

# Yarnell wildfire: Sifting lessons from the ashes

Homeowners should examine their insurance and preparedness

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Homeowners insurance is a relative bargain in Arizona, with people around the state paying about 27 percent less for coverage than Americans generally.

The devastating Yarnell Hill wildfire and other blazes in recent years aren't likely to change that.

Insurance questions rise to the surface when natural disasters make headlines — whether in the form of fires, hurricanes, tornadoes, floods, earthquakes or other calamities. It might seem that the perils would increase as more people buy or build homes in vulnerable areas such as rural highlands surrounded by flammable trees or plains of dry brush.

Yet insurers take a long and comprehensive view. Property damage and losses from wildfires in lightly populated areas haven't had a major financial impact on the companies. Microbursts and other strong windstorms that occasionally pepper the Phoenix metro area pose more of a financial risk, and even that is fairly minor compared with the devastation wrought by earthquakes, tornadoes and, especially, hurricanes.

No wildfires rank anywhere near to being the nation's most costly natural disasters, yet 11 hurricanes have caused \$5 billion or more in damage, topped by Katrina in 2005.

Natural disasters in other parts of the country generally don't affect premiums here, just as Arizona wildfires don't push up premiums elsewhere. Insurers typically focus on in-state hazards when setting rates. It's also worth noting that the insurance industry has operated at a profit every year of the past two decades except for 2001, when big payouts were made after the Sept. 11 terror attacks.

Arizona residents pay an average of \$666 for homeowners coverage compared with a U.S. average of \$909, according to PCI, the Property Casualty Insurers Association of America. In addition to natural disasters and other risks, prices, or premiums, for coverage are determined by property values, building costs and other factors.

"Premiums in Arizona are significantly below the national average," said Kelly Campbell, vice president of state-government relations for PCI, an industry group. Aside from fewer catastrophe losses, she cited a growing and competitive market in Arizona and favorable regulatory climate as factors helping to keep costs down.

As for the Yarnell fire, insurers "expect these sort of things," Campbell said.

Nicole Farr, community-relations manager for the Arizona Insurance Council, said she hasn't heard of insurance-related complaints in and around Yarnell and predicted premiums aren't likely to rise throughout the state as a result of the blaze.

## Disaster impact

Damage from catastrophes did jump in Arizona in 2010 and 2011, when the state was hit by an unusual number of hailstorms, windstorms, fires and similar events. Catastrophes accounted for 54 percent of

claim dollars paid out in Arizona in 2010 and 57 percent in 2011, according to the Property Casualty Insurers Association.

Yet that came after several straight years when catastrophes accounted for less than 10 percent of insurer disbursements. Figures for 2012 and 2013 aren't yet available. If Arizona sustained many years of unexpectedly high losses, that would push up rates, but industry officials say we're not at that stage yet.

Even more volatile weather from global warming hasn't resulted in rate increases, though insurers are watching this trend carefully.

Natural hazards aren't the only risks that affect premiums. Many other perils can result in a claim, such as mold damage from a leak, water damage from a porous roof or somebody slipping on your walkway or getting bitten by your dog.

Premiums aren't significantly higher in rural areas compared with cities, insurers say, in part because other dangers there such as vandalism are less. Nor has there been an industrywide movement to restrict people from living in fringe areas.

"Our philosophy is focused around risk mitigation rather than trying to reduce building in wildfire areas," Campbell said, citing proper building codes and improved firefighting procedures as factors that can reduce claims. "Fires in general account for only about 2 percent of the industry's losses."

Risks are only part of the premium equation. On the revenue side, insurers can't charge a lot more than the market will bear, and Arizona's insurance landscape is considered highly competitive.

In states where natural disasters pose special threats, standard homeowner policies don't always cover those risks, requiring residents to purchase supplemental insurance if they're willing to pay extra. California, for instance, has a state-administered earthquake-coverage program, and special hurricane protection is available in Hawaii and various other states for those who want it.

### **The Yarnell situation**

Mary Butterfield, an assistant director at the Arizona Department of Insurance, said her agency hasn't received widespread complaints about insurance not being available in rural parts of the state or available only at exorbitant prices. However, a couple of situations foster frustration.

One is that insurers typically stop writing new policies in an area where and when a fire is burning, meaning procrastinators won't be able to secure coverage during these moratoriums. Another contentious situation is when insurers order homeowners to create defensive barriers or make repairs or improvements yet owners fail to comply. In such cases, a company can cancel coverage.

Butterfield said her department hasn't received many complaints related to the Yarnell blaze, though she said a few residents were confused about what their policies covered, while others realized belatedly that they didn't have sufficient coverage.

Property damage from the Yarnell Hill Fire hasn't been fully tabulated and insurers aren't releasing dollar totals, yet the state's dominant companies aren't reporting anything particularly unusual.

State Farm received about 60 claims, half of which involve heavy structural damage or total losses, said Angela Thorpe, a spokeswoman for the company. Farmers incurred about 70 claims, said spokesman

Mark Toohey. About one-third of Farmers' claims are for mobile homes, which typically aren't as costly as fixed structures.

Allstate hasn't provided a tally, but spokeswoman Chelci Vaughan said the company has only a modest number of policies in the area and "a low number of claims in general."

Most claims don't appear to involve destroyed homes. Insurers also pay for smoke or water damage to belongings, temporary lodging for people forced to evacuate and other expenses.

"We've had 10 claims, all of which are for smoke damage or fire-retardant damage," wrote Sandra Spann, a spokeswoman for American Family Insurance, in an e-mail message.

