US flood will bring opportunities in 2015

Flood risk in the US will bring many opportunities for insurers in 2015 as the industry gains a better understanding of flood models.

Speaking to *PCI Today*, Dan Dick, head of catastrophe management, Aon Benfield Analytics said that focus in 2015 would be around flood and storm as the latter has a larger impact on an insurer's earnings.

He also said that data from previous events such as Sandy had been hugely beneficial in further developing this peril in the US.

"We are seeing a lot of focus being put on the peril of flood and on the severe convective storm peril, which includes tornado, straight line winds, and hail," said Dick. "Flood is a potential opportunity for insurers, especially as they understand the flood models better. The understanding of the severe convective storm models is key as they impact the earnings of an insurer more, as opposed to their catastrophe reinsurance programme.

"Assisting the client in managing the frequency of loss, especially those with Midwest US portfolios, is key for Aon Benfield."

Speaking of the information from Sandy, Dick said that a wealth of data was gained, from which

Dan Dick

Aon Benfield was able to make observations in order to assist clients.

"The first bit of information was around the extent of the flooding, the ability to understand the enormity of the losses that occurred outside a federal flood zone, and the information needed to test the vulnerability curves in the existing storm surge models. It was gratifying to see that the Impact Forecasting storm surge model performed extremely well," he said.

He added that Sandy is a good starting point for insurers that want to look at covering the peril of flood. "Coupling this insight with a river flood model opens up opportunities for those insurers interested in understanding and possibly insuring the peril of flood.

"Unfortunately, a lot of the learning that goes into improving catastrophe models comes out of events that have occurred, so although the losses are difficult, the models do improve, building confidence in their performance for future events."

Despite enhanced risk models and a better understanding of these risks, however, managing risk exposure still poses many challenges.

"The biggest challenge today is understanding the actual model performance compared to the actual incurred loss when an event occurs. In 2004 and 2005, some of the issues were as simple as not having the values or building attributes, including non-structural characteristics, captured accurately," said Dick. "By the time Hurricane Ike hit Texas in 2008, that was not an issue. The issues today are around the technical aspects of the event, for example, are there enough wind speed measurements to accurately reflect the characteristics of the event; is the coverage insured and cause of loss modelled, wind versus water versus other potential coverage losses.

"The models and model users are getting more sophisticated, but it is only when an event occurs that the models' performance can be fully evaluated." ■

Healthy Q3 results for US insurers

Despite tough market conditions, a number of US insurers have posted solid results in the third quarter of 2014 boosted by a benign claims environment—but most chief executives admit that market conditions are tough and remain focused on underwriting discipline.

US insurer Chubb surpassed earnings estimates for the third quarter of 2014, in what it described as an "outstanding third quarter".

The insurer's operating income, which the company defines as net income excluding after-tax realised investment gains and losses, was $522 million in the third quarter of 2014 compared with $529 million in the third quarter of 2013.

The company's operating income per share increased by 5 percent to a record $2.17 from $2.06. This surpassed investment research firm Zacks' consensus estimate by 11.3 percent.

> *"US insurer Chubb surpassed earnings estimates for the third quarter of 2014, in what it described as an 'outstanding third quarter'."*

The insurer's net income in the third quarter of 2014 increased to $594 million, compared with $541 million in the third quarter of 2013. This reflected net realised investment gains of $110 million before tax, compared with $18 million before tax in the third quarter of 2013.

Travelers also enjoyed a rise in profits in the third quarter of 2014, driven by higher investment income and lower cat losses.

The insurer's profits hit $919 million in the third quarter of 2014, an increase of 6 percent compared to $864 million in the prior year quarter. Travelers said that lower net favourable prior year reserve development and a slightly lower underlying underwriting gain partially offset higher net investment income and lower catastrophe losses.

Its combined ratio deteriorated slightly to 90 percent, compared with 88.9 percent in the third quarter of 2014.

WR Berkley also posted a solid set of results for the third quarter of 2014.

The company's profits hiked to $188.5 million in the third quarter of 2014, compared with $137 million in the same period of the prior year.

Its gross written premiums hit $1.78 billion, compared with $1.67 billion in the third quarter of 2013. The company's combined ratio improved slightly to 93.5 percent, compared with 93.9 percent in the same period of the prior year. ■