4.12.25
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Will paying more actually lower rates?

One plan in legislature is to add a 1% fee that could, in theory, lower costs in the long run

Rene Osorio of Urban Exteriors uses a hammer to remove nails as he strips a roof of its shingles following a severe hailstorm in the city, on Aug. 10, 2017, in Wheat Ridge. "Our biggest affordability issue in the state from a homeowners perspective by far is hail," Colorado Insurance Commissioner Michael Conway said. SETH MCCONNELL, DENVER POST FILE

BY NOELLE PHILLIPS

NPHILLIPS@DENVERPOST.COM

The plan to lower the cost of homeowners insurance in Colorado sounds counterintuitive.

But state Insurance Commissioner Michael Conway and Democratic lawmakers believe adding a 1% fee to policies sold statewide could, in the long run, make premiums less expensive. That fee likely would add an additional $32 a year to the price of an average homeowner's policy.

"This is a little bit of investment upfront for a long-term gain," Rep. Kyle Brown, D-Louisville, said last week during a House Finance Committee meeting. "This small fee we are putting in place will help lower insurance costs by funding more resilient communities and more fortified roofs."

Those fees would go toward two state-funded programs — one to address hail damage, the other wildfire risk — that they believe would prevent more insurance companies from fleeing the state. More competition would help lower premiums, Conway said.

And they also believe the more people do to protect their homes from wildfires and hail, the less their rates will rise and maybe even drop.

Two bills winding their way through the legislature are aimed at addressing the increasing difficulty Coloradans are having in finding and affording insurance for their houses.

The first bill, House Bill 1302, would create two enterprise boards: One that would levy a 0.5% fee on insurance policy premiums to pay for a reinsurance program to help offset insurers' wildfire losses, and one that would add a second 0.5% fee on premiums to manage a grant program to help homeowners buy hail-resistant roofs.

The other bill, House Bill 1182, would regulate how property insurance companies use computer models to predict risk and then use that information to set rates. Consumer advocates say those models inflate costs and do not take into consideration any mitigation work done by property owners or communities. If the bill becomes law, insurance companies would be required to inform customers of their wildfire risk score and explain steps they could take to improve that score and potentially lower their costs.

"People feel the urgency to mitigate the risk. They see their rates going up," said Rep. Brianna Titone, D-Arvada, one of the bill's sponsors. "They want to do something, and they're just kind of left wondering what they can do and how they can actually help protect their homes and reduce their rates."

One of the issues with that bill is the question of who would determine what types of mitigation work — such as installing new roofs or trimming vegetation — would be acceptable and how that would be verified, said Carole Walker, executive director of the Rocky Mountain Insurance Association, which represents 85% of the insurance companies doing business in Colorado.

Insurance companies also are concerned about how those consumer notifications would work and what actions insurers would need to take to comply with the law, she said.

"There were concerns this was so onerous that there's compliance issues. Third-party modelers might say, 'We can't do business in Colorado,' " Walker said. "A tipping point is pretty close and we need to make sure that, with stakes as high as they are, we get it right."

Tackling the state's insurance crisis

The two bills are the latest attempt by Gov. Jared Polis's administration and state lawmakers to solve Colorado's property insurance crisis. Rates have skyrocketed in the past five years because of increasingly severe weather and wildfires, which are growing more destructive because of the impact of climate change in the state.

The issue became a priority after 2020 and 2021 when wildfires in Boulder, Grand and Larimer counties incinerated billions of dollars worth of property.

The 2021 Marshall fire, which destroyed more than $2 billion in houses, condos, apartments and commercial buildings in Boulder County, hastened the crisis, and people began calling the Colorado Division of Insurance asking for help after their insurance carriers began dropping them or raising rates.

But the efforts to rein in insurance affordability are stymied by the insurance industry itself, which experts say was not profitable in Colorado for eight of the last 11 years.

The bill that would increase fees for homeowners already has been drastically changed after the Rocky Mountain Insurance Association and other trade associations vowed to oppose it, saying the legislation would drive more businesses out of the Colorado market.

