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# 'Living with risk': Wildfires fuel insurance worries out West

More residents of the western United States are finding it difficult to secure affordable homeowners insurance — a growing problem made worse by climate-juiced wildfires.

BY: **AVERY ELLFELDT** | 12/23/2022 06:24 AM EST

A wildland firefighter walks through smoke and haze on Dec. 30, 2021, after a fast-moving wildfire swept through Louisville, Colo., and the surrounding region.| Marc Piscotty/Getty Images

**CLIMATEWIRE** | Wildfire risk is bearing down on property insurance markets across the western United States, forcing insurers to reduce their exposure by hiking premiums or pulling out of fire-prone areas altogether.

The changes are making it more difficult for some residents to secure homeowners insurance. That's happening in places such as Louisville, Colo., where several insurance companies have stopped writing policies since the state's most expensive wildfire on record torched hundreds of homes there this time last year.

"Prices have gone way up; there are people that are really having to shop to get something," said Ashley Stolzmann, the city's mayor. "So far, everybody has been able to find a product in our area, but not at the price that they'd like."

It's not a crisis, yet. But the problem is expected to intensify as the effects of climate change worsen and homeowners keep moving into high-risk areas. The conundrum has left regulators and insurers in Nevada, Oregon, Colorado, Washington, California and other states considering how to minimize the threat while keeping affordable coverage within reach.

"If we don't get a handle on the risk, it does mean you're going to have entire areas that will go uninsured. And when those events happen, the recovery is virtually impossible for an individual homeowner," said Michael Young, a vice president of model product management at RMS, a leading climate risk modeling firm.

The last several years have brought record-smashing wildfire seasons to the American West — and losses to insurance companies' books.

Between 2005 and 2018, the median area of burned land quadrupled compared with the years between 1984 and 2000, according to researchers with the University of Colorado. Fast-forward to 2020, and fires in Northern California, Oregon, Washington and Colorado cost insurers between $7 billion and $13 billion, RMS estimates show. In Colorado, three 2020 blazes fueled more than $1.1 billion in insured losses. The next year, the Marshall Fire became the state's most expensive on record, surpassing $2 billion.

Farther north, in Oregon, fires have dealt insurers a nearly $3 billion blow over the last three years, Andrew Stolfi, Oregon's insurance commissioner, wrote in an email. That's more than the state's total insured losses over the 40-year period between 1980 and 2020.

The fires on their own would be enough to make any insurance company reconsider the risk it's taking on. But the situation is made worse by two factors.

First is the combination of record high inflation, supply chain issues and labor shortages — all of which make recovering from wildfires even more expensive.

Second is that homeowners are still moving in droves to high-risk areas. So much so that fire hot spots across the United States have seen an 18-fold increase in building density compared with 1945, three times the national average, research shows (*Climatewire*, Sept. 21).

"The trends have not shown us that the threat is decreasing population or causing an exodus. Quite the opposite; we're seeing an increase," said Carole Walker, the executive director of the Rocky Mountain Insurance Information Association, which represents insurers in Colorado, New Mexico, Utah and Wyoming.

"The people that move there have to understand that they're living with risk," Walker added, "and there's a responsibility attached to that."

## More nonrenewals 'across the board'

The industry is responding to the situation by raising premiums where it can — and pulling out of areas when the risk is too high.

In California, the issue has left tens of thousands of residents with few if any private insurance options, particularly in the wake of the 2017 and 2018 wildfire seasons. Between 2015 and 2020, the number of people enrolled in the state's more expensive and less comprehensive FAIR Plan, or insurer of last resort, nearly doubled from 130,000 to 241,000, according to the state's insurance commission.

That's still a fraction of California's insurance market — the 241,000 people enrolled in the FAIR Plan represent less than 3 percent of California's more than 8.6 million residential policies (*Climatewire*, Oct. 6, 2020). But experts warn the trend is moving in the wrong direction.

For now, the issue in other Western states isn't as prominent, in large part due to their smaller size — and less extensive exposure.

Washington state, for instance, has around 100 people enrolled in its FAIR Plan, representing less than .01 percent of the broader market. Still, that doesn't mean the threat isn't seeping into the rest of the region. Climate risk experts and government officials in four states told E&E News that the insurance markets in the region are under intensifying pressure from wildfire risk, as evidenced by the rising number of complaints from residents struggling to find coverage.

"We're seeing more nonrenewals in the market just across the board. And that has really increased over the last five or six months," said Michael Conway, the Colorado insurance commissioner. "There's a number of different factors that come into play, but wildfire is obviously at the top of that list."

