

Transparency in the Model: Wildfire Risk and Insurance

Promoting climate resilience while improving the affordability and availability of insurance throughout New Mexico

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Working draft for committee discussion

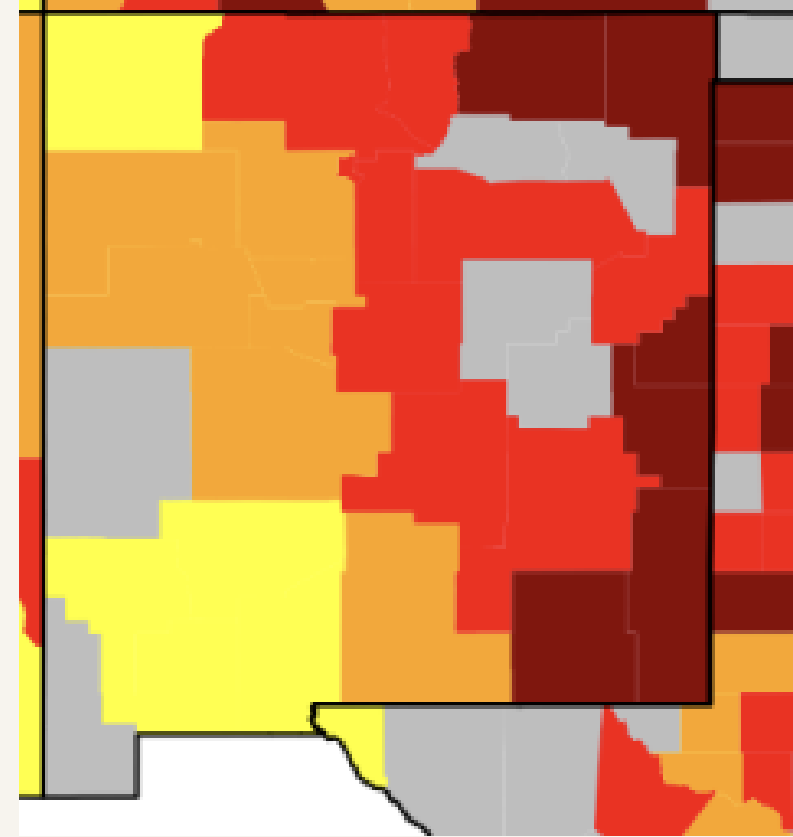
The problem in New Mexico: Affordability

New Mexico is facing a crisis of affordability and availability in insurance markets

- Eastern NM has seen some of the highest insurance premium increases nationally.
- Counties in southern NM face the nation's highest risk of paying a "climate premium shock."
- OSI reported average increases of approximately 15% in 2023 and 9.3% in 2024. The pace moderated to below 5% in 2025 and 2026, but those increases are being applied on top of the previous increases.

Housing New Mexico's 2026 Housing Strategy reports that average NM homeowners insurance premiums rose **72% from 2014 to 2024**, from \$1,319 to \$2,267. Median premiums rose even faster increasing **82%**, from \$1,012 to \$1,844. Over the same decade, national averages rose 64% and national medians 73%, meaning New Mexico's rate of growth exceeded the national rate even though its absolute premiums remain somewhat lower.

A different measure using quoted premiums shows the more recent pressure: from 2021–2024, the average NM quote increased from **\$2,458 to \$2,917. 19% in just three years.**



Source: Keys and Mulder, *Property Insurance and Disaster Risk: New Evidence from Mortgage Escrow Data*, June 2024

Sources: https://sourcenm.com/2026/07/23/new-mexico-insurers-refused-to-renew-policies-for-record-number-of-homes-in-2025-official-says/?utm_source=chatgpt.com.
https://housingnm.org/uploads/documents/New_Mexico_Housing_Strategy_2026_Update.pdf

