

## **2018 Storm Season Update: Hurricane Florence and Recent Typhoons**

September 17, 2018

Last Friday, Hurricane Florence made landfall in North Carolina as a Category 1 storm having weakened from a Category 4 crossing the Atlantic. Despite being downgraded to a tropical depression over the weekend, similar to Hurricane Harvey's effect on Texas in 2017, Florence stalled, continuing to saturate the Carolinas with significant rainfall and flooding. Over 20 people have been killed. On the other side of the world, Typhoon Mangkhut is reported to be among the strongest typhoons on record to hit Hong Kong and southeast China, leaving a substantial death toll in the Philippines. Furthermore, Typhoon Jebi struck Japan in early September heavily impacting the Kansai region.

Economic damage from Hurricane Florence could be substantial. However, flood is typically excluded from standard homeowners policies. Such exposures are mainly covered by separately purchased insurance backed by the federal government, though some private reinsurers are involved in this program. In addition, auto damage and commercial flood claims may be covered under private insurance policies. Initial insured loss estimates for wind and storm surge (but excluding inland flooding) due to Hurricane Florence are in the \$3-5 billion range. Typhoon Jebi in Japan is expected to cost the industry up to \$5.5 billion, according to modelling firms. And insured losses for Typhoon Mangkhut are expected to be more modest given lower insured penetration in the region.

**We expect P&C re/insurers to remain well positioned to withstand an elevated level of catastrophic activity** (see [2018 preview note](#)) given more than \$1 trillion in combined U.S. P&C and global reinsurance capital and surplus, which grew in 2017 despite historic insured losses (e.g., [Harvey](#), [Irma](#) and [Maria](#)). Thus, 2017 and 2018 catastrophes have largely been viewed as "earnings" rather than "capital" events. Nonetheless, this glut of industry capital has muted the pricing response (especially for reinsurers) post-2017's events. As a result, longer-term earnings remain under pressure and industry consolidation continues, though balance sheets remain strong.

Hurricane Florence also impacted the service territories of several large electric utilities in the Carolinas. Costs related to power outages and damages are typically recoverable by rate payers assuming appropriate mitigation and response efforts by utilities. Importantly, utilities often have storm reserves and third-party insurance in place. Most U.S. utility regulatory relationships remain constructive — in 2017 several commissions approved post-storm costs related to infrastructure upgrades to be passed on to ratepayers at a return, generating increment earnings.

*These natural catastrophes should not impact the credit quality of Spectrum's insurance and utility investments.*

**Our prayers and thoughts are with those affected by the tragic events.**

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