LEGISLATIVE RESEARCH & GENERAL COUNSEL

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Homeowners’ Insurance Affordability

Legislative Responses

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1. Background

2. Coverage-Based Approach

- FAIR Plans

3. Mitigation Approaches

- Mitigation Grants
- Catastrophe Savings Plans

Homeowners' Insurance Premiums

- Insurance premiums are primarily driven by:
  - Claim likelihood – the probability a homeowners experiences an insurable loss
  - Claim cost – how much the insurer expects to pay out to repair or replace property
- In Utah, wildfire is the largest environmental peril, with increased risk driving claim likelihood
- Inflation in construction inputs since 2020 have also contributed to rising claim costs for insurers

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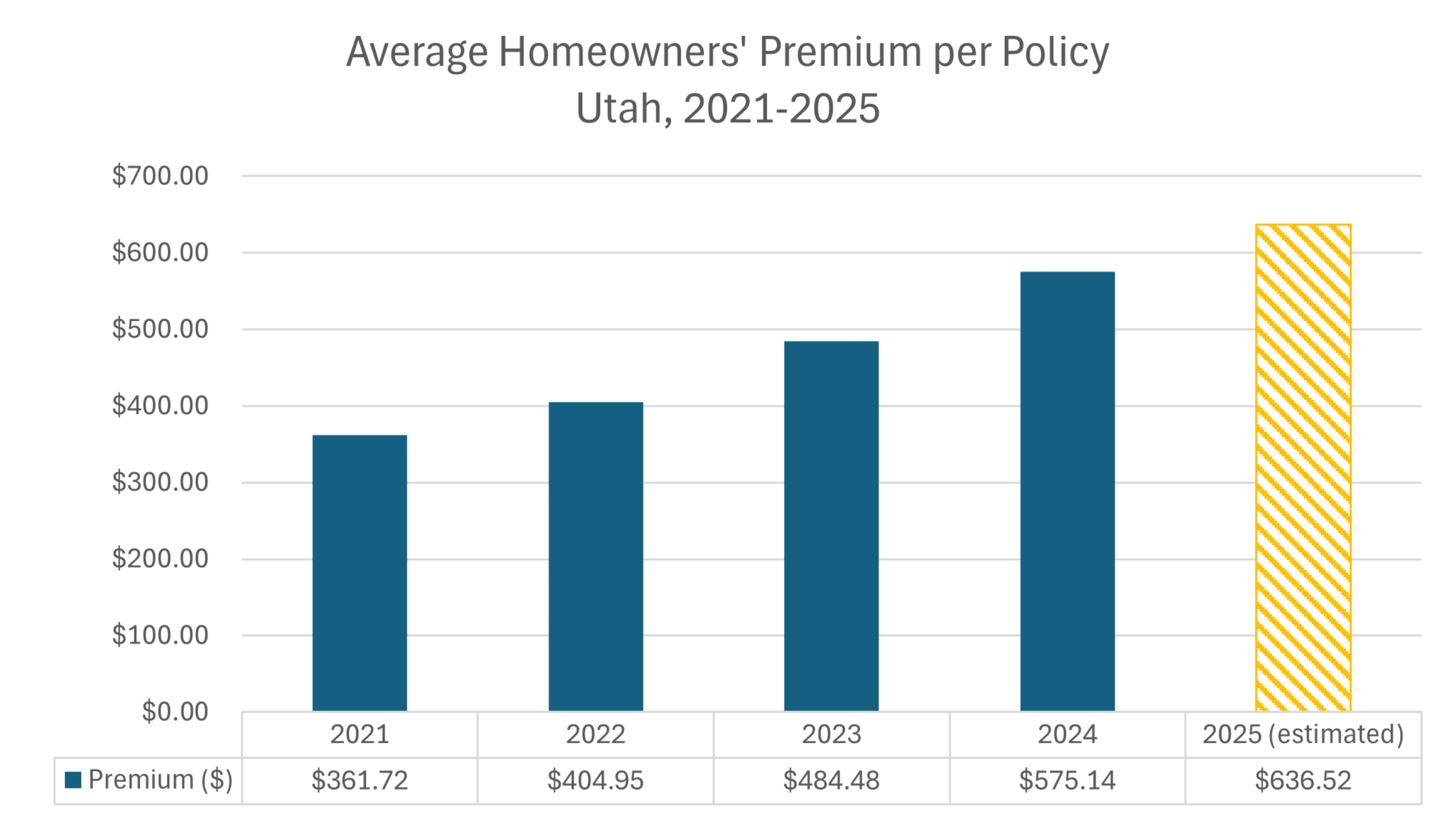
Homeowners' Insurance Premiums

- Since 2021, premiums have risen approximately 59 percent
- Roughly $213 per month for average Utah homeowners



Coverage-Based Approaches

FAIR Plans

- A **F**air **A**ccess to **I**nsurance **R**equirements (**FAIR**) Plan is an insurer-of-last-resort for homeowners that cannot access conventional insurance

