Burand's Insurance Agency Adviser

Resources and Information for the P&C Insurance Industry

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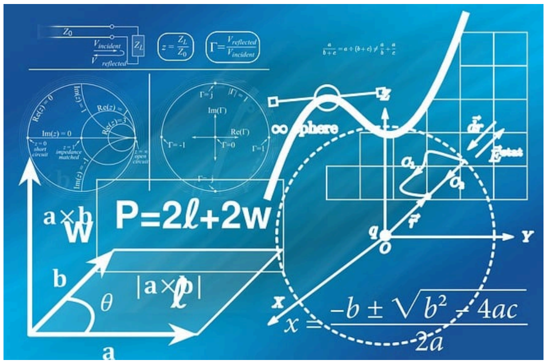

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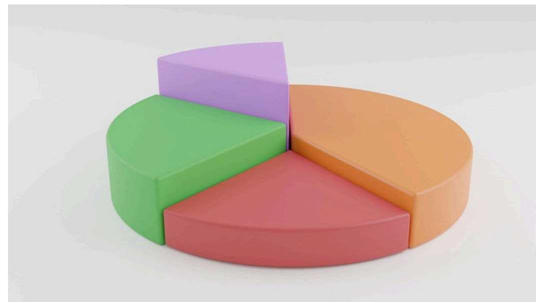
Read more...



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Read more...

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B&A

Underwriting Wildfire Risk

It is not rocket science.

I read an article about a new MGA using “dynamic” modeling software to identify wildfire exposure and proactively make recommendations to mitigate damage potential. That sounds awesome. It’s also an unnecessary expense.

Everyone is so wrapped up in technology that they have forgotten how simple property underwriting really is. I recently wrote an article stating carriers are lazy, and they are. A reader was upset I said this, and went on to say how great predictive modeling is. He did not understand the oxymoronic point he was making. Predictive modeling in property is indicative of laziness. Carriers are using predictive modeling so their underwriters don’t have to think.

The reader continued to emphasize the success of predictive modeling. Predictive modeling, overall, and maybe some models are better, has failed to date with property. If it worked, carriers would have made money over the last five years, the industry would not have a hard market, and the industry would not have experienced such highs and lows. Results would be more consistent and better if predictive modeling worked.

Praying to the god of technology so one does not have to think is lazy.

Another reason for using dynamic modeling, according to the pitch, is how fire exposure changes over time. It does, but it does so slowly. A forest does not grow overnight. Inspections or reviews of updated maps every five years are sufficient and less expensive. Typically, the worst that happens is someone does not mow their grass, and the grass dries out.

The previous point is important for underwriting property the old-fashioned way for two reasons. The first reason is that a number of municipalities and their environmentalist friends prohibit mowing grass on public property, i.e. “rewilding”. They act as if this is all beneficent without a trade-off, but making something look wild in an artificial setting (urban parks looking wild is an artificial setting) has the trade-off of increasing wildfire danger. The homeowner living next to that park cannot do anything to minimize that risk other than to move.

Second, if the homeowner does not mow their lawn because maybe they are lazy, they have a health issue, or they are rewilding their lawn, that is a different issue. They can control it, and a choice can be given. Mow the lawn or lose your insurance.

Quality property underwriting is simple. Either the insured, in personal or commercial lines, has pride of ownership or they do not. If they do not have pride of ownership, the risk increases in both frequency and severity.

For fire exposure, old brush maps are more accurate than what I’m seeing technology companies provide. The technology companies are being paid to identify fire zones with some specificity. The maps they paint look more like what results from a house painter’s brush rather than a fine-tip natural sable brush.

This means carriers are losing opportunities to make a lot of money writing quality accounts because they're too lazy to think things through. I don't consider these points opinions but facts based on real-world field work and researching actual carrier financial filings.

Again, this is not rocket science. Plenty of data, simple instructions, and guides have all been published showing how to mitigate wildfire exposures at the homeowner level. Clear combustibles, get rid of wood fences, take steps to minimize the combustibility of the house itself, and so forth. Most of the recommendations involve labor and not a lot of money for most people.

If the area itself is just too risky, what else can the insured do? Years ago, I executed a fire risk management program for homes in PC 10s. It worked like a charm because I was willing to think.

However, there may be something else going on that carriers don't really want to discuss, adding to the problem. They may not have enough surplus to write so much property, so they use a broad brush to paint huge areas as wildfire risks when it is not accurate. When you wonder if carriers are really in the insurance business, as in, "Do they really want to insure anything?", a good probability exists they have run out of operational surplus. Their TIVs got out of control, and they don't want anyone to know it. And wildfire is an excellent excuse to get people to look in the wrong direction.

