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U.S. P/C Industry to Absorb Losses from Hurricane Irene

A.M. Best Co. has begun to assess the financial impact of Hurricane Irene on the U.S. property/casualty (P/C) industry. Hurricane Irene was a sizable catastrophic event, resulting in property damage, flooding and power outages in at least 13 states from North Carolina through New England, while also impacting major areas far inland from the East Coast. Prior to making landfall in North Carolina, the storm already had produced significant insured losses in the Caribbean.

Insured losses are estimated in a range of \$3.0 billion to \$6.0 billion by modeling firm AIR Worldwide. Early estimates from Kinetic Analysis Corp.'s computer models put the damage at approximately \$3.0 billion. EQE-CAT Inc. has yet to publish overall loss estimates for the storm but has estimated losses in North Carolina in a range from \$200 million to \$400 million. Risk Management Solutions Inc. has yet to publish estimates for insured losses.

While industry loss estimates are still preliminary and individual insurers' and reinsurers' full exposure to the event won't be known for some time, A.M. Best expects the overall financial impact to both the primary and reinsurance sectors to be generally manageable, given the current overall capital strength of the industry. However, losses from Hurricane Irene follow record catastrophe losses in the first half of 2011 and put further strain on the industry's underwriting results.

A.M. Best estimates the U.S. P/C industry experienced \$27.0 billion of pretax accident-year catastrophe-related losses, net of reinsurance and reinstatement premiums, in the first half of 2011. These estimates are based on an A.M. Best survey representing approximately 80% of the U.S. P/C industry in terms of net premiums written. The first-half 2011 losses accounted for approximately 12.6 points in the combined ratio, compared with approximately 5.7 points the same period a year ago when catastrophe-related losses were an estimated \$11.9 billion.

Despite the considerable catastrophe losses recorded through the first half of 2011, the overall P/C industry remains adequately capitalized. Accordingly, Hurricane Irene is not a solvency event from an industrywide perspective. However, A.M. Best expects that insured losses from Hurricane Irene, as well as the potential for an ongoing active hurricane season, will further test the U.S. P/C and global reinsurance industries.

A.M. Best's rating assessment includes a risk-adjusted view of overall capitalization which incorporates a reasonably severe event. The standardized incorporation of a company's worldwide probable maximum loss highlights A.M. Best's concerns that catastrophes are a primary threat to solvency, given the significant, rapid and unexpected impact that can occur (see A.M. Best's *Natural Catastrophe Stress Test Methodology*).

As catastrophic events already have been factored into the rating analysis, A.M. Best does not anticipate a significant number of rating actions to be associated with Hurricane Irene. However, companies with significant market share in the impacted states will be evaluated relative to A.M. Best's previous loss expectations (see table of top writers in selected Hurricane Irene-affected states). Any material deviations could lead to negative rating actions, including being placed under review, the rating outlook being revised, or the rating being downgraded.

While global reinsurers have had their balance sheets tested this year, the overall sector remains well capitalized on a risk-adjusted basis and should fare well, provided the losses from Hurricane Irene are within reinsurers' expected risk tolerances. Outsized losses experienced by individual companies will be evaluated as they arise. A.M. Best's ratings in the Caribbean also will be evaluated as more loss information is reported.

Although company loss estimates will take time to accumulate, A.M. Best expects all rated entities will provide preliminary estimates and/or ranges of their potential losses within a reasonable time frame. These loss estimates should include any potential assessments from various state specific "wind" and "beach" residual market mechanisms – if applicable.

It is evident that there was significant storm surge and flooding associated with Hurricane Irene. As was the case in 2005 with Hurricane Katrina, the potential exists for policy-language disputes regarding issues of "wind" vs. "water." While in many cases, contractual language has been clarified over the years, there remains the possibility of insurance coverage disputes based on the origins of water damage, as standard property policies do not cover flood damage. This will inevitably contribute to potential claims leakage surrounding the loss and may be particularly evident in



markets such as New Jersey and Vermont, where water levels continue to rise following Hurricane Irene.

Events such as Hurricane Irene, as well as the significant catastrophe losses during the first half of 2011, highlight the importance of prudent underwriting discipline and catastrophe risk management and their role in the rating analysis. A.M. Best will continue to evaluate the impact of Hurricane Irene in greater detail as additional information becomes available. While there is the potential that some individual ratings could be affected, it is anticipated that the overall financial strength of the U.S. P/C industry will not be

significantly weakened by this event alone. However, given the considerable accumulation of catastrophe losses during 2011 and the potential for continued hurricane activity as the industry enters the peak of hurricane season, some individual companies may face capital, and, ultimately, rating pressures.

