

# Your Protection

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## THE WINDSTORM SOLUTION



**KATRINA'S IMPACT**

*Florida is in the midst of a windstorm crisis that impacts all consumers. After devastating losses in 2004 and 2005, hurricane (wind) insurance is increasingly neither affordable nor readily available. Insurers in coastal states have increased rates, reduced coverage or ceased writing altogether, due to concerns over future losses.*

*Florida's insurer of last resort, Citizens, has grown significantly and is now our state's largest home insurer (1,300,000 policies). Due to the current crisis, Citizens is growing at an alarming rate, adding 32,000 new policies in November and 500,000 total policies last year.*

*The current turmoil began in 2004, with four major storms and 2,000,000 claims hitting Florida. Hurricane Ivan hit (Florida) in 2004, and was followed by Wilma, Rita and Katrina in 2005. Katrina, alone, has changed everything and displaced Hurricane Andrew (\$ 18 Billion) as the largest natural disaster in America's history (\$ 40 Billion).*

*As the new year begins, we are pleased to update you on the current marketplace, explain what caused such a dramatic change, offer some money-saving ideas for your coverage and a long-term solution for our state and others. We wish you a happy, healthy 2007 and thank you for allowing us to provide your protection.*

### REINSURANCE REALITY

Insurance companies buy insurance to *spread their risk*, like consumers buy wind, auto and other insurance, to protect themselves and *spread* their personal or business risk. Insurance that insurers purchase is called reinsurance. Reinsurance is one of the oldest and largest industries in the world. It is also a critical part of the current crisis.

Buying reinsurance lets the insurance companies *spread their risk*. Insurers keep a portion of each policy that they write and then 'reinsure' the rest around the globe. This *spread of risk* has been the foundation of insurance since the industry first started hundreds of years ago.

Record losses in 2005 and literally millions of claims since 2004 have led reinsurers to dramatically increase both their rates and the amount of risk that insurers must carry on each policy. Insurers are now paying more (in some cases hundreds of percent more) for reinsurance and getting less coverage by having to bear more of the risk than was the case prior to 2005. Insurers are, of course, passing along these increased rates to offset their own increased costs.

Reinsurers are also now often only willing to offer coverage on newer construction that benefits from tougher building codes, which followed Hurricane Andrew's devastation in our state.

As a result of the losses in 2004 and 2005, as well as concerns over future weather predictions, insurers are charging more, writing less, and are often focused on newer construction, because the insurers that they purchase their coverage from (the reinsurers) have dramatically changed their rules and rates.

### A SOCIAL PROBLEM

Although this crisis relates to available and affordable wind insurance, it is our view that we have a *societal* problem that the private insurance industry might not be able to solve. Here's why:

**Population Soars:** More than half of all Americans live within a short drive of our nation's coast. Americans continue to move into coastal states in record numbers, 1,000 a day to Florida, 100 of those to South East Florida.

Our society continues to grow in coastal states, especially those exposed to these monster disasters known as hurricanes. The reality is, people are going to continue to live near the coast and want to be near the water.

**Construction BOOM!:** Construction is booming in coastal states. You only need look skyward in places like Miami and Naples to see the cranes that signal massive construction. Insurers, and reinsurers are struggling over how (or *if*) to provide coverage in ever growing hurricane regions like Florida.

**Increased Construction Replacement Cost:** Closely related to the construction boom is the dramatic rise in construction costs, the cost to rebuild (and yes insure) the structures we live and work in. Some elements of construction have increased 30% to 40% (or more) in the last two years alone.

Hurricane Katrina caused **\$ 40 Billion** in insured losses. Katrina did not, however, directly hit New Orleans. Based on population and construction, as well as increased costs of construction, a *Category Five* storm's direct hit to New Orleans is now estimated to cause, perhaps, **\$ 100 Billion** in damage.

**By some estimates, a direct hit to Miami / Fort Lauderdale that makes its way to Naples / Fort Myers could cost \$ 150 to \$ 200 Billion.**

A direct hit to New York (Long Island Sound) could be **\$250 Billion** and might bankrupt 20% of all insurers.

As you can imagine, such estimates have insurers very worried and are at the core of recent changes in the marketplace. These figures are so staggering that it's not impossible to wonder whether private insurers are capable of providing the needed coverage to insure such exposures and, if not, then who can and how.

