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FAIR PLAN

State launches "last resort" homeowners insurance policy

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Colorado will launch the state's new, last-resort homeowners insurance program — known as the FAIR Plan — today even as this summer's weather conditions could be ripe for severe hailstorms and wildfires.

Homeowners who can show they've been declined coverage by at least three commercial insurance companies can apply to purchase a FAIR Plan policy that would provide up to $750,000 toward the cost of replacing their home. Applicants will have the option to add coverage for wind and hail damage as well as theft and vandalism.

The FAIR Plan will not provide coverage for water or flood damage, liability, content replacement or additional living expenses should a homeowner be displaced by a fire.

"This product is not intended to compete with the admitted market," said Kelly Campbell, the FAIR Plan's executive director. "It's not intended to be the same as a basic homeowners policy. It's intended to reflect the replacement value in a high-risk area."

FAIR Plan policies will be sold through licensed agents, although a list of those agents was not yet online Wednesday evening. People can call their insurance agent to find out if they are licensed to sell FAIR Plan policies. For more information, visit coloradofairplan.com.

The Colorado legislature in 2023 approved the Fair Access to Insurance Requirements Plan in response to a growing property insurance crisis in the state.

More severe wildfires and hailstorms caused by climate change are driving up rates for homeowners and leading some insurance companies to withdraw from the market. The problem intensified after the 2021 Marshall fire burned more than $2 billion of homes and commercial buildings in Boulder County.

Colorado is the 38th state to create some sort of insurance safety net for homeowners, although a new public property insurance program hadn't been created in 40 years. The first one was organized in California in the late 1960s in response to inner-city riots, and they have spread around the country to help people find insurance where wildfires, hurricanes and floods are frequent.

But as the severity of catastrophes grows, FAIR plans are being squeezed, costing consumers more money and risking the collapse of some programs.

In California, the state charged insurance companies $1 billion after this winter's Los Angeles wildfires to bail out its FAIR Plan so it could pay claims, and that cost will be passed along to consumers.

Campbell said Colorado's FAIR Plan has been designed so it can handle a major wildfire or rash of hailstorms, and it can grow if the need increases.

"These conditions we are seeing in Colorado this year are the same we've seen year over year over year, which is what prompted the FAIR Plan," she said. "We are aware this is the new reality when it comes to fires."

So far, insurance companies — including Nationwide, Progressive and Liberty Mutual — doing business in Colorado have been charged a total of $51.5 million to start up the FAIR Plan, Campbell said. That's about 1% of the $5 billion collected annually through premiums on homeowner policies in Colorado, she said.

Insurance companies are expected to raise property insurance rates across the board in Colorado to recoup those expenses.

For now the FAIR Plan is not offering commercial property insurance policies but plans to do so by June, Campbell said. Rates for the FAIR Plan will vary, depending on where a house is and the risks associated with that location.

For example, the basic annual premium for a 2,288-square-foot home in Evergreen would cost $4,361, according to data provided by the FAIR Plan. If that homeowner chose to add coverage for wind and hail damage, they would pay an additional $1,151. Vandalism coverage would cost an additional $33.62, putting the policy total at $5,547.

A similar-size home in Denver would have different rates, based on the lower wildfire risk but increased chance of hail damage. That home's basic premium would be $190.66, but it would cost $3,476 to add hail and wind protection. Vandalism would cost $25.50, according to the FAIR Plans examples on costs. A policy to cover all three potential disasters would be $3,693.

People should be careful when comparing FAIR Plan costs to their current homeowner's policies, Campbell said. Those policies include more coverage than the FAIR Plan, which is intended to provide the bare minimum. People using the FAIR Plan can ask their agents about additional policies to provide more coverage such as liability on their property.

Campbell said she is unsure what to expect as far as demand.

"I hope tomorrow is my most boring day on the job," she said. "I hope people get better coverage on the admitted market with well-known carriers and they don't need to come to the FAIR Plan."