

New hurricane forecasts to boost insurance rates

By Julie Patel May 18, 2011 02:30 PM

[Regulators](#) and [others](#) said the insurance industry inflated premiums after the 2004 and 2005 hurricanes because it started using short-term data to predict hurricane risks and help calculate premiums.

[Changes made](#) this year to predict hurricane risk – specifically for a popular model produced by RMS – may trigger dramatic rate hikes, according to insurance experts.

Insurers report the new RMS model effectively doubles or triples damage projections in some cases for central and northeastern Florida.

That means insurers are expected to pay more for reinsurance, catastrophe insurance for insurers, and buy more of it – a "double whammy" for the companies and their customers, said Jack Nicholson, head of the state's Florida Hurricane Catastrophe Fund.

Insurers charge policyholders for reinsurance though windstorm insurance premiums. A bill [signed into law](#) Tuesday aims to speed up the process for insurers who want to raise premiums up to 15 percent for reinsurance, on top of other rate hikes approved during the same year.

"It's impacting the entire state," Stephanie Siewert, vice president of marketing and sales for Prepared Insurance Company in Tampa, said about the RMS model.

Higher reinsurance rates in recent years in parts of Florida where hurricanes typically make landfall led Prepared and many domestic insurers to shift more policies to central and northern Florida, Siewert said. "We pride ourselves on...a nice, diverse footprint" in the state, she said.

But the new RMS model assumes hurricanes take more time to dissipate and they're more destructive as they move inland than previously believed. That's based on new data from recent hurricanes and a peer-reviewed

study RMS conducted with academics, said Ryan Ogaard, a senior vice president of RMS.

Critics say the potential volatility of risk prediction models' outcomes casts doubt on their effectiveness. "When you have dramatic changes from year to year, that somewhat shakes the confidence the public has in modelling in general. If it's a good model, why did it change so much?" Nicholson said.

"All models...have uncertainty in them and the uncertainty can be fairly substantial," Ogaard said. "It's easy to become complacent and not be willing to take more data in and change the view of risks [that in the past one might be] underestimating."

It will take years to know whether the changes make sense. One way to address that is for reinsurers and insurers to start by giving the new RMS model very little weight when calculating risks and in turn, rates, and incrementally increasing the model's influence over several years if it proves its effectiveness, Nicholson said.

That's unlikely. Investors of reinsurance companies are naturally conservative about risks they take on, preferring to be overpaid for potential damages than underpaid. Plus, some insurer's rating agencies, companies that assess the financial health of companies, are pushing them to buy more reinsurance in light of the RMS model.

Prepared and other insurers, including Bankers Insurance Group's First Community Insurance and American Strategic Insurance, instructed their insurance agents recently to stop selling new policies in certain areas because of the model's changes, at least until the companies can be sure they'll recover the higher reinsurance costs from customers.

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