Overshadowed but Active Hurricane Season Was Anticipated by the Industry

By Alyn Ackermann, senior associate editor, BestWeek

OLDWICK, N.J. December 08 (BestWire) — Lurking in the shadows of an historic presidential election and just beyond the dominoes that fell due to a significant downturn in the economy, was a record-setting Atlantic hurricane season.

The season, which ended Nov. 30, ranks as one of the most active seasons since records have been kept, according to the National Oceanic and Atmospheric Administration. The season included a hurricane that is estimated to have caused enough insured loss to rank it among the top five costliest in history. In 2008, the NOAA reported a total of 16 named storms, eight hurricanes and five major hurricanes. For the first time ever, six consecutive cyclones made landfall in the United States.

"The media attention was certainly more focused on the economic crisis and the election," said Robert Hartwig, president of the Insurance Information Institute.

Hurricane Ike, a strong Category 2 storm that struck Galveston, Texas, early Sept. 13, is estimated to have caused more than $8 billion in insured damage, ranking it the fifth-most expensive hurricane in U.S. history. Hurricane Katrina, which caused about $43.6 billion in losses, ranks first.

"Contributing to the lack of coverage was the fact Ike was one-fifth of what Katrina cost , though some parts were reduced to moon dust because of Ike," Hartwig said. "People may have been lulled to a sense of complacency due to light U.S. hurricane seasons in 2006 and 2007 and this time there were are fewer opportunities for lawsuits to be filed."

Many court precedents have been established, some just recently, in legal battles that surfaced following Katrina. The main issue was whether damaged caused by storm surge is covered by a standard homeowners policy. Insurers say the peril of flood is not covered. Court rulings "have upheld the flood exclusion in policies," Hartwig said.

Other notable storms from the 2008 season included Hurricane Dolly in Texas, said to have caused about $525 million in insured losses; Tropical Storm Fay in Florida, with about $245 million in losses; Hurricane Gustav in Louisiana, with about $2 billion in losses; and Tropical Storm Hanna in the Carolinas, with about $80 million.

Hartwig said insured losses from this season "were anticipated by the industry and it maintains its claims paying capital." It remains unclear whether movement is possible in the reinsurance market, said Karen Clark, president and chief executive officer of Karen Clark & Co.

"The talk has been that the hurricane season wasn't enough to put upward pressure on rates," Clark said. The financial crisis may play a factor but hurricane seasons in 2006 and 2007 were light, said Clark, causing "basically zero hurricane losses" for reinsurers. "You have to look at it in context."

Clark, a risk modeler who has maintained that the insurance industry and rating agencies are too reliant on models, said near-term models in 2006 that predicted a 30% to 40% increase in losses over a five-year period "just haven't stood up at all."

The NOAA in 2006 predicted hurricane activity would be above average, and with modelers calling for accelerated losses, "lots of companies jumped on that," Clark said, by either increasing rates on the primary side or leaving high-risk zones all together. The activity in 2006, as well as 2007, turned out to be below average.

In order for the predictions to be accurate, during the period of 2006 to 2010, Clark said there would need to be "either two years like we had in 2004 or another Katrina." She said from 2006 to 2008, the number of hurricanes that have made landfall is 22% below the average, and losses are falling about 50% below average.

As hurricane-prone states move forward, regulatory and legislative issues need to be addressed. Though 2008 turned out to be an active year, it is also one in which "states can look back at the regulatory environment and decide what works and what doesn't," Hartwig said. Thoughts should include mitigation efforts and building codes to reduce damage, he said. The season, he said, highlighted some problems with several states' ability to manage losses.

The claims-paying ability for state-run programs in Texas, Florida and North Carolina have come under scrutiny. Trade associations like the Property Casualty Insurers of America are urging state governments to "stabilize the financial condition of these coastal insurance markets as property exposure continues to grow," said William Stander, PCI regional manager.

Clark said her firm is working with some new and established companies that are returning to zones once deemed off limits because of catastrophic risk.

"There is a way to do this intelligently," Clark said. "Some companies when they left gave up profitable business. This is the future. Cat risk is the risk of the future."