

Wildfire Matters Review Committee

September 19, 2023

Commissioner Mike Conway

Agenda

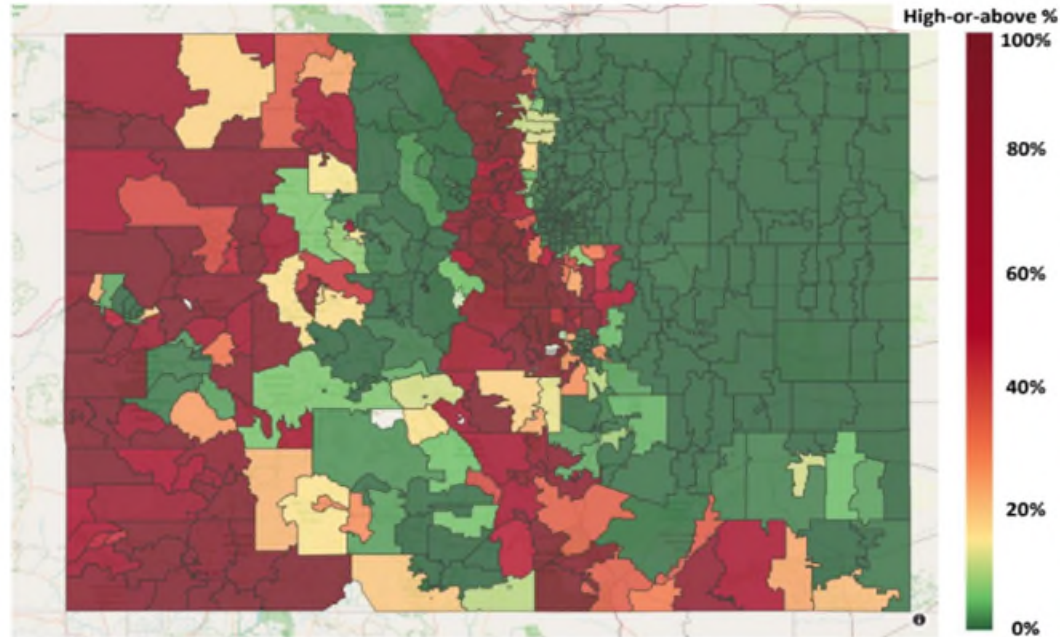
- Overview of the Colorado Homeowners' Insurance Market
- Division Activities
 - HB23-1288: Fair Plan Implementation
 - HB23-1174: Affordability Study
 - RFI for Parametric Insurance Concept



Key findings: Colorado Wildfire Risk

Representation of wildfire risk in Colorado at the ZIP code level

Measured as the % of building structures found in areas of “high”, “very high” or “extreme” risk



Wildfire Exposure in Colorado

Wildfires are believed to have played a material role in Colorado’s loss experience in recent years, and such it is anticipated that at least some of the measures implemented by carriers (such as non-renewals and tightening underwriting criteria) are targeted at controlling this risk.

There is indeed significant wildfire exposure in the state. The map on the left combines Guy Carpenter’s wildfire risk score and satellite imagery to estimate the level of wildfire exposure found in each ZIP code of the state.

This wildfire exposure is largely concentrated in two bands of land that run across the state from North to South, with the easternmost band running close to the densely populated areas of Denver, Colorado Springs & Fort Collins.

High-or-Above Areas of Wildfire Risk

The wildfire map segments the US territory into zones representing exponentially more risk of wildfire. The risks starts becoming more material once we reach the “High” zone and above.

The exposure at the ZIP code level is estimated by counting the building structures that fall under high-or-above areas using satellite imagery. Overall this represents 16.64% of building structures in Colorado.

Color Scale Disclaimer

Any ZIP code not depicted with the darkest shade of green presents some exposure to areas with high-or-above risk of wildfire.

Note: Blank shadings indicate areas where a score was not available. Different ZIP code extraction dates between GC and OW are causing a handful of discrepancies.

