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HURRICANE KATRINA: THE FIVE YEAR ANNIVERSARY

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Introduction

Hurricane Katrina was the costliest hurricane, as well as one of the deadliest, in U.S. history. The storm formed over the Bahamas on August 23, 2005 and crossed southern Florida soon thereafter as a Category 1 hurricane before strengthening rapidly in the Gulf of Mexico. Katrina made its second U.S. landfall as a Category 3 storm on the morning of August 29, 2005 in southeast Louisiana. Between 1,300 and 1,500 people lost their lives as a result of Hurricane Katrina.

Five years later, Hurricane Katrina remains the largest single loss event in the history of the global insurance industry, causing an estimated \$41.1 billion in insured damage (\$45.1 billion in 2009 dollars) and 1.7 million claims across six states. Louisiana and Mississippi were the hardest-hit states.

This number does not include \$16.1 billion in losses from flooding insured by the National Flood Insurance Program (NFIP), or the \$2 billion to \$3 billion of insured damages to offshore energy facilities.

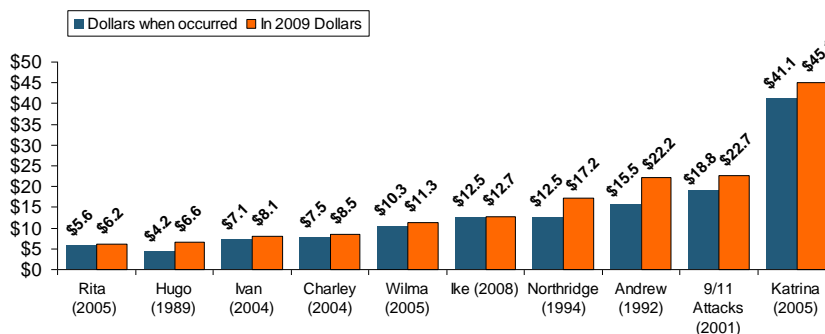
Damage from Hurricane Katrina shattered the previous record for a natural catastrophe event set in 1992, when Hurricane Andrew caused \$15.5 billion in insured losses at the time it occurred (\$22.2 billion in 2009 dollars), with 790,000 claims in three states (**Figure 1**).

Fig. 1

Top 10 Most Costly Disasters in US History



(Insured Losses, \$ Billions)



8 of the 10 Most Expensive Disasters in US History Have Occurred Since 2004

*Adjusted for inflation through 2009 by ISO using the GDP implicit price deflator
Source: PCS division of ISO

Hurricane Katrina was also a major economic event for the U.S., producing overall losses of \$125 billion in 2005 dollars, according to Munich Re. This places it as the most costly natural catastrophe ranked by overall losses in the period from 1980-2009.

For property/casualty insurers and reinsurers, Hurricane Katrina will also be remembered as the most significant event in a year that produced a record \$61.9 billion in insured catastrophe losses in the U.S – the highest annual insured catastrophe loss tally ever.

The magnitude of Hurricane Katrina in 2005 triggered a reexamination of how the U.S. deals with the financial consequences of catastrophic natural disasters among insurers, reinsurers and public policymakers. That debate continues today.

KATRINA CLAIMS

Hurricane Katrina generated more than 1.7 million in claims. The majority of the claims, 1.2 million, were for personal property such as homes and their contents. There were also 346,200 claims for damaged vehicles and some 156,600 commercial (business) claims. Claims payments to businesses accounted for about half of the \$41.1 billion insured loss payout, an unusually large share.

Louisiana and Mississippi accounted for the majority of the claims. Hurricane Katrina caused nearly \$25.3 billion in insured losses in Louisiana in 2005 (about \$27.8 billion in 2009 dollars). This means that Louisiana accounted for 63 percent of the \$41.1 billion insured losses from Hurricane Katrina (**Figures 2 and 3**).

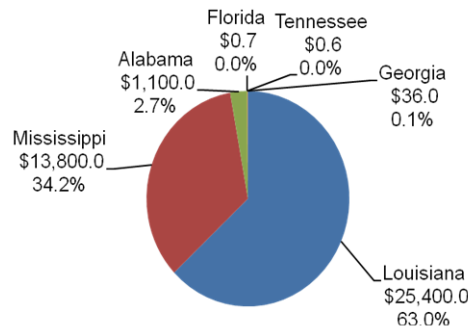
In Mississippi, insured losses from Katrina totaled \$13.6 billion in 2005 (about \$14.9 billion in 2009 dollars). These loss statistics do not include flood damage covered under the National Flood Insurance Program (NFIP).

Fig. 2

Hurricane Katrina Insured Losses By State*



(\$ MILLIONS)



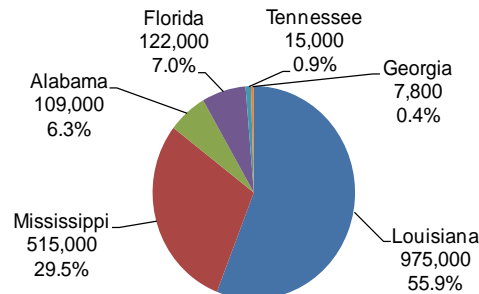
Louisiana accounted for 63 percent of the \$41.1 billion insured losses from Hurricane Katrina. Mississippi accounted for one-third.

