

Tornado May Cost Property-Casualty Insurers a Couple of Billion

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Property-casualty insurance companies are expected to face at least a couple billion dollars of insured losses from the tornado near Moore, Okla., according to rough calculations by Wall Street analysts.

Some consumer activists are already expressing concern about homeowners falling short of the needed money for repairs because of changes insurance companies have made to their coverage due to the increasing number of tornados.

The preliminary loss estimates are based on damages from other major tornados in recent years, including 2011 tornados in Joplin, Mo., and Tuscaloosa, Ala., which caused more than \$2 billion in insured losses in each of those cities, according to analysts at Morgan Stanley MS -1.39%.

Disaster modeling company AIR Worldwide, a firm that helps insurers evaluate their exposures to catastrophes, estimated the total replacement value of property with a mile of the tornado track was \$6 billion. The firm noted that not every property in that area was heavily damaged.

The insurance industry already had many claims representatives and other employees staged in the area because of a May 19 tornado in Shawnee, Okla., said Robert Hartwig, president of trade group Insurance Information Institute. Insurers also “are actively communicating with policyholders by a variety of means including social-media platforms such as Facebook FB -2.07% and Twitter,” said Jim Whittle, assistant general counsel and chief claims counsel for the American Insurance Association.

Big insurer USAA said it had received 800 automobile and property claims by mid-afternoon Tuesday, “and we anticipate more once cell phone coverage and power return,” a spokeswoman said. About 120 USAA claims professionals were in the area, she said.

Severe thunderstorms and tornados caused \$15 billion in U.S. insured losses last year, following \$25 billion in such losses the year before when the industry suffered two of the costliest tornado events in U.S. history: the \$7.5 billion in insured damages in 2012 dollars) arising out of April 2011 twisters that struck multiple states, most notably Alabama; and the \$7 billion in insured damages in 2012 dollars) that resulted from the May 2011 tornado outbreak, which also impacted numerous states.

“This trend toward more violent and destructive weather patterns shows no signs of abating,” said Mr. Hartwig.

It will take weeks to calculate the number of claims and insured losses from the newest tornadoes, and some consumer activists already are expressing concern that many people could be caught short of the money needed for repairs.

That is because many insurers, reacting to the growing number of tornados, have increased deductibles, reduced coverage amounts and made other changes to terms and conditions that have the effect of putting more of the risk on policyholders, according to agents, financial advisers and industry analysts.

Insurers also have been reacting to lower yields on investments in their big investment portfolios, amid ultralow interest rates on the types of high-quality bonds most insurers favor.

“Our main insurance-related concern is that many insurers have ... drastically reduced the amount they will pay for roofs,” said Amy Bach, executive director of advocacy group United Policyholders, based in California. “This will no doubt be yet another huge recovery hurdle and a financial headache people do not need.”

Standard homeowners and business insurance policies cover wind damage to the structure of insured buildings and their contents, if caused by tornadoes or thunderstorms. Some businesses also buy business-interruption coverage to compensate for some lost business income.

Damage to vehicles from a tornado is covered under the optional comprehensive portion of a standard auto insurance policy. Homeowner policies typically provide for additional living expenses.