



# Emerging Canadian Wildfire Risks and Insurance Implications: A Look Towards Future Risk Management

AUGUST 2023



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## Overview

Poor air quality caused by ongoing wildfires in Canada have drawn increased attention to the Canadian wildfire season and the role climate change has on this evolving risk. Warmer, dryer weather leads to increased lightning storms, which account for 85% of wildfires in Canada.<sup>3</sup> The burning of trees and other vegetation releases carbon monoxide into the atmosphere, fueling climate change and altering weather patterns. This all serves as a stark reminder that this risk is not going away. Wildfires play into the greater conversation about actionable, government-led climate change initiatives, which places the onus on businesses to manage the part they play in contributing to environmental pollutants.

From a risk management standpoint, this article serves as a guide to understand the various risk components linked to wildfires, and considerations for future business planning.

- A snapshot of government-led climate change action priorities for business planning purposes.
- Assessing and calculating your business operational risk if operating in wildfire-prone areas, including future affordability of insurance, self-insurance or potential relocation.
- Understanding environmental liability implications during a wildfire event and exploring this type of insurance coverage as a possible risk transference option.
- Considerations for creating a safe and productive workplace that thoughtfully weaves wildfire risk considerations into employee management practices, policies and communication approaches.



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The wildfire season in Canada, typically running between April and October and peaking in June, July and August,<sup>1</sup> has taken on a life of its own this year. An unprecedented number of wildfires have broken out, are burning out of control and releasing pollutants into the air carried by the wind through parts of the United States and Europe. As of July 27, 2023, there were 1,004 reported active fires: 622 were burning out-of-control, 163 were being management and 219 were under control. The hardest hit provinces were British Columbia (383), Northwest Territories (137) and Alberta (127).<sup>2</sup>

**July 27, 2023**  
NATIONAL FIRE SITUATION REPORT

**622**  
known out-of-control fires

**163**  
were being managed

**219**  
were under control<sup>2</sup>

The hardest-hit provinces were  
**British Columbia (383)**  
**Northwest Territories (137)**  
**Alberta (127)**

With air quality being exponentially impacted by these numerous wildfires, questions have arisen as to why there are so many fires, what is being done to manage them and what does this mean for the future?

# The wildfire situation in Canada

Approximately 9,000 forest fires destroy approximately 2.5 million hectares of forest each year in Canada; however, this number can vary greatly.<sup>1</sup> Wildfires play into the natural cycle that forms Canada's ecosystem, whereby older, drier vegetation, susceptible to insects and disease, is burned to make way for new seedlings, promoting species diversification and more diverse habitats.<sup>1</sup> Some tree species, like the jack pine, are fire-dependent, as it needs heat from the fire to melt its cone and release seeds.<sup>1</sup>

Aside from the natural cycle and benefits of this phenomenon, there are problematic elements. As trees and vegetation burn, carbon monoxide releases into the atmosphere, aggravating global warming.<sup>1</sup> Global warming continues to offset seasonal temperatures, leading to an anticipated increase in lightning storms by 44%.<sup>1</sup> With lightning storms igniting more than 85% of wildfires, the remaining 15% originate from human action.<sup>3</sup> Given the predicted increase in lightning storms coupled with warmer, dryer temperatures in the years to come, a growing incidence of forest fires can be reasonably expected.

A June 5 [Report issued by the Government of Canada](#)<sup>4</sup> commented on the increased risk of wildfire,



For June, warm and dry conditions will increase wildfire risk in most of Canada from British Columbia and Yukon eastward into western Quebec and the Atlantic region. During July, wildfire potential is expected to expand into Yukon, although the eastern edge will recede from western Quebec into central Ontario.”<sup>4</sup>

In fire response, nearly all fires encountered in the 2023 season have been in remote areas, away from human life and communities. With limited firefighting resources available, responses are generally prioritized to wildfires with the potential to harm human life, infrastructure and watersheds.<sup>5</sup> Fires in more remote, difficult-to-reach locations can spread rapidly because of a buildup of dry vegetation and prevailing winds, releasing vast amounts of smoke fumes into the lower and upper atmospheres.<sup>5</sup>

With the increasing likelihood of forest fires, even if they are focused in more remote, uninsurable locations, how do we manage this growing concern from an insurance perspective?



# Regulatory implications

Due to climate action measures, governments worldwide, including Canada, have implemented legislation to set out expectations for environment management. Those who contribute to releasing pollutants or are directly responsible for adding pollutants to the environment are likely to incur fines, penalties and legal action. Environmental governance in Canada is a complex system involving various actors at different levels of government, as well as civil society organizations and businesses. Pertinent governance exists at the federal, provincial and territorial levels.

