Opinion/Analysis

Annus Horriblis, The Sequel

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The last time Canada had a $1-billion-plus cat year was 2005. But now it looks like 2009 will go down as another costly year for cat losses.

In a January 2006 article published in *Canadian Underwriter*, "Annus horribilis," I wrote about the heavy natural catastrophe losses experienced in Canada the year prior — a cool Cdn$1 billion for 2005. The total came largely as a result of the Aug. 19, 2005 deluge in the Greater Toronto Area (GTA), where more than 150 mm of rain fell in just three hours, triggering in excess of $500 million in claims. Other losses in 2005 came from heavy downpours and flooding in Alberta in June (causing an estimated $275 million in insured damage), a tornado in Hamilton in November, and a few other, more minor events.

In 2009, the list of losses was a bit longer, though many individual events appear to have flown under the industry's radar (except, of course, for those companies hit hardest). However one, the Aug. 20, 2009 tornado outbreak, left an indelible mark on many, as the twisters were caught on cellphone video cameras and sent to media outlets, and residents of one of Canada's densest residential areas had to scramble to their basements to seek shelter.

THIS AND THAT, HERE AND THERE

As is usually the case, the country was hit by several relatively small events in 2009. Among these was a Feb. 2 snowstorm in Ontario, which caused an estimated $25 million in insured damage, according to Aon Benfield. The Insurance Bureau of Canada (IBC) reported that an F2 tornado in Mont Laurier, Quebec on Aug. 4 caused an estimated $6 million in damage. In the Atlantic provinces, Hurricane Bill caused an estimated $10 million on Aug. 23 and Tropical Storm Danny caused about $25 million on Aug. 29, according to Aon Benfield.

Hailstorms in southern Manitoba from Aug. 13 to 15 caused an estimated $50-75 million in damage (mostly crop hail), Aon Benfield says. The Canadian Crop Hail Association commented on Aug. 28 that storms produced hail around Niverville, Hamiota, Lasalle, Starbuck, Brandon, Miniota, Birtle, Somerset, Deloraine, Hartley, Melita, Boissevain, Oak River and Notre Dame De Lordes, and baseball-sized hail hit areas near Lasalle and Brandon, causing 100% crop loss in the heart of the storm.

Eighteen confirmed tornadoes — a record for the most in one day in Canada — tore across Southern Ontario on Aug. 20, resulting in the tragic death of a young boy in Durham and damage to some 600 homes in Vaughan, just north of Toronto. Damage, concentrated largely in Woodbridge and Maple, was widespread, including smashed cars, utility poles and a variety of buildings. IBC pegged the insured damage at more than $76 million, a number that may appear low to many given the perceived size of the event.

Tornado outbreaks are not unheard of in Ontario. On Aug. 2, 2006, 17 twisters touched down across parts of south and central Ontario, causing damage mostly throughout cottage country. At that time, it was the highest number of tornadoes for a single event ever in the province, amounting to the equivalent of what Ontario normally sees in one year, according to Environment Canada. And what the media often refer to as the "Barrie Tornado" event in May 31, 1985, actually was comprised of 13 twisters that ripped across parts of southern Ontario late that afternoon. These events, however, pale in comparison to some of the larger outbreaks that have occurred in the United States.

On May 2, 1999, 76 tornadoes tore through 18 U.S. states, leaving at least 46 people dead. The largest twister, which was more than 1.6 kilometres wide at times, was also to be the most powerful ever recorded: the F5 tornado had wind speeds clocked at 512 kilometres per hour – strong enough to scour pavement from road surfaces. From Apr. 3-4, 1974, in what is know as 'The Super Outbreak,' 148 tornadoes were confirmed in 13 states; and in the second Palm Sunday tornado outbreak of Apr. 11, 1965, 47 tornadoes hit the U.S. Midwest.

ONE-TWO PUNCH

Just as occurred in 2005 with the August 'Freaky Friday' event in the GTA and the Alberta storms, two events alone caused the lion's share of the insured damage in 2009.

On July 26, 2009 more than 100 millimetres of rain in under three hours inundated parts of Hamilton, Ontario, flooding thousands of basements — particularly in the city's east end. Aon Benfield notes that providing accurate estimates of insured damage for this event is difficult, since many insurers suffered aggregate damage that fell within their retentions. The reinsurance intermediary estimated insured damage of $100 to $150 million. Other sources have put the range between $200 million and $300 million, and even as high as $325 million. The IBC pegs the damage figure at $196 million. The final numbers may not be known for some time.

