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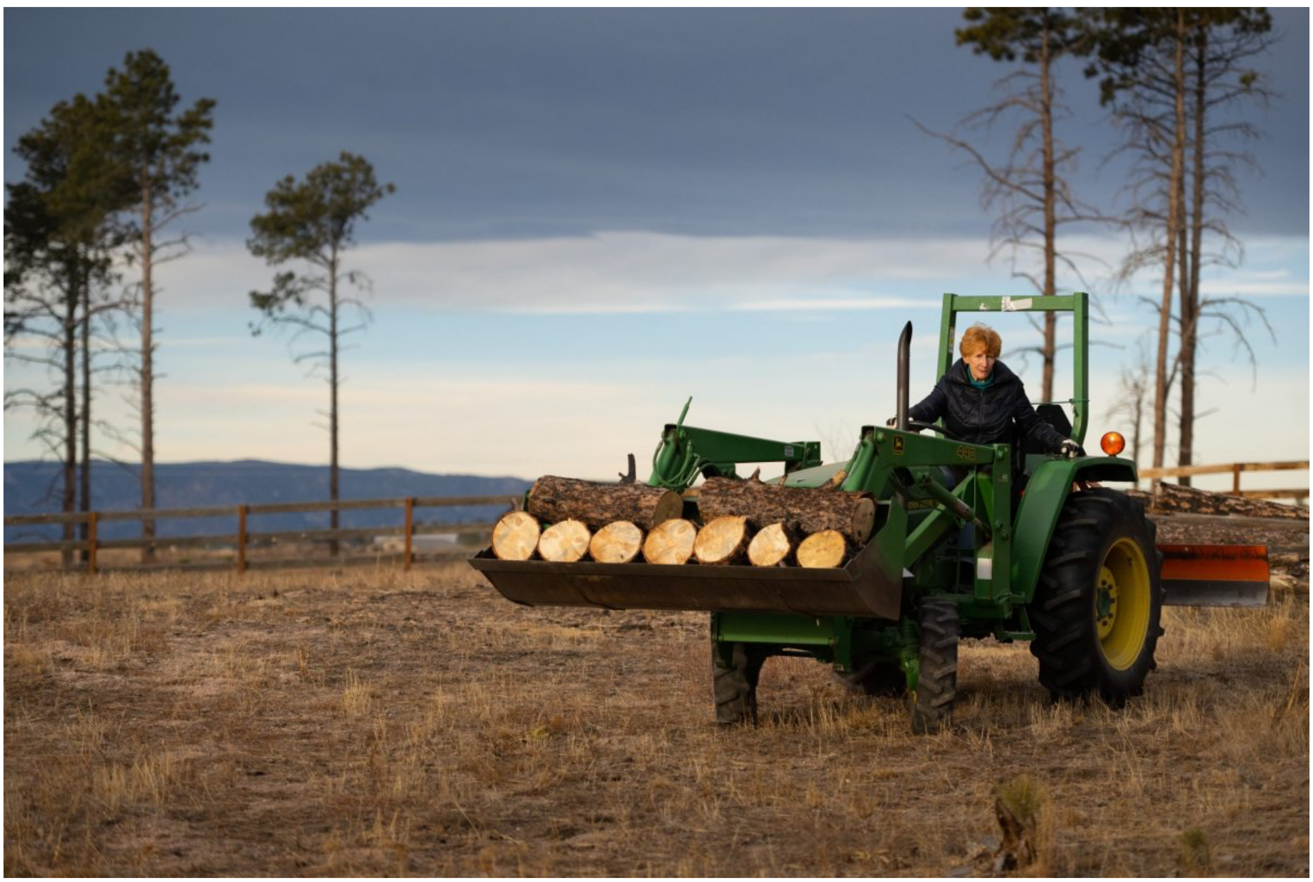
Why disaster mitigation can protect your house, but may not lower your insurance bill — yet

As Colorado's insurer of last resort comes online, new technology and upcoming legislation could make rising insurance premiums finally reflect efforts to lower risk

Olivia Prentzel and Tamara Chuang4:10 AM MST on Jan 20, 2025



Carolyn Brown moves logs January 12, 2022, from felled trees on her Black Forest property. Brown lost her home to the 2013 Black Forest fire but rebuilt in the same spot where she has lived since 1978. Brown cuts and hauls her firewood herself. (Mark Reis, special to The Colorado Sun)

Data and technology are feeding a plethora of new methods to help homeowners figure out their property's risk for wildfire, flooding or other extreme weather event. It's as simple as typing in one's address to get an instant and detailed report, complete with action items to protect their property from wildfires or one of the Front Range's notorious hailstorms.