My Backyard: Northeastern New Mexico

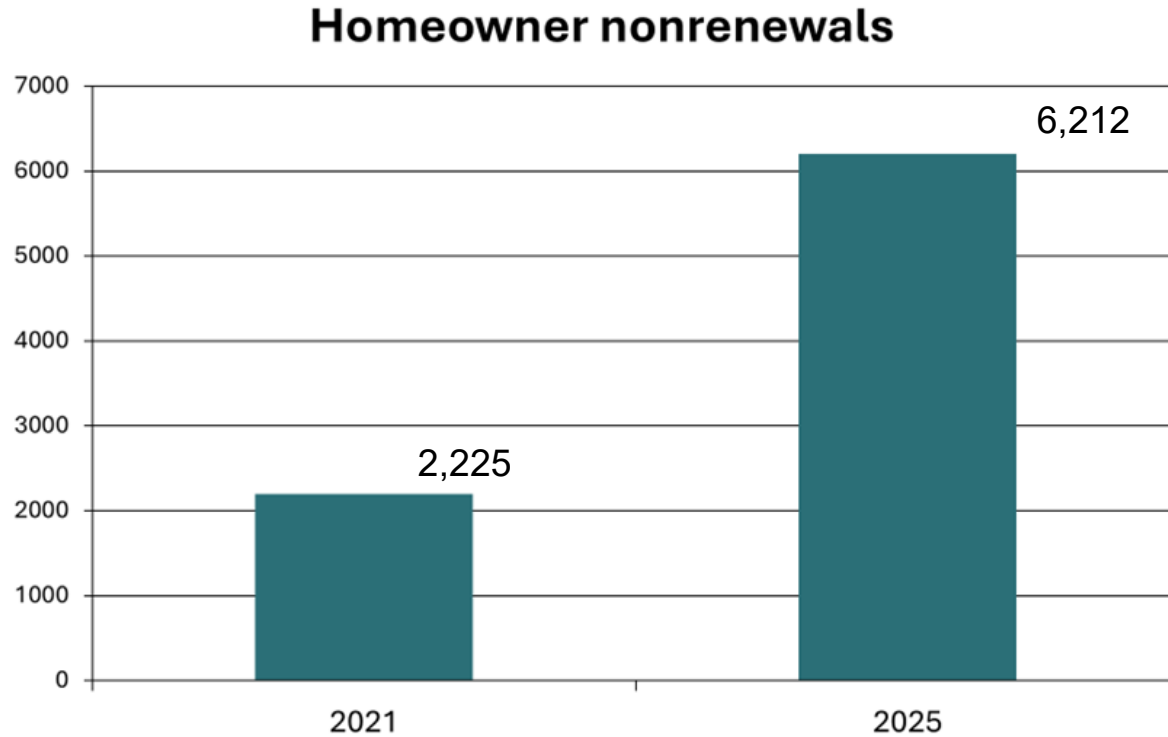
Housing New Mexico county level premium estimates, 2014-2024

Area	Avg. 2014	Avg. 2024	Increase	Median 2014	Median 2024	Increase
New Mexico	\$1,319	\$2,267	72%	\$1,012	\$1,844	82%
San Miguel	\$1,492	\$2,980	100%	\$1,352	\$2,575	90%
Colfax	\$1,511	\$3,094	105%	\$1,311	\$2,724	108%
Union	\$1,421	\$3,500	146%	\$1,136	\$3,418	201%
Taos	\$1,732	\$2,639	52%	\$1,374	\$2,127	55%
Rio Arriba	\$1,500	\$2,728	82%	\$1,339	\$2,366	77%
Torrance	\$1,304	\$2,575	97%	\$1,183	\$1,983	68%

Source: Housing New Mexico/Root Policy Research using Keys & Mulder/NBER mortgage escrow data. The report notes a small sample for Union County and no comparable data for Mora County.

Availability Pressure: Homeowner Nonrenewals Are Rising

New Mexico homeowners are increasingly being forced to seek replacement coverage.



Nearly 3×

increase in annual nonrenewals
from 2021 to 2025

10,000+

nonrenewals among NM's top 10 insurers
Jan. 2021–July 2024

OSI reports that wildfire-prone areas are experiencing the greatest pressure.

Sources: NM OSI (July 2025); OSI figures presented to the Legislative Finance Committee, July 2026; Source New Mexico, July 23, 2026.

