



WILL NEW WINDSTORM MODEL IMPACT RATES?

NEW RMS WINDSTORM CATASTROPHE MODEL COULD LEAD TO PROPERTY INSURANCE RATE INCREASES



RMS NEW WINDSTORM MODEL

In order to predict their catastrophic losses, property insurers purchase reports from businesses that specialize in predicting the impact of large catastrophes and do so by using highly sophisticated computer programs known as catastrophe models.

These firms use their computers to estimate an insurer's likely losses from catastrophes ranging from tsunamis and earthquakes to hurricanes and insurers then use this data to determine how much coverage they can write in a given region and the price (rates) they might charge for that coverage. Understanding a bit about how these models work and what impacts them can help you understand the coverage insurers might offer and how these models impact rates.

One of the largest such businesses is Risk Management Solutions, Inc., known within the industry as RMS. RMS specializes in developing probabilistic computer models of catastrophes using detailed databases of highly localized variations from past events (such as past hurricanes) as well as an insurer's own database of the detailed information on the properties they insure.

The Industrial Facilities Model, which is the formal name for these predicting tools, is calibrated and adjusted using loss data from industrial underwriters as well as engineering damage data from recent hurricane and earthquake events. This detailed study provides an understanding of the vulnerability of industrial facilities and the value associated with contents such as machinery, equipment, and inventory.

The model also contemplates business interruption and considers the impact of building, machinery and equipment damage as well as expected modes of component failure. Business interruption downtime values are calibrated using data on operational disruption following past hurricanes, including paid business interruption claims.



As new losses occur, RMS updates its models and then the insurers update their expectation of possible losses, how they use their capacity in a given region and at what price. The newest version of the RMS Atlantic Basin Hurricane Model includes several changes that lead many experts to believe that insurer's capacity and coverage cost will be impacted. The updates and changes are based on lessons learned from past losses in technical areas such as Construction Quality, Roof Covering, Roof Age / Condition, Roof Geometry, Roof Anchor, Roof Equipment Hurricane Bracing, Commercial Appurtenant Structures, Residential Appurtenant Structures, Opening Protection, Cladding Type, Roof Sheathing Attachment, Frame-Foundation Connection, Basement, Ground Level Equipment, Percent Complete, Year Upgrade, Flashing and Coping Quality, Content Grade, Business Income Preparedness, Business Income Redundancy, Structure Condition, Outdoor Machinery/Equipment Bracing, Vertical Exposure Distribution, and Site Hazard.

In most cases, the details for a given site must be confirmed during a site visit or survey. If the wrong construction feature option is selected it could have a significant effect on the modeling results, possibly misrepresenting the true CAT exposure for a given site.

WHAT DOES THIS MEAN FOR YOU?

The new RMS model has taken into account additional costs (equipment damage, business interruption, etc.) and loss expectancies have increased. Because of these changes some experts predict that premiums may rise and that insurers may be more selective in catastrophe-prone areas. Now, more than ever, it is important to provide your agent and underwriter current and accurate data to ensure the best possible coverage and cost. Insurers take this detailed data about your exposures and input it into the catastrophe model to determine whether they can write your coverage, how much coverage they can offer and at what price.

In a region like South Florida it is critical to have details about construction characteristics such as exact year built or renovated and roof type. A loss control engineer can survey your locations and gather the data and, if needed, our office can provide someone to perform these tasks. If you don't provide the information to the insurers, the RMS model will default to the worst-case characteristics resulting in higher loss expectancies and premiums or declining to offer coverage.

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