

Hurricane Ida a One-Two Punch on the 16th Anniversary of Katrina

September 10, 2021

On the 16th anniversary of Katrina, Hurricane Ida made landfall near Port Fourchon, Louisiana as a Category 4 storm. Ida ravaged New Orleans with extreme winds, taking down substantial electric infrastructure and leaving over a million customers in the dark across Louisiana and Mississippi. Despite weakening, several days later Ida shocked the Northeast – which had just been spared from a near direct hit from Tropical Storm Henri. Historic rainfall and flash floods affecting major metropolitan regions, including New York City, resulted in loss of life and property and automobile destruction. Following record named storms in 2020, it has been yet another active US wind season. Meanwhile, the Gulf Coast’s vulnerability is on display as it has been hit by major hurricanes in consecutive years.

In comparison to Hurricane Katrina in 2005, Ida was smaller, albeit a storm that made landfall with stronger winds. The lead cause of Katrina’s devastation, including its massive death toll was due to flooding as water breached levees and floodwalls, leaving much of New Orleans underwater. **Since 2005, billions of dollars have been spent to strengthen the city’s infrastructure including the levees which held up during Ida.** As such, wind was a major factor in Ida’s destruction of the New Orleans region. Winds toppled extensive transmission & distribution lines, while Ida also forced the closure of offshore energy assets. In comparison to Superstorm Sandy in 2012, infrastructure upgrades strengthened the Northeast’s resilience to Ida. Nonetheless, COVID-19, supply shortages and materials inflation may complicate the recovery and drive higher rebuild costs.

At present, there are several storm formations at sea. Meanwhile, significant flooding in Europe and in parts of the US as well as major winter events have made 2021 another active year of extreme weather and insured claims. Also, massive wildfires along the West Coast have become routine and 2021 has been no exception. And, while wildfire losses could be significant, including those in Lake Tahoe, 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 claims from Hurricane Ida, floods and wildfires, but many have reduced their exposures to extreme natural catastrophes in recent years. Most private homeowners insurance does not cover flood damage. However, commercial policies may cover flood, as well as damage to energy facilities and disaster-related business interruption (including that tied to extended power outages). Also, auto insurance claims may be significant, especially in the Northeast. Nonetheless, it is important to note that the insurance industry maintains record levels of capital even after recent losses from catastrophes and COVID-related damages. The industry also continues to raise prices and take other sustained measures to help offset the rising cost of calamities and concerns due to climate change among other insured loss activity. Importantly, events like Hurricane Ida largely hurt earnings, not the strong balance sheets of major re/insurers.

We remain constructive on the insurance companies in which we invest.

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

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