



Wildfire Insurance: Risk, Resiliency & Recovery



CA Assembly Insurance Committee
Informational Hearing, October 9, 2023

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Challenges



Hard Market Cycle Arrives

Inflation, Natural Disasters, and More Straining Property Insurance Markets

March 2023

Hard Insurance Market: How Did We Get Here?

Increasing Risk and Costs

- Inflation
- Land use policies
- Increasing frequency and severity of disasters
- Rising cost of capital
- Legal system abuse
- Claims fraud

Challenges in Managing Risk and Costs

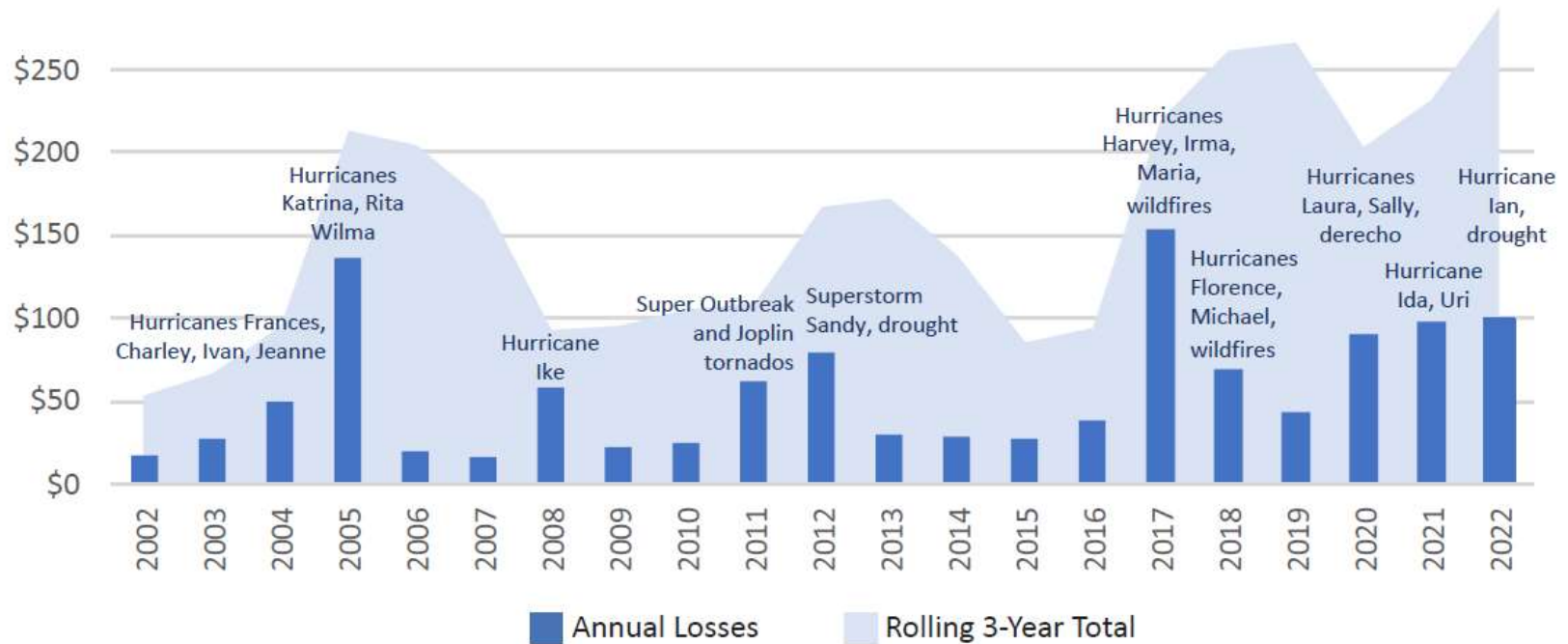
- Regulatory constraints

Link: www.apci.org/attachment/static/7825/



U.S. Insured Natural Catastrophe Losses 2002-2022

Billion (in 2022 prices)

