Overview of the 2018 Atlantic Basin Hurricane Season

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The 2018 hurricane season was more active than originally anticipated – driven by a very active early September, including Hurricane Florence, and then Hurricane Michael in early October. Yet, this year’s activity paled in comparison to the economic and insured losses resulting from Hurricanes Harvey, Irma and Maria that hit in 2017. Commercial property premium renewal rates edged up to a positive range in the 4th Q of last year as a direct response to these catastrophic events. The impact of the 2018 storm season on commercial property premium rates will be fully realized at 2nd Q 2019 renewals.

Colorado State University (CSU) released its initial Atlantic basic hurricane forecast on April 5, and then updated this forecast on May 31, July 2 and August 2 to reflect changes in the atmosphere and ocean that occurred during the spring and the first two months of summer. Initial seasonal forecasts called for slightly above-normal activity in 2018. CSU lowered its outlook to a near-normal season on May 31 and called for below-normal activity on July 2 and August 2. During the 2018 Atlantic hurricane season, there were 15 named storms, 8 hurricanes and 2 major hurricanes. Major hurricanes are defined as those storms ranked as a Category 3 or higher on the Saffir-Simpson Wind Scale.

August saw no Atlantic named storm formations south of 30°N; the first time that this had occurred since 1997. The quiet season changed dramatically with a flurry of 5 named storms forming within the September 1 to September 12 period. On September 14, Hurricane Florence made landfall along the North Carolina coast as a Category 1 storm. On October 10, Hurricane Michael hit Panama City, Florida as a Category 4 storm. The 2018 season ended up slightly above the long-term average of 12 named storms, 6 hurricanes and 3 major hurricanes.

Hurricane Florence, an unrelenting, slow-moving storm, created a rainfall and flooding event. Once Florence hit land, it slowed and tracked at less than 5 mph for several days producing heavy rain totals of over 30 inches in North Carolina and exceeding 18 inches in South Carolina. Insured losses throughout the Carolinas and Virginia from wind, storm surge and inland flooding are estimated to top $5 billion due primarily to large commercial flood losses. In the public sector space, municipalities suffered over $100 million in losses. While Florence was a devastating weather event for homeowners and businesses in the region, the storm resulted in modest insured losses as more than 85% of damages were sustained by uninsured residential properties.

Hurricane Michael was the fourth strongest storm (as measured by winds) to make a direct hit in the continental United States. Michael made landfall as a strong Category 4 hurricane, causing devastating wind and storm surge damage. Total economic losses are forecast to reach $15 billion and insured losses could exceed $8 billion, placing it within the top 10 most expensive storms, according to the Insurance Information Institute. Comparatively, Hurricane Harvey as a Category 4 was a flooding event generating $100 billion in economic losses and $30 billion in insured losses.
Rather, increased insured losses are primarily the result of exposure growth along the coast, including both a growing population and greater building density. No major hurricanes made landfall in the continental United States between 2006-2016, the longest period without a major hurricane hitting the continental United States on record. In 2012, Sandy caused extensive damage, but it was not tropical (e.g., it was post-tropical) by the time it made landfall. In addition, even had Sandy been tropical at landfall, its maximum winds were not strong enough to be classified as a major hurricane.

2017 was the second costliest catastrophic year on record for the United States. The majority of losses were driven by three hurricanes (Harvey, Irma and Maria) and various California wildfire outbreaks. The events accounted for combined losses of $94 billion or 69% of all global payouts. Commercial property rates responded late last year in the 4th Q 2017 with premium renewal rates inching upwards for the first time in more than four years. Given minimal single percentage digit increases, property insurance companies remain under pressure to return to profitability. Many insurers and several Lloyd's insurance syndicates are pulling back from the commercial property market. Insurance carriers with reliable capacity and appetite for property risk face an extremely competitive market to garner share of premium dollars.

The impact the 2018 hurricane season will have on 2Q 2019 premium renewal rates is as yet uncertain. Equally mystifying will be influencing factors in the aftermath of this year’s California wildfires, the most destructive in history. Calculated losses are foreseen to be in the range of $11 to $13 billion from the Camp Fire in northern California and an additional $4 to $6 billion from the Woolsey Fire in southern California as reported by CoreLogic. The 2018 loss scenario will likely be a repeat of last year: hurricanes making landfall in the United States and California wildfires. It remains to be seen what impact the 2018 hurricane season will have in the commercial property rate environment next year.

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