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Wildfire Insurance: Market Outlook, Claims Trends and Innovative Technology Shape the Sector

The wildfire insurance market is rapidly evolving due to the increasing frequency and intensity of wildfires. And with wildfires occurring more often in unexpected regions, including **Louisiana**, the **Midwest** and **New England**, insurers are reassessing wildfire zones across the country.

Rates in the sector are competitive – but remain high – with a significant portion of the capacity coming from Lloyd's. Insurers are exploring various coverage options, including limiting capacity to $5M, securing reinsurance and offering high deductibles and high premiums. On the West Coast, more insurance carriers are willing to provide wildfire coverage, but are also limiting capacity and charging significant premiums.

With higher premiums, limited capacity and innovative coverage options, the market is striving to adapt to these evolving risks while also working to improve the following coverage structures:

1. **Traditional all risk coverage:** This includes wildfire coverage through multiple carriers and programs with various deductible structures. This includes programs like Wildfire Defense Insurance Services (WDIS) that offers private firefighting, regular brush abatement, exterior Phos-Chek foam sprinklers and wildfire monitoring.

2. **California Fair Plan (CFP):** CFP now offers up to $20 million in limits. This standalone policy can be paired with a Difference in Conditions (DIC) wrap-around product that provides comprehensive coverage.

3. **Parametric Insurance:** Customizable policy triggered when an insured has a loss within their designated parameter, resulting from wildfire or smoke.

CONTACT

To learn more about how Amwins can help you place coverage for your clients, reach out to your local Amwins broker.

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Claims trends

Wildfire-related claims continue to mount, with fires burning more acreage and affecting areas that previously did not experience major wildfires. In regions traditionally prone to wildfires, larger and more destructive fires are becoming the norm.

Insurers are adapting by offering higher deductibles and limiting their exposure to wildfire risks, often capping their participation at lower limits. The rising costs and risks associated with wildfires have also led to significant premium increases and a more cautious approach from insurers in high-risk areas.

With recent wildfires spanning a larger radius than before, small wildfire losses have become a thing of the past. Currently, there are large, complex fires burning in Western Canada, Oregon and California. For instance, the Park Fire near Chico, CA, is over 429,000 acres, and after three weeks, was only 45% contained. It is being fueled by dry weather, low humidity and strong winds. In Alberta, Canada, a fire in Jasper National Park has devastated the area, with an estimated 30% to 50% of the town destroyed. This mirrors the destruction caused by the 2018 Camp Fire in Paradise, CA, and the 2023 Lahaina Fire in Maui.

In California alone, wildfires have wiped out more than 50,000 structures since 2017. It is projected that extreme fires are **expected to increase by 50%** by the end of the century, driven by changes in land use and climate change.

Innovations in risk prediction and technology

Advancements in technology are being used to help to detect wildfires early. For example, AI-equipped fire lookouts can report smoke and fire to local 911 stations, especially in remote areas where human detection is slower.

Insurers are also using multiple wildfire assessment tools (e.g., Riskmeter, Zesty, ISO, etc.) to better understand a location's exposure and help make informed underwriting decisions. For example, if two out of three assessment tools show minimal exposure, retailers have a much better opportunity to obtain more capacity or negotiate a better rate.

Ongoing advancements in technology could dramatically change how carriers assess wildfire risk. We will continue to evaluate how quickly these tools are adapted and what impact they could have on the market as a result.

Preparing for wildfire season

To date, California wildfires have charred 30 times as many acres as the entirety of 2023 and that's before the end of August, notoriously the hottest month of the summer. As wildfire season worsens each year, it's more important than ever to prepare for the season, even if you may not live or work in a defined fire prone area, as wildfires are popping up in unexpected regions more often.

It's evident that western states need to adapt to increasing wildfire risks, with effective land management and preparation being crucial in minimizing large-scale loss events.

The state of California is working to **minimize the amount of brush in populated areas**, planning to implement a ban on planting vegetation, mulch and other combustible material within five feet of homes in fire-prone areas. This is designed to help combat fast-moving fires and protect people and property.

In Paradise, CA, the concept of **"Buffer Zones"** surrounding the town is also being discussed. These zones would involve clearing out brush and other fuels to create natural fire breaks, and the areas would serve as parks and community spaces year-round.

Carriers writing on admitted paper continue to exit states considered wildfire hotspots, despite local initiatives working to keep carriers in the state. However, it's important to note that excess and surplus (E&S) markets remain unaffected and continue to offer coverage in states like California and Nevada.

