

Climate change is impacting the home insurance industry and damaging the housing market

CNN

When Michael Monaghan, a real estate agent with Coldwell Banker Sellers Realty in northern California, got an offer for a home in Bayside at the seller's \$650,000 list price in September, he told the buyer's agent that the buyer needed to start looking for insurance immediately.

"I said, 'Start working on this on day one,'" Monaghan said. "Getting insurance is the most important thing right now when you're in escrow for the deal to close."

In the past, acquiring homeowners' insurance didn't present buyers much difficulty, but as climate change increases the frequency and severity of extreme weather, insurers — especially those in areas most impacted by floods and fires — are raising their premiums, or pulling out altogether, impacting the affordability and availability of home and fire insurance.

For example, in May, State Farm, the largest home insurer in the state, announced it would pause issuing policies in California, citing wildfire risks. That came after Allstate stopped issuing policies in the state. Farmers Insurance deemed it too risky to continue insuring homes in Florida and pulled out of the market there entirely.

"With many carriers pulling out, that leaves other companies underwriting these really expensive policies," said Monaghan. "Policies that cost \$10,000 for a year? That is impossible for some buyers who have to pay that all at once [along] with their closing costs."

To help a deal close, Monaghan said some motivated sellers have given two years' worth of insurance costs to the buyer.

But even if a buyer can pay their insurance costs up front (or even has them paid by the seller), buyers still have backed out of deals, worried that their insurance premiums will go up in the years to come.

He said buyers wonder, “Will [they] be able to afford it next year? Will their policy be canceled? Then, if they can’t get another insurer, their loan gets called. It is a never-ending death spiral.”

As the closing day came for his clients’ home in Bayside, it became clear the buyers had not secured insurance. Monaghan began calling around to help. The most affordable option he could find was \$6,348 for the year. The average cost for homeowners’ insurance in the United States is about \$1,820, according to an analysis by NerdWallet, but there are many variables.

Ultimately, the buyers walked away. The costly policy and the potential of rising insurance costs in years to come killed the deal.

Now, the home is back on the market. But with insurance coverage so hard to find, it’s listed for \$25,000 less.

“It is a very bad situation,” said Monaghan. “What insurers say goes. Even if they have flawed maps or are relying on third-party information. They think it is going to get a lot worse over time.”

According to the National Oceanic and Atmospheric Administration, the number and severity of storms are already getting worse.

As of October 10, there have been 24 weather and climate disasters with losses exceeding \$1 billion in the United States this year, according to NOAA. These included a drought, two floods, 18 severe storms, one tropical cyclone, one wildfire, and one winter storm. Overall, these events resulted in the deaths of 373 people and had significant economic effects.

By comparison, between 1980 and 2022, the typical annual average for events like this was eight. For the most recent five years, the annual average has been 18 events.

As climate risks continue, a standoff has developed over who should pay the cost of insuring homes against ever-growing risks.

Home insurance woes are becoming even more widespread

As insurance becomes scarce in some areas and its cost surges, homebuyers are walking away from deals more often than in the past, said Amy Bach, executive director of United Policyholders, a personal insurance consumer advocacy group based in San Francisco.

Although, she added, this is where the industry has been heading for some time now.

“Florida and Louisiana have been having extreme property insurance drama for a while, starting from Hurricane Andrew in 1992, then Hurricane Katrina in 2005,” Bach said. “The severity of the storms and the price tag of the repairs started to get insurers’ attention.”

Bach said that in places like Louisiana, insurers were shown the large-scale risk mitigations put in place in the face of more frequent and harsher storms, such as stronger levees.

“But I don’t think they are there yet,” she said. “Insurers are not yet accepting the value of risk reduction. They aren’t able to reduce prices, they aren’t willing to have it impact their underwriting. That is where the heart of the fight lies now.”

In the meantime, she said, on top of climate change, other issues are also pushing the risk and cost even higher.

“This isn’t just climate change, it is climate-change-plus,” Bach said. It is climate change, plus the Covid hangover pushing costs up, plus inflation, plus technology that allows insurers to evaluate risks in a wider array of ways.

Her organization, whose main focus was once helping those impacted by disaster to recover money from insurance companies, is now primarily devoted to working on insurance availability and affordability issues.

“It has evolved from a very regional crisis impacting few areas to a much bigger crisis,” said Bach. “We didn’t want to use the word ‘crisis,’ but if you talk to the homeowners in WUI [wildland urban interface] areas they would say it is a crisis.”

Still, Bach said, it is important to keep the crisis in perspective. In California, for example, the share of

homeowners using FAIR plan — the insurer of last resort made up of a syndicated fire insurance pool comprised of all insurers licensed to issue property and casualty in the state — remains under 5%, according to the California Department of Insurance.

Competition isn't coming to save the day

While insurers have always dropped out of markets or changed their conditions in reaction to a policy, Bach said a competitor would always move in.

"Competition would, in fact, heal the wound," she said. "But that isn't happening now."

"We are in a world in which natural disasters are more common and more severe, and we are in a state with diverse housing," said Jennifer Branchini, a Compass agent in Pleasanton and president of the California Association of Realtors.

"It is this insurance expense that everyone is now concerned about. Yes, it is expensive to rebuild. What is that doing to the market when it is being put on the homeowner or the person who would like to purchase the house?"

In a recent survey of CAR members, only 7% of agents said they had deals fall through. But of those, a whopping 61% said the deal fell through because insurance was not available to the client. An additional 19% fell through because the premium was too expensive.

And it isn't just the lower- or mid-priced homes.

Branchini heard from a California agent who represented a buyer in the purchase of an \$8.2 million property.

"The only insurance they could get was through State Farm for \$210,000 a year," she said. "Three days later, State Farm paused new coverage. They lost that insurance. That buyer walked away."

The affordability and availability of insurance is one more thing in the perfect storm of the current rough housing market, said Branchini.

"Buyers are facing high interest rates," she said. "There is already a lack of availability and lack of

affordability. And for many of the properties that are on the market you can't obtain insurance? Or it is very unaffordable insurance?"

She remains hopeful that competition and creativity will help the housing market.

"We'll have to see some creative solutions in the near term to create that competitive marketplace for insurance," she said.