INSURANCE:

At $30B and counting, Sandy joins ranks of most expensive hurricanes

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Sandy, the 1,000-mile-wide hurricane that ripped off roofs, flooded coastlines and poured salt water into the New York subway system, cost an estimated $30 billion. It is fueling questions in the insurance industry about the nation's response to its growing problem of expensive weather catastrophes.

It was the second storm in as many years to strike the East Coast with enough force to rank it among the 10 most damaging disasters in the nation's history, roughly matching the price of Hurricane Irene in 2011.

With a grim partnership operating between full-moon tides and storm-driven ocean water, Sandy plowed her way through a great deal of public and private infrastructure.

The impact on insurers is estimated at $5 billion to $10 billion, with government, businesses and uninsured homeowners shouldering as much as $10 billion to $20 billion, according to Eqecat, a firm that develops computer models used by insurers to assess catastrophe risk.

That puts Sandy in the company of devastating hurricanes Ivan ($16.7 billion in economic losses), Charley ($17.9 billion), Wilma ($18.6 billion) and Ike ($28.4 billion).

All of them are among the most expensive events to strike the United States. And they have all occurred since 2004, with Hurricane Katrina being the costliest catastrophe to ever hit the nation at an overall price of $145 billion in 2005.

That presence of cyclones combined with growing damage from tornadoes, thunderstorms, drought and flooding is raising the cost of insurance and challenging the budgets of public programs -- from emergency funding to federal flood insurance.

How to preserve affordable insurance rates?

Sandy "reaffirms that large-scale catastrophe losses are becoming more frequent and are perhaps being distributed across larger areas of the U.S.," said Robert Hartwig, president and chief economist of the Insurance Information Institute. "The distribution of multibillion-dollar events seems to be expanding."

The rising toll from catastrophes and the resulting climb of insurance rates are driving a public debate about how to provide protection at an affordable price.

Supporters of legislation for a federal reinsurance program, as proposed by Democratic Rep. Albio Sires, whose New Jersey district was hit by Hurricane Sandy, will likely point to the storm as an argument for greater public involvement in protection.

States can buy reinsurance from the Treasury Department under Sires' legislation that, supporters say, would allow Washington to reduce the payout of emergency funding while providing disaster insurance that is more affordable and stable than the private alternative.

"Our country needs a long-term, self-sustaining solution to prepare and recover from these luckily rare, but catastrophic events," Sires said last month, noting Hurricane Irene's impact.

But the R Street Institute, a free-market think tank, says that outcome would ensure that "the impacts of the next Sandy would be even greater."

Should risk-prone construction be discouraged?

The group, which counts environmental organizations as allies, believes that a large federal catastrophe insurance program could encourage development in areas prone to hurricanes and other risks. Indeed, insurers point to the rapid rise of buildings in exposed areas as a key reason behind the climbing costs of disasters.

"The federal government should not be subsidizing environmentally destructive development or encouraging people to live in harm's way," said R Street President Eli Lehrer in a statement.

Instead, Lehrer suggests that Congress use the Coastal Barrier Resources Act of 1982 as a template for reducing damage. The law prohibits federal funding of roads, wastewater systems and other infrastructure along 3.1 million acres of coastal land. Lehrer noted that New Jersey's barrier islands were built up before the law was passed.

"The images we've all seen of the coastal barrier destruction caused by Hurricane Sandy make abundantly clear precisely what the law was created to avoid," Lehrer said.

While some scientists say it is difficult to blame climate change for producing specific storms, warmer temperatures are contributing to rising sea levels, heavier rain and, perhaps, an intensification of the most severe hurricanes.

Sandy represents an escalation in a trend of more extreme weather, said Cynthia McHale, director of the insurance program at Ceres, a group of institutional investors that want action on climate change.

How to promote storm resiliency

The group says it is not enough for insurers to just raise prices, which can discourage people from living in risky places. Ceres is urging the industry, one of the world's richest, to help states and communities develop smarter land-use policies that prevent construction in disaster-prone areas.

"We want them to be really engaged in the whole resiliency effort," McHale said of insurers.

If the pace of construction in floodplains is reduced, that might cool the rise of damage related to disasters, supporters say. Many in the insurance industry point to densely located assets as a primary reason for those climbing costs, and to climate change as a smaller risk.

"If there's an increase in the [weather] extremes, it may be related to natural cycles or because of some influence of the anthropogenic" factor, said Annes Haseemkunju, a meteorologist with Eqecat, the modeling firm. "But there's not really any real conclusion on that."

Other industry members disagree with that sentiment. Munich Reinsurance, for example, issued a report this month that encourages the industry to begin pricing for climate change risks in its insurance lines.

Sandy will also showcase the cost of disasters on taxpayers. The federal government issued emergency declarations for all the states struck by the storm, making disaster victims eligible for grants and low-interest loans. The federal government will likely spend billions more repairing roads and other infrastructure, including New York City's subway system, which was seriously flooded for the first time.

"The insured losses are going to be relatively small compared to [federal] cleanup costs," said Shahid Hamid, a hurricane finance expert at Florida International University. "That's where the real costs will be."