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Hurricane Katrina: Estimating the Property Reinsurance Market Impact

CHICAGO, Sept. 12 /PRNewswire-FirstCall/ -- Hurricane Katrina will most likely be the largest property loss ever recorded in the global property reinsurance market. Estimates of insured losses from leading modeling firms range from $14 billion to $35 billion. These estimates generally exclude losses related to the significant flooding in New Orleans due to the lack of clear data reflecting insured exposures. One of the modeling firms has estimated the insured flooding at $15 billion to $25 billion (including approximately $10 billion from federal government programs) bringing their total estimate of insured losses to $40 billion to $60 billion. The unknown extent of flood insurance coverage, whether written voluntarily or deemed in place by regulators or courts -- so called "regulatory surge", the unknown extent of insured business interruption coverage and other difficult to model issues such as demand surge adds even more uncertainty to this already wide range of loss estimates. As in other significant historical events, the resolution of these issues will take months and, in some cases, years. While there is uncertainty about the size of loss, it is clear that the property reinsurance industry will shoulder a significant portion of the insured losses from Hurricane Katrina.

Every significant line of property insurance will incur a Hurricane Katrina related loss; from direct physical damage in personal, commercial, HPR, energy and technical lines to time element and contingent time element loss where the direct physical damage may be difficult to ascertain. With difficult modeling issues associated with each of these property lines, insurers will be counting on special expertise to better understand insured exposures and narrow the range of estimated losses for their book. Reinsurance programs in place will transfer significant volatility and replace critical capital for insurers.

The reinsurance market place continues to provide supplemental capacity for insurers that require additional capacity for the remainder of their treaties' terms.

We expect Hurricane Katrina to have an impact during the upcoming renewals and we are still little more than half way through the 2005 hurricane season. We do not expect that the significant range in the size of the industry insured loss estimates will materially narrow before renewal negotiations begin in earnest. Bryon Ehrhart, head of Aon Re Global Services stated, "We believe the reinsurance market should remain a technically priced market and through our advocacy for insurers should continue to differentiate individual client exposures and experience from the general market trend."

Based upon a range of estimated outcomes for the 2005 hurricane season, including Katrina, the following table illustrates the potential impact on the U.S. catastrophe exposed property reinsurance market:

Insured Loss	Average Ratings Downgrades of Reinsurers	Client Eligible^ Traditional Reinsurance Capacity Impact	Technical Price Changes from Model Revisions	New Reinsurance Capital Raised
$15 Billion Range:	Insignificant	Insignificant	0 to 10% Increase	Insignificant
$35 Billion Range:	1 Notch	10% Reduction	10 to 15% Increase	$5 to $15 Billion
$50 Billion Range:	2 Notches	20% to 25% Reduction	15 to 30% Increase	$15 to $25 Billion
$75+ Billion Range:	3 Notches	30 to 50% Reduction	40%+ Increase	$25 Billion+

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