But if insurance companies aren't taking those models — or homeowner mitigation efforts — into account, what's the point, wondered Colorado Insurance Commissioner Michael Conway.

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"It makes me feel like we're lying to people," Conway said at an Oct. 15 town hall for homeowners in Pueblo. "So if we're telling people that they should do things, then that has to be reflected in these models. So they have to get better."

Several billion-dollar disasters affecting Colorado properties have led to a spectacular rise in homeowner insurance premiums in the past few years, while insurers cite larger losses because they're paying out more in claims than they're taking in from customer premiums. The wildfires still burning in Los Angeles have created unprecedented property losses at a time when several insurance companies had already dropped customers in risky areas.

Colorado has its own solutions on the way with the Fair Access to Insurance Requirements, aka the FAIR Plan, the state's own home insurance plan. FAIR expects to start accepting applications from homeowners who've been rejected by everyone else "this quarter," a fuzzy start date. Other laws passed in prior years are also in study sessions while Conway said he's been working with lawmakers on proposals to make sure homeowners' work to make their houses more resistant to fire and hail aren't overlooked.

It makes me feel like we're lying to people. So if we're telling people that they should do things, then that has to be reflected in these models.

— Colorado Insurance Commissioner Michael Conway, *at an Oct. 15 town hall for homeowners in Pueblo*

Proposed legislation this session would require insurance carriers to consider mitigation efforts completed at a state, community and property level and factor those efforts into premiums. That would benefit proactive communities, such as Colorado Springs where several projects are underway to reduce dead fuels in open spaces and parks across the city. The fire department works in 140 neighborhoods, through a community chipping program, to help residents dispose of tree branches and clear hazardous vegetation from properties.

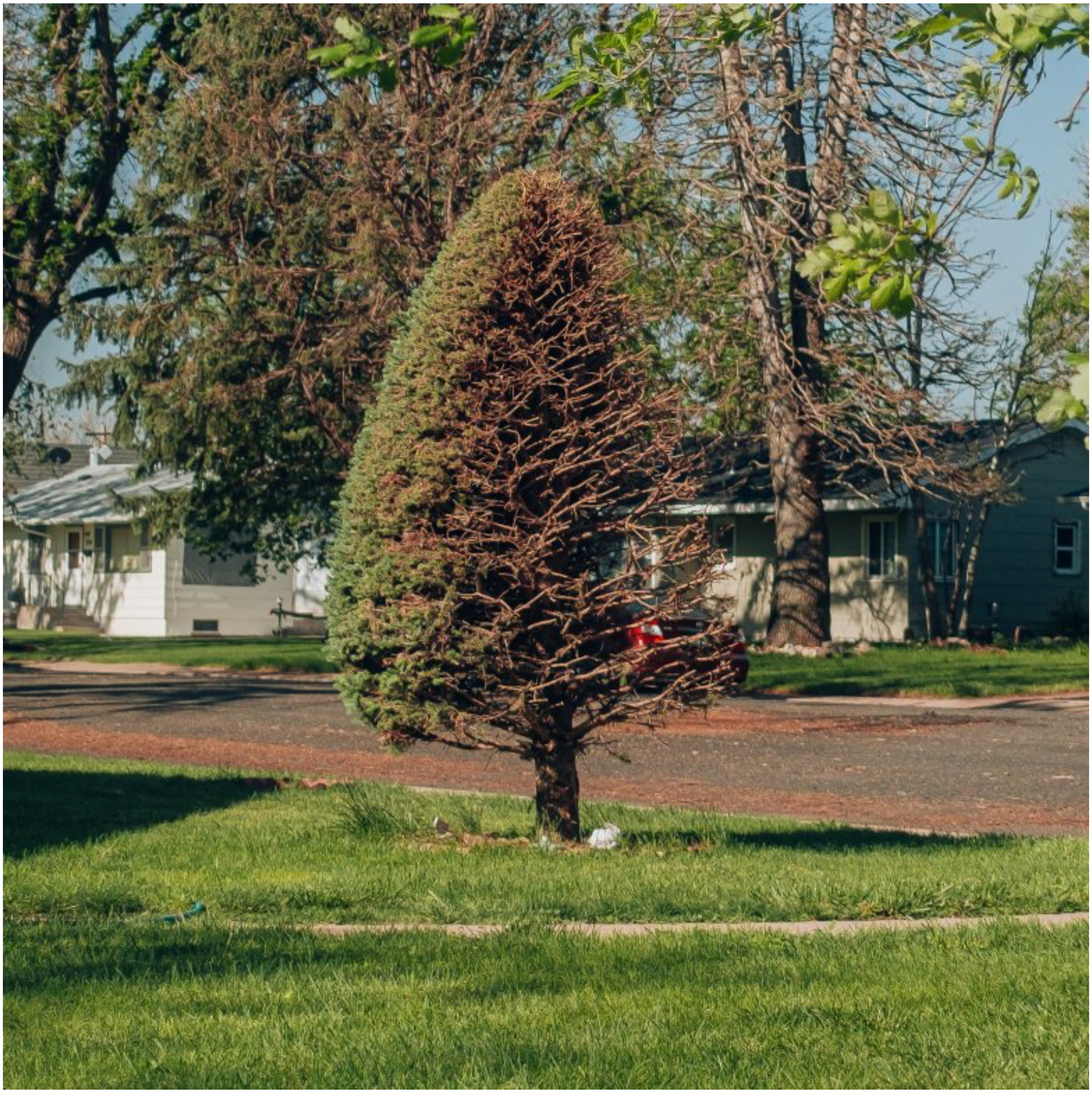
At the state level, millions of dollars have been poured into the state's firefighting fleet, including more than $50 million to purchase two Firehawks — modified military helicopters that can quickly crisscross the state and drop 1,000 gallons of water to douse flames.

