



Insurance Risk Considerations & Response in Wildfire Country



Today's presentation from NW Insurance Council



What is happening in the national and Washington property insurance markets?

- Why are homeowners losing coverage and/or paying so much more for insurance?
- How are insurance companies responding to changes in risk, especially wildfire?
- What is being done to help consumers and stabilize the property insurance market?

Insurance Basics – Property & Casualty (P&C) Insurance

- **Essential business and function of P&C Insurance:**

- **Transferring risk** from home & business owners and drivers to an insurer, in return for a premium.
- **Predicting risk** of loss, pooling similar risks together, charging a premium that aligns with similarly-situated risks in the pool.
- **Charging premiums** to pay current claims and build/maintain reserves to pay future claims while remaining competitive.
- **Insurance rating and underwriting** trends reflect other economic, social and environmental factors.

- **Issuing/servicing P&C insurance policies:**

- **Underwriting/Evaluating Risk:** Deciding who to write insurance for/what will be covered.
- **Rating/Accurately Pricing Risk:** what the policy will cost.
- **Claims:** taking care of the policyholder/rebuilding/replacing the covered loss.

- **Regulation of insurance rates and policies and claims practices is state-based:**

- **Policy forms and rates:** Must be filed with and approved by the Washington State Office of the Insurance Commissioner.
- **Rates:** Must not be excessive, inadequate or unfairly discriminatory. Rate increase requests are evaluated thoroughly prior to approval.



What do insurers look for in a market?

- **Competition:** No insurer wants to be alone in a market.
- **Information/data:** The more insurers know about risk, the more confidently they can write policies and determine appropriate premiums.
- **Access to appropriate and timely rates:** Rates based on actuarial science, reviewed and approved in a timely manner, protect stable, competitive insurance markets that best serve consumers.
- **Access to capital:** Stable investment environments and affordable reinsurance.
- **Stable regulatory, policy and judicial environments:** Insurers are regulated by the states, not the federal government. Uneven or politically-driven policy environments and costly civil justice systems that exist in some states are cost drivers for insurers and consumers and serve to chill companies' enthusiasm to engage in challenging markets.

Washington property insurance premium snapshot

Average cost of Homeowners Insurance

WA Average HO premium, according to **NAIC/DCBS**: **\$1,151/year (2022)**

WA Average HO premium, according to **Bankrate.com**: **\$1,520/year (2025)**

Average HO premiums in nearby states, 2025 (**Bankrate.com**):

- OR: \$1,083/yr
- CA: \$1,632/yr
- ID: \$1,392/yr
- MT: \$2,788/yr

Property insurance premiums were stable for many years, thanks to market growth and competition

- From 2012-2021, premiums for Homeowners and Renters insurance mostly aligned with the US inflation rate. (Insurance Information Institute, NAIC data)

Average Premiums for Homeowners and Renters Insurance, 2012-2021

Year	Homeowners (2)	Percent change	Renters (3)	Percent change
2012	1,034	5.6%	187	(4)
2013	1,096	6.0	188	0.5%
2014	1,132	3.3	190	1.1
2015	1,173	3.6	188	-1.1
2016	1,192	1.6	185	-1.6
2017	1,211	1.6	180	-2.7
2018	1,249	3.1	179	-0.6
2019	1,272	1.8	174	-2.8
2020	1,311	3.1	173	-0.6
2021	1,411	7.6	170	-1.7

Factors affecting **insurance costs**: repair cost inflation, natural disasters, reinsurance, litigation.

Claims costs: construction costs/rebuilding, climate-related disasters, increasing litigation

- **Natural disasters** – wildfires, hurricanes, “convective storms” increasingly associated with climate change (hurricanes, wind, rain, hail, tornadoes or wildfires): **\$168 billion in 2023, \$182 billion in 2024. (CA 2025: five LA fires, \$40b in insured losses.)**
- **Costs for residential construction materials** rose nearly **27 percent** in 2021 – roofing materials alone rose 15 percent. Those costs continue to rise, above the CPI: **14 percent** was the average in 2024.
- **Social inflation:** The cost to settle or defend **lawsuits** – increasingly funded by institutional investors – has been far above CPI for over a decade (27.5% avg, 2010-19).