As one example, commencing with the Kyoto Protocol, the Government of Canada has been planning and developing frameworks and legislation to reduce greenhouse gas emissions based on the scientific consensus that global warming is occurring and human-made CO<sub>2</sub> emissions are driving it.

## 2016 Pan-Canadian Framework on Clean Growth and Climate Change

In December 2016, Canada's first ministers signed up to the Pan-Canadian Framework on Clean Growth and Climate Change (known as "The Framework"),<sup>7</sup> in which several recommendations were implemented:

- Establishing a carbon pollution pricing system
- Completely phasing out coal by 2030
- Developing increasingly stringent building codes starting in 2020
- Developing a clean fuel standard based on a complete life-cycle analysis
- Continuing the phase-down of hydrofluorocarbons
- Implementing methane regulations to reduce methane emissions by 40%–45% by 2025
- Reducing federal government greenhouse gases (GHG) emissions by 40% below 2005 levels by 2030 or sooner.

# Residential and commercial insurance considerations

Due to the impending threat of property loss brought on by wildfires, some carriers are removing themselves from risk, as we have seen within high-risk parts of California. Fortunately, the majority of recent Canadian wildfires have been situated in remote areas, resulting in little property damage. With that stated, "wildfire mapping" is a common insurance practice for carriers to better understand and manage their risk portfolio. As wildfire risk intensifies along with the severity of the losses, carriers may look towards their catastrophic event maps and actuarial data to guide their coverage offering practices in high-risk geographies. The Fort McMurray wildfire event continues to serve as a reminder of what can happen when a wildfire encroaches on a populated area.

In response, some carriers may decide to pull out of certain property markets where the property risk exposure is no longer aligned with their risk appetite. For those that continue to offer fire protection in

wildfire prone areas, premiums might increase to offset the cost of increased claim payments. Additionally, insured parties may be asked to enhance fire preventative measures.

On the commercial property side, the same type of practice will likely come into effect as with the carrier's residential approach in high-risk areas. Businesses that wish to operate or own insurable assets in areas deemed at high risk of wildfires may likely face higher insurance premiums or explore the option of self-insurance. Calculated business decisions must be made to determine if the cost of operating in these areas is financially feasible. Aside from creating and communicating effective employee evacuation practices and taking appropriate workplace health and safety measures to prevent injury or worse, in the event of a wildfire, preventing a nearby wildfire from touching a business property might not be within a business's control.

# Environmental liability

The growing consequences of wildfires in Canada and climate change have intensified the need for environmental liability protection to safeguard against increased exposures to businesses. In addition, the evolving regulatory landscape in Canada continues to put the onus on businesses to reduce the amount of pollutants released into the environment as part of their operations.

In response, businesses should regularly revisit their environmental commitments and find ways to improve their business and risk management strategies. By managing the direct and indirect environmental exposures related to their business, the frequency of environmental incidents should decrease, ultimately preserving the environment and their reputation in the marketplace.

One method of managing environmental risk is transferring liability through an environmental liability policy. A risk mechanism which has gained traction over time. Environmental liability provides areas of coverage, which are not included or are limited, in general liability or property policies.

Environmental liability insurance coverage extends to, but not limited to:

- **Cleanup and Restoration Costs**—to restore contaminated sites or polluted areas impacted by an environmental incident, that is the responsibility of an insured.
- **Legal Defence Costs**—including attorney fees, court costs, and settlements or judgments resulting from environmental damage or pollution lawsuits.
- **Business Interruption**—for financial losses resulting from a shutdown or suspension of business operations due to environmental incidents.
- **Third-Party Bodily Injury and Property Damage**—for claims made by third parties, such as neighbouring property owners or regulatory agencies, for damages or injuries sustained by environmental incidents.

## The chain reaction of environmental liability

Within the context of environmental liability relating to natural catastrophes, there is the potential for business to be liable for consequent environmental damage sustained during a natural disaster's life cycle. In the case of wildfires, the ability to neutralize or contain the wildfires is crucial as it could potentially increase an insured's liability by worsening an existing environmental condition (for example, a tank explosion on an insured's own site resulting from a wildfire). This can lead to contamination of soil and water runoff, poorer air quality or pass-on pass-through liability.

- **Contingent liability** should be assessed as businesses within the impacted regions could exacerbate environmental conditions and be held liable.
- **Environmental management programs** are a key component of ensuring site operations minimize environmental impacts; however, sometimes, events are unavoidable. For this reason, environmental liability coverage is available to further protect and defend if the insured is impacted.



