

US insurers slump as Los Angeles wildfire loss estimates hit \$20 billion

By Manya Saini, Reuters January 10, 2025 3:47 PM GMT

- Estimates for insured losses rise as LA wildfires continue
- Analysts see U.S. insurers re-evaluating California pricing
- Forecast for total economic losses as high as \$150 bn

Jan 10 (Reuters) - U.S. insurance stocks slid on Friday as analysts estimated insured losses from the wildfires menacing Los Angeles could reach as high as \$20 billion, potentially making it the costliest disaster in California's history.

Firefighters reported some progress fighting the wildfires that have charred hillsides, homes and streets in Los Angeles County, but the strong winds that fanned the flames were expected to pick up again on Friday, worsening conditions.

Analysts are evaluating the financial impact of the disaster, with JP Morgan doubling its forecast of insured losses to over \$20 billion. Wells Fargo also expects similar insured losses and said the total economic hit from the disaster could be well above \$60 billion.

The Pacific Palisades area is one of the most expensive neighbourhoods in the U.S., home to Hollywood A-Listers and multi-million dollar mansions. Ahead of this week's disaster, its insurance costs were among the most affordable in the country, according to a Reuters analysis.

But that is likely to change after the scale of losses anticipated in the wildfires now ringing Los Angeles, as well as regulatory changes enacted late last year.

"While leading U.S. property insurers are in good financial condition, the California property insurance market has been challenging leading many insurers to re-think their product offering, including an outright exit from the market," Morningstar DBRS wrote in a client note.

The S&P Insurance Select Industry index was last down 2% on Friday.

The fires, engulfing iconic Los Angeles neighbourhoods and tearing through the Hollywood Hills, have so far killed 10 people and destroyed nearly 10,000 structures.

Private forecaster AccuWeather estimated the damage and economic loss at \$135 billion to \$150 billion, portending an arduous recovery and a surge in homeowners' insurance costs.

"It will take weeks or months to determine the magnitude of the insured damages, but the Los Angeles wildfires are likely among the most costly wildfires in the state's history", Moody's Ratings said in a note.

Raymond James sees insured losses in the range of \$11 billion to \$17.5 billion and said the disaster could become the costliest wildfire in United States history. Analysts at Morningstar DBRS pegged insured losses in excess of \$8 billion, based on preliminary estimates.

"The largest U.S. primary insurers have meaningfully reduced exposure to California due to costly and unquantifiable wildfire risk, combined with the state's strict pricing controls," analysts at Jefferies wrote in a note.

Catastrophe losses have intensified over the past few years and have significantly hurt profits due to substantial payouts tied to widespread property damage, business interruptions and liability claims.

Severe and frequent natural disasters have hastened the industry's retreat from high-risk areas, particularly Florida and California.

Among individual stocks, sector bellwether Travelers fell nearly 3% in morning trading. Los Angeles-based multi-line insurer Mercury General slumped 17%, while Allstate, Chubb and AIG dropped between 2% and 4%.

Mercury General said on Friday it will take some time before the company has an estimate of the total losses. As the wildfires continue to burn, it expects the losses to exceed its reinsurance retention level of \$150 million.

European insurers, including Beazley, Lancashire and Hiscox, also traded between 2% and 4% lower.

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