S&P Global
Ratings

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Insured Losses From Hurricane Ian Will Likely Be Substantial But Manageable

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Key Takeaways

- We expect Hurricane Ian to result in substantial insured losses of $30 billion to $40 billion.
- However, U.S. property/casualty insurers we rate are well positioned to absorb losses, and losses for global reinsurers also should remain within annual catastrophe budgets.
- We expect ratings should remain largely unaffected by the hurricane.

Hurricane Ian made landfall in the Fort Myers metro area of southwest Florida on Sept. 28, 2022, as a Category 4 storm with wind speeds of up to 155 mph--nearly a Category 5 storm. The track of the storm through the state appears similar to that of Hurricane Charley, which made landfall at Punta Gorda in August 2004 and caused around US$7 billion of insured losses at the time, according to a report published by the National Hurricane Center on Oct. 18, 2004.

Ian's footprint is much larger and the progress of the storm is much slower, so the wind damage will be more widespread and the water damage from rainfall and storm surge more severe. As the storm made landfall, estimates of storm surge were up to 12-18 feet, compared with estimates of 6-8 feet for Hurricane Charley. Early pre-landfall estimates of insured losses from Hurricane Ian ranged from $15 billion to $40 billion.

Given its size and intensity--including the amount of storm surge along an extensive portion of the southwest Florida coastline--and the fact that the storm came ashore in a more populated area, S&P Global Ratings' current expectation is that the insured losses will be closer to the high end of this range. Citizens Property Insurance Corp., the state-sponsored insurer for homeowners with a statewide market share of about 13%, has estimated that it expects losses of about $3.8 billion, which implies an industrywide loss of around $30 billion.

We note that the premium data and loss estimates used in this article are only for Florida. Hurricane Ian has exited the state but is projected to make a second landfall as a Category 1 hurricane in South Carolina today. We will continue to monitor the storm and update our view of its impact on our rated insurers if the additional losses are deemed material.

U.S. Property/Casualty Insurers Are Well Positioned To Absorb Losses

Wind damage, storm surge, and water damage from heavy rainfall will cause major losses for residential and commercial property insurers and, to a lesser extent, for auto insurers. In addition, the resulting flooding will add to the damages mainly for commercial property. The direct premiums written by the property/casualty (P/C) industry in Florida in property lines of business (excluding auto) is split roughly 2 to 1 between personal and commercial lines, so homeowners (residential property) will be the most affected line.

Property Lines Exposure In Florida For Select Rated U.S. P/C Insurers

Insurance group	Rating/outlook*	Total Florida property direct premiums written (DPW) (mil. $)	Personal property (%)	Commercial property (%)	Market share (% of industry total property lines DPW)	Total U.S. DPW for all lines (mil. $)	Property lines DPW for Florida/total U.S. DPW (%)	Year-end 2021 policyholders surplus (mil. $)	Capital and earnings assessment
State Farm	AA/Stable	845	98	2	4.3	70,312	1.2	143,205	Excellent
Chubb	AA/Stable	696	51	49	3.6	27,122	2.6	18,454	Very Strong
Progressive	AA/Stable	639	86	14	3.3	48,373	1.3	16,415	Excellent
AIG	A+/Negative	557	54	46	2.9	14,788	3.8	19,603	Very Strong
USAA	AA+/Stable	527	97	3	2.7	25,258	2.1	33,373	Excellent
Assurant	A/Stable	422	21	79	2.2	8,968	4.7	1,532	Very Strong
Zurich	AA/Stable	397	3	97	2.0	15,016	2.6	8,091	Very Strong
Allstate	AA-/Stable	383	87	13	2.0	41,388	0.9	20,585	Very Strong
QBE	A/Stable	347	21	79	1.8	6,303	5.5	1,694	Strong
Tokio Marine	A+/Stable	281	78	22	1.4	10,276	2.7	10,313	Strong
Markel	A/Stable	277	31	69	1.4	7,419	3.7	4,501	Strong
Nationwide	A+/Stable	272	43	57	1.4	19,436	1.4	18,022	Very Strong
Berkshire Hathaway	AA+/Stable	220	37	63	1.1	51,604	0.4	303,201	Excellent
Liberty Mutual	A/Stable	201	36	64	1.0	41,474	0.5	27,683	Strong
Farmers	A/Stable	184	100	0	0.9	25,009	0.7	6,770	Satisfactory
FM Global	A+/Stable	163	0	100	0.8	5,603	2.9	17,858	Excellent
AXA SA	AA-/Stable	133	21	79	0.7	7,773	1.7	3,489	Strong
Arch Capital	A+/Stable	119	5	95	0.6	5,453	2.2	2,521	Very Strong
The Hartford	A+/Stable	111	22	78	0.6	13,558	0.8	14,746	Very Strong
Sompo	A+/Stable	108	4	96	0.6	6,568	1.6	2,929	Strong
Travelers	AA/Stable	103	20	80	0.5	30,920	0.3	23,167	Excellent
Alleghany	A+/C.W. Positive	85	3	97	0.4	2,658	3.2	7,215	Excellent

