[Climate change is worsening the insurance crisis. Some states have solutions](https://uphelp.org/climate-change-is-worsening-the-insurance-crisis-some-states-have-solutions/)

USA Today

The devastating Los Angeles fires have been a grim reminder of America's homeowners insurance crisis as climate change intensifies potential property damage and insurers scramble to price rising risk.

Consider: From 2000 to about 2013, insurance costs made up 7% to 8% of the typical mortgage payment. But starting in about 2013, premiums surged. As of 2022, insurance costs made up more than 20% of the typical mortgage payment, according to data from analytics provider First Street.

Yet at the same time, underwriting profits for homeowners insurance companies have been negative nearly every year from 2017 to 2023, according to a recent report from the U.S. Treasury. "The paid loss ratio − which includes significant losses from climate-related events − was the primary determinant of overall underwriting profitability for insurers in this period," the report concluded.

"We have the reality of climate change, the inconvenient truth that it's not just some conceptual political debate. It's having an impact and insurance is one of the places where we are starting to feel the pain," said Amy Bach, executive director of the national consumer advocacy group United Policyholders. "Yes, we are in a crisis."

Some of the most shocking instances of natural disaster, like the LA wildfires but also hurricanes Helene and Milton in late 2024, have taken place in parts of the country long assumed to be high-risk, such as the coasts. But increasing risk is likely to touch all Americans at some point or another.

Now, state lawmakers and regulators, who are often hearing directly from their constituents about rising insurance costs, are leading the effort to find solutions.

Many state insurance offices are experimenting with different ways of spreading risk and reining in costs, and industry experts are optimistic those innovations may become more widespread. Here are some of those solutions.

Requiring discounts for mitigation efforts

Mitigation efforts − making homes more resilient in the face of natural disasters − may seem like an obvious win-win for both insurers and insured, but homeowners may find it’s hard to get credit for their efforts from insurance companies.

In Colorado, state insurance commissioner Michael Conway was surprised to hear from homeowners in his state frustrated that they had made upgrades to fireproof their homes but weren’t seeing any sort of discount in their premiums.

“We heard a number of times from the modeling companies that they didn’t have enough data to understand the impact of mitigation to account for that in their models,” Conway told USA TODAY. “What I would say back to them is that that’s fundamentally unacceptable. Insurance companies have been telling people for years, decades, that they need to mitigate their property if they want to have insurance available and as affordable as possible.”

Colorado State Rep. Kyle Brown, a Democrat, has introduced legislation in the past to address the question and told a local CBS station that he intends to do so again.

Residents in most coastal, hurricane-prone states should know that insurers there are required to give premium discounts for resiliency, said Mark Friedlander, director of corporate communications for the Insurance Information Institute, an industry trade group.

Encouraging insurers to invest in communities

Insurers have long drawn criticism for their investments in fossil fuel companies, which some consumer advocates say create the problems driving much of the damage insurance is tapped to pay for. Some states are rethinking the role of those investment portfolios, not by limiting fossil fuel exposure but by encouraging investment in the communities they serve.

“In the banking world, we have the Community Reinvestment Act, where larger banks are required to reinvest in the communities where they take deposits. Imagine the same for insurance companies,” said Sharon Cornelissen, director of housing for the left-leaning Consumer Federation of America.

By investing premiums in community efforts that may include climate mitigation but may also simply be beneficial to the neighborhoods, insurers “become partners, they become stakeholders,” Cornelissen said.In Massachusetts, such a program was established in 1998. It lasted 25 years, and when the initiative was set to expire, insurers willingly opted in again for another decade, said Tom Callahan, executive director of the Boston-based Partnership for Financial Equity, a nonprofit that serves the financial services industry there.

“They see the impact these investments have made in mostly low-income communities throughout the state, and so they’re responding emotionally, I think, to that, but also the bottom line of: ‘Oh, we’re getting a modest rate of return too. And then we can recycle this money and give the next generation projects.’ ”

Massachusetts’ Property and Casualty Initiative (PCI) has invested $544 million since 1999, financing affordable housing units and health care infrastructure, among other projects.

See also:Homeownership used to mean stable housing costs. That’s a thing of the past.

Don’t suppress premiums

California’s insurance market doesn’t just cover some of the riskiest real estate in the country – it also contains some deep flaws, including state laws that long prohibited insurance companies from raising premiums to keep up with their own rising costs.

A 2024 analysis published by the office of Democratic Gov. Gavin Newsom noted that the average policy for a $300,000 home in California cost $1,405 a month, compared with $3,851 in Texas and $4,419 in Florida.

“Years of restrictions on rate-making created an artificially suppressed market that incentivized continued population growth in areas at high risk for wildfire and then reduced consumer options for insurance," said a spokesperson for the American Property Casualty Insurance Association, a trade group, in an email to USA TODAY.

What's more, California law prohibited insurers from forecasting risk into the future, relying solely on backward-looking analyses of natural disasters and other factors that would drive insurance payouts.

The state will now allow insurers to use what the industry calls "catastrophic storm modeling" in pricing. "These reforms will help California's market recover its equilibrium, though the Los Angeles wildfires have added significant additional challenges to the state's insurance marketplace," the spokesperson added.

Preexisting conditions

The upheaval in the homeowners insurance market isn't the first crisis for the industry. Colorado's Commissioner Conway is reminded of the early days of the health care marketplaces required by the Affordable Care Act a decade ago.

"We had huge premium spikes," Conway said. "We had insurance companies leaving the market. Nobody understood what was happening in the individual market. The companies didn't understand how to price the risk."

But with enough innovation in different states, the health insurance exchanges did settle down and became functional and are "now one of the more stable and one of the more profitable markets that insurance companies have," Conway said.

Amy Bach of United Policyholders finds the ACA analogy somewhat flawed, however. Though there's still a great deal of bureaucracy in health care and health insurance, she said, the legislation also known as Obamacare at least forbid insurers from denying coverage to anyone who has a "preexisting condition," which means they don't get to pick only the healthiest, least-risky customers.

In property insurance, the equivalent of a preexisting condition like heart disease or cancer would be living in an area prone to wildfire or floods or having a home that's older than a certain age, Bach said.

Keeping insurers from cherry-picking customers would have to be required by Congress, Bach believes.

Though some legislation has been introduced in the past to make that happen, she’s skeptical any such efforts will pass today in such a polarized Washington.

Longer wait times for cancellations

As homeowners insurance grows more costly, more Americans risk making late payments for their premiums. The industry has responded by using late payments as a reason to not renew policies, Cornelissen said.

States may consider requiring slightly longer periods before insurers are able to cancel policies. That’s now under consideration in Maryland, Cornelissen said, where customers may lose coverage only 10 days after missing a payment.