



A CALL TO END THE DESTRUCTION OF COMMUNITIES BY WILDFIRE

The influence of insurance on wildfire risk and resilience

Over the past decade, the U.S. has witnessed a steady increase in wildfire activity. Experts predict this trend will continue. Despite the \$2 to \$3 billion per year to support wildland fire suppression efforts, the number of homes lost in wildfires per year has increased by 163 percent, and wildfires now cost the U.S. an estimated \$63 to \$285 billion per year in losses.

Property insurance is the primary and largest financial safety net for recovering from disaster-caused property damage including wildfires. Virtually all homeowner policies on the private market include fire as a covered peril, regardless of the fire's origin. Roughly 95 percent of homeowners carry homeowners insurance, equating to some 70 million policies in force across the country. When wildfires destroy hundreds, even thousands, of homes, the payout of these policies is key to rebuilding communities and reducing the demand on public funding.

As important as insurance is, for both individual financial preparedness and community resilience, many Americans are poorly informed about both their own insurance needs and the overall functioning of the insurance marketplace. An estimated two-thirds of American homeowners policyholders are underinsured, typically by 20 percent, and by as much as 60 percent, imperiling their ability to recover in the event of a wildfire disaster. Moreover, as insurers reel from payouts spurred by recent wildfires—such as the \$12 billion in insured losses in 2018—residents are increasingly fearful for the fate of their own coverage and rates. Such fears create political pressure for regulators to mandate rates that may not reflect actual risk and thus distort an important signal that could influence mitigation behavior.

State legislation needs to enable insurers to use risk models and reward mitigation efforts, as well as sending price signals that discourage risky building and development practices.

Sufficient coverage is key to wildfire disaster resilience. It provides people who lose their homes and belongings, and the communities they belong to, with the fastest path to recovery. Action is needed not only to ensure that insurance remains available through a competitive marketplace, but also that it influences homeowners to pursue risk reduction measures and reduce future losses. The insurance industry and regulators must work together to educate homeowners on the value of insurance and the true nature of their risk, as well as to close knowledge gaps and implement policies that will maintain a competitive market.

When it comes to wildfire, current risk models generally do not account for ember transport, the effects of wind, structure-to-structure ignition, and other physical phenomena that relate to direct ignition risk to homes. These knowledge gaps frustrate attempts to rate risk; they also frustrate attempts to verify that particular mitigation activities, whether on the parcel level or the community level, reliably and repeatedly reduce potential losses. Without models to provide insight into potential future losses, insurers must rely on historical losses to make decisions. As we have seen wildfire disasters becoming more frequent across the U.S. over the past decade, history is a less and less

reliable guide to future losses. Industry and regulators must work toward rate setting that meets the challenge of changing conditions and will help the industry forecast potential wildfire impacts and allow insurers' product pricing to accurately reflect risk. Given the importance of insurance for individual financial preparedness and community resilience, and the potential for price to act as a signal for risk reduction, it is critical to come up with solutions based on a healthy, private insurance market that effectively balances the availability, quality, and affordability of insurance products.

For insurers to be able to continue to provide affordable coverage, policyholders need to take steps to reduce the risk of loss, including home retrofits and landscape changes. Local government must also enforce sound land use and construction standards for residential property in high-risk areas. State legislation needs to enable insurers to use risk models and to reward mitigation efforts, as well as send price signals that discourage risky building and development practices. These measures would go a long way to ensuring a sound insurance market and balancing the risks and rewards of developing and living in wildfire-prone areas.

Given the size and scope of the U.S. wildfire challenge, reaching any one of these goals will take time. But making progress toward all of these will reduce the risk to American homes, businesses, and prosperity. **The key to ending the destruction of communities by wildfire is to start now.**

Learn more about Outthink Wildfire by visiting nfpa.org/wildfirepolicy.

CITATIONS AND REFERENCES

www.nfpa.org/wildfirepolicy



RESOURCES

•Insurance Information Institute blog:
[How Many Homes Are Insured?](#)
[How Many Are Uninsured?](#)

The National Fire Protection Association® (NFPA®) outlined a comprehensive strategy that will push for the transformations that, over time, will significantly reduce risk to communities. The strategy is rooted in two realities—wildfires are going to happen, and the fire service will not be able to extinguish wildfires at a pace to save people and property in their path.

To solve the wildfire problem, these five tenets must be supported by all levels of government:

- 1. Require all homes and businesses in the wildland/urban interface (WUI) to be more resistant to ignition from wildfire embers and flames.**
- 2. Current codes and standards, as well as sound land use practices, must be in use and enforced for new development and rebuilding in wildfire-prone areas.**
- 3. Fire departments for communities in the WUI must be prepared to respond safely and effectively to wildfire.**
- 4. Government must increase resources for vegetative fuel management.**
- 5. The public must understand its role and take action in reducing wildfire risk.**



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WILDFIRE ACTION POLICIES