State Farm, American Family, Farmers and Allstate are the largest insurers providing homeowners coverage in Arizona, with roughly a 44 percent combined market share.

Based on this situation, it's unlikely that premiums will rise significantly for Arizonans, if at all, as a result of the blaze. The amount of insurable damage and expenses might reach a few tens of millions of dollars, but that's minor compared with the \$1.25 billion in homeowner premiums that insurers operating in Arizona took in during 2012.

"Yarnell is a small piece of the overall puzzle in terms of any rate changes," said Vaughan, adding that insurers set premiums to compensate for future claims, not losses already sustained.

Kathy Montgomery, a volunteer for the Yarnell Hill Recovery Group, said she has learned of only a few insurance-related complaints. One of those, which initially involved payment to the wrong person, is being corrected, said homeowner Fred Brown.

At a recent Yarnell-area workshop focused on insurance, only about 10 people showed up, said Montgomery, who lives in the area.

### **Focus on precaution**

Still, the tragic Yarnell Hill blaze provides reason for a refresher course, especially for city dwellers who buy retirement or summer homes in rural locations.

Anyone who has shopped for homeowners insurance knows that policies can be complex. But it essentially boils down to this: You'll pay more — and might even have trouble getting coverage — if you live in a high-risk area and don't take reasonable precautions.

Certain hazards make rural living more of a problem in terms of insurance. Nearby vegetation, including dried brush, can fuel a blaze. Hills and mountains pose barriers for fire crews and serve as chimneys, funneling the direction that hot air moves. Narrow roads and limited access to water pose additional hurdles. Untreated shingle roofs can nurture a stray ember.

Insurers like to see defensible space — areas cleared of vegetation, chopped wood and other debris — of at least 30 feet from a home in a flat area, up to 200 feet in mountainous terrain. They advise trimming branches away from roofs and clearing roofs of dead leaves. It's good to have an evacuation plan for getting pets, documents and other valuables out of the home.

Last year, more than 20 fire-department officials from rural Arizona huddled with forestry officials and insurance-company representatives at a special forum on combating deadly and destructive blazes. The summit was held in Eagar, where the 2011 Wallow Fire was fresh in everyone's memory.

The forum "provided all concerned with lessons learned from Arizona's wildfires in 2011, the largest in the state's history," Scott Hunt, the state forester, said at the time.

Unfortunately, the lessons need repeating. Many of the homes and other structures in and around Yarnell were't properly protected by defensive perimeters — 89 percent appeared to have been in direct contact with trees or shrubs, according to a photo-map analysis of the area by the Pacific Biodiversity Institute in Winthrop, Wash.

"Simple and inexpensive measures, like keeping flammable vegetation away from homes, can have a real impact on the ability of a home to survive a wildfire," wrote the study's authors, Peter Morrison and George Wooten. "We concluded that the residential communities of Glen Ilah and Yarnell were not well prepared for wildfire."

### **Affordability issues**

Another critical issue for homeowners is simply keeping policies in force and up to date. If you have a mortgage, your lender will require you to purchase insurance, yet some people who own homes free and clear let their policies lapse.

"After the Rodeo-Chediski Fire (in 2002), we saw a lot of that — people who had paid off their properties and who had limited incomes didn't keep up their insurance, sadly," said Butterfield at the Department of Insurance.

If you have a mortgage, you can't avoid having insurance. "The lender will buy it for you, and you'll pay for it," she said.

But this isn't the best way to obtain insurance — partly because it might cover the structure only and not belongings, for example.

Lapsed coverage also has been a problem in and around Yarnell, where about 30 percent of the damaged homes were uninsured, according to the department.

"That's not unusual in rural areas," Butterfield said. "People often move to these places because they're cheaper, and insurance is just another expense."

Butterfield said she isn't aware of any programs in Arizona that offer subsidized homeowner policies for people facing a hard time making payments.

Some of the charitable donations being raised in response to the fire will assist these people. The Arizona Community Foundation, for instance, already has raised about \$700,000 in a fund that will address a number of relief and rebuilding priorities in the Yarnell area.

Donations clearly would be welcome for uninsured homeowners, although critics have warned that they could have the unintended consequence of encouraging others not to keep their policies in force.

### **What's in a policy?**

Standard homeowners-insurance policies typically insure your home and adjacent structures, along with personal belongings. They often pay for incidental expenses, such as the cost of lodging for you and pets if you must evacuate or the home is damaged and becomes unlivable. There's also a personal-liability component — largely covering accidents to others at your property. Insurance also makes medical-related payments if someone is hurt on your property, including by pets.

If you install fire alarms, sprinkler systems and other safety features, your insurance company likely will reward you with a discount.

Homeowners should periodically assess their property value and belongings. They should notify their agents about notable changes such as a room addition, swimming pool or even new carpeting. Insurers suggest buying replacement-cost coverage rather than insuring the actual costs of items. Actual costs are reduced by depreciation or wear and tear. Unless you have replacement cost, your policy might not cover a complete rebuilding.

### **Policy checklist**

Insurers recommend evaluating your homeowner policies once a year and asking these questions:

Would your policy cover the full cost to rebuild a home, including rising expenses for materials?

Would your policy pay for other expenses, such as hotel rooms, meals and even pet lodging if you had to evacuate, repair or rebuild?

Have you alerted the company to any recent improvements, such as a remodeled kitchen, new carpeting or addition of a swimming pool?

Have you made improvements that protect your home, such as upgraded electrical or plumbing systems, anti-theft alarms or fire sprinklers? Such additions could qualify you for a premium discount.

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