Frances, Ivan, Katrina, Wilma, Indiana Tornados, and…
How Might They Affect You?

Fortunately, so far, we in the Northeast and other areas of our country have escaped the direct ravages of the 2005 Hurricane Season and the recent devastating tornadoes in the Central States. Or, have we?

We recently attended an insurance agents' forum where professional independent (**non-insurance industry**) actuarial analysts and forecasters addressed the potential impact these natural disasters and their resulting destruction to insured properties will likely have upon the entire worldwide insurance market.

*Unfortunately, as early as 2006 it is expected that all lines of insurance will bear part of the burden for these expensive disasters by way of increased premiums. It is not currently known how significant these increases might be. We are sharing this information with you now as a means of preparing you with prior knowledge of what the future **may** hold.*

Please rest assured should premiums begin to rise in 2006, we will do everything possible to mitigate this impact upon you. We represent many insurance companies and will compare their rates to insure we provide you with the best coverage at the most competitive premiums.

To fully comprehend how the insurance market nationwide might be impacted by the natural disasters our country has experience over the past few years, a basic understanding of a few of the integral pieces of our insurance market "foundation" is required.

- **The insurance industry is a financial mechanism and an integral part of our nation's economy.**

- **Our insurance markets are highly regulated. All U.S. insurance companies are required to maintain what is known as "reserves" to insure they will have the ability to pay for large disasters such as those experienced in recent years.**

    - Reserves are like money in a savings account that is used for emergency purposes only.

    - Required reserve amounts are mandated by law. They are calculated using actuarial models to predict future insurable losses (claims) and the probabilities of future natural disasters based upon past trends over many years.

- **In addition to maintaining reserves, insurance companies also purchase "Reinsurance".**

    - In a nutshell, reinsurance is insurance that insurance companies buy to protect their reserves.

    - Another way to understand reinsurance is to view the total dollar amount of homeowners' protection provided by your policy as a liability of the insurance company. Insurance companies purchase their own insurance (**reinsurance**) to be certain they can meet their **financial obligation** to you while still maintaining their required "**reserves**" should you lose your entire home in a natural disaster at the same time as many of their other policyholders.

The Current Reinsurance Squeeze

As you might imagine, the reinsurance markets have been hit hard in recent years. They have paid out **billions of dollars of claims** to insurance companies.

- Reinsurance companies are also required to maintain reserves. This is causing the current ***Big Squeeze***. In fact, many reinsurance companies are now in danger of folding because their reserves have been so depleted in the past two years by unforeseen disasters, one right after another. Fewer reinsurance companies could lead to less competition in this market.

- Reinsurance companies react to dramatic negative shifts in their claims experiences and reserves by increasing the rates they charge our insurance companies for reinsurance.

- Just like local banks that raise consumer interest rates when the federal government increases the prime rate (the rate they charge banks), insurance companies increase consumer premiums when their costs of reinsurance rise and recent disaster paid claims begin to deplete reserves beyond comfortable and stable levels.

To Make Matters Even Worse…

Independent professional national weather forecasts and actuarial models of potential disasters in 2006 and beyond are not favorable. Reportedly, computer models and historical data indicate we are in for a few more years of potentially devastating storm patterns across the United States.

So what's the Bottom Line?

There appears to be general agreement that insurance premiums nationwide for all types of insurance could be on the rise. Just how much is still a subject of much debate and is also dependent upon the total cost to insurance companies and reinsurers for the recent 2005 disasters.

- There is a normal delayed response following years such as 2004 and 2005 simply because it takes so long to repair damages and determine the actual cost of each natural disaster.

- Because actuarial models and financial disaster forecast predictions are completed months after individual events, their impact upon insurance pricing is delayed by 12 months or more. For instance, if we see increases in premium rates in 2006, they will be due to the actual losses and claims paid for the 2004 disasters. Likewise, 2005 statistics are not likely to impact insurance rates until 2007.

Forewarned is Forearmed!

We hope you have found this information helpful even if not welcomed. We wish we could have brought you better news. Again, you can have confidence we will scour our numerous markets to continue providing you with the best coverage at the best price should we begin to see significant increases in premiums over the coming months. As always, please contact us at any time if you have questions or wish to discuss any aspects of your insurance program.