Climate disasters make it harder to insure your home. Here's what to know.

Washington Post

Premiums are soaring and carriers are pulling back coverage, citing disaster risks. Climate change is a big factor, but there are others at play.

Homeowners are bracing for hurricane and fire seasons, but with insurance premiums rising and carriers pulling back coverage in riskier states, more and more residents don't know whether they can afford to insure their home — if and when a disaster hits.

State Farm, following Allstate's quiet move last year, recently announced it will not take on new policies in California due to fire risk. In Colorado, most insurers have either pulled back on coverage or canceled policies, and residents are paying about 50 percent more in premiums. People in Louisiana and Florida are also struggling to afford policies, with more carriers leaving the state, going insolvent, and some are under scrutiny for altering damage estimates to pad their profits, the focus of a new state law.

Across the United States, it is becoming harder and more expensive for people to protect their livelihoods. There are a multitude of reasons, but it is clear that climate change is making catastrophes worse, and insurance companies largely have the power to choose how they react to them. However, there are resources out there to help homeowners confront both the risks and the potential financial hardships.

Here's what you need to know about why insurance is getting so expensive, where it's happening, and some steps you can take to prevent losing your policy.

What's the deal with the U.S. insurance industry?
It's complicated. But in the private market, insurance companies make money by effectively betting on

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risk. Climate change and population growth in desirable but riskier areas, such as the coast, have made risks more extreme, frequent and costly. Carriers are also beholden to reinsurers — the companies that financially back the insurers who cover our homes. Reinsurance is an even more complex industry and barely regulated. The cost of reinsurance has also dramatically increased, and if reinsurers don't want to do business in a certain area, that creates a problem for residents, consumer advocacy groups said. That's partially what has been going on in disaster-prone states.

In California, for example, major carriers such as State Farm — which has the state's greatest market share — decided that the risks had grown too great. They announced this year they will not be taking on new business in the wake of major fires in 2017, 2018, 2020 and 2021.

This is not unprecedented. Insurers put a moratorium on new business in Florida after Hurricane Andrew in 1992 and several times after major incidents in California. But with climate change and questionable development decisions making extreme weather into billion-dollar disasters, more carriers are bailing out of markets as well as demanding rate hikes, policy changes and shrinking their business offerings in a bid to mitigate monumental losses, as we saw with Hurricane Ian.

Property insurance premiums pretty much all across the US have gone up, according to Mark Friedlander of the Insurance Information Institute. If you live in high-risk states such as Oklahoma, Texas and Florida, you're paying on average about $3,000 to $5,000. Floridians, though, just saw their premiums jump another 40 percent to an average of $6,000.

"It's getting very expensive to purchase home insurance in the U.S. and it's hitting pretty much everyone," Friedlander said. "In high-risk states it's become much harder. The reality is it's expensive to live in those places and you have to weigh the risk versus the cost."

Where is it becoming harder to afford insurance?
Across the United States, more and more residents have been choosing to forgo critical coverage because of cost, particularly elderly residents without mortgages and those with lower incomes, according to response groups and policyholder advocates.

So far this year, Team Rubicon, a disaster response group, has conducted nearly 70 operations across the country. More than 80 percent of the people they've helped have been uninsured, said CEO Art

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delaCruz. That's already a jump from 2022.

Two states where affordability is particularly concerning are Florida and Louisiana. Dozens of carriers have stopped writing business or gone insolvent in those states. In the years after Hurricane Laura in 2020, more than 50 carriers stopped taking on new customers in Louisiana and 11 declared bankruptcy. It's been worse in Florida, where more than 15 companies now cease to exist, creating a nightmare for people with open claims who have to wait for the state to come in and hopefully give them some money for repairs.

Across a large swath of earthquake-prone Missouri, for example, the number of people who had earthquake coverage fell from more than 60 percent to 12 percent over the past 20 years. In lower-income Texas communities such as McAllen, almost two out of five households were uninsured, according to a 2021 study.

After Hurricane Ian ravaged southwest Florida, homeowners got hit with higher renewals and more rate increases. Last month, Richard Brown, a veteran and retiree, told Wink News that after his insurer went insolvent, he was handed over to a new carrier that drastically raised his premium to $6,117 a year.

"If I pay the insurance and my house payment, there's nothing left for food," he said.

When and why did the insurance market become expensive?
This crisis has been building, but experts say that the market changed after 2017, when a historic sweep of fires and hurricanes caused billions in damage across several states. Eight of the 10 costliest wildfires and six of the 10 most damaging hurricanes have occurred since then, according to the Insurance Information Institute. In response, carriers have continuously pushed to raise rates, stopped offering new policies or pulled out all together — or they went insolvent, leaving tens of thousands of homeowners in these regions scrambling.

