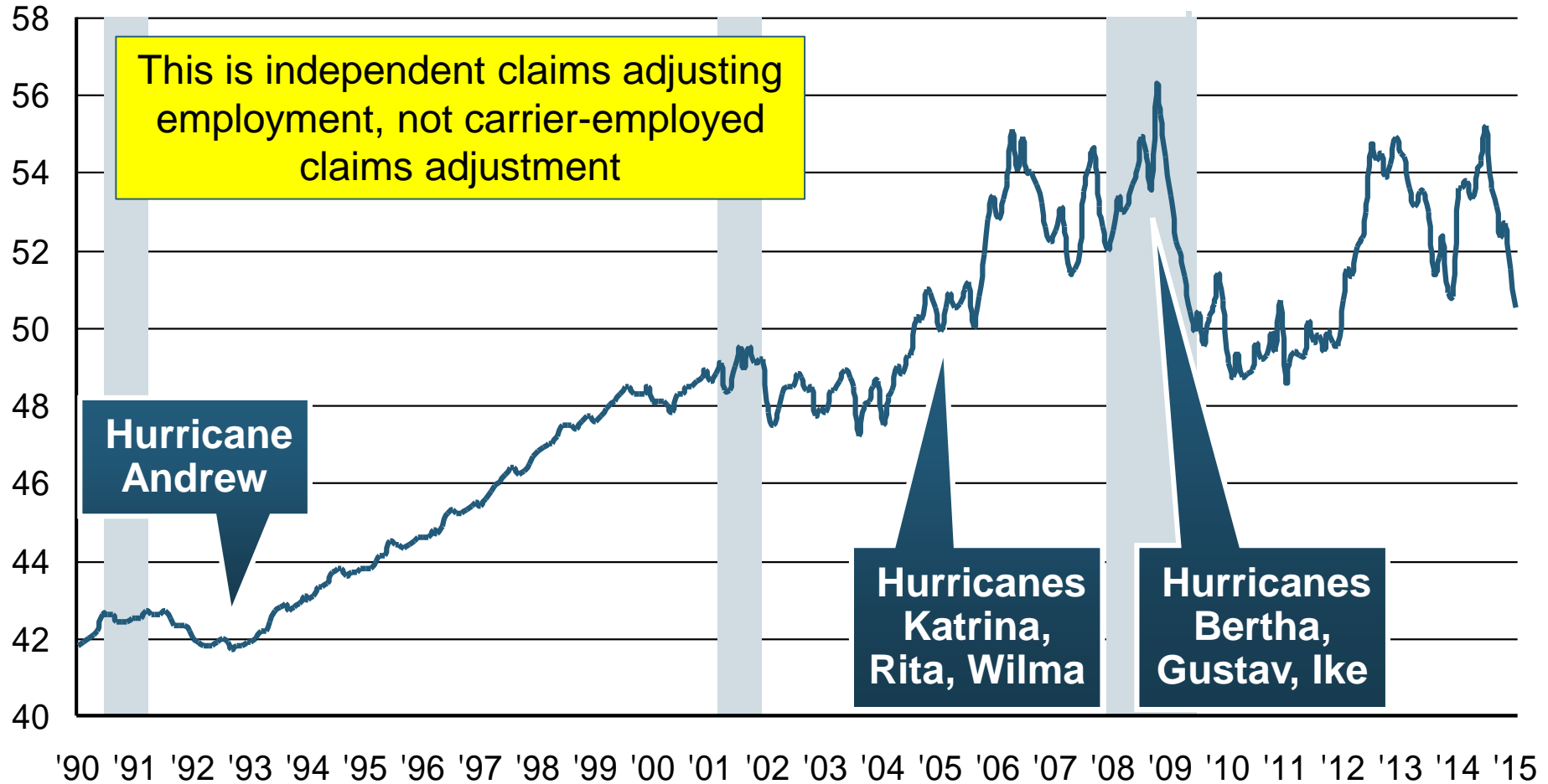


*calendar years

Source: <http://www.fema.gov/statistics-calendar-year/number-losses-paid-calendar-year> ; Insurance Information Institute