Those groups now are taking a neutral position at the legislature after lawmakers changed the proposed fee structure and removed a provision that would have impacted insurance company profits.

The legislation also is being proposed as Colorado launches its new last-resort homeowners insurance program called the FAIR Plan. That program is designed to provide bare-bones coverage to those who cannot find a company willing to write a policy for their property.

But the FAIR Plan also will cause rates to rise statewide because insurance carriers have paid $51 million so far to fund the program, and those costs will be passed down to consumers.

Biggest problem by far is hail

While wildfires get the headlines. another weather catastrophe drives up costs, too — hail.

"Our biggest affordability issue in the state from a homeowners perspective by far is hail," Conway said in an interview.

So HB-1302 would create a "strengthen Colorado homes" enterprise board that would distribute grants to homeowners so they could buy hail-fortified roofs. Homes that already have fortified roofs would be exempt and the fee would be eliminated from a homeowner's policy upon replacing an old roof with a hail-resistant one, according to the bill.

A second enterprise board would serve as a reinsurance program for wildfire recovery.

"We want to put together a reinsurance program that could offset $200 (million) to $300 million of wildfire risk in the state for a single event," Conway said.

Within the industry, frontline insurance companies like AllState and Geico buy backup insurance policies in case they are forced to pay out massive claims after a major disaster. That market is growing increasingly tight, which is discouraging some companies that write those backup policies — or reinsurance — from doing business in Colorado.

The state hopes that by offering money to offset losses in the reinsurance sector, it can lure business back, Conway said.

"For this purpose, we would be absorbing a potential risk for these companies and it would reduce their premiums," he said.

Colorado established a state-funded reinsurance program for health insurance in 2019, and Polis last fall announced it would save Coloradans $493 million next year, compared to how much premiums would have risen without it.

Both bills are supported by United Policyholders, a consumer advocacy group, as well as local governments and fire departments.

The reinsurance market is unregulated and that sector of the industry's withdrawal from Colorado is driving up prices, Amy Bach, executive director of United Policyholders, said during last week's House Finance Committee meeting. By creating a state-funded reinsurance program, more companies should return to the market and, with the guarantee of the state helping cover losses, they should sell their policies at more reasonable rates, she said.

"This seems to get at the core of what is making it so hard for homeowners," Bach said. "It makes a lot of sense and is the future of what we need to do."

Some Republican legislators on the committee opposed the enterprise board bill, saying they did not want to raise out-of-pocket costs for homeowners, although one Republican on the committee voted in favor of it.

"People in my district are concerned with the nickel and dining when it comes to fees," said Rep. Ryan Gonzalez, R-Weld County, who voted against the bill.

"Fragility of the homeowner insurance market"

The structure of both boards and how they would operate remains in question. For example, the hail enterprise board would have to decide how much it would distribute to individual homeowners and who would qualify for the grants.

The general idea, Conway told the legislators, was that the grants would cover the gap between the cost to replace a normal roof and the additional expense of buying a hail-fortified roof. The board might administer a lottery system to decide who would get the money.

Conway estimated a fortified roof costs an extra $3,000 to $4,000 for a 2,000-square-foot home. By funding that amount, the enterprise would be able to stretch its dollars further, increasing the overall number of homes with roofs that can better withstand hailstorms, he said. A similar program in Alabama has proven to help lower insurance premiums, he said.

That should lower premiums for everyone because insurance companies have less liability. And homeowners with hail-fortified roofs should see up to $400 in reduced premiums, Conway said.

Walker, of the Rocky Mountain Insurance Association, warned that the legislature needs to be careful in its attempts to address the affordability and availability of homeowners insurance.

If insurance is unaffordable, people won't be able to buy or sell homes, since banks require mortgage holders to have insurance policies. But insurance companies also cannot afford to continue losing money in the state, she said.

"As a Colorado homeowner, I've never been more worried about the fragility of the homeowner insurance market and the ability of decisions at the Colorado State Capitol to disrupt the availability," she said.