

Hurricane Ian update

November 2022



In this paper, we provide an event update on Hurricane Ian, with a focus on understanding the loss impact along with thoughts on how it could impact the sector more broadly.

This is a follow-on paper from our [1H22 ILS sector update](#) published recently.



Hurricane Ian

Rated equal fifth most powerful hurricane and significant insured loss expected

Hurricane Ian made landfall in Florida across Wednesday 28 and Thursday 29 September as a Category 4 hurricane.

It is tied with eight other hurricanes as the fifth largest and most powerful hurricane to make US landfall in recorded history.

It has been one of the deadliest hurricanes recorded in Florida in over 80 years with a death toll well over 100 people.

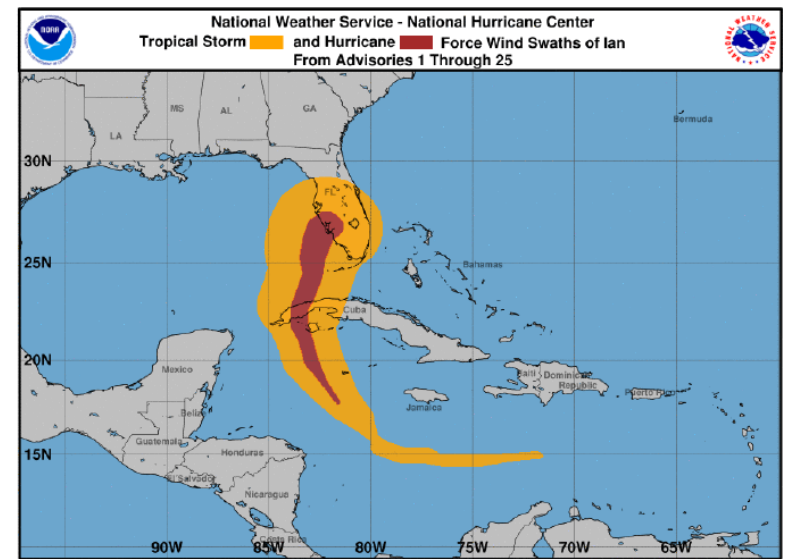
The hurricane avoided making landfall in the major city of Tampa but the strength of the wind force, level of flooding/storm surge and slow track across the peninsula all led to increased property and infrastructure damage.

Most powerful hurricanes to make US landfall

Rank	Year	Month	Storm name	Landfall wind (mph)	Landfall pressure (hPa)	State
1	1935	9	Labor Day	185	892	FL
2	1969	8	Camille	175	900	MS
3	1992	8	Andrew	165	922	FL
4	2018	10	Michael	160	919	FL
5T	1856	8	Last Island	150	934	LA
5T	1886	8	Indianola	150	925	TX
5T	1919	9	Florida Keys	150	927	FL
5T	132	8	Freeport	150	935	TX
5T	2004	8	Charley	150	941	FL
5T	2020	8	Laura	150	939	LA
5T	2021	8	Ida	150	931	LA
5T	2022	9	Ian	150	940	FL