- Objectives:

1. Create a broadened risk pool to allow communities (states) to more easily absorb specific losses
2. Provide a base level of coverage to homeowners to protect critical structures and remain mortgage-eligible

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- Tax-Advantage Policies

FAIR Plans – Coverage & Eligibility

- Notably, FAIR plans provide substantially different coverage and have heightened eligibility requirements relative to traditional insurance

- Examples of eligibility restrictions:
  - Coverage denial
  - Geographic
  - Home mitigation
  - Property condition
  - Property type
  - Tax standing

FAIR Plans – Coverage & Eligibility

- Plans often provide dwelling-only coverage, or limited non-dwelling related coverage
  - No or limited personal property coverage
  - No or limited personal liability coverage

- Coverage restricted to certain perils only
  - Typically the most common perils in a given state

FAIR Plans – Administration

- FAIR Plans are state-administered programs, often enacted as an independent entity or government corporation

- Plans are funded through a shared risk model, with costs borne by all private insurers in the state

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FAIR Plans – Administration

- Shared risks are determined by private insurer market share
  - For example, if company A has 20% market share in the homeowners' market, a FAIR plan would give them a 20% stake in profits, losses, and expenses of the program
- Startup funding often provided by state appropriation or through insurance assessments

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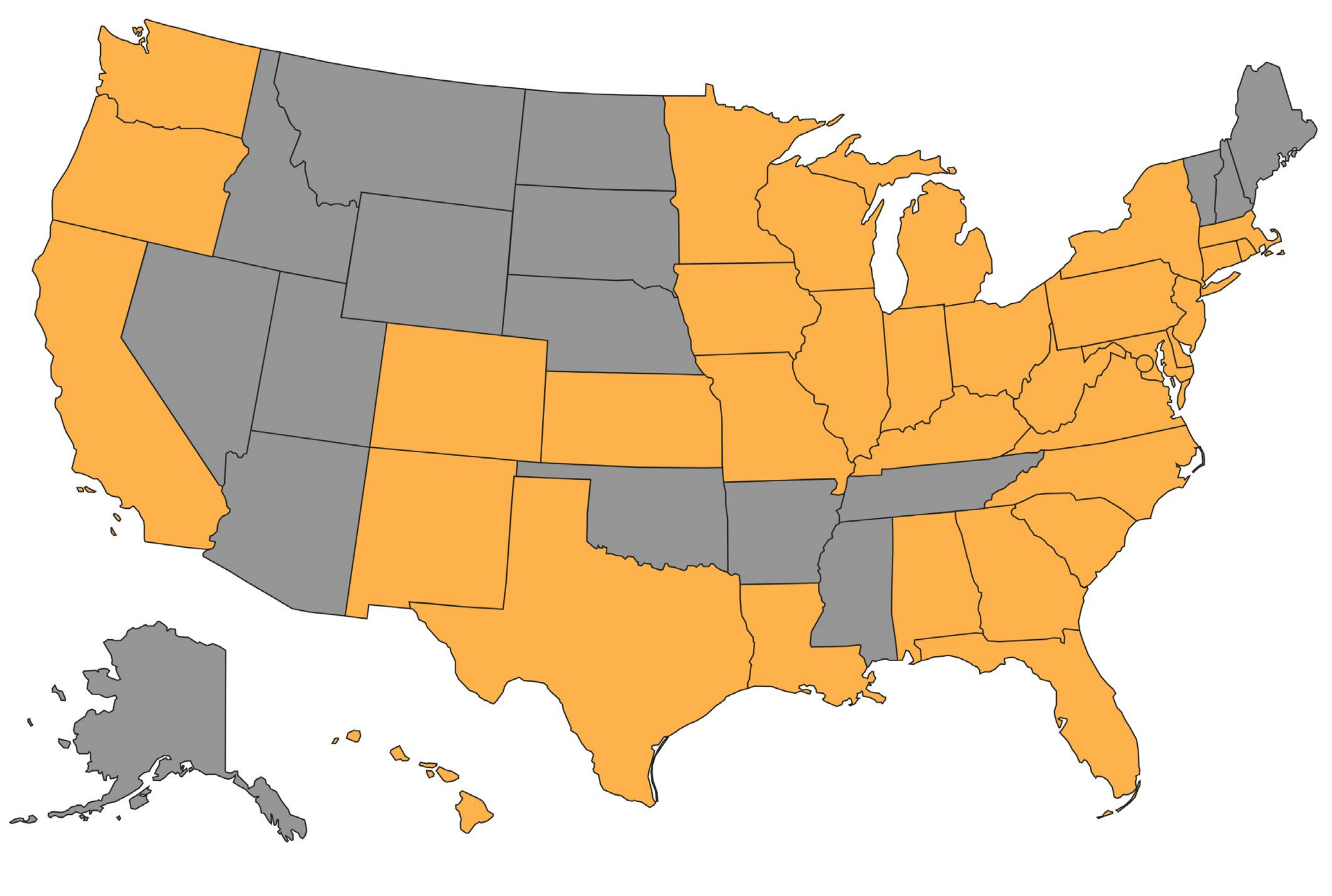
FAIR Plans – State Enactment