This comes at a time millions of Americans are barely getting by, leaving them no choice but to pick cheap policies with higher deductibles and less protection. The more expensive their options become, the bigger the affordability crisis, especially in smaller, rural communities, said Amy Bach, the executive director of United Policyholders, a nonprofit consumer resources group based in California. For many, it's unsustainable.

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And while population growth and development add to the impacts of disasters, consumer advocates such as Bach say that states need to stand up to insurers and enact stronger regulations so companies do not yank coverage out from homeowners or suddenly triple their rates in one year.

“We need to be exploring options that are less reliant on the current private insurance and reinsurance sectors,” Bach said, adding that more “resources should be going to risk reduction efforts to try and get relief for property owners” instead of catering to insurers’ constant requests for rate increases.

Is California having an insurance crisis?
Over the past year, a handful of carriers have declined to offer new policies in the state due to wildfire risk. This is a significant, since State Farm covers 21 percent of the market, but that does not mean they will not renew policies or drop people, per state regulators. California has more robust consumer protections and regulations against sudden, significant rate swings, which has caused some carriers to retreat. In 2022, Chubb and AIG stopped insuring expensive homes, even in lower-risk wildfire areas. At the time, Chubb chairman and CEO Evan Greenberg blamed the state’s unwillingness to agree to rate increases to match the risk for their decision.

“The factors driving insurance companies’ decisions are beyond our control, including climate change, reinsurance costs affecting the entire insurance industry and global inflation,” said Michael Soller, the deputy commissioner for communications at the California Department of Insurance. “Insurance regulators across the nation are dealing with the impacts of climate change-intensified natural disasters on consumers and companies.”

Like Florida and Louisiana, California has been seeing more insurance companies shrink their footprint in the state. In 2019, after two consecutive deadly and devastating fire seasons, carriers chose not to renew coverage of 235,000 homes.

The situation in California, though, is not as dire as it may sound, experts said. While there are areas where the price and availability of insurance is becoming increasingly problematic, the state itself is not in full-blown crisis, according to Bach and other policyholder organizations. Carriers are not leaving en masse or going insolvent like they are across the coast. On average, homeowners pay $1300 a year — 29 percent lower than the national average — compared with $6,000 in Florida. Due to hail and tornadoes, Oklahoma is the most expensive state nationwide to insure a home.

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California is also the first in the nation to encourage insurance companies to invest in climate-change mitigation efforts, such as wildfire prevention, and help policyholders save money. The Safer from Wildfire program incentivizes carriers and communities to prepare homes for wildfires in exchange for discounts.

But in some rural northern California communities, such as Quincy, Placerville, and Trinity, some people are “just winging it” because they cannot afford wildfire protection coverage, even from the FAIR Plan, the state’s basic fire insurance option, according to Annie Barbour, a survivor of the 2017 Tubbs Fire in Santa Rosa. Barbour now helps residents find and understand insurance.

“It’s these outskirts communities where it is tough and it has gotten worse in the last six months,” she said. “When I go into these communities and talk to people the one insurer I would constantly recommend was State Farm.”

What to do if your insurer drops you? Or if you can’t afford higher premiums?
Insurance companies dropping coverage is becoming more of a reality for homeowners in high-wind zones and brush-heavy areas. In California, carriers must give policy holders 75 days notice, and policy holders can still negotiate and ask if they can undertake mitigation efforts to make their homes less hazardous.

For those who can’t afford higher premiums, what to do? Well, you can ask your insurer if there are ways to reduce coverage or increase your deductible. It is far from ideal, but better than giving up your policy all together. United Policyholders also offers state-specific resources and webinars to help residents better understand how laws protect them and how to shop in the market.

What are options for changing the system?
The bottom line is that barring some massive change, in most states, private insurance companies are able to demand rate hikes, pull coverage and pass on the rising costs of reinsurance to consumers. While climate change-fueled catastrophes are roiling the market, that does not fully explain or condone their ability to suddenly make premiums 3o or 60 percent more expensive or decide that a region is too expensive and drop it, said Birny Birnbaum, the executive director for the Center for Economic Justice and expert on insurance.

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Insurance companies have access to advanced catastrophe prediction models. While some disasters have blown up those expectations, the entire industry is predicated on its ability to understand and write for risk, he said.

“What’s happening is either the insurance companies didn’t know what they were doing a few years ago or they don’t know what they are doing now,” Birnbaum said. “It’s not as if wildfire, hurricane and hail risk and climate change happened overnight. And yet insurers are still increasing premiums far greater than the rate of inflation.”

Birnbaum encouraged people to file complaints with their state regulators. Climate change is buffeting the insurance market, but it’s also exacerbating longstanding imbalances in the system. Given the impact of climate change, many experts say insurance companies and governments should be working together to develop tools, incentives and partnerships to help Americans adapt, instead of just charging them more money.

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