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SPEAKERS

Mark Finchem, Zac Ziegler, Karen Collins, Michael Dauphinais, Christopher Conover, Steve Hawks, Craig Fugate, Nicole Cox, Tanya Mosely



Michael Dauphinais 00:00

Following is an azpm original production.



Christopher Conover 00:09

Welcome to The Buzz. I'm Christopher Conover. This week issues with homeowners insurance and wildfire. The cost of insuring an Arizona home is going up for many people. A report released this week by the Consumer Federation of America found that between 2021 and 2024 Arizona had the third highest rate of homeowners insurance premium increases in the country, going up by nearly 50%. And in recent months, homeowners across the state have taken to social media and written to elected officials about insurance companies either hiking rates significantly or refusing to renew their policies altogether. While the CFA report didn't mention a specific cause, the anecdotal reports routinely mention concerns about wildfire as the reason. Those reports prompted Arizona State Senator Mark Finchem to hold a hearing on the topic. He told The Buzz that he's heard from several constituents in his Prescott area district about a loss of insurance. We were able to find anecdotal evidence of similar problems on social media in Tucson's Catalina Foothills. Finchem says lack of intervention to remove fuel buildup and return Arizona's forest to a more natural, less tree dense state has been the issue. He took particular aim at environmental groups that sued to stop management.



Mark Finchem 01:41

so the Navajo nation and the White Mountain Apache, they're active land managers. And if you look at their forests, they look nothing like the forests that have blown up in fire in California, Oregon, Washington state, and even here in Arizona. I mean, you look at the Rodeo Chediski

Fire, some of the other fires that we've had here that are hundreds of 1000s of acres, and one of the big problems that we have is litigation that prevents different agencies, both federal and state, from doing the job of active land management.

C Christopher Conover 02:14

Finchem wants some sort of intervention, though he'd prefer the state act as an insurer for troubled insurance companies, often known as reinsurance, rather than a public insurer of last resort. He also thinks that a more long term nationwide solution would be something similar to the Federal Emergency Management Agency's flood Insurance program.

M Mark Finchem 02:37

Let's take a step back and look at what are the four catastrophes that we should be looking at to protect the community writ large. If you were to take earthquakes, hurricanes, floods and forest fires, for lack of a better term, all four of those are a different kind of insurance. But if that were housed under the Department of the Interior as a catastrophic reinsurance program. From a federal perspective, that is the long horizon solution where Congress is going to have to take a serious look at this. And instead of blowing stuff up and burning things in the Ukraine, perhaps they should redirect some of that money to here in the United States.

C Christopher Conover 03:19

As we were looking into this topic, we were told the Arizona Department of Insurance and Financial Institutions does not have any data on dropped homeowner insurance policies. We asked Senator Fincham about requiring some reporting to better understand the problem. He said he wants government out of the business sector as much as possible, but that data could be helpful, and came up with an idea relating to his proposal.

M Mark Finchem 03:47

If the insurance carriers want to have a government backstop, then they got to come to the table with something. And I think your idea of reporting probably needs to be at the individual level without identifying the homeowner and not even necessarily identifying the property that's involved. I think that that's an essential piece in the public policy realm for us to say, alright, at what level is the state going to be involved in promoting a reinsurance program? And I think even our colleagues at the federal level would need to have that just so they can scope how much money are we going to have to come in with this in order to alter the trajectory of these claims. Now, at the same time, I think that because of that, you're also able to plot that on a map and make sure that those properties that are being canceled have some sort of nexus with the catastrophic loss that the insurance carrier is claiming it's linked to.

C Christopher Conover 04:53

But ultimately, he would like to see much of the federal land in Arizona, particularly what's controlled by the Bureau of Land Management handed over to the state.

controlled by the Bureau of Land Management handed over to the state.

M Mark Finchem 05:03

That's why we have arrived where we are at today. So I believe that at the state of Arizona, we're given the opportunity to manage our own lands, we would probably be much more effective.

C Christopher Conover 05:14

To get the perspective of insurance companies on the issue. We now turn to Karen Collins, the Vice President of Property and Environmental at the American Property Casualty Insurance Association.

