## Domestic Credit by John Hoefle

# Worst year ever for U.S. insurance sector

*Insurers are gearing up for double-digit premium hikes and pushing for a federal bailout.*

The year 1992 was the worst ever in the history of the U.S. insurance sector, with a record $22 billion in losses from natural and man-made catastrophes, easily surpassing the previous record of $7.6 billion in catastrophic losses, set in 1989.

Leading the way was Hurricane Andrew, the most expensive storm in U.S. history, which hit southern Florida and Louisiana in late August. According to the latest estimates, Hurricane Andrew will cost property and casualty insurers $16 billion for damage done in Florida, and another $500 million for damage in Louisiana. With total insured losses of $16.5 billion, Andrew will cost the insurers more than twice the $4.2 billion in losses from 1989's Hurricane Hugo, the previous recordholder.

Note that these figures reflect only the insurance companies' exposure, not the total damage done by the storm. Shortly after the storm, government officials estimated that the total damage done by the hurricane could run as high as $30 billion.

The loss figure for Hurricane Andrew may well go higher, since the insurance estimates have risen steadily over the last several months. Right after the storm, the insurance companies estimated their payouts at $7.8 billion, of which $7.3 billion was in Florida.

The difference between the initial $7.8 billion estimate and the latest $16.5 billion estimate is $8.7 billion—more than twice the amount of the losses from Hugo, and more than the total loss figure for 1989.

But even without Hurricane Andrew, the insurance sector had $5.5 billion in catastrophic losses last year, more than any year in the past decade except for 1989.

While much of the nation focused upon the devastation wrought by Andrew, Hurricane Iniki struck the Hawaiian Islands in September. With $1.6 billion in insured losses, Iniki became the third most costly insurance catastrophe in U.S. history.

Two other 1992 catastrophes made it into the top ten. The Los Angeles riots in April and May caused $775 million in insured damages, making it the seventh most costly U.S. insurance catastrophe, while an April storm wracked up $760 million in insurance losses in Texas and Oklahoma, putting it in eighth place.

The other catastrophes among the 10 most costly insurance catastrophes are Hurricane Hugo; the $1.2 billion Oakland fire in 1991; the $960 million Loma Prieta earthquake in 1989; the $880 million "Siberian Express" cold snap of 1983; the $753 million Hurricane Frederic in 1979; and the $676 million Hurricane Alicia in 1983.

The bitter winter storm which hit the Northeast seaboard in December 1992, just missed the list, with an estimated $650 million in insured losses, but that figure too, may rise.

The year 1992 also saw a number of smaller catastrophes, including the Chicago flood in April, where a construction accident caused millions of gallons of water from the Chicago River to drain into the city's 40-mile downtown tunnel system. Power was shut off to a two-square-mile area of downtown Chicago, forcing the evacuation of thousands of stores and offices, including the Chicago Board of Trade and the Mercantile Exchange. The total bill to the insurance companies for this disaster was $300 million.

While the total losses by the insurance companies for 1992 have not yet been announced, a number of companies have released their projected losses due to Hurricane Andrew. Topping the list is State Farm, which said it will pay out $3.5 billion in claims. Allstate will pay out $2.5 billion, while Prudential will pay $1.2 billion. USAA will pay $400 million, Travelers will pay $240 million, St. Paul $158 million, American International $150 million, Metropolitan $114 million, and Aetna, GEICO, and American Reliance, $80 million each.

With these massive coverage losses, and even greater (if still hidden) real estate losses, it should be no surprise that insurers are planning to raise their rates and push for federal assistance. That process was started by at least one opportunistic insurer, American International Group, the very day Hurricane Andrew hit Florida.

"This is an opportunity to get price increases now," AIG executive vice president J.W. Greenberg wrote in an Aug. 24 company memo. "We must be the first and it begins by establishing the psychology with our own people. Please get it moving today."

Some insurance companies have already started restricting their policy-writing operations in coastal areas such as Florida and New York City, and others are considering such a move. In addition, they are pushing for a federal fund which would limit their losses in the event of a big catastrophe. In theory, the insurers would bear the costs of the fund, but we've all heard that one before.