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Fitch Warns of Negative Credit Effects on Reinsurance from California Wildfires.

The "downside credit risks" from the California wildfires are the most pronounced for investor-owned utilities, which could face large liabilities if IOU equipment is found to have ignited the fires.

And negative credit implications could emerge for the reinsurance industry and the U.S. public finance sector, given the potential for a state-wide economic slowdown, damaged infrastructure and associated environmental issues, according to a report from Fitch Ratings released on Wednesday.

The utilities sector is the most directly exposed to credit risk from the wildfires, with Pacific Gas and Electric's (PG&E:BBB-/RWN) and Southern California Edison (BBB+/Stable) experiencing downgrades earlier this year due to potential outsized liabilities from wildfires, Fitch says.

"The increased frequency of wildfires and sheer magnitude of potential exposure, coupled with an uncertain path to recovery, meaningfully expands business risk for electric utilities operating in California," the ratings agency said.

Industry data provider CoreLogic this week reported total losses from the wildfires in Northern and Southern California could reach from $15 billion to $19 billion.

A report that PG&E filed with regulators on Tuesday shows that in the days before the Camp Fire, California's deadliest wildfire, erupted near a PG&E Corp. power line during a windstorm, the company kept a close eye on the weather, warned customers it might shut off electricity in the area, and finally decided conditions weren't bad enough to warrant it.

Fitch estimates that PG&E's financial exposure for the 2017 wildfires could be roughly $15 billion, "with large incremental liability possible" if it is found that PG&E equipment was involved in ignition of the 2017 Tubbs and 2018 Camp wildfires. PG&E common stock has lost more than half of its value and spreads have widened significantly.

A new data analysis from BuildFax released on Wednesday shows construction performed on properties in Butte County, where the Camp Fire burned, rose 8.57 percent year to date compared to January through October 2017.

"This suggests carriers may not have accurate assessments of the wildfire's true damage on their books, which could pose challenges in the recovery phase," the BuildFax analysis states.

The Fitch report shows that credit implications for other U.S. corporate sectors, including homebuilding, oil and gas, metals and mining, transportation, healthcare, retail, and agriculture, should be minimal.

"Insurance will partially cover losses with operational disruptions likely temporary and not prolonged enough to negatively affect individual credit profiles," the report states. "Moreover, many issuers including those mentioned above along with lodging and leisure and media and entertainment are either diversified geographically or by type of business properties."

According to Fitch, the recent California wildfires mark a second consecutive year of major wildfire losses for reinsurers as the industry incurred $11.5 billion of insured losses in 2017.

Prior to this year's fires, California wildfires in July 2018 resulted in $845 million of direct-insured losses.

"Insured losses, while certainly significant, are expected to remain within the estimated ranges used by insurance industry when pricing catastrophe risk into premiums," Fitch stated. "Furthermore, insurance companies with exposure to the California wildfires are generally the larger, more capitalized national carriers that, as a group, have high insurer financial strength ratings."

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