Reinsurance: “Insurance for Insurance Companies”

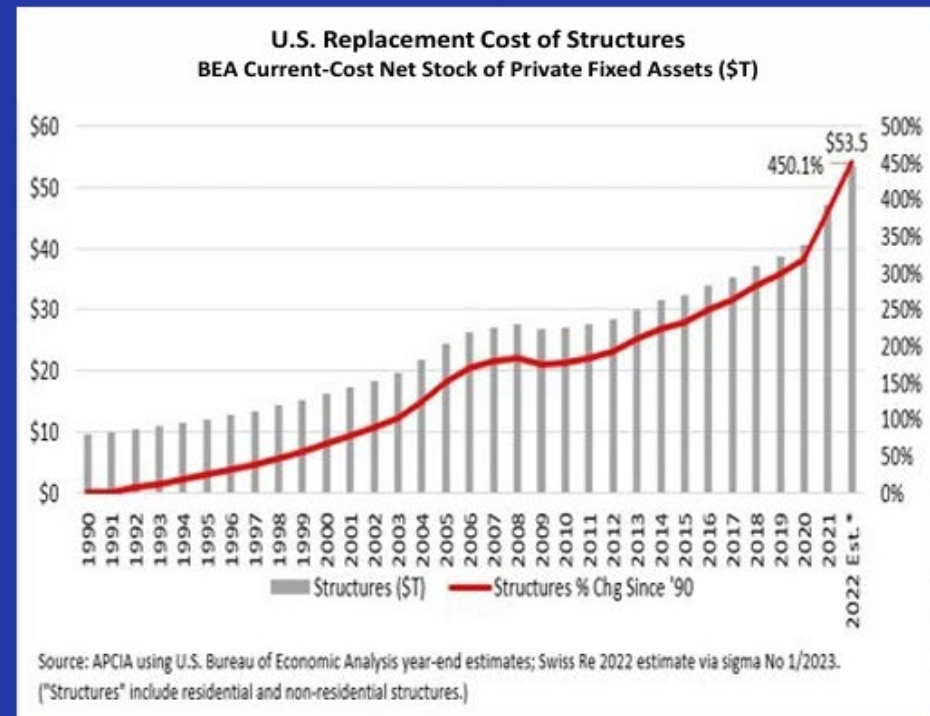
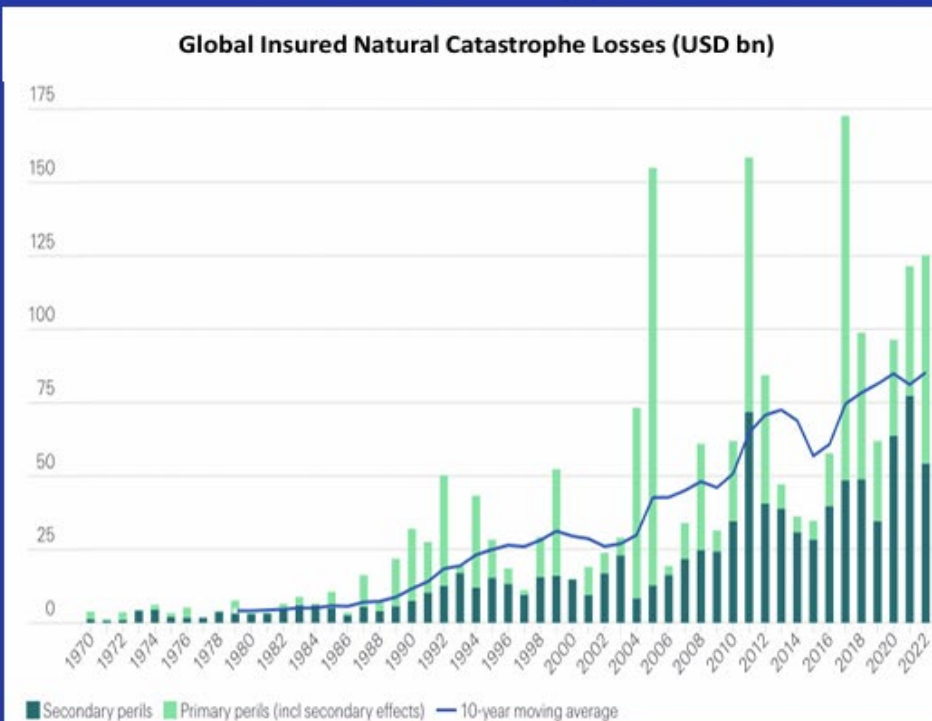
- **Reinsurance is “insurance for insurers.”** Once an insurer has paid out a certain amount to policyholders for a single catastrophic event, the reinsurer steps in to cover the insurer’s claims costs.
- **U.S. property catastrophe reinsurance rate** increases ranged from *20 – 50 percent* in 2023 – the highest average increases in 17 years. The reinsurance market is now stabilizing, with more reinsurers entering/reentering markets, increasing access to coverage and more competitive pricing.

