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Regulating Property Insurance in New Mexico

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Property Insurance in New Mexico

- 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. Lea, Union, and Roosevelt counties had the most expensive premiums—ranging from $2,671 to $2,899—while Socorro, San Juan, and Cibola counties had the most affordable—ranging from $1,095 to $1,171.

- Home insurance premiums in New Mexico increased by an average of 16 percent compared to 2020, 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. Valencia, San Miguel, and San Juan counties had the lowest increases—ranging from 7.3 percent to 8.7 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. As a result of losses, insurance companies are either raising premiums, cutting and reducing coverage, or leaving states entirely. For the most part, insurers are still making a profit in New Mexico, despite a couple years of losses in 2016, 2017, and 2022.

Increases in Property Insurance

- Property insurance premiums have increased due to rising costs of labor and materials to rebuild homes, outdated building codes, rural versus urban risk sharing, rates of fraudulent claims, and population growth in high-risk areas, such as coastlines and floodplains.

- Extreme weather events, such as wildfires, flooding, and hailstorms, also increase an area's risk and lead to higher insurance costs. Severe storms are the leading reason for insured losses in the United States, followed by hurricanes, flooding, and wildfires. Wildfires are the highest-cost hazards in New Mexico.

- Another factor is the price of reinsurance, or insurance purchased by insurance companies to protect themselves from risk. Property reinsurance rates have increased since 2018 and reached 20-year highs in 2023. Reinsurance rates have increased due to losses as a result of increases in natural catastrophes, inflation, interest rates, and construction materials and labor. Increased reinsurance rates are passed down to consumers, leading to higher premiums.

- A recent study compared areas at highest risk and insurance premiums relative to home values, and found inconsistent premiums across areas with similar risk exposure. While areas and properties with the highest risk do pay the most in insurance premiums, premiums as a percentage of the value of local homes vary significantly. Nationally, premiums average 0.5 percent of the value of local homes. In California, where wildfire risk is high, premiums dropped to as low as 0.05 percent of local home value, contrasting sharply with Texas, another high-risk area, where premiums exceed 2 percent of local home value.
    - Based on available data, premiums in New Mexico average 0.9 percent of local home value. As a percentage of home value, premiums are lowest in Socorro County at 0.6 percent and highest in Roosevelt County at 1.9 percent.

State Regulation

- States are looking at legislation to discourage insurers from leaving and to increase mitigation efforts.
    - California created a list of ten actions homeowners can take to qualify for insurance discounts. The actions include installing a class-A fire rated roofs, installing ember- and fire-resistant vents, creating a safety zone around the perimeter of the house, and upgrading windows. California's state insurance regulator also passed rulemaking action that requires insurers to consider mitigation factors in rating plans.
    - Alabama provides grants to homeowners that build or rebuild roofs that follow requirements established by the Insurance Institute for Business and Home Safety.
    - Louisiana, a state with one of the largest premiums, recently passed legislation that allows insurance companies to drop 5 percent of their policies and increase deductibles up to 5 percent of a home's value. Previously, Louisiana was one of the only states that blocked insurers from dropping policies or raising deductibles after it's been renewed for three years. Legislation is intended to encourage new insurers to write policies in the state and, therefore, encourage a more competitive marketplace.

    - 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.

- States have state-mandated property insurance plans, or Fair Access to Insurance Requirements (FAIR) plans, that provide coverage to individuals and businesses who are not able to get insurance through the normal market. The plans are typically last resort options and provide basic coverage. FAIR plans currently exist in 33 states, including New Mexico.

    - New Mexico's FAIR plan, the Property Insurance Program (NMPIP), was created in 1969. The plan is a last resort with minimal coverage for owner and tenant occupied residential dwellings, mobiles homes, and commercial structures. The maximum coverage available is $225 thousand to $350 thousand on residential and $250 thousand to $1 million on commercial structures. Under the FAIR Plan Act, all insurers licensed to write and writing essential property insurance are required to become and remain a member of the New Mexico FAIR Plan and subscribe to the articles of agreement on file in the superintendent's office.