# Managing workplace health and safety

Aside from the property damage and destruction that can accompany some wildfires, poor air quality created through the release of pollutants in the air is another side effect to manage. Creating suitable health and safety measures to protect a company's greatest asset, its employees, while ensuring business continuity can help alleviate this risk.

As wildfire season wears on, the impact on people's mental health from prolonged exposure to fire and smoke should be considered. Many employees may react to natural disasters with feelings akin to experiencing emotions of grief or loss. Ensuring employees are aware of the resources available, including employee assistance program (EAP), psychological services and community resources to help them cope with these challenges. Below are a few considerations.

- **Employee Assistance Program (EAP):** Provide access to employee assistance programs or counselling services to support employees experiencing wildfire related stress, anxiety or trauma. These programs can provide mental health support, counselling and resources to help employees cope with the emotional impact of the situation.
- **Employee Relief and Support:** Establish mechanisms to support employees directly affected by wildfires, such as those who lose their homes or experience personal losses. This may include financial assistance, access to temporary housing or helping employees navigate insurance claims or community resources.
- **Worksite Safety:** Evaluate the safety of worksites in areas prone to wildfires. Implement measures to reduce fire hazards by clearing vegetation around buildings, installing fire-resistant materials and conducting regular safety inspections. Train employees in fire prevention, emergency response procedures and the proper use of fire extinguishers.
- **Remote Work and Flexible Schedules:** During wildfire events, it may be necessary for employees to work remotely or adjust their schedules due to evacuation orders, transportation disruptions or poor air quality. Implement flexible work arrangements to accommodate these needs, allowing employees to work from home or adjust their work hours as necessary.

Depending upon the intensity of the fire, wind direction and extent of rain forecasted, air quality risk could have a far-reaching impact. This involves implementing the right risk mitigation approaches supported by effective procedures and communication mechanisms.

- **Health and Safety Measures** Provide employees with guidance on protecting their health during periods of poor air quality. This may include distributing N95 masks, installing air purifiers in indoor workspaces or allowing employees to work from home if air quality is compromised.
- **Business Continuity Plan (BCP) and Crisis Management Plan (CMP):** Depending on where you look and who you ask, these two types of plans can be used interchangeably and woven into each other. The business continuity plan is the overall risk mitigation strategy that identifies potentially damaging risks to a company's ability to operate, service its customers, and meet regulatory and legal requirements, and the measures needed to mitigate these potential risk exposures. The crisis management plan, on the other hand, outlines the steps or actions to take in response to the crisis. This plan usually serves as the more detailed action plan supporting the risk management framework outlined in the business continuity plan.
- **Evacuation Planning:** Develop comprehensive evacuation plans that prioritize the safety of employees. Conduct drills and provide clear instructions on evacuation routes, assembly points and emergency contacts. Consider employees with specific needs, such as individuals with disabilities or those requiring medical assistance and ensure their evacuation plans are well-defined and communicated.
- **Communication and Information:** Identify reputable sources, likely government derived, to ensure that you are properly informed on the status of the situation and can make suitable response decisions. Based on the situation, leverage suitable communication channels to inform employees about the wildfire situation, evacuation plans and safety protocols.





## Conclusion

The impact climate change is having on wildfire risks is an evolving situation linked to responsive legislative developments. Mitigating the emerging risk of wildfire is needed for businesses to protect their assets, financial health, reputational and regulatory compliance. Developing, enacting on and regularly re-evaluating your risk management plan and approach to address this evolving risk is something that businesses will need to build into their business approach. This can entail taking proactive measures to reduce fire risk, safeguard people and property, and exploring suitable risk transference measures. As wildfire risk is far-reaching and evolving, developing a well-rounded, integrated risk management approach that leverages all the appropriate internal subject matter experts and external business partnerships, can position your company for ongoing future success.

### References

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<sup>2</sup>[Active Fire Report, Canadian Interagency Forest Fire Centre Inc. \(2023\)](#)

<sup>3</sup>[How did the Canadian Wildfires start? CBS News. \(June 2023\)](#)

<sup>4</sup>[The Government of Canada Provides Update on Wildfire Seasonal Outlook and Outlines Response, Government of Canada news release. \(5 June 2023\)](#)

<sup>5</sup>[Smoke will keep pouring into the U.S. as long as fires are burning in Canada. Here's why they aren't being put out, CNN News. \(2 July 2023\)](#)

<sup>6</sup>[US Wildfire State of the Market, Gallagher Re. \(2023\)](#)

<sup>7</sup>[Pan-Canadian Framework on Clean Growth and Climate Change, CICS. \(2023\)](#)

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