U.S. Employment in Claims Adjusting, 1990–2015*

Thousands



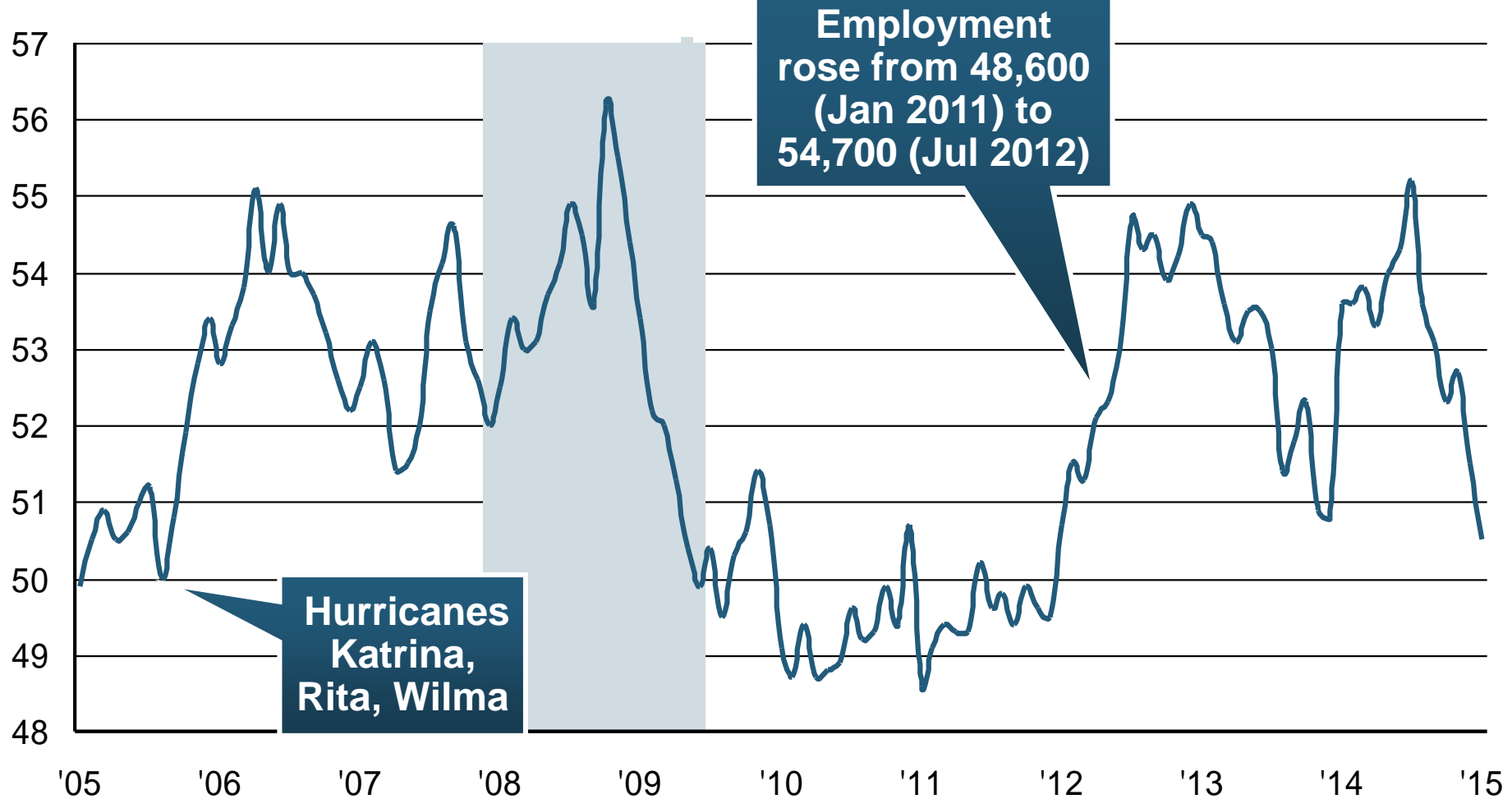
*As of January, 2015; not seasonally adjusted.

Note: Recessions indicated by gray shaded columns.

Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institute.

