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Property & Casualty Insurance – US

P&C insurers face significant losses from Western wildfires

As of 16 September, dozens of wildfires raged in California, Oregon, Washington and other western states. Together, the wildfires have resulted in tragic loss of life, damaged or destroyed about 9,657 homes and commercial structures and burned more than five million acres, according to the National Interagency Coordination Center, California Department of Forestry and Fire Protection (CAL FIRE) and other authorities. The wildfires continue to burn, with total insured losses in the billions of dollars for California homeowners insurers and commercial property insurers, and significant additional losses for insurers in Oregon, Washington and other western states (see Exhibit 1).

Exhibit 1
Wildfire destruction by state as of September 16, 2020

State	Deaths	Acres Burnt	Structures
California	25	3,154,107	5,792
Oregon	8	914,885	3,075
Washington	1	684,488	560
Other Western States*	0	578,453	230
Total	**34**	**5,331,933**	**9,657**

* Includes Arizona, Colorado, Idaho, Montana, Nevada, South Dakota, Utah and Wyoming
Note: Acres burnt & Structures data for Oregon, Washington, & Other Western states reflects current wildfire data, while the rest of the data reflects overall numbers for the season. Includes Almeda, Evans Canyon, & Hidden fires
Source: National Interagency Coordination Center & CAL FIRE

Assuming CAL FIRE's estimate of about 5,792 structures destroyed or damaged, and an average historic value of about $826,000 per structure as discussed in our 25 August comment, California insured losses would be about $4.8 billion so far. However, there is considerable variability around this estimate because of the wide range of values for homes and commercial structures in the affected areas. In addition, approximately 3,865 structures have been destroyed in Oregon, Washington and other western states. Given typically lower home values and construction costs in those states, we expect the per-structure losses in those states to be lower than the California average. Overall, we currently estimate insured losses in the $5 billion to $8 billion range. Given the strong recent recovery in the housing construction market following the coronavirus shutdown in second-quarter 2020, the increase in demand for construction labor and materials following the wildfires and other recent catastrophes has the potential to lead to higher insured losses.

California and Oregon homeowners insurers are also likely to incur higher costs from additional living expense claims, given that tens of thousands of residents in these states have been subject to evacuation orders. Additional living expenses are typically capped at 30% of a dwelling's value and are paid only if the property is damaged or if the property has been subject to mandatory evacuation. Some commercial property insurers are also likely to pay business-interruption claims. Exhibit 2-4 show the top 10 California, Oregon and Washington homeowners insurers.

Exhibit 2
Top 10 California homeowners insurers, 2019

		California Homeowners Premiums ($ Mil)	Total US Premiums ($ Mil)	California Homeowners Premiums/Total Premiums	US Capital and Surplus ($ Mil)
1	State Farm	1,604	65,615	2.4%	116,232
2	Farmers	1,408	20,644	6.8%	6,220
3	Liberty Mutual	582	35,600	1.6%	20,539
4	CSAA	575	4,101	14.0%	3,578
5	Allstate	536	34,832	1.5%	19,887
6	USAA	523	23,483	2.2%	30,476
7	Auto Club	522	2,855	18.3%	8,104
8	Mercury	504	3,499	14.4%	1,346
9	Nationwide	370	18,442	2.0%	15,749
10	Travelers	307	28,017	1.1%	20,670
	Industry Total	**9,128**	**712,434**	**1.3%**	**866,615**

Source: Source: Source: SNL Financial L.C. (contains copyrighted and trade secret materials distributed under license from SNL, for recipient's internal use only) and Moody's Investors Service