Source: The Washington Post

Hurricane Ian landfall path

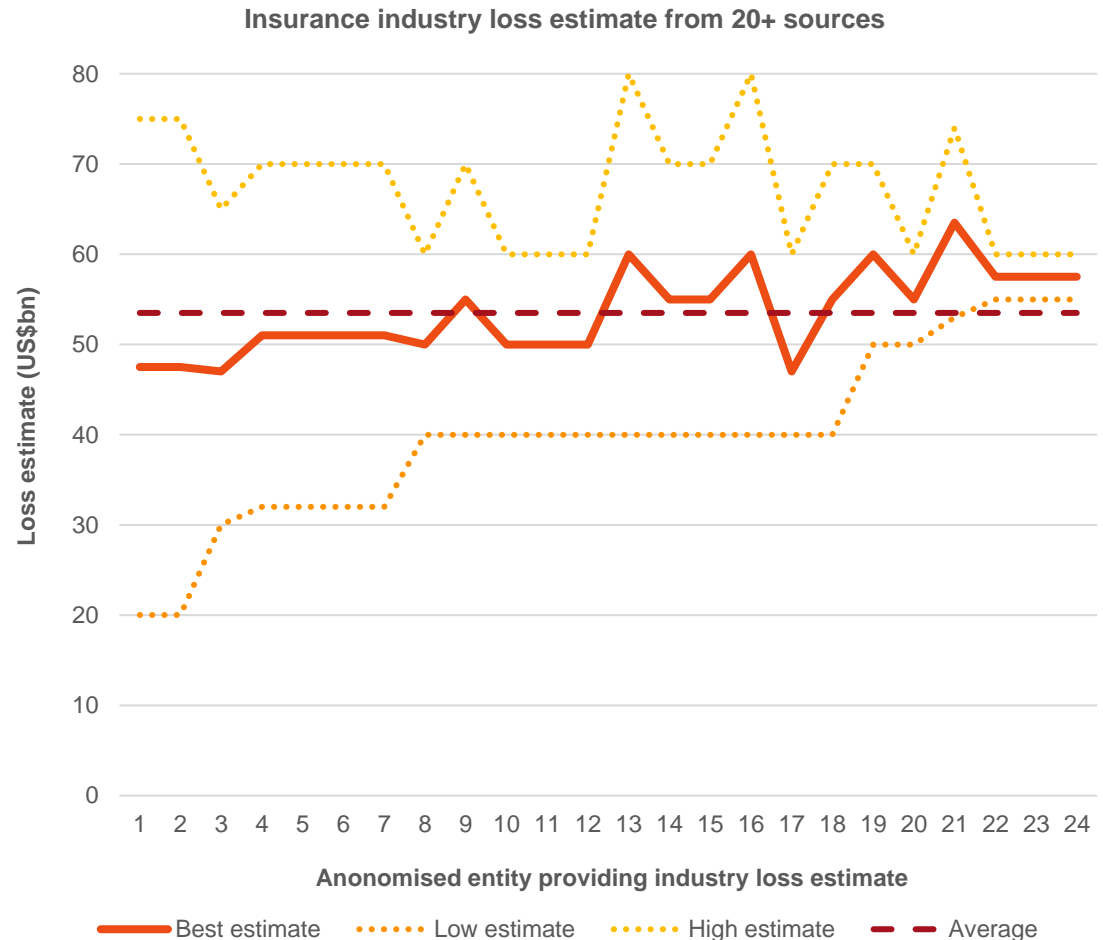


Source: National Hurricane Centre

Hurricane Ian insurance industry loss estimates

Several factors are impacting the estimation of the number and dollar value of insurance claims

- There has been wide dispersion in the estimated insurance industry loss impact. This has ranged from a minimum of US\$20b up to US\$80b. Some media articles had suggested potential for losses to reach above US\$100b, but most articles have now revised back these extreme estimates.
- Dispersion in loss estimates is impacted by access issues to some damaged areas, expectations of increased social and litigation inflation along with a wide range of modelling approaches being used.
- Following several years of loss events, the predication is for further rate increases with an increasing consideration being given to sustainability and climate change.
- Similar to previous large loss events, there is broad consensus that the sector will continue to learn and evolve.
- Potential changes may include re-pricing and re-structuring contracts assuming greater frequency and dollar impact from insurable events, changes to premium structures both pre and post event occurrence, behavioural incentives to reinforce discipline in the reinsurance market and legislation changes.



