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## **S&P: Jolted By California Wildfires, Re/Insurers Recalibrate Their Risk Appetite.**

The back-to-back devastating California wildfires of 2017-2018 caught the property-casualty re/insurance sector by surprise with the intensity and frequency of the losses and challenging the sector's understanding of this hazard. Nevertheless, in view of most re/insurers' robust capitalization, these wildfires in conjunction with other catastrophe losses had limited impact on their creditworthiness.

Historically, the re/insurance sector has mostly focused on the primary perils such as U.S. hurricanes, tornadoes, and earthquakes, which in the past have been major causes of property-catastrophe risk and losses. The events of 2017-2018 highlighted the increasing risk from secondary perils such as California wildfires, which have increased in frequency and severity. Eight of the most destructive fires occurred in the past two years, and five of the seven largest fires and 10 of the top 20 most destructive fires occurred after 2009. However, it took the events of 2017-2018 for the industry to start paying the kind of attention this peril deserves.

The modeling for California wildfires has been challenged by a number of factors. Climate change is one but not the only factor contributing to the increase in risk, with increasing frequency and severity of dry weather and extended droughts heightening the risk of wildfires. In addition, the level of urbanization, and population and economic asset density, which are close to or encroaching on the wildlands (commonly referred to as wildland-urban interface [WUI]), have been growing, which makes for a catastrophic event when these high-density areas, potentially with expensive properties, are hit. The recent updates to the model targeted a higher level of sophistication for the primary causes of wildfires, resulting in higher frequency and severity of estimated losses. However, challenges persist in understanding this type of peril.

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