Insurance Insiders Say Regulation and Mitigation Can Keep the Industry from Retreating in Colorado

Inside Climate News

Underwriters aren't pulling back from Colorado like they have in Florida and California, but industry workers say the state is at a tipping point.

David Selden and his wife, Karen, recently moved into the country 10 miles outside of Steamboat Springs, Colorado, after living in town for two years. Both partially retired law librarians, they bought a $1.9 million house after making sure they could get homeowners insurance.

"We called around before we actually made an offer," David Selden said. "Two insurance companies gave us quotes, and I thought those quotes were offers, you know, that we could accept."

Though their premiums went up to $3,000 a year from the $800 they were paying for a similar home in town, they understood the risk of wildfire was higher in the country, so the Seldens accepted the State Farm offer and bought the home. The Seldens said just over a month later, State Farm canceled their insurance for reasons they couldn't control—like the house being on a county road with only one way in and out.

"We were kind of in a panic then," David Selden said. "I contacted more than a dozen insurance companies, and most of them weren't interested in insuring us at all."

Allstate had offered insurance before they bought the house but denied coverage after the purchase, he said. The Seldens successfully appealed Allstate's decision after doing some wildfire mitigation around the house, like cutting trees and mowing the grass. But the Seldens still fret about their home becoming uninsurable, which would drastically devalue their biggest financial asset.

“I’m kind of worried we made a bad decision,” David Selden said. “I guess the true costs of climate change are starting to hit people in the pocketbooks.”

Neither State Farm nor Allstate responded to requests for comment for this article.

In Colorado, homeowners insurance premiums increased an average of 58 percent from 2018 to 2023, according to the Rocky Mountain Insurance Association, a nonprofit representing property and casualty insurers in Colorado, New Mexico, Utah and Wyoming. This is partly because two of the costliest wildfires in state history happened in the last four years, and because the yearly rate of billion-dollar disasters in Colorado, adjusted for inflation, has more than tripled since 1980.

It is also because more homes are being put in harm’s way. According to a wildfire risk report from CoreLogic, Colorado is second only to California in the number of homes at moderate or greater risk from wildfires. More than 300,000 Colorado homes fall into that category, putting some $140 billion on the line.

“We are standing on the edge of a cliff as an industry across the nation,” said Skylar McKinley, a regional director for the insurer AAA with a territory including Colorado. “If some of the most dire predictions turn out to be true, nationwide, I don’t know if there is insurance in 50 years.”

McKinley added: “The math does not work if you’re paying out for massive disasters every year.”

While insurers are pulling out of some Colorado communities, the state’s situation is not yet as dire as Florida’s or California’s, where many insurers have decided to not write new policies or renew old ones statewide.

Despite Colorado’s hail and wildfire risk, both of which are predicted to increase in severity due to climate change, McKinley said the state’s homeowners market is still an area where insurers can offset risks they’re taking elsewhere in the nation, partially because Colorado oversight has brought both a heavier hand and lighter touch than other states.

Colorado has a libertarian bent—indeed, the Libertarian party was conceived in a Westminster living room and founded in Colorado Springs—yet lawmakers are increasingly thinking about regulating how houses can be built and landscaped to counter the increasing threat of wildfires. In 2023, a Colorado law established a Wildfire Resiliency Code Board to set statewide standards for all communities abutting flammable land, areas known as the "wildland-urban interface," or WUI. As the Marshall Fire showed when it burned from a Boulder County grassland into suburbs to destroy 1,100 homes in December 2021, the threat is not just in the mountains. "Basically the whole state is WUI now," McKinley said.Statewide standards could take the edge off insurers' anxiety. If underwriters know all homes near flammable landscapes are required to be built with fire-resistant materials and surrounded by defensible space, that might make them more willing to insure them. Thanks to Colorado's accelerating growth, especially among high earners, tax money is flowing into state coffers that could fund programs to help homeowners with mitigation efforts, McKinley added.

"When it comes to making the tough choices that lawmakers, in the next 20 to 40 years, will have to make to protect their constituents, Colorado lawmakers probably will," he said. "And they probably will have access to the resources they need to do that."

Colorado Insurance Plan Hopes to Avoid California Pitfalls
Colorado has been friendlier to the insurance market, with lighter regulation, than some states, but is also being cautious to avoid some of the missteps they have made.

The California insurance market is struggling in part due to a 1988 law that forced insurers to get approval before raising rates to address exploding auto insurance costs. That law is now affecting homeowners insurance, too. Because of the measure's lengthy review process, insurers have struggled to get approval for rate increases that keep up with payouts, leading companies to take heavy losses and, eventually, pull out of the state.

Since the 1960s, the gap in insurance coverage has been filled by the state's Fair Access to Insurance Requirements (FAIR) plan, which provides insurance for customers who can't get it otherwise. But as more homes have come to rely on it, many of them in wildfire-prone areas, the plan has grown bloated with high-risk properties.

