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[Colorado wildfires are making it harder to insure homes. Could a publicly funded plan stave off an insurance crisis?]

Denver Post

State commissioner suggests a plan of last resort could help homeowners who can't find policies on open market

The increasing risk of wildfires in Colorado is driving insurance carriers to raise premiums on homeowners' policies — if they decide to insure them at all — and now the state's insurance chief is suggesting a publicly funded pool of money be established to provide property insurance for those who can't find it in the open market.

Colorado experienced massive, destructive wildfires in the past few years, including the Marshall fire, which caused an estimated $2 billion in property damage on Dec. 30, making it the most expensive wildfire in Colorado history.

The wildfire that destroyed more than 1,000 homes in Louisville, Superior and unincorporated Boulder County exposed multiple issues in the state's insurance industry, including an estimation that nearly two-thirds of Marshall fire homeowners were underinsured and their policies won't provide enough money to rebuild the homes they once had.

Insurance Commissioner Michael Conway recently said that policy affordability and availability were not problems in Colorado until recent months, noting that his office has received calls from nearly 40 people in the state who could not find insurance for their properties.

"That fundamentally changed two or three months ago," Conway said during an October public meeting.

“My phone started ringing from consumers saying they were having a huge issue with availability and coverage across the state.”

Those inquiries, he went on to say, are “a drop in the bucket of what we are fairly certain is happening throughout the state.”

Now, Conway, state legislators, the insurance industry and consumers are trying to figure out what to do about it, and the clock is ticking faster than they had expected.

“The sentiment was we had more time,” said state Rep. Judy Amabile, D-Boulder, who has worked on property insurance bills in recent years. “But it’s starting to happen now and we need to get ahead of it.”

Amabile is working with the insurance commission on a solution.

“I’m hearing more and more that people are not getting their insurance renewed,” she said. “We can’t have a situation in our state where people can’t get homeowners insurance. Nobody would be able to buy a house and nobody would be able to sell a house. That’s an untenable situation.”

Carole Walker, executive director of the Rocky Mountain Insurance Information Association, which represents the insurance industry in Colorado, said large-scale wildfires are a reality in this state and insurance companies have to assess their risk and decide what they can take on.

For now, she said, that means people who live in high-risk areas are going to have to look harder for insurance and likely go to high-risk carriers, which charge higher premiums.

“We know people living in high-risk areas are hearing about insurance pressures,” Walker said.

Insurance of last resort
During that October meeting with people impacted by recent wildfires, Conway brought up the possibility of creating an insurance-of-last-resort plan, in which the state would set up a pool of money that would fund property insurance for those who are denied coverage by private insurance companies.

While Colorado is one of 18 states that does not have a last-resort insurance plan, no state has created one from scratch in decades. Some that exist are rife with problems, raising caution flags as the state considers its options.

“Up until the last 10, 15, 20 years, we didn’t have availability issues,” Conway said. “We didn’t have catastrophes in the mountain west part of the country that would lead to insurance companies having some concerns and having trepidation about providing insurance. That’s obviously changed, folks. Climate change is here. Climate change is impacting us all on a daily basis. It’s hitting us because of fires.”

In the Pine Brook Hills subdivision north of Boulder, homeowners started reporting increasing insurance premiums about two years ago. Families who had bought insurance from the same company for 20 years or longer received notices that their carriers were going to drop them, said Kevin Smith, president of the Pine Brook Hills Homeowners Association.

That has left homeowners scrambling to find coverage, often calling dozens of companies to find one that would offer a policy that was far more expensive than what the homeowner previously paid, Smith said.

“With the increasing risk of fires and the fact that we’ve had some, it’s scaring insurers,” he said. “As a homeowner’s association, we have spent a lot of time on fire preparedness and hope that will bring insurers back to the area.”

Three years ago, Smith replaced 40-year-old cedar plank siding on his home with a more durable cement-fiber plank because he was spooked by Boulder County wildfires. He also cut down trees that were close to his house as part of a fire mitigation plan required when he replaced some steps on the outside of his home.

Smith called his insurance company to ask for a discount, but his request was denied.

“You know, you don’t get credit for what you do,” he said. “There should be some way for homeowners to be given some credit for doing these things.”

For now, Smith’s insurance company has continued to sell him policies. But at a recent HOA meeting, he said, six people talked about getting dropped and having trouble finding a carrier to write a policy.

“Finding a way to have a guaranteed way to get insurance would be great,” Smith said.

Wildfires are “driving the exodus”
In the mountain communities such as Aspen, Vail, Telluride and Steamboat Springs, insurance companies are pulling out, said John Wilkinson, an independent insurance agent who has worked in the Aspen/Snowmass Village area for 43 years.

“It’s like what’s happening in Florida with the hurricane coverage,” Wilkinson said. “It’s the same thing happening in Colorado, except it’s fires that are driving the exodus.”