U.S. Employment in Claims Adjusting 2005–2015*

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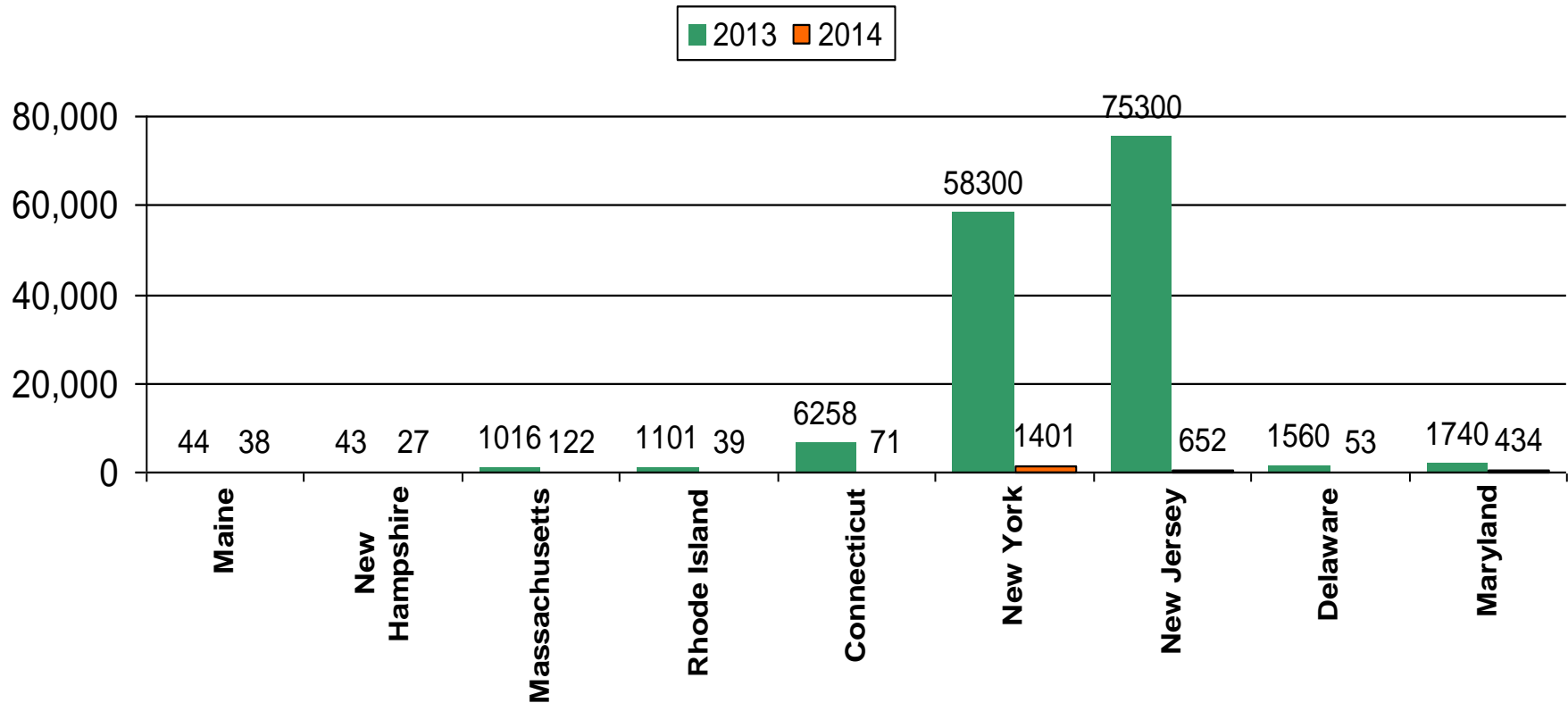


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Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Number of NFIP Claims Paid, 2013-14,* Coastal New England and Mid-Atlantic States

