

Lloyd's

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The worst wildfires in the state's history swept down out of the west Cascades slopes into the Willamette Valley over the 2020 Labor Day weekend. The 16 major fires burned 1 million acres, destroyed more than 4,000 homes and other structures, caused 40,000 people to be evacuated, and killed 11 people.

By the third week of September, the Northwest Interagency Coordination Center, a logistical center for regional wildfire response, estimated Oregon's fires would cost \$53 million, which put the state and Lloyd's on alert that a claim might be filed.

The final cost of the Oregon wildfires to the Oregon Department of Forestry was about \$130 million. The bill was offset by more than \$70 million in federal disaster aid, along with fees the state earned for fighting fires on land it did not control and reimbursement for other aid.

"The cost for suppressing the 2020 wildfires is estimated at just under \$50 million, which is why it did not trigger the policy," Gersbach said.

The current policy runs through April 15, 2022. Lloyd's of London accounts for 90% of the policy cost, while Nashville, Tennessee-based Acceptance Insurance carried 10%.

The Legislature will vote on a portion of the premium in the Oregon Department of Forestry budget, which is now before the Joint Ways & Means Committee.

When Lloyd's of London and the state negotiated a renewal of the policy, it included a relatively modest 3% premium increase to \$4,131,871 per year. The cost is split between the state and private



Firefighters with the Monitor Fire Department wait in an area destroyed by a wildfire near Mill City on the North Santiam River in 2020.

John Locher/AP file

timberland owners. Landowners pay their share through a property tax formula.

The Oregon Department of Forestry, which holds the insurance contract for the state, says the policy has saved the state millions over the years. The agency is responsible for about 16 million acres of forested land — about half the total in the state.

ODF is also the key firefighting agency on 2.3 million acres controlled by the U.S. Bureau of Land Management.

"This helps the agency keep fires from spreading to other ODF-protected lands, minimizing overall cost and potential loss," Gersbach said. "If a fire on BLM land escapes initial attack, BLM is no longer

eligible to receive large fire cost reimbursement.

In those cases, BLM must reimburse the state for ODF's firefighting costs. Reimbursements for the 2020 fires are one of the reasons the overall costs to ODF fell below the minimum level for the Lloyd's policy to be activated.

Gersbach said during the 48-year relationship with Lloyd's, the state has received \$99 million in claims payments against \$75 million in premiums it paid. The most recent claims ODF made were for \$25 million in 2013 and \$23.2 million in 2014.

The consecutive years of claims led Lloyd's to nearly double the premium from \$2 million to \$3.75 million.

The deductible rose from \$20 million to \$50 million, while Lloyd's maintained a cap on its payout to \$25 million.

Some state lawmakers balked at the increase, suggesting the state instead create a \$60 million firefighting trust fund that the state would finance directly. But there were concerns that in tight budget years, future legislatures or governors might be tempted to "sweep" the fund to use to finance unrelated programs or projects.

There had been concern that a 2020 claim could drive up the premium price as Lloyd's faced a historic year of payouts driven by the COVID-19 pandemic.

Lloyd's has thrived since

its beginnings in 1686, selling shipping insurance out of a coffeehouse near the Tower of London, by balancing risk so that premiums more than cover claims.

COVID-19 crisis

Lloyd's was hit with over \$8.5 billion in claims filed in 2020 directly related to the COVID-19 pandemic — the most from any single event in its three centuries in the insurance business.

"A crisis of a scale never seen before," said Lloyd's chairman John Neal during a March 31 press conference.

In recent decades, Lloyd's has upgraded its computer modeling to take into account the extremes of natural dis-

asters in a given year. The wildfires were historic for Oregon, but within the parameters of possible worldwide calamities that occur every year which Lloyd factors into its premiums. The Brexit fallout had been factored in beginning with the 2016 vote to leave the European Union.

Lloyd's posted a \$3.45 billion profit in 2019. With Brexit, it knew 2020 would be a tighter year financially, but premium adjustments would have ended the year with a \$1 billion profit.

But the COVID-19 was a "black swan" — the term for a rare, unseen disaster of epic magnitude.

The pandemic blew out those forecasts, leading to a \$1.24 billion loss in 2020.

Neal said COVID-19 was now factored into its forecast for coming years. A rise in premiums spread out over time was as a way to recoup some of the losses. Lloyd's said it hoped that 2021 would see fewer claims as the pandemic possibly ebbs and ends across the world in the next two years. But the appearance of new virus variants has clouded the rebound scenario.

With its relationship with Oregon nearing a half-century, Lloyd's is more likely to continue to sell the policy to Oregon even as drought and rising temperatures make a devastating fire season more likely with each year.

The Oregon Department of Forestry hopes to continue the relationship with Lloyd's as long as possible. The next renewal is in the department's budget, which is currently awaiting action in the Joint Ways & Means Subcommittee on Natural Resources.

"We believe it continues to be a prudent investment," Gersbach said

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