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Re/Insurers Tally Their Third-Quarter 2018 Natural Catastrophe And Man-Made Losses While Bracing For Hurricane Michael

October 10, 2018

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Key Takeaways

- Hurricane Michael made landfall in Florida as a major storm expected to cause coastal and inland damage of up to $4.5 billion in insured losses.
- We expect the hurricane to be an earnings event for the U.S. primary insurance and global reinsurance sectors.
- Although the third quarter of 2018 has seen various catastrophes, we believe that the combined earnings for the U.S. insurance and the global reinsurance sectors will absorb the total year-to-date catastrophe losses, including those from Hurricane Michael.

Hurricane Michael made landfall in the Florida Panhandle as a major Category 4 storm on Wednesday, Oct. 10, 2018, with a potentially dangerous storm surge, strong and damaging maximum sustained winds of 155 miles per hour, and flooding rainfall. According to the modeling agency CoreLogic, more than 57,000 homes on the Florida Gulf Coast--with a reconstruction cost value of about $13.4 billion--are at risk of damage from the storm surge. Hurricane Michael quickly strengthened into a fast moving storm that's expected to cause coastal and inland losses. However, the ultimate insured losses will depend on the hurricane's unique characteristics.

Based on early estimated insured losses from the wind and storm surge of up to $4.5 billion, we predict Hurricane Michael will be an earnings event rather than a capital event for both the U.S. primary insurance and global reinsurance sectors. Per the Swiss Re Sigma report, global insured catastrophe losses totaled about $20 billion in the first half of 2018, down from $30 billion during the same period in 2017. However, the third quarter of 2018 incurred many man-made and natural catastrophes that we predict will hurt re/insurers' operating earnings. We believe the third quarter will be difficult for re/insurers because we've already seen some of these companies pre-announce their preliminary third quarter catastrophe estimates (e.g., Lancashire Holdings Ltd., Chubb Ltd.).

We expect that the combined earnings for the U.S. insurance and the global reinsurance sectors will absorb the total year-to-date catastrophe losses, including those from Hurricane Michael, although the losses may exceed re/insurers' 2018 catastrophe budgets. While the individual impact will vary by company, we expect credit risk profiles in the sector to remain mostly unchanged after this storm, resulting in minimal negative rating actions.

Florida is the largest property catastrophe market in the world and many reinsurers consider it a peak zone, although they retrocede a significant portion of Florida catastrophe risk to the alternative capital market. Nevertheless, we expect reinsurers to be exposed to losses from Hurricane Michael because Florida's insurance market is heavily reinsured and the storm could trigger reinsurance aggregate limits. The major national insurers have reduced their exposure to Florida over the years, so that now mono-state or regional carriers and Citizens Property Insurance Corp., the Florida state insurer of last resort, dominate the state.

The Florida Hurricane Catastrophe Fund Is Ready For Hurricane Michael

In our view, the Florida Hurricane Catastrophe Fund (FHCH) is well capitalized for this event. It currently has an estimated fund balance of approximately $14 billion. In addition, the FHCF also has $2.2 billion available in pre-event bond proceeds from outstanding Series 2013A pre-event debt ($1.0 billion outstanding) and Series 2016A pre-event debt ($1.2 billion outstanding). The FHCF could use a portion of pre-event bond proceeds, issue post-event bonds, and/or levy emergency assessments if needed to help pay claims or rebuild its claim-paying capacity for the subsequent hurricane season.

All admitted insurers writing residential property insurance in Florida, including Citizens Property Insurance Corp., are required to obtain FHCH reimbursement coverage. The FHCF reimburses each participating insurer for part of its hurricane losses under residential policies. The maximum obligation that the FHCF can currently pay is $17 billion. Additionally, for 2018, the FHCF renewed a $1 billion layer of reinsurance protection through traditional reinsurance and insurance linked securities at an attachment point of $10.5 billion, down from the $11.5 billion attachment points in the prior two years.

Unfazed Reinsurance Pricing

It's too early to quantify the January 2019 reinsurance pricing renewals, but if 2017 is any indication, year-to-date catastrophes will not likely change the fizzling of the reinsurance pricing momentum the industry saw earlier this year. However, Hurricane Michael may provide some support for rate increases demanded by primary insurers.

Top 20 Insurers In Florida For Property* (By Direct Written Premium)

Rank	Insurance group§	Direct premiums written ($; 000s)	Market share (%)
1	Universal Insurance Holdings	921,258	6.8
2	Citizens Property Ins Corp.	893,990	6.6
3	Tower Hill	689,480	5.1
4	State Farm	607,995	4.5
5	American International Group	582,073	4.3
6	FEDNAT	501,145	3.7
7	Assurant Inc.	489,157	3.6
8	Progressive	452,520	3.3

Top 20 Insurers In Florida For Property* (By Direct Written Premium) (cont.)

Rank	Insurance group§	Direct premiums written ($; 000s)	Market share (%)
9	USAA	436,390	3.2
10	Heritage Insurance Hldgs Inc	436,387	3.2
11	Chubb	399,810	3.0
12	Security First Insurance Co.	391,404	2.9
13	United Insurance Holdings	370,695	2.7
14	HCI Group, Inc.	349,748	2.6
15	First Protective Insurance Co.	310,006	2.3
16	Florida Peninsula Holdings LLC	308,429	2.3
17	American Integrity Insurance Co. of FL	292,124	2.2
18	St. Johns Insurance Co.	257,988	1.9
19	People's Trust Insurance Co.	239,576	1.8
20	Allstate Corp.	231,889	1.7
	Total industry premiums	13,530,018	

Source: S&P Global Market Intelligence, based on U.S. statutory filings. *Property includes the following lines of business: Homeowners Multiperil, Farmowners Multiperil, Fire, Allied Lines, Earthquake, Federal and Private Flood, Private Crop, Multiperil Crop. §Company figures based on SNL P&C Group data.

Related Research

- Monte Carlo 2018: Reinsurance Market Participants Are Preparing For A Marathon, Not A Sprint, Sept. 19, 2018
- Hurricane Florence Will Jolt Re/Insurers, But Losses Likely Will Be Manageable, Sept. 13, 2018
- Global Reinsurers' Returns Will Barely Cover Capital Costs In 2018 And 2019, Sept. 4, 2018
- The Top Global Reinsurers Are Breaking Away From The Pack, Sept. 4, 2018
- Tropical Storm Lane And Other Recent Natural Catastrophe Events Are Expected To Have Limited Impact On Re/Insurers, Aug. 31, 2018
- Capitalization Remains A Pillar Of Strength For Global Reinsurers, Aug. 15, 2018
- How Reinsurers Have Learned To Align Third-Party Capital With Their Needs, Aug. 14, 2018
- Are Global Reinsurers Ready For Another Year Of Active Natural Catastrophes?, July 25, 2018