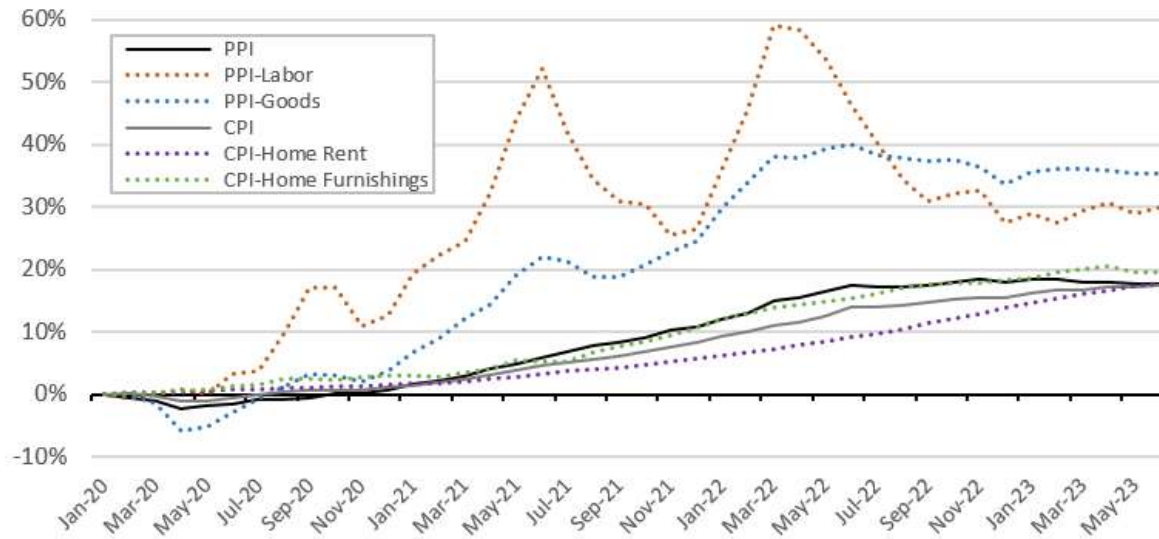


Source: APCI, via Aon.

Includes 50 U.S. States & Territories (Puerto Rico, U.S. Virgin Islands and other U.S. territories).



Homeowners Insurance Cost Inputs: Inflation



PPI	Labor	Goods	CPI	Home Rent	Home Furnishings
17.8%	30.0%	35.4%	17.5%	17.8%	19.5%

Source: U.S. Bureau of Labor Statistics

PPI=Producer Price Index by Commodity: Final Demand;

PPI: Inputs to Single Family Residential Construction, Trade Services (i.e., Labor); PPI: Inputs to Single Family Residential Construction, Goods