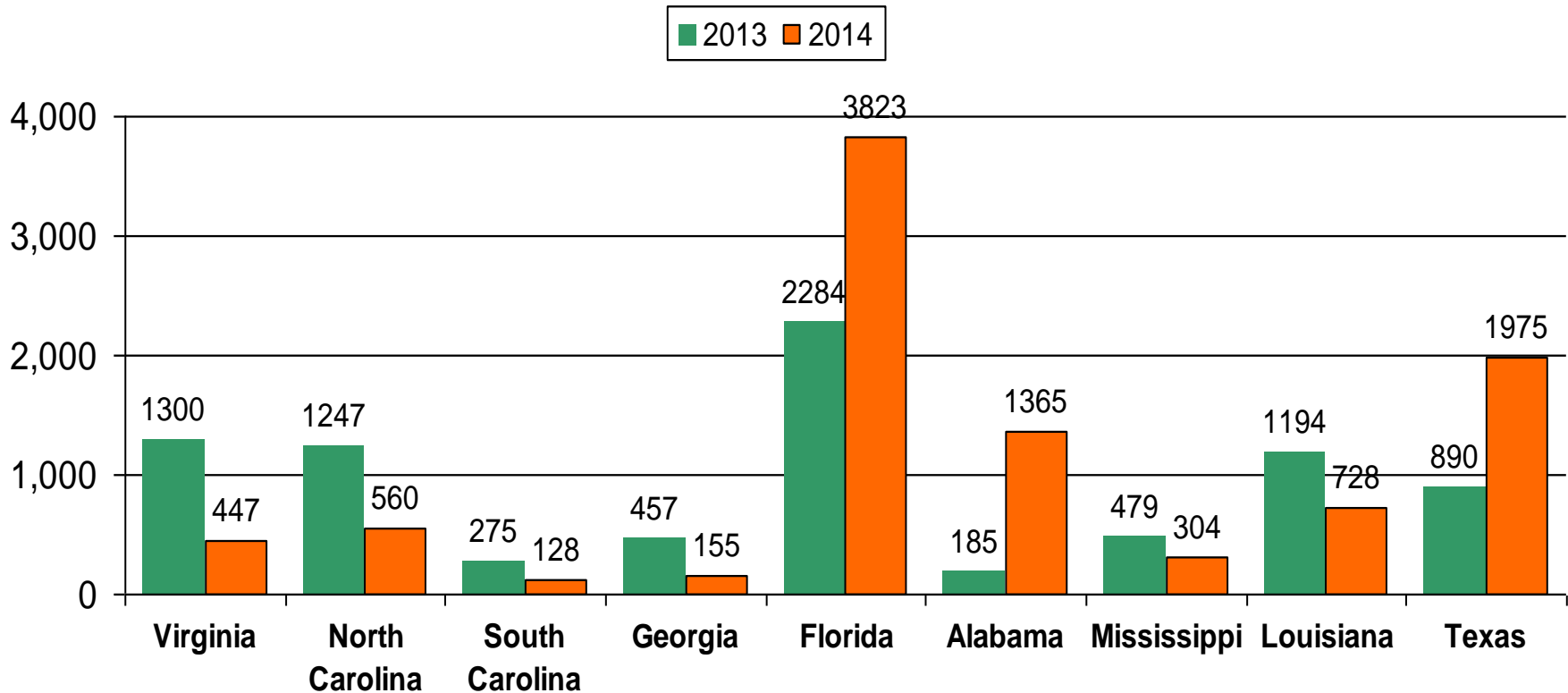


The number of paid claims varies from one year to the next and the trend isn't consistent from state to state.

*fiscal years, ending Sept 30 2013 and Sept 30 2014, respectively

Source: <https://www.fema.gov/media-library/assets/documents/21075> ; Insurance Information Institute