"These companies have to figure out a way to build that in," Conway said.

The bill also focuses on transparency by requiring insurers to share the discounts available for mitigation. Homeowners would also be able to see their wildfire score and appeal it if they feel it's inaccurate. Mitigation discounts wouldn't be mandated though, at least not yet.

"We want to make it as simple as pie for people to figure out what discounts they can get if they do certain mitigation steps," Conway said.

Another bill seeks to provide grants to people to fortify their roofs against hail. That will protect the house and likely reduce the number of claims to the insurer, which helps the market as a whole. The bill would also set up a reinsurance cap program just for wildfires, which could increase premiums but spreads risk so insurers can cover more homes in more places.



A pine tree displays damage caused by the massive June 2024 hailstorm in Yuma, . (Eric Lubbers, The Colorado Sun)

But another reason to improve insurance modeling is that catastrophe models aren't always accurate. If they assume too much risk, it's consumers who pay.

"There is a risk that the models will be wrong and people will be paying too much because the model inaccurately forecasted the risk of wildfire," Conway said. "We think insurance companies should carry part of that risk."

Another piece of legislation that could be tacked onto the bills would set a loss-ratio requirement in Colorado — "We would be the first state to do so," he added.

An insurance company's loss ratio is the difference between how much customers pay in premiums and how much the insurer pays in claims. A loss ratio of 100% means the insurer breaks even on customer premiums. But that doesn't include other needed expenses to run the operation, such as appraisals, investigations and the administrative load.

A Flourish chart

But too low of a loss ratio could mean the insurance isn't needed, such as earthquake insurance in Colorado. In 2023, the loss ratio of earthquake insurance in Colorado was 5.45%, because very few claims were made. However, "Homeowners Multiple Peril," or homeowners insurance, had a loss ratio of 115.05%. Catastrophic events send those loss ratios shooting past 100% since covering claims on a destroyed home are well above the customer's annual premium.

"We're firm believers that the (catastrophe) models are good and they should be used in our market," Conway said. "But we also absolutely know that the cat models are going to be inaccurate and they're going to be wrong. Right now, the insurance companies are really putting all of that risk on the homeowner of the model being wrong."

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Conway said he hasn't discussed what the ratio could be with the insurance industry but expects a balanced loss ratio would be in the range of 70% to 80% a year for home insurance. In other words, for every dollar customers pay in premiums, 70 to 80 cents must be used to pay customer claims.

"There is a risk that the models will be wrong and people will be paying too much because the model inaccurately forecasted the risk of a wildfire," he said. "We think insurance companies should carry a part of that risk."