Regulators in Oregon, meanwhile, have seen an "increase in complaints" about nonrenewals since the state's 2020 wildfire season torched more than 4,000 homes. Stolfi, the state's insurance commissioner, said insurers are responding to the disaster by adjusting their underwriting practices, which has "led to some nonrenewals and price changes."

Washington and Nevada haven't yet experienced the same caliber of fires, losses or nonrenewals as adjacent states, officials say. But Nevada Insurance Commissioner Barbara Richardson wrote in an email that the state has received anecdotal evidence that personal home insurers are raising prices and canceling some policies, particularly in vulnerable areas between fully developed and undeveloped land.

Officials in Washington, for their part, are closely monitoring the issue — and are increasingly aware that it could take just one major fire to spark similar trends.

"We are very concerned," said David Forte, who serves as a senior policy adviser to the state's insurance commissioner.

"I would say that if we had a big event," he added, "it would probably change the mindset of many insurance companies."

## 'Let's get ahead of it'

The blazes have yet to convince longtime residents to flee — or force newcomers to rethink their relocation plans.

That reality has created a difficult situation for regulators, legislators and the insurance industry. With so many people living in high-risk areas, they have to figure out ways to keep them insured.

"The tenor of the conversation has been, well, let's get ahead of it," said Walker of the Rocky Mountain trade group.

Doing so will require better data to clarify how widespread the availability problem actually is and the extent to which wildfire risk — versus hail or other issues — is behind consumer complaints about nonrenewals.

But addressing the issue also will entail taking a close look at states where insurers are even more exposed to climate-fueled threats. Among them: Florida and Louisiana, where hurricanes, floods and market forces have pushed some insurers into bankruptcy, forced others out of those markets and driven record numbers of people into the states' own insurers of last resort. In Florida, for instance, a whopping 15 percent of property insurance policies are through Citizens Property Insurance Corp., the public option.

Because the threats in the Southeast are fundamentally different from wildfire risk on the opposite side of the country, Western states are keeping an even closer eye on California, which is on the front lines of the issue — and spearheading a variety of efforts to address it.

Perhaps the most important initiative so far is a regulation approved in October that requires insurance companies to provide discounts to homeowners who take steps to protect their properties from wildfires. The new rules, which aim to both reduce fire risk and mitigate rising insurances rates, underscore a growing consensus among insurance experts that wildfire mitigation is far and away the best tool to prevent a Western insurance crisis as temperatures rise, development expands and fires torch the region year after year (*Climatewire*, Oct. 18).

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"Sure, people are building things in the wrong place," said Jeff Amthor, an assistant vice president on the extreme event solutions team at Verisk, a risk analysis firm.

But he added there is growing evidence that hardening homes against wildfires significantly reduces the likelihood a home will be ignited and damaged. In turn, Amthor said, “there's no time like the present to convince people that they need to be managing their properties correctly, they need to keep the brush out of there.”

The state of Oregon seems to agree. Aside from closely monitoring the market and auditing insurers' behavior, officials there are working with policymakers to develop a “potential legislative solution” that would require insurers to take into account wildfire mitigation efforts.

Washington, Colorado and Nevada are not actively pursuing similar measures. But officials in all three states said they are thinking through ways to encourage mitigation at the homeowner, community and insurer level.

Colorado is in the early stages of doing something else: setting up its own FAIR Plan, or insurer of last resort, *The Denver Post* reported last month.

Conway, the state's insurance commissioner, said the move would ensure residents who struggle to get coverage from private markets have another option. But he also noted the importance of encouraging private companies to continue doing business in every corner of Colorado, so residents don't have to rely on state-sponsored policies that generally cost more and provide less robust coverage.

"The FAIR Plan, in a perfect world, doesn't have anybody in it,” Conway said.

He was among those who emphasized the urgency of addressing the issue — without implementing solutions that could have unintended consequences, such as driving private insurers out of the West. That pertains to requirements such as California’s, the success of which will depend on whether it actually pushes entire communities to take steps that meaningfully reduce their exposure.

In that way, said Young of RMS, officials will need to be extremely careful in designing and implementing mitigation programs to prevent them from backfiring.

It's happened before, including when Florida stood up a Wind Mitigation Credit program in the 2000s that aimed to prod customers to protect their homes from wind and hurricane damage.

Instead, the effort provided many homeowners with discounts for mitigation efforts they'd taken before the program was even implemented. That provided more clarity into properties' preparedness but did not spur meaningful mitigation progress, according to a 2010 report prepared by RMS for the Florida Legislature.

“That's my warning, my foreboding," Walker said. "I think that there is a lot of political pressure to do something — and to do it quickly. And what we've learned from Florida and other states is we need to be very thoughtful about what those solutions are."