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Colorado’s State-Backed Home Insurance Draws Low Interest Despite Rising Risks

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Colorado’s new state-sponsored home insurance programme, designed as a last resort for property owners struggling to secure traditional cover, has seen significantly lower uptake than expected. Since its launch in April, only 51 homeowners have enrolled in the Fair Access to Insurance Requirements (FAIR) Plan.

Created under the FAIR Act, signed into law by Governor Jared Polis in 2023, the scheme was developed in response to growing concerns over wildfire risks and limited insurance options in high-risk zones. The plan aims to provide a safety net for those turned down by at least three standard insurance providers operating under Colorado regulations, known as the admitted market.

The programme's slow adoption rate is partly intentional. The official FAIR Plan website discourages users with prominent warnings about its costs, describing it as "the most expensive way to insure a property." Premiums are substantially higher than typical policies, and coverage is based on actual cash value, not replacement cost, a major drawback for many homeowners.

Kelly Campbell, Executive Director of the Colorado FAIR Plan, explained that most policies written so far have been for properties facing elevated wildfire risks or with prior claims history. "They aren't just in mountain areas," she added, highlighting that risk factors extend across different regions.

While the plan's limited marketing and steep pricing might deter applicants, it remains a potential solution for homeowners unable to find alternatives. One such advocate is Gage Struble, a Farmers Insurance agent in Woodland Park. He recently processed his first FAIR Plan policy and said, "It's probably a good stopgap for higher-risk homes up here."

However, Struble also noted the limitations. FAIR Plan policies only cover actual cash value, which depreciates over time. A total loss on a home valued at $300,000 might result in a payout of just $150,000 to $180,000 under this plan, depending on condition and age. The coverage cap is also set at $750,000, falling short for many of Colorado's pricier properties.

"It's not a plan for everybody," Struble acknowledged.

Despite the growing wildfire threat and ongoing insurance market strain, Campbell admitted that policy numbers remain well below projections. She attributed this partly to Colorado's relatively robust non-admitted insurance market. The same state regulations do not bind these companies and do not benefit from state-backed insolvency protections, making them riskier yet more appealing options for some.

In contrast to California's struggling FAIR Plan, which recently faced a surge in wildfire-related claims totalling over $4 billion, Colorado's version has been structured with financial sustainability in mind. Premiums include the cost of reinsurance, a type of insurance for insurers, to ensure that the plan can meet future obligations.

Campbell noted that California's plan is "not actuarially sound." In February, it had to secure $1 billion in extra funding to stay afloat after payouts outstripped available funds. That burden ultimately fell on the state's admitted carriers, with the costs often passed along to consumers.

Colorado's FAIR Plan follows a similar funding structure, where admitted insurers support the scheme and are responsible for covering claim shortfalls. So far, two assessments totalling $1 billion have been approved to cover operating costs and expected claims and maintain a surplus for emergency situations.

Campbell pointed out that while Colorado has seen dozens of billion-dollar natural disasters since 1980, the financial groundwork laid for the FAIR Plan positions it to withstand similar events. "A billion-dollar disaster is definitely within the realm of possibility in Colorado," she warned.

In the small community of Florissant, about 45 minutes west of Colorado Springs, signs of increasing insurance strain are already visible. John Rakowski, president of the Pikes Peak Historical Society, shared how the organisation's museum was recently dropped by its insurer. After a lengthy search, he secured a new policy at a significantly higher premium.

"At the same time, my homeowners' insurance went up 40%, accompanied by a letter saying profits were up for the company. It's just putting a little salt in the wound," Rakowski said.

According to Campbell, only one FAIR Plan policy has been issued in Florissant so far, but that may change as more carriers pull out or increase premiums in wildfire-prone areas. Struble confirmed that rejections are becoming more common in the region. "They get 'no's' from everybody," he said.

Rakowski noted that insurance woes are becoming a regular topic of conversation. "It's a common topic of conversation out here when you meet people," he said, reflecting the growing unease among residents who feel priced out of reliable coverage options.