Property Lines Exposure In Florida For Select Rated U.S. P/C Insurers (cont.)

Insurance group	Rating/outlook*	Total Florida property direct premiums written (DPW) (mil. $)	Personal property (%)	Commercial property (%)	Market share (% of industry total property lines DPW)	Total U.S. DPW for all lines (mil. $)	Property lines DPW for Florida/total U.S. DPW (%)	Year-end 2021 policyholders surplus (mil. $)	Capital and earnings assessment
AXIS	A+/Stable	84	0	100	0.4	2,525	3.3	1,885	Excellent
Everest Re	A+/Stable	82	0	100	0.4	3,276	2.5	5,789	Very Strong
American Family	A-/Negative	81	45	55	0.4	12,580	0.6	9,455	Strong
Munich Re	AA-/Stable	78	45	55	0.4	3,238	2.4	5,396	Very Strong
CNA	A+/Stable	74	0	100	0.4	12,599	0.6	11,321	Excellent
Swiss Re	AA-/Negative	71	5	95	0.4	2,542	2.8	6,592	Very Strong
RLI	A/Stable	70	0	100	0.4	1,313	5.3	1,241	Strong
Allianz	AA/Stable	64	1	99	0.3	5,546	1.1	2,836	Very Strong
Aspen	A-/Stable	43	1	99	0.2	1,296	3.3	890	Excellent
Fairfax	A/Stable	35	1	99	0.2	9,576	0.4	8,166	Strong
Old Republic	A+/Stable	34	0	100	0.2	5,154	0.7	4,541	Excellent
S&P Global Ratings rated		7,787	51	49	39.9	544,919	1.4	763,479	
P/C industry		19,497	64	36	100.0	797,828	2.4	1,052,335	

*Rating represents the financial strength rating on core operating entities. Data as of Sept. 29, 2022. Source: S&P Global Ratings.

The direct property premiums written by the insurers we rate in the state represent a small proportion of their total U.S. premium volume--less than 2% on average (see table 1). Approximately 40% of property-exposed lines of business in Florida are written by insurers we rate, and these rated companies have on average less exposure to residential property, with premiums split almost evenly between residential and commercial property. This is because most large national insurers withdrew years ago from the homeowners market in Florida due to the difficulties of adequately pricing for the risk exposure from this type of windstorm event.

Consequently, much of the residential property exposure in Florida is underwritten by smaller local insurers that filled the market void when the large national players exited the state. These local insurers rely extensively on reinsurance, so the proportion of total losses absorbed by reinsurers and ultimately alternative capital providers is expected to be higher than average. Another significant factor is the presence of Citizens, whose share of the market has grown significantly in the past 18 months as primary insurers have reduced their exposure due to inadequate pricing and reductions in available reinsurance capacity.

We anticipate that the bulk of the storm losses will be in residential property, but commercial property losses will also be substantial and exacerbated by flood damage, which is generally not covered under homeowners' policies but is included in commercial property policies. Less certain is the magnitude of personal auto losses. We expect personal auto writers will experience material auto physical damage losses from the extensive flooding, though this potential exposure has been somewhat mitigated by the mandatory evacuation orders that were in effect for many evacuation zones.

