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Property Insurance and Wildfire Mitigation Efforts

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Property and Casualty Insurance in New Mexico

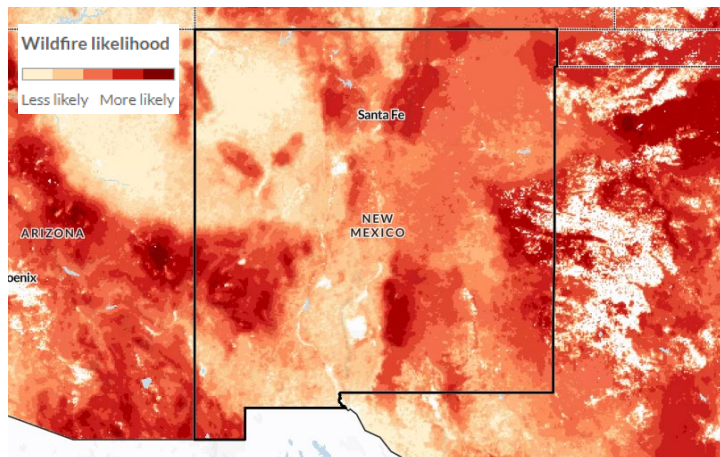
- Home insurance premiums in New Mexico increased by an average of 16 percent between 2020 to 2023, lower than the national average increase of 33 percent. Within New Mexico, premium increases between 2020 and 2023 ranged from 7.3 percent to 47.4 percent. Hidalgo, Roosevelt, and Curry counties had the largest increases in premiums—ranging from 41.1 percent to 47.4 percent.
 - The average New Mexican household paid \$1,817 in home insurance premiums in 2023, 28 percent lower than the national average of \$2,530. Within New Mexico, annual home insurance premiums range from \$1,095 to \$2,899.
- Based on 2021 data from the National Association of Insurance Commissioners, the property and casualty insurance industry's average loss ratio in New Mexico was 59.4 percent.
 - Loss ratio is the percentage of premiums paid out as claims, and is calculated by dividing the total amount of insurance claims by the total amount of premiums earned. The ideal loss ratio generally falls within 40 to 60 percent.
- Over the last decade, insurers across the United States paid out more in claims than they received in premiums. The states with the worst profitability are Louisiana, Hawaii, Iowa, California, and Oregon. In 2023, insurers lost money on homeowners' coverage in 18 states. According to AM Best, insurers recorded a \$24.5 billion net underwriting loss in the first half of 2023, which surpassed the \$25.6 billion for 2022.
 - For the most part, insurers are still making a profit in New Mexico, despite a few years of losses in 2016, 2017, and 2022.
- New Mexico's Fair Access to Insurance Requirements (FAIR plan), the Property Insurance Program (NMPPI), is a last resort with minimal coverage for owner and tenant occupied residential dwellings, mobiles homes, and commercial structures. The maximum coverage available is \$350 thousand on residential and \$1 million on commercial structures. The plan is funded by homeowner premiums and carrier assessments.

- Unlike normal coverage, the plan only covers actual cash value, or the depreciated value of the property. Lenders do not accept this plan as creditable coverage to meet mortgage requirements because it does not cover replacement value.

Wildfire Risk in New Mexico

- Wildfire risk is based on likelihood, intensity, exposure, and susceptibility. New Mexico has a high risk of wildfire—higher than 82 percent of states in the US.
 - New Mexico is in the 86th percentile for risk to home, which measures the probability of wildfire burning and the susceptibility of damages from wildfire.
 - In New Mexico, 46 percent of homes and buildings are located in direct exposure areas, meaning they are adjacent to flammable vegetation and indirect sources, such as embers and home-to-home ignition. The remaining homes are located in areas with minimum exposure (or not likely to be subjected to wildfire) or in indirect exposure (close to indirect sources). Mitigation efforts should be prioritized in direct exposure areas since they will be the most effective at protecting homes from wildfire.

Likelihood of Wildfire in New Mexico



Source: USDA Forest Service, Wildfire Risk to Communities

Risk Mitigation Efforts

- According to a report by the Center for Insurance Policy Research, structural modifications can reduce wildfire risk up to 40 percent, and combined structural and vegetation modifications can reduce wildfire risk up to 75 percent.
 - Relevant structural characteristics include roof system, shape, age, and vents; type of wall cladding; presence of wood patio deck; amount of ember accumulators; and type of windows.
 - Relevant vegetation characteristics include the type of vegetation, slope, and distance to vegetation. Current guidance is to maintain a five-foot noncombustible zone around the building and an additional 30-feet of

landscaping and vegetation management to prevent fire from climbing trees or shrubs.

- The report also ran a benefit-cost analysis of upfront costs for mitigation measures and annual avoided losses. The report analyzed mitigation costs and avoided annual losses for 9 communities in California, Colorado, and Oregon. They found varied results on whether mitigation efforts were economically efficient, but overall found positive results for 10 to 25 year pay-back periods.
 - A report by the National Institute of Building Sciences showed that costs for retrofitting both structural and vegetative aspects of a home can range from \$25 thousand to \$75 thousand.
- States are looking at a variety of legislation to encourage wildfire mitigation efforts and are exploring how insurance companies will consider these efforts in their rates.
 - Most recently, California’s insurance department announced reforms to address its insurance crisis. Among many changes, the agency will now allow companies to use catastrophe modeling into their overall rate, which recognizes mitigation and hardening requirements. California’s current rate making process requires companies to use historical data for projected losses.
 - California also provides financial assistance to homeowners for home hardening, including retrofitting with ignition-resistant materials and creating a noncombustible zone around the house. Alabama’s program also provides grants to homeowners and is funded through the insurance industry.
 - At a local level, Boulder County, Colorado, launched its Wildfire Partners Program that provides community mitigation services and individual home assessments. The program’s certification process is recognized by insurance providers and has helped obtain insurance for residents.