More Homeowners are Outside the Standard Market

The NM FAIR Plan is available to those who need insurance and are unable to obtain coverage in the voluntary market. As the market of last resort, the NM FAIR Plan will continue to be available to assist those who are unable to obtain coverage elsewhere. At the same time, it is important that the FAIR Plan continue to be utilized as intended- as an option for those who cannot obtain coverage in the voluntary market, rather than as the first option when other voluntary market opportunities may still be available.

Homes on FAIR Plan:

Period	San Miguel	Torrance	State
December-24	286	29	7,425
December-25	332	31	
August-26	337	33	7,826

This is the environment in which increasingly sophisticated wildfire models are making decisions about New Mexico homes. The question isn't whether insurers should assess risk, they must. The question is whether homeowners and regulators understand how that risk is being assessed, whether investments that reduce risk are being recognized, and whether homeowners have a meaningful path to improve their risk classification.

Uninsured Homeowners by State:

Source: State-level estimates based on ACS five-year data (2018-2022), normalized based on AHS 2021.

Rank	State	Percent Uninsured Homeowners
1	Mississippi	13
2	New Mexico	13
3	Louisiana	12
4	West Virginia	11
5	Alaska	11
6	North Dakota	11
7	Alabama	11
8	Oklahoma	11
9	Florida	10
10	Texas	10

Source: Correspondence with Analisa Sisneros, FAIR Plan ED 9/22/26, <https://consumerfed.org/media/legacy/Exposed-UninsuredHomes-1.pdf>

Insurers use proprietary ‘catastrophe modeling’ to determine the terms of coverage

What goes into the “black box” of insurance companies’ catastrophe models?



Source: Bloomberg, [The Risky Business Of Predicting Where Climate Disaster Will Hit](#), 08.09.2024



Source: [Sounding the Alarm](#), 10.14.2026

Proposed legislation defines catastrophe models broadly enough to include map-based, computer-based and simulation tools used for rating, classification, pricing or estimating risk/loss. Insurers are required to disclose information about these models to NMOSI, but the disclosure will be treated as proprietary trade secrets.

Bill source: Sec. 1(L)(4), discussion draft.

Factoring hazard mitigation into insurance modeling

- Studies confirming risk reduction works:
 - IBHS, [*Study Shows IBHS's FORTIFIED Program Reduced Hurricane Sally Damage*](#), 2025
- Studies confirming modeling can verify it:
 - The Nature Conservancy and Willis Towers Watson, [*Wildfire Resilience Insurance: Quantifying the Risk Reduction of Ecological Forestry with Insurance*](#), 06.27.2021
 - Swiss Re, [*Natural habitats can reduce flood losses*](#), 02.12.2025
- Endorsements of the approach of integrating hazard mitigation into insurance modeling:
 - Financial Stability Institute at the Bank for International Settlements, [*Mind the climate-related protection gap: reinsurance pricing and underwriting considerations*](#), 03.21.2025
 - Researchers at UCLA & USC, [*Project Recovery: Rebuilding Los Angeles after the 2025 Wildfires*](#), March 2025
 - Former California Insurance Commissioner Dave Jones, [*The Uninsurable Future: The Climate Threat to Property Insurance And How to Stop It*](#), December 2025

The transparency gap

A risk score can be consequential even when the homeowner cannot see what drove it.

Why?

Did community mitigation matter?

“Your wildfire risk has increased.”

Which factors mattered?

What can I change?

Did my new roof matter?

Can I appeal bad information?