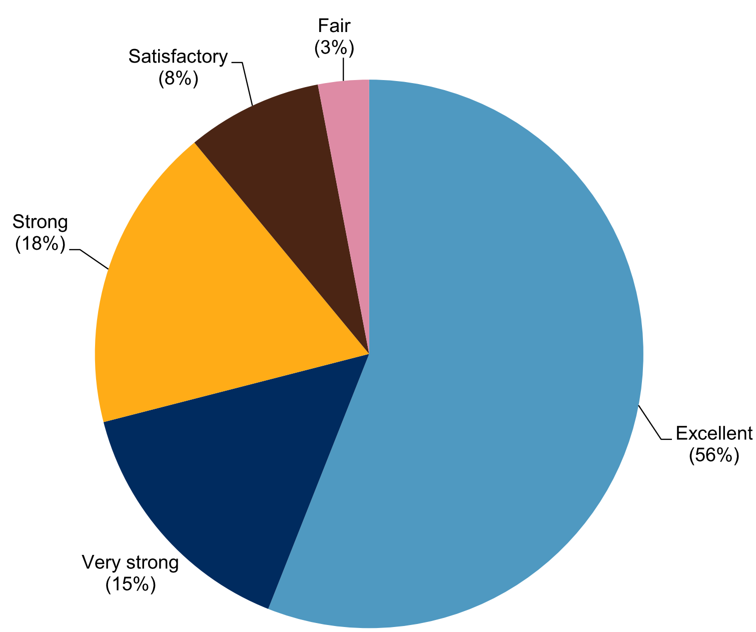
As more information becomes available, we expect to develop loss estimates for the primary insurers we rate either by obtaining estimates from the companies themselves or, when these are not available, by applying a market-share approach to arrive at gross loss estimates and then estimating each insurer's net loss exposure based on our understanding of its reinsurance coverage. We will use these estimates to assess the potential impact on earnings and on capitalization.

Most of the primary P/C insurers we rate entered 2021 with strong capital positions (see charts 1 and 2). However, capital for many insurers declined in the first half of this year due to the impact of rising interest rates on bond portfolio valuations and a decline in the value of equity holdings, which left less capital cushion to absorb large catastrophe losses (see chart 3).

Because this is the first major hurricane of the year, we expect losses should fall within the annual catastrophe budgets of most insurers and so should not directly affect capital adequacy, as measured by our proprietary capital model. But insurers with a heavier focus on personal lines may face more strain from inflationary pressure on property claims costs, as will those insurers with a higher concentration of business written in the Midwest that were affected by convective storm losses in the second quarter.

Chart 1

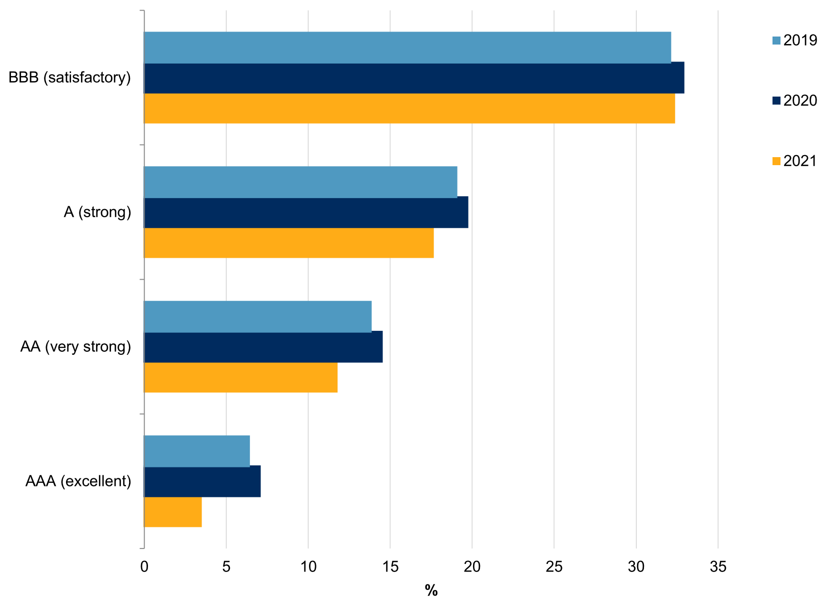
Rated U.S. Property/Casualty Insurers' Capital Adequacy At Year-End 2021--Average Redundancy By Rating Category



Excludes capital assessments for State Farm and AIG Group. Source: S&P Global Ratings.