Number of NFIP Claims Paid, 2013-14,* Coastal South Atlantic and Gulf States



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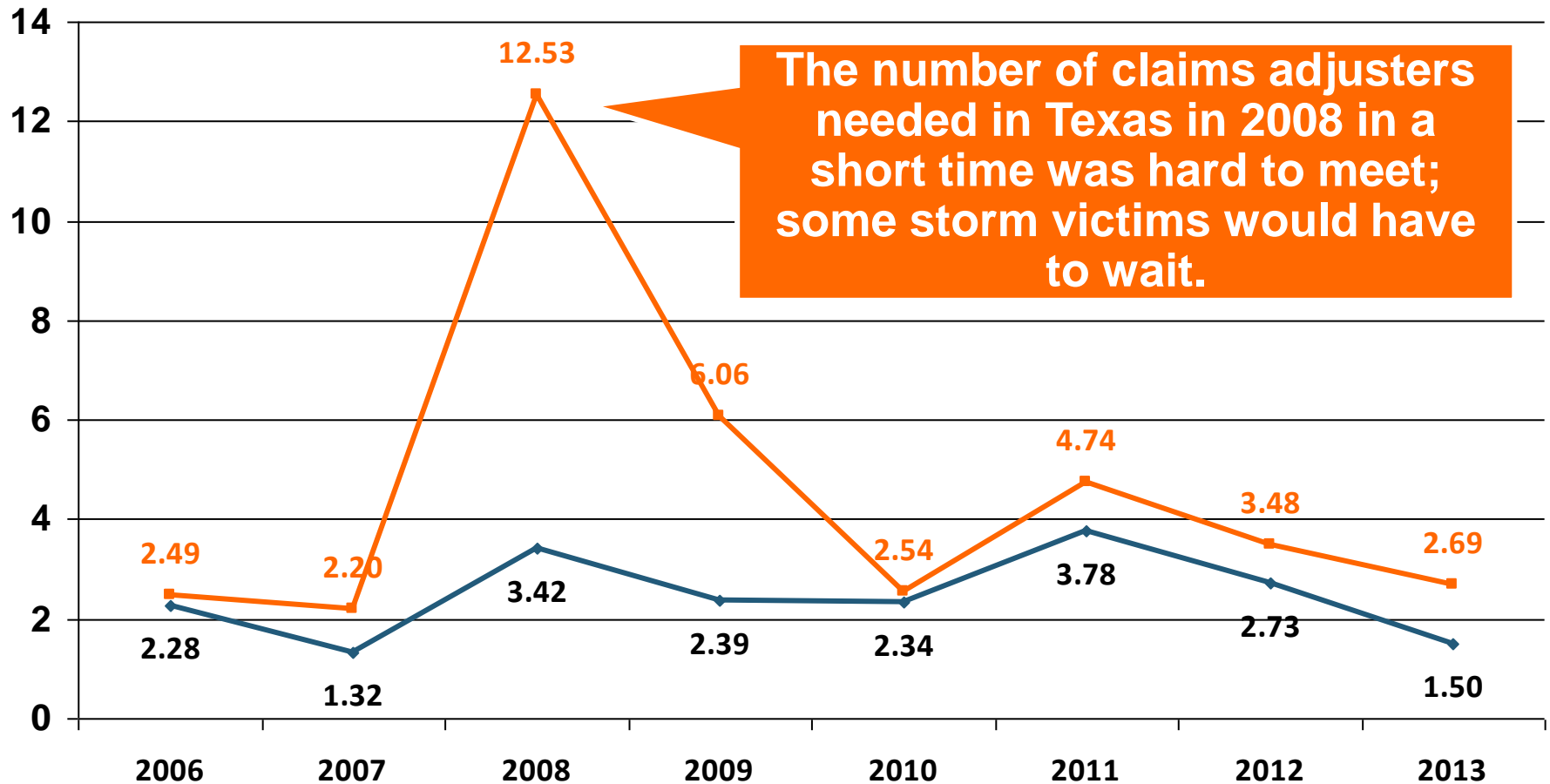
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Source: <https://www.fema.gov/media-library/assets/documents/21075> ; Insurance Information Institute

