

## **Insurers Won't Get Whole Tab**

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Sandy is expected to become one of the costliest storms ever. But a substantial share of the tab won't be picked up by insurers, because standard homeowners' policies don't cover flood damage.

Instead, an indebted federal flood-insurance program is expected to pay for billions in property damage, while local, state and federal taxpayers will likely take the lead in financing repairs to subways, roads and other infrastructure.

The government will also foot the bill for the federal emergency financial aid typically extended to homeowners and small businesses lacking adequate insurance, according to insurance-industry analysts, executives and others.

Disaster-modeling firm AIR Worldwide estimates the industry's share of losses at \$7 billion to \$15 billion. At the high end of that range, Sandy would become the third-most expensive storm for insurers in U.S. history.

But typically, only about half of the total damages from a hurricane are covered by insurance. An earlier estimate by a rival firm, Eqecat, said insured losses could reach \$10 billion but economic total losses could reach \$20 billion.

As with Hurricane Irene last year, Sandy seems to have caused widespread wind damage to homes and businesses, though not as much as some had feared. Wind damage is typically covered under standard homeowners' insurance. Insurers say they already have reports of fallen trees and roof damage, among other common hurricane claims.

### Flood Losses

Paid claims from the federal flood insurance program surged in 2005, when Hurricane Katrina hit the Gulf Coast.

### Flood Protection

Florida has by far the most homeowners in a federal flood insurance program. But New Jersey and New York, which were hit hard by Hurricane Sandy, are also in the top 15.

Yet the most devastating damage, according to initial reports, appears to be from flooding, with coastal areas of Connecticut, New Jersey and New York inundated with seawater.

Nationwide, about 5.6 million people have federal flood-insurance policies according to government figures, with nearly 450,000 held by homeowners and businesses in Connecticut, New York and New Jersey.

The U.S. government has provided flood coverage since the late 1960s, filling a void left by a private-sector insurance industry that generally views floods as too unpredictable—and too expensive—to cover. But the program has been in financial trouble, having borrowed nearly \$18 billion from the Treasury Department to pay for claims in recent years. The largest hit came from Hurricane Katrina in 2005, which resulted in about \$16 billion in claims. Irene prompted \$1.3 billion in claims.

The cash-strapped program is currently able to borrow around \$3 billion more from the Treasury to pay claims before it hits a cap of \$20.8 billion. Losses from Sandy are likely to force the Department of

Homeland Security to ask Congress for more resources, said Ray Lehmann, senior fellow at the R Street Institute, a free-market think tank focused on insurance issues.

Federal law requires people who buy houses in designated flood-hazard areas with federally backed mortgages to purchase policies from the National Flood Insurance Program, though not all maintain coverage for the life of the loan.

The property-casualty insurance industry is considered to be flush with cash in the absence of major catastrophes earlier this year, after one of the sector's costliest years ever in 2011.

**This isn't to say that insurers won't face significant costs from flooding. Most commercial policies provide flood coverage, though with some limits, said Alfred Tobin, an executive at a unit of [Aon AON +0.53%PLC](#), one of the world's largest insurance brokerages.**

And automobile policies that provide coverage known as "other than collision" or "comprehensive" cover flood damage to vehicles, said Tim Dodge, a spokesman for the Independent Insurance Agents and Brokers of New York.

State Farm Mutual Automobile Insurance Co., the largest home and auto insurer in the states most heavily affected by Sandy, said Tuesday it had already received word of more than 6,000 homeowner claims for storm-related damage and about 900 car-insurance claims. Holly Anderson, a spokeswoman for the firm,

While many national insurers work to digest the loss, some smaller regional property insurers could feel a big bite, analysts said. The Northeast represents a large proportion of the business of [Tower Group Inc. TWGP -1.86%](#) and of the Erie Insurance Group, according to data compiled by SNL Financial.

Tower said in a recent regulatory filing it has a reinsurance program to move risk to other firms. Chief Financial Officer Bill Hitselberger said Tuesday the firm has "a concentration" in the Northeast, but he didn't have details immediately available.

A spokeswoman for Erie said the firm's publicly traded unit, Erie Indemnity Co., wouldn't bear losses from the storm because they would be contained in a related but separate unit.