Heard on the Street: Insurers' Best Shelter Against Storms Are Rates

June 3, 2020 2:04AM ET

By Telis Demos

(Wall Street Journal) --

[Financial Analysis and Commentary]

In insurance, hard times aren't necessarily a bad thing.

Analysts are anticipating a potential "hard market" for industry pricing, with rates on reinsurance possibly rising at the fastest pace since just after 9/11. Historically, hard markets are associated with expanding multiples for stocks in the sector. But the question for investors is whether rates can rise fast enough to outrun a bevy of unusual risks encircling the industry -- and whether insurers will have enough capital flexibility to take advantage of higher rates.

Covid-19 remains a giant but amorphous event for the property-and-casualty sector. Now add to that the start of the June-to-November storm season. The Atlantic hurricane season that began this week has a 60% chance of being above normal, which implies a range with as many as 19 named storms and three to six major hurricanes, according to the National Oceanic and Atmospheric Administration. Meanwhile, there is the risk that property damage from protests in the U.S. could generate enough insured losses to be considered a "catastrophe" event.

Last year, insurers managed to make it through an active storm season with global catastrophe losses estimated to be below the 10-year average, according to Swiss Re. But the prospect of a bad storm striking an area on lockdown might make it harder to mitigate costs and to estimate claims, warns Fitch Ratings.

There is a bit more clarity emerging on capital flexibility. On Tuesday, RenaissanceRe Holdings filed for a roughly $1 billion stock offering. It said in its prospectus that "the Covid-19 pandemic is accelerating the recent rate increases," noting price momentum in the June reinsurance renewal season, and overall "a tightened supply of capital" elsewhere, such as more limited catastrophe bonds.

It is a positive signal for the industry that a big player is aiming to stay ahead of the tumult. Rates are rising for a reason, though.