

CATASTROPHES

Update: AIR Says Texas Freeze Insured Losses Will Exceed \$10 Billion

By Renee Kiriluk-Hill

OLDWICK, N.J. //BestWire// - (Adds estimates and information from AIR Worldwide in the second and third paragraph.) Commercial carriers could bear the most losses from potentially hundreds of thousands of claims being filed after a winter storm and freeze event slammed Texas and impacted shipping countrywide, according to industry observers.



AIR Worldwide said on Feb. 25 the storms, which impacted more than 70% of the continental United States, will cause industry insured losses of more than \$10 billion. AIR in a statement cited “the significant number of expected claims, average claims severity values of \$15,000 for residential risks and \$30,000 for commercial risks.”

However, there are several factors that could still drive the loss well in excess of the \$10 billion figure, among those a higher-than-expected rate of claims among risks affected by prolonged power outage,

whether utility service interruption coverages pay out, large impacts from demand surge, government intervention, and whether claims from mold damage start to emerge as a significant source of loss, AIR said.

Early loss reporting suggests a high-frequency, low-severity event with 40% to 50% of losses falling below \$100,000, said Shawn Crawley, Sampo International senior vice president of first party claims and global claims catastrophe lead.

Policyholders are noticing water damage as seasonable temperatures return and pipes start to thaw, said Insurance Council of Texas spokeswoman Camille Garcia, who projects combined event business, homeowners, automobile and renters claims in the hundreds of thousands in her state.

She said loss estimates will take longer to firm up because “virtually everybody in Texas was impacted,” making it one of the largest claim events in state history. “There is not a sector that walked away unscathed. This affected anybody with a pipe in their business.”

Real estate and hospitality segments were likely hit hard, said Crawley, exacerbated by lower occupancy rates because of the COVID-19 pandemic. “It can take longer to identify sources of loss, like leaking or frozen pipes or malfunctioning sprinkler heads leading to increased water losses,” he said.

While deep freezes are unusual in much of the state, insurers may reassess their risk appetite after what some are calling a once-every-10-years event, said Troy Koonsman, director of claims operations for Fort

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Worth, Texas-based broker Higginbotham. Some could reduce exposure, or seek change that would mitigate losses from future freeze events, such as requiring pipe insulation common in regions where winter temperatures routinely dip below freezing.

“Weather patterns have been changing for some time now with visible signs of impacts from climate change. Severe events like this should be expected and planned for at all levels in the private and public sectors,” Crawley said. “In some estimates the combined effect of winter storms and severe convective storms throughout the year have become the most damaging peril in the U.S.”

Insured losses from the “extreme, perfect” winter storm event could hit \$18 billion across multiple states, according to Karen Clark & Co. Co-founder and Chief Executive Officer Karen Clark. The impact is severe because of record-breaking low temperatures, snow and ice that caused or contributed to power outages and an unusually long duration, she said ([BestWire, Feb. 19, 2021](#)).

State Farm has taken in more than 55,000 claims from the events, led by 37,000 in Texas. The next highest claims counts were from Louisiana, 3,730 and Illinois, 3,770, said spokesman Chris Pilcic. The top cause has been frozen and broken pipes. More than 1,000 claims have come in from Oklahoma, Arkansas, Mississippi and Tennessee.

Crawley said carriers should expect numerous business interruption claims, the degree of losses influenced by the severity of physical damage and property restoration market response capabilities as resources are stretched thin.

Volume or frequency pressure on emergency service repair and property restoration companies will have a “direct impact on inspections, writing of repair estimates and effecting repairs, and the overall claim process,” Crawley said.

Baker Tilly’s global forensics team works with insurers to quantify the financial impact of loss events and to assist policyholders. Principal Matthew Morris leads its global forensics and litigation services team. He said property/casualty insurers should see a number of business interruption claims, along with others filed for marine and cargo coverage because of shipping delays.

The impact of the event was felt from Texas to Tennessee, he said, with other storms simultaneously hitting other regions of the country.

“Much like the COVID-19 pandemic, the winter storms were an equal opportunity event, shutting down nearly everything,” Morris said. “I think there may be some outsized losses in transportation and shipping. Retail and storage took a significant hit as well with not being able to maintain perishable product. One can’t help but also think the energy segment will be impacted fairly significantly as well.”

With the ice and snow largely melted in Texas and other central and southern states, Morris said adjusters can reach policyholders, but the availability of supplies and labor to effect repairs could increase the

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severity of business interruption claims.

And, he added, COVID-19 will complicate BI claims because of the lingering economic impact of the pandemic on “reliable period-over-period financials on which to base” claims.

Like other insurers, Nationwide said it is taking in claims from associates on the ground in Texas and remotely, using “various remote settlement tools and other digital solutions to inspect damages and help expedite the claims process.”

The footprint of the winter event is unlike anything Koonsman said he has seen during decades in the industry, although it reminds him of the 2004 and 2005 Atlantic hurricane seasons and the toll they took in what at the time was his home state, Florida.

“When I look at it across the board, it’s just the scale of it,” he said. “I would think that this is a top, if not the top, loss on record in Texas.”

In addition to carrier-based teams, Koonsman said the state has a sizable independent claims adjusting force capable of handling the onslaught of filings.

He pointed out increased exposure in Texas from a growing population. The U.S. Census Bureau estimates the state’s population increased more than 15% from April 2010 through July 2019, to 29 million.

Commercial carriers will register higher losses because of the large numbers of businesses that have opened or expanded to meet the needs of the additional residents, he said. “There has been a pretty good building boom.”

Initially, Koonsman is seeing “pretty extensive” habitational losses. Burst fire protection sprinkler pipes — a large number of homes and businesses lost one or more utilities, including heat and electricity — can cause damage throughout a business, he added. Overall he thinks the greatest number of losses will trace back to burst pipes.

AM Best said recently said it believes the heaviest volume of claims will be in the homeowners, commercial property and auto insurance lines of business. Some insurers are part of the industry’s largest organizations, but others are smaller carriers whose profitability is likely to be impacted significantly by losses, depending on the adequacy of their reinsurance coverage. Additionally, 10 insurers’ entire commercial multiperil property portfolio is Texas-based; as a result, these insurers acutely are exposed to a multitude of potential losses, including ones derived from broken pipes that cause water damage or from businesses that deal with perishable goods (BestWire, Feb. 19, 2021).

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