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Damage from Milton in St. Pete Beach, Fla. TED RICHARDSON/ FOR THE WASHINGTON POST VIA GETTY IMAGES

Hurricane Milton Tests The Insurance Market

Hurricane Milton has taken a heavy toll on families, property and businesses. But in the complex insurance market, the effects aren't so straightforward.

At this early stage, preliminary estimates of Milton's insured damages suggest that a relatively larger proportion of the losses will be borne by reinsurers, and less so by primary insurers. These levels likely wouldn't result in big losses for catastrophe bonds, which are specialized investments that typically bear the risk of loss when extreme events occur.

Fitch Ratings estimates that Milton's insured losses will range from $30 billion to $50 billion, which would make it significantly more costly than Hurricane Helene, but wouldn't rise to the level of Hurricane Ian in 2022. The Insurance Information Institute estimates Ian's inflation-adjusted insurance losses at over $55 billion.

Reinsurance has become more expensive in the past couple of years, driven in part by the impact of Hurricane Ian, as well as the sharp jump in interest rates since then, which reduced the amount of investment capital pouring into the sector, at least for a while. Some recent reinsurance has also come with higher attachment points, or the loss level at which coverage kicks in.

"Any industry loss event that is $10 billion or less would largely be retained by primary insurance companies," says Neuberger Berman global insurance analyst Chai Gohil. "And as events go from $10B onwards, more and more is retained by reinsurance companies."

Since the start of 2022, reinsurance stocks in the S& P Composite 1500 had well outperformed property- and-casualty stocks in that index through the beginning of the Atlantic hurricane season this year in June. But that gap has narrowed since then.

S& P Global Ratings estimates that the reinsurance industry has a buffer of $64 billion before catastrophe losses affect its capital. "Global reinsurers will feel the impact but we do not foresee Milton overstepping the sector's annual catastrophe budgets," S& P wrote this week.

Catastrophe bonds designed to cover some of the most extreme risks have also recently seen strong returns despite covering more remote risks. Florian Steiger, chief executive of Icosa Investments, which focuses on alternative fixed-income investments, says that "most cat bonds really shouldn't start taking losses at events below $50 billion."

Going forward, though, reinsur-ance stocks might have a higher bar to keep significantly outperforming their primary peers.

Analysts and investors will be looking closely at what expected losses from Milton are disclosed, to better benchmark the industry's new pricing and terms versus losses from past events. "It would stand to reason that if 2022's Hurricane Ian occurred today, it would result in a better return profile for reinsurers," says Jefferies analyst Yaron Kinar.

Industry losses being short of a worst-case scenario might make it harder for reinsurers to push through another big jump in pricing during policy renewals at the start of next year. An industry loss of around $40 billion might not be favorable to shares of Bermuda- based reinsurers, as it could drive some hits to earnings but "without offering much pricing support," according to Autonomous Research analyst Ryan Tunis.

Whether the cost of reinsurance pricing continues to rise is also a pocketbook issue for many homeowners. A study by professors now at the University of Pennsylvania's Wharton School and the University of Wisconsin School of Business estimated that the recent "reinsurance shock" added $375 in 2023 to premiums for homeowners' policies in the top 10% of zip codes by disaster risk.

An industry that proves it is better able to absorb a disaster of this scale without another big adjustment at least means things won't get significantly worse.

—*Telis Demos*

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