



FACI Subcommittee on Addressing the Protection Gap Through Public Private Partnerships and Other Mechanisms

Wildfire Risk: Recommendations





Wildfire Overview

Wildfire damage and insurance claims have increased significantly over the past decade. Previously dismissed as a secondary peril, wildfires have become more frequent and destructive. Nine of the ten largest wildfires in California's history have taken place over the past decade, and three of these in 2020 alone.

Population and infrastructure growth, teamed with years of fire suppression policy has led to the accumulation of substantial excess fuel. The changing climate, resulting in higher average temperature and drought conditions are also leading factors to the increased wildfire risk. In addition, some of the costliest wildland fires have been attributed to power and cable lines. All these factors have led to a change in frequency of large, destructive fires.

Mitigation is the core, long-term solution to manage and reduce wildfire risk and ease the protection gap. Wildfire mitigation requires a multi-stakeholder approach to be truly effective.

This Subcommittee advocates for **collaborative efforts** from legislators, regulators, the (re) insurance industry, and at the community and individual levels, for wildfire mitigation to reduce risk and associated claim frequency and severity.

The following slides specify **why mitigation matters**, what are the **core challenges** and **what is required** from key stakeholders to implement effective wildfire mitigation practices that will impact the availability and affordability of insurance.



Why Wildfire Mitigation Matters

Recent studies by IBHS, RMS and NAIC found a **40% reduction** in losses with structural modifications and applications of wildfire mitigation.

Reducing vegetation in the 0-5ft zone nearly doubles a property's survival rate.

Structural plus vegetation modifications can provide a 75% reduction in losses.

The National Institute of Building Sciences (NIST) found that the the International Code Council's International Wildland Urban Interface Code (IWUIC) in 10,000 census blocks across the country would generate \$4 in wildfire mitigation savings for every \$1 invested.

Retrofitting 2.5 million homes to the 2018 IWUIC could provide a nationwide benefit-cost ratio as high as \$8 to \$1.

Closing the Protection Gap: Enhanced mitigation at both the individual and community levels reduces the underlying risk of wildfires, which will help restore a competitive home insurance market.



What are the Key Challenges?

- **Public standards for wildfire mitigation** that are clear and effective are needed as a critical first step to immediately reduce exposure in the built environment and in turn future losses. United Policyholders and the IBHS have each developed standards for residential homes that will help meaningfully distinguish mitigated homes from unmitigated or partially-mitigated properties. A challenge is that hardening at individual level is only one piece of the solution and community awareness and adoption/enforcement remain in their infancy.
- **Standards that are actuarially sound:** For insurers to offer premium discounts as rewards for mitigation, they need verifiable standards that have been actuarially quantified, which does not currently exist. When public standards and actuarially sound assessments are achieved, insurers can offer rewards for mitigation practices, and this could further incentivize community-wide protection.
- **Resiliency is at the core** and needs to be done at an individual and community level and then also across the broader ecosystem (such as forest management).
- **Inspection and enforcement** of WUI-specific building codes as only four states adopted such codes statewide and enforcement of these codes remains challenging (IBHS).
- **Striking a cost-effective balance** between ensuring-combustible items within a parcel (plants, sheds, etc.) are not too close to a structure, and increasing the fire resistance of a structure's materials-(NIST Report, 2021).
- **Consumer education regarding wildfire mitigation practices**, leveraging work done by United Policyholders and IBHS in this area
- While many utility companies are very proactive in developing their climate adaptation methods, **outdated infrastructure and a lack of standardized wildfire risk management processes** present major challenges to effective wildfire mitigation within the utilities space.

What can we learn from State actions regarding wildfire and other perils? #1

California – Wildfire

- The California Department of Insurance is drafting regulations that would require insurers to amend wildfire scoring models to recognize mitigation efforts on an individual structure level and at community levels. Insurers have an aspirational goal of rewarding mitigation efforts when actuarially sound standards exist for mitigation.
- California is also tackling wildfire risk caused by utilities, by passing legislation that require utilities to submit Wildfire Mitigation Plans with conditions for approval and compliance requirements for access to the Wildfire Fund. It also created a division within the CA Public Utility Commission to review, audit and approve these plans.
- A legislatively-mandated, inter-agency Wildfire Partnership will be issuing recommendations (likely) by year's end

What can we learn from State actions regarding wildfire and other perils? #2

Alabama - Wind

- The Strengthen Alabama Homes Program, operating out of the Alabama Department of Insurance, provides grants of up to \$10,000 per application to Alabama residents for mitigating their existing homes against wind damage by using the FORTIFIED standard developed by IBHS.
- The program receives \$10M annually in funding from the insurance industry.
- Wind premium discounts of 25%-55% for homes meeting the FORTIFIED standard are available, creating an environment for insurance companies to offer discounts to improve affordability by matching the reduction in risk to premium discounts. Alabama now leads the nation in the number of FORTIFIED homes; just over 20,600 out of 25,000 nationally.
- Some of its challenges have been in consumer education of both the FORTIFIED and Strengthen Alabama Homes Program and obtaining additional funding. This could be addressed by federal, state and local initiatives, as well as by the insurance industry.

