

State of Homeowners Insurance

~ Spring 2025 ~

DIFI's Authority to Affect the Cost of Insurance

DIFI has limited authority to influence insurance rates. Unlike some states, in Arizona insurance rates are **use and file** - meaning an insurer can start using a rate change immediately, then file that change with DIFI within 30 days. DIFI examines rate changes based on the following:

- **Excessive** - A rate cannot be found to be excessive if adequate competition exists within the state. Currently, there are 103 companies licensed in Arizona that may be offering homeowners insurance policies in wildfire risk areas in Arizona. The statute presumes that rates are not excessive if the market is competitive.
- **Inadequate** - Rates must be sufficient to ensure solvency. It's important for an insurer to have sufficient capital in order for the company to fulfill its obligation to pay claims.
- **Unfairly discriminatory** - Premiums should be based on relative risk, and rates for similar risks must be treated the same. Unfairly discriminatory rates can include charging different rates for identical risks, or denying coverage based on race or religion.

Factors Influencing Rates and Availability

Many factors determine premium cost such as the coverage selected, location of property, building materials and the deductible. Increases in the severity and number of natural disasters have resulted in more claims being paid by insurers. This, coupled with inflation and higher home values increases the cost to repair or replace covered property. Higher value homes require higher coverage limits with corresponding premium increases. Some insurers have also added underwriting restrictions that limit the property and locations they will cover.

Construction Costs Increasing Nationally

Nationally, construction costs have increased over 30% within the last 5 years. Average reconstruction costs for residential structures in Arizona increased 6% from September 2022 to September 2023 (Verisk). Construction costs vary based on: the type of residence, building materials, local climate, and building codes/regulations.

🎯 Consider purchasing a separate flood insurance policy if your property is at risk.

Issues Facing Arizona Homeowners

- Insurance premiums are increasing across the state, not just in wildfire-prone areas
- Consumers in wildfire-prone areas may experience being non-renewed by their insurer, then struggling to find coverage
- Mortgage affordability and availability
- Increased flood risk after wildfires

Factors Influencing Wildfire Risk to Homes


- Wildland-Urban Interface/Intermix (WUI) Encroachment - Development adjacent to (interface) and within (intermix) forested areas
- Building Codes - Do standards exist to make structures more resilient to fire? This also includes how the land around a structure is used and maintained.
- Fire Protection Services - Do local fire departments or fire districts have adequate resources to respond to fires?
- General Wildfire Risk in Arizona - Drier winter and monsoon months create hazardous wildfire conditions.

Strategies to Reduce Insurance Rates

- **Mitigation is the key** - Decrease the severity of risk to your property
- Many factors affect the cost of insurance that are outside of your control. Individual and community efforts can have an impact on keeping costs as low as possible.
- Create a defensible space around your home and outbuildings.
- Speak directly with your insurance company or agent to ensure you're receiving all potential discounts such as bundling your home and auto insurance. Is your insurer using accurate information (details of structure, credit score, etc)?
- Ensure adequacy of insurance; not too much or too little
- Shop around for coverage
- Raise your deductible
- Use discretion in filing claims

Rethinking How We Use Insurance

We are rapidly transitioning away from the paradigm many long-time homeowners have held about insurance. With the hardening of the insurance market in today's environment, homeowners insurance may be best reserved for catastrophic events such as a fire or damage in excess of thousands of dollars.

 **TIP:** Rethink how you use insurance - avoiding small claims can make you more insurable!

Resiliency and Mitigation Council

Headed by DIFI, this council's purpose is to investigate the availability and affordability of homeowners insurance in wildfire prone areas of Arizona, the impact of natural disasters on the availability and affordability of insurance in these areas, and strategies that local communities may adopt to mitigate the risk of property loss due to natural disasters.

Helpful Resources

- **DIFI Homeowners Insurance Resources** difi.az.gov/homeownersinsurance
- **Resiliency and Mitigation Council** difi.az.gov/resiliency-and-mitigation-council