

DATA DISPATCH

California's deadliest wildfire highlights emerging risk

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The most destructive and deadly fire in California's history puts the spotlight on a growing threat for insurers, energy companies and investors in select catastrophe bonds.

As of Nov. 14, the Camp Fire has threatened 15,500 structures and destroyed 9,700 single residences, 118 multiple residences, 290 commercial properties and 1,750 other minor structures, according to data from CalFire.

The fire, which has ravaged more than 141,000 acres, originated in Butte County on Nov. 8. In a short period of time it burned entire neighborhoods and devastated the town of Paradise. The fire is only 40% contained as of Nov. 15 and is not expected to be fully contained until Nov. 30.

More than 60 people have been killed by the recent spate of fires burning across California, and more than 600 others are still unaccounted for.

"This is not the new normal. This is the new abnormal," California Gov. Jerry Brown said during a press conference held in the early days of the fire. The governor has asked for federal aid and declared a state of emergency for the Golden State.

Insurers react to threat

Insurance companies were introduced to this new abnormal last year when they were hit with approximately \$12.8 billion in insured losses stemming from California wildfires, the bulk of which was covered by reinsurance. They also weathered millions in losses from the Mendocino Complex and Carr fires earlier this year.

Although initial estimates of insured losses related to these latest fires have not been released, modeling company Aon said earlier this week that it expects them to result in a "multibillion-dollar payout."

The rising frequency and severity of California wildfires over the past several years might have insurers starting to rethink their approach as reinsurance rates will likely continue to rise. Several insurance companies have taken steps to mitigate damage to policyholders' properties in an effort to limit claims costs from the latest blazes.

For example, Chubb Ltd.'s Wildfire Defense Services program contracts federally certified firefighters in 18 states to harden homes against wildfires. Kevin Fuhrman, catastrophe manager for Chubb Personal Risk Services, said their firefighters tend to take pre-suppression action. That includes raking away leaves, setting up sprinkler systems, bringing in generators, taping vents and spraying fire retardant on vegetation. In severe cases, they may apply gel to flammable parts of structures.

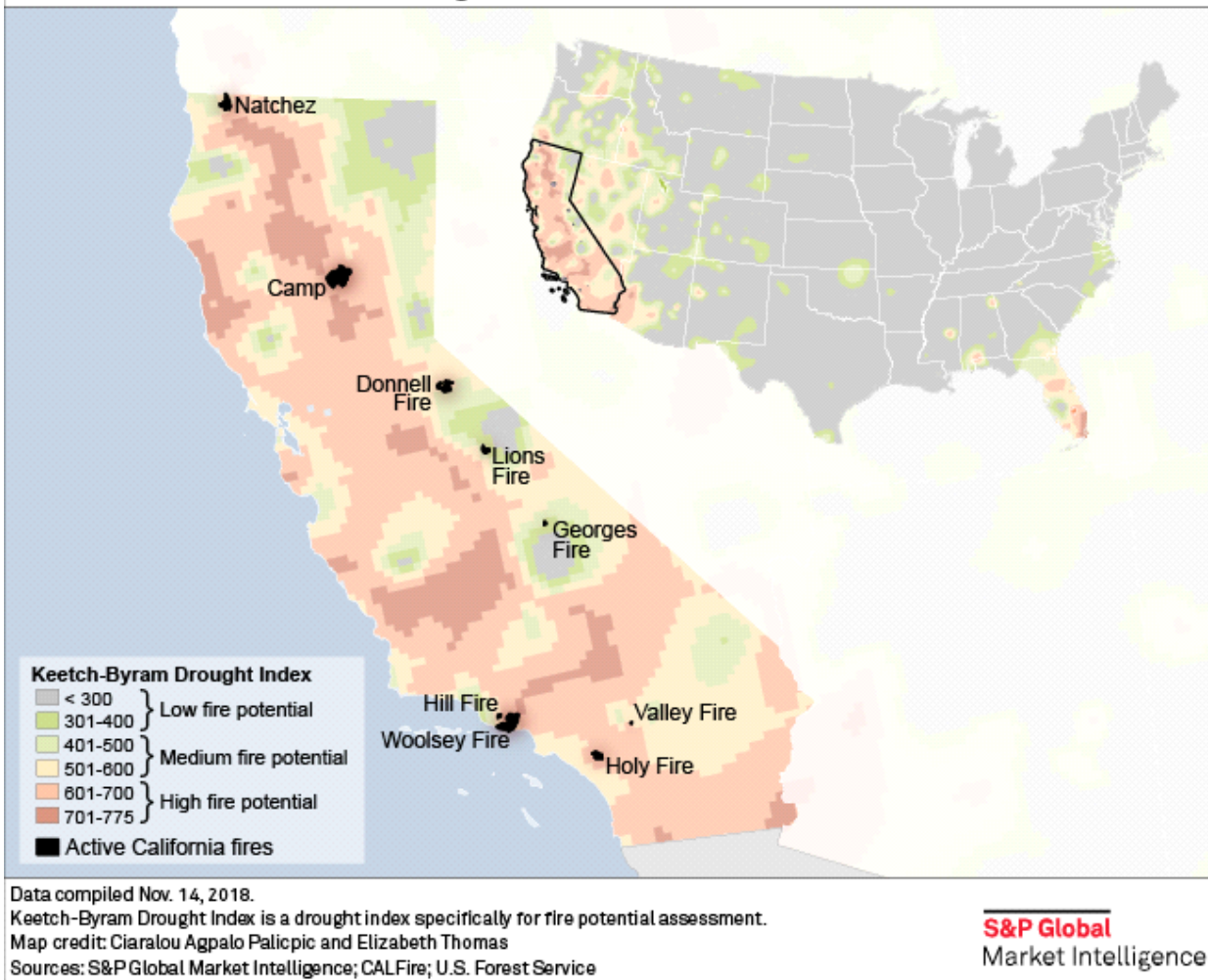
Although Fuhrman could not give an estimate for the number of Chubb firefighters active in California, he said the company has deployed roughly 15 "resources and engines" in the state.