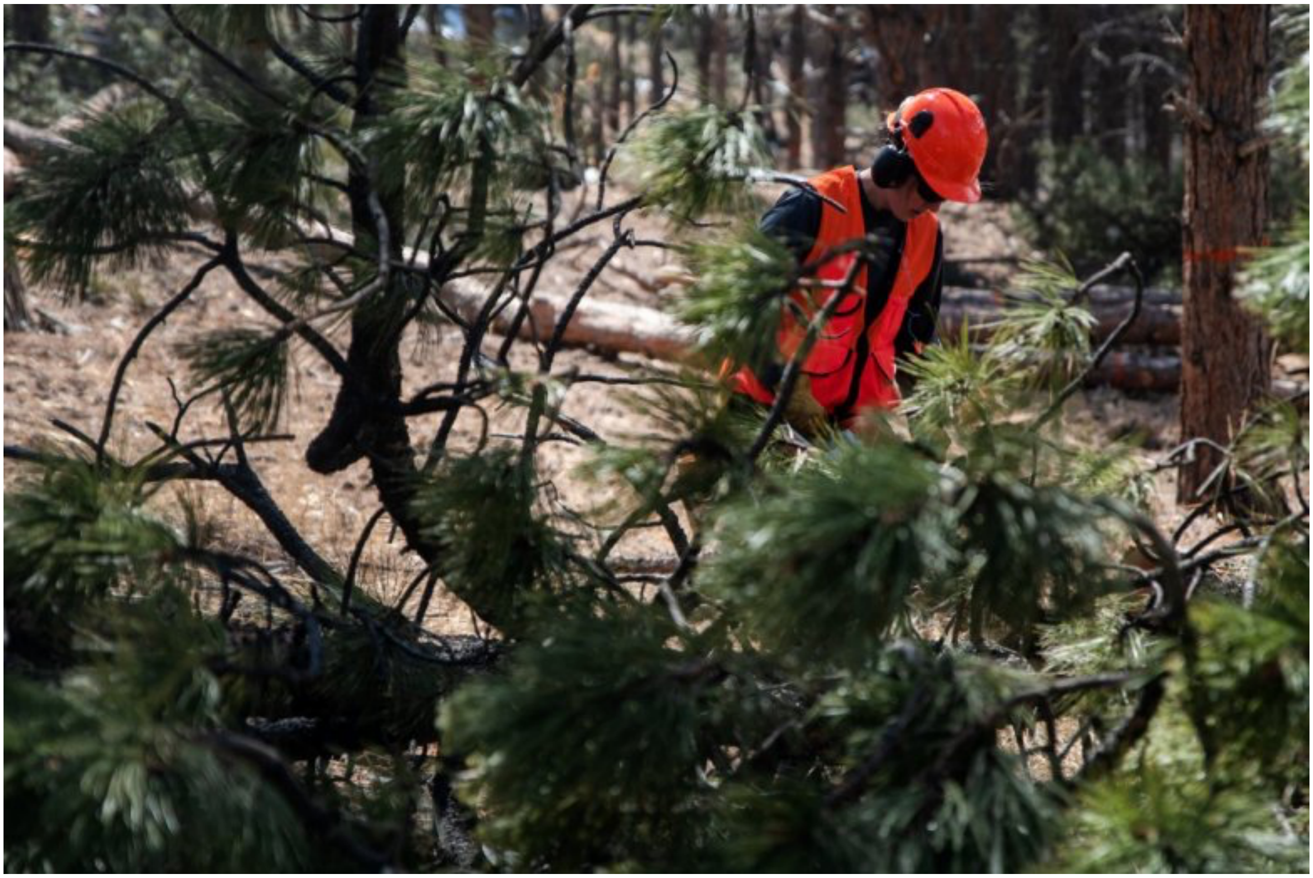
How new forecasting methods help

The new tools are quite remarkable. Zesty AI, a California-based property risk analytics company, uses satellite imagery to assess risk of extreme weather events at the property level.

"In our risk assessment, you can have two neighboring properties get different scores because we are taking into account what is actually happening at the individual property," Kumar Dhuvur, co-founder and chief product officer said.

Zesty AI uses more granular data than traditional modeling companies, such as public property tax records, building permits and aerial imagery to look at what improvements the owner has made to the property and the materials used to build the house, he said. Satellite imagery of properties, similar to Google Earth, typically updates 3 to 4 times a year, allowing the homeowner's mitigation work to be factored into their score.