K Karen Collins 05:27

We have seen, unfortunately, a lot of cost pressures across the US that are impacting homeowners insurance costs and many other lines of business as well, such as auto insurance. Really those top factors is that we saw what was essentially a 40 year record inflation in the early years of the COVID 19 pandemic. But the insurance costs from inflation for property reconstruction replacement costs surged much higher in a period of two short years, jumping upwards of 50-60% Now, fortunately, these trends have come back down a little bit. They've stabilized, but on a cumulative basis, they remain up. Upwards of like 30% since the start of the pandemic. In addition to that, you have seen a lot of natural disasters across the US as more homes and communities are built in more areas. Certainly, Arizona has had a lot of growth in recent years, so as more people live and work in what have really been viewed as more expensive homes and buildings in some of these hazard prone areas, that's increasing the level of losses that we're seeing as an industry. And there's some other factors, things like unchecked legal system abuse, and in some cases, we're seeing regulatory mandates. All of this is making it increasingly more difficult for insurers to really prudently manage risk.

C Christopher Conover 06:42

So I'm a native Floridian. I worked the Florida capital for well over a decade. I was there through a lot of big hurricane seasons. Now I come out here we have wildfires. The insurance industry, the insurance company, is always painted as the bad guy when they go through and they start doing non renewals and things like that. Can you explain how those decisions are made?

K Karen Collins 07:11

Each company individually is regulated, certainly at the state level, with insurance regulators oversee to make sure that their insurance rates charged are not inadequate, that they're not excessive, and that they're not unfairly discriminatory, but most importantly, they also manage for solvency regulation, as we saw in the last five years, US insurers have incurred over \$500 billion adjusted to 2024 dollars in natural catastrophe losses. 73% of what has happened

globally from natural catastrophe is the insured losses, 73% have been here in the US. That's the costliest period ever for disasters in a five year period for US insurers. Now that's hit a little differently by state. You mentioned Florida, obviously very devastating hurricanes. We have seen in the West a really significant increase in wildfires. What that means is that you have seen companies that are experiencing the impacts of inflation disasters in whatever form it might be, in each state, individually and as companies individually have to replenish what we call their surplus capital reserves, think of as your savings account to pay future losses. Companies have been stressed financially through this period of bad inflation that's hitting not just natural disasters, but your everyday claims as well. Your roof leak from wind and heavy rainfall. There's a lot of losses in wind that other impacts from disasters we don't think about from some of the media headlines, but they're still drawing on capital, and companies are having to replenish that capital. Now, we got to bear in mind, Arizona, we have seen a number of really significant losses from drought. If you look at NOAA, they've actually identified, I think from what I saw recently, is that the Arizona had some like \$5 billion weather events recently, just from drought. That might even be higher from I forgot to pull up the numbers for today. But when you have severe drought like that in these higher heat cycles, it's adding to wildfire risk. And we're seeing these events across the West, and they are actually more significant losses, just because when a wildfire impacts a home, there is usually nothing left. So companies are having to look at what capital they have. What is the risk on the ground? What's the overall exposures we have more communities, you know, in the state of Arizona, and do they have enough capital to lean into that?

C

Christopher Conover 09:33

Let's take homeowners insurance in Arizona, if I live in an area the foothills of the Catalina Mountains here in Tucson, right up against the for the National Forest. And I make my home fire wise, but my neighbors don't, and we have the same insurance company. How do they make the determination we're not going to rewrite? Is it this whole neighborhood, geographic region, and or is it No, you did the correct thing, you didn't. So one of you wins, and one of you needs to go find somebody else.

K

Karen Collins 10:10

So companies are looking at a handful of things they they're looking at their overall portfolio as far as kind of where are they concentrated? Are they diversified enough, and what is the capital they have available to essentially, you know, place bets on the table of where they can write business. Some companies may just not be in a position financially to write in high risk areas, irrespective of it, just because of the dynamics of the market cycle right now. Other companies that do have that capital position, they're able to lean into that. They're likely going to look at, you know, what is the risk for each property individually? Is that an attractive risk? Have they done the appropriate steps for mitigation in a wildfire prone area? They're looking at the structure that, you know, is the roof non combustible, because, as embers settle, all the roofs one of the first things to ignite. They're looking also at the vegetation and things around your home that five feet of defensible space companies are beginning to look at these. But it is unique with wildfire in that unlike tornadoes and hail and hurricanes, homes that are built really close together do have a risk that you do share. And so there is some unique considerations that if you have a home that's five feet right next door to you, and they haven't, you know, taken steps and that home catches on fire. We're seeing in some of these big conflagration

losses that even the radiant heat or the flames and high winds, those flames are no longer vertical. They become more horizontal as they bend down the winds and they ignite the home next door. And so there is community scale risk that we have to be mindful of, and why it is important that not just you but your neighbors, as they are in close proximity, are also taking similar steps.

