As insurers around the U.S. bleed cash from climate shocks, homeowners lose

WLRN

At first glance, Dave Langston's predicament seems similar to headaches facing homeowners in coastal states vulnerable to catastrophic hurricanes: As disasters have become more frequent and severe, his insurance company has been losing money. Then, it canceled his coverage and left the state.

But Langston lives in Iowa.

Relatively consistent weather once made Iowa a good bet for insurance companies. But now, as a warming planet makes events like hail and windstorms worse, insurers are fleeing.

Langston spent months trying to find another company to insure the town houses, on a quiet cul-de-sac at the edge of Cedar Rapids, that belong to members of his homeowners association. Without coverage, "if we were to have damage that hit all 17 units, we're looking at bankruptcy for all of us," he said.

The insurance turmoil caused by climate change — which had been concentrated in Florida, California and Louisiana — is fast becoming a contagion, spreading to states such as Iowa, Arkansas, Ohio, Utah and Washington. Even in the Northeast, where homeowners insurance was still generally profitable last year, the trends are worsening.

In 2023, insurers lost money on homeowners coverage in 18 states, more than a third of the country, according to a New York Times analysis of newly available financial data. That's up from 12 states five years ago, and eight states in 2013. The result is that insurance companies are raising premiums by as much as 50% or more, cutting back on coverage or leaving entire states altogether. Nationally, over the last decade, insurers paid out more in claims than they received in premiums, according to the ratings firm Moody's, and those losses are increasing.

The growing tumult is affecting people whose homes have never been damaged and who have dutifully paid their premiums, year after year. Cancellation notices have left them scrambling to find coverage to protect what is often their single biggest investment. As a last resort, many are ending up in high-risk insurance pools created by states that are backed by the public and offer less coverage than standard policies. By and large, state regulators lack strategies to restore stability to the market.

“I believe we’re marching toward an uninsurable future” in many places, said Dave Jones, the former insurance commissioner of California and now director of the Climate Risk Initiative at the University of California, Berkeley law school.

Insurers are still turning a profit from other lines of business, such as commercial and life insurance policies. But many are dropping homeowners coverage because of losses.

Tracking the shifting insurance market is complicated by the fact it is not regulated by the federal government; attempts by the Treasury Department to simply gather data have been rebuffed by some state regulators. To understand what’s happening in the insurance industry, the Times interviewed more than 40 insurance executives, brokers, officials and homeowners in a dozen states, and also reviewed financial records from insurers in all 50 states going back more than a decade.

The turmoil in insurance markets is a flashing red light for a U.S. economy that is built on real property. Without insurance, banks won’t issue a mortgage; without a mortgage, most people can’t buy a home. With fewer buyers, real estate values are likely to decline, along with property tax revenues, leaving communities with less money for schools, police and other basic services.

And without sufficient insurance, people struggle to rebuild after disasters. Last year, storms, wildfires and other disasters pushed 2.5 million American adults out of their homes, according to census data, including at least 830,000 people who were displaced for six months or longer.

“Insurance is where many people are feeling the economic impacts of climate change first,” said Carolyn Kousky, associate vice president for economics and policy at the Environmental Defense Fund. “That is going to spill over into housing markets, mortgage markets, and local economies.”

Several factors are helping to drive the losses in homeowners insurance, including the rising cost of labor and materials to rebuild homes, outdated building codes, and the fact that Americans keep moving to areas that are at high risk of flooding or wildfire.

The industry has seen sustained losses before, including between 2008 and 2012. But experts say the past decade is different because of climate change. As the planet warms and storms and fires grow more intense, the cost of disasters is increasing faster than insurers can afford. A financial model designed for a mix of good and bad years threatens to unravel as more years become bad years.

“It’s becoming an untenable situation,” said Sridhar Manyem, senior director of industry research at AM Best, a company that rates the financial strength of insurers.

Essentially, insurance companies make bets and set premiums based on damages they expect from historical weather patterns. But global warming has made weather unpredictable, leaving insurers unsure how to price policies.

“Climate change is real,” said Bill Montgomery, CEO of Celina Insurance Group, one of the companies that has left Iowa in the past year. “We can’t raise rates fast enough or high enough.”

Secura Insurance used to sell homeowners coverage in Iowa and 9 other states. On Feb. 1, the company began dropping all its homeowners outside its home state of Wisconsin. Next year, it plans to start dropping its customers there, too.

The decision was driven largely by increasingly erratic weather, said Kristin Heiges, a spokesperson for Secura. “The volatility has been all over the place,” she said.

Homeowners are stunned.

“Instead of doing what they’re supposed to do, which is serve their customers, they are cutting them loose by the droves,” said Eldon Neighbor, an independent insurance agent in eastern Iowa, who lost his own home insurance last year when his carrier left the state. In Iowa, insurers faced $1.3 billion in losses last year, an enormous sum for a state with just 3 million residents and a fourfold increase from a decade earlier.

Those who can’t get insurance on the private market are flooding into state-mandated insurance pools of last resort, whose losses are ultimately borne by the public. Federal officials increasingly worry that states will eventually turn to Congress for assistance, putting all Americans on the hook.

Even the insurance companies are having trouble getting coverage. Reinsurance companies, global giants like Swiss Re, insure the insurers, sharing some of the risk of the policies they write. As disasters worsen, reinsurers have become more reluctant to underwrite insurance in parts of the United States. That's made insurance companies even more conservative about where to do business.

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Iowa demonstrates what happens when all these trends converge.