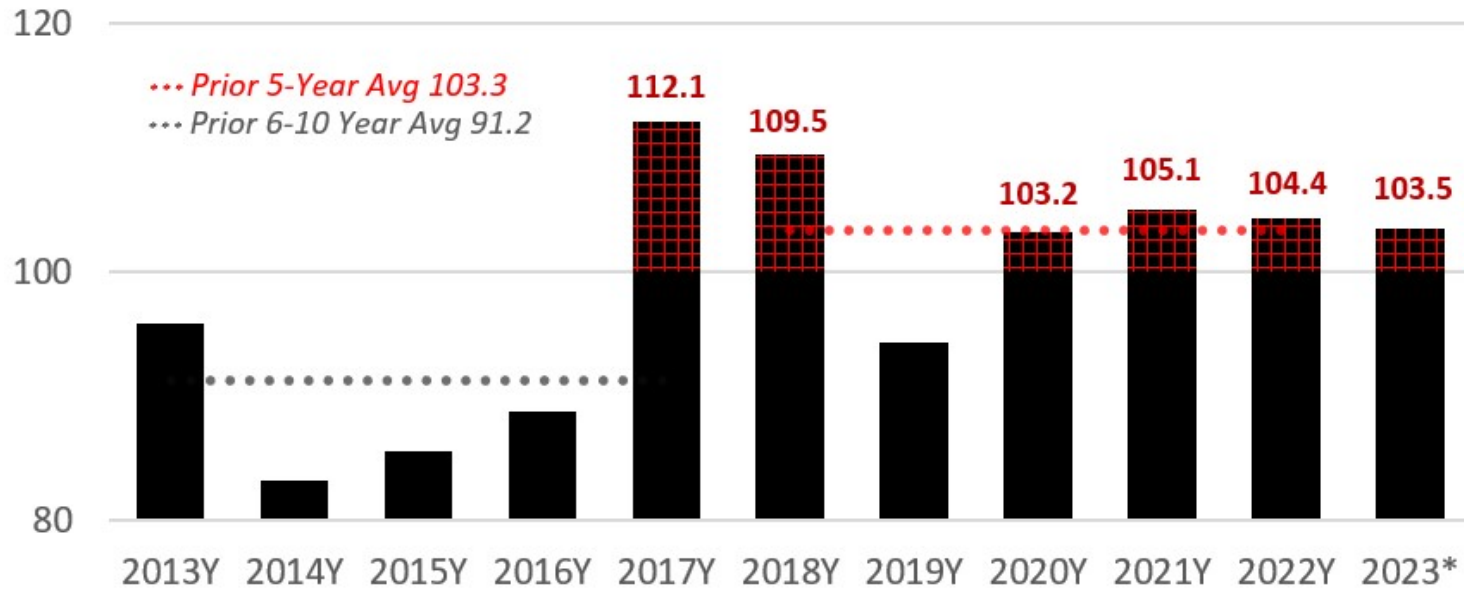
CPI=Consumer Price Index for All Urban Consumers: All Items;

CPI for All Urban Consumers: Rent of Shelter; CPI for All Urban Consumers: Household Furnishings & Operations.

(Data includes January 2020 through June 2023, as of July 13, 2023.)



