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# Mild year for hurricanes lets insurers pad reserves

Business First of Buffalo - September 22, 2006 by [Annemarie Franczyk](#) Business First

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Mother Nature's relative kindness to property owners so far this hurricane season is unlikely to have much impact on insurance rates.

Industry experts say that commercial and residential insurers were hit so hard last year - the worst in recent history - that they likely will use this period of quiet weather to cushion their reserves against future catastrophes.

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So those double- and triple-digit increases caused by Hurricane Katrina will continue to be a reality for most. The most commercial customers can hope for this year is a leveling of rates, said Kimberley Joyal, senior vice president of **Marsh USA Inc.**

"In the past year, pricing increased 40 percent to 200 percent as several carriers withdrew from the market in certain areas," Joyal said. "If we have a good season, that will give insurers a chance to build surpluses. We think it will at least even out increases we're seeing right now. If you don't have heavy wind exposure, you may see a slight roll back in rates."

This could be the case for the majority of Western New York-based businesses, which are well outside the hurricane zone: an area that begins in the Gulf Coast, swings around the coast of Florida and extends north to Massachusetts. If the local businesses have suppliers within the zone, however, they could see rates increase due to "indirect exposure," Joyal said.

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The insurance industry, careful not to be surprised by another horrific season, is using computer modeling tools to determine how much exposure it will have in any area over the course of many decades, even centuries. At the same time, the companies that insure the insurance companies are cutting back. It's not a welcoming environment for insurance companies considering a re-entry into the market, a development that would help offset demand and flatten prices, Joyal said.

"Right now, our clients are biting their nails. Renewals come out in April," she said.

Residential insurers similarly are trying to determine their long-term risk using computer-based forecasting. One mild season has little impact on a prediction that can incorporate a couple of centuries, said George Yates, a Long Island agent and member of the **Independent Insurance Agents & Brokers of New York Inc.**

"The industry is not looking year to year but what the 100- to 250- year storm is going to do to their balance sheets," he said. "The primary insurers, the people who reinsure them and the people who rate them want to know if they will be healthy enough to pay claims."

Computer modeling entered the insurance business after Hurricane Andrew hit Florida in 1992 and cost the insurance industry \$21.5 billion, the highest up to that time. As the technology became more sophisticated, data has improved and the insurers are beginning to understand how to better spread their risk over time.

Yates represented the agents and brokers' group before a state hearing earlier this year when he warned that **Allstate Corp.**'s decision to shield itself from future storms by scaling back business in downstate New York would put undue pressure on the industry overall. The move by the nation's second-largest insurer "dumped" about 60,000 policies on the market that doesn't have the capacity to handle them, he said.

Other insurers have followed: **Nationwide Mutual Insurance Co.** and **MetLife Inc.** have either cut back coverage or added stipulations to its coverage.

"I don't hold out hope for the consumer trying to pay reduced rates," he said.

While the season has been unremarkable so far, it's not over until November. This is no time for complacency, according to the **Insurance Information Institute**. The number of hurricanes and cyclones predicted to make landfall this year is projected to have a direct impact on one in six Americans.

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