Chart 2

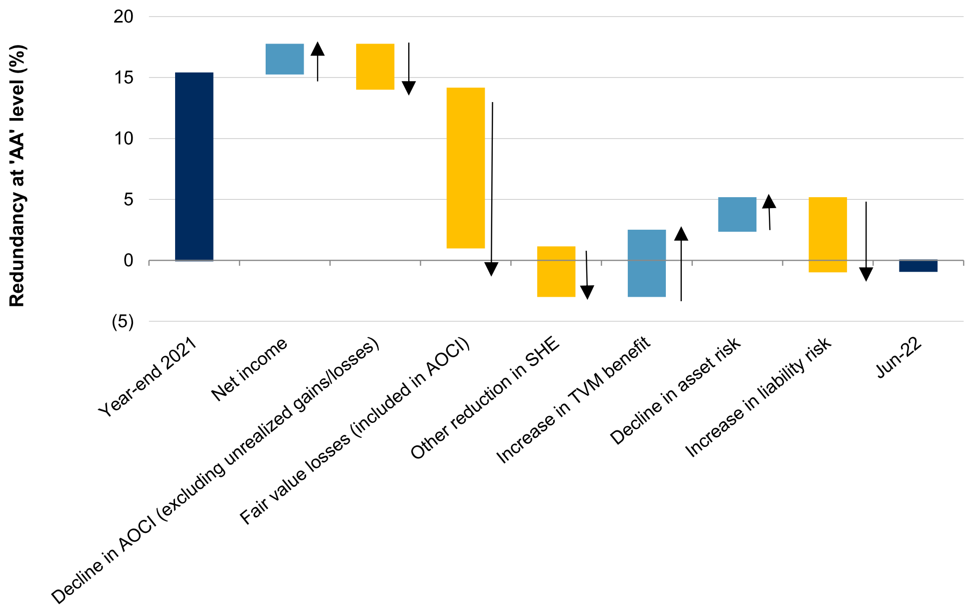
Rated U.S. Property/Casualty Insurers' Capital Adequacy At Year-End 2021--Average Redundancy By Capital Buffer



Excludes capital assessments for State Farm and AIG Group. Source: S&P Global Ratings.

Chart 3

Estimated Changes In Rated U.S. Property/Casualty Insurers' Capital Adequacy In First Half Of 2022



Companies included: ALL, AFG, CB, CNA, THG, HIG, MKL, PGR, RLI, WRB, TRV, SIGI, CINF, KMPR, PRA, LGIM, ORI. Sources: S&P Global Ratings and SEC filings.

Losses Will Likely Remain Within Global Reinsurers' 2022 Catastrophe Budgets

Although it is still too early to fully quantify the insured losses from Hurricane Ian, it's clear that this is a major event for the sector. We believe global reinsurers will be significantly exposed to the damage caused by Hurricane Ian, but for this type of event, the question is whether the potential losses will remain within reinsurers' catastrophe budgets or annual earnings or whether they will create a capital event.

The sector is again facing an active natural catastrophe environment in 2022. In the first six months of the year, insured losses from natural catastrophes were $35 billion, compared with a 10-year average of $29 billion according to Swiss Re. Floods in Australia and South Africa, winter storms in Europe, and thunderstorms in Europe and the U.S. added to the bill in this period.

Hurricane Ian will be the first major hurricane to make landfall in the U.S. this year, and there have been other natural catastrophe events in the second half of 2022. In particular, Typhoon Hinnamnor and Typhoon Nanmadol caused damages in South Korea and southwest Japan, respectively, in September. Insured losses from these events will add to global reinsurers' claims payouts.

