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The Risk of Wildfires Is Growing



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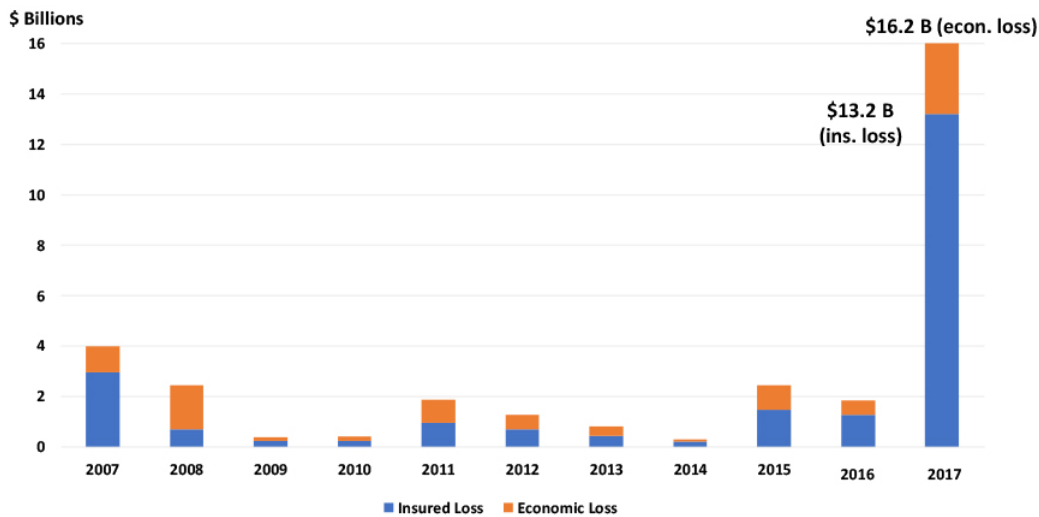
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The Risk of Wildfires is Growing

BACKGROUND

According to the National Interagency Fire Center, roughly 71,500 wildfires (aka wildland fires or forest fires) burned 10 million acres of land in the United States in 2017.¹ Each year, hundreds if not thousands of homes and buildings are destroyed by wildfires – 4 out of 5 wildfires are usually started by humans. They can sometimes last for weeks, consuming large portions of land, causing numerous fatalities, destroying homes and communities that could be vulnerable to secondary events such as mudslides. Conflagrations are most prevalent in the Western part of the U.S., where heat, drought and frequent thunderstorms create optimal wildfire conditions.

2017 is a Landmark Year for Wildfires in the U.S.



Source: PCI based on Insurance Information Institute graph (all losses are adjusted to 2017 dollars)

Wildfires were the second most costly natural disaster in the U.S. in 2017. These events are becoming more intense and more destructive. During the 10-year period, 2007-2016, economic losses caused by wildfires totaled roughly \$15.8 billion. In 2017 alone, wildfire damage was higher at \$16.2 billion.² In terms of insured losses, wildfires cost about \$9.3 billion during the period of 2007-2016, compared to insured payouts of \$13.2 billion in just 2017.

California bore the brunt of last year’s wildfires. Two massive fire outbreaks occurred in October and December, killing at least 46 people and damaging or completely destroying 16,000 homes and more than 700 businesses.³ Specifically:

- From October 6 to October 25, wildfires spread through eight counties in the Napa Valley region, consuming 245,000 acres of land and destroying more than 8,700 homes and other structures. At least 23 people died.