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U.S. Property/Casualty – Top 10 Writers in Hurricane Irene-Affected States* (2010)

Ranked by direct premiums written.

(\$ Thousands)

Homeowners

New Jersey

Rank	Company or Group	DPW	Market Share (%)
1	State Farm Group	\$278,837	13.9
2	Allstate Insurance Group	211,508	10.5
3	Liberty Mutual Insurance Companies	160,693	8.0
4	NJM Insurance Group	149,875	7.5
5	Chubb Group of Insurance Companies	144,742	7.2
6	Palisades Group	134,354	6.7
7	Travelers Group	116,125	5.8
8	USAA Group	75,588	3.8
9	Franklin Mutual Group	75,082	3.7
10	Homesite Group	61,287	3.1
Total U.S. P/C Industry		\$2,007,475	100.0

New York

Rank	Company or Group	DPW	Market Share (%)
1	State Farm Group	\$695,603	16.0
2	Allstate Insurance Group	661,815	15.2
3	Travelers Group	473,226	10.9
4	Chubb Group of Insurance Companies	391,877	9.0
5	Liberty Mutual Insurance Companies	334,215	7.7
6	Tower Group Companies	175,807	4.0
7	NYCM Insurance Group	161,948	3.7
8	Nationwide Group	141,851	3.3
9	MetLife Auto & Home Group	129,929	3.0
10	American International Group	104,331	2.4
Total U.S. P/C Industry		\$4,357,145	100.0

Commercial Multiperil (Non-Liability)

New Jersey

Rank	Company or Group	DPW	Market Share (%)
1	Travelers Group	\$67,883	10.0
2	Hartford Insurance Group	64,018	9.4
3	Chubb Group of Insurance Companies	49,003	7.2
4	Liberty Mutual Insurance Companies	44,970	6.6
5	Greater New York Group	26,701	3.9
6	State Farm Group	24,875	3.7
7	Tower Group Companies	24,690	3.6
8	QBE Americas Group	22,980	3.4
9	Franklin Mutual Group	22,663	3.3
10	Philadelphia Ins Cos/Tokio Marine US Grp	22,421	3.3
Total U.S. P/C Industry		\$681,463	100.0

New York

Rank	Company or Group	DPW	Market Share (%)
1	Travelers Group	\$154,380	9.7
2	Chubb Group of Insurance Companies	132,578	8.3
3	Tower Group Companies	131,521	8.2
4	Hartford Insurance Group	107,027	6.7
5	Greater New York Group	73,318	4.6
6	Harleysville Insurance	67,918	4.3
7	Philadelphia Ins Cos/Tokio Marine US Grp	67,787	4.2
8	Liberty Mutual Insurance Companies	60,945	3.8
9	CNA Insurance Companies	48,073	3.0
10	Utica National Insurance Group	43,305	2.7
Total U.S. P/C Industry		\$1,599,641	100.0

Homeowners**North Carolina**

Rank	Company or Group	DPW	Market Share (%)
1	State Farm Group	\$377,816	20.1
2	Nationwide Group	274,058	14.6
3	North Carolina FB Insurance Grp	263,888	14.0
4	Allstate Insurance Group	166,028	8.8
5	USAA Group	95,553	5.1
6	Liberty Mutual Insurance Companies	90,893	4.8
7	Travelers Group	89,478	4.8
8	Erie Insurance Group	81,891	4.4
9	Auto-Owners Insurance Group	65,473	3.5
10	Unitrin P & C Insurance Grp	40,909	2.2
Total U.S. P/C Industry		\$1,880,334	100.0

*Note: Does not include state wind and beach pools.
Source: A.M. Best Co.,  **BestLink**

Commercial Multiperil (Non-Liability)**North Carolina**

Rank	Company or Group	DPW	Market Share (%)
1	Travelers Group	\$61,358	11.5
2	Nationwide Group	47,794	9.0
3	Hartford Insurance Group	39,348	7.4
4	Cincinnati Insurance Companies	37,097	7.0
5	Erie Insurance Group	29,438	5.5
6	Liberty Mutual Insurance Companies	27,967	5.2
7	Chubb Group of Insurance Companies	24,338	4.6
8	Auto-Owners Insurance Group	20,283	3.8
9	State Farm Group	20,142	3.8
10	QBE Americas Group	17,336	3.3
Total U.S. P/C Industry		\$533,590	100.0

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