



## Viewpoint: Reinsurance Solution Would Help Homeowners Exposed to Wildfires Face the Challenge



Wildfire has become an increasingly challenging threat in many Western States. With an ever-increasing frequency and intensity, this continues to pose a serious threat to lives and properties across the exposed area. Wildfires are occurring earlier in the season and emphasizes the longer period it takes to suppress and the greater losses it inflicts in the western United States.

Addressing the challenges and mitigating their adverse effects requires a collaborative effort by all stakeholders.

G.J. Sullivan Co., Reinsurance, a California-based insurance and risk management firm, is one of the companies working to find ways to help homeowners exposed to wildfire, such as assisting vulnerable communities to be better equipped to mitigate and insure any unforeseen events related to wildfires.



Gerald J. Sullivan

Statistics show a 125% increase in the number of populations exposed to wildfire in the continental United States over the past 20 years. However, not all traditional insurance companies have the financial capacity or underwriting appetite to provide adequate support. This points to a need for comprehensive support for those who are exposed, such as an alternative to traditional insurance solutions.

To address the issue, the G. J. Sullivan Co., Reinsurance recommends a non-traditional insurance solution. Due to the exposure and huge costs in wildfire events, traditional insurance companies are generally no longer an available solution for the problem. The company suggests establishing a pure captive insurance company owned by the homeowners' association of the homeowners exposed to the peril of wildfire.

Being an effective alternative to traditional insurance companies, pure captive insurance companies are created and owned by homeowners' associations with legally segregated assets and liabilities. In addition, the HOA captive can offer insurance products and can have access to reinsurance markets like any other insurance company. This approach facilitates insurance availability to members of the homeowners' association and can potentially provide insurance protection to the commercial properties owned by the homeowners' association. HOA captive insurance companies are authorized by their state's insurance departments.

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The challenges faced by stakeholders including both homeowners and insurers in wildfire exposed areas are huge. Between 2019 to 2021, the cost of rebuilding has increased by 55%, pushing insurance companies and homeowners into a vulnerable situation. The significant 30% surge in insurance rates recently reflects the risks faced by insurance companies and has driven many to withdraw from insuring wildfire-exposed properties due to the high probability of loss coupled with high impact of loss.

Several major insurance carriers in California are no longer writing new homeowner policies. Considering the forecast of an increased number of wildfire events and the probability of climate change effects exacerbating the intensity, the need of the hour is to act proactively.

Partnerships with several key technical experts, including wildfire assessment and mitigation companies, actuarial consultants, captive managers, and fronting insurance companies, can help to make the process easy and effective for HOAs. Core services provided when creating a pure captive company include consulting to identify the key risk management participants and coordinate all the activities. There may also be reinsurance support for the captive insurance companies created by the HOAs and parametric insurance as needed.

A key part of the process is to conduct a comprehensive community-wide assessment of all properties, according to Jerry Sullivan, chairman of the G.J. Sullivan Co., Reinsurance. This assessment can help identify the specific mitigation needed to reduce the community's vulnerability to wildfire, to both vegetation and structures, and creates a plan to ensure a continued insurable state of the properties by undertaking proper maintenance. Sullivan added that the data developed by the assessment is utilized by actuarial consultants to conduct a financial analysis that models the HOA's overall loss potential, which determines the capital structure of the HOA Captive.

Sullivan says that establishing a pure captive insurance company for HOAs is one way to address the ongoing issues of wildfire in a more effective way. For more information, visit: [www.gjsre.com](http://www.gjsre.com).

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