C Christopher Conover 11:49

All right. Well, thanks for spending some time with us.

K Karen Collins 11:51

Happy to be here. Thanks for the opportunity.

C Christopher Conover 11:53

That was Karen Collins of the American property casualty insurance Association. You're listening to the buzz, we continue our look at how wildfire danger is affecting some homeowner insurance. After the break, stay with us.

T Tanya Mosely 12:11

This is Tanya Mosley, co host of fresh air. You'll see your favorite actors, directors and comedians on late night TV shows or YouTube. But what you get with fresh air is a deep dive. Spend some quality time with people like Billie Eilish, quest love Ariana Grande, Stephen Colbert and so many more. We ask questions you won't hear asked anywhere else. Listen to the fresh air podcast from NPR and W, h, y, live.

C Christopher Conover 12:41

Welcome back to The Buzz. I'm Christopher Conover. This week, we're looking at concerns over how wildfire is affecting people's ability to insure their homes. Insurance companies have a financial interest in mitigating the damage that natural disasters can cause to property. That interest is part of why they fund the nonprofit Insurance Institute for business and home safety. That group researches best practices to mitigate dangers that could cost insurers millions of dollars and save property in the process. Steve hawks is the institute's senior wildfire director. He spoke with the buzz producer. Zac Ziegler,

Z Zac Ziegler 13:23

so wildfire risk is becoming a bigger issue with each passing year. What is it that's causing this? Is it you know, increasingly arid conditions, the fact that we in the American West seem to want to build neighborhoods that make people feel like they're in nature, out of date building codes, something I'm not thinking of?

S

Steve Hawks 13:45

Yeah, all the things that you mentioned, and more, it really comes down to three factors that we've really narrowed in on that set the table for conflagration to develop, and that's drought that occurs at any scale, making the wildland fuels more receptive to the ignition of a fire and spread of the fire, and then strong wind event that leads to the extreme fire behavior that you get under those conditions, and then a fire that starts close by a built environment, like a neighborhood or community where the fire then is quickly pushed by the dry fuels and the strong winds into that community and then begins to ignite, really, it's the older existing communities where we have homes that predate building codes for wildfire resilience, and starts to ignite them and then really spreads through the community.

Z

Zac Ziegler 14:37

When it comes to wildfire, there are obviously factors that are out of our control. Since this is something that has a lot to do with nature, what are some of the things that are just outside of human control with this?

S

Steve Hawks 14:49

Well, the wind and weather is things that we really can't control. The one factor that we do have control over is the fuel. And when we talk about wildfire, fuel is anything that can burn in the natural environment. That's the vegetation in the built environment. It's really those urban fuels, homes, structures, natural vegetation, ornamental vegetation, and even boats and vehicles and RVs and fences and things that maybe people don't necessarily think can aid in the spread of the fire within the built environment.

Z

Zac Ziegler 15:23

The federal government's role in this situation. We had decades of bad forest management that said there's no good fire that allowed a lot of fuels to build up. Is our current situation just us kind of paying for the sins of our fathers in the fire world?

S

Steve Hawks 15:39

Well, I think, you know, allowing the fuels to build up aids in the issue that we're in with wildfires. But I think also climate change is a big driver of that, leading to more extreme weather events, periods of drought and so forth. And when, once you get the ignition of the fire and it spreads into the built environment, the wildfire that's still burning out in the wildland areas is still occurring, but it's really the fire that is in the built environment that is no longer really a wildfire. It's an urban fire burning those urban fuels that I mentioned.