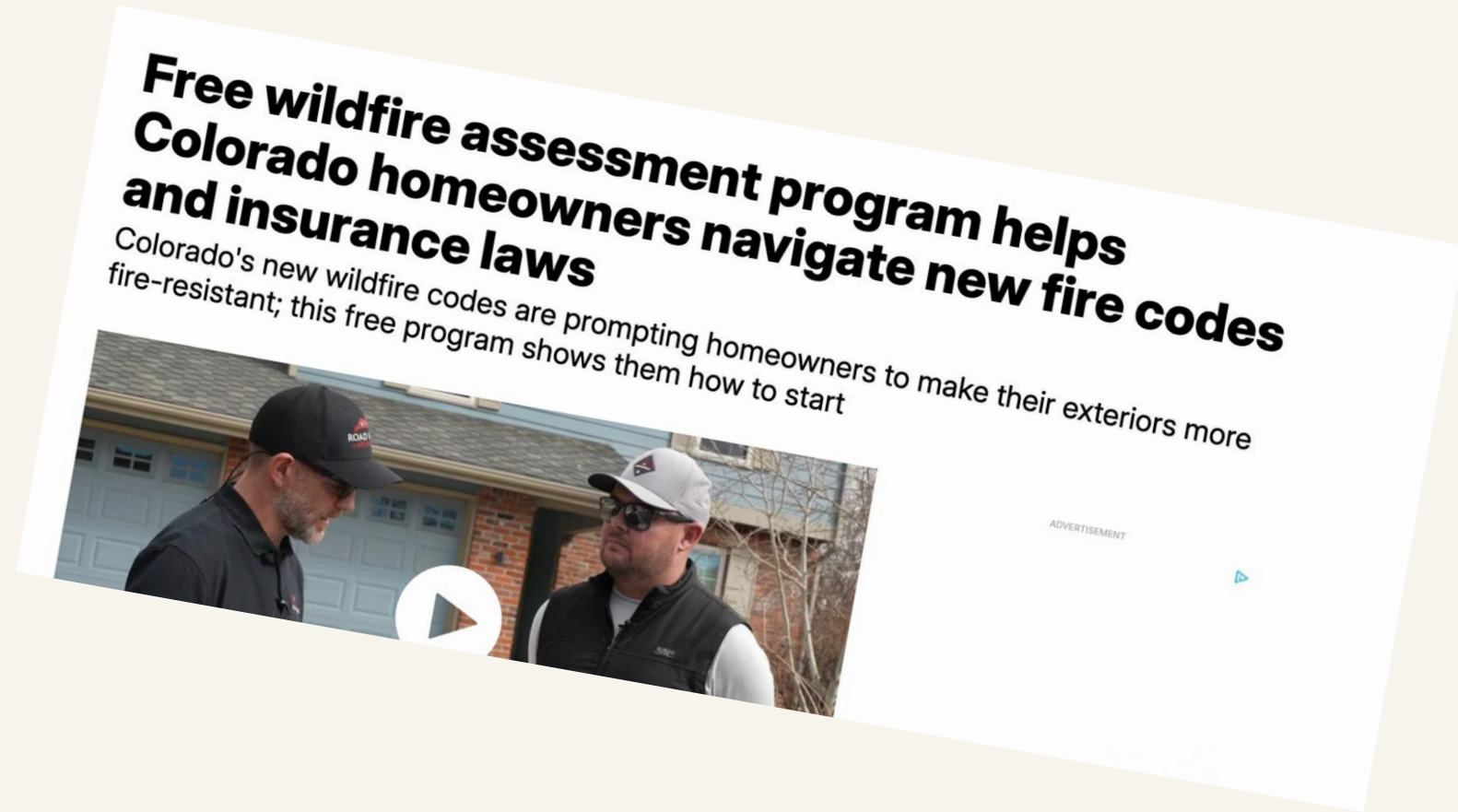
Proposed legislation does not prohibit wildfire modeling. It establishes expectations around transparency, mitigation and accountability.

What are other states doing?

- California:
 - Sustainable Insurance Strategy: Requires insurers to factor hazard mitigation into pricing, but not underwriting.
 - SB 429 (2025): Creates the nation's first public catastrophe model for wildfire risk
- Colorado:
 - HB 25-1182:
 - Made Colorado the first state to compel transparency for wildfire risk scores
 - SB 26-155:
 - Creates the Strengthen Colorado Homes program/funds it at \$20 million/annually
- 15 states and counting:
 - Resilience grant/roof fortification programs

What happened after CO HB 25-1182 took effect?

