Andrew an ill wind for insurance sector

by John Hoefle

With estimates of damage ranging upwards of $30 billion, Hurricane Andrew will go down as the costliest natural disaster in U.S. history. Preliminary estimates by the insurance sector are that the hurricane will cost the companies at least $7.3 billion, easily exceeding the $4.2 billion paid out to the victims of Hurricane Hugo in 1989. Hugo was previously the most costly disaster in U.S. history, followed by the Oakland, California fire at $1.2 billion, the Loma Prieta earthquake at $960 million, and the Siberian Express cold snap of 1983 at $880 million. The bill for the Los Angeles riots is estimated at $775 million.

Even before Andrew, 1992 was shaping up as one of the worst years ever for U.S. insurance companies. Besides the Los Angeles riots in April and early May, insurers had to pay out $300 million for the accident which flooded the Chicago tunnel system, and a series of severe hailstorms in Texas, Colorado, Kansas, and Florida which cost another $1 billion. The American Insurance Services Group (AISG) has identified 21 "catastrophic situations"—events that affect thousands of people and lead to hundreds of insurance claims—in the United States this year, for which insurers have already paid out some $4 billion in claims. "Already this is the costliest year on record and we still have four months to go," AISG director of catastrophe services Gary Kearney told Reuters.

State Farm Insurance and Allstate Insurance have some 40% of the business and homeowner policies in Florida, according to the Insurance Information Institute. State Farm has 1 million policies in force in south Florida, with 624,000 automobile policies and the rest split between homeowners and personal insurance. The company has already dispatched 350 claims adjusters to the state, and has another 200 on standby. Some 1,500 adjusters will eventually be needed to deal with the claims arising from Andrew, the company said. "The first day after the storm, we got over 3,500 calls on our hot line," said Bob Lapinsky, a spokesman for Allstate, which is a subsidiary of Sears, Roebuck & Co. "We have 20% of the Florida market and expect to pay 20% of the claims."

The hardest hit among the U.S. insurance companies, according to Standard & Poor's insurance analyst Cathy Seifert, will be companies such as Aetna Life and Casualty, Cigna Corp., and The Travelers Corp., which have also been hit hard by real estate losses. "After the Los Angeles riots and the flood in Chicago this past spring, the market no longer believes this hurricane will do anything but hurt insurers' bottom line results," she said.

While the insurance companies are paying out record claims in 1992, the value of their commercial real estate holdings has plummeted. A record 7.3% of all commercial real estate loans held by life insurance companies were officially declared as troubled at the end of June, according to a survey by the American Council of Life Insurance. Acknowledged bad loans at U.S. life insurance companies stood at $15.6 billion at the end of the second quarter, a rise of $2 billion in three months. Of the past-due loans, 3.39% were in the process of foreclosure, compared to 3.08% at the end of the first quarter. The bulk of the increase in bad loans was attributed to office and retail-store delinquencies.

The situation is even worse than the numbers indicate, since those numbers do not include troubled loans that have been restructured or already foreclosed, according to Salomon Brothers real estate analyst David Shulman. "This understates the problem," Shulman said.

Foreign investor bailouts

A number of big U.S. insurance companies have collapsed in recent years, and others were bailed out by foreign investors. The collapse of Drexel Burnham Lambert's junk bond operation led to the failure of Executive Life, which was later bought by a French consortium, which included the French insurance company MAAF and the Crédit Lyonnais bank, for $2.7 billion. The French also bailed out Equitable, one of the world's largest insurance companies. After converting Equitable from a mutual to a publicly traded company, AXA, France's largest insurance company, will own just under half of the U.S. giant. Allianz, the huge German insurance company, recently took a $1.2 billion underwriting loss, in large part due to its acquisition of Fireman's Fund.

Among the big insurance companies which are still alive, Travellers has been the subject of repeated takeover rumors, because of its real estate losses. Aetna Life and Casualty recently took a $45 million loss on loans to the bankrupt Olympia & York, and is cutting 4,800 jobs and selling its American Reinsurance subsidiary to takeover bandits Kohlberg Kravis Roberts & Co. Even Prudential was recently downgraded by the credit agencies, losing its triple-A rating. Michigan state insurance commissioner David Dykhouse recently complained that more than 170 financially troubled insurance companies were licensed to do business in his state.

The insurance troubles are not limited to the United States. UNI Storbrand, Norway's biggest insurance company, and Hafnia Holdings, Denmark's second largest insurance company, were both seized in August. The situation is even more serious at Lloyd's of London, which lost nearly $5 billion in 1988 and 1989, its two latest accounting years, threatening to bankrupt many of its investors and sparking talk of a government bailout.