Colorado Insurance Availability and Affordability

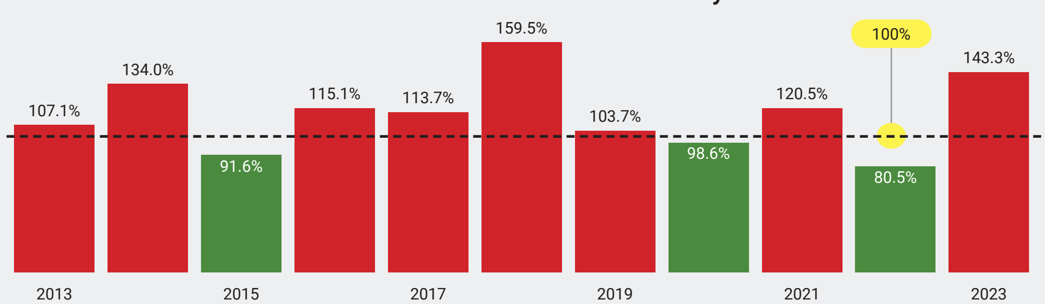
Colorado's homeowners insurance market is at an inflection point.
We need workable solutions – not injecting further costs into the system and exacerbating existing affordability and availability concerns.
HB 1302 and HB 1182, while well intentioned, include provisions that would harm consumers and the state's competitive insurance marketplace.

How would these bills harm consumers and the marketplace?

HB 1302 provision: Mandate premium reductions if loss ratio is under 75% over three-year period.

- Consumers rely on insurers having sufficient reserves to rebuild their lives when disaster strikes.
- Increasingly frequent and severe weather events mean that past losses are not indicative of future losses. A three-year benchmark would not include events such as the Marshall Fire (approx. $2 billion in damages).
- Putting insurers at risk of insolvency threatens to increase the volatility of the marketplace, and creating an all-risk, no-reward model for insurers undermines availability efforts.

Homeowners Direct Combined Ratio by Year



Source: A.M. Best Co.
Note: The combined ratio compares losses plus expenses to earned premiums. A combined ratio under 100 indicates underwriting profitability.

A solution in search of a problem: Colorado is already the third least profitable state in the country for insurance. Industry-wide loss ratios for homeowners insurance have remained above 75% since 2013, contributing to current market concerns. Unnecessary profit capping will further hamper availability for consumers.
Source: Property Insurance Report

HB 1302 provision: Establish experimental reinsurance bond fund.

- Incentivizes utility companies to purchase bonds by reducing their liability if they are determined to be at fault for causing a wildfire. Shifting the burden of responsibility from utility companies to the consumer will undermine insurance affordability efforts.
- The proposed bond amounts of $100 million would only cover 5% of the estimated destruction caused by the Marshall Fire. Expensive fees that do not cover a large-scale event put an added burden on consumers without solving the current problem.
- We must not put cart before horse with an experimental program that has never been tried in other states. This could result in millions of dollars in fees added to the system, with no mechanism in place to determine reinsurance payments.

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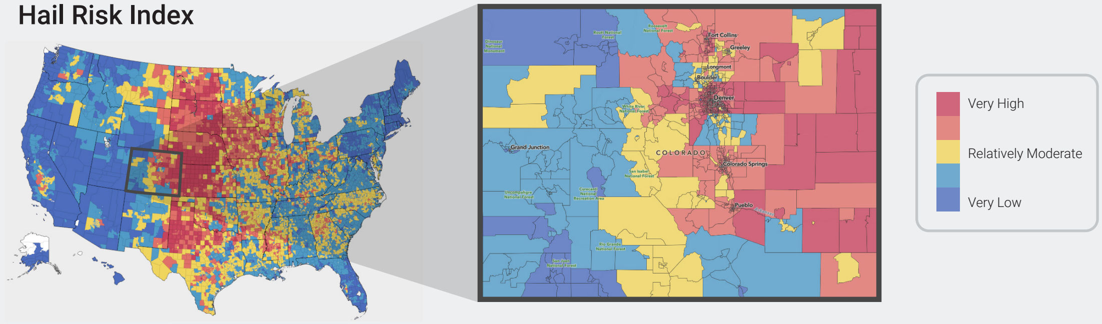
ROCKY MOUNTAIN RMIA INSURANCE ASSOCIATION

How would these bills harm consumers and the marketplace?

HB 1302 provision: Implement a 1.5% tax on all homes without resilient roofs that meet Insurance Institute for Business and Home Safety (IBHS) standards.

- Mitigation must be incentivized in a way that maximizes community-level protection, not by forcing homeowners in less risky areas to subsidize residents in riskier locations.
- Mitigation requirements must be scientifically backed, feasible and verifiable. The bill's current roof requirements surpass the IBHS fortified roof standards, making it unlikely for any existing property to adhere.
- A 2% insurance premium tax is already levied. Adding additional taxes while consumers struggle with economic pressures further threatens the stability of the marketplace.

Hail Risk Index



A statewide 1.5% tax on homes without fortified roofs would force homeowners in less risky areas, like Western Colorado, to subsidize consumers in more hail-prone areas.
Source: FEMA

HB 1182 provision: Create expensive, onerous reporting requirements regarding catastrophe modeling

- As climate events become more frequent and more severe, it's clear that historical losses are not predictive of future losses. Disincentivizing insurers from using forward-looking catastrophe models only adds to the state's current insurance availability concerns.
- While no catastrophe model is 100% perfect, we can't let perfect be the enemy of good. These models are just one tool in the broader suite of risk analytics that promote a competitive marketplace, and allow consumers to find the right product at the right price for their circumstance.
- Without keeping the focus on wildfire risk score models – not catastrophe models – it will be impossible for insurers and third-party risk modelers to comply. Focusing on risk score models achieve desired effects of transparency and appeals, while not hampering insurers' ability to price according to risk at the community and individual level.

Please protect your constituents and the competitive insurance marketplace by voting NO on HB 1302. This bill would inject further costs into the system and exacerbate affordability and availability concerns.

We look forward to continued dialogue and partnership on amending HB 1182 in a way that will benefit consumers while remaining workable for insurers.