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Munich Re Specialty

Insights with Rachael Dougherty

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Wildfire risks

Q: What are the current wildfire dynamics driving the E&S commercial property market — particularly in California and other high-risk states?

A: We see something new with every policy we write. For instance, wildfire, while not a new risk, is emerging as one we need to keep our eyes on. Inconsistencies within this market are increasing, following a few very tough loss years and as wildfire risk continues to escalate.

Additionally, insureds not previously considering wildfire exposures are exiting the standard market and heading to the E&S market, where they are facing large premium and deductible increases. Further, brokers needing to piece together small limits with several carriers at multiples of expiring premium are struggling with this strategy.

Insurance companies are also being challenged to gain the proper understanding and information to underwrite the risk accurately and manage a profitable portfolio of wildfire business.

Given this volatility, we are positioning ourselves as a market leader; a strong and stable partner that strives to write business in a way that ensures long-term partnerships. We utilize our own proprietary modeling tool, guidelines, and deductible endorsement, which enable us to be consistent. This is important, so brokers know what to expect from us.

Q: Where do you see the greatest risks and corresponding risk mitigation strategies and tactics for California insureds?

A: In addition to physical property damage and loss, business interruption, civil authority, and ingress and egress exposures are huge risks associated with a wildfire event.

Wildfire risk mitigation practices range from basic protections to sophisticated plans. A successful wildfire plan includes hardening the buildings, brush management, public and private protection, water supply, and a defensible space. Of course, the necessary degree of these protections varies with size and the level of exposure of the insured.

Basic mitigation protocols should comply with National Fire Protection Association standard 1411 and include such protocols as a thorough brush/fuel management program, having ongoing consultations with the local fire department, the development of a clear fire plan, and ensuring adequate defensible space, among others. More sophisticated (and expensive) strategies may include sprinklering, deploying chemical retardants such as Thermo-Gel®, and employing onsite and/or private fire personnel and equipment.

Q: What types of questions are we getting from our broker partners? What are their pain points regarding coverage, and how are we responding to best meet their needs?

A: Capacity right now is tight. Brokers must piece together small limits with several insurers; they need to take into consideration the differing pricing, terms, and guidelines between and among insurers. A lot of the questions we get are around the California Fair Plan versus Private Insurance, in addition to questions such as, "Why do we cost more?" and "Why can't we attach excess?"

We use a consistent methodology to review wildfire risks, which is not based on RiskMeter. This is a key differentiator, as many insurers rely heavily on RiskMeter cutoffs. Because we use our proprietary modeling tool, we have both greater ability and increased flexibility when evaluating risks.