At the same time catastrophe losses started increasing, so did rebuilding/replacement costs



American Property Casualty Insurance Association™

Increasing Cat Losses / Rebuilding Costs

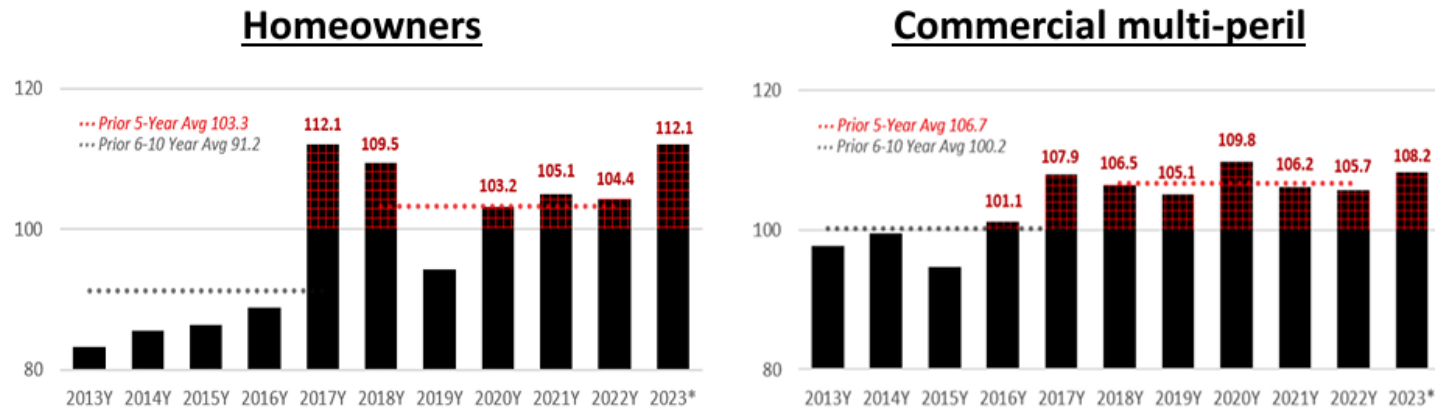


Insurers paid out **\$1.12** in property claims in the U.S. for every **\$1** earned in premium in 2023



Elevated combined ratios in U.S. property lines

i.e. - for every dollar in premium collected, more than a dollar paid



Source: APCIA using S&P Global (*S&P Year-End Projection, data compiled October 20, 2023)
Commercial multi-peril results include liability and non-liability lines of coverage.

