

# Flurry of storms driving homeowner's insurance premiums up, increases likely to continue

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CLEVELAND, Ohio -- More than 130,000 insurance claims have been filed statewide this year because of those nasty, damaging storms that seem to keep coming.

And those claims are just for six of the bigger storms.

Insurance losses from tornadoes, hail, wind and snowstorms in Ohio have almost tripled since 2006, compared with the previous five years.

This year through July is by far the worst of the last five years in the number of big storms. **A new report by the Ohio Insurance Institute** says this year's six major storms caused at least \$567 million in insured losses.

Included in those storms were a week in May when high winds and heavy rains pounded Cuyahoga and Lorain counties, uprooting trees and causing significant property damage.

The result: Property insurers are viewing Ohio as a riskier place than it used to be. They are jacking up homeowner's insurance premiums this year by an average of 9 percent, similar to what happened in the two previous years. That's a big increase from when rates rose by 2 percent from 2006 to 2008.

Premiums have gone from an average of \$530 in 2006 to a projected \$735 this year.

That is expected to continue next year, too,

"I don't have a crystal ball to say for sure, but there will likely be companies that sustained considerable losses in Ohio and may look to premium adjustments next year," said Mary Bonelli, spokeswoman for the Ohio Insurance Institute, an industry trade group.

Analyst Tom Jalics of **Key Private Bank**, the investment management group within KeyCorp., said this year's storms are expected to start affecting rates in the next six to 12 months. Jalics follows financial services



Chuck Crow, Plain Dealer file

Jesse Breeden trims a huge white oak tree that was knocked down in the back yard of Michael King's home on Clifton Boulevard in Lakewood. The tree crushed a 1966 Blue Thunderbird that King owned for the last 22 years.

## 2011's major storms

- Feb. 2: The "Groundhog Day Blizzard of 2011" brought white-out conditions to Northwest Ohio and high winds, ice and snow accumulations to southern and central Ohio. More than 9,000 claims; \$25 million in insured losses.
- Feb. 27-28: A late February deluge brought four inches of rain to parts of Ohio, followed by a sudden warm-up that quickly thawed deep snow. Significant flood, wind and water-related damage. Nearly 16,000 claims; \$69 million in insured losses.
- April 19-20: High winds, 12 confirmed tornadoes and hail. More than 8,100 claims; \$43 million in insured losses.
- April 22-28: High winds, tornadoes, rain and hail statewide. About 15,500 claims; \$80 million in insured losses.
- May 20-26: Numerous tornadoes, including EF-1s in Huron and Ashtabula counties and other northern communities, as well as near Springfield and Fairborn. Widespread reports of wind damage, including uprooted trees and property damaged in Cuyahoga and Lorain counties, and three-inch hail. Losses estimated at \$322 million to \$400 million, with about 77,000 claims. Preliminary estimates peg this series of storms as the third costliest Ohio natural disaster in recent history.
- July 10-14: Wind damage in communities statewide. \$28 million in damage, about 6,700 claims so far.
- Source: Ohio Insurance Institute

companies, including insurers.

Ohio has had at least 14 storms in the past five years that have resulted in \$25 million or more in losses. That's double from the previous five years.

"It's these freak seasons," said Blake Zitko, spokesman for **State Farm Insurance**, the state's largest insurer with nearly one-fourth of the market. "Hail and wind have been two of the big ones for Ohio."

**The Ohio Insurance Institute's report** shows that disaster-related losses in Ohio cost insurance companies nearly \$2.4 billion from 2007 through July 2011, compared with \$871 million from 2002 through 2006.

Five years is a magic number for insurance companies, said John Charlton, spokesman for the **Ohio Department of Insurance**. When insurers are trying to determine rate increases, "they're trying to rate for the upcoming period based on what they've seen the last five years."

Ohio is not unique when it comes to severe storms and damages, said Mark Dwelle, an investment analyst with RBC Capital Markets in Richmond, Va., who follows major insurance companies such as Allstate.

Nationwide, hurricanes have been the big newsmakers in recent years - the monstrous Katrina in 2005 with \$125 billion in damage (half of it insured) and Irene last weekend with an estimated \$10 billion in damage.

But devastating hurricanes, tornadoes and earthquakes elsewhere have minimal effect on homeowner's premiums in Ohio, according to the department of insurance and individual insurance companies.

"We're not going to charge an Ohio resident for a storm that is impacting another state," said Zitko of State Farm.

Insurance companies are only allowed to raise rates based on future risk in a specific geographic area, Charlton said. All proposed rates must be reviewed by the state for fairness and must be based on the companies' experience and statistics in Ohio, he said.

Jeff Ormond, spokesman for **Allstate**, Ohio's second-largest insurer, said some homeowners might be worried about the impact of Hurricane Irene on rates. "Most of our customers will see an increase, but it will not be because of Irene," he said.

#### Average cost of homeowner's insurance policy in Ohio.

- 2003: \$476
- 2004: \$523 / 9.9 percent increase
- 2005: \$531 / 1.5 percent increase
- 2006: \$530 / .002 percent decrease
- 2007: \$540 / 1.9 percent increase
- 2008: \$565 / 4.6 percent increase
- 2009: \$620 / 9.7 percent increase \*
- 2010: \$674 / 8.7 percent increase \*
- 2011: \$735 / 9 percent increase \*
- 2009-11 increases are based on projections from Ohio Insurance Institute or Ohio Department of Insurance.

However, hurricanes and other big storms can have a small impact on future premiums, said Charlton. If big storms drive up the cost of lumber nationwide, for example, that could slightly boost projections to repair future storm damage everywhere.

But Ohio homeowner's rates are going up for reasons other than storms, said Dwelle, the analyst. Since the devastating trio of Katrina, Rita and Wilma in 2005, insurers have been forced to maintain higher capital levels to guarantee they have enough money to pay out for losses. So they have increased premiums to built up capital.

Second, insurers typically haven't made much profit from homeowner's policies, in contrast to auto, Dwelle said. Some companies are raising homeowner's rates to change that.

While 9 percent has been the average increase, Bonelli said some homeowners see much larger increases while others see smaller. Last year, State Farm raised rates by an average of 12 percent, Grange raised them by 16 percent, while Allstate raised rates by only 1 percent.

In addition, rate increases can vary based on homeowners' specific regions in Ohio, and their own claims histories, riders and deductibles.

Consumers shouldn't think that insurers hate storm losses, said Jalics, the Key analyst.

"It sounds perverse, and you'll never get an insurance company to tell you this," Jalics said, "but they want to see some losses because then they'll have the power to petition to get rate increases to go through ... This means their future stream of operating income will increase."

Jalics noted that there's also some maneuvering when the insurers try to see how large of an increase they can get the state to approve. "They're going to say they need this much to remain viable in this state" or else they might leave, he said. Less competition will drive up premiums. "It's a game of chicken," he said.

Zitko of State Farm noted that insurers don't raise rates every year: State Farm reduced rates in 2004, 2005 and 2006, according to the state.

Insurers are careful not to raise rates too much - even if they determine future risk is severe - because it could cost them customers, Bonelli of the Ohio Insurance Institute said

There are more homeowner's insurance companies operating in Ohio (255) than in all but three states -- Illinois, New York and Pennsylvania. That's a lot of competition to keep rates low, said Bonelli.