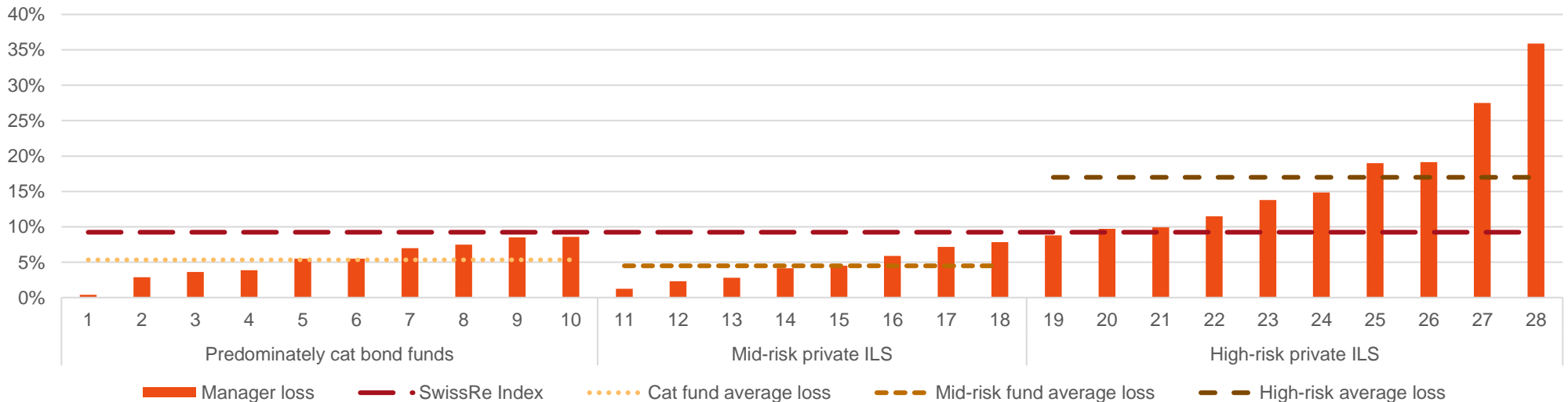
Source: Frontier. Numbers represent 24 different sources which provided an estimate of the insurance industry loss post hurricane Ian. This includes media, research bodies and managers.

Hurricane Ian product loss estimates

There has been wide dispersion in product loss impacts from Hurricane Ian

- Similar to industry loss estimates, product loss estimates are wide ranging. As a result, there is an expectation of increased level and timing of trapped capital¹.
- The event has impacted catastrophe bonds to a greater extent than the average mid-risk private ILS fund. This is unsurprising, with mid-risk funds tending to hold less concentrated exposures to Florida and a greater level of peril and geographic diversification. To date a small number of catastrophe bonds have been marked as loss impacted.
- Investor sentiment continues to be challenged by recent performance. Long-term investors continue to work with managers to address concerns around contract and risk transfer structures, as well as weighing up the potential for increasing frequency, severity and unpredictability in perils.
- Most market participants expect further market hardening² at the January and subsequent renewal periods, driven both by losses and reduced capital availability. Investors who sought to 'wait and see' outcomes in 2022 are expected to have reduced appetite in 2023.
- It is expected there will be greater emphasis on structures and products beyond rate increases. Potential solutions may include changes to transparency and information availability; different ways to address, manage and set expectations for peril frequency and impacts; valuation, loss evolution and trapped capital solutions.

Manager estimated ILS product loss impact from Hurricane Ian



Source: Frontier

1. Trapped capital is capital which is retained or frozen by a cedant due to uncertainty in the amount of potential loss which could impact a contract.

2. A hard insurance market is typically characterized by higher insurance premiums and decreased insurance capacity.

The final word

Hurricane Ian is expected to lead to future change in the ILS sector



Significant event

- Hurricane Ian was a significant natural catastrophe, rated the equal fifth most powerful hurricane to make landfall in the US.



Impact uncertainty

- Several factors are impacting the ability to accurately estimate the associated loss.
- These include the location of landfall, social inflation and litigation impacts.



Investor sentiment

- Investor sentiment has been negatively impacted by Hurricane Ian.
- While it is uncertain what the impact will be, there is broad industry expectation of Hurricane Ian leading to further industry evolution and changes.
- Some of these changes could include re-pricing and re-structuring contracts assuming greater frequency and dollar impact from insurable events, changes to premium structures both pre and post event occurrence, behavioural incentives to reinforce discipline in the reinsurance market and legislation changes.
- These changes have the potential to bring positive change which could assist in addressing some of the negative investor sentiment and concerns following several years of losses.



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