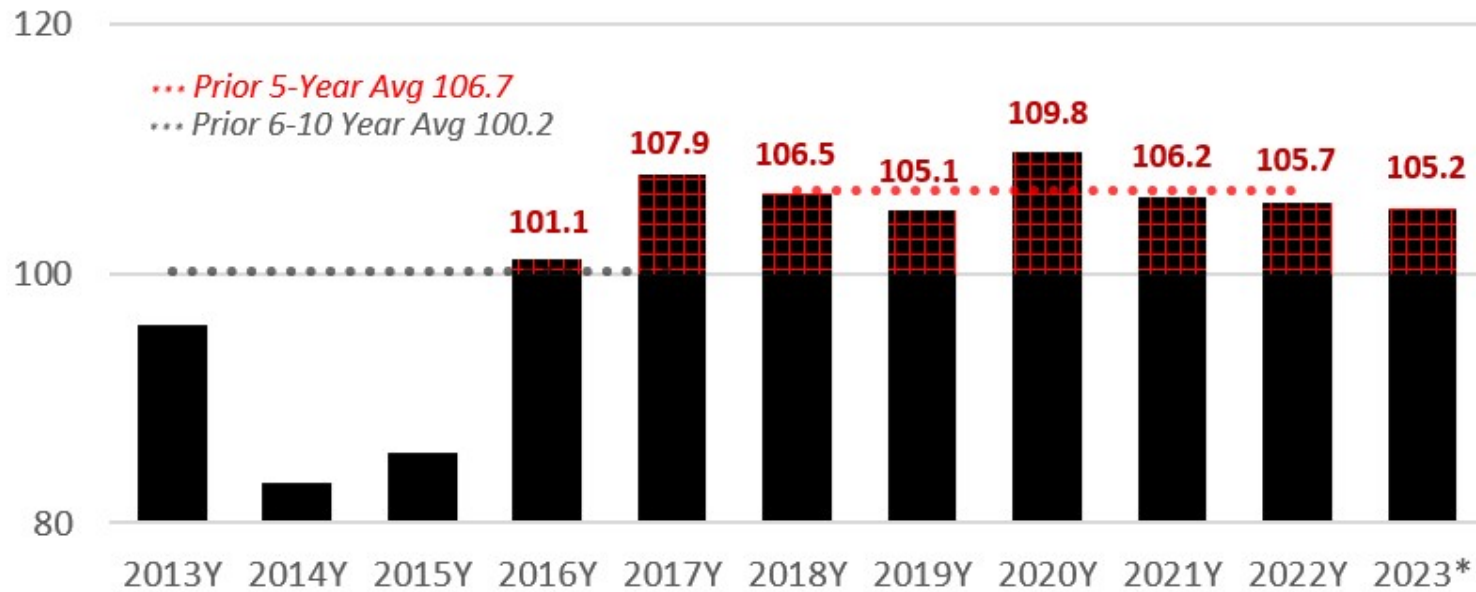
U.S. Homeowners Combined Ratio



Source: APCA using S&P Global (*Year End Projection, data compiled July 11, 2023)



U.S. Commercial Multi-Peril Combined Ratio



Source: APCA using S&P Global (*Year End Projection, data compiled July 11, 2023)
Commercial multi-peril results include liability and non-liability lines of coverage.



Global Top 10 Costliest Wildland Fires

(Insured Losses in \$ millions, in 2022 dollars)

1. **\$11,800** 2018 **Camp**
2. **\$10,500** 2017 **Tubbs**
3. **\$5,000** 2018 **Woolsey**
4. **\$3,700** 1991 **Tunnel**
5. **\$3,600** 2017 **Atlas**
6. \$3,500 2016 Horse Creek (Canada)
7. **\$3,400** 2020 **Glass**
8. **\$2,900** 2020 **CZU Lightning Complex**
9. **\$2,700** 2017 **Thomas**
10. \$2,700 2021 Marshal (Colorado)

Sources, Aon, Triple-I, RMIIA

Data through 2022 (2023 wildfires in Maui and Canada not included)

Bold emphasis indicates California wildfires

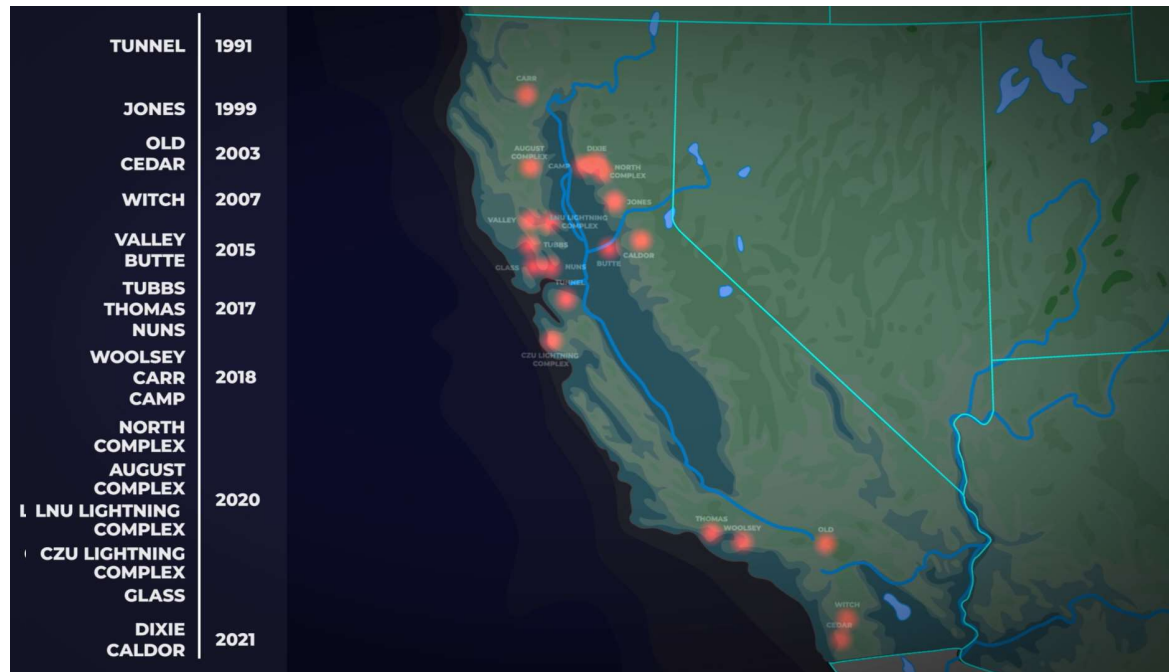
California Top 5 Largest Wildland Fires

(by acres burned, in thousands)

