Hurricane Andrew’s Enduring Impact on the U.S. Insurance Industry

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Andrew’s Legacy:
Underestimated Costs and Underestimated Vulnerability to Natural Disasters
Hurricane Andrew: Aug. 24, 1992
Costliest storm in U.S. history – until Katrina in 2005

- Insurance claims payouts totaled $15.5 billion
- $27 billion in 2017 dollars
- Hurricane Katrina losses: $41 billion
The Wake-Up Call

What we know now that we didn’t then

- Need to manage coastal exposure.
- Increasing role of government in insuring coastal risks.
- Introduction of hurricane deductibles.
- Greater use of reinsurance capital from around the world.
- Rapid evolution needed for catastrophe modeling.
- Necessity for strengthened building codes, and for them to be enforced.
U.S. Insured Catastrophe Losses, 1989-2016

($ billions, 2016 dollars)

*2016 estimate is subject to change

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, a Verisk Analytics business; Insurance Information Institute.

Long-term trend is for more, not fewer, costly events.
ROE: Property/Casualty Insurance by Major Event, 1987–2016:H1

P/C Profitability Is Both by Cyclicality and Ordinary Volatility

- Hugo
- Andrew, Iniki
- Northridge
- Katrina, Rita, Wilma
- Sept. 11
- Lowest CAT Losses in 15 Years
- 4 Hurricanes
- Sandy
- Record Tornado Losses
- Modestly higher CATs

Sources: ISO, Fortune; Insurance Information Institute.
Learning from the past:
The risk has grown, not diminished.
What’s the worst that could happen?
Total value of property in coastal counties
Includes residential and commercial property
Insured Coastal Exposure As a % Of Statewide Insured Exposure

Source: AIR Worldwide
Number of owner-occupied housing units has been stuck at roughly 75 million units since 2005:Q4.

Since 2004 the number of renter-occupied housing units has grown by about 11 million units (+34.5%), but there has been no growth in the number of owner-occupied housing units in 12 years. When will this end?

Sources: US Census Bureau at [http://www.census.gov/housing/hvs/data/histtabs.html](http://www.census.gov/housing/hvs/data/histtabs.html), Table 8; Insurance Information Institute.
US: Pct. Of Private Housing Unit Starts In Projects of 5+ Units, 1990-2017*

For the U.S. as a whole, the trend toward multi-unit housing projects (vs. single-unit homes) is recent.

*2017 is January and February, annualized; preliminary. Based on seasonally-adjusted data. Sources: U.S. Census Bureau; Insurance Information Institute calculations.
Summary

- The challenge for insurers: managing exposure to catastrophic losses from hurricanes.
- The challenge for coastal residents: recognizing their vulnerability and overcoming complacency.
- Preparedness means is protecting people, property – and your finances.
- Best defense is knowing that mitigation matters. Resiliency must be a forethought, not an afterthought.
- The hurricane “dry spell” will end.
Thank you for your time and your attention!

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