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Higher premiums to benefit insurers after Katrina

NEW YORK (Reuters) – Hurricane Katrina may help insurance companies raise the premiums they charge clients, and could bring new companies into the disaster area to exploit opportunities for more profit, industry analysts said.

"Property casualty insurance rates, where we had been seeing decreases, will firm significantly," said Karen Horvath, an analyst with A.M. Best Co. "And while some players may be less willing to do business in the Gulf Coast, a subset of carriers may step in." Horvath mentioned American International Group Inc., Lloyd's of London and Nationwide Financial Services Inc. as possible new entrants.

Lloyd's said on Tuesday that it expects to see insurance companies reverse previous plans to shrink capacity and exploit the price rises available in the businesses likely to see the heaviest claims as a result of Katrina.

Two UK-listed insurers, Brit Insurance Holdings Plc. and Wellington Underwriting Plc., said they saw lucrative business opportunities created by the hurricane.

Opportunities would be greatest for commercial insurers who would provide coverage for area businesses and also for unregulated reinsurers, companies that provide excess coverage after regular insurers pays all they can, analysts said.

Companies that cover "personal lines" such as automobile and car insurance, which are state-regulated, would find it harder to raise rates, even in the most affected areas.

"They'll have to get it through the regulators, and that's where the gamesmanship will begin," predicted Jeff Berg of Moody's Investors Service.

Fitch Ratings said it expects the reinsurance sector to have a stable outlook, and Moody's said ratings in the personal lines are also stable because of "the industry's ability to generate robust profits."

"The primary driver in raising rates is the claims experience in your state," said Dick Luedke, a spokesman for State Farm, the largest homeowners insurer in the Gulf Area. "This will cause upward pressure on rates in states where the storm has occurred."

Thus far, State Farm is servicing more than 223,000 property claims in Alabama, Mississippi and Louisiana, according to the company.

Rates for many carriers had been falling before the hurricane. The disaster "will reverse the threat" that these rates could fall further," said Mark Rouck, a senior director in Fitch's Insurance Group.

After the Florida hurricanes of 2004, property casualty reinsurance rates rose ten to 20 percent in those regions, he said.

Raters warned, however, that unforeseen events could change that scenario. Among those events is an attempt by class action attorneys such as Mississippi's Richard Scruggs to override flood-exclusion clauses from homeowners' contracts.

That would expose the insurance industry to additional billions of losses, since at least half the damage, calculated at least \$35 billion by disaster modelling companies, is due to flooding.

Longer term, insurers may face difficulties unless they do raise premiums, Fitch warned, because of global uncertainty and the probability of future hurricanes. The hurricane season usually reaches its height in September.

A study by Ceres, a national coalition of investors and environmental organisations, released yesterday, showed that catastrophic weather-related insurance losses in the US have been rising significantly faster than insurance premiums since the late 1980s's. "Climate change could slow the growth of the industry," said Dr. Evan Mills, one of the study's authors.
