



## Consumer Federation of America

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### **HURRICANES KATRINA AND RITA WON'T DERAIL HUGE PROFITS FOR PROPERTY/CASUALTY INSURERS**

#### *Soft Market Expected to Continue – Rate Decreases Expected in Most Lines of Insurance*

Property/casualty insurers are on track to enjoy the third most profitable year in their history despite the negative impact of Hurricanes Katrina and Rita on their bottom lines, according to data released today by the Consumer Federation of America (CFA).

“The insurance industry is a money machine,” said J. Robert Hunter, Director of Insurance for CFA and former Texas Insurance Commissioner and Federal Insurance Administrator under Presidents Ford and Carter. “Katrina and Rita did not derail the booming profits the industry has been reaping this year,” he said.

The property/casualty insurance industry saw after-tax profits of \$30.9 billion in the first six months of 2005, according to data recently released by the insurance industry ratemaking organization, the Insurance Services Office (ISO). “Had Hurricanes Katrina and Rita not occurred, that figure would have doubled to \$61.8 billion in after-tax profits for the full year,” Hunter estimated.

ISO has calculated that Katrina losses will reach approximately \$34.4 billion before tax considerations are taken into account, and that losses from Hurricane Rita will range from \$4 to \$7 billion. “Taking the high-side estimate, hurricane claims payments will total \$41.4 billion before the effects of income tax write-offs,” said Hunter, an actuary. “After taxes, these hurricane claims payments will be lowered by the corporate tax rate of 35 percent to \$26.9 billion.”

Hunter estimated that after-tax profits for the industry for the entire year will be \$34.9 billion (\$61.8 billion less the hurricane claims of \$26.9 billion). Property/casualty insurer retained earnings as of July 31, 2005 were \$412.5 billion, according to ISO data. Retained earnings, also called “surplus,” refers to the money insurers retain from profits after the payment of dividends to stockholders.

“This means that the combined Katrina/Rita impact on the industry will be a fairly low 6.5 percent of retained earnings,” Hunter said. “The impact of these losses will vary by insurer, depending on the extent of coverage offered in areas affected by the hurricanes. Despite the fact that the industry has dealt with many destructive hurricanes and the terrorist attacks of September 11<sup>th</sup> in the last five years, it will have added approximately \$100 billion to its retained earnings.”

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“To put this into perspective,” Hunter said, “in only two years in the industry’s history have property/casualty insurers earned higher profits than those that are projected for 2005.”

The industry earned profits of \$38.7 billion in 2004 and \$36.8 billion in 1997. The high margin insurers earned in 2004 occurred despite the fact that four significant hurricanes hit Florida that year.

“The fact that property/casualty insurers are on track to post profits that are virtually unprecedented despite the nation’s largest natural disaster (Hurricane Katrina) shows the fundamental strength of the industry,” Hunter said. “I expect the soft market of declining insurance prices we have witnessed over the past 18 to 24 months to resume as insurers realize how remarkably profitable they have been in 2005 and thus seek to gain market share to reap even larger profits,” Hunter concluded.

*CFA is a non-profit association of more than 300 organizations that, since 1968, has sought to advance the consumer interest through research, advocacy and education.*