1. 1,032 2020 August Complex
2. 963 2021 Dixie
3. 459 2018 Mendocino Complex
4. 396 2020 SCU Lightning Complex
5. 378 2020 Creek

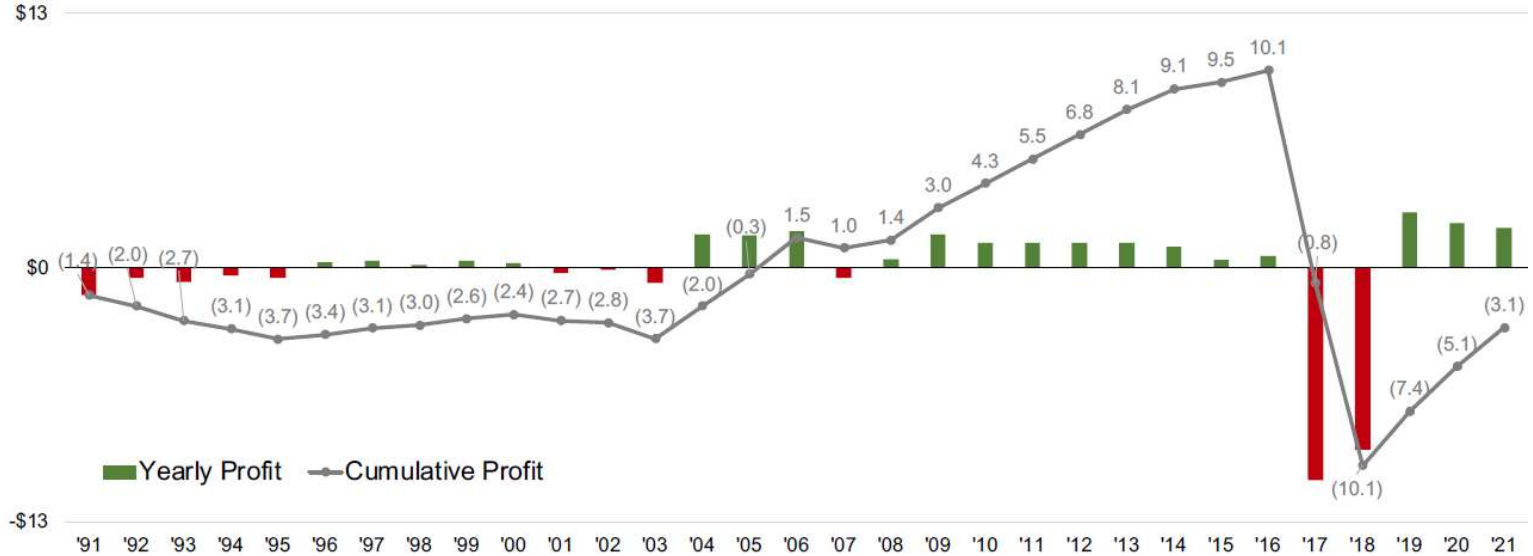
Source: CA Dept of Forestry and Fire Protection

Larger and Costlier Wildfires





California Homeowners Insurance Estimated Underwriting Profit (Loss), since 1991 (in billions)



Notes:

1996 - 2021 data from P&C Combined Industry Annual Statement data from SNL.com.

1991 - 1995 Earned Premium and Loss Ratio data from the California Department of Insurance.

Expense ratios for 1991-1995 are estimated as the average of 1996-1998. Profit is based on direct industry earned premium, losses, and expenses.

Excludes impact of reinsurance and investment income.