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Insurance  
**I N F O**



### 2005 & Katrina Records:

*The 2005 Hurricane season set a number of records as did its largest storm, Katrina, the largest natural disaster to ever hit our Country. 2005 and Katrina has dramatically impacted the market for windstorm insurance in coastal states. Records set in 2005 included :*

#### Most Named Storms

(28)

#### Most Hurricanes

(15)

#### Most Cat 5 Storms

(4)

#### Costliest Season Ever

(\$ 107 Billion)

#### Costliest Storm

(Katrina / \$ 80 Billion)

# THE WINDSTORM SOLUTION

*Long-Term Solution to a Social Problem Requires Creativity*

*Continued From Page One*

### Weather Forecasts:

Thankfully, "Mother Nature" spared us in 2006. Unfortunately, the weather forecasts for the next decade or two are not nearly as kind. Clearly, hurricane activity has increased recently and has done so in truly dramatic ways.

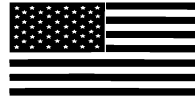
The four most intense (Wilma, Rita, and Katrina in 05, Ivan in 04) hurricanes ever recorded took place in the last three storm seasons. Six of the top ten most costly hurricanes ever, took place in 04 or 05. Storms are stronger and more frequent of late than ever before. Weather experts forecast more frequent and more intense storms in our future than what we have seen over the last 25 years. Although 2006 offered a much needed 'break,' experts suggest that the 04 and 05 seasons are more typical of the future than was 06.

### The Coastal Reality

The combination of coastal population growth, an unprecedented increase in construction, dramatic increases in the cost to build (and rebuild), and future weather forecasts that call for more and more powerful storms, lead us to conclude that no single private insurer can solve this problem. Nor, more than likely, can any given state. The potential problem, the possible losses, have grown so large that, by using traditional solutions, the entire insurance industry can't likely solve this problem for the long term without help.

### THE Solution

Although there will likely be many fine and admirable attempts by insurers, regulators, and politicians to solve this crisis this year (and beyond), it seems to us that the best, long-term solution, requires the creation of a *National Catastrophe Policy*, thus a Federal solution.



Although we would not typically suggest a governmental solution to fix most problems, given this one's size, and the fact that the foundation for such a program *already* exists, a national solution makes some sense.

Why not combine current National programs for Flood, Terrorism, and Crop insurance and then add other perils such as wind and earthquake? In California, less than 15% of residents can afford to carry earthquake coverage. Surely there are efficiencies to gain by combining existing governmental programs (when Citizens and the JUA merged a few years ago it saved \$ 100 Million!). Consider the following:

### **National Flood**

The National Flood Insurance Program has existed since 1968 and has roots dating to the 1930's, when private insurers started to determine that the risk of flooding was greater than they could insure (*sounds like windstorm today!*). Although many insurers write flood policies today, the government still sets all rates, rules, and regulations, as well as ultimately pays the claims. Flood coverage is available and affordable and has been for nearly four decades.

### **Terrorism Insurance**

The attack on America in 2001 led our government to create the Terrorism Risk Insurance Act in 2002. After paying \$ 90 Billion in 9/11 claims, the insurance industry determined it could no longer offer terrorism coverage. The lack of coverage led to a national crisis that impacted the real estate and lending industries as well as property owners that federal reinsurance coverage has since solved and stabilized.

### **Federal Crop Insurance**

Whenever a national wind solution is discussed, politicians often say it will not work because people in America's Midwest farming states will not vote to help those of us who live in coastal states. Americans are, however, already subsidizing farmers with the Federal Crop Insurance Corporation (FCIC) that has made crop coverage available and affordable since 1938. In 2005, the FCIC wrote 1.2 Million policies with \$ 3.95 Billion in premium to provide \$ 44.29 Billion in coverage for crops on 246 Million acres.

The size and scope of the *social* problem faced by tens of millions of Americans demands that creative ideas such as a *National Catastrophe Policy* solution be strongly considered. A modern monster hurricane would seem larger than what many private insurers can or care to insure and also so large as to impair or even bankrupt a state or states that try to solve the risk on their own.

A federal wind solution to a problem like the ones faced from flood, terror, or crop damage seems like a viable option and perhaps a more efficient one than the separate programs now in place. If you agree, or have another idea, please contact our State and Federal political leaders. Together, we can solve this *social crisis*.

