

# Property Insurance in the Ocean State: Challenges and Issues

- What's happening in the industry?

- What's happening in the industry?
- Why are insurance company's all of a sudden avoiding coastal states?

- What's happening in the industry?
- Why are insurance company's all of a sudden avoiding coastal states?
- How bad off is RI?

- What's happening in the industry?
- Why are insurance company's all of a sudden avoiding coastal states?
- How bad off is RI?
- What does the future hold?

- What's happening in the industry?
- Why are insurance company's all of a sudden avoiding coastal states?
- How bad off is RI?
- What does the future hold?

The culmination of issues is the  
"Perfect Storm"



# Pre-2005 Homeowner rates forced too low through competition

Evidence by failure of:

# Pre-2005 Homeowner rates forced too low through competition

Evidence by failure of:

- Shelby Mutual
- Pawtucket Mutual
- Providence – Washington
- Rumford

# Pre-2005 Homeowner rates forced too low through competition

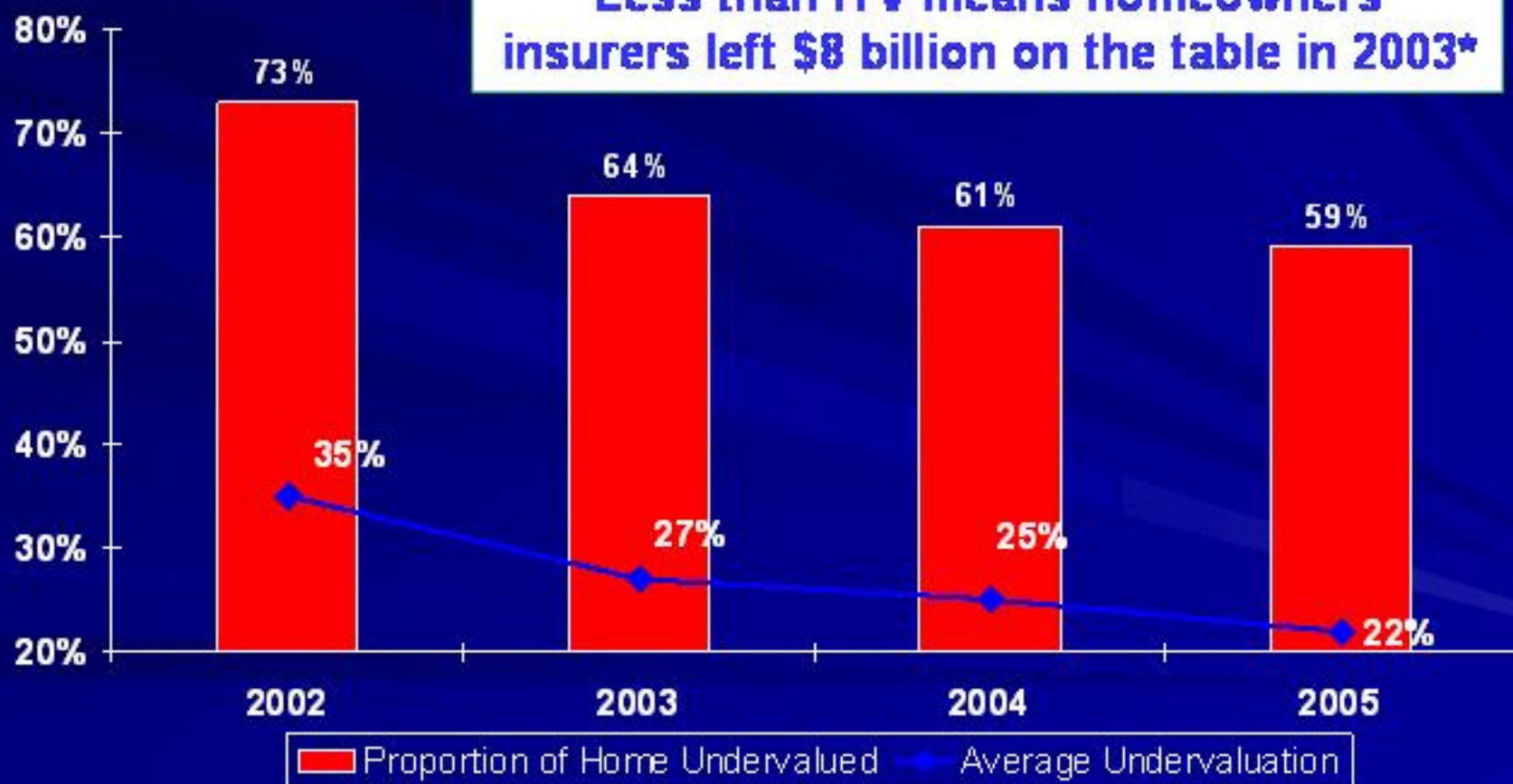
Evidence by failure of:

- Shelby Mutual
- Pawtucket Mutual
- Providence – Washington
- Rumford

Insured property values pre-2005 well below replacement cost.

