

State goes from first to last in catastrophes

Indiana sails through 2007 without a single large weather event, rebounding from hailstorm of claims in 2006

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Indiana weather is notorious for the volatile swings it can produce from one day to the next. Just this month, high temperatures in Indianapolis fluctuated about 40 degrees within 48 hours.

The disparity in major storm damage that befell the state the past two years is quite unusual, though, even by Hoosier standards.

Statewide property losses totaled \$1.5 billion in 2006, the most in the nation, due in large part to what's become known as the Good Friday hailstorm.

Last year, however, Indiana was one of just nine states in which not a single large weather event, or catastrophe, occurred, according to the New Jersey-based Insur-

ance Services Office.

"For Indiana, it's unusual to lead the nation and be that high," said Marty Wood, vice president of the Insurance Institute of Indiana. "It was, no pun intended here, a perfect storm. Indiana got hit with a large hailstorm and then nothing else happened across the country."

Indeed, the United States in 2006 managed to sidestep all hurricanes, unlike the previous year when Katrina caused widespread devastation, helping to vault Indiana to the front of the catastrophic claims list. Last year, the wildfires in San Diego County helped hand the top spot to California—a more typical candidate given its propensity for fires and mudslides.

Overall, property and casualty insurers are expected to pay national policyholders

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\$6.5 billion for 2007 losses, the eighth-lowest cost in a decade, according to the ISO insurance trade group. It estimates that insurers paid 1.2 million claims for damage in 41 states resulting from 23 catastrophes.

Those events included wind and hailstorms, tornadoes and flooding, as well as winter storms and wildfires.

Unpredictable weather patterns often underscore the difficulty insurance companies face in assessing risk.

Yet, when factoring rates, companies typically take a long-term approach, said Gregg Huey, chief operating officer of Indiana Farmers Mutual Insurance Co.

"A carrier is not going to use one or two years to trigger rate activity," he said. "We look at three and five years, and look at trend lines and whether our experience is getting worse."

The Carmel firm incurred \$31 million in catastrophic losses in 2006, primarily from the hailstorm, compared with \$7.6 million in losses last year.

Competitor Indiana Farm Bureau Insurance paid more than 11,000 claims totaling \$71.8 million as a result of the hailstorm, company spokesman Rick Nelson said. The number of claims amounted to 12 percent of its 2006 total and, for a single event, was the most in the company's history.

Nelson characterized 2006 as an anomaly, but said insurers accumulate reserves to pay unexpected claims and protect themselves from insolvency. Joseph Annotti, spokesman for the suburban Chicago-based Property Casualty Insurers Association of America, concurred.

"Years like 2007 balance out years like 2006," he said. "In the Midwest, over the course of time, you just understand that storm losses and hail losses will occur, just like wildfires are calculated into California's rates."

The exceptions to the rule are Florida and the southeastern Atlantic and Gulf Coast states. Of the \$40.6 billion in losses associated with Hurricane Katrina, insurers paid \$25.3 billion to Louisiana policyholders.

Unlike in other coastal states, insurers haven't stopped doing business in Louisiana, because they can't. A 1992 law makes it difficult for a company to cancel a policy if it's been doing business with a customer for at least three years.

But they are offering fewer new policies and placing greater restrictions on existing coverage, which drives up prices. Major insurers such as Allstate and State Farm have raised rates as much as 50 percent in New Orleans. They also have removed wind and hail protections from new and existing policies.

Recent studies had shown premiums growing on average 3 percent annually. But prices for many kinds of insurance policies will continue to fall this year, according to Watson Wyatt Worldwide in Arlington, Va. The insurance consulting firm forecasts premiums for casualty insurance declining 5 percent to 10 percent in 2008. Prices for property insurance will be mostly flat, with some declines.

Watson Wyatt attributed the decreases to increased competition forcing carriers to cut prices to retain business. The trend is evident in the Midwest, where insurers are redirecting their efforts after abandoning the more vulnerable regions.

"Certainly, the number of players in the market makes Indiana an incredibly competitive market," Indiana Insurance Commissioner Jim Atterholt said.

To be sure, from 2004 to 2005, the state climbed from 22nd to 20th in terms of lowest average homeowner premiums in the nation. In 2005, the average annual premium was \$653, compared with \$767 nationwide, according to the Kansas City, Mo.-based National Association of Insurance Commissioners.

Since Atterholt took office in January 2005, he has placed more of an emphasis than his predecessors on attracting insurance companies to operate in Indiana. The Insurance Department partly pays for an employee at the Indiana Economic Development Corp. to lure insurance company expansions.

Critics of the philosophy have questioned whether it puts companies ahead of consumers. •

Storm clouds clear

Indiana led the nation in 2006 catastrophic losses, due to the Good Friday hailstorms. In 2007, Indiana was one of nine states that logged no significant losses.

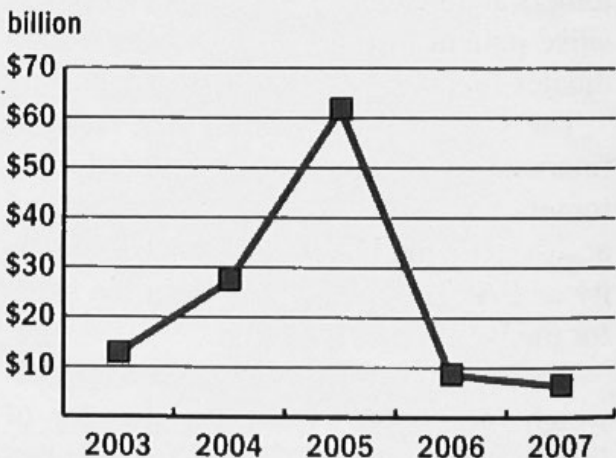
Catastrophic-loss leaders in 2006

1. Indiana\$1.5 billion
2. Missouri.....\$878 million
3. Tennessee.....\$873 million
4. Texas\$688 million
5. Kansas\$601 million

Catastrophic-loss leaders in 2007

1. California\$1.2 billion
2. Minnesota.....\$747 million
3. Texas\$677 million
4. Georgia.....\$320 million
5. Illinois.....\$272 million

National catastrophic losses



Source: Insurance Services Office Inc.