Land Use Policies Exacerbating the Effects of Climate Change

Land Use Policies

More Than Half Of U.S. Buildings Are In Places Prone To Disaster, Study Finds

June 24, 2021 12:57 AM ET

Heard on All Things Considered

REBECCA HERSHER

2-Minute Listen

PLAYLIST



Hurricane Irma damaged homes in the Florida Keys in 2017. A new study finds buildings in the contiguous U.S. are concentrated in disaster-prone areas.

Local governments have an incentive to retain population and tax base by allowing new development, even in areas that are at high risk for disasters.

That has led coastal cities to approve waterfront homes even as sea levels rise and floods get more damaging, a 2020 study found. A similar trend is playing out in the western U.S., where homes continue to be built in places that are likely to burn.

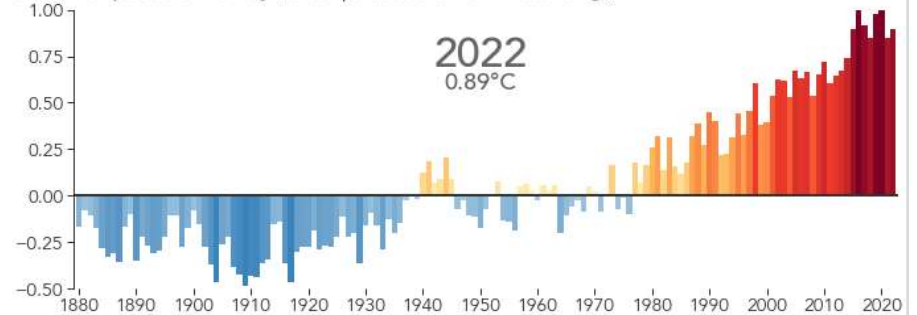
The findings underscore how development patterns exacerbate damage from climate change.

<https://www.npr.org/2021/06/23/1009062465/more-than-half-of-u-s-buildings-are-in-places-prone-to-disaster-study-finds>

Climate Change

Last 9 Years Warmest on Record

Global Temperature Anomaly (°C compared to the 1951-1980 average)



1880 - 2022

<https://earthobservatory.nasa.gov/images/150828/2022-tied-for-fifth-warmest-year-on-record>