He cited the example of one client, whose identity he did not want to disclose, who had been paying a $60,000 annual premium to insure $20 million worth of buildings. The client’s carrier decided not to renew. Now his client has four policies that cover $5 million each to get to the $20 million limit needed, and those four policies cost a combined $600,000 in premiums.

He said another major company is not renewing any property insurance on framed buildings or masonry that does not have a sprinkler system. Another carrier put a $250,000 deductible on any property loss caused by a wildfire.

“That’s tough to take when your building is worth $3 million and you have to pay a quarter million for your deductible,” Wilkinson said. “These insurance carriers are definitely afraid of a wildfire swooping through any mountain town.”

The changes are being driven by the reinsurance market, he said. Frontline insurance companies such as State Farm and Farmers Insurance buy insurance from massive global companies to back them up in case they have to pay for catastrophic losses in a disaster.

“It’s behind the scenes and consumers don’t know about it,” Wilkinson said. “If a carrier can’t find reinsurance, they pull out of the market.”

During the 2022 session, legislators passed a bill that provided money to study the insurance market in Colorado. A report is due in mid-December, and Amabile said she is preparing to address the issue during the next legislative session. Until data is available, Amabile is not sure a state-funded plan is needed.

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"But I'm certain that we should find out right now before people are harmed," she said.

California created the first state-run, last-resort insurance pool in the 1960s, not because of natural disasters but after insurance companies pulled out of inner cities over race riots.

Over the years, they've expanded to other states and to cover people who can't find insurance because of hurricanes and wildfires, said Robert Hartwig, director of the Center for Risk and Uncertainty Management at the University of South Carolina.

"They are creatures of a legislative process," Hartwig said. "They are going to bare the scars and tattoos of the year in which they were created and amid whatever the political environment was at that time."

In Colorado, that means a legislature with strong-Democratic control would create the plan, but it would need approval from a Democratic governor with libertarian leanings while the state faces a tight 2023 budget.

Typically, the pools are created from a state's budget, which is collected from taxes, or by assessing fees to insurance carriers doing business in the state. Those fees, Hartwig said, would become surcharges passed to consumers. Sometimes, those surcharges end up being passed onto auto insurance policies even though the last-resort pools don't cover vehicles, he said.

"It's not a private insurer so they can write their own rules," he said of state governments.

State plans "meant to be pressure valves"
The last-resort plans are available to private and commercial property owners, said Mark Friedlander, a spokesman for the Insurance Information Institute, a national trade industry.

Depending on how a state structures them, policies bought through a last-resort pool may cost more or less than the average private insurance policy and may offer less robust coverage, such as lacking liability coverage, Friedlander said. They cover losses due to fire, wind, theft, vandalism and civil disturbances, offering protection where none would otherwise exist.

But Hartwig cautioned Colorado about creating a state-funded insurance pool just because people with powerful voices are the ones feeling the pinch in the private insurance market.

“Is the crisis that people just don’t want to pay what the risk-appropriate premium is?” Hartwig said. “Aspen is not known as a bastion of low-income homes. It’s quite the opposite. It’s a millionaire’s paradise and people flock there. But again, we are talking about people with some influence with members of the legislature and the governor’s office and they know who to call.”

The insurance industry in Colorado is not completely opposed to a state-funded insurance pool, but it has concerns, said Walker, head of the Rocky Mountain Insurance Information Association.

Her group would not want Colorado’s pool to become like those in Florida and Louisiana, where state-run plans are now the largest property insurers in those states, she said.

“The challenge is you have to be very cautious and thoughtful as to how those plans are put in place,” Walker said.

People who can buy insurance on the open market should be required to do so, Walker said. There should be caps on what a state fund would pay in a claim.

“These plans are meant to be pressure valves,” Walker said. “They’re for people who truly can’t get insurance in the private market. You don’t want the state government running a fund without being insured adequately.”

Amy Bach, executive director of the consumer advocacy group United Policyholders, said it is looking more and more like Colorado will need a state-funded plan.

She likes the California model, in which insurance companies are required to take on a percentage of applicants in the state pool that reflects their share of the open market. So if a company carries 30% of the state’s policies in the general marketplace, then it would be required to pick up 30% of the people in the state pool.

But the insurance companies in California wield enormous power over the pool, Bach said. The insurance commissioner does not have much authority and when that official tries to invoke new rules, the insurance industry sues. Plus, there's little transparency as to who serves on the governing board and it's hard to find meeting minutes, she said.

"It's close to the right formula, but it needs a little tweaking," Bach said.

Colorado's property insurance industry is not in a crisis, Bach said. But it is wise to start thinking about a state-funded insurance pool and how it would operate.

"For Colorado, it would be good to have something in place and not wait until there's a crisis," she said. "The signs point toward we need something."