1 National Interagency Fire Center, “National Report of Wildland Fires and Acres Burned by State.”

2 PCI, based on Insurance Information Institute data and Aon Benfield, “Weather Climate and Catastrophe Insight.”

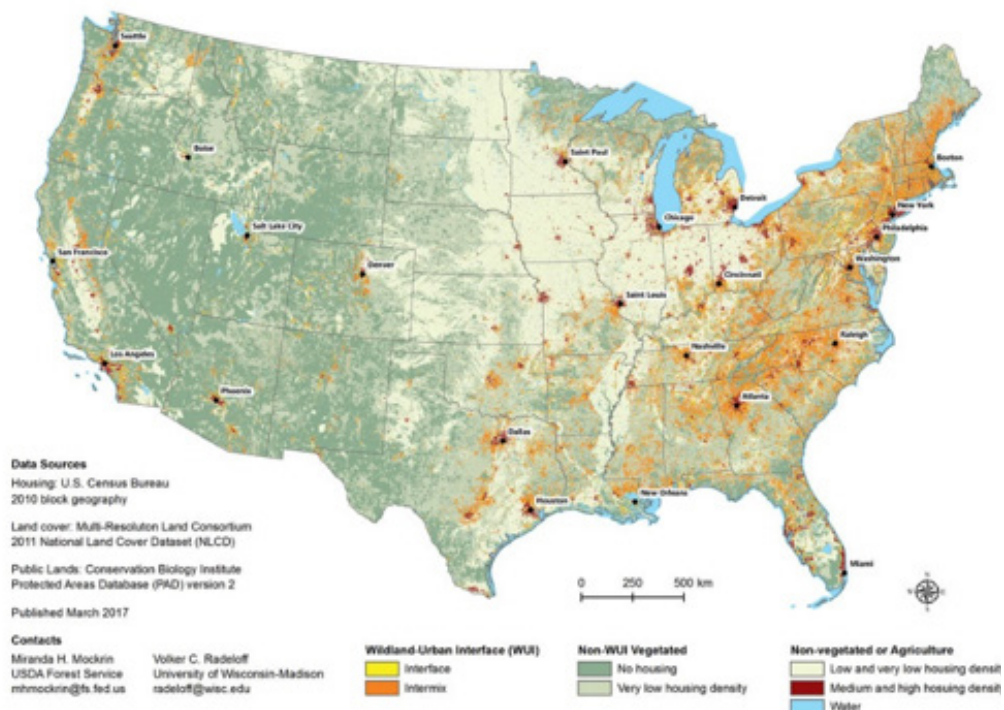
3 NAIC & The Center for Insurance Policy and Research, “The Increasing Risk of Wildfire and Insurance Implications,” March 2018.

- In December, five major fires ravaged Southern California, destroying over a thousand homes and buildings. One of these blazes, known as the Thomas Fire that impacted Santa Barbara and Ventura Counties, was the largest wildfire ever recorded in the state – Thomas caused up to \$2.5 billion in insured losses.
- The California Department of Insurance reports that the cost of insurance claims from the October–December fires reached more than \$12 billion, making the 2017 fire season the costliest on record.⁴

MORE PEOPLE AND HOMES ARE VULNERABLE TO WILDFIRES

Although large wildfires typically occur in western states, the risk is increasing throughout the country as newer homes are built near wildlands. The “wildland-urban interface” (WUI) – i.e., areas where homes are built near or among lands prone to wildland fires – is growing in size, resulting in more conflagrations that threaten lives and structures. By 2030, it is estimated that this area will cover about 126 million acres in the U.S.⁵ Within the perimeter of recent wildfires (1990–2015), there were 286,000 houses in 2010, compared with 177,000 in 1990.⁶

The 2010 Wildland-Urban Interface of the Conterminous United States



In terms of acreage, WUI areas are most prominent in Georgia, North Carolina, Pennsylvania and Texas. Each of these states has approximately 10 to 13 million acres of WUI. Two states with the greatest number of people living in a WUI area are California (11.2 million) and Texas (8 million).⁷ Verisk, a leading data analytics provider, reports that Montana and Idaho have the highest proportion of households, respectively 28 percent and 26 percent, identified as high or extreme wildfire risks.

4 Insurance Information Institute.

5 Theobald, D. M., and W.H. Romme, 2007. “Expansion of the US Wildland–Urban Interface,” *Landscape and Urban Planning*, (83)4: 340–354, Dec. 2007.

6 Proceedings of the National Academy of Sciences of the U.S.A., “Rapid growth of the US wildland-urban interface raises wildfire risk,” Mar. 12, 2018.