The state's favorable insurance market began to unravel in 2020, said Tom O'Meara, CEO of the group that represents the state's independent insurance agents.

That year, a derecho, a storm marked by intense winds, tore through the Midwest. It was followed by a string of disasters: windstorms, hail and tornadoes, making it hard for insurers to recover.

To gauge the level of financial distress hitting insurance companies in Iowa and elsewhere, the Times assembled data from AM Best, a company that rates the financial strength of insurers, showing "direct combined ratios," a number that compares revenues to costs. AM Best calls it "a true measure" of insurers' profitability.

In 2023, for every dollar insurers earned from homeowners policies in Iowa, they paid out $1.44 in losses and other costs. It was the fourth straight year of losses for Iowa's home insurance market. Reinsurers started to back away.

"Insurance is based on optimism," said Doug Ommen, Iowa's insurance commissioner. "You can't sustain a severe loss every year."

Since the start of last year, at least four companies have announced they would stop writing homeowners insurance in Iowa, including Secura, Celina and Pekin Insurance.

Other Midwestern states are facing similar pressure. Pekin says it has "paused" writing homeowners insurance in Illinois, Indiana, Ohio and Wisconsin, citing the increased frequency and severity of storms.

Secura is dropping customers in Illinois, Indiana and Michigan.

The homeowners insurance market in each of those states has become unprofitable, according to AM Best data.

In the Southeast, climate change translates into stronger storms and hurricanes, which means more damage to homes and other properties.

In Arkansas, insurers spent $1.66 last year for every dollar they earned in home insurance premiums. In Kentucky, which was rocked by tornadoes and record rainfall in 2023, they spent $1.67 for every dollar they earned. And in Tennessee, where storms were severe enough in December for a presidential disaster declaration, insurers spent $1.25 last year for every dollar they collected in premiums.

Kevin Walters, a spokesperson for the Tennessee Department of Commerce and Insurance, said the market remained sound, “despite some challenges.”

Insurance commissioners for Georgia, Kentucky and Mississippi, all states where insurance companies lost money on homeowners insurance last year, did not comment.

In the West, climate change has dried out wooded areas, making them increasingly susceptible to wildfires. In Arizona and Washington state, insurers’ annual losses for homeowners coverage have more than doubled over the past decade, before accounting for inflation. In Utah, losses more than tripled.

Matt Child, CEO of Utah’s association of independent insurance agents, said insurers were increasingly reluctant to cover homes in what he called “alpine Utah,” like hillside towns and neighborhoods around Salt Lake City.

In the wooded areas north and east of Phoenix that are prone to wildfires, such as Flagstaff, it’s becoming increasingly difficult to find homeowners insurance, according to Matthew Baker, a risk adviser with Strong Tower, an insurance agency in Gilbert, Arizona. “Pretty much none of the carriers will write there,” Baker said.

The threat of wildfires is also causing insurers to back away from areas around Seattle and other parts of Washington, where Baker also works.

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States regulate insurance markets, with the power to approve or reject rate increases, the extent of coverage and protections for consumers.

Some are trying to make it easier for insurers to earn more profits, or shift more cost onto homeowners. Louisiana and Washington have sped up the process for insurance companies to raise their premiums. Arkansas recently allowed insurers to impose higher deductibles on people whose homes are damaged by hail or wind.

Amy Bach, executive director of United Policyholders, a consumer advocacy group, said state officials must make sure that rate increases reflect actual losses and not projections. “We want to make sure regulators are continuing to base their regulatory actions on data, and not just perception,” she said.

In Colorado, where insurers have lost money in eight of the past 11 years, officials are setting up a high-risk pool in case private insurers start dropping large numbers of customers. Similar plans exist in 35 states and are designed for people who can’t find private insurance. Losses are typically covered by a surcharge added to everyone’s insurance bill.

So many homeowners have flooded into Florida’s state-backed high-risk pool that it is now the state’s largest insurer, with rates that are too low to reflect the risk it faces in the event of a major hurricane.

Other states are focusing on better protecting homes from severe weather.

California is requiring that insurers give discounts to homeowners who install fire-resistant roofs or make other changes to reduce their risk, with the idea that insurers will have to pay out less money as a result. Minnesota has likewise required insurers to offer discounts to people who make their homes more resilient against storms; Kentucky and Georgia recently passed similar legislation.

But most states lack a comprehensive plan to restore the market.

Ommen, the Iowa state insurance commissioner, said he was waiting to see if the problem persisted. “This has been a challenging year,” he said. “We’ll look at it next year and make an evaluation.”

The industry is likely to rebound by changing its practices: not just raising rates, but also narrowing coverage and exiting certain markets, said Tim Zawacki, principal research analyst for insurance at S&P Global Market Intelligence.

But what's good for insurers isn't necessarily good for consumers.

On Apr. 29, Langston signed a new insurance policy for the 17 properties in his homeowners association. Finding that policy took three months and four insurance agents; he signed it two days before his previous coverage expired.

The total premium amount for those homes jumped 43%, to $26,500. But that wasn't the most painful part. Under the old insurance, the maximum deductible for wind or hail damage was $25,000 for all 17 homes. It is now $120,000.

If a major storm were to hit Langston's quiet cul-de-sac now, "the high expense would wipe out all the money we have in the association," he said, "and then levy thousands of dollars on everybody to make the difference."

"We just didn't have any choice," Langston said. "Pretty soon, it will be happening to everybody else."

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