CRC Group
Wholesale & Specialty

Insurance Landscape Hardens Further as Wildfires Rage

The 2021 wildfire season is predicted to be the fifth consecutive year in a pattern of severe fire seasons. Wildfire threats emerged early this year as 98% percent of land in the Western states continues to experience drought conditions compounded by early summer heatwaves. Already the first half of the year saw approximately 30,414 wildfires, compared with 24,056 in the first 6 months of 2020.[1] While California is at the forefront of insurers' panic, other states are close behind. Eighteen fires have been burning in Montana and 17 reported in Idaho. This follows unprecedented fires in 2020 that consumed more than 700,000 acres in Washington and more than 1 million acres in Oregon.[5]

Wildfire seasons are starting earlier and lasting an average of 75 days longer than in past years.[3]

MASSIVE LOSSES IMPACT THE MARKET

From 1964 to 1990, the American insurance industry paid an average of less than $100 million annually toward wildfire losses. Over the next two decades, that cost increased to an average of $600 million each year. Then from 2011 to 2018, wildfire losses skyrocketed to almost $4 billion a year. The 2018 Camp Fire alone caused $18 billion in property damage, and only $9 billion of that was insured. A year prior, the 2017 Tubbs Fire and other California wine country blazes resulted in $12 billion in insurance claims. Combined, just those two fire seasons alone decimated more than a quarter century's worth of underwriting profits for the California insurance market.[5] The industry has since made some of that money back through a settlement with PG&E and premium increases generating an additional $1.3 billion in revenue.[5]

However, historically, premium rates haven't been commensurate with the growing risk, so the losses insurers have sustained since 2017 have bled into the reinsurance ranks, forcing reinsurers to react. Research shows that the average premium per commercial transaction for May 2021 (the latest data available) rose from $9,000 in 2018 to $27,000 – an increase of around 300%. The average premium per homeowners/residential transaction also tripled from $2,500 in 2018 to $7,500 in 2021. As evidenced by massive price increases, both the commercial and residential markets have hardened substantially and trendlines suggest continued firming into 2022.[3]

CURRENT MARKET OUTLOOK

It's unlikely that rate pressure will relax anytime soon as at least 80 large wildfires rage in 13 states across the U.S.[6] Combined with an unsustainable level of loss over the last several years, insurers are cutting capacity and increasing rates.[2] In addition, many homeowners and businesses aren't being renewed, even in more urban areas generally thought to be a lower risk because the last several fire seasons have resulted in an unexpectedly large volume of wind-driven fire, ash, and smoke claims. According to the California Department of Insurance, in 2019 the state saw a 31% increase in non-renewals in the private insurance market and a 203% jump in non-renewals for homes in the top 10 counties with the highest wildfire exposure.[2] As standard markets have started pulling out of wildfire-prone areas across the West, more business is pushed into the wholesale arena, putting additional pressure on E&S carriers.

However, E&S carriers have access to the same data as standard markets, and the appetite for this particular catastrophic peril in the West remains low. There aren't many new entrants into the space, and some carriers are starting to aggregate their exposure in spots - especially where risk is condensed into a few geographic areas. For example, the Napa Valley area of California will continue to be tough as well as anywhere there have previously been very visible, large fires.

Rates aren't rising as much this year as in 2020, but capacity is continuing to drop as reinsurers pull out and markets cut back on their lines. There are roughly 2 dozen E&S markets that will consider writing business in wildfire-prone areas and less than half that number in higher risk areas. Capacity is handed out in much smaller chunks as insurers seek to control their aggregate exposure and mitigate individual risks. It can now take six or more markets to fill capacity on smaller limit placements (such as $20M of property coverage with a high wildfire score). On the E&S side, carriers are also applying separate deductibles of $100,000 or more for wildfire when the deductible may be only $10,000 for other perils.

Accounts facing renewal after absorbing big E&S premium hikes in 2020, will see rates go up another 10%-20%, depending on how coverage was structured last year. If an account was grandfathered in or hasn't been previously evaluated for wildfire exposure in the E&S market, premiums could be 200%-300% higher than what the account was paying on a standard package policy. Most Carriers now consider wildfire to be every bit as catastrophic as hurricane, earthquake, or flood exposures; but without legacy data to consistently develop pricing tools. While modeling used to assess the level of other CAT risks more precisely has been around for decades, there isn't nearly the same level of modeling available for wildfire due to insufficient data. Therefore, underwriting is typically pricing as if each account is fully exposed and any loss would be catastrophic.

POLICYHOLDERS REACT TO TOUGH CONDITIONS

Both residential and commercial policyholders are struggling with the exorbitant cost of insuring homes and businesses in areas with a higher risk of wildfire. The E&S space doesn't have a robust market for high-value dwellings. At most, carriers want to put up $2.5M rather than $20M, so some dwellings are difficult to insure. Brokers are working to help clients get some level of insurance in place, but it may not be 100% of what would usually be needed. In addition, homeowners associations are forced to pass on big increases in insurance costs to homeowners, causing the cost of annual association dues to go up and reducing the funds available for grounds or building maintenance.

Prices have also reached a breaking point for many from a commercial standpoint because of the combo of higher premiums and deductibles. In the face of an exceptionally hard market, commercial enterprises are often choosing to buy less coverage because they can't afford both operating expenses and the higher cost of insurance. As insurance costs rise for commercial building owners, rent also goes up for tenant businesses. Unfortunately, some are choosing to forego insurance altogether due to high costs. It's not a wise decision because exposures are as high, if not higher than they were last year, but some are willing to take the gamble and hope fire doesn't come their way.

According to the U.S. Department of the Interior, around **90% of wildfires** in the U.S are **caused by people,** and the remaining **10%** are typically started **by lightning or lava.**[1]

HOW AGENTS CAN HELP

Standing by clients as they weather the hard market will require agents to take the time to understand where insureds are located as markets continue scrutinizing fire risks. Agents must also take non-renewal notices seriously and be more proactive in seeking out coverage alternatives. Waiting down to the wire to reach out for help won't get the job done as carriers take a harder line on capacity and prices.

Agents can also encourage insureds at greater risk to mitigate wildfire exposure where possible. While policyholders can't necessarily move their homes or businesses to lower-risk locations, there are ways to help reduce fire hazards:

- Increase clear areas around homes or businesses by eliminating brush
- Remove vegetation such as pine trees that become highly flammable when dry
- Invest in drought-resistant landscaping that helps preserve the water supply
- Talk with city officials, homeowners associations, or commercial property owners about removing brush earlier in the season
- Where feasible, use non-combustible building materials in construction

BOTTOM LINE

Both the commercial and residential markets continue to harden, with no relief in sight. An unsustainable level of wildfire losses over the last several years has caused insurers to slash capacity and raise rates. As the impacts of climate change are felt through larger and more intense fires that threaten our communities, it's vital that homeowners and businesses maintain insurance coverage in order to rebuild and recover when wildfire strikes. Good agents will already know which accounts are in trouble, and it's incumbent on the retailer to take a proactive approach. Understanding a client's unique exposure is vital because standard markets are only required to send non-renewal notices 30-45 days out, often leaving agents scrambling to find replacement coverage. Partnering with CRC expands agent access to brokers with the kind of E&S expertise needed to market accounts effectively and secure the best possible option in a worst-case scenario. Contact your local CRC Group producer to learn more about how we can help your clients prepare for the worst as fire season rages on.

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ENDNOTES

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