

Property
Claim Services



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Insurance Solutions
Claims and Crime Analytics



2013 Year in Review:

Close Call

INTRODUCTION

The year 2013 highlighted the difference between catastrophe frequency and severity. Property Claim Services® (PCS®) designated 29 catastrophe events in the United States, putting the year slightly above the ten-year average. Further, 13 tropical storms formed, consistent with the wave of forecasts that always precede hurricane season. However, industrywide losses reached only \$12.9 billion from 1.8 million claims, well below the ten-year average. Frequency was high for both PCS catastrophes and named tropical storms — but severity was not.

As a result, the enduring lesson of 2013 is likely to be one of vigilance. Although catastrophe losses were low, the risks were not — and they were present throughout the year. If even one significant hurricane had made landfall, the year's outcome would have been much different, possibly even turning 2013 into an above-average year. For that reason, insurers should resist the temptation of complacency heading into 2014.

FREQUENCY ABSENT SEVERITY

PCS declared 29 U.S. catastrophes in 2013, causing \$12.9 billion in insured losses from 1.8 million claims. In terms of catastrophe frequency, 2013 was the fifth most active year since PCS began keeping track in 1950. However, industrywide catastrophe paid loss was at its lowest level since 2000.

The perils underlying the catastrophe events of 2013 are responsible for the gap between frequency and severity. Thunderstorms in the Midwest, which tend to generate fewer (and smaller) claims than hurricanes and earthquakes, accounted for 24 of the PCS-designated catastrophes last year. Eighty-five thousand of them came in a rare, late-season November event, an outcome that will likely generate discussion across the industry about whether such events should be anticipated in the future.

The \$12.9 billion in catastrophe losses in 2013 put the year 46 percent below PCS's ten-year average of \$20.63 billion — and 63 percent below the 2012 result of \$34.96 billion. In fact, 2013's total ranks below the three largest individual catastrophe events of the past 15 years: Hurricane Katrina at \$41.1 billion, the World Trade Center attack at \$18.8 billion, and Superstorm Sandy at \$18.8 billion. And last year's total was only slightly greater than the insured property loss estimate for the Northridge earthquake and Hurricane Ike, both reaching \$12.5 billion.

Year	Total Dollar Loss	Frequency
2003	12,885,000,000	21
2004	27,490,000,000	22
2005	62,301,200,000	24
2006	9,238,000,000	33
2007	6,710,000,000	23
2008	27,045,000,000	37
2009	10,570,000,000	28
2010	14,315,000,000	34
2011	33,640,000,000	30
2012	34,960,000,000	26
2013	12,882,500,000	29
Total	252,036,700,000	307

The second quarter of 2013 was the year's most active, given the lack of tropical storms making landfall. PCS designated 13 catastrophes with insured losses of \$7.2 billion. The fourth quarter, unsurprisingly, was the least active, with a late-season tornado outbreak across several states among the three catastrophes designated.

WHERE WERE THE LOSSES?

In 2013, PCS named 25 states and the District of Columbia in at least one catastrophe event. Oklahoma and Texas suffered the largest catastrophe losses in the country, with \$2 billion and \$1.5 billion, respectively. Ten catastrophe events occurred in Texas, and six involved Oklahoma. Colorado followed with four events causing \$900 million in losses, much of it from wildland fire, and Minnesota suffered \$845 million from two events. Nebraska was named in one catastrophe event and sustained \$773 million in insured losses.

That represents a significant departure from the norm. Over the past ten years, Louisiana suffered \$33 billion in insured losses from catastrophe events, making it the state most affected. Florida follows closely at \$32 billion for the decade. In 2013, Louisiana suffered only \$593 million in insured losses from catastrophes, and Florida was not named in any PCS-designated catastrophe events.

For the ten-year total, Texas is third with \$27 billion in losses. While the presence of Texas among the top five in 2013 is consistent with the past decade, the reasons are quite different. Over the past decade, more than half of Texas's catastrophe losses came from two hurricanes in 2008: Gustav and Ike.

The fourth and fifth most active states for catastrophe losses over the past ten years are Mississippi at \$16 billion and New York at \$13 billion. While Mississippi is routinely affected by hurricanes, the bulk of New York's catastrophe losses (nearly 70 percent) came from Superstorm Sandy.

GREAT EXPECTATIONS

The lack of tropical storm catastrophe events may have come as a surprise to the U.S. insurance industry, but to treat it as such is to assume that frequency necessarily entails severity. Ahead of hurricane season, NOAA forecasted the formation of 13 to 19 named storms. Tropical Storm Risk predicted 14.8, with Accuweather forecasting 16. Over the past 30 years, the average for the Atlantic basin is 12 named storms.