Exhibit 3
Top 10 Oregon homeowners insurers, 2019

		Oregon Homeowners Premiums ($ Mil)	Total US Premiums ($ Mil)	Oregon Homeowners Premiums/Total Premiums	US Capital and Surplus ($ Mil)
1	State Farm	198	65,615	0.3%	116,232
2	Farmers	142	20,644	0.7%	6,220
3	Liberty Mutual	116	35,600	0.3%	20,539
4	USAA	73	23,483	0.3%	30,476
5	Allstate	66	34,832	0.2%	19,887
6	American Family	51	10,368	0.5%	7,265
7	Country Mutual	48	2,634	1.8%	2,837
8	Travelers	30	28,017	0.1%	20,670
9	Nationwide	16	18,442	0.1%	15,749
10	Enumclaw	16	460	3.5%	363
	Industry Total	**920**	**712,434**	**0.1%**	**866,615**

Source: Source: SNL Financial L.C. (contains copyrighted and trade secret materials distributed under license from SNL, for recipient's internal use only) and Moody's Investors Service

Exhibit 4
Top 10 Washington homeowners insurers, 2019

		Washington Homeowners Premiums ($ Mil)	Total US Premiums ($ Mil)	Washington Homeowners Premiums/Total Premiums	US Capital and Surplus ($ Mil)
1	State Farm	329	65,615	0.5%	116,232
2	Liberty Mutual	269	35,600	0.8%	20,539
3	Farmers	227	20,644	1.1%	6,220
4	Allstate	190	34,832	0.5%	19,887
5	USAA	175	23,483	0.7%	30,476
6	PEMCO	121	497	24.3%	326
7	American Family	118	10,368	1.1%	7,265
8	Travelers	64	28,017	0.2%	20,670
9	Enumclaw	58	460	12.6%	363
10	Hartford	49	11,364	0.4%	12,403
	Industry Total	**1,963**	**712,434**	**0.3%**	**866,615**

Source: Source: SNL Financial L.C. (contains copyrighted and trade secret materials distributed under license from SNL, for recipient's internal use only) and Moody's Investors Service

We estimate that 2020 is already the third-highest year for California insured wildfire losses after 2018 and 2017. In 2017, property and casualty (P&C) insurance losses from major October and December California wildfires that year totaled about $12 billion, only to be eclipsed by $13 billion of losses in 2018. With severe wildfires likely to continue, driven in part by climate change, insurers are responding by raising rates, re-underwriting risk and purchasing additional reinsurance if available. In particular, California homeowners insurers have not renewed policies, particularly in wildland-urban interface (WUI) regions[1], while enhancing underwriting standards, conducting inspections, requiring homeowners to take steps to reduce wildfire risk and reducing geographic clustering. We expect that Oregon and Washington homeowners insurers will start taking similar actions following 2020 wildfire losses. As with California insurers in recent years, Oregon and Washington homeowners insurers could file for rate increases following the 2020 losses.

When homeowners and commercial property owners are unable to obtain insurance in the standard market, they have the option to turn to insurers of last resort for their respective states, including the California FAIR Plan, the Oregon FAIR Plan Association and the Washington FAIR Plan. Each FAIR plan is a syndicated fire insurance pool comprising P&C insurers licensed to write property coverage business in its respective state. Although each insurer must participate in FAIR plan losses in direct proportion to its market share in its respective state, the FAIR plans have generally charged sufficient rates and insurer assessments have been historically rare. FAIR plans typically have a small share of the homeowners and property markets in their states (for example, Oregon FAIR Plan 2018 market share was about 0.5%), but we expect those shares to continue growing as insurers raise rates and non renew policies in wildfire-exposed regions.

We expect that reinsurers will incur a share of the wildfire losses, particularly from quota share, per risk and aggregate cover policies. Aggregate cover policies cover losses from a number of small and midsize catastrophe events, each of which is typically too small to hit larger occurrence deductibles on its own, but collectively exceed an aggregate amount. Before 2017, aggregate cover policies mostly covered tornado, hail and other storm events. As a result of the California wildfires of 2017 and 2018, aggregate cover policies have become more expensive and availability has declined. Following significant property reinsurance pricing increases in 2020, we expect that pricing for catastrophe reinsurance policies including western wildfires will continue to increase in 2021.

Endnotes

1 The US Forest Service defines the wildland-urban interface (WUI) as "the area where houses meet or intermingle with undeveloped wildland vegetation."

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