Post-Katrina P/C Industry Homeowners Claim Frequency, TX vs. US, 2006-2013

Claims Paid per
100 Exposures

— CAT-related claims TX — CAT-related claims, US

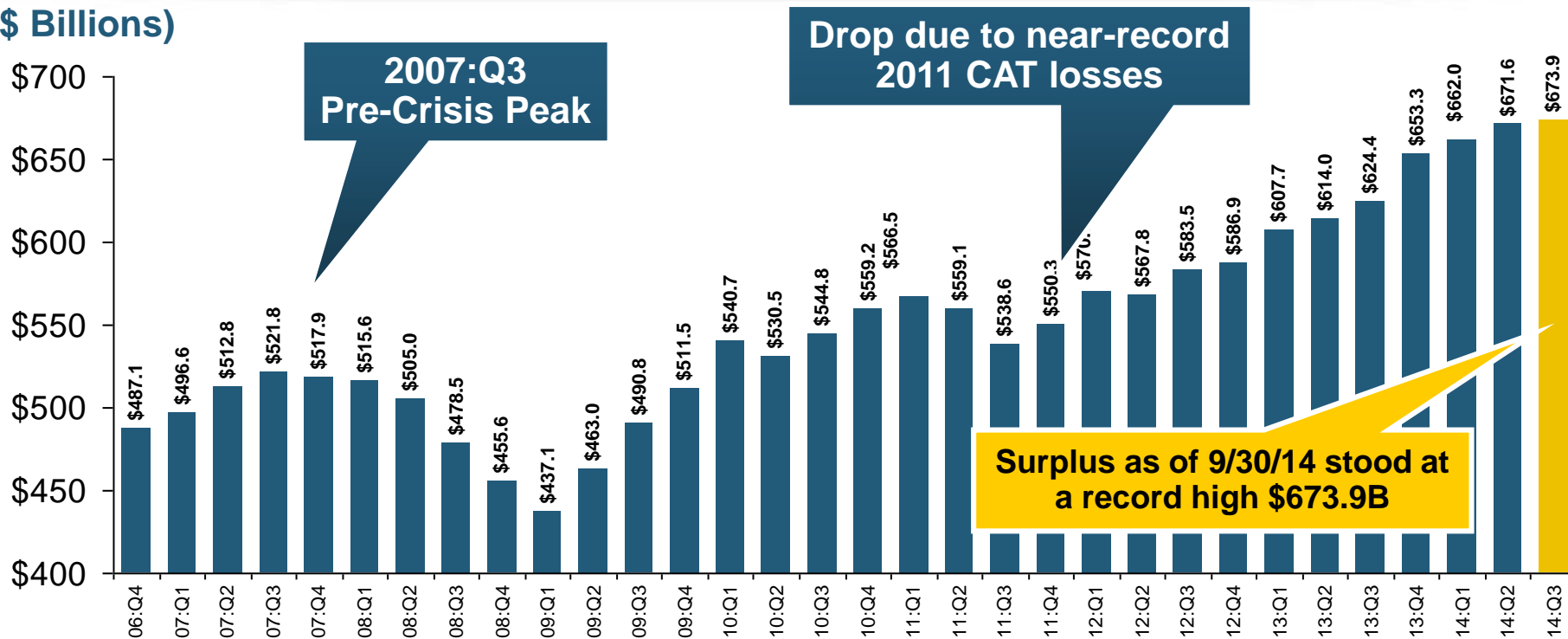


Capital/Capacity

**Storm-Free Years Helped Insurers
Build Financial Resources
for the Next Big One**

Policyholder Surplus, 2006:Q4–2014:Q3

(\$ Billions)



The industry now has \$1 of surplus for every \$0.73 of Net Premiums Written, close to the strongest claims-paying status in its history.

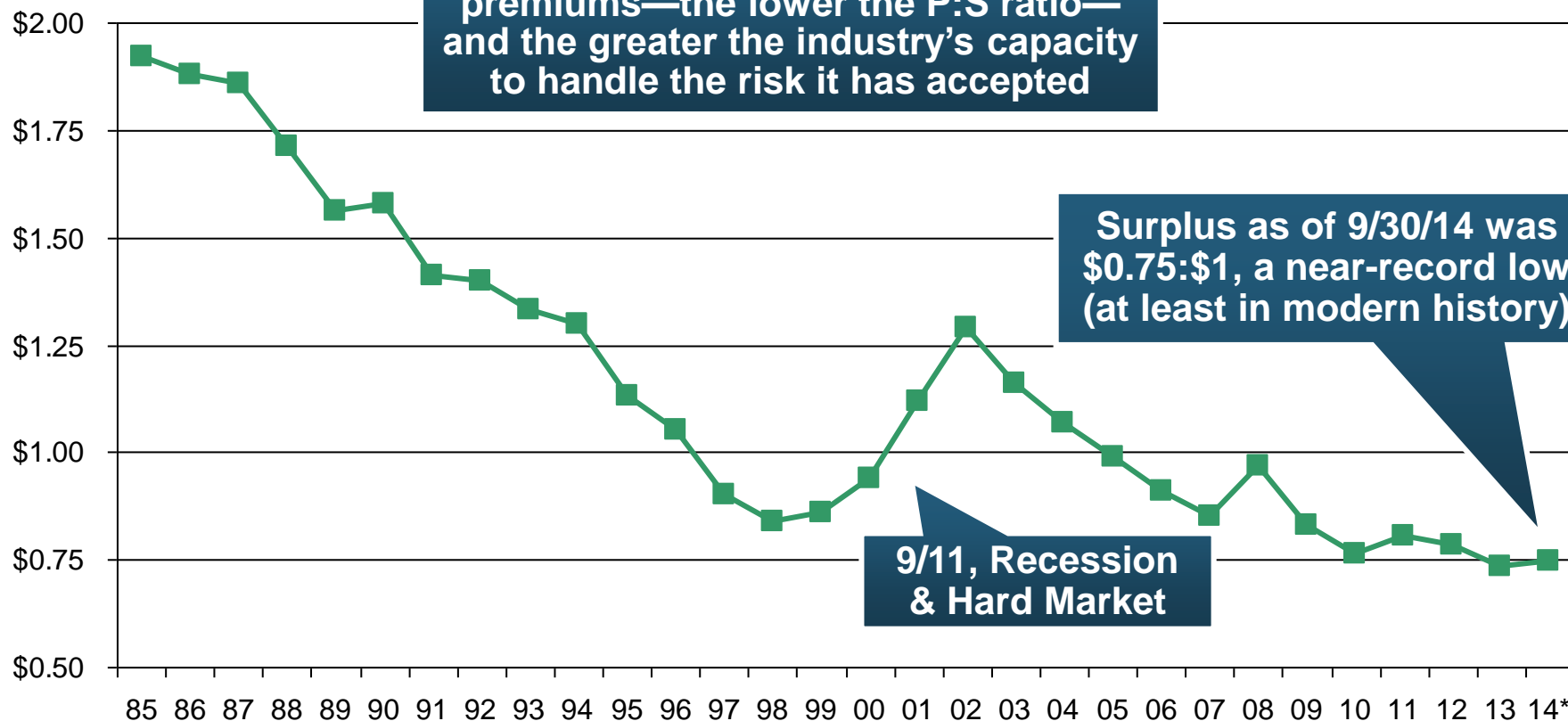
2010:Q1 data includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business .

The P/C insurance industry entered 2015 in very strong financial condition.