- To date, 34 states have enacted a FAIR Plan or similar policy



Mitigation Approaches

Hazard Mitigation Grant Programs

- Hazard mitigation grant programs provide access to funds for homeowners to participate in home-hardening incentives

- Objectives:

1. Increase property resilience to perils such as wildfire
2. Provide an avenue for premium relief and allow homeowners to remain in traditional insurance markets

Hazard Mitigation Grant Programs

- Eligibility often based on dwelling type, geographic location, and property condition
- Grant program funding available for use on specified home-hardening projects or participation in third-party certification programs
  - For wildfire, common hardening improvements include roofing upgrades, defensible space, and community resilience projects
  - States can also rely on third-party certification such as the Insurance Institute for Building & Home Safety (IBHS) Wildfire Prepared Program

Hazard Mitigation Grant Programs

- Grant program funding sources include:
  - Insurance licensing fees
  - Insurance premium taxes
  - Private insurer assessments
  - State appropriation

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Hazard Mitigation Grant Programs

- Grant program funding sources include:
  - Insurance licensing fees
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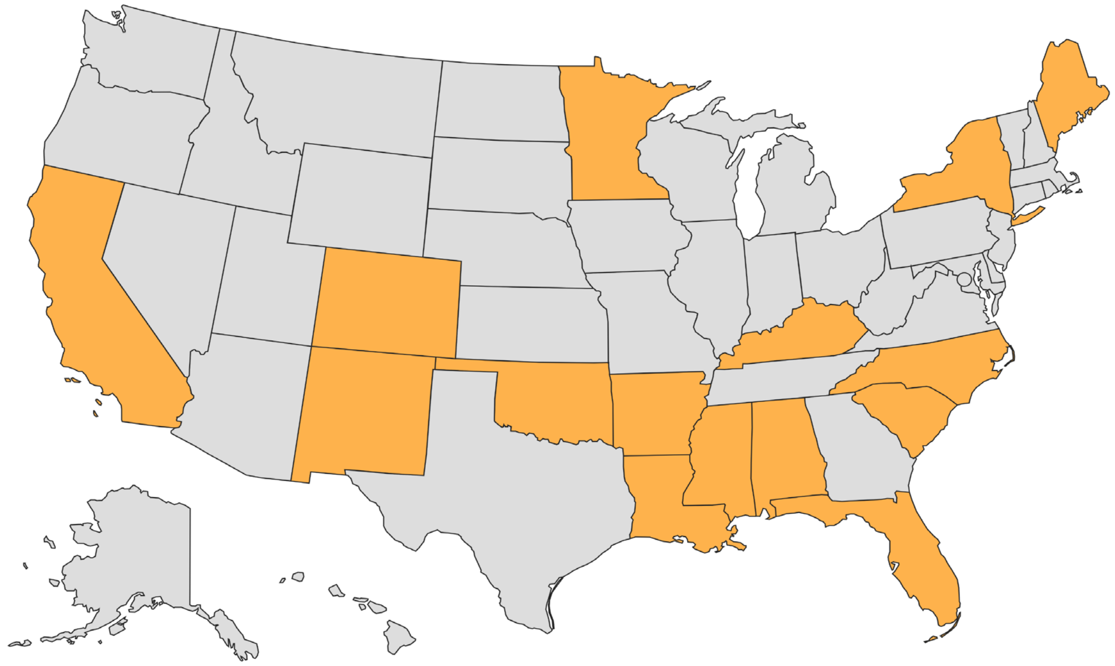
  - Private insurer assessments
  - State appropriation

Hazard Mitigation Grant Programs

- To date, 15 states have enacted a hazard mitigation grant program



Premium Discount Policies

- To encourage homeowners to participate in mitigation programs, some states have enacted policies either permitting or requiring insurers to offer premium discounts for mitigation efforts
- Mitigation efforts typically must meet a third-party standard, such as the IBHS FORTIFIED standard for wind resistant roofing

Premium Discount Policies

- State policies permitting or requiring premium discounts also require insurers to notify policyholders of any discounts they may be eligible for

- Some policies require insurers to provide policyholders with information on what mitigation efforts they could take to lower their premiums

Tax-Advantage Policies

- Finally, some states have turned to tax-advantage programs to enable homeowners to save for losses or invest in mitigation
- Three states (AL, MS, SC) have enacted catastrophe savings accounts which can be used to pay deductibles or uninsured losses
- Four states (AL, CO, LA, SC) grant tax credits or rebates to homeowners for mitigation expenses

Questions?

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