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COLORADO PROPERTIES

# Plan takes shape for “last resort” insurance

Program to address homeowner, commercial availability, not affordability



Kelly Campbell is the first executive director of the Colorado FAIR Plan, a new insurance platform established by the legislature to serve as a last resort for property insurance in Colorado. HYOUNG CHANG — THE DENVER POST

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A new insurance company is forming in Colorado, but it won't be advertised on television by Patrick Mahomes, an emu or a guy named Mayhem.

Instead, this insurer will be overseen by a board appointed by Gov. Jared Polis, run by a former lobbyist and funded through fees charged to State Farm, Allstate, Liberty Mutual and other mainstream insurance companies. It will be available only as a last resort to Colorado residents who can't buy property insurance from any of those commercial carriers.

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The legislature in 2023 approved the Fair Access to Insurance Requirements Plan, which gave Polis the authority to create the first new public property insurance program in the United States in 40 years. \*

The Colorado FAIR Plan is expected to be in business in early 2025.

It's essentially building a new insurance company from scratch with new employees, fundraising and a business plan, said Kelly Campbell, the plan's executive director.

"We're building the airplane as we are flying it through a thunderstorm," Campbell said, "without the landing gear."

The urgency to create a public insurance program arose after 2020 and 2021, when wildfires in Larimer, Grand and Boulder counties incinerated billions of dollars of property.

The 2021 Marshall fire destroyed more than \$2 billion in houses, condos, apartments and commercial buildings in Boulder County alone.

Shortly afterward, Colorado's insurance commissioner, Michael Conway, began receiving calls from people across the state saying their carriers were dropping them, leaving homeowners scrambling to find insurers that would take the risk.

Since then, wildfire risk in the state has grown amid an ongoing drought and rising global temperatures, which create more intense natural disasters such as fires, floods and hurricanes. CoreLogic, a company that produces a wildfire risk assessment for every state, estimated in August that 321,294 homes in Colorado valued at \$141 billion were at risk of being destroyed in a wildfire, ranking the state second in the nation when it comes to the value of property in danger. \*

Colorado homeowners also are at a high risk of financial losses because of hail damage.

A report this year by Roof Gnome found 20 of Colorado's 64 counties were on a list of areas in the United States most vulnerable to hail. \*

Because of those two types of natural disasters, insurance companies have become less willing to write homeowner policies, particularly to people who live in the mountains or in communities where forests and open space are nearby.

### **"Ensure that we have a healthy marketplace"**

Since the law was enacted, Polis has appointed a nine-member board of directors to oversee the FAIR Plan's buildup, with members heavily representing the insurance industry and two people representing consumers. That board hired Campbell, who most recently worked as a lobbyist for the insurance industry in Colorado and helped lawmakers write the bill that created the FAIR Plan.

Campbell, who has spent 20 years in the insurance industry, said she believes in the idea of a FAIR plan for Colorado because people need to protect their most valuable assets — their homes.

"The FAIR Plan is way to ensure that we have a healthy marketplace in Colorado. The FAIR plans are built to expand and contract as needed. I just fundamentally believe they are a critical component in a volatile market like Colorado because of wildfire, because of hail," she said. "It's not the silver bullet. It's not going to fix all the problems, but it is a critical tool in the toolbox. And I believe in it."

The FAIR Plan will be designed to address property owners' ability to find an insurance policy. But it will not help with the dual problem of the rising costs to buy a policy. In Colorado, homeowners insurance rates jumped 58%



from 2018 to 2023, according to a report from S&P Global, a financial services company. \*

If the FAIR Plan's board has its way, few of the policies actually will be sold.

"We have seen FAIR plans work really, really well for decades especially in places where they don't use the policies very much," said Carole Walker, executive director of the trade group Rocky Mountain Insurance Information Association and a Colorado FAIR Plan board member.

In other states, similar insurance programs have benefited homeowners who need insurance coverage for damage caused by hurricanes, wind, hail and fires. But they also have become a problem when too many homeowners rely on them for coverage.

In Florida, for example, the Citizens Property Insurance Corporation ran into financial problems as more and more private insurance companies vacated the state, leaving people with no option but to buy into the public plan. But the public plan did not collect enough money to insure Florida's massive hurricane losses. \*

Campbell said Colorado's board has been mindful of problems in other states. In Florida, the state is the insurance company, but Colorado established its plan so that it is not a state entity and is not funded by taxpayers. \*

"We want to make sure that we don't have negative implications to the state's financial position," she said.

Money to fund the insurance program is raised through an assessment charged to insurance carriers licensed to do business in Colorado. The first assessment raised \$5 million to pay salaries for Campbell and other future employees and to hire actuaries to help figure out the math that will set rates to make sure there is enough money to pay claims should a disaster happen.

A second assessment is set to be levied in the coming weeks, once Campbell and the FAIR Plan board figure out how much they need to buy reinsurance, which is a financial backstop for frontline insurance providers, Campbell said.

### **Plan won't cover full replacement cost**

Although the specifics of how the Colorado FAIR Plan will work aren't settled, there are few things that certain.

To qualify, a homeowner or commercial building owner must have been denied coverage by three companies.

The FAIR Plan will cap coverage for single-family homes at \$750,000, and that coverage would be extremely limited.

A person who owns a more expensive home can buy the FAIR Plan policy but would need to purchase a surplus or wrap-around policy to cover the rest, which would mean holding multiple policies on one property. The theory is that commercial insurance companies will be more willing to take on risk when they know they're not on the hook for the total cost of replacement.

"The average homeowner in Colorado isn't used to stacked policies," Campbell said. But "it's not a new concept to have policies that fit together."

That \$750,000 would cover fire damage and could be extended to include wind or hail damage.

It would be what is known in the industry as an actual cash value policy, so it would cover only the depreciated cost to repair or replace the house, Campbell said.



If the homeowner chooses to insure contents, including furniture and clothes, through the FAIR Plan policy, then it would be deducted from the \$750,000 limit on the structure. The same would go for additional coverage for things such as debris removal or additional structures such as a detached garage.

The FAIR policies will not cover water damage, theft, liability or law and local ordinance changes that require building upgrades that were not previously part of the building, Campbell said.

"This isn't a replacement cost policy," Campbell said. "It's intended to basically kind of pay for the value of your home, not the cost to replace it."

Commercial properties that buy FAIR Plan policies will have a \$5 million limit, and they will have the same limitations as the homeowners policies, Campbell said.

The FAIR policies are not yet available, but once the product is on the market in early 2025, people will need to contact licensed insurance brokers who will be registered with the program to buy the coverage.

Amy Bach, executive director of the consumer group United Policyholders, said she was reluctant to criticize Colorado's program in its infancy.

But she said the bare-bones coverage is a sign of Colorado's insurance industry "holding their noses and putting together the most palatable type of a product their members can sell."

Buying insurance already can be complicated, and the FAIR Plan will open a whole new market for patchwork plans for homeowners and commercial building owners to figure out, she said.

"It just gets more complicated for people," Bach said. "Instead of buying just one home insurance policy, now in some cases they have to buy three."