

## **Hurricane Laura: The Latest 2020 Catastrophe**

August 28, 2020

**This year has been active, with 13 named storms to date and with much of the peak hurricane season remaining.** Early yesterday, Hurricane Laura made landfall as a strong Category 4 near Cameron, Louisiana, just days after short-lived Hurricane Marco traveled through the Gulf. Laura was one of the strongest storms to ever hit the US Gulf Coast, with sustained winds of up to 150MPH as well as major storm surge. Laura struck a more remote area than feared and insured damages will be lower than if the storm had hit Houston. However, personal and financial losses could be significant, especially for the more densely populated city of Lake Charles, Louisiana. The storm's path also forced the closure of substantial US energy assets and may have caused damage to various chemical and energy facilities. COVID-19 may further complicate recovery efforts.

Comparisons have been made to Gulf Hurricanes Rita (2005), Ike (2008), and Harvey (2017), which each caused multiple billions of dollars in damage. Of note, Hurricane Harvey in 2017 was a slow-moving Category 4 that stalled over Houston for days, deluging the region with rainfall. In contrast, Laura has been downgraded to a tropical depression and is faster moving than Harvey. The storm is unlikely to cause the same level of isolated flooding, but remains an inland concern. This year Isaias was the only other hurricane/tropical storm to inflict meaningful US damage.

Extreme straight-line and long-lived "derecho" windstorms have also torn through the Midwest, and California wildfires in the Bay Area continue to spread across ~1.5 million acres. Some of the largest ever California wildfires have occurred in recent years. Wildfire losses could be significant, but at this point fewer structures have been destroyed than in the 2017-18 period.

Natural catastrophes are often well diversified across property & casualty (P&C) insurers, reinsurers and alternative insurance capital providers (*e.g.*, CAT bonds). P&C re/insurers are subject to Hurricane Laura, derecho storms and CA wildfire losses, but many have brought down their exposures to extreme natural catastrophes in recent years. Most privately insured homeowners policies do not cover flood damage. However, commercial policies may cover flood, as well as damage to energy facilities and disaster-related business interruption. It is important to note that while Hurricanes Harvey, Irma and Maria, and California Wildfires, resulted in record natural catastrophe losses in 2017, these largely hurt earnings, not capital, for insurers.

It has been an extremely active year for P&C re/insurers. We note that the industry's capital level remains solid despite temporarily dipping in the first quarter of 2020 from year-end 2019, largely due to the COVID-driven selloff in equities that insurers own. Furthermore, strong P&C pricing momentum should continue to be supported by natural catastrophe activity and concerns about climate change, which could bode well for future earnings. **We remain constructive on the insurance companies in which we invest.**

*Those affected by this year's catastrophes are in our thoughts.*

Chad Stogel, Vice President  
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