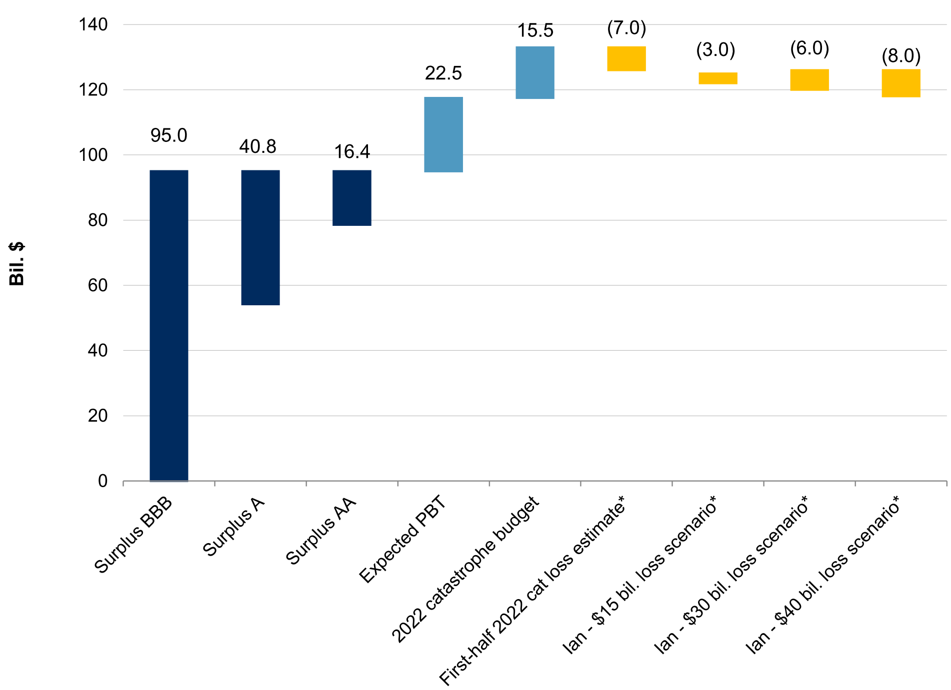
Historically, the top 21 global reinsurers have had an average market share of global insured catastrophe losses of about 20%. However, the unique characteristics of the Florida market, where much of the residential property exposure is written by smaller local insurers that are heavily reliant on reinsurance, make it likely that the share of insured losses from Ian assumed by reinsurers and alternative capital will be above this average. In addition, Florida is considered a peak zone for property catastrophe risk, and reinsurers have used alternative capital to manage their exposure. Therefore, we believe alternative capital will assume some of these losses, which will test its resilience again.

At this stage, we believe the impact from Hurricane Ian, coupled with reported catastrophe losses in the first six months of 2022, could still be within reinsurers' catastrophe budgets. Even if the hurricane creates insured losses close to $40 billion, the sector would be broadly within its annual catastrophe budget (see chart 4). The combined earnings ($22.5 billion) and catastrophe budget ($15.5 billion) create a buffer of $38 billion before catastrophe losses would hit the sector's capital.

However, the catastrophe budget buffers are likely to be fully utilized or exceeded by the end of the year. The global reinsurance industry has a poor track record when it comes to earning its cost of capital (defined as the weighted average cost of capital). Reinsurers have failed to surpass this hurdle in the past five years (2017-2021) except 2019, and 2022 looks set to continue this trend. As a result, our view of the global reinsurance sector remains negative.

Chart 4

Hurricane Ian Losses Likely To Be Contained Within Industry Catastrophe Budget



Assuming 20% share for the top 21 global reinsurers. PBT--Profit before tax.

Sources: S&P Global Ratings and SEC filings.

We also maintain our base-case earnings scenario for the sector, with an expected combined ratio of 95%-98% in 2022-2023, including a natural catastrophe load of 8-10 percentage points. In 2022, we believe reported return on equity (ROE) will take a hit from realized and unrealized investment losses and fall to 3%-5%. However, assuming more stable investment conditions, ROE should improve to 7%-9% in 2023.

The global reinsurance sector entered 2022 with robust capitalization. In aggregate, the top 21 reinsurers' capital adequacy was redundant by 6% at the 'AA' confidence level at year-end 2021, down from 7% at year-end 2020. We expect the capital adequacy buffer will erode in 2022 because of market volatility and the ensuing mark-to-market investment losses but will likely remain at the 'AA' level.

Ratings Should Remain Largely Unaffected

Hurricane Ian will likely be a significant loss event for the U.S. P/C and global reinsurance sectors, and we expect it will accelerate the firming of property rates in 2023. We will closely monitor the loss impact, and we could take rating actions if our base-case capital and earnings assumptions are not met. But at this stage, we expect Hurricane Ian to be largely contained within annual natural catastrophe budgets.

This report does not constitute a rating action.