



October 21, 2024

## Impacts of Wildfires on Property Insurance

Prepared By: Austin Davidson and Julisa Rodriguez, LFC Analysts

### Summary of August Agency Presentations

- At the LFC's August meeting, a presentation by the State Forester and the Office of the Superintendent of Insurance discussed the various ways that wildfires affect property insurance, ways communities can prepare their homes against wildfires, and what other states are doing regarding programs to subsidize home hardening.
- Other states have created various disaster mitigation programs:
  - California's Wildfire Mitigation program provides financial assistance to disadvantaged communities that live in high wildfire threat areas.
  - Utah's Fire Sense campaign produces targeted ads that discuss the common activities that increase wildfire risk. The campaign resulted in a 60 percent reduction in human-caused wildfires over two years.
  - Alabama's Strengthen Alabama Homes program worked with the Insurance Institute for Business & Home Safety (IBHS) to create a home hardening certification program that provides grants up to \$10 thousand to homeowners to cover the costs of retrofitting roofs.
  - Colorado's Wildfire Partners program, launched with \$4 million in combined state and federal dollars, provides funding for staff to help fire departments and insurers fulfill codes and process claims in Boulder.

### Property and Casualty Insurance in New Mexico

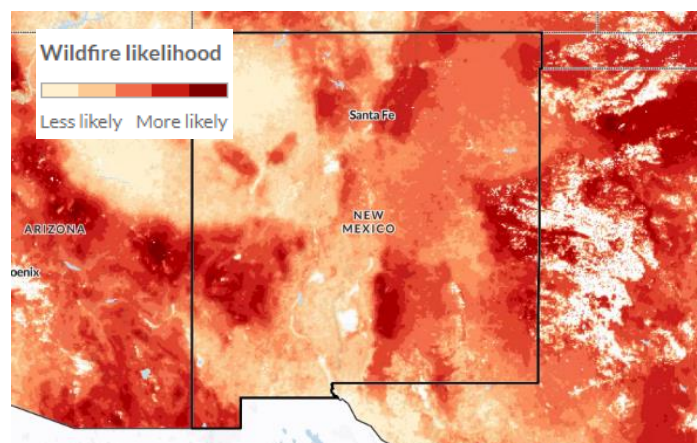
- Between 2020 and 2023, home insurance premiums in New Mexico rose by an average of 16 percent, which is lower than the national average increase of 33 percent. However, the increases varied significantly, ranging from 7.3 percent to 47.4 percent.
  - The average New Mexican household paid \$1,817 in 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, mobile 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