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Asset Management

# West Coast Wildfires

October 6, 2020

Severe wildfires continue to rage in California, including the Glass Fire in the Napa and Sonoma wine regions, leading to mass evacuations. These blazes have been difficult to contain given high temperatures, heavy winds and drought. Millions of acres have already burned this year across California, Oregon and Washington State – a recurring problem – though with fewer structures destroyed than in the 2017-18 period. There is some evidence that fire suppression measures could result in heightened activity, while climate change may also be to blame.

Given high value properties in Napa and surrounding counties, these wildfires could result in another costly disaster from both insured and economic perspectives. However, natural catastrophes are often well diversified across property & casualty (P&C) insurers, reinsurers and alternative insurance capital providers (*e.g.,* CAT bonds). Many P&C re/insurers will be subject to California wildfire losses though such exposures are better managed today as insurers have exited some of the more fire-prone areas and strengthened their underwriting processes. Furthermore, several insurers have received compensation from California utilities deemed liable for prior year fires. Hard pricing for certain types of coverages could become cost prohibitive for customers as re/insurers reassess the frequency and severity of fire risk.

While California has historically been a challenging state for insurers given select regulatory caps on price increases and moratoriums on non-renewals of insurance coverage, specific programs may provide relief that could support the market. For example, the syndicated California FAIR plan includes proportional participations by P&C companies providing coverage for homeowners as their insurers possibly exit or raise rates to high levels.

Notwithstanding COVID, it has been an active year for P&C re/insurers. P&C industry capital remains robust. Furthermore, property coverages are often repriced annually. Thus, strong P&C pricing momentum should continue to be supported by natural catastrophe activity and concerns about climate change, which could also bode well for future earnings. **We are constructive on the insurance companies in which we invest.**

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