For a property in an area with high wildfire risk, Zesty AI provides a neighborhood score between 1 and 10 that rates the probability of a wildfire in that area, considering factors such as wildfire history, slope, precipitation and temperature.



A Jefferson County natural resource specialist cuts limbs from a tree near the Sawmill Trail in Golden. Forest thinning, a method of wildfire mitigation, reduces the density of trees, changing how a wildfire behaves so its path is less destructive. Distributing trees of different ages leaves natural gaps in a forest's canopy. (Olivia Sun, The Colorado Sun via Report for America)

A second score, also on a 1 to 10 scale, evaluates the risk at a property level and evaluates a property's roof material, vegetation density in areas near the house and other mitigation factors.

A home in Golden, for example, received a neighborhood risk score of 6, indicating that it was at a high risk of being included in a wildfire perimeter. Its property score was 9 out 10, indicating "very high risk."

Satellite imagery of the property, at an undisclosed address, showed several trees overhanging the house and nearby vegetation. By trimming branches and removing shrubs and plants near the home, the property's risk score dropped to a 4, indicating low risk.

A 2021 study co-authored by Zesty AI and the Insurance Institute for Business and Home Safety found that work to reduce fuels around a property can double its likelihood of surviving a wildfire.

Dhuvur said he hopes by pricing risk more fairly, homeowners will have more incentive to invest in mitigation work to protect their home and community from wildfire. It also makes insurance more available.

"Part of the challenge is if you don't introduce these kinds of more accurate risk assessment or more accurate property-level risk assessments, what happens then is insurance carriers will essentially say, 'Hey, this ZIP code or this entire region, I'm not going to write any policy because I cannot really tell which of the properties are good risks and bad risks,'" he said.

For those out of luck, FAIR is coming

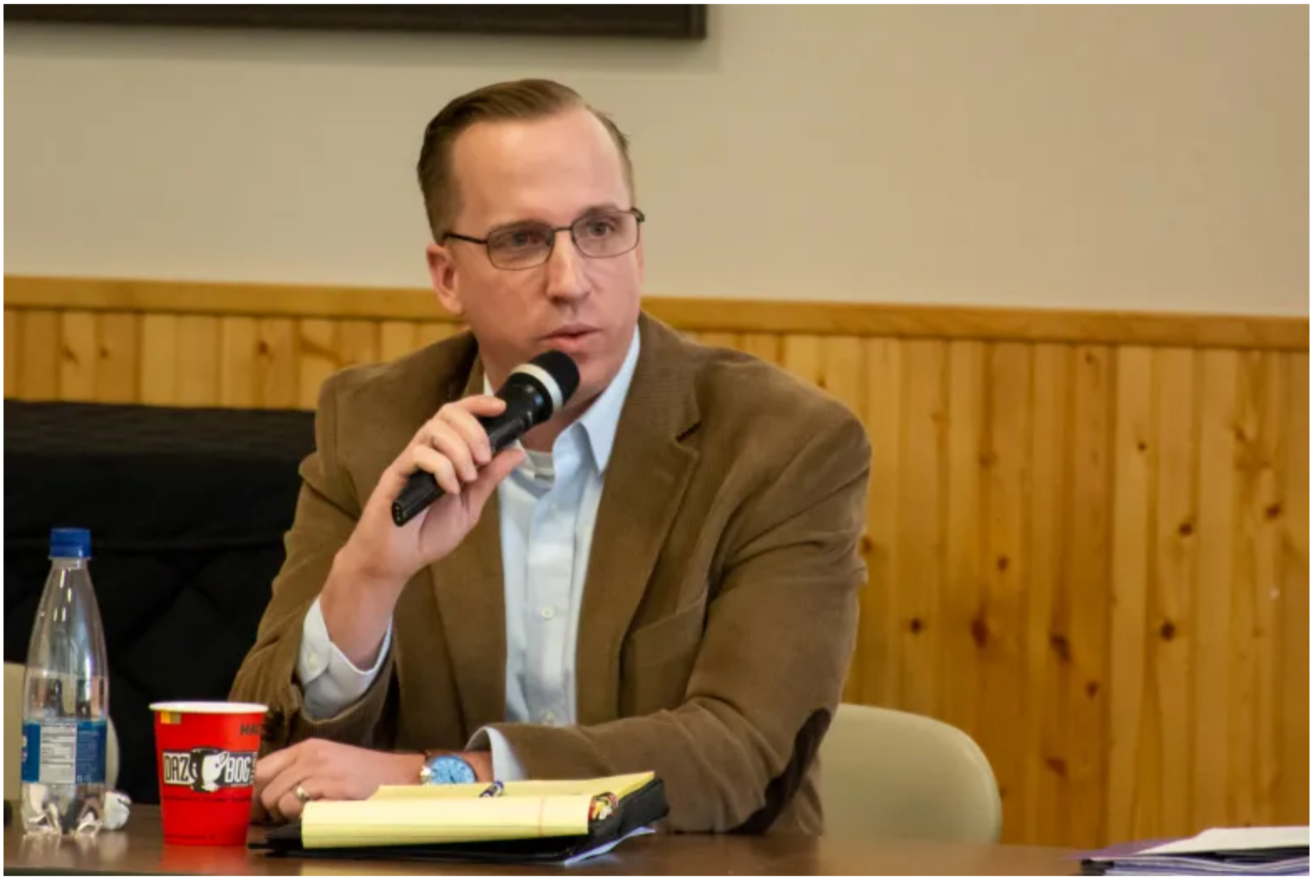
This quarter, the state's FAIR Plan will start accepting applications from homeowners rejected by at least three other companies, said Kelly Campbell, executive director of the Colorado FAIR Plan Association.