What can we learn from State actions regarding wildfire and other perils? #3

South Carolina - Wind

The [SC Safe Home Program](#) provides matching and non-matching grants to coastal residents to help them strengthen and retrofit their owner-occupied homes, making them more resistant to hurricanes and high-wind damage.

Its focus is on roof retrofits and opening protection (window and door retrofits for existing homes) and has awarded more than 6,780 grants totaling more than \$28.3 million since the program began.

The program was established within the Division of Insurance as part of a market-based approach to coastal property insurance reform in 2007.

It offers premium discounts for mitigation measures, as well as tax incentives. The program partnered with the IBHS Fortified Roof Program that allows homeowners to receive dual designations when mitigation work is performed on their homes. A dual designation may qualify the property for additional insurance benefits.

There is a dedicated funding source from all premium taxes paid by Wind Pool, in addition to 1% of Insurance Premium Taxes.

Recommendation 1



Funding and Public Standards for Wildfire:

FIO should advocate for increased funding for hardening and should encourage the Federal Government to require the adoption of current building code standards in high-risk areas for federal funds. FIO should support the need to develop, adopt and enforce properties to a FORTIFIED-like standard and have that progress and data available to insurers, such as through a community building code rating score.

Industry and Risk Transfer Capacity

Identifying the current efforts surrounding risk transfer capacity and its benefits #1

Shared Risk and Public Private Partnerships:

- Industry and governments can partner to share and remove risk through Public Private Partnerships. Examination of public-private partnerships for wildfire would be beneficial.
- Widely recognized as a success, the Flood Re program provides a good case study. It is designed to make flood cover affordable for high-risk households in the UK, increase availability and choice of insurer, give time for the government, local authorities, insurers and communities to become better prepared for flooding, and to create a level playing field for both new and existing insurers in the UK home insurance market.
- Flood Re subsidizes coverage by reinsuring the UK's household insurers for the flood portion of their coverage and is funded by a levy on these insurers. The Scheme is due to terminate in 2039.
- The objective is that before this exit, there will be a transition to risk-reflective pricing for home insurance for these households and there will be developments in the program regarding pre-disaster mitigation and build back better measures.

Industry and Risk Transfer Capacity

Identifying the current efforts surrounding risk transfer capacity and its benefits #2

Reinsurance and Build Back Better:

- The reinsurance market can provide essential cover needed to help close the protection gap. Indemnity-based reinsurance provides protection against natural catastrophe perils and provide significant capacity to local authorities and insurers to enable them to write more coverage than they otherwise could without reinsurance in high-risk areas, aiding availability.
- Building back better is an important element to incorporate, as mitigation further reduces exposures and potential costs, and these efforts could be included in contract terms and conditions as part of the reinsurance product, such as a resiliency repair clause.

Insurance-Linked Securities and Cat Bonds:

- Alternative risk transfer solutions, including insurance-linked securities – an asset class that includes catastrophe bonds, collateralized reinsurance instruments and other forms of risk-linked securitization – continue to provide a substantial expansion of capital to the insurance industry. According to Fitch, issuance of natural catastrophe bonds reached an all-time high of \$11 billion in 2020, with 2021 expected to come in even higher. According to Aon data, since 2011, alternative capital has grown nearly 250 percent, while traditional grew just over 30 percent, with alternative reinsurance capital reaching \$97 billion on June 30, 2021.
- Support for financial innovation and development of new sources of capital market funding will serve as useful diversifying risk tools in the short-term, which ultimately help reduce pricing volatility for insurers and consumers resulting in more affordable and available coverage. There are potential opportunities that exist for expanding ILS, for example, onshoring Cat Bonds.

Recommendation 2



Examine the current capacity of state-based residual property insurance entities and opportunities for enhancements

FIO should examine and issue a report on the pros and cons of risk transfer mechanisms, their applicability to wildfire and their sufficiency in expanding capacity and restore market confidence; including exploring a “Flood Re” type mechanism for wildfire, and the potential opportunities that exist for expanding ILS, such as onshoring Catastrophe Bonds.