Starting early next year, California is implementing a Sustainable Insurance Strategy to try and bring insurers back to the state and ween homeowners off the FAIR plan. The strategy includes speeding the approval process for rate increases and allowing insurers to use predictive models to better account for the future risks of climate change, rather than the historical data they've been limited to.

In early 2025, Coloradans who can't get homeowners insurance on the standard market will be able to enroll in that state's new FAIR plan. Covering up to $750,000—less than what many Colorado homes are worth and far less than the $3 million covered by California's plan—the program doesn't aim to replace private insurance, but instead provide a backstop for homeowners having difficulty getting coverage. The hope is that they'll soon reenter the standard market.

"Our biggest hope is that we would set up the FAIR plan and no one would want to use it," said Judy Amabile, a state representative who co-sponsored the bill establishing the plan before she was elected to the state Senate this month.

Unfortunately, Amabile said the new program expects a flood of participants.Because the FAIR plan is designed to pay for itself, it will charge homeowners enough to cover its disaster payouts, so it won't be cheap. And even then, the plan's coverage will be bare bones. It will likely only cover homeowners' primary buildings and not their contents, nor their personal liability, which is often covered in homeowner insurance policies.

Yet Amabile said this could open a door for insurers to dip their toes back into Colorado communities they've abandoned. With a property owner's main structure covered by the FAIR plan, insurance companies could offer supplemental coverage of the home's contents or liability.

"We are going to have to work hand in glove with the insurance industry, because we don't want them to leave," Amabile said.

Kelly Campbell, executive director of the Colorado FAIR plan, described it as a "bridge to a new normal."

Just as an increase in Colorado disasters set insurance companies scrambling to update their risk models, inflation over the last few years spiked the cost of reinsurance that protects insurers, the costs of which they pass onto homeowners. The FAIR plan is a way to "kind of allow things to continue to work" while the system adjusts, Campbell said.

"With climate change, the risks that used to exist in Colorado are just different now," she said. "We are getting more and more tools to deal with that risk, but we need some time for those tools to be in place."

Mitigating Advancing Risks Can Keep Insurers From Retreating

One long-recognized tool is mitigating the wildfire vulnerability of properties in the WUI with fire-resistant building materials and landscaping.

"The science is showing us that wildfire is one of those risks where there's a lot we can do to put the odds in our favor," said Carole Walker, the executive director of the Rocky Mountain Insurance Association. "Especially if it's done at a community scale."

Homes built to withstand barrages of embers can still be set aflame by the radiant heat from neighboring houses that did no such mitigation and ignited easily. Just a few homes with unmitigated wildfire vulnerability can put entire neighborhoods at risk, making community cooperation to build wildfire resilience essential for lowering insurance rates.

"We're a home-rule state," Walker said, highlighting the fact that Colorado municipalities are allowed to determine rules like building codes for themselves. "That has been challenging when it comes to wildfires that know no boundaries."

And mitigation can be expensive, especially when you're living in a home that's already built with flammable materials. Many residents in Colorado's WUI are unable to complete certain mitigation efforts themselves, like installing metal roofs or cutting down large trees, and don't have the money to hire contractors to do it.

Government grant programs can assist such homeowners, and nonprofits can help as well. That happened in Boulder County, where the Community Foundation Boulder County funded a local youth corps' wildfire mitigation efforts on several homes in Gold Hill.

A final impediment to getting insurance, even for homeowners who keep their properties as fireproof as possible, is the insurance business model that looks at an area's aggregate risk rather than at each property's individual vulnerabilities. If the industry instead assessed the risks faced by individual homes, the FAIR plan could offer homeowners coverage while they complete mitigation measures to qualify for insurance in the standard market, similar to David Selden's experience.

"It's going to take every tool in our toolbox to keep and stabilize the insurance market here," Walker said.

Ice is an even bigger burden on the Colorado insurance industry than fire, with hail storms common in city centers where wildfire isn't a concern. One hail storm in 2017 cost Colorado insurers more than $2.3 billion from more than 100,000 claims. Some homeowners who sign up for the state's FAIR plan next year will likely have been dropped by insurers for repeated hail-damage claims.

"A 45-minute hailstorm can go from the northern corridor down into the metro area, and then down into southern Colorado with thousands of homes, businesses and cars in the path of that hail," Walker said. "People don't realize the widespread damage it causes."

Many insurers are already providing discounts to Colorado homes with hail-resistant roofs, Walker said.

Grant programs can help homeowners who can't afford such roofs. A program like Strengthen Alabama Homes, which offers up to $10,000 for wind-resistant roofs, could not only provide grant funding for similar hail protection, but also require insurers to cut premiums for homes that have it. That will mean legislators again working alongside the insurance industry, as they did with the FAIR Plan.

"There are a lot of conversations happening around a lot of tables, and that's a really good thing," Walker said, explaining that a mistake made in the past was siloed problem solving. "How can we get on the same page with all of the stakeholders in this?"