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## Irene likely to lead to higher insurance premiums

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**AP Business Writers**

The \$7 billion in estimated losses from Hurricane Irene will compound the vast damage caused by weather in the United States this year. Yet despite billions they've paid out for floods, tornadoes and earthquakes, big insurance companies can expect another profitable year.

And their customers can expect higher premiums.

The stocks of major insurers shot up on Monday as investors celebrated Irene's less-than-expected damage. The storm didn't even cause most analysts to adjust their profit estimates for insurers.

In part, that's because insurance companies have been raising premiums this year, especially for customers in high-risk areas. Homeowner and auto policies cost 5 to 10 percent more than they did a year ago, according to research by Gregory Locraft, an analyst with Morgan Stanley.

The damage from Irene and other disasters means that property insurance premiums will likely rise across the board into 2012, Locraft said.

"Irene is just another log on the fire," he said.

The storm seems unlikely to hurt the overall U.S. economy. Analysts agree that damage from Irene will likely run less than \$10 billion - a tiny fraction of the \$14 trillion U.S. economy.

Reconstruction might even strengthen areas hit hard by Irene, analysts said. Rebuilding homes, repairing cars and fixing streets and bridges should help boost those local economies late this year and early next year, they said.

Irene is the 10th U.S. weather disaster this year to have caused more than \$1 billion in damage, the National Weather Service says - the most for any year on record dating back 30 years. And 2011 is hardly over.

Excluding Irene, this year's natural catastrophes had caused about \$18 billion in damage to insured properties, according to the Insurance Information Institute. Irene will add \$3 billion

to \$5 billion, said Robert Hartwig, an economist and president of the group.

In a normal year, industry losses typically total \$15 billion to \$20 billion, said Robert Litan, an industry expert and senior fellow at the Brookings Institution, a Washington think tank. And the peak hurricane season is only about half over.

Another reason insurers are expected to raise premiums is that reinsurance companies are set to boost their rates Jan 1. Reinsurance is coverage that insurance companies buy to cover their potential losses from catastrophes.

This year, reinsurance hasn't offset insurance companies' costs. Reinsurance policies don't kick in until a single disaster's costs to insurers top \$10 billion. When the billions are spread over numerous disasters, as has happened this year, insurers - and their customers - must absorb the costs.

That won't stop reinsurance companies from hiking their rates - costs that will be passed on to homeowners.

Insurance companies that cover major disasters are typically able to absorb heavy costs. They manage investment portfolios that produce relatively stable income. Most of their policies never result in claims. In such cases, the premiums are pure profit.

And when a string of catastrophes hits, as in 2011, they can raise the premiums they charge homeowners.

Even with higher premiums, finding coverage will become harder for people in areas where insurers are sensitive to risks from catastrophes. Few insurers, for example, will cover homes on fault lines or near the Gulf Coast, said Robert Rusbuldt, CEO of the Independent Insurance Agents and Brokers of America.

"When it comes to property insurance, it's all about location," Rusbuldt said.

Disasters overseas, as in Japan, have escalated the financial burdens for insurers, many of which have affiliates abroad.

Hard-hit areas, like North Carolina's coast, will suffer from lost tourism, on top of the hurricane's destruction.

The national economy, though, will scarcely feel the impact of Irene.

"Without minimizing the pain and suffering for the people affected, from an economic perspective, this is a fairly small event," said Nariman Behravesh, chief economist at IHS.

The economic stimulus from the storm will be about twice the cost of its damages, Litan said. Yet the benefit will be slight, considering the relatively minor damage Irene caused. Adjustments to economic growth forecasts resulting from Irene are unlikely, analysts at IHS and Moody's Analytics said.

Rebuilding will be concentrated in relatively small areas and in industries such as

construction. Litan suggested it could spark a "short-term boom for some construction workers and contractors who have been out of work."

An economic uptick is most likely in states such as Vermont and New Hampshire. Their economies are small enough to benefit from disaster-related money. New York and New Jersey, by contrast, are too economically vast to benefit much, Litan said.

Nationally, most economists expect an increase in temporary layoffs and job losses. The economy would likely regain any drop in output or spending by year's end, they said.

One factor limiting insurers' losses from Irene is that much of the damage was from flooding and storm surges. Standard homeowner's policies don't cover such damage.

Wind damage is typically covered by homeowner insurance. But wind speeds weren't strong enough to cause major structural damage, said Rod Fox, CEO of TigerRisk Partners - especially by the time Irene reached New York.

Still, premiums are rising. One reason is that people become willing to pay more after disasters like those that struck Japan, Missouri and North Carolina this year.

Insurance companies' profits this year are expected to be modest relative to the money they hold in reserve or investment accounts. They must invest safely, to protect against short-term swings in the financial markets.

That limits their investment returns. To boost revenue, they must raise prices.

Premiums may also rise for commercial insurance customers, said Al Tobin, a manager at Aon Risk Solutions, part of Aon Corp., an insurance broker and risk advisory firm.

Don J. Metz, co-owner of Morse, Harwell, Jiles Insurance, a broker in Poplar Bluff, Mo., an area struck by tornadoes and floods this spring, said insurers he works with have been raising premiums as policies have come up for renewal.

He's seen premium increases of 10 percent and higher.

"More and more, it's going up in the last year or the last two years," Metz said, adding that increases used to be just 1 or 2 percent a year.

By midday Monday, Ericson Insurance Advisors in Washington, Conn., had taken claims for about 100 customers reporting damage related to Irene.

Ericson President Spencer Houldin said he's been seeing rates spike between 7 and 20 percent.

"That's not an exaggeration," he said. "We've been seeing in the last six months some significant rate increases."

Last winter, the agency handled more than 1,000 claims related to ice storms and a rare tornado that hit western Massachusetts.

This past spring, Allstate CEO Thomas Wilson made clear that insurance companies expect more severe weather to result from climate change and are pricing their policies accordingly.

"We are acting and running our homeowners' business as if that is a permanent change, as opposed to an anomaly," he said.

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AP Business Writer Eileen AJ Connelly in New York contributed to this report.

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