*As of June 8, 2006.
Source: PCS division of ISO.

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Fig. 3

Hurricane Katrina Claims By State*



Nearly 56 percent of the more than 1.7 million Hurricane Katrina insurance claims are in Louisiana. More than 29 percent are in Mississippi.

*As of June 8, 2006.
Source: PCS division of ISO.

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According to Insurance Information Institute (I.I.I.) estimates, fewer than two percent of Katrina homeowners claims in Louisiana and Mississippi were disputed either through mediation or litigation.

This was no mean feat considering the unprecedented size and complexity of this catastrophe, and the critical infrastructure breakdowns in the Gulf region after Katrina hit.

Katrina claims settlement levels were extremely high. By the second anniversary of the disaster, approximately 99 percent of the 1.2 million personal property claims, including those in hard hit Louisiana and Mississippi, had been settled.

Effectively all of the nearly 350,000 claims from damaged vehicles, totaling \$2.2 billion were settled by the two-year anniversary, as were the 156,600 commercial claims that accounted for \$20.8 billion in claims payments to businesses.

LITIGATION ONSLAUGHT

Whether damage was caused by wind or water became a key focus of the post-Katrina litigation. This was a critical issue because of the tremendous storm surge (up to 28 feet) in some coastal areas.

Coverage for flood damage resulting from surface water, including storm surge caused by hurricanes, is excluded under standard homeowners' and renters' insurance policies. Separate flood insurance policies are available from the federal government's National Flood Insurance Program (NFIP).

The first lawsuit arising from Hurricane Katrina was filed just days after the event by Mississippi attorney general Jim Hood against several homeowners and property insurers. In the suit, Attorney General Hood sought to force insurers to pay for flood insurance losses under homeowners' contracts, alleging that the flood exclusions in these policies were void and unenforceable.

Different post-Katrina legal cases focused on different aspects of the wind versus flood issue. But a common feature to them all was that, if successful, they could have left insurers exposed to billions of dollars of additional payments. In fact, just defending the litigation cost insurers substantial additional millions of dollars in time and money.

Ultimately, insurers won virtually every major case that was filed against them post-Katrina, establishing or reaffirming important legal precedent in each instance.

FLOOD INSURANCE

It is important to recognize that the National Flood Insurance Program (NFIP), operated by the federal government, incurred some \$16.1 billion in losses and a deficit exceeding \$18 billion as a direct result of Katrina flooding even though the majority of people in affected areas had not purchased flood insurance.

Even today, only one in 10 Americans now have a flood insurance policy, down from 13 percent a year ago. The reasons why people do not purchase coverage vary. Some may believe a disaster will never happen to them, while for others the cost of coverage may be a deterrent.

Confusion over whether or not their homeowners policy covers damage from flooding during a hurricane appears likely to be another contributing factor.

A May 2010 Insurance Information Institute (I.I.I.) poll found that in Louisiana and Mississippi, 32 percent of respondents think their homeowners policy covers damage from flooding from a hurricane, double the 16 percent in the U.S. as a whole.

Similarly, 35 percent of people in those states who said they filed homeowners claims following Hurricane Katrina continue to believe that flooding from a hurricane is covered.

This highlights the need for better education on flood insurance for homeowners in this region.

CONCLUSION

Hurricane Katrina demonstrated the vital role insurance and reinsurance plays in helping individuals and businesses prepare for and recover from the potentially devastating effects of disaster.

It also underscored that private sector insurers provide by far the fastest, most efficient means of economic recovery for communities affected by disaster.

To date, the total value of claims paid by private insurance companies and the federal government's National Flood Insurance Program (NFIP) amounted to more than \$60 billion.

Meanwhile, the proportion of the population living in hurricane-exposed states and the total value of insured coastal exposure nationwide continue to grow.

Some 53 percent of the nation's population, or 153 million people, lived in U.S. coastal counties in 2003, according to the National Oceanic Atmospheric Administration (NOAA) – an increase of 33 million people since 1980.¹

Catastrophe modeler AIR Worldwide puts the value of insured coastal property in hurricane prone states – states bordering the Atlantic Ocean and Gulf of Mexico – at \$8.9 trillion in 2007, up 24 percent from \$7.2 trillion in 2004.²

Disaster losses along the coast will surely escalate in coming years as the number of people in harm's way and the value at risk continue their inexorable rise.

¹ National Oceanic and Atmospheric Administration (NOAA), *Population Trends Along the Coastal United States: 1980-2008*, http://oceanservice.noaa.gov/programs/mb/pdfs/1_front_matter_introduction.pdf

² AIR Worldwide, *The Coastline at Risk, 2008 Update to the Estimated Insured Value of U.S. Coastal Properties, and The Coastline at Risk*, September 2005.