The California fires were awful. The state DOI has been adding fuel to the fire for years, as have their environmentalists, by focusing on things other than human life. But insurance can be a godsend when done well. I hope new markets develop that are willing to think through wildfire risk, that stop depending on technology to think for them, and that provide a solution to homeowners exhibiting a high level of pride of ownership. Let's help those who help themselves rather than writing off homeowners' insurance entirely.

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How Important is Insurance?

In the March 28, 2025 edition of *Carrier Management*, the synopsis of a study by the Insurance Research Council stated that 33.4% of drivers were either uninsured or underinsured.

A 2022 survey by the American Property Casualty Insurance Association identified that the majority of homeowners have not even considered increasing their values, given building inflation. Another 2022 study by Cape Analytics identified that approximately 67% of homes are underinsured by an average of 22% (ask yourself what the coinsurance threshold is). A 2022 study by Hub identified that nearly 60% of home and auto consumers are concerned they do not have enough insurance (and they probably don't).

A 2023 study by Hiscox concluded that 75% of small businesses do not possess sufficient insurance.

And if you think this so far is damning, there’s more:

Depending on the source referenced, 84% to 90% of the value of companies listed on the S&P is in intellectual property and brand reputation. For insurance distributors, like agencies, the percentage is even higher. And the insurance industry insures just over 0% of the value. Agents are in the insurance business, and their most valuable asset is uninsured data.

These numbers do not address huge deductibles and major exclusions. Maybe it is safe to say insurance is now purchased to comply with banks and governments, but it is not purchased as a risk management tool.

Which makes this hard market perplexing because if insurance companies cannot manage to make money not insuring a majority of corporate risk and likely not insuring the worst personal lines risks, and charging full price for underinsured property, how incompetently are carriers managed?

In auto insurance, with a third of drivers inadequately insured, agents should be emphasizing UM/UIM coverage as much, maybe more, than liability because a good probability exists that a correlation between drivers more likely to cause accidents being under or uninsured is high.

Given the large proportion of the economy that is now uninsured or underinsured, and the high price of insurance, which only exacerbates the problem, a legitimate question exists relative to whether the entire insurance industry needs to be rethought. Insurance is useless if it is unaffordable or unavailable.

We’re just inviting the government to solve the problem. This is especially problematic given that insurance companies made almost three times the normal profit in 2024. They’re making huge profits in this market while consumers cannot afford regular insurance, in some cases they are not offering property insurance, and carriers are not offering the coverages businesses truly need. At a minimum, the optics suck.

The encouraging part is I’m seeing some innovation that bypasses the regular carriers who have been coasting along, not really offering value, and not insuring what needs to be insured. Along with the consolidation of distributors, those carriers’ futures are limited.

Distributors too though have a limited future because who needs an agent that does not offer the applicable coverages (see my multiple articles on how few agencies use coverage checklists) even if available, much less if the insured cannot afford insurance or is simply too frustrated with the limited coverage available and decides to go naked and self-insure? There is not much commission in $0 premiums.

The entire industry needs to be re-engineered to provide value at a reasonable price. And if a reader wants to bring up nuclear verdicts and trial attorneys, I have two suggestions. First, finally decide to invest in higher quality lobbyists because the insurance industry's lobbyists have largely been failures for the last 30 years. Look at the track record and the trial lawyers' success if you doubt me. If insurance lobbying was better, trial attorneys would not be achieving nuclear verdicts.

Second, quit insuring trial attorneys and offering judgment protection coverage so that you're not trying to have your cake and eat it too.

The industry is walking dead in its current configuration. The opportunity to provide real value, the need to provide real value, and the consumers' appetite for real value at affordable prices are higher than ever. If you have the desire to offer invovative solutions to fill this gaping void, let me know. I'd love the opportunity to help. I have the insights, tools, and data to help you achieve your goals.

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Chris Burand is president and owner of Burand & Associates, LLC, a management consulting firm that has been specializing in the property/casualty insurance industry since 1992. Burand is recognized as a leading consultant for agency valuations and helping agents increase profits and reduce the cost of sales. His services include: agency valuations/due diligence, producer compensation plans, expert witness services, E&O carrier approved E&O procedure reviews, and agency operation enhancement reviews. He also provides the acclaimed Contingency Contract Analysis® Service and has the largest database and knowledge of contingency contracts in the insurance industry.

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