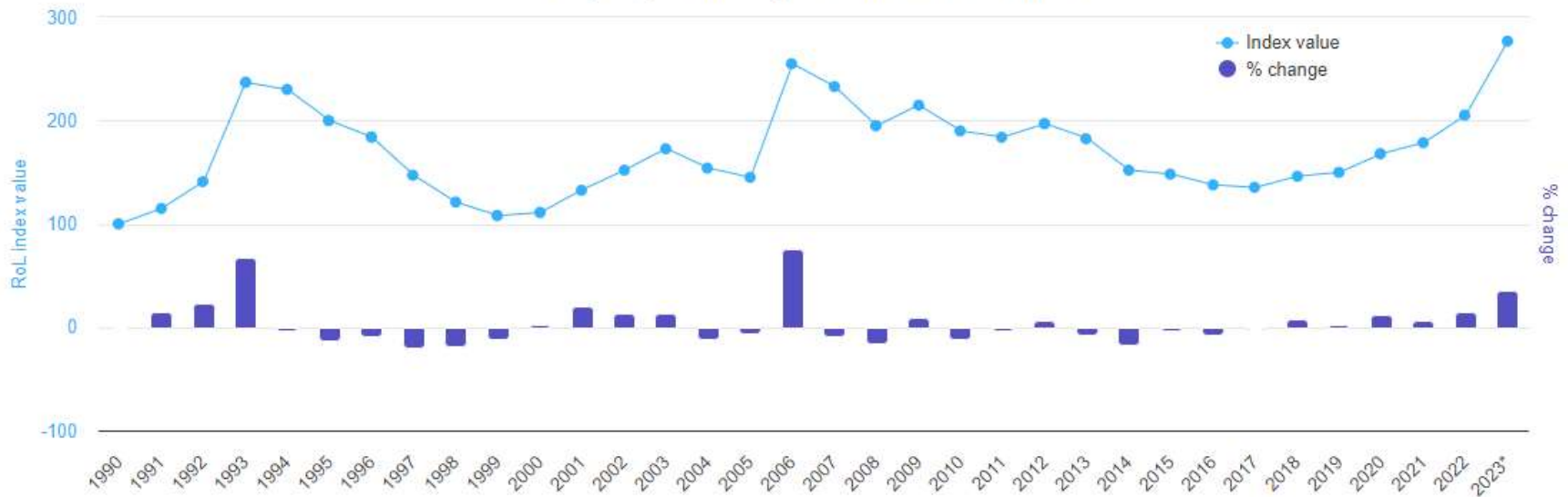
Regulatory Flexibility and Stability





Reinsurance Costs

U.S. Property Catastrophe Rate-On-Line Index



Source: Data from Guy Carpenter, presented by Artemis.bm

Source: Artemis

Guy Carpenter U.S. Property Rate-on-Line Index is the proprietary index of US property catastrophe reinsurance Rate-on-Line movements, on brokered excess of loss placements, that has been maintained by Guy Carpenter since 1990. The index covers US property catastrophe renewals. It is updated following January 1st renewals and July 1 renewals reflecting the full year, by calculating the change in ROL year on year across the same renewal base.

<https://www.artemis.bm/us-property-cat-rate-on-line-index/>



Solutions



Reduce Exposure and Future Losses



Photo Credit:

<https://www.sfgate.com/california-wildfires/article/Paradise-home-is-first-to-be-wildfire-prepared-17263738.php>



Reduce Exposure and Future Losses



148 Recommendations

Unanimous consensus from nonpartisan commission. Commission comprised of 50 members representing diverse geographies and backgrounds.

