



USDA Forest Service Fire and Aviation Management Briefing Paper



Date: 8/20/2003

Topic: U.S. insurance companies target wildfire preparedness in the wildland/urban interface.

Issue: America's largest insurance company—State Farm—has announced plans to begin inspecting wildland/urban interface (WUI) homes in four western states (Colorado, Arizona, New Mexico and Nevada) using Firewise principles for their analysis.

Background:

- State Farm made the announcement of its inspection program in May of this year; it is underway in Colorado, Arizona, and New Mexico. Implementation in Nevada begins the summer of 2004.
- State Farm is sending out inspectors to insured property in the affected states. These inspectors will use Firewise principles to determine hazards and risks of wildfire to each property.
- Homeowners will be given material to help them comply with the analysis findings, i.e. a brochure on the program, a list of what they need to mitigate their risk and hazards, and a list of whom to contact in their area to learn more about their situation and to help accomplish designated work.
- Homeowners have 18-24 months to comply or State Farm will drop their insurance.
- State Farm has received basic wildland fire statistical information from local, state and federal agencies, i.e. USDA Forest Service and the Bureau of Land Management, regarding the number of lightning strikes in an area, vegetation types, etc.
- Other insurance companies are discussing or implementing similar assessment/rectification programs, i.e. Met Life, which has contacted residents in New Mexico, at a minimum, about wildfire preparedness needs for insurance coverage.
- Because State Farm is an industry leader, this new initiative is expected to move quickly throughout the industry.

Key Points/Questions:

- Information was provided by Jordan Marsh of State Farm Insurance Company
- Insurance and fire officials generally praise the action of the insurance industry (See attached AP news story from Colorado).
- The industry seems to be adopting a wildfire policy similar to other natural disasters (see attached Insurance Background Information).

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Supplement to Rural Fire Briefing Paper

STATE FARM CLIENTS WHO DON'T CLEAR TREES COULD LOSE COVERAGE

By Todd Hartman, Rocky Mountain News -- May 21, 2003

Thousands of homeowners living in Colorado's fire-prone forests will soon have to break out the chain saws.

In a major policy shift for the insurance industry, State Farm will require customers to clear trees and brush around their homes and take other precautions. Those who refuse could lose their coverage.

The new approach comes on the heels of the costliest fire season in Colorado history, when insurance companies doled out a record \$70 million for the four largest fires in the state. The 137,000-acre Hayman Fire alone accounted for \$39 million of that total.

"A number of people are moving into (wildfire-prone) areas," said Steve Niccolai, the commercial underwriting supervisor in State Farm's Greeley office. "We're going to see more devastating wildfires in Colorado, so we feel we need to be proactive."

During the next three years, insurance inspectors contracting with State Farm and trained by the Colorado State Forest Service will visit about 12,000 of the company's customers deemed at the highest risk for wildfire losses.

They'll have their eyes out for typical risks: trees growing through decks, firewood stacked against homes, pine needles covering roofs, trees hanging over roofs, and forested areas too close to homes.

Soon after, customers will receive letters outlining possible hazards and will get 18 to 24 months to rectify the problems - time to learn about the risks, talk to local wildfire specialists and apply for state and federal grants that might help cover the costs of clearing and cutting.

Niccolai says the company's approach won't be confrontational but educational. Still, homeowners who refuse to reduce the risk would likely be dropped, he said.

"We do not want to lose one homeowner out of this whole program," he said.

State Farm appears to be on the leading edge of a trend. Insurance critics, including many federal firefighters, have long complained that companies ignore the heightened risk associated with living in the trees.

"I think insurance companies that don't do this are crazy," said Janet Arrowood, an insurance expert who is the author of a new book, Living With Wildfires.

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INSURANCE BACKGROUND INFORMATION:

- As a rule, earthquake and flood-related damage are not covered by standard homeowners policies. People who live in 'quake or flood zones usually know they need to buy extra insurance for such events. Typically, people outside such areas often take for granted that they're insured for these eventualities.
- Hurricanes and tornadoes are covered, but companies have modified their policies so that these events will cost the homeowner a certain percentage of the damage rather than the usual \$500 deductible.
- Volcanic activity is generally covered by homeowners' policies, unless caused by an earthquake.
- Fire is rarely excluded from insurance policies, whether a grease fire or a raging wildfire, unless the blaze is intentionally started.
- Homeowners in states without wildfire insurance coverage may participate in a state-run risk pool, operated by 29 states and the District of Columbia.
- Uninsured homeowners can also buy from an agency company that sells through agents, or a direct writer company, in which agents represent several insurers.

- Homeowners can also investigate the Fair Access to Insurance Requirements (FAIR) plans in their state. FAIR plans are insurance pools that sell property insurance to those who can't get it in the standard market. They can cost more and may provide less coverage than a typical policy.
- About 12 states have some sort of a homeowners' policy, including liability. In California, the plan covers brush fires, and in Georgia and New York, they provide wind and hail coverage for some coastal communities.