

News Release

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

*Part One of Series Examines Impact of 2004 Season on Claims, Catastrophe Modeling and Florida
Hurricane Catastrophe Fund*

New York, September 9, 2014 – Guy Carpenter & Company, LLC, the leading global risk and reinsurance specialist and a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), today released Part One of a two-part series report detailing a ten-year retrospective on the 2004 and 2005 Atlantic Hurricane Seasons - two landmark years that were not only significant for their weather events, but for their lasting effects on the (re)insurance industry. The report examines the meteorological conditions that contributed to the weather activity characterizing both hurricane seasons, as well as the impact on underwriting and claims adjusting practices, cat modeling, and the Florida Hurricane Catastrophe Fund (FHCF).

“The 2004 and 2005 Atlantic Hurricane Seasons brought hurricanes to the forefront of discussions in the media, the scientific community, and especially in the insurance industry,” said Sherry Thomas, Head of Catastrophe Management - Americas. “In many ways, this brief period of time reshaped our understanding of the hurricane threat and our approach to risk management.”

2004: A Landmark Atlantic Hurricane Season

The 2004 Atlantic hurricane season produced nine hurricanes in the North Atlantic Basin, five of which made US landfall and four of which - Charley, Frances, Ivan and Jeanne - rendered severe impacts to the state of Florida.

The most destructive storm was Hurricane Ivan, which reached Category 5 strength on three separate occasions and brought extensive damage to the Pensacola region of Florida, including extensive beach erosion and severe damage to beachfront homes. Offshore oil and natural gas production was also disrupted for more than four weeks.

Impact to the (Re)Insurance Industry

The 2004 hurricane season saw four of the top 25 costliest storms for the mainland US between 1949 and 2012, according to adjusted Property Claim Services® (PCS®) loss statistics. With the largest impact to residential and commercial property owners, the oil and gas industries, and the (re)insurance sector, the 2004 season resulted in over \$32 billion dollars (adjusted to 2014 levels) in insured losses.

Claims and Deductible Practices

It is estimated that one out of every five residential structures in Florida sustained damage during the 2004 hurricane season and certain locations were hit multiple times before insurance companies were able to safely send claims adjusters out to assess the damage. As a reaction to this atypical and costly series of events, the state of Florida passed legislation that reimbursed homeowners using funds from the Florida Hurricane Catastrophe Fund (FHCF) cash balance for multiple deductibles applied for two or more hurricanes in a single season, which effectively made policy deductibles aggregate.

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Impact to the Catastrophe Models

In mid-2005, a catastrophe model vendor incorporated the option for users to apply aggregate demand surge to catastrophe modeling runs, as opposed to demand surge applied on a single occurrence basis. The model now allowed the user to consider additional cost inflation due to competition for labor and materials to repair damages from multiple events. This option was largely adopted by the industry and eventually the vendor phased out the original single-occurrence demand surge, leaving aggregate demand surge as the only option in their model which is still currently in existence.

“The 2004 hurricane season spurred an increased focus on aggregate losses and changed the way in which the industry manages multiple storms in a single season,” said Susan Denike, Managing Director. “Although extremely significant, the initial changes to catastrophe models were fairly limited in both scope and impact to loss estimates. It was the collision of the back-to-back events of the 2004 and 2005 hurricane seasons that revolutionized the catastrophe management space.”

TAGS/KEYWORDS

Guy Carpenter, Florida, 2004 Hurricane Season, 2005 Hurricane Season, Cat Modeling, Florida Hurricane Catastrophe Fund, Claims, Deductibles, Sherry Thomas, Susan Denike

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