

Burning Issue

Are Canada's insurers prepared for a catastrophic wildland fire?



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The expert community has been warning with growing alarm of the rising risk Canada will experience large, intense wildland fires. Are Canadians and Canada's insurers prepared for a catastrophic wildland fire?

THE WILDFIRE THREAT

Fire is a natural process essential to maintain healthy forests and wildland ecosystems. It can also be a terrifying peril that threatens loss of life and destruction of property. Sustainable management of our lands to balance the benefits and the consequences of fire is a daunting but vital challenge.

Canada and the state of California have similar populations and property values. We have also shared an approach to wildland fire management that until recently had contributed to relatively little loss of life and only moderate property damage. Indeed, the vast majority of fires — about 97% in Canada — are contained to less than 200 hectares; the largest insured loss to date from a Canadian wildland fire was Cdn\$200 million from the 2003 Kelowna wildfire.

Over the past five years, however, three California fires have caused more than US\$1 billion each in property damage, evacuations of more than 500,000 people and an alarming loss of life (including firefighters). Decades with little loss of life and minimal property damage led to excessive confidence that a catastrophic wildland fire would not occur. The recent large losses are an important reminder to all stakeholders, including insurers, about

the risk of catastrophic wildland fires.

The 2007 California fires burned 200,000 hectares. The area burned in Canada each year fluctuates between 300,000 and 7.5 million hectares. Fires exceeding 1 million hectares have been recorded, primarily in the remote northern regions of western and central Canada. The 1825 fire in Miramichi, New Brunswick destroyed an area more than eight times greater than the 2007 California fires.

The area burned in Canada has been increasing. As in California, Australia and elsewhere, the increase in area burned in

Canada reflects a build-up in fuels and a shift to older forests due to decades of fire suppression and fire exclusion near populated areas. Success in suppressing a fire leaves fuel for more and larger potential future fires.

Climate change is bringing warmer and drier conditions; initial research indicates the area burned in Canada will likely double by 2040. Moreover, the health of Canada's forests is affected by insect infestations — such as the mountain pine beetle and spruce budworm — that in turn are affected by the weather and further add to the risk of large, intense fires.





The insurance industry has a proud tradition of promoting urban fire safety, including fire brigades and enhanced building codes. Yet insurers have largely been absent to date in promoting wildland fire loss reduction.

Moreover, climate change has brought more severe wind events that have taken down many trees in British Columbia, Ontario's cottage country, Nova Scotia and elsewhere, providing potential fuel for large, intense wildfires. Indeed, the Muskoka region of Ontario may present the largest current wildland fire threat in Canada, given the increase in property values at risk, lack of fire awareness and build-up of fuels.

Wildland fire on average affects 20 communities and 70,000 people each year in Canada. In 2003, 334 homes and 10 businesses were destroyed in British Columbia, and more than 45,000 people were evacuated. The potential impact in Canada, as has been demonstrated in

California, is much larger and growing rapidly. Massive investments have been made in recreational properties in Ontario and Quebec. Permanent and seasonal residences in British Columbia and Alberta have been increasing dramatically. Also aboriginal communities are growing rapidly. The property values at risk are large and rising.

Annual fire suppression costs in Canada are also rising. They currently average about Cdn\$500 million, and in some years have exceeded Cdn\$1 billion. The provincial and territorial governments own the vast majority of forests in Canada. British Columbia, Alberta, Ontario and Quebec account for 80% of fire management spending in Canada.

Current fire suppression capacity, however, is eroding due to aging aircraft and equipment, provincial and territorial budget constraints and the retirement of experienced staff.

WHAT INSURERS CAN DO

More fires and less suppression capacity means greater risk of large-scale, intense wildland fires. This is a crucial time for Canada's insurers to reassess management of their wildland fire exposure. Below are three ideas to consider.

First and foremost, the job of insurers is to conduct the business of insurance. Measure the risk of loss, charge a premium that reflects the risk and pay claims when they arise. One important lesson

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from the recent large California wildland fires is this: the absence of wildland fire loss claims in the past does not mean that there is no risk of future fire losses. Canada's insurers need to invest in models and other tools to provide an accurate measure of the risk. This information should provide support for decisions about the appropriateness of their reinsurance coverage; pricing, deductibles, replacement values and other elements of coverage.

Second, there is great scope for insurers to participate proactively in loss prevention efforts, ideally in partnership with public agencies and other stakeholders. The insurance industry has a proud tradition of promoting urban fire safety, including fire brigades and enhanced building codes, yet insurers have largely been absent to date in promoting wildland fire loss reduction. Most insurance policyholders do not appear to be aware of the growing risk of fire loss. As a result, some are making dangerous decisions about location and maintenance of buildings that further increase the risk.

Programs like *FireSmart* detail specific actions that property owners and communities can take to best manage their exposure to wildland fire. Insurers should be more active in promoting the sharing of this knowledge; also, they should seek to provide incentives to policyholders and communities that take action. In particular, policyholders with increased fire risk should be charged more for insurance coverage, while policyholders who proactively work to reduce their risk of loss should pay less.

Third, insurers should actively support policy initiatives to promote modern wildland fire management. In particular, insurers should support the wildland fire strategy developed by the Canadian Council of Forest Ministers. The strategy provides a bold vision to make Canada's approach to wildland fire management "among the most progressive in the world."

The strategy is built around three core elements:

- resilient communities and an empowered public;
- healthy and productive forest ecosystems; and
- modern business practices.

Perhaps the greatest challenge is accepting that current wildland fire manage-

ment practices need to change. These efforts have been successful over several decades in minimizing loss of life and destruction of property, but the losses in Kelowna and in California warn of a growing risk across Canada. Property owners, community leaders and other stakeholders need to become more involved in wildland fire management through the use of fire-resistant roofing, maintenance of a defensible space around each building and community regulations to control development. We need healthy forests supported by prescribed burns, thinning and proactive management of

insect infestations. We need firefighters trained and equipped to suppress fires that threaten our communities. And the insurance industry needs to actively manage its wildland fire exposure and work with other stakeholders to promote loss control.

Community leaders, policyholders and fire management professionals would welcome the active involvement of the insurance industry in the management of wildland fire risk. Together, we can effectively and sustainably manage the risk of a catastrophic wildland fire in Canada. 

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