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[As Home Insurance Bills Go Up, Owners' Coverage Is Going Down]

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Frequent natural disasters and high inflation have led insurers to raise premiums, and forced many customers to pare back their policies.

Robert Shiver's bill for his homeowner insurance jumped from $3,800 in 2022 to $8,000 in July. "I remember opening the bill and, honestly, laughing, like, 'This is not feasible,'" he said.

Mr. Shiver, 40, who lives about 20 miles east of Tampa, Fla., did not pay the bill. Instead, he worked with his insurance agent to shave off parts of his coverage, lowering the estimate for how much the insurer would have to pay to potentially rebuild his house from around $710,000 to about $560,000.

Shrinking the coverage lowered his bill to just under $5,000, a huge relief, he said, since he would again be able to make his monthly mortgage and insurance payment.

In the insurance business, Mr. Shiver might now be considered "underinsured," meaning that his policy may not be sufficient to cover a rebuild after catastrophic losses. Underinsurance is not a new problem, but it has become far more widespread and severe over the past three years, as rising inflation and climate change have created a highly volatile and unreliable insurance market and raised costs for homeowners — sometimes in unexpected ways.

Insurers' losses from natural disasters topped $100 billion for the fourth straight year in 2023, and they are passing those costs on to property owners. High inflation has also forced insurers to raise rates to cover claims.

Some homeowners are nickel-and-diming their own coverage by forgoing protection against hurricanes or windstorms; finding ways to lower the replacement values of their properties, as Mr. Shiver did; or raising their deductibles. Others are discovering that their policies won't fully cover the cost of rebuilding because of steep increases in the cost of materials, once disaster has already struck.

Colorado's insurance commissioner, Michael Conway, discovered the extent of the underinsurance problem after a wildfire near Boulder destroyed close to a thousand homes in 2021. After getting calls from homeowners distressed that their policies wouldn't fully cover the cost of rebuilding, the state's Division of Insurance investigated and found that only 8 percent of policies in the areas affected by the fire pledged to cover rebuilding costs no matter how high they got. It also found that between one-third and two-thirds of all homes affected by the fire had been underinsured for rebuilding costs within a typical range.

To try to fix the problem, Mr. Conway and his team convened meetings late last year with insurance companies, builders and other groups to brainstorm ideas for making things easier for homeowners, but no plans have emerged so far.

"We're very concerned about what those homeowners are experiencing with the affordability issues, and we're absolutely sympathetic to the pressure that they're feeling to find a way to afford their insurance coverage," Mr. Conway said.

Julie Coffey did not realize she was underinsured until she ran out of money while trying to rebuild her house near San Francisco after it burned to the ground in August 2020 in one of several large wildfires that swept across parts of California that summer.

It took months before Ms. Coffey even knew what she would get from her insurer. By the time she began rebuilding her house in 2021, inflation was speeding up and building supplies were scarce. Her new home is missing key features she couldn't afford, like a water softener and fencing.

"Within one month of living here, my sink is showing signs of rust," Ms. Coffey said. "It's crazy all the things you need to do to try and get close to where you were without worry or thought."

Mark Friedlander, a spokesman for the Insurance Information Institute, a trade group, said home insurance premiums had cumulatively risen 32 percent from 2019 to 2023, while rebuilding and replacement costs had gone up 55 percent. Analysts for the group estimated that in 2023, home insurers experienced their biggest underwriting loss — the difference between collected premiums and paid-out claims — since 2011. Behind the loss were huge storms that caused more than $50 billion in damage that insurers had to pay for.

A survey last year by the institute and researchers for Munich Re, a reinsurer, found that 88 percent of U.S. homeowners had property insurance, down from 95 percent in 2019. Only 4 percent had flood insurance, even though 90 percent of the country's natural disasters involve flooding.

Once insurers raise premiums, many homeowners are discovering that their lenders are willing to explore ways to make their payments more affordable. Banks that collect mortgage payments must ensure that borrowers' coverage meets requirements set by the government-backed Fannie Mae and Freddie Mac housing agencies, but are open to owners tweaking it within those requirements, said Pete Mills, the chief economist at the Mortgage Bankers Association, the trade group for the mortgage industry.

Amy Bach, the executive director of United Policyholders, a nonprofit advocacy group that helps insurance consumers navigate tricky claims processes, said she found herself recommending a multitude of strategies these days to keep policies affordable.

"For most consumers, what they're facing now is: What is the least worst option for me, given the pricing?" she said. She advises lowering the coverage on the contents of a house or cutting coverage for outbuildings like garages, sheds, pools or retaining walls.

"We had been saying, 'Raise your deductible,' but now, what does that mean?" Ms. Bach said. "My parents' home on Long Island has a $33,000 wind deductible," meaning they would have to pay that much out of pocket — a huge share of the cost of a new roof — before getting any help from their insurer.

Not everyone thinks letting borrowers shave off parts of their coverage is a good thing. Brian Marino, an insurance agent in Fort Lauderdale, Fla., said he worried that if homeowners carried only enough coverage to satisfy their lenders, the lenders could recoup what they needed after a disaster while borrowers were left unable to afford a complete rebuild.

"The bank is satisfied," Mr. Marino said, "but they're out on the street."

Mr. Friedlander, the trade group's spokesman, said bundling home and auto policies and making “deductible adjustments” were common ways to cut insurance costs, adding that the institute recommended working with an agent “to reduce the cost of your policy without reducing the levels of coverage.”

Homeowners aren’t the only ones slashing their coverage under pressure. The Peachtree Group, an Atlanta-based real estate investment company that invests in hotels, rental homes, office spaces and other properties around the country, expects deductibles on some of its properties to increase this year in response to rising insurance costs, said Charles Talbert, the company’s spokesman. That would leave it paying for more rebuilding costs.

Sue Savio, an insurance agent in Honolulu, said underinsurance had recently become widespread on Oahu. “We have many condominiums whose premiums would have doubled or tripled,” Ms. Savio said. But instead of paying those higher premiums, owners got rid of coverage for damage from hurricanes, since such storms don’t frequently hit Hawaii.

“Our last hurricane was 32 years ago,” Ms. Savio said.

Those who own their homes or other properties outright have much more leeway to decide whether or not to insure their properties. Some wealthy homeowners are willing to take the risk of being underinsured because they can afford to repair their properties themselves.

“I’ve talked to people that own their home outright and they’re choosing to forgo the wind damage. They’re keeping flood,” said Brian Gray, a managing director at UBS whose wealth management group serves some of Tampa’s wealthiest residents.

One of Mr. Gray’s clients agreed to a deductible of $1 million.