We understand the problems that increasing costs and changes in your coverage or insurer mean to your business or family. All of us here at Morris & Reynolds Insurance are working very hard to create and offer the options and answers that you need so as to properly protect yourself in the most affordable ways possible.

Please call us at any time (305.238.1000) that we can assist you in any manner. As always, thank you for allowing us the honor of providing your protection.

# HOW TO LOWER YOUR HOME & WIND PREMIUM



## INCREASED WINDSTORM DEDUCTIBLE:

Whether you have wind included in your home policy or written as a stand alone policy, chances are that you have a percentage deductible for wind and that the percentage is 2%. Most insurers offer a 5% Hurricane deductible option and some an even higher one.

Everyone here at Morris & Reynolds Insurance understands that the cost of insurance has increased dramatically over the last year. We are working hard to offer every possible idea to reduce your costs, including creative ideas that you might not have considered in the past.

We also realize that “drastic” times sometimes call for creative, or even drastic, measures and we have every option and idea that you need to best manage your costs and your coverage.

**Good News!** Morris & Reynolds has every available solution and option that you need in order to obtain the best, most affordable coverage available anywhere. We also have more insurers available to write coverage than anyone else.

**More Good News!** Additionally, please know that we offer every discount and option that is available to reduce your premium. No matter how you might want or need to change your coverage, we can help.

In order to keep you premium as affordable as possible, we are pleased to offer the following ideas to consider before your next renewal, including possible coverage changes that you might not have considered in the past.

## CHANGE COVERAGE TO REDUCE COSTS

The list that follows includes several ways to alter your coverage to reduce premium. We realize that premiums have increased and that reducing your costs is important. Please keep in mind, however, that some options reduce your coverage.

**Some coverage options to consider to reduce your premium include the following:**

### INCREASED ALL PERILS DEDUCTIBLE:

Historically, most homeowners’ policies had a \$ 250.00 or \$ 500.00 deductible for losses other than those from windstorm (see below for more on wind deductibles).

Increasing to a \$ 1,000.00, \$2,500.00, or even higher (when available) deductible for all perils (covered losses) other than wind and hail claims can reduce your premium.

Please keep in mind that you should obtain approval from your mortgage lender if you want to increase the deductible.

Please also consider that for every \$ 100,000 in coverage carried, a 5% deductible increases your out of pocket costs in the event you suffer a claim by \$ 3,000 due to the added 3% you’ll pay above a 2% deductible.

### REMOVE CONTENTS (PERSONAL PROPERTY) *Replacement Cost:*

Although we typically suggest that coverage should be written on a “*Replacement Cost*” basis, contents insurance (Personal Property) coverage can also be offered on an *Actual Cash Value* basis. Changing to *Actual Cash Value* coverage means that a loss will be subjected to depreciation being reduced from your possible payment. A “*Replacement Cost*” policy does not deduct for depreciation and, as such, is broader and costs more.

### REMOVE DWELLING *Replacement Cost:*

Some (but not all) insurers will consider allowing your Dwelling (the home’s structure) coverage to be changed to an *Actual Cash Value* (ACV) basis (meaning a loss will be subject to depreciation being reduced from your possible payment) in lieu of on a *Replacement Cost* basis.

Speaking of replacement cost, please keep in mind that if you carry replacement cost (which we suggest) coverage on your home that insurers are now demanding that a home (the Dwelling) be insured for their estimated current cost to rebuild the home. Insurers use a range of computer tools to establish their estimated rebuilding cost and then require that this figure be used so as to provide you with a proper, current limit.

As a result of the dramatic increase in construction costs in recent years, the need to carry a current limit often means that a home that has not had its Dwelling limit increased in recent years will find that an increase in the limit is needed to meet the insurer’s requirement for adequate coverage.

