The Hurricane Seasons that Changed the Insurance Industry: Guy Carpenter Series
Details Impact of Landmark 2004 & 2005 Hurricane Seasons

Part II of Series Examines the 2005 Season and the Changes to (Re)insurance Practices, Catastrophe Modeling and Florida Hurricane Catastrophe Fund

New York, October 25, 2014 – Guy Carpenter & Company, LLC, a leading global risk and reinsurance specialist and member of Marsh & McLennan Companies (NYSE: MMC), today released Part II of the two-part Ten-Year Retrospective of the 2004 and 2005 Atlantic Hurricane Seasons. Part II focuses on the 2005 hurricane season and the cumulative impacts of both the 2004 and 2005 seasons on the (re)insurance industry as well as the changes made in response to these two landmark seasons from both catastrophe model vendors and rating agencies.

“The 2005 Atlantic hurricane season was the most active season we’ve experienced on record, bringing 27 named storms. Of those, four major hurricanes made landfall in the United States,” said James Waller, PhD, Research Meteorologist for GC Analytics. “The most memorable of these was Hurricane Katrina - a storm which proved to be not only the deadliest US hurricane in more than seventy years, but the costliest of all time.”

“The combined impact of the 2004 and 2005 seasons ushered in a new era of increased focus on the potential for catastrophic loss in the U.S., which led to an increased focus on incorporating a strong understanding of property catastrophe risk as part of an overall management strategy,” said Sherry Thomas, Managing Director, Head of Catastrophe Management - Americas. “In the past ten years, insurers and reinsurers alike have worked to improve data quality and completeness, to re-evaluate their policy language and risk appetite, and to increase their understanding of the science behind catastrophe models. Ultimately, this leads to insurers making increasingly better informed risk decisions, and using catastrophe models as one of several inputs to their view of risk.”

2004 & 2005 Seasons: Impact to the (Re)insurance Industry
The intense damage caused by wind and storm surge flooding, particularly from Hurricanes Katrina and Rita, often led to "coverage leakage" where insurers were forced to pay flood claims on wind policies. As a response, many insurance companies revisited their policy wording on flood coverage, with some choosing to explicitly exclude all flood or storm-surge flood from their contracts.

Wind underwriting guidelines also became more stringent due to a combination of higher deductibles and the constriction of maximum wind limits. This reduced capacity for wind coverage led to rate increases for both personal and commercial lines by as much as 20 percent in 2006. Finally, the industry experienced significant upward pressure on both estimated catastrophe exposure and pricing due to across-the-board adoption by reinsurers of anticipated changes in rating agency requirements and catastrophe models.
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Impact to Catastrophe Models
Major updates to both internal and vendor U.S. catastrophe models were made as a result of lessons learned during the 2004 and 2005 seasons as in many cases, models significantly underestimated the actual experienced claim losses. This disconnect also highlighted deficiencies in the collecting and entering of exposure data into the catastrophe models. As a result, many companies instituted initiatives to review and augment the accuracy and completeness of their catastrophe modeling data.

Florida Hurricane Catastrophe Fund Changes (FHCF)
As a result of additional legislative requirements for the FHCF in 2006, combined with significant hurricane activity in 2004 and 2005, the FHCF experienced a funding shortfall for the first time in its history. The unprecedented loss activity stemming from these seasons plus the compounding impacts of other industry changes caused insurance premiums to increase in Florida.

TAGS/KEYWORDS
Guy Carpenter, Hurricane Katrina, Hurricane Rita, Hurricane Wilma, James Waller, Sherry Thomas, GC Analytics, Catastrophe Modeling, Florida Hurricane Catastrophe Fund

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