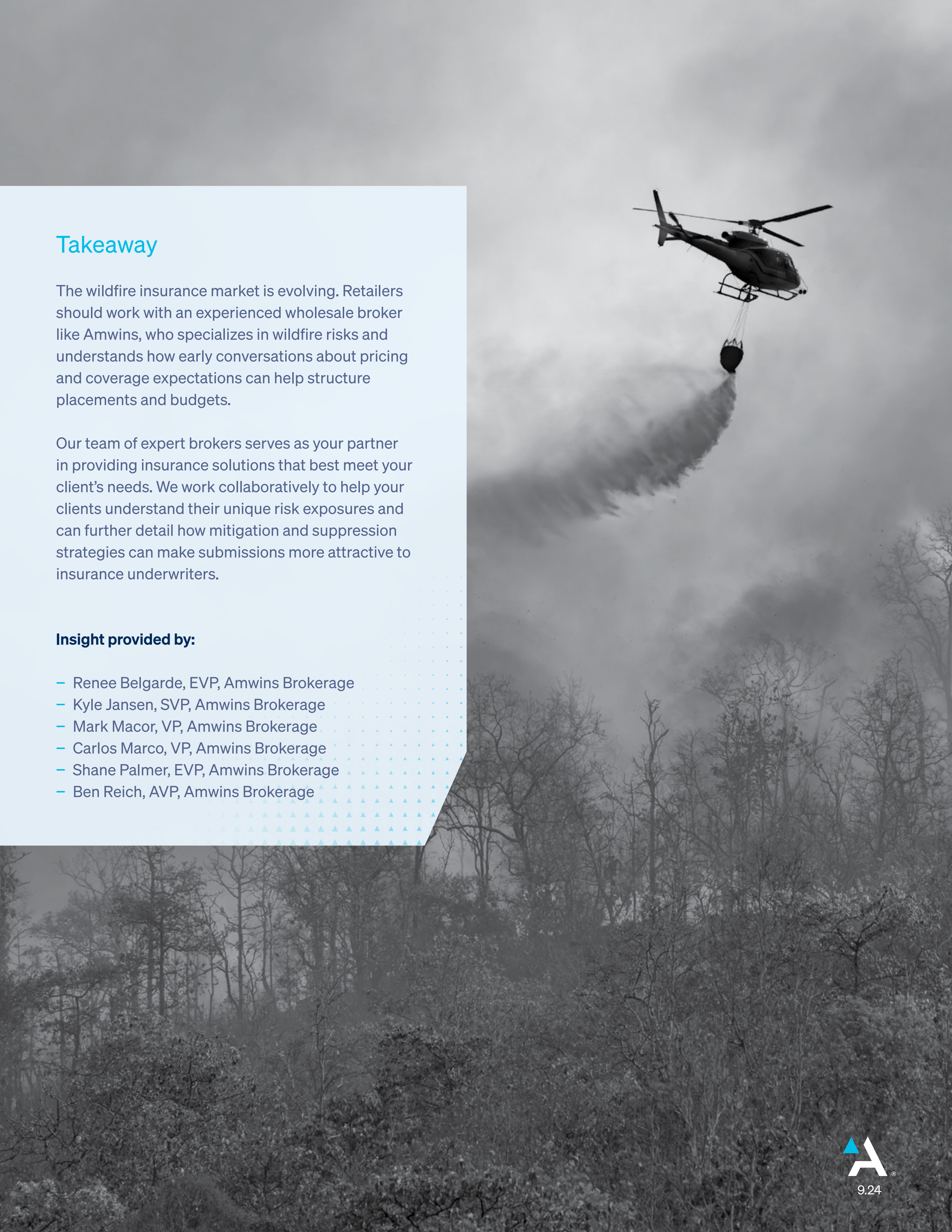
With another above-average wildfire season, insureds across the U.S. should take proactive measures designed to help mitigate risk (e.g., brush management, identifying local water sources, etc.). For insureds that have not taken such steps, contacting a local fire department to find out what measures can be taken in preparation for a potential wildfire may be a good idea. Remember, underwriters are more inclined to insure individuals who are proactively lowering their risk.

The impact of climate change

Climate change is significantly impacting wildfire risks due to increased temperatures and prolonged droughts, which create ideal conditions for wildfires. In 2023, the U.S. experienced a historic **28 individual billion-dollar** weather and climate disasters, the highest annual count on record. These events caused significant economic losses, with the total cost nearing $93 billion.

There are now **100 additional days** in the average wildfire season in the western U.S., compared to 1970. And **projections show** that an average annual one-degree Celsius temperature increase would raise the median burned area per year by as much as 600% in certain forests. Couple that with windy weather, and wildfires can emerge seemingly out of nowhere.

The increasing frequency and severity of wildfires, driven by climate change, have led to higher insurance claims and premiums nationwide. States that traditionally did not experience frequent wildfires are now at risk. For example, recent years have seen major fires in Texas, Louisiana, Florida and New Mexico, in addition to the historically wildfire-prone states like California, Oregon and Washington.



Takeaway

The wildfire insurance market is evolving. Retailers should work with an experienced wholesale broker like Amwins, who specializes in wildfire risks and understands how early conversations about pricing and coverage expectations can help structure placements and budgets.

Our team of expert brokers serves as your partner in providing insurance solutions that best meet your client's needs. We work collaboratively to help your clients understand their unique risk exposures and can further detail how mitigation and suppression strategies can make submissions more attractive to insurance underwriters.

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