

INSURANCE AFLAME: COVERAGE INEQUITIES RAGE AS POPULATION GROWS IN WILDFIRE REGIONS

APM Research Lab

Northern California is currently ablaze with numerous wildfires, including the deadly McKinney Fire in Siskiyou County that burned more than 60,000 acres and killed four people.

As of August 15, the National Interagency Fire Center cites more than 5.9 million acres burned in over 42,000 fires just this year—already surpassing total acreage burned in 2019 (4.6 million) and quickly approaching that of 2021 (7.1 million).

A 2015 study confirmed that fire seasons have lengthened by more than a month in parts of the western U.S. compared to 35 years ago.

But just as wildfires have increased, so have the number of people moving to high-risk fire areas along the West Coast. Meanwhile, adequate insurance for wildfire damage appears to be harder to come by in recent years.

The burning risk of moving west

A 2022 report by the National League of Cities states that between 1990 and 2010, there was a 41% increase in the number of new homes built where wildfire risks are most glaring.

Dr. Susan Prichard, a forest ecologist at the University of Washington, said one reason for the migration west is the strong “cabin in the woods mystique.”

“People come into eastern Washington, and they build within a fire excluded forest. They might know

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that a wildfire is kind of a scary possibility,” she said. “But that green screen of privacy to make their one acre feel pretty big is enticing.”

Many counties with a high risk for wildfires saw population growth, which is dangerous for counties that already had large populations to begin with.

Every county in Washington, except Columbia and Ferry Counties, experienced a population increase from 2010 to 2020. Most of Western and Northern Oregon also saw growth, especially in Deschutes County where the population increased by about 25%. A number of counties around the Bay Area, in Southern California, and across Nevada had low to moderate population growth.

First Street Foundation, a nonprofit research and technology group, analyzed the fire risk to properties across the U.S. It takes into account fuel layers (i.e. trees, vegetation and homes), weather conditions (i.e. temperature, wind), and historic observations (where fires have occurred in the past).

Of the handful of counties with scores of nine or 10, most are in Texas but have comparatively small populations. Motley County, for example, has a score of nine with a population of just 1,063 as of 2020 down from 1,210 in 2010 . This is a similar pattern for many of the rural counties in Texas and New Mexico, where some populations dropped from 2010 to 2020.

But some places with high fire risk do have higher population and increasing population. For example, Washington County, in southwest Utah, has a fire risk score a fire risk score of eight, experienced a 30% increase in population from 138,000 to 185,000. Likewise, Riverside County, Ca. has a score of five and grew by about 10% to 2.4 million.

And even where a risk score may not be very high, expansive and deadly wildfires have and may still occur, depending on a variety of factors from year to year. One such example is the 2017 Tubbs Fire that burned 36,000 acres and killed 22 people. It spread in Sonoma and Napa Counties, which have risk scores of 2 and 3, respectively.

“I think sometimes people have this sense of like, ‘It can’t happen to us. It’s too generally wet where we live.’ But it again comes down to fuels,” Prichard said.

Insurance coverage going up in smoke

Just like the sometimes unpredictable nature of wildfires, the extent of insurance coverage afterward can be uncertain, too.

A wildfire is a peril normally covered under homeowners insurance, just like explosions, theft and falling objects, among others. It's not a separate insurance product like for floods or earthquakes.

However, Valerie Brown, the deputy executive director of the nonprofit United Policyholders (UP), said the devastation of a wildfire is very different than other perils under insurance because the integrity of a property's foundation is compromised, which increases rebuilding costs considerably.

Through the surveys UP has conducted after major wildfires, Brown has found that between two-thirds and three-quarters of victims are underinsured.

Even when homeowners think they do have adequate coverage, insurance companies may not insure the entire cost to rebuild their homes because construction costs are way more expensive than many people realize.

"It feels like that the homeowners insurance policy is not geared for that type of total devastation," she said.

After the Camp Fire in November 2018—the most destructive wildfire in California—only about 30% of people had enough insurance to cover the cost of repairing, replacing or rebuilding their home, according to a survey conducted by UP one year after the fire.

The average amount of underinsurance was \$163,000, and 7% of people had been underinsured by more than \$400,000.

In the last several years, a frightening trend has emerged across western states—insurance companies are refusing to renew policies for homeowners in high-risk areas.

Brown said insurers are pulling out of the market due to increases in risk factors that would affect their financial success. From parasitic insects killing trees to increasing drought conditions, fuel loads have grown in areas that are already fire-prone.

“These are private enterprises that are beholden to their stockholders and so they’re positioning themselves to ensure profitability,” she said.

One woman Brown worked with through UP, who lost her home in the Northern California CZU Fire in August 2020, had just moved in two days prior.

“When she ran the numbers to see what it would cost to rebuild the house, it was actually another \$300,000 more than her mortgage.”

This woman’s story is common, Brown added, because people have no idea how much it costs to rebuild their homes from the foundation up.

Many states offer a FAIR Plan—Fair Access to Insurance Requirements—for homeowners who aren’t eligible for coverage through private insurance because they live in high-risk areas. This state-run program provides very specific and limited coverage.

In the western U.S., California, New Mexico, Oregon and Washington have FAIR Plans. California’s plan, in particular, provides temporary basic fire insurance until homeowners can be covered by a traditional insurance company.

According to the California Department of Insurance, new FAIR Plan policies rose 177% between 2015 and 2018.

Despite the recent increase in total coverage from \$1.5 million to \$3 million, Brown said it’s the “insurer of last resort.” It has been heavily criticized recently for separating smoke damage from fire damage in its policies, leading to a lack of proper coverage.

The state of wildfire insurance is even being discussed in Congress. On August 2, the House passed “The Wildfire Response and Drought Resiliency Act.” It included a bill that requires government agencies to conduct studies about the threat of wildfires to communities as well as how the market for homeowners insurance is reacting to the increase in risk.

Sparking new solutions for mitigation

Although limiting the number of people who move to high-risk fire areas seems like the perfect solution,

experts agree that it's just not feasible, especially in a housing crisis.

"It's not as simple as just restricting the option for people to build outside of downtown center, said Stacey Sargent Frederick, program coordinator for the California Fire Science Consortium.

Prichard said high-risk counties, like Okanogan County in Washington where she lives, can do a better job at establishing ordinances that both communicate the danger of residing there and regular measures to protect properties.

She highlighted Ventura County, Ca., as an example effective of having ordinances where new construction must be built with fire-safe materials, such as terracotta or metal roofs.

Frederick added that changing how people think about risk is important, too. Decades ago, wildfires still occurred, but much of the land in the western U.S. wasn't as developed. Where there used to be grasslands and oak savannas are now houses, which is clear on fire risk maps, she said.

And instead of using these risk maps as a tool to keep people in fire zones from being insured, Prichard said insurance companies can partner with property owners to encourage fire safety upkeep.

"It would be much better to actually have people do the fuel reduction and get rewarded for their good practices and still be able to be insured," she said.

California is already taking steps to require insurance companies to do just that.