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Superstorm Sandy Update: Minimal Ratings Impact Expected

The results showed the industry's improved risk management practices.

Insurance industry losses from Post-Tropical Cyclone Sandy now are expected to approach $25 billion, but based on loss estimates to date, property/casualty insurers remain resilient and hold sufficient capital to effectively absorb these losses. The results from the storm provide a testament to the improved risk management practices in the industry over the past decade.

A.M. Best has seen minimal ratings impact thus far, with just one change in a ratings outlook that was only partially attributable to the storm. Much still is being learned about the storm losses, and A.M. Best will continue to evaluate all ratings as year-end 2012 earnings are announced and financial statements are filed for material changes from initial estimates. Based on current information, minimal ratings impact is anticipated across all segments: personal, commercial and reinsurance.

The split of the industry losses now appears to be about one-third to personal lines insurers and two-thirds to commercial lines insurers, with a greater share of the burden falling on primary insurers than on reinsurers, given the increased retentions evident in recent years. The split between personal and commercial lines losses is somewhat unique compared with other large, catastrophic weather events because of the significant business exposure in the affected regions.

Personal Lines: One surprise of the storm was the extent of flooding caused by the coastal surge, and the resulting losses to automobiles along the coast. Auto losses from the storm now are estimated at about $3 billion. Personal marine losses were also significant. Local insurers in the Mid-Atlantic region, including smaller mutuals, appear to have fared reasonably well, despite their concentrations in the affected region.

Commercial Lines: Commercial lines insurance losses are likely to be large and spread across many domestic and international insurers. Although insurers were quick to place sublimits on business interruption exposures in the aftermath of 9/11, A.M. Best believes a portion of this "throw in" coverage has come back into the market since that time. The take-up rate for additional coverage limits also may have increased as prices softened. While such losses are difficult to measure now, A.M. Best believes a number of business interruption and contingent business interruption claims are likely to reach their limits. Potential claimants include international airports; commercial airlines; hotels; restaurants; the New York City Transit Authority; the Port Authority of New York and New Jersey; various global financial institutions and exchanges, including the New York Stock Exchange and New York Mercantile Exchange; museums; utility companies; broadband and wireless companies; residential apartment buildings; and a vast number of local businesses. As expected, the focus of losses along the East Coast shoreline resulted in significant loss participations by excess and surplus lines carriers, including Lloyd's of London.

Reinsurance: Although Sandy did not impact reinsurers severely, A.M. Best expects the losses to assist in stabilizing reinsurance rates and enforcement of changes in terms, conditions and attachment points. One ongoing issue that is playing out is how reinsurers,

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who have greater flexibility in policy terms, will handle the nullification of the Hurricane deductibles for Sandy. Clearly, they will be able to more quickly align price with the policy terms to ensure an adequate alignment of losses and premiums. Future pricing changes related to this issue will reflect their concerns over other possibly unfavorable regulatory interpretations of policy language.

Conclusion: After Hurricane Irene and the Halloween 2011 snowstorm, Sandy likely will lead insurers and reinsurers to carefully scrutinize their future underwriting of Northeast risks. These recent storms demonstrate that the region exhibits greater weather-related volatility than previously had been understood. As always, A.M. Best analysts will discuss these issues and overall risk management initiatives at company management meetings throughout 2013.

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