7 Marnuzzi, S., S.I. Stewart, D.P. Helmers, M.H. Mockrin, R.B. Hammer, et al, 2015, “The 2010 Wildland-Urban Interface of the Conterminous United States,” USDA Forest Service, June 2015.

PRE-DISASTER MITIGATION APPROACHES

In light of the growing number of wildfires and other natural catastrophes, communities should be prepared for future disasters. Greater emphasis on pre-disaster mitigation may help ensure that communities are well-equipped to withstand catastrophic events of all kinds. The rebuilding of communities in the wake of wildfires may also present opportunity to adequately prepare those communities for future disasters.

Some steps that can be taken to help combat the threat of wildfires include:

- **Property Mitigation:** Preparing one's home by removing fuels, is critical to providing the best first line of defense for homes against wildfires. PCI supports private public partnerships with local governments and communities to implement mitigation programs for individual homes and communities.
- **Building Codes:** There are scientifically proven building materials and methods that harden homes against the threat of wildfire including fire resistant roofing materials and siding. Wildfire building codes can ensure that communities and individual homeowners build homes to proven standards to protect homes.
- **Financial Preparedness:** Prior to a wildfire, consumers should consider an annual insurance check-up to ensure they have proper coverage. Taking a video of home inventory and providing it to your insurance company can assist the consumer and company in determining the correct amount of coverage.
- **Forest Management:** Currently, many communities in the Wildland Urban Interface (WUI) abut National Forest land. Appropriate management of these lands including reducing wildfire fuels through tree thinning and prescribed burns, as well as, other mechanisms can ensure that fires burn with less intensity around the WUI. Less intense fires allow homeowner mitigation efforts to be more effective and make it safer for professionals fighting fires.
- **Federal Land Use Evaluation:** Regarding wildfire mitigation, in its 2018 Policy Book, the National Cattlemen's Beef Association supports legislative and regulatory changes requiring managers of all federal lands (including lands managed under the Conservation Reserve Program, and Endangered Species Act) to utilize multiple-use vegetation management activities such as livestock grazing, thinning, and timber harvesting to prevent the build-up of fuel loads that can perpetuate a catastrophic fire. The NCBA encourages the serious consideration of utilizing livestock grazing as a first alternative for, among other things, reducing wildfire potential and increasing public safety. The NCBA also supports prescribed burning to reduce wildfire fuel load.

INSURERS ARE MORE PREPARED TO RESPOND TO WILDFIRES

Insurers are improving the quality of their inspection process, with inspectors looking out for fire hazards such as brush buildup around homes. Additionally, there has been an increase in the number of inspections, with insurers making a more concerted effort to not only inspect new business but also perform regularly scheduled inspections as policies are renewed.

Homeowners suffering losses in a wildfire are often victimized a second time by unscrupulous contractors. Insurers engage in due diligence by investigating potential fraud that can result from natural disasters. For example, it is not uncommon for unscrupulous contractors to file false insurance claims after a wildfire. In addition, there may be inflated claims for alleged smoke and ash damage. Some unlicensed public adjusters may raise a red flag if they file false and inflated claims for their clients. Insurers consistently work with their policyholders to fight against dishonest service providers.

CUSTOMERS HAVE SATISFACTORY INSURANCE EXPERIENCES

A recent J.D. Power survey found that customer interaction with their insurers after filing a homeowners claim was favorable, despite record-high property losses in 2017. In fact, the overall customer satisfaction was at an all-time high (reaching a score of 860 out of a possible 1,000). According to Consumer Reports, the single best predictor of how satisfied customers are is based on the carrier's damage estimates. Good customer communication paired with insurer access influences high customer satisfaction levels.

CONCLUSION

In light of the growing demand for new housing, especially in WUI areas, the human and economic consequences of being in the path of a deadly wildfire are increasing. Families and businesses in these areas need to be better prepared and take proactive measures to safeguard their properties and protect themselves financially by having adequate insurance coverage. To better manage the wildfire risk, insurer best practices include working with policymakers to reexamine the efficacy of building codes and land use policies that impact wildfires.