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Homeowner Associations and Property Insurance

A homeowner association (HOA) must obtain insurance to cover common elements such as physical property and liability. Unit owners within an HOA also purchase insurance to cover the homeowners' private property, parts of the unit not covered by the HOA's policy, and liability. This issue brief outlines insurance coverage for HOAs and unit owners, circumstances contributing to the cost of insurance, and current laws that address insurance issues.

Insurance for Homeowners Associations

HOAs are responsible for obtaining coverage that meets the requirements of the Colorado Common Interest Ownership Act and the HOA's Covenant, Control and Restrictions (CC&Rs). These master policies provide coverage for common areas and structures, including roofs, exterior walls, and fixtures within units depending on the policy type. HOAs levy fees on unit owners to fund these master policies. Other types of insurance policies for HOAs include:

- general liability coverage, which protects against injury or damage claims in shared spaces;
- directors and officers insurance, which safeguards board members against lawsuits related to their duties; and
- fidelity insurance, which protects against fraudulent activities committed by HOA employees or members.[1]

Homeowners Insurance

Individual homeowners are not required to purchase homeowners insurance in Colorado; however, many mortgage lenders require insurance to obtain a loan. Homeowners insurance companies spread the costs and risk across all policy members in exchange for premiums. These premiums are collected monthly, quarterly, or annually, and are mainly paid through the homeowner's mortgage escrow account. Premium rates are determined by several factors, including:

- environment (wildfires and extreme weather events);
- economy and market (inflation and cost of rebuilding homes);
- location (state and/or city coverage requirements); and
- personal (claims and credit history).

Colorado operates under a competitive, or file-and-use, rating system in which property insurance companies may implement new rates before receiving state approval. However, regulators may still reject rates that are determined to be excessive, inadequate, or discriminatory.

[1] Section 38-33.3-313, C.R.S.

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Owners of a single family unit within an HOA may purchase a standard homeowners insurance policy that covers the structure, personal property, and liability. A condominium or townhome within an HOA typically requires a specific HO6 insurance policy. The HO6 covers condominium and co-op owners for personal property, liability, and parts of a unit not covered by the association's master insurance policy, typically the structure from the walls in.

Coverage requirements

An HOA's CC&R may provide specific coverage requirements for unit owners.[2] Additionally, insurance policies may include loss or special assessments that the HOA may levy on unit owners to cover costs such as deductibles, repairs, liability claims, or money owed beyond policy limits. If an HOA changes its master policy, a unit owner may require additional insurance.

Cancellation or non-renewal

When cancelling or not renewing a homeowner's insurance policy, the insurance company must mail a notice to the insured at their last known address at least 60 days before the cancellation or non-renewal. The notice must state the reason for the cancellation or non-renewal. If the cancellation or non-renewal is for nonpayment of the premium, the insurer must provide at least 10 days' notice.[3]

An insurance company may not discriminate against an individual by cancelling or not renewing a policy based only on the location of the property, age of the property, or the insured's mental or physical impairment. Any decision related to the property's location must be based on sound underwriting and actuarial principles or loss experience.[4]

Rising Insurance Costs

According to the Rocky Mountain Insurance Association, between 2018 and 2023, the average homeowners' premium rate in Colorado increased by 57.9 percent – higher than the nationwide average of 33.8 percent over the same period. In 2021, the average homeowners' insurance premium in Colorado was $1,897.

According the Division of Insurance, within the Colorado Department of Regulatory Agencies, several factors contribute to rate increases for both HOA and homeowners insurance policies, including:

- increased frequency and intensity of extreme natural disasters, such as wildfires, floods, and hurricanes;
- increased insurance company expenses for reinsurance that spread the risk of coverage;
- increased labor and material costs;
- national trends and regional issues that affect claims and rebuilding;
- higher risk of claims being filed; and
- rising property values requiring more insurance.

Legislative Response

During the 2023 and 2024 legislative sessions, the General Assembly passed several bills that

[2] Section 38-33.3-306, C.R.S.
[3] Section 10-4-110.7 (3), C.R.S.
[4] Section 10-3-1104, C.R.S.

address the rising costs of HOA and homeowners insurance.

House Bill 23-1174 specified what insurers must consider in establishing homeowner coverage for reconstruction costs, including:

- the age of the original structure or the year of the original structure's construction;
- an estimate from a contractor or an architect;
- roofing materials and type of roof; and
- siding materials and type of siding.[5]

The bill also required the Division of Insurance to publish an annual report on the cost to reconstruct a home, considering location in the state, home design, custom options, and other items.[6]

House Bill 23-1288 created the Fair Access to Insurance Requirements (FAIR) Plan.[7] The FAIR Plan was created to address situations where insurance companies may refuse coverage due to high-risk factors, or when coverage is unavailable through traditional means. The plan is designed to ensure that homeowners and businesses in Colorado have access to insurance in areas prone to natural disasters or other risks. Access to FAIR Plan policies is not expected until early 2025.

House Bill 24-1108 created a market study for property and casualty insurance issued to HOAs and lodging facilities, due January 1, 2026. The study will look at:

- current market conditions;
- recommendations for long-term sustainability of the market;
- the creation of captive insurance companies that plan for future loss events and make strategies to deal with losses; and
- the impact of captive insurance companies on the market.

The insurance commissioner will accept input from insurance companies, consumer groups, and other interested parties. In addition, data will be collected about the location of insured parties, underwriting practices, and losses and expenses.

[5] Section 10-4-110.8, C.R.S.

[6] Section 10-1-144, C.R.S

[7] Section 10-4-1804, C.R.S.