The forecasts were close. The 2013 hurricane season brought 13 named storms. However, they did not pack the punch that many expected. None were named PCS catastrophes, and for the first time since 1994, none became major hurricanes (greater than Category 3). Last year was the eighth in a row in which a major hurricane did not make landfall in the United States. The total number of hurricanes of any strength was the lowest since 1982.

While hurricane season may have appeared to be quiet, several factors suggest that insurers should remain vigilant. The number of storms forming was consistent with both forecasts and historical averages. Despite the fact that none were major hurricanes, recent history shows that even Category 1 and 2 storms can cause significant damage. After all, Sandy had lost its hurricane status before slamming into New Jersey, and Hurricane Ike was a Category 2 hurricane at landfall, with winds near 110 mph (just 1 mph short of Category 3). A slight twist could have turned 2013 into a much different year.

CANADA

PCS Canada declared six events catastrophes in 2013, which is consistent with both 2012 and the average since the inception of the service in 2010. Catastrophe losses reached approximately \$3 billion last year across 92,300 claims. That represents a 170 percent increase from \$1.1 billion in 2012. Interestingly, the number of claims from catastrophe events actually fell 14 percent from 108,000 in 2012. The corresponding 200 percent year-over-year increase in average paid is directly attributable to the nature and magnitude of the events that affected Canada in 2013.

Alberta was identified in only one catastrophe event in 2013, but the damage was sufficient to make it the most affected province as measured by catastrophe losses. PCS estimates that catastrophe losses for Alberta reached \$1.7 billion through more than 27,000 claims. The province's average claim paid, \$63,382, was approximately double the average catastrophe claim paid in Canada last year. Ontario followed Alberta with \$1.1 billion in catastrophe losses across more than 21,000 claims. For both provinces, catastrophe losses surged year over year, with Alberta up 140 percent and Ontario up more than 400 percent.

In terms of frequency, Ontario remains the most catastrophe-affected province in Canada. The five catastrophes involving Ontario in 2013 bring the province's total to 13 since 2010. Quebec is next, with eight catastrophe events since 2010 (including Superstorm Sandy) and three occurring last year. Alberta has also had eight catastrophe events since 2010.

PCS has designated 24 catastrophes in Canada since launching our service in 2010, amounting to more than \$7 billion in catastrophe losses.

CONCLUSION

Last year may have been a quiet one for catastrophe events, but a few twists and turns could have led to a much different outcome. Although insured losses were much lower than usual, catastrophe activity was quite high — with 24 thunderstorm events and 13 named storms. The difference between activity and impact should serve as a warning to the insurance industry that risks remain all around us and that there is no substitute for continued vigilance.

Following a calm catastrophe year, there is no greater asset than history, and taking a critical eye to catastrophe events can inform catastrophe plans for this year — and those to come. Catastrophes don't recognize trends, as evidenced by 2004, 2008, and 2010. Following each of those quiet years, U.S. catastrophe losses surged more than 100 percent.

Soon enough, the 2014 hail season will begin, followed soon after by hurricane season in the Atlantic basin. Rather than reflect on the relative calm of 2013, insurers should take the opportunity to review their catastrophe plans and make sure they can address the needs of their policyowners in the event of an "average" storm season that has more land-falling hurricanes.

FAST, FLEXIBLE PCS CATASTROPHE DATA DELIVERY

FlatCat® puts the entire PCS catastrophe-history database right at your fingertips. Use this tool to gain easy access to severe weather and catastrophe incident information from as far back as 1950 in the United States and 1998 in Canada. With FlatCat, which consists of a

series of flat files updated daily, you can customize, analyze, and integrate the data right into your own environment — from claims systems to catastrophe models.

FlatCat can help you capture more catastrophe claims in your system. Your system can use this tool to match call center reports to the catastrophe definition in your company's database. Fewer claims will slip through the cracks, eliminating the need to check information manually.

Because it is delivered automatically in a flat file, the PCS catastrophe data in FlatCat allows you to format the data to suit your needs and integrate it into your own system. FlatCat gives you the flexibility to create customized reports and perform a broad range of analyses.

HOW IT WORKS

FlatCat is an encrypted flat-file database, and you must have the IT capabilities to incorporate it into your system. Using Verisk's secure FTP servers, FlatCat provides a daily data file that includes:

- catastrophe serial numbers
- dates of occurrence
- states affected
- types of catastrophes and perils
- all loss estimates from preliminary to final (estimated payment, average payment, number of claims, total dollars)

Our staff will coordinate with your IT personnel and make any system changes needed to implement an automated daily download. Once you have those changes in place, the process works automatically. The data you download is always secure, as we support PGP Encryption over FTP and Tumbleweed Valicert Secure Transport™.

For more information about FlatCat — including sample files or an online demo — please contact Don Hahn at +1 201 469 3115 or dhahn@verisk.com.