Sources: ISO, A.M .Best.

Premium-to-Surplus Ratio: 1985–2014*

(Ratio of NWP to PHS)



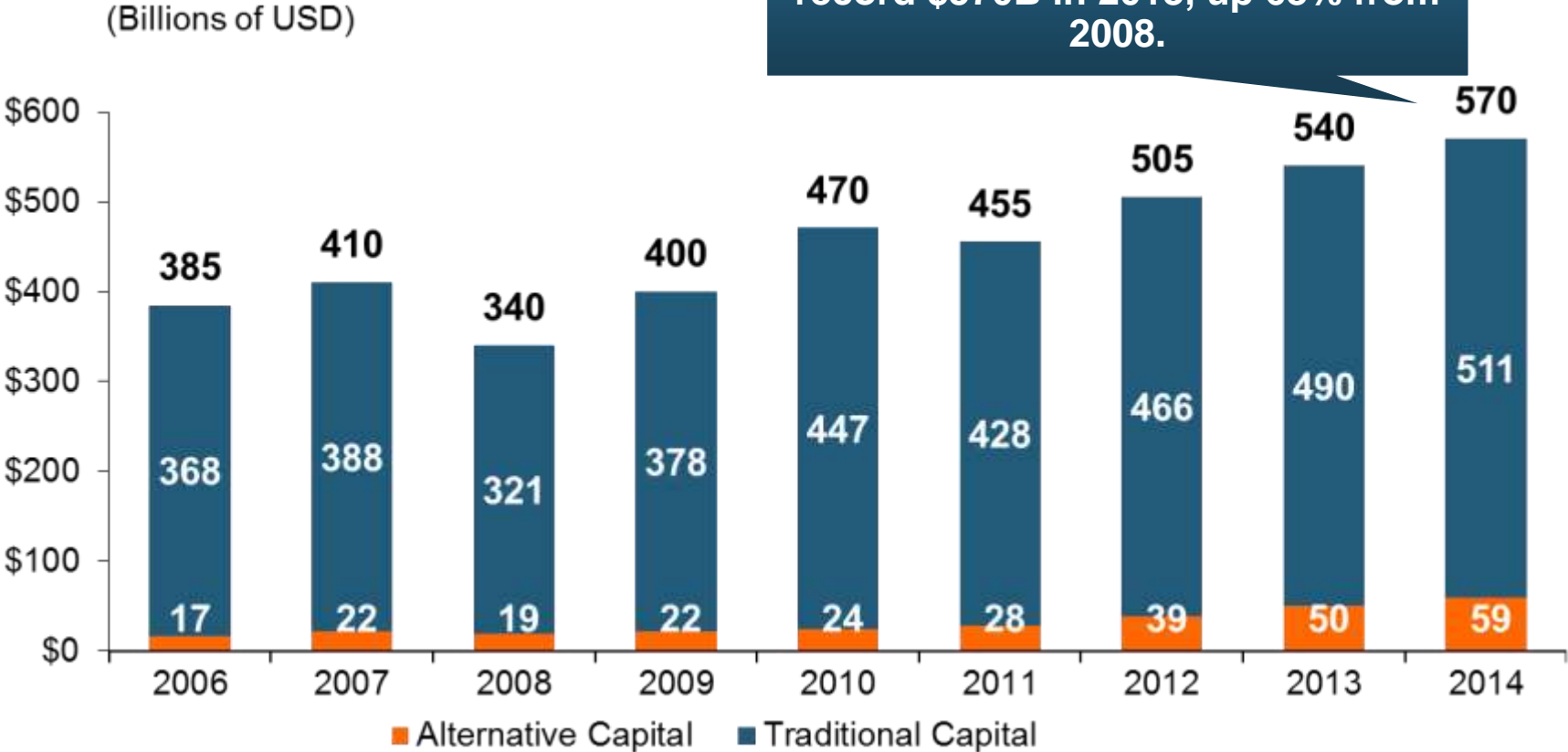
The Premium-to-Surplus Ratio Stood at \$0.75:\$1 as of 9/30/14, a Record Low (at Least in Recent History)

* As of 9/30/14.

Source: A.M. Best, ISO, Insurance Information Institute.

Global Reinsurance Capital (Traditional and Alternative), 2006 - 2014

Total reinsurance capital reached a record \$570B in 2013, up 68% from 2008.