Key Findings: State of the Colorado Market

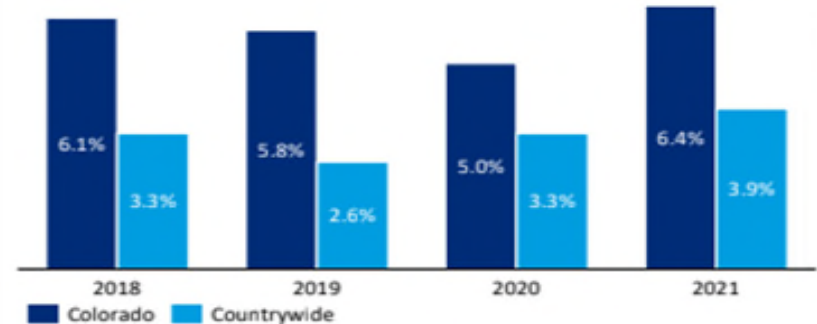
5-Year Loss Ratio Assessment

The Colorado "Homeowners Multi-Peril" market has been struggling over the recent years from a profitability standpoint. Colorado's Loss & DCC¹ ratios have consistently been above countrywide averages, leading each time to an underwriting loss for the industry:



Source: S&P Market Intelligence, Oliver Wyman Analysis.

Approved rate changes by year – Homeowners MP – Selected Carriers¹



¹: Derived from the rate filings of top national carriers (~Top 10) in each state.

The magnitude of the difference between rate adjustments undertaken in the state vs the rest of the country highlights the industry's perspective on the profitability of homeowner policies in the state.

Source: S&P Market Intelligence, Oliver Wyman Analysis.

¹: DCC stands for Defense & Cost-Containment Expenses. It refers to the costs of adjusting a specific claim, and represents roughly 1%-2% of Earned Premiums for the "Homeowners Multi-Peril".

Key Findings: Trends in Written Exposures

The growth in written units observed at the industry level is driven by the largest carrier groups; others have been shrinking in the last 2 years.



- The industry as a whole has been growing (at a generally declining pace) since 2020. However, outside of the top 5 carrier groups, exposures have been materially shrinking since 2020-Q4.
- Growth in the overall industry & Top 5 carrier groups has leveled off, just reaching 0% growth for the first time in 2022-Q3. Larger concerns may lie ahead if the largest carriers are also starting to reassess their appetite.
- A market consolidation appears to be taking place in Colorado, with the largest carriers taking a bigger piece of the pie.

A majority of carrier groups have been shrinking their exposures in the state in 2022 (YTD-October)



Through October 2022 year-to-date, **76% of carrier groups have written fewer policies** than during the same period last year. Furthermore, a material **32% of carrier groups are even down more than 10%** over the period. At the industry level this is offset by some larger carriers picking up a portion of the risks left out by others.

Why is this happening?

Three major drivers:

- Global reinsurance market
- Hail, hail, and more hail
- Wildfire risk

HB23-1288: FAIR Plan Implementation

- It will serve as the insurer of last resort in Colorado
- First FAIR plan to be created in approximately 40 years
- A solution for availability, not affordability
- Timeline

Homeowners' Insurance Affordability

- HB23-1174 provides that, after a stakeholder process, the Division may contract with a third party to evaluate policies to address homeowners insurance affordability
- Stakeholder process is underway:
 - August 29, October 5, and October 22 meetings
 - Focus of upcoming meetings: policy ideas to address single family and multi family home issues
- All ideas are welcome

Parametric Insurance Policy Concept

- Parametric insurance insures a policyholder against the occurrence of a specific event by paying a set amount based on the event's magnitude.
- The policy would have a geographically defined parameter coupled with a scalable number of total loss homes from a single wildfire event.
- What does that mean?

Next Steps

- Division issued a Request for Information on the Parametric Insurance Proposal
- Responses requested by October 2nd
- This product does not currently exist - in other words, we aren't sure if this is a good idea yet

Mitigation

- Wildfire mitigation
 - Along with helping to address safety concerns, it may be key to availability of homeowners insurance
 - It likely has to be performed annually in the community
- Hail mitigation
 - Hardening of roofs may help us address affordability



For further information:

<https://doi.colorado.gov/insurance-products/homeowners/renters-insurance>

To sign up for the stakeholder meetings:

<https://doi.colorado.gov/homeowners-insurance-affordability-accessibility>

Questions?

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