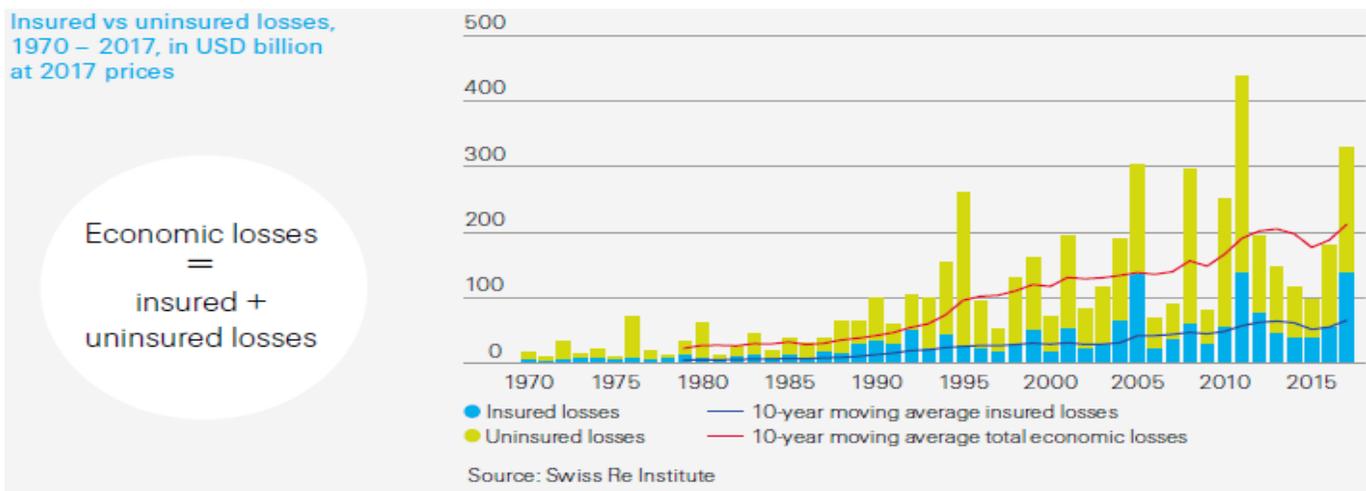


2018 Hurricane Preview: Record Insurance Capital Should Weather the Wind

July 3, 2018

Spectrum believes that P&C re/insurers are well positioned to withstand another year of elevated hurricane activity. Despite expectations for a milder 2018 season given cooler Atlantic temperatures, we have noted in the past that the P&C re/insurance industry remains well capitalized. After one of the most devastating catastrophe (CAT) years in 2017, with record insured losses of \$144 billion, according to Swiss Re — including from California wildfires and hurricanes [Harvey](#), [Irma](#) and [Maria](#) — we are again in the midst of the Atlantic wind season (June-November). Still, the effect of 2017’s activity was largely viewed as an “earnings” rather than a “capital” event as U.S. P&C industry surplus grew by over 7% to ~\$750 billion, while global reinsurance capital was up ~2% to \$605 billion despite the losses, according to a recent Wall Street Journal article.

Nonetheless, record levels of capital — with much of it coming from [alternative sources](#) — have been a double-edged sword as P&C and reinsurance rate renewals have been underwhelming, compared with the industry’s earlier responses to large loss events. In fact, some property reinsurance lines that were loss-free in 2017 reverted to their downward pricing trend at the July renewal, while U.S. CAT-loss hit property reinsurance lines were up modestly at 5-10%, according to broker Willis Re. As such, earnings remain under pressure, driving ongoing industry consolidation. Notably, both Bermuda-domiciled XL Group and Validus Holdings are currently in the process of being acquired in sizable transactions by Paris-based multi-national AXA SA and U.S.-based AIG, respectively.



Among financials, P&C re/insurers are typically less exposed to capital markets, credit and interest rates, which we view favorably. Despite earnings challenges, the credit profiles of leading P&C and reinsurers in which Spectrum invests remain strong.

Chad Stogel, Vice President

Joe Urciuoli, Head of Research

Spectrum Asset Management, Inc. is a leading manager of institutional and retail preferred securities portfolios. A member of the Principal Financial Group® since 2001, Spectrum manages portfolios for an international universe of corporate, insurance and endowment clients; mutual funds distributed by Principal Funds Distributor, Inc.; and preferred securities separately managed account solutions distributed by Principal Global Investors, Inc.

A member of the Principal Financial Group®