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Hurricane Sandy washes out Eastern seaboard, but insured losses likely manageable

By [Adam Cancryn](#)

Hurricane Sandy bore [down](#) on the U.S. mid-Atlantic on Oct. 29, lashing much of the East Coast with high winds and drenching rains.

The severe weather is expected to wreak havoc on the area during the next day and a half, as Sandy collides with a separate cold front to form what meteorologists called a massive "hybrid" storm. But while about 20% of the U.S. population might feel the storm's effects, major [insurers](#) should be well-prepared to absorb the resulting losses with relative ease.

After moving [through](#) the Caribbean, Sandy spent the past few days tracking northward along the U.S. East Coast. It fluctuated between Category 1 hurricane and tropical storm status during its trip, dropping heavy rain on the Carolinas before taking aim at the densely populated states along the coast. While storms typically grow in size as they move north, Weather Underground Atmospheric Scientist Angela Fritz told SNL, competing winds blew into Sandy's path and spread the hurricane's reach even farther. That, together with an injection of baroclinic energy created by the mixture of warm and cold air masses, helped Sandy develop into the second-largest Atlantic tropical cyclone on record.

Yet while much of the coast has already felt the impact of gale-force winds that extended more than 500 miles from the storm's center, it is what is projected to happen during the next several hours that meteorologists said makes Sandy unique and especially dangerous.

The storm is on track to combine with a cold front sweeping across the U.S. to create an extratropical event that incorporates characteristics of a tropical storm and a nor'easter. That large, slow-moving combination will then have a broader reach than the more traditional storms seen in the region.

"It's really starting to spool itself up," Weather 2000 Inc. Chief Meteorologist Michael Schlacter told SNL. "Part of the storm is already ex-tropical, so unlike a hurricane like Irene or Gloria that was very concise, this is having effects from the Atlantic [Ocean] to Ohio up to Maine, down to Virginia and North Carolina."

The storm is turning northwestward and is not expected to make landfall until early evening, but already a large swath of the East Coast is seeing flooding and high winds. Several states had declared states of emergency as of Oct. 29, and across much of the mid-Atlantic, public services were shut down. Parts of New York City held mandatory evacuations, and the stock markets [halted](#) trading. Exchange operators later [announced](#) that that stoppage would extend into a second day. Throughout parts of the Interstate 95 corridor connecting New Jersey and New York, utility company [Consolidated Edison Inc.](#) reported a series of power outages.

Farther inland, snow blanketed parts of West Virginia and western Pennsylvania due to the collision of Sandy with the east-moving cold front. Forecasts are now calling for up to 2 feet of snow in the higher elevations of West Virginia.

Conditions are likely to worsen as the storm turns and slows over the mid-Atlantic. Although the storm is likely lose its hurricane status before it makes landfall near southern New Jersey, National Weather Service spokesman Christopher Vaccaro told SNL that its impact will remain far-reaching.

"As it begins to merge and interact with this cold front, it's going to become this nor'easter where there's going to be multiple hazards associated with it," Vaccaro told SNL. "This isn't going to be a matter of a couple of hours. It's going to be a matter of a couple of days."

That provides a large window for the heavy rain and high winds to knock over trees and damage infrastructure. Adding to that danger is the foliage still on the trees, which can create a canopy effect that catches the wind and magnifies its force. Leaves on the ground could also clog sewers and drainage systems, exacerbating any flooding already taking place.

All those severe elements should mean that Sandy will outpace the [damage](#) caused by Hurricane Irene in August 2011. Irene generated roughly \$10 billion in economic damage and \$4.3 billion in insured losses when it swept through the tri-state area of New York, New Jersey and Connecticut. An early [estimate](#) released by catastrophe modeler EQECAT put losses from Sandy at as much as double those figures.

Yet while that would be a significant event for the insurance industry, even those with heavy exposure to the region are unlikely to panic too much. Even a \$10 billion industry loss would be within companies' capacity to cover claims, and analysts said the payouts should not hurt them past their fourth-quarter earnings. It has been a relatively calm year for natural disasters, leaving insurers with large cash cushions and the ability to absorb a major loss.

"You just don't see, typically, a Category 1 storm have that much of an impact on the industry," Sandler O'Neill analyst Paul Newsome told SNL. "It's not an event for the industry that's going to change behavior."

He added that the central concern for insurers is likely to be claims filed for business interruption and typical property damage incurred during major storms. The industry is sheltered somewhat because much of the damage that stems from flooding is covered by the government's flood insurance program and not

the private sector.

[Travelers Cos. Inc.](#), [Tower Group Inc.](#), [Allstate Corp.](#) and [Chubb Corp.](#) are among those with a major market presence in the mid-Atlantic. Using Irene as a reference point, FBR Capital Markets analyst Randy Binner said in an Oct. 26 note to clients that Travelers and Tower Group could see the heaviest losses, followed by Allstate.

What insurers will have to contend with is the related effect on their stock prices during the next couple of months, analysts said. P&C insurers with exposure to potential losses tend to sell off in the days surrounding a storm and then remain weak until companies release their damage estimates. The first part of that pattern held for many companies in the days leading into the weekend, with Chubb losing 2.33% and Allstate falling 2.76% collectively on Oct. 25 and Oct. 26.

"Looking back to Hurricane Irene, we see insurers in our coverage traded off in anticipation and through Hurricane Irene in 2011 but then mostly came back by earnings once losses were fully recognized," Sanford C. Bernstein analyst Josh Stirling said in a note.