<https://www.usda.gov/topics/disaster-resource-center/wildland-fire/commission>





Property Development Industry

State & Local Officials

*Land Use Policies
Building Code Adoption/Enforcement
Public Safety*



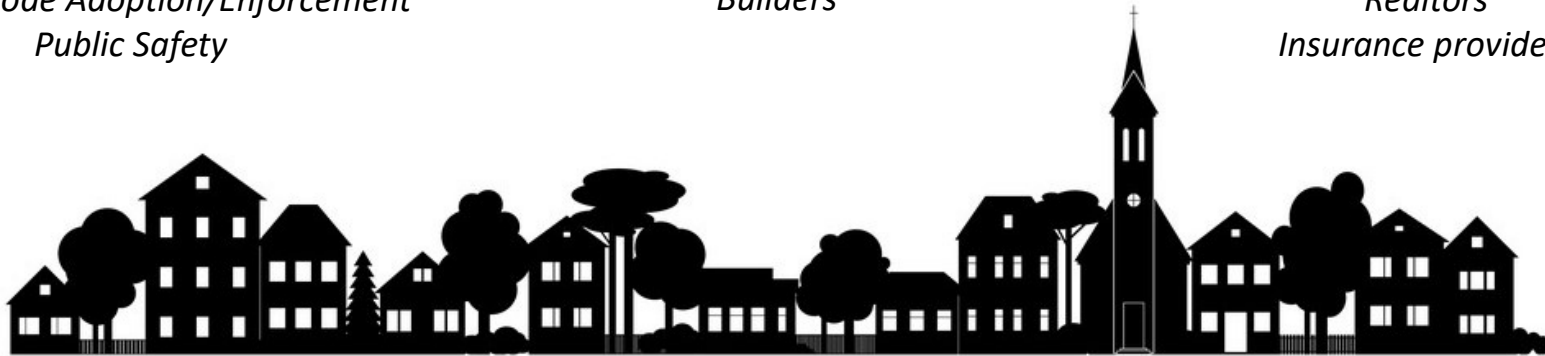
Construction Industry

*Codes & Standards organizations
Builders*



Financial Services Industry

*Mortgage/Lending companies
Realtors
Insurance providers*

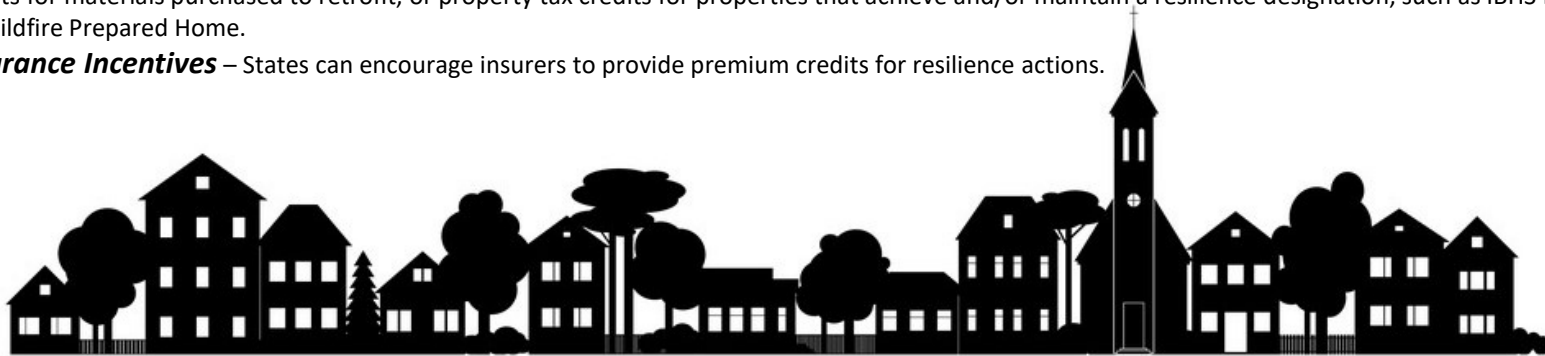




Property Development Industry

Financial Incentives for Resilience

- **Grants** – States or local communities can establish resilience grant programs to help property owners. Programs could include a cost-share match from the property owner or through a public-private partnership.
- **Low interest loans** – States or local communities can establish a revolving fund that helps provide loan interest loans for resilience projects. Alternatively, incorporate funding for mitigation into mortgage costs, to spread over 20-30 years (i.e., points or better rates) or through home equity lines of credit (HELOC).
- **Waive/reduce fees** – Communities can provide a rebate, waive, or reduce building permit fees or the cost of designation program inspections, for properties that achieve a qualified resilience designation, such as IBHS FORTIFIED or IBHS Wildfire Prepared Home.
- **Tax credits** – States or local communities can provide a variety of tax credits, such as income tax credits for costs to retrofit homes or businesses, sales tax credits for materials purchased to retrofit, or property tax credits for properties that achieve and/or maintain a resilience designation, such as IBHS FORTIFIED or Wildfire Prepared Home.
- **Insurance Incentives** – States can encourage insurers to provide premium credits for resilience actions.





QUESTIONS

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Learn more...

'Wildfire Risk in the Wild, Wild, West' -- a three-part white paper series focused on identifying the challenges and opportunities affecting consumers and property insurance markets in wildfire-exposed states.

PART I: INCREASING Wildfire Risk in the Wild, Wild, West - The evolving conditions resulting in growing exposure in the wildland-urban interface

This paper examines the underlying issues contributing to growing exposure and increasing costs in the wildland urban interface (WUI), which are affecting the affordability of insurance in wildfire-exposed regions. (link: <https://www.apci.org/attachment/static/7103>)

PART II: MANAGING Wildfire Risk in the Wild, Wild, West - The growing challenges property insurers face in the wildland-urban interface

This paper examines the constraints and concerns insurers face in managing the peril of wildfire, which impacts both the affordability and availability of insurance for consumers residing in wildfire-exposed regions. (link: <https://www.apci.org/attachment/static/7104>)

PART III: TAMING Wildfire Risk in the Wild, Wild, West - The current state of mitigation in the wildland-urban interface

This paper provides an overview of the challenges related to wildfire mitigation, in addition to highlighting the latest research on wildfire mitigation and key programs. (link: <https://www.apci.org/attachment/static/6885/>)