At least that's the goal.

The upstart "insurance of last resort" is still going through the process of setting rates, making sure they're sound and getting them approved by the state. Conway, the state's insurance commissioner, said that if that happens by the end of March, that's pretty quick. The board was appointed about 18 months ago and had to set up a new insurance company from scratch.

"It's the first FAIR Plan that any state has stood up in 40 years," he said. "So, unfortunately, there isn't any kind of out-of-the box solution for us to just cut and paste."

Created by House Bill 1288 in 2023, the FAIR Plan offers limited coverage to those who can't get any. It's intended to cover properties in areas at high risk for hail and wildfire damage. It's not meant to be a choice. It'll be the only option.


Colorado Insurance Commissioner Michael Conway speaks at a public forum in Frisco on Feb. 21, 2020. (John Ingold, The Colorado Sun)

“The mechanics of what we are doing right now is very similar to what a lot of others do,” Campbell said. “But what is going to be different is that our underwriting guidelines are going to look different. An insurer of last resort is different from a company that is looking at their risk. I mean, we are intended to take on risks that other companies may not want … so our underwriting guidelines are going to look different. In addition, our product looks different.”

Typical homeowners insurance can offer coverage for home replacement, water damage, theft and liability, and even cover additional living expenses for homeowners who must live elsewhere while repairs are made.

Not the FAIR Plan.

“We specifically have exclusions for water damage, theft and liability. The policies reflect the additional risk of the properties so it does look different than the competitive market,” she said.

Homeowners may still be able to get those additional policies from other insurers. That's known as "wrap policies."

FAIR coverage maxes out at $750,000 for homeowners and $5 million for commercial properties, which include condo communities. That's for the structure, contents and all. It's not intended to be an option for homeowners. It'll be the only option.

The plan, which Campbell estimated 29,000 property owners may be eligible for, was designed as a safety net for residents to ensure they aren't left without insurance protection. To qualify, residents must show proof of three rejections of coverage. By April, the board is expected to present a report that will include the more details of the coverage, including the number of policies and coverage available and the types of claims that can be made and when applications will open.

FAIR plans in states like Florida and California launched decades ago. But walloped by extreme weather-driven storms causing billions in damage, those state insurers have come under heavy criticism for financial sustainability. In Southern California, where wildfires have destroyed or damaged 12,000 structures since Jan. 7, insured loss estimates were up to $30 billion on Wednesday, The Wall Street Journal reported. But California's FAIR Plan reportedly had just $377 million available to pay customer claims.

Campbell said Colorado's plan will be different. Prices will be high but she declined to share examples of how high. Premiums will be unique to the property and customer. However, it won't be just another option for homeowners faced with dramatically higher bills, she said. It's for folks who cannot get insured by anyone else.

"We really tried to learn some lessons from those other states that have FAIR Plans that have really struggled, states like Florida, states like California," she said. "Oftentimes the FAIR Plan is priced less than the admitted market and so it no longer serves that function of being the market of last resort. It becomes more of a market of choice. Colorado has been very disciplined to ensure that the FAIR Plan is really intended to address availability issues rather than affordability issues."