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[How climate change is reshaping home insurance in California — and the rest of the U.S.](https://uphelp.org/how-climate-change-is-reshaping-home-insurance-in-california-and-the-rest-of-the-u-s/)

NPR KQED

As the wildfires in Los Angeles tear through hillsides, raze neighborhoods and displace residents, it's too early to know how vast the destruction will be when the last of the flames is put out. Initial estimates predict that the costs will be massive. One leading climate scientist, Daniel Swain of the University of California, Los Angeles, told KQED that the fires could become some of the costliest in U.S. history; as of Monday afternoon, AccuWeather experts said that total losses could cost somewhere from $250 billion to $275 billion.

Those final, unknown costs and eventual payouts coincide with an inflection point in California's home insurance market, the biggest in the U.S., in the age of climate change. Home insurance rates are increasing across the country, but the Golden State has been hit particularly hard as wildfire seasons have become more devastating, amid hotter temperatures and drought-dried vegetation.

Experts and policymakers agree: Climate change is upending the way that homes are insured in the United States. Across the country, what were once "once-in-a-generation" weather catastrophes occur much more frequently. And as insurance companies contend with the sum total of these disasters, those higher costs are passed on to policyholders.

In many respects, California has a uniquely complicated insurance situation. But it's a problem that's happening throughout the rest of the country: The effects of climate change are coming for people's home insurance bills.

California faces "an insurance crisis like we've never seen"

Insurance rates in California have been slowly ticking up for years, though climate change isn't the only driving factor, according to Meredith Fowlie, a professor of agricultural and resource economics at the University of California, Berkeley, who researches the links between wildfire risk and insurance prices.

Simply put: The costs of doing business are going up, such as increased costs of the construction materials and skilled labor needed to repair and rebuild homes, as well as higher interest rates, she says. That's the case across the country.

In her research, though, it's clear that the worsening wildfire seasons have been a major driving force behind California's market instability. Specifically, the 2017 and 2018 seasons were "particularly devastating, raising concerns about the insurability of catastrophic wildfire risk," according to a study she co-authored, published last June with the National Bureau of Economic Research (NBER).

The massive losses incurred from those fires "wiped out more than a quarter century of cumulative profits for the industry twice over," according to Carolyn Kousky, of the Environmental Defense Fund, who researches climate risk and policy. "So that was a bit of a shake-up for people and a recognition that climate impacts are here and are costly and the risk isn't stabilizing — it's continuing to go up."

That coincided with the industry investing more heavily in better analytics and modeling of insurance risk, Fowlie says.

"These newer risk-modeling tools are definitely helping insurers come to terms with what wildfire risk looks like in California and how they'd want to price it in order to ensure that they are ready to pay when claims come in," she says.

The results of all this hit consumers hard, according to the NBER study. Premiums rose, especially in areas where fires had hit or that were otherwise deemed high risk by insurers. Insurers paused writing of new policies or told people their plans wouldn't be renewed; and increasing numbers of people had to resort to California's FAIR Plan, a semiprivate insurance plan of last resort, which has considerably higher premiums and less coverage than traditional plans. (The FAIR Plan covers 1 in 5 homes in the Pacific Palisades, CalMatters reported.)

And since home insurance is a prerequisite for getting and having a mortgage, Fowlie says, it's a particularly pressing issue for those who live in those high-risk ZIP codes, many of whom are struggling to afford the higher insurance rates needed for homeownership.

In totality, “California has been suffering from an insurance crisis like we’ve never seen,” California Insurance Commissioner Ricardo Lara says.

Insurance markets across the country are feeling similarly pinched

California’s litany of problems — high premiums, less availability of insurers and increasing numbers of people on insurance plans of last resort — echo across the country, the Environmental Defense Fund’s Kousky says. Florida and Louisiana are seeing similar levels of market instability, thanks to worsened hurricane seasons as rising temperatures and sea levels make hurricanes more intense and flooding worse.

Take Florida, where 16 insurer carriers have become insolvent since 2017 and 16 others have stopped writing policies, even though Floridians pay the highest premiums on average in the United States. The state-backed insurer of last resort, Citizens Property Insurance, started getting many more policy holders, NPR reported in 2022.

At the time that Hurricane Ian hit the state in September 2022, many worried that the expensive payouts after the hurricane could be the final straw for many insurance companies. And it was, Central Florida Public Media reports, as Ian proved to be the most expensive storm in Florida history: Over 30 insurance carriers left the state.

Hurricanes and wildfires have been making conditions in Florida, Louisiana and California extreme, but there’s a similar trend nationwide, Kousky says. Texas and Colorado each had to create their first state-backed insurance program because of insurance issues with wildfires, she said, and coastal New Jersey has dealt with rising sea levels that make flooding more likely. “We’ve seen challenges with pricing and managing this growing risk.”

Across the country, household budgets have been absorbing higher home insurance costs, Fowlie says. Adjusted for inflation, she says, premiums have increased 13% on average since 2020 — though that figure doesn’t illustrate how lopsided they have gotten in some parts of the country.

It’s something that state insurance commissioners across the country have their eyes on, says Lara, who chairs the climate resiliency committee at the National Association of Insurance Commissioners. And he uses what has happened in California’s market as an example of what could happen to others.

“What we’ve been telling people nationally and in our meetings with other insurance commissioners is do not wait until California comes to a theater near you and you’re getting insurance companies to either restrict their portfolios in the state or leaving the state,” he says.

The LA fires come as insurers are poised to come back to California

In the near future, insurance rates in California are expected to spike — but not necessarily because of the fires. At the end of 2024, the California Department of Insurance passed long-anticipated regulations in an attempt to increase access to insurance.

There are many parts to the new regulations, but chief among them is something that insurance companies had asked from state regulators for years: being able to base rates on forward-looking models of climate risk in the state, without needing to cite historical data. In exchange, the companies committed to writing more policies in high-wildfire-risk areas and factoring in any fire-mitigation efforts into lowering those rates.

“Those were concessions to the insurance industry to create an environment that they feel more comfortable doing business in,” says Amy Bach, executive director of United Policyholders, a nonprofit group that advocates for people with insurance policies.

Like other experts, she expects this to increase rates in the short term as insurers adjust their prices. But it’s unclear whether this latest batch of wildfires will upend these efforts to stabilize the market, she says.

Lara, though, is optimistic that the market will improve within a year but acknowledges that “this fire complicates an already complicated situation.”

It’s a test case of whether policy reform can meet climate challenges

These rules don’t just have implications for California — Lara hopes that these new reforms can be a road map for other states that are trying to adjust for climate change’s effects on homeownership. “If we’re going to have a solvent insurance market in the country, insurance can no longer be an afterthought in the national and global conversations around climate change. Insurance has to be at the forefront."

But if the past few years have demonstrated anything, it's that traditional insurance models have had trouble accounting for the "known unknown" risks that climate change poses, the Environmental Defense Fund's Kousky says, making it difficult to provide coverage affordably.

"I think the big question now, after what we're seeing in the LA region, is, you know, how far can regulatory changes go in helping maintain insurability in this environment of really catastrophic wildfire risk?" she says.

What has become clear, though, is that it's a problem that U.S. homeowners are not going to be able to ignore.

"It's the one place where I feel lots of Americans are seeing the costs of climate hit their pocketbooks," she says. "And it's like a kitchen table economics problem now. And yet it's directly related to what we've been doing with the climate. And I think it's maybe one of the first places that lots of people are grappling with that."