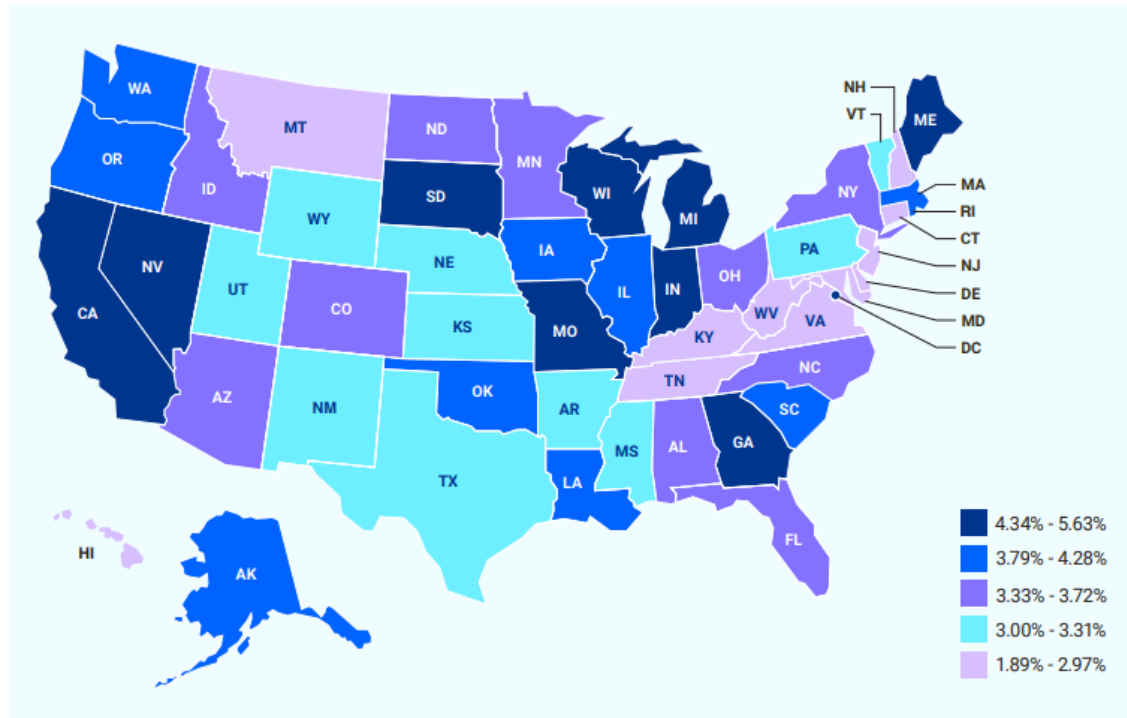
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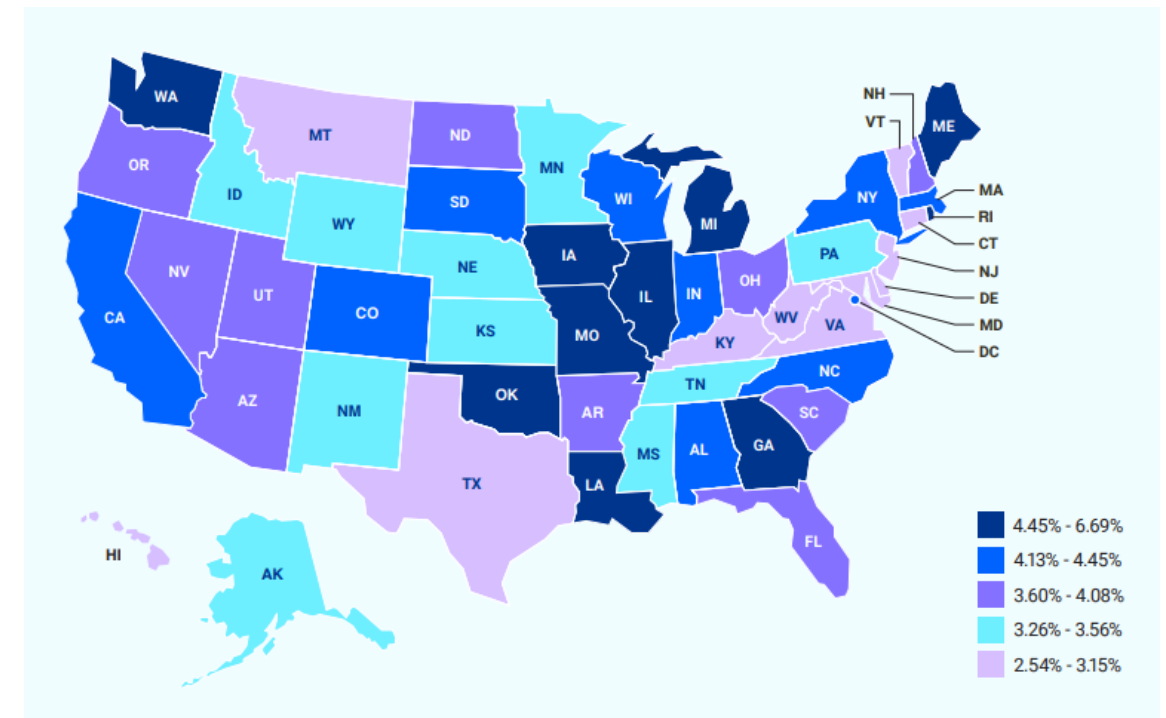
The good news: **S&P Global** reports that across the US, Personal Lines P&C industry reported an underwriting **profit** in 2024 – the industry's first **since 2019**, paying out **99.7 cents in claims for every \$1** in premium earned. This should ease pressure on **pricing** and begin to ease pressure on **availability**.

Good news/bad news: Construction costs are stabilizing, but still higher in Washington

Residential reconstruction costs rose more in **WA** and **OR** 2024-25



Commercial reconstruction costs rose more in **WA** than in 40 states 2024-25



Meeting the Moment: Public Policy Considerations



Structure resilience; access to information **build insurer confidence and **improve** market stability.**

- ✓ **Allow (OIC-approved) catastrophe models** and insurer-developed risk models to be considered in underwriting and rating for property insurance.
- ✓ **Improve parcel-level mitigation** through education and, when available, grant funding. **(HB 1539)**
- ✓ **Encourage the adoption and use of Wildfire Prepared Home** standards in new construction and consider ways to begin retrofitting homes to meet WPH standards in WA built communities over time.
- ✓ **Allow and encourage insurers** to offer actuarially-supported discounts for insured properties that can demonstrate full compliance with WPH.