Z

Zac Ziedler 16:14

Zac Ziegler 16:11

So let's start talking a little bit about what people can do about this. What are the low hanging fruit when it comes to protecting homes, businesses, other structures from wildfire?

S

Steve Hawks 16:27

So we really look at focusing on that fuel component and looking at the area that surrounds the house, and in particular the first five feet, which we have come to determine is the most critical area for defensible space or reducing the exposure that the house will receive from the wildfire. And so it's removing all the combustible items within that first five feet, so that if the embers that are produced by the fire can't land in that zone and ignite even a small fire that could potentially get to a vulnerable component of the house, and then it's replacing vents from there. When they have mesh that is a quarter inch, or even just greater than an eighth of an inch, then that allows for embers to pass through into the inside of the house. The roof is, is not low hanging, but it is, has to be mentioned, because when it's a wood shake roof or shingle roof. It's the most significant vulnerability to the home, and it needs to be addressed. And we also look at the first six inches where a horizontal and a vertical plane come together. So that's the ground and the base of a wall.

Z

Zac Ziegler 17:37

Changing how we build our homes our buildings is something we often hear about with fire safety these days. You know, you were just talking about how we're making buildings safer also can make them more expensive. You know, I think back to an interview we did, like a year ago, with an apartment builder who said that since 2012 his his cost of building per unit has tripled or even more. Are there cheap changes that we should be requiring of new homes?

S

Steve Hawks 18:09

Well, it's really about making the home more resilient in the materials that are used in the exterior to the exposure that it will receive from the wildfire. So some of that comes down to the material choices that homeowners and builders can use in the construction of the home. So give you a roof example. The Class A roof is the highest rating for exposure to wildfire, and you can have different materials, like fiberglass composition roof shingles, you could use clay tiles, concrete tiles, metal so there's different choices that you have, and each of those has a different price point. And we teamed up with the Headwaters E to produce a couple different cost studies that look at the cost of new construction, and one of them was in Montana, the other in California. And looking at the cost of using baseline materials that comply with the building code up to the optimum materials, and we found that it's about 3-7% added cost from building just to the code.

Z

Zac Ziegler 19:21

So thinking about the homes we typically see built in that wildland urban interface, they tend to not be starter homes, affordable housing. They tend to be nicer homes, with a little space kind of on the higher end usually. Do we need to worry about requiring more costly building codes

when that's the kind of housing we're seeing, or should we be more focused on safety in this instance because these aren't the homes at the bottom end of the market?

S

Steve Hawks 19:54

Well, we really need to be focused on making sure that the homes are built to be able to have the best chance. Survival that allow the people to return to a home after the wildfire passes through, and also allows the homeowner to have a better chance of getting insurance and maintaining insurance and making the home more insurable.

Z

Zac Ziegler 20:17

Steve, thanks very much for taking some time and chatting with us today.

S

Steve Hawks 20:21

Absolutely thanks for having me.

C

Christopher Conover 20:23

That was Steve Hawks of the Insurance Institute for Business and Home Safety speaking with Buzz producer Zac Ziegler. We've heard people mention a state run insurer of last resort during this episode. So what does such a company look like? Craig Fugate was the director of Florida's Division of Emergency Management when that state launched its own insurer of last resort, Citizens Property Insurance in 2004 two years after the legislature approved the formation of Citizens. Fugate oversaw the disaster response to four hurricanes. At the time it was the largest federal disaster response in Florida's history. From Florida, he went to the nation's capital to run the Federal Emergency Management Agency during the Obama administration.

C

Craig Fugate 21:12

Florida and California were probably the two that began, Florida for wind, for hurricanes, and California for earthquakes. And prior to that, going back to the 60s, the federal government's been providing flood insurance. When the commercial industry walked away.


C

Christopher Conover 21:29


When you and I knew each other in Florida, it didn't seem like the insurer of last resort for Florida citizens was used, maybe as commonly as it is, do we find that over time, I know the federal flood insurance anybody in a flood zone is going to use that, but nationwide, are those insurers of last resort becoming, like a better term, more popular?