Federal Opportunities to Support Wildfire Mitigation and Improve Availability #1

- **Increase funding for wildfire projects and hardening.** We welcome the inclusion of pre-disaster mitigation grants for wildfire projects in the BRIC program. We also support the Wildfire Recovery Act that is progressing through Congress, in its efforts to change a cost-share cap in one of FEMA's fire programs.
- **Focus on building codes and require adoption of current building code standards in high-risk areas**
- **Engage in public-private partnership to address costs to insurers of verifying mitigation:** Colorado's Wildfire Partners, funded at local, state and federal levels, help fund mitigation assessments of homes and some insurers voluntarily accept certification as proof of mitigation for underwriting acceptability purposes. Other states such as California could consider a similar program and the federal government could assist with funding.
- **New Federal Funding for Utilities:** Welcome the funding for utility lines in the Infrastructure Package and the undergrounding of utility lines but red tape for undergrounding should be addressed in order to accelerate the process and increase efficiency.
- **Land Use Planning to Reduce Wildfire Risk:** Support zoning efforts, building codes and planning that enables defensible space at community levels and/or restricts developments in highest hazard areas.

Federal Opportunities to Support Wildfire Mitigation and Improve Availability #2

- **Federal Commission investigating wildfire risk reduction as** part of the Infrastructure Bill package: Recommend the active participation of utilities within this forum and that standardized risk management practices for utilities against wildfire risk across multiple states is examined.
- **Help reduce wildland fuels:** Increase funding for prescribed burning on federal lands, as outlined in the Infrastructure package, and work to address any challenges with liability standards, including environmental liabilities.
- **Grants to utility companies to update infrastructure to become more wildfire resilient:** This could include grid hardening, the installation of weather and grid analytics, vegetation management, grid hardening, e.g., “tree wire” and metal poles, and more targeted Public Safety Power Shutoffs.
- **Build Back Better Provisions:** Post-disaster recovery funding should include provisions to re-build more fire-resilient structures.
- **Loan Terms:** Consider regulations that encourage rate reductions on interest rates or loan conditions for hardened, fire-safe homes.
- **Enable risk reduction and diversification to aid the insurance market:**
 - Support programs that may help attract/incentive investors to accelerate stabilization of reinsurance market capacity, such as ILS.
 - Reduce tax implications for claim payments from parametric policies and encourage development of financial investments options that support catastrophe risk transfers

[IBHS Insurers' Principles for Climate Change Adaptation](#) provides affirmative actions to improve the resilience of American homes, communities and businesses, which are germane to wildfire risk.

Climate Change Adaptation is Necessary

- Develop a National Climate Resilience Strategy

Building Codes and Land Use Support Tomorrow's Resilience

- Enacting Model Building Codes
- Incorporating Climate Risk in Land Use Decisions

Prioritize Funding for Increasing Resilience of Existing Structures

- Tax Incentives for "Sunny Day" Investments
- Building Back Better

IBHS Insurers' Principles for Climate Change Adaptation Principles, Cont.

Make Resilience Available for All

- Equitable Resilience Assistance
- Supporting All Communities Post-Disaster

Leverage Climate Data and Analytics to Support Climate Change Adaptation

- Prioritizing Resilience Decisions with Data
- Making Relevant Data Public and Accessible

Enhance Resilience for Public Infrastructure and Facilities

- Make All Infrastructure Resilient
- Encouraging SLTTs' Physical and Financial Resiliency

Recommendation 3



Identify Federal Opportunities to Support Wildfire Mitigation:

FIO should identify opportunities in the Infrastructure Package to promote mitigation and improved availability and affordability of insurance covering wildfire risk, consistent with the IBHS Climate Adaptation Principles.

Summary of the Subcommittee's Recommendations to FIO

Recommendation 1: Funding and Public Standards for Wildfire

- FIO should advocate for increased funding for hardening and should encourage the Federal Government to require the adoption of current building code standards in high-risk areas for federal funds. FIO should support the need to develop, adopt and enforce properties to a FORTIFIED-like standard and have that progress and data available to insurers, such as through a community building code rating score.

Recommendation 2: Report on Risk Transfer Mechanisms for Wildfire

- FIO should examine and issue a report on the pros and cons of risk transfer mechanisms, their applicability to wildfire and their sufficiency in expanding capacity and restore market confidence; including exploring a “Flood Re” type mechanism for wildfire, and the potential opportunities that exist for expanding ILS, such as onshoring Catastrophe Bonds.

Recommendation 3: Federal Opportunities to Support Wildfire Mitigation

- FIO should identify opportunities in the Infrastructure Package to promote mitigation and improved availability and affordability of insurance covering wildfire risk, consistent with the IBHS Climate Adaptation Principles.