Mandates not based on science; artificial rate suppression **destabilize insurance markets.**

- ✓ **First, do no harm.** *Example:* Oregon has taken a thoughtful approach, which includes transparency information for consumers, but does not *mandate* underwriting or rating actions by insurers.
- ✓ **Resilience/Mitigation** protects lives and property – and builds insurer confidence that over time, the chance that wildfires will become catastrophic-level events will be reduced.
- ✓ **Focus on consumer protection & insurance availability first.** Looking to the future, the immediate need is to help Washington property owners *obtain and retain* property insurance, and allow a stabilized competitive market improve the rating and discount environment.

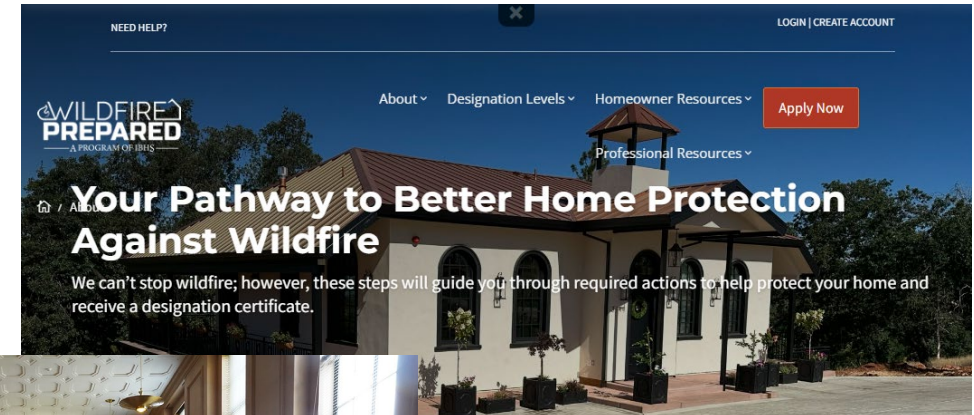
The plan: Better science, reliable standards, new partnerships will improve stability & competition in property insurance

We can't “insurance” our way out of the wildfire crisis.

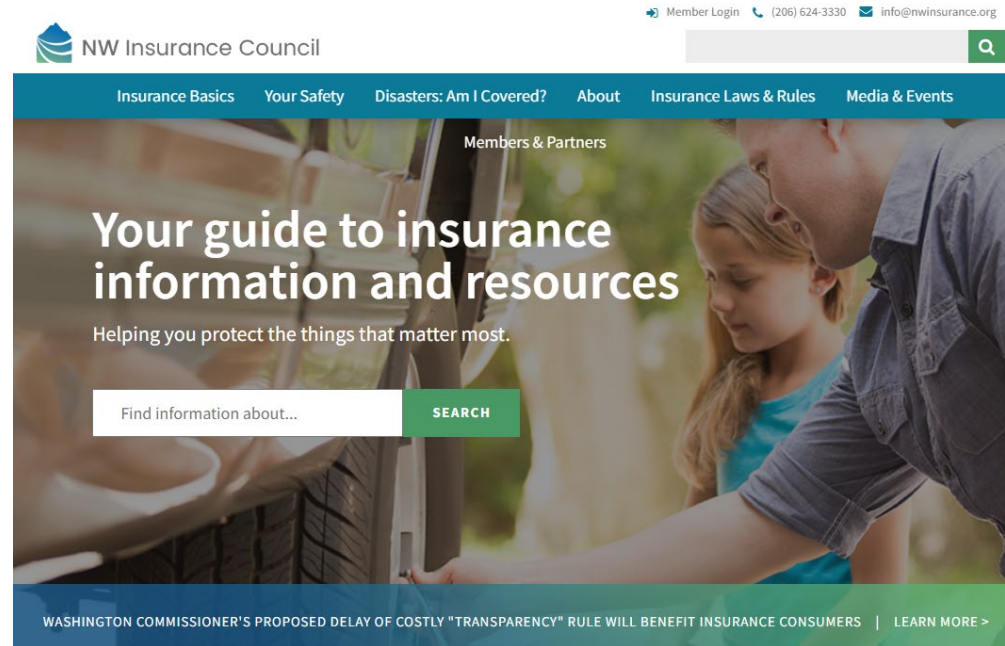
Needed: More outreach and collaboration among insurers, firefighting agencies, community organizations, builders, lenders, realtors, etc.

Insurance Institute for Business & Home Safety (IBHS)

- Wildfire Prepared Home
- Wildfire Prepare Home Plus
- Wildfire Prepared Neighborhood



Thank you! Questions?



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