C


Craig Fugate 21:57

 Craig Fugate 21:57

I wouldn't call them popular, but I think they become necessary. As the insurance industry is unable to either provide products or provide products that are affordable. States are finding that this becomes a huge issue and growth. If you can't insure new construction, people can't get a mortgage, and this is really true in Florida and other places where they got the mortgage, and they got the financing, and then when they got their insurance, they couldn't close. It was too high, or in some cases, it just wasn't available anymore. And so states are, in many cases, finding that pressure from builders and developers and realtors to provide affordable insurance or just make insurance available versus the increasing burden that the taxpayer takes on by backing those I mean, there's nothing magical about these insurers at last resort. Ultimately, they're backed by the state taxpayer.

 Christopher Conover 22:54

You ran Florida's Emergency Management Agency more than two decades ago. I hate to make you and I age that much, and then you went and ran FEMA, it seems like fires, hurricanes, tornadoes are causing more damage. How much of the damage we're seeing now from natural disasters across the country as a result of bad construction practices versus worsening disasters?

 Craig Fugate 23:27

Well, I wouldn't want to just, you know, say it's bad construction. I think it's construction in many cases, based upon building codes that really address past hazards and aren't keeping up with the growing risk. Where we do have states that have been aggressive in their building codes across a variety of hazards, we are seeing at least survivable structures. Even in Florida, when we had the most recent hurricanes, we had significant tornado outbreaks. The homes that were built to new construction were actually survival. And what we see more so in Florida is with our better building codes, is more and more of our damage is actually caused by water, and especially as we see growing wildfire risk, we see growing wildfire risk on the West Coast. We do have wildfire risk in Florida. I can remember 1998 with the lake Governor Charles, we had of our 67 counties, over 50 of them were burning. This is something that is drought driven. Much of our construction practices were more about esthetics and not about being resilient in wildfires. And as we see this term people use called the wildland urban interface, where we continue to build into areas that have fire threat during droughts and extreme weather conditions, we can see catastrophic housing losses. And I think that's why the insurance industry is finding it difficult to ensure it used to be wildfires for something were built in, house fires were built in. They could manage that. But we're seeing now there is no season on the west coast. It's literally year round, depending upon drought and wind, and as we continue to see. That insurers are having a hard time making products that make sense given the risk, and so in many cases, because rates are controlled by the state insurance commissioner, they're kind of stuck in they can't raise the rates high enough to cover their exposure. The alternative is right policies at a loss, in a potential loss, and where this really gets behind the scenes. For a lot of people, they think of their insurance companies, that's who's providing all of the resources, and it isn't they're going out on the international market and buying reinsurance, and the reinsurance market has been getting clobbered, and so the cost has gone up. Investors who make these investments that provide the funding for the insurance are looking for reasonable returns. They're not saying they won't pay out, but when the payouts are exceeding

the revenue, they're going to move the money somewhere else. And that again, drives up the price of insurance, because they have to offer higher and higher rates to attract those investors to take that risk.

C Christopher Conover 25:56

And all of that, as you were talking about, also comes into play with those insurers of last resort, because the state only has so much money. Because, as you said, it's all taxpayer money, and I assume they're going out on the reinsurance market also.

C Craig Fugate 26:13

Well, citizens does a combination of things. They build their reserves up when they don't have to pay out. They do use reinsurance to a certain point, but in the event they have a catastrophic loss and they don't have the funds to pay out the claims, they'll issue a bond to pay those claims. The way they finance that bond, and the way they can write that bond is they have the authority to put a surcharge on every insurance policy in Florida, including those for your car and other activities that aren't related to homeowners insurance. You know, after the oh four hurricane season, we had little surcharges across our insurance for paying out those four hurricanes. That's how they are able to run these programs, but it's with a guarantee that the state has a financing mechanism that would guarantee payment and allow them to write bonds, make the payments, and then put the charges on everybody's policies until that is recovered. All right.

C Christopher Conover 27:09

Well, thanks for spending some time with us. Thanks for having me. That was Craig Fugate, the former head of FEMA, and that's the buzz for this week. you can find all our episodes online at azpm.org and subscribe to our show wherever you get your podcast, just search for the buzz Arizona. We're also on the NPR app. Zac Ziegler is our producer, with production help from Maggie farmer, Our music is by enter the haggis. I'm Christopher Conover, thanks for listening.

N Nicole Cox 27:57

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