

Commentary

Massive Power Blackout in Spain and Portugal: Implications for Insurance Companies

Morningstar DBRS

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Key Highlights

- On 28 April 2025, the Iberian Peninsula experienced widespread power cuts that left all of Spain and Portugal without electricity, internet connection, and mobile services.
- Power cuts affected tens of millions of households, harming small businesses and large corporates and creating severe travel disruptions.
- We believe the power outage could generate a spike in claims related to home, commercial, travel, and business interruption insurance.

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Overview

On 28 April 2025, the Iberian Peninsula was hit by a severe power outage that affected Spain, Portugal and, to a lesser extent, the South of France. The cause of the outage is still unknown. The blackout affected households, small businesses, and large corporates and caused severe traffic and travel disruptions across Spain and Portugal. Rail transportation was suspended during the day, while several flights were cancelled across the two countries. We believe that the effects of the blackout could generate a spike in claims related to home, commercial, travel, and business interruption insurance. While insurance companies are likely to find the financial losses derived from this event manageable, Spanish and Portuguese insurers will likely receive an exceptional volume of claims in the aftermath of the blackout, which could put their operational capabilities under stress.

Widespread Power Cut Forced Spain and Portugal to Declare a State of Emergency

Starting around 12:30 pm CEST (11:30 a.m. BST) on Monday 28 April 2025, the Iberian Peninsula experienced widespread power cuts that left Spain and Portugal without electricity and very limited internet connectivity and mobile services. In both countries, the power supply has been slowly and gradually restored to 99% as of Tuesday morning. However, power cuts affected tens of millions of households for hours on Monday. Small businesses (SMEs) and large corporates experienced financial losses, and there were severe travel disruptions.

Among SMEs, we expect the segments most affected to be retail and hospitality. The majority of businesses were forced to close for a large part of the day, and the absence of refrigeration likely affected bars, restaurants, and grocery stores. However, some of the largest food retailers have been able to rely on private emergency generators and, in some cases, to stay open. Large corporates have also been affected by the outage, leading to a halt in manufacturing production.

Nonfunctioning traffic lights for most of the day created chaos on the streets of the largest cities, while both rail transportation and flights at major airports suffered severe disruptions. In particular, the well-developed high-speed train network in Spain were completely suspended on Monday. The outage also affected the Portuguese rail network but caused fewer disruptions to travellers as there was a national strike by rail workers planned for the day. It has been estimated that 413 flights to and from Spain and 372 flights to and from Portugal were cancelled on Monday, although airports have remained generally functional thanks to backup generators.

High Volume of Claims but Financial Losses Should Be Manageable

Electrical damage from power cuts is typically covered by home insurance policies; however, the extent of the coverage depends on the terms and conditions of the policy. Perils covered might include damage to electric domestic appliances as well as food wasted caused by the lack of refrigeration. Property insurance for small businesses does not typically include coverage for power cuts that are not caused by covered perils. If those risks are included, they could be largely mitigated by deductibles. Losses related to business interruptions could be severe and possibly lead to large claims. However, most insurance policies typically start covering damages from business interruptions only after 12, 24, or even 48 hours. As a result, insurers' payouts should be largely mitigated by the fact that power supply was almost totally restored in less than 12 hours. Travel insurance policyholders will be entitled to some compensation due to the major disruptions in rail transportation and flight cancellations; however, this could be largely mitigated because of the slow return to normal services on the day after. The incidence of car accidents seems to be minor.

Considering the above, we believe that the financial losses related to claims payouts for insurance companies will be manageable. While it remains difficult to provide an estimate of the insured losses in the ongoing situation, our initial expectation is that insured losses would range between EUR 100 and EUR 300 million in Spain and a fraction of that in Portugal. Total economic losses will be several multiples of these estimates. However, due to the exceptional nature of the event and the widespread effect of the power outage, we believe that Spanish and Portuguese insurance companies will be dealing with an extremely high volume of claims. Significantly large volumes of claims in a relatively short time can put insurers' operational capabilities under stress. Failure to respond in a timely manner can also lead to reputational damage in a highly competitive environment and legal actions. We will continue to monitor the situation and provide updates in a timely manner.

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