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Asset Management

Maui Wildfires a Manageable Insurance Exposure

Continuation of Elevated Claims

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Tragic wildfires in the state of Hawaii have caused significant loss of life. They have also affected thousands of properties, with the historic city of Lahaina on the island of Maui severely destroyed. Catastrophe modeling firm Verisk cites dry conditions and winds from hurricane Dora passing to the south as helping to “fan and spread the flames.” It is uncertain if electrical equipment is also responsible, though Hawaiian Electric (HE) is under scrutiny for not shutting off power in vulnerable areas. Spectrum does not own HE. Many major insurers write home and auto and/or commercial property (*e.g.,* hotel) coverage in Hawaii. However, given initial insured loss estimates in the single-digit $billions, compared with annual insured catastrophes losses exceeding $100 billion in recent years – **claims should be manageable in the context of third quarter earnings, though continue a string of high losses, particularly from more frequent but smaller events.**

The elevated frequency of wildfires and small-to-mid-sized weather events are believed to be linked to changing climate conditions more so than mega-events like hurricanes. In fact, these so called “secondary perils” are on the rise and drove the bulk of elevated 1H23 insured catastrophic losses. Per Swiss Re: “Severe convective storms – storms associated with thunder, lightning, heavy rain, hail, strong winds and sudden temperature changes – caused USD 35 billion (nearly 70%) in insured losses worldwide in the first half of 2023. This means that insured losses are almost twice as high in a six-month period as the annual average of the last ten years...” Swiss Re also notes “above-average losses reaffirm a 5 – 7% annual growth trend in insured losses, driven by a warming climate but even more so, by rapidly growing economic values in urbanized settings, globally.”

Coupled with various inflationary pressures on repair costs, personal auto and home insurers were generally more affected by outsized losses in 1H23 than global re/insurers. This follows aggressive reinsurance price increases and changes of terms to limit reinsurers’ exposure to these secondary perils after years of poor profitability. As such, leading reinsurers are now further removed from these more recurrent risks, while charging primary insurers significantly more to offer protection from, *e.g.,* major hurricanes, quakes and other acute but more remote perils.

Also, at the time of this writing, Typhoon Lan is expected to make landfall in Japan, near Osaka. As such, conditions are expected to remain supportive of reinsurance pricing power. Meanwhile, higher reinsurance costs are pressuring earnings for primary insurers. Insurers should ultimately look to pass this cost on to customers to defend profitability.

Most importantly, balance sheets are healthy and re/insurers remain disciplined underwriters. **While severe weather like the wildfires in Hawaii drive ongoing earnings pressure, large, well-capitalized re/insurers remain resilient.**

Those affected by the devastating wildfires are in our thoughts.

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