

INSURANCE

The rising cost of disaster

2011 tornadoes' aftermath also brings higher insurance premiums and policy changes

BY JENNIFER A. JOHNSON | CONTRIBUTOR



ALABAMA FIGURES

\$3 BILLION:
Estimated cost of the 2011 tornadoes

\$2 BILLION:
Estimated cost of Hurricane Ivan

Source: Alabama Department of Insurance

Alabama residents will pay out more money for disaster, homeowners and renters insurance this year, after tornadoes swept through the state in 2011, destroying thousands of businesses and residences.

Alabamians are also paying about 6 percent more to insure commercial properties, 12 percent more on homeowners' policies and a 16 percent spike for renters insurance, according to Bubba Bates, president of Bates Roberts Fowlkes & Jackson Insurance in Birmingham.

"If they are not raising rates by that much, then they are changing their deductibles," said Greg Bowers, an account executive and office manager at Briggs Insurance Agency in Pinson, who also says he's seeing an overall premium increase of about 20 percent annually on homeowner policies.

Disasters like tornadoes, hurricanes, fires and floods directly impact the bottom line of insurers.

The April 2011 tornadoes will lead to insured losses of \$3 billion, according to figures provided by said Ragan Ingram, a spokesman for the Alabama Department of Insurance. That's more than hurricanes Ivan and Katrina combined. Insurance companies raise rates and pass these increased costs to business owners and consumers to help cover their losses.

According to Bowers, many insurance companies have stopped selling homeowner policies, unless the purchaser also is willing to buy automobile insurance and other policies with the company. Many insurers also are requiring a wind and hail deductible of about 20 percent.

"The account is more profitable if they handle both home and auto," he said.

Fires and earthquakes in California are unlikely to impact insurance rates in Alabama. That's because insurance companies have to get all rate hikes approved

on a state-by-state basis. That means insurers who want to boost their rates in Alabama have to get approval from the state Department of Insurance. They also have to back up their requests with statistics and historical claim data.

Still, even with these increases, most insurance companies incur losses when disaster strikes.

Bowers said one of the companies Briggs Insurance Agency represents paid out \$3 for every \$1 it took in after the April 2011 tornadoes.

"They make money on investments and premiums, and right now no one's investments are very good, and they are paying out record losses," he said.

Disaster also is not great for companies like Briggs Insurance Agency. Bowers said the agency is using considerable time and human resources to find the right carriers for customers who might have only had a homeowner policy, that are now required to purchase auto insurance to stay with the same carrier.

"You aren't making money when you are having to re-market a lot of clients," he said.

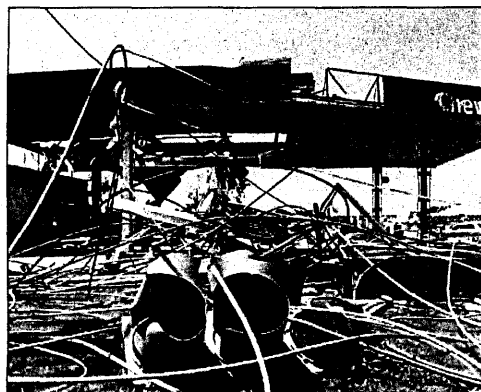
Insurers also purchase re-insurance to cover claims tied to disasters based on their volume of business. When these companies have to pay out huge claims, they raise rates for insurance carriers when they have to renew their policies. Those contracts also have become "much more costly," according to Bates Roberts' Sonny Fowlkes, chief operating officer.

"We haven't reached a point yet where property insurance is not available, only more costly," he said.

Fowlkes said businesses should keep the lines of communication open with their insurance agents year round, much like the relationships many professionals have with their attorney or certified public accountants. Businesses that want to ease the hit can look into raising their deductibles. It's also useful to work with an agent that represents multiple companies, so they can compare rates and terms.

"Don't just speak after a claim," he said. "Usually agents can offer services called loss control or risk reduction. There are proven ways to reduce claims and their severity."

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Devastation in Tuscaloosa after an EF-4 tornado ripped through the city on April 27, 2011.

PHOTOS BY ANNA THIBODEAUX