Houses destroyed by wildfire in Paradise, Calif.

Source: Associated Press

California fires and areas of drought



No relief in sight

CalFire data shows a dramatic increase in the number of acres burned thus far in 2018 compared to 2017. From Jan. 1 to Nov. 12, 2017, wildfires burned 316,707 acres in California. For the same period in 2018, wildfires scorched more than double that amount, at 847,588 acres.

Persistent offshore winds and extremely dry vegetation caused the Camp Fire to spread quickly after it first sparked. Higher temperatures have also played a role in recent wildfires becoming more severe, according to Daniel Swain, a climate scientist at UCLA. Even a few degrees of average warming across multiple seasons can make fires "burn faster, more intensely, hotter and have more extreme behavior," he said.

In a "normal year," it might have rained five inches since the end of the summer, said Swain. But that part of California may have seen as little as less than half an inch of precipitation in that time frame this year. At this point, firefighters are just waiting for a "season-ending rain."

"Until we get that really widespread soaking rain, wildfire behavior is probably going to continue," Swain said, adding that there is no rain in the forecast for the next week to 10 days.

Two other wildfires are raging in Southern California. The Woolsey Fire in Ventura and Los Angeles counties has burned through 98,362 acres, destroyed at least 548 structures and killed three people, according to CalFire data. The blaze was at 62% containment as of Nov. 15.

No fatalities have been reported from Ventura County's Hill Fire, which has burned 4,531 acres and is now nearly fully

contained.

Financial fallout

The causes of the Camp and Woolsey fires are still under investigation, but they could have been started by downed power lines. Minutes before the fire started, both Pacific Gas and Electric Co. and Southern California Edison Co. reported issues with power lines in Northern and Southern California, respectively.

If PG&E's equipment is determined to have caused the Camp Fire, the company, and its customers, could be on the hook for substantial damages. In a recent regulatory filing, the company cautioned that it could end up being found legally liable for claims that go beyond its insurance coverage and have a "material impact" on its financial position. Just days after that warning, a lawsuit was filed against PG&E, alleging that it was responsible for the fire due to, among other things, its maintenance and repair practices.

PG&E had recently renewed its liability insurance coverage for wildfire events in the amount of \$1.4 billion for the period between Aug. 1, 2018, and July 31, 2019.

The energy company was forced to take a \$2.5 billion charge to cover losses related to the wine country fires of October 2017. In August, the company completed a \$200 million catastrophe bond that provided it with third-party liability protection against property damage caused by California wildfires. Insurance-linked securities blog Artemis said the bond was the first instrument to solely cover wildfire risks. Whether investors in the instrument will face a loss will be an open question for some time as the legal case against PG&E over the Camp Fire has just begun.

Top 10 fire insurance underwriters in California in 2017

Based on direct premiums written

Rank	Top-tier entity	DPW (\$M)	Market share (%)
1	American International Group Inc.	123.3	10.6
2	Farmers Insurance Group of Cos.	115.4	9.9
3	Liberty Mutual Holding Co. Inc.	105.3	9.0
4	Travelers Cos. Inc.	68.5	5.9
5	Nationwide Mutual Group	62.3	5.4
6	CSAA Insurance Exchange	56.0	4.8
7	Zurich Insurance Group AG	53.8	4.6
8	Factory Mutual Insurance Co.	51.8	4.5
9	Assurant Inc.	46.8	4.0
10	GMF Financial Services Corp.	32.1	2.8
Top 10		715.4	61.5
Industry		1,163.7	100.0

Data compiled Nov. 15, 2018.

DPW = direct premiums written

Data sourced from the Exhibit of Premiums and Losses of annual National Association of Insurance Commissioners statutory P&C statement filings. U.S. filers only.

Rankings based on direct premiums written for the fire line of business.

Data shown is a consolidation of the data of the statutory filers within the SNL-defined group structures.

Source: S&P Global Market Intelligence

Top 10 homeowners insurance underwriters in California in 2017

Based on direct premiums written

Rank	Top-tier entity	DPW (\$M)	Market share (%)
1	State Farm Mutual Automobile Insurance Co.	1,366.8	17.4
2	Farmers Insurance Group of Cos.	1,261.0	16.1
3	CSAA Insurance Exchange	520.1	6.6
4	Auto Club Exchange Group	498.9	6.4
5	Liberty Mutual Holding Co. Inc.	484.3	6.2
6	The Allstate Corp.	483.8	6.2
7	United Services Automobile Association	392.4	5.0
8	Mercury General Corp.	387.3	4.9
9	Nationwide Mutual Group	343.6	4.4
10	Travelers Cos. Inc.	250.7	3.2
Top 10		5,988.8	76.4
Industry		7,837.0	100.0

Data compiled Nov. 15, 2018.

DPW = direct premiums written

Data sourced from the Exhibit of Premiums and Losses of annual National Association of Insurance Commissioners statutory P&C statement filings. U.S. filers only.

Rankings based on direct premiums written for the homeowners line of business.

Data shown is a consolidation of the data of the statutory filers within the SNL-defined group structures.

Source: S&P Global Market Intelligence

Product Tips



Click here for a template to review annual underwriting information and market share for P&C insurance companies by lines of business. This information is also available in the U.S. Insurance Statutory Financials database in MI Office.

Click here for an instructional webinar on how to operate the P&C market share template, which allows detailed analysis by lines of business.

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