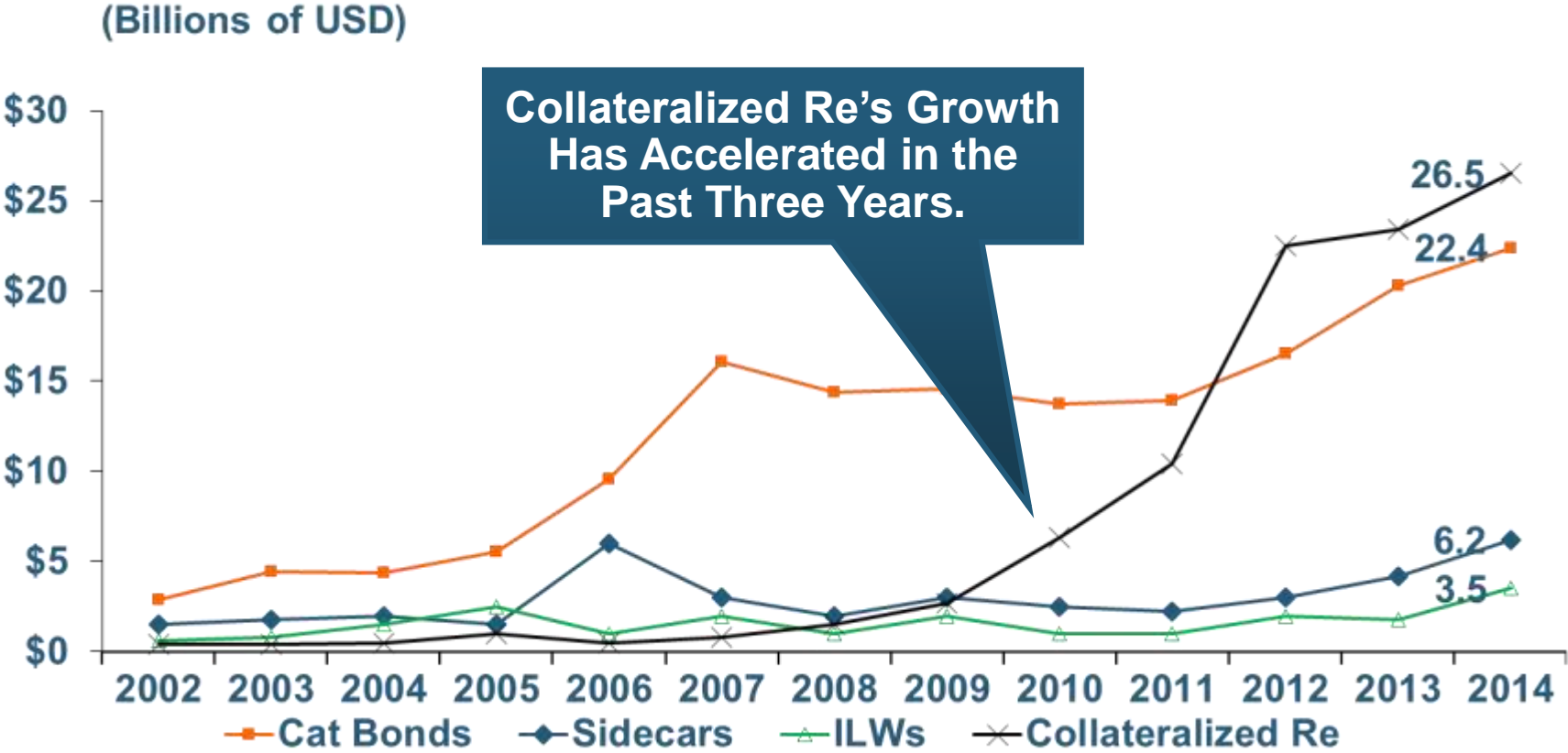


But alternative capacity has grown 210% since 2008, to \$50B. It has more than doubled in the past three years.

2014 data is as of June 30, 2014.

Source: Aon Benfield Analytics; Insurance Information Institute.

Growth of Alternative Capital Structures, 2002 - 2014



Rapid Growth of Alternative Capital puts downward pressure on Rates Charged by Traditional Reinsurers

2014 data is as of June 30, 2014.
Source: Aon Benfield Analytics; Insurance Information Institute.

Latest Developments

Just a little more than “60 Minutes”

The Role of Engineers: New Lawsuits and NFIP Shake-up

- When flood claims are adjusted, sometimes an engineer is assigned to help determine the cause of loss
- Recently in New York lawsuits were filed alleging that engineering reports were fraudulently re-written to deny NFIP claims
- The story got a big media boost when it was featured on CBS’ “60 Minutes”
- NFIP subsequently announced significant personnel and structural changes, particularly regarding oversight of the claims process

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www.iii.org

***Thank you for your time
and your attention!***