- “What [CO HB 25-1182] really does is tell people what is the mitigation that matters” - Carole Walker, Rocky Mountain Insurance Association
- “[CO HB 25-1182 was] the most important property-insurance law to be enacted this year...[which] should serve as a model for other states to follow.” -Former California insurance commissioner Dave Jones
- This approach has won bipartisan support:
 - CO HB 25-1182
 - WA SB 5928 (2026)
 - OR SB 1540 (2026)
 - ID HB 618 (2026)
- There is a “need for a paradigm shift towards an all-of-society approach to reduce exposure and enhance local resilience.” - Geneva Association



Proposed Legislation in five pillars (HB 204, 2026)

Creating a framework around the use of wildfire risk models in residential property insurance.

1

REGULATORY TRANSPARENCY

Model, rate impact, actuarial justification and underwriting use disclosed to OSI.

2

MITIGATION COUNTS

Property and community mitigation reflected in models/pricing or through discounts.

3

CONSUMER TRANSPARENCY

Risk score/classification and plain-language explanation provided.

4

PATH TO IMPROVE

Mitigation opportunities identified; revised score can be requested.

5

RIGHT TO CHALLENGE

Defined appeal process for inaccurate scores/classifications or discounts.

Bill source: Sec. 1(A)–(I), discussion draft.

Mitigation happens beyond the property line

New Mexico invests in risk reduction at the household, community and landscape levels.



If risk is reduced, the insurance framework should be capable of recognizing that reduction.

Bill source: Sec. 1(B), (D)–(F), discussion draft.

What happens if we do nothing?

Doing nothing does not stop wildfire modeling. It leaves the current framework in place as modeling becomes more consequential without transparency framework.

01

Models continue to become more sophisticated.

02

Wildfire risk increasingly influences underwriting and pricing.

03

Homeowners may invest in mitigation without knowing how, or whether, it affects their classification.

04

Community and taxpayer-funded mitigation may not be consistently reflected.

05

Consumers may have limited ability to understand or challenge the information affecting them.

06

OSI may have less standardized information for evaluating model impacts.

PROPOSED CHANGES TO CURRENT DRAFT:

Inclusion of Catastrophe Modeling (future incidents beyond wildfire)

Removal of language to require discounts - “may” vs “shall” recognizing shift toward industry discounts

The policy choice

TRANSPARENCY

Understand how wildfire risk affects insurance.

MITIGATION

Give homeowners and communities a meaningful reason to reduce risk.

ACCOUNTABILITY

Give regulators and consumers tools to understand and challenge decisions.

The question is not whether wildfire risk exists. It is whether New Mexicans should understand how that risk is measured, whether the work they undertake to reduce it should count, and whether there should be a fair process when information is wrong.

OSI Support for Transparency and Mitigation

- The OSI is supportive of requirements related to wildfire transparency:
 - Rate filing support related to catastrophic wildfire models
 - Communication with consumers providing rationale for nonrenewal
 - Available discounts related to mitigation on carrier websites
- Technical changes are required to the insurance code to implement the bill.
- The industry is **voluntarily** recognizing the benefits of wildfire mitigation in rate filings through discounts and wildfire scoring used for premium determination.

Industry Rate Response to Mitigation

- Six of the ten largest market share homeowner insurance companies utilize wildfire mitigation in premium determination.
 - One gives an explicit Insurance Institute for Business and Home Safety (IBHS) Certification discount.
 - Two give Firewise Community level discounts.
 - Three use risk scoring algorithms which consider mitigation factors (roof type, defensible space, etc.) to vary the price in wildfire prone areas.
- The premium discount ranges from 3% to 18%
- An additional company is exploring IBHS certification discounts in 2027.
- Underwriting - multiple companies that are using IBHS certification in wildfire prone areas.

Catastrophe Models

- Most homeowners' companies use a modified version or a blend of the two commonly accepted catastrophe models.
 - RMS (Moody's)
 - AIR (Verisk)
- The models simulate scenarios to estimate the average loss in any given year as well as worst case scenarios (1 in 10-year events, 1 in 100-year events, etc.) for given geographic areas.
- These models have three components:

Phase	Purpose
Hazard	Simulate the catastrophic event
Damage	Link the exposure of the event to the damage based on property characteristics
Financial	Estimate financial impact of loss based on reinsurance and policy terms

- These models use variables such as vegetation cover and roof type in the damage phase of the model which capture the reduced wildfire exposure from mitigation activity.

Any Questions?