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# 2019 Atlantic hurricane season: facing the eye of the storm

*Forecasters are predicting a relatively average Atlantic hurricane season, but emerging risks could impact losses in unexpected ways*

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The 2019 Atlantic hurricane season officially got underway on 1 June and runs until 30 November, but the season began prematurely with the first named storm (Andrea) forming south of Bermuda on 20 May.

Despite the inauspicious start, three of the most-watched forecasters — Colorado State University (CSU), Tropical Storm Risk (TSR) and the National Oceanic and Atmospheric Administration (NOAA) — all predict either an average or close to average season.

**Predictions for the 2019 hurricane season**

| | Major hurricanes | Hurricanes | Named storms | Chance of average hurricane season |
|---|---|---|---|---|
| CSU | 2 | 6 | 14 | N/A |
| NOAA | 2-4 | 4-8 | 9-15 | 40% |
| TSR | 2 | 6 | 12 | 39% |

For insurers and reinsurers however, the number of storms forecast is not so interesting as the number that reach land, their intensity and what lies in their path.

**"Hurricanes are like real estate — it's location, location, location," says Karen Clark, president and chief executive at Boston-based catastrophe modelling firm Karen Clark and Company.**

**The point a storm makes landfall is a key determiner in what the total insured losses are, she notes.**

**"Take [2018's hurricane] Michael as an example. It was just upgraded to a category 5 hurricane and it did make landfall in the Florida Panhandle but the insured losses are likely to be less than $10bn.**

**"If you took that exact same storm and had it make landfall on Miami, the losses would be more than 10 times that number — we're talking over $100bn."**

## Capital strength

Predicting the location of where a hurricane makes landfall is only possible a few days before it hits, so at the start of the season re/insurers must be ready for the worst.

A Fitch Ratings report concluded US property & casualty insurers are well placed to deal with the landfall of a significant storm.

Despite significantly higher than normal losses in 2017 and 2018, aggregate US industry policyholders' surplus grew by 6.2% to $757bn last year, the rating agency said.

"Given insurers' substantial capital positions, it would likely take a record individual storm loss or a confluence of significant loss events, which could include catastrophes, investment losses and adverse

loss reserve experience to impair insurers enough to warrant downgrades," says Chris Grimes, director of insurance at Fitch Ratings.

**Lessons learned**

Every hurricane season brings more insights into the peril and its impact, but the lessons from worst seasons tend to stick in people's minds.

The 2017 season in particular has gone down in history as only one of six seasons to feature multiple category 5 hurricanes. In total, 17 storms including 10 hurricanes and six major hurricanes (including Harvey, Irma and Maria) caused a total of 882 fatalities and an estimated $134bn in insured losses.

**One significant lesson for insurers from 2017 was the variance in loss adjustment expenses between storms, notes Clark.**

**"So you could have an expense ratio of 7% on one storm and 25% on another storm," she says.**

Another was the hike in number and size of claims associated with assignment of benefits (AOB) provisions. Under an AOB agreement, a third party can be paid for services for performed for an insured homeowner, who would normally be reimbursed by an insurer directly after making a claim.

In Florida, the increasing number of homeowners opting for an AOB surprised insurers.

**"If you have a litigated claim the payment is likely to be around double what it would be if you didn't have litigation," says Clark.**

**Climate change**

Researchers are still working out what effects climate change will have on North Atlantic hurricanes, but the consensus so far is that global warming will bring two main impacts.

**"One, they are becoming more intense over time due to the changing climate," says Clark.**

**"The other thing is tropical cyclones are becoming wetter. They're dumping more rainfall and causing flooding in the impacted areas and there is a belief that climate change is contributing to this."**

**Clark adds catastrophe modellers "must be on top of" the risks posed by excessive rainfall and should be more explicit in modelling it, particularly with weaker storms.**

**Underinsured**

Sadly, US homeowners remain dramatically underinsured against flood risk. A survey by the National Association of Insurance Commissioners (NAIC) issued this week found less than half of Americans who agree that having flood insurance is important have purchased flood insurance.

According to the survey, 41% of respondents agree or strongly agree flood insurance is a "good idea" but only 17% say they have purchased flood insurance, and "even that response may be based on a misunderstanding." The Federal Emergency Management Agency estimates only 3% of homeowners have flood insurance.

"This disparity perhaps reflects the common, though incorrect, assumption that homeowners insurance covers flooding," says Eric Cioppa, NAIC president.

Efforts are underway to educate homeowners and increase the participation of private firms in the flood insurance market, which is dominated by the state-backed National Flood Insurance Program.

So while emerging hurricane risks must be managed, re/insurers should also have plenty of opportunity to grow their business.