# Insurance-to-Value in Homeowners is a National Problem, Improved Recently

Less than ITV means homeowners insurers left \$8 billion on the table in 2003\*



# Impact of Hurricanes Rita, Wilma, and Katrina in 2005

- Depleted \$ Capacity \$ off Reinsurers

# Impact of Hurricanes Rita, Wilma, and Katrina in 2005

- Depleted \$ Capacity \$ off Reinsurers
- Taught many lessons now used by storm modelers

# Reinsurance Prices Rose

- Reinsurers used up their savings to pay claims

# Reinsurance Prices Rose

- Reinsurers used up their savings to pay claims
- Reduced ability to provide same levels of insurance for companies

# Reinsurance Prices Rose

- Reinsurers used up their savings to pay claims
- Reduced ability to provide same levels of insurance for companies
- fewer resources to buy from resulted in “supply and demand” - increases

# Storm Models Changed

- Rita, Katrina, & Wilma taught storm modelers much more than previously known about resulting damage patterns

# Storm Models Changed

- Rita, Katrina, & Wilma taught storm modelers much more than previously known about resulting damage patterns
- Now include “Demand Surge” impact

# Storm Models Changed

- Rita, Katrina, & Wilma taught storm modelers much more than previously known about resulting damage patterns
- Now include “Demand Surge” impact
- Modelers use “new” knowledge to predict what would happen where ever a hurricane hits

# Storm Models Changed

- Rita, Katrina, & Wilma taught storm modelers much more than previously known about resulting damage patterns
- Now include “Demand Surge” impact
- Modelers use “new” knowledge to predict what would happen where ever a hurricane hits
- Damage predictions for RI increased by over 400%

# Storm Models Changed

- Rita, Katrina, & Wilma taught storm modelers much more than previously known about resulting damage patterns
- Now include “Demand Surge” impact
- Modelers use “new” knowledge to predict what would happen where ever a hurricane hits
- Damage predictions for RI increased by over 400%
- Insurers must:
  - Collect more premium for the exposures
  - Immediately buy more reinsurance

# RI Hurricane Track History



# History of Rhode Island Major Hurricanes

'38 Hurricane Sept 21, 1938

Sustained winds of 95 mph recorded damage estimated at \$100 million; 262 fatalities. Tide 15 feet above mean sea level (at USGS gage in Westerly). Virtually all the state was without power. Ten percent of electric customers still without power 12 days after hurricane.

Unnamed Sept. 14, 1944

Affected Rhode Island and southeastern Massachusetts; \$2million property damage, no loss of life.

Hurr. Carol Aug. 31, 1954

19 fatalities; \$200million property damage; 13; flooding in Prov.; wind speed 90mph, with 115mph gusts; nearly 3,800 homes destroyed. Tide 12.2 feet above mean sea level (at USGS gage in Westerly). Most of state without power. Four days after storm approximately 50% had power restored; 90% after seven days.

Hurr. Edna Sept. 11, 1954

Heavy rain and major flooding in Blackstone River valley

# History of Rhode Island Major Hurricanes cont...

Hurr. Diane Aug. 17-20, 1955

Heavy rain; Blackstone River crests 15; above normal; \$170 million property damage. Heavy rain and 6 foot tidal surge; \$5million property damage; 82% of electric customers lose power.

Hurr. Donna Sept. 12, 1960

Heavy rain and major flooding in Blackstone River Valley

Hurr. Esther Sept. 21, 1961

Heavy shore damage at Sakonnet Point in Little Compton, and Misquamicut in Westerly

Hurr. Gloria Sept. 27, 1985

Two fatalities; property damage estimated at \$19.8 million; 8596 of electric customers lose power; an estimated 23,700 people evacuated.

# Weather Forecasters Predict High Frequency of Storms

- Colorado State University
- NORA
- Farmers Almanac

# Rating Agencies Get Involved

- With insurance company failure arising from Rita, Wilma, & Katrina, rating agencies require companies to have funding capacity to pay for multiple storms.
  - More than ever expected.

# Rating Agencies Get Involved

- With insurance company failure arising from Rita, Wilma, & Katrina, rating agencies require companies to have funding capacity to pay for multiple storms.
  - More than ever expected.
- Failure to fund for more storms resulted in lower financial strength rating

# Rating Agencies Get Involved

- With insurance company failure arising from Rita, Wilma, & Katrina, rating agencies require companies to have funding capacity to pay for multiple storms.
  - More than ever expected.
- Failure to fund for more storms resulted in lower financial strength rating
- Companies respond by purchasing more reinsurance

# Rating Agencies Get Involved

- With insurance company failure arising from Rita, Wilma, & Katrina, rating agencies require companies to have funding capacity to pay for multiple storms.
  - More than ever expected.
- Failure to fund for more storms resulted in lower financial strength rating
- Companies respond by purchasing more reinsurance
- Companies reduce coastal exposure

## Rhode Island - Residential Industry Exposure

Hurricane Analysis

Exposure By County Distribution

TOTAL INSURED VALUES		
ST	County	Jan-2006 TIV
Ri	Bristol	5.4%
Ri	Kent	17.5%
Ri	Newport	10.3%
<b>Ri</b>	<b>Providence</b>	<b>52.7%</b>
Ri	Washington	14.1%

EXPOSURE BY DISTANCE TO COAST	
	Jan-2006 %
0-1 Mile	37.4%
<b>1-5 Miles</b>	<b>33.0%</b>
5-10 Miles	20.7%
10-20 Miles	8.9%

70.4% of RI is within 5 miles

90.1% of RI is within 10 miles of coast

**What does the future  
hold?!**