Just a few days later, from Aug. 1-3, major wind and hail in Alberta caused more than $365 million in insured damage, according to the IBC. Other sources place the

insured damages from this event in the neighbourhood of $500 million, which would make it the second-most-costly natural catastrophe loss in Canadian history (pushing the Aug. 19, 2005 GTA event to third place).

In Alberta, one person was killed and 15 were injured — four critically — when high winds knocked down a stage at the Big Valley Jamboree in Camrose on Aug. 1, 2009. The winds were also blamed for the death of a three-year-old girl in downtown Calgary after corrugated sheet metal fell from a construction site onto a family walking on 9 Avenue SW. Her father and seven-year-old brother were sent to hospital with serious injuries. The strongest reported winds were clocked at 141 km-h at Three Hills and 125 km-h at Red Deer. Subsequently, overnight Sunday and into the wee small hours Monday, vicious winds clocked at 107 km-h, lightning and hail wracked Calgary and area, leaving a swath of downed trees, shattered windows and hail damage. According to David Phillips of Environment Canada, hail inside the main zone reached baseball size. In some places, hail measured 10 cm deep.

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Phillips described the Alberta event as follows: "The nearby town of Carstairs was devastated by the battering large hail. Literally every house in town suffered major hail damage. Some looked like they'd been hit by gunfire with gaping holes left in the siding. Repair crews set up mini-camps nearby to help repair the damage — a job that is not likely to be completed this year. Hail damage stretched from Olds to Bow Island and was 55 km wide in places. Baseball-size hailstones crunched grain bins and stripped bark off trees, while powerful winds blew over sheds and barns. Some horses and cattle had to be euthanized. The massive hailstorm decimated more than 600,000 ha of Alberta cropland, triggering 1,500 hail crop damage claims. In total, two-thirds of the year's hail crop losses occurred as a result of the long weekend storm."

TWO CONSIDERATIONS

Two things are worth noting about recent natural catastrophe losses in North America.

First, when it comes to such losses, timing is everything. The $2-billion-plus hit that came in 2005 — the big natural catastrophe losses noted above, plus the $1.2-billion, man-made Suncor loss — occurred during a moderately profitable year for the industry, which took in net income of $5.2 billion that year. In comparison, 2009 is shaping up to be a rather weak year for Canadian property and casualty insurers, with only $1.6 billion in profits recorded for the first three quarters. At a presentation of preliminary 2005 industry results made back in early 2006, IBC noted that had the '05 losses occurred in 2001 (one of the worst years ever for the Canadian property and casualty segment), the industry's 111% combined ratio would have ballooned to almost 121%, its ROE would have turned negative, from 2.6% to -3.3%, and 64 companies would have recorded a solvency score of under 10%. Hence, a big loss and/or a series of medium and small losses in an already bad year can put companies at risk of insolvency.

Second, two trends appear to be emerging vis-a-vis insured losses from natural catastrophes. I have written before about the first: the fact that over the last decade or so, the industry has seen the birth and subsequent rise of $1-billion-plus insured natural loss events that fall outside the realm of earthquake, hurricane and flood (see "The New Normal: Billion-Dollar Bruisers," *Canadian Underwriter*, July 2007). It is no longer uncommon to experience billion-dollar insured losses from ice storms, hail, tornadoes and wildfires. The second, though less clear, focuses on the issue of what may be called "mini-cats" for lack of a better term. These can be defined as small- to medium-sized events that, while substantial from a loss perspective, fall within insurance company retentions and are therefore taken net on the balance sheet. Several of these in a year (as with 2005 and 2009) can quite severely impact a carrier's bottom line. Again, if they happen in a weak year for the industry, these kinds of losses can have a negative impact on solvency.

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Given the active cat years that Canada has seen as of late, and also taking into account a changing climate that bodes ill for future losses, carriers may wish to think twice about maintaining high retentions. Further, they may wish to consider buying aggregation covers, which are reinsurance agreements that allow insurers to consolidate losses from several events into a single reinsurance claim with one deductible.

Under the scenarios noted above, companies need to take a serious look at their reinsurance programs: structuring them the old way may no longer serve them well.