## OBTAIN EVERY PREMIUM DISCOUNT

In addition to changing your coverage, it is **very important** to obtain every possible discount available to keep your costs as low as possible. Our Agents and Underwriters can help you determine which discounts you qualify for as well as help you obtain them and any needed inspections that might be required. Credits are available for a number of items including:

**WINDSTORM PROTECTION DEVICES: Hurricane Shutters, Impact Glass, and a variety of ‘windstorm mitigation’ features** that your home might enjoy can also reduce your premium, in some cases dramatically. Please keep in mind that hurricane mitigation features work *together* and that discounts are based on *all* of a home’s features thus are not cumulative. Here are examples of possible savings:

- A) **Automatic** Discounts include being **Florida Building Code Complaint** (up to **45%**), having a *Hip* Roof (see below) and **Masonry Construction (2%)** all help.
- B) **Shutter Discounts** including Class A Impact Resistant, Class B Impact Resistant, and Class C Wood/Other Panels can reduce premium up to **33%**.
- C) **ROOF SHAPES & MATERIALS:** Insurers have determined that homes with a so called “*Hip*” roof (sloped on all four sides) withstand storms better than others such as a “*gable*” roof. Qualifying hip roofs can earn discounts up to **23%**. The type of roof covering can save up to **5%**, roof to wall connectors can save up to **18%** and roof deck attachments (nails, the lumber used) can save up to **5%**.

**CENTRAL STATION ALARM SYSTEMS:** If you have an alarm that is served by a ‘central station,’ then discounts are available.

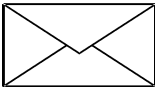
Since 1950, Morris & Reynolds Insurance has offered quality, competitive solutions for all of our clients insurance needs from the world’s finest insurers. We have more insurers available to write coverage than anyone else, and we offer every option and discount that is available. You can, and should, count on us to provide the coverage and options that you need at the lowest, most affordable costs possible, along with the finest professional service and people available anywhere.

*For more about reducing your premium, coverage options and available discounts, please call us at 305.238.1000. We are happy to help you at any time and thank you for allowing us to be of service.*

# Your Protection

Established 1950

**MORRIS & REYNOLDS**  
Insurance



14821 South Dixie Highway  
Miami, Florida 33176



305. 238.1000



305. 255.9643

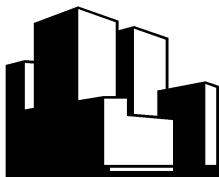


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*This Issue: **THE** Windstorm Solution*

## WIND SOLUTIONS FOR BUSINESSES



The windstorm crisis spread dramatically to businesses in 2006. The impact to businesses has led to many seeing an increased cost, reduced coverage, or non-renewal of coverage as insurers struggle with the complex risk from larger, more severe storms.

The impact to businesses became so severe that Florida's Governor created the Property & Casualty Joint Underwriting Association (PCJUA) to offer coverage to businesses that could not otherwise find it. The PCJUA joins Citizens Property Insurance Corporation as state solutions to the ever-growing risk from hurricanes.

### Citizens Property Insurance Corporation

Citizens continues to offer coverage on eligible property that can't be insured elsewhere. Citizens writes Building and Contents *windstorm* in eligible areas with a maximum *combined* limit of \$ 1,000,000 as well as commercial residential for condos and apartments at a limit based on a current *Replacement Cost Appraisal*.

### Florida's New PCJUA

The state's new *PCJUA* offers wind/hail coverage to businesses that can not find it elsewhere and are not eligible for Citizens. The PCJUA offers up to \$ 1,000,000 in Building coverage and \$ 750,000 for Contents. Unlike Citizens, the PCJUA offers up to \$ 250,000 of Business Income coverage for business interruption. Although it's '*good news*' that the state now has the PCJUA solution, the fact that such a program is needed is further evidence of how large the crisis has become.

### Private Insurers & Solutions

Private insurers are also offering wind coverage, and some even predict a more *stable* market in 2007 due to a quiet 2006 storm season. Insurers offering windstorm are now focused on the age and type of construction, engineering elements such as roof and parapet type, and other detailed facts when reviewing an application.

Morris & Reynolds approaches all available insurers in the market for quotes and has access to the entire market. As the market evolves and insurers change their

appetites, it is important, we feel, to consider all possible insurers and options. In addition to reviewing various insurer offers, we are also assisting clients by considering creative changes to their coverage such as increased deductibles, layered programs, *sub-limits for* wind, policies excluding wind, and other alternatives.

As has been the case since 1950, you can and should rely upon the professional Agents and Underwriters here at Morris & Reynolds to find the affordable, quality and creative solutions that you need, and deserve, for your business.

*For more information concerning commercial coverage and options, including creative solutions, please call us at 305.238.1000.*

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