

Hurricanes Milton, Helene underscore potentially devastating gaps in home insurance coverage

THE HILL

Hurricanes Milton and Helene are exposing holes in the home insurance coverage that many Americans have leaned on for a sense of security in the face of natural disasters.

Milton is currently headed for Tampa Bay, where — if the hurricane’s angle of approach is particularly unlucky — the shallow, gentle slope of the continental shelf and crescent shape of the bay could focus and amplify its power for a devastating assault on the ocean-side city.

That would make the storm the second blow of a one-two punch hammering millions of homeowners without adequate insurance — raising real questions about how and whether the affected communities can recover.

The losses from Helene, which tore through the Southeast not even two weeks ago, are still being tallied up. Earlier this week, AccuWeather estimated the total costs of the storm damage could be as high as \$250 billion.

Most of those losses weren’t covered by insurance, leaving those in the storm’s path with minimal resources to recover from catastrophic damage.

Because Helene’s damage was so concentrated in regions outside of the Federal Emergency Management Agency’s (FEMA) traditional flood maps — zones where homeowners are required to buy flood insurance — the insurance industry has estimated that only around \$5 billion of those losses are insured, PBS reported.

In western North Carolina, where some towns were effectively eradicated by Helene's floodwaters, the percentage of homes covered for flooding may be as low as 1 percent, according to The Wall Street Journal.

That insurance gap is emblematic of broader issues that extend even to more flood-prone areas.

Much of the structure of federal insurance protections is based on the assumption that the government's maps of which regions are most at risk is accurate — something that hasn't been true for almost half a century in many areas, as The Hill reported. FEMA's flood maps have not been updated for decades.

And Jeff Schlegelmilch of Columbia University told PBS that as well as being outdated, those maps are particularly bad at assessing the risk posed by heavy downpours to the small creeks and rivers of high mountains — areas where flood risk is very low, until it suddenly isn't — that turned into walls of water under feet of rain from Helene.

Even properties that are covered by federal maps face their own problem: More than 5 million homeowners nationwide are enrolled in the National Flood Insurance Program (NFIP), a federal insurer of last resort that — like its smaller cousins in the states — effectively concentrates coverage in the properties that are riskiest and most likely to repeatedly flood.

But because it targets the riskiest properties, NFIP prices are so high that most homeowners decline to enroll.

"For many of the people who are affected by the flooding, they're not going to have the additional funds that would be made available through their homeowners insurance or business insurance or plans like that," Schlegelmilch told PBS.

Houses in eastern Tennessee and western North Carolina that are technically in federal flood zones often don't have coverage, the climate news site Grist found. And in hurricane-prone Florida, which has among the highest rates of coverage, just 24 percent of homes in counties designated as federal disaster areas have FEMA flood insurance, according to an analysis by Politico's E&E News.

From the perspective of the insurance industry, the lack of coverage in the areas hardest hit by Helene made the storm a "very manageable loss event," Mark Friedlander of the Insurance Information Institute

told The Associated Press.

That offers a small silver lining to those outside the storm's path, Karen Clark, founder of insurance analytics firm Karen Clark & Company, told Grist: The lack of high insurance payouts mean that Helene is unlikely to lead to widespread further retreats by insurers, who have increasingly withdrawn from disaster-prone regions such as the Gulf Coast and the California Sierra.

But for those who were impacted by the storm, that will be cold comfort indeed. On Monday, as crews in western North Carolina still searched for the missing, home insurance companies argued to state regulators that they should be able to raise home insurance rates in the state by 42 percent on average — and 20 percent in the 11 mountain counties hardest hit by the disaster.

The current gaps in insurance coverage also raise the possibility, Schlegelmilch said, that many devastated regions will not be rebuilt.

That's not just a risk for homeowners, but also for the businesses that make up the commercial hearts of now-ruined towns.

"It's going to be much more difficult for owners of small businesses and multifamily properties as they rebuild to find insurance that isn't three or four times what they were paying before," Alexandra Glickman, of insurance broker Arthur J. Gallagher, told The Wall Street Journal.

The storms also come amid a broader tumult in Florida's insurance market.

The state Legislature passed a law in December 2022 to try to take the majority of people off the rolls of the state's insurer of last resort, Citizen's — which had swelled to 1.25 million active policies amid a broader rise in insurance costs.

This summer, the state is pushing more than half of those policies onto private insurers — and homeowners don't get a say in who takes their policy.

This will likely make policies more expensive. State law in Florida caps the hike in premiums at 20 percent, but the average annual premium in the state is nearly \$11,000 — four times the national average, according to Insurify.

And the shift comes as tens of thousands of Florida homeowners have discovered in recent years — after their homes have been wrecked — that the insurance premiums they have paid for years did not guarantee that their homes would be rebuilt.

In 2023, Florida insurers closed more than 75,000 cases without payment. Independent insurance ratings agency Weiss Ratings found that many large Florida insurers denied nearly half of homeowner claims.

“Insurers have become significantly tougher on hurricane claims,” Rick Tutwiler, a Tampa, Fla., claims adjuster, told The Wall Street Journal. “We’ve moved to an era dominated by exclusions, diminishing coverages, and even harsher policy terms.”

In the wake of 2017’s Hurricane Ian, Floridians told CBS’s “60 Minutes” that their insurance companies — after surveying wrecked properties — offered them \$10,000 to \$15,000 for their totaled houses.

One adjuster, Jordan Lee, told “60 Minutes” that 95 percent of the houses he looked at were downgraded, after his report, from massive losses — say, around \$231,000 in one case — to more like \$15,000. In houses where he had said roofs needed replacement, he recalled the final verdict from the company was a much cheaper “repair.”

Lee joined other adjusters in testifying to Florida lawmakers about what Ben Mandell, another adjuster, called “a deliberate scheme” by six of the state’s carriers to change reports in order to lower the payments they owed by allegedly converting totaled houses on paper to merely damaged ones.

The insurance company in question denied the allegations in a lengthy response to CBS, calling it a “false, libelous statement” and contending that final payouts were often quite different — either lower or higher — than what their third-party adjusters estimated.

Martin Weiss, Weiss Ratings’s founder, argued to Insurance Business that insurance companies don’t have cash on hand to pay out claims because they are going to pay off shareholders outside the state.

“Thus, some are abusing their power to deny damage claims as a deliberate tactic to conserve cash and avoid bankruptcy,” Weiss said.

A number of homeowners have taken legal action in response to the denials: In 2023 the state saw

people suing their insurance companies for denying claims at a rate nearly 20 times the national average.

In policy terms, this has contributed to a vicious circle. Both in Florida and in similarly afflicted Louisiana, policymakers and industry officials have often pointed to lawsuits, rather than climate change, for the state's rising insurance costs.

"Florida's market has been showing positive signs of improvement since the legislature passed important reforms to reduce legal system abuse in the state," Logan McFaddin, vice president of state government relations at the American Property Casualty Insurance Association, told CNBC.

But, McFaddin added, "it remains to be seen what impact Hurricane Milton will have on the marketplace following the significant damage from Hurricane Helene as repairs are just getting underway."

"We're battling insurance from [2023's] Idalia," homeowner Hope Webb told WCTV. "Battling claims that still haven't been paid out, and now where do we go from here?"

"Many people here were self-insured because you could not just afford to carry insurance and even when you do, you can't get any money," Webb said.

According to the Insurance Information Institute, the industry's leading think tank, as many as 20 percent of Floridians have chosen to "go bare" — in other words, to brave an increasingly tumultuous world without insurance.

For those who have mortgages, this isn't an option — lenders require that the property that they still, technically, own in whole or in part be protected. But such homeowners can opt for their own version of effectively going bare by getting just the "force-placed" insurance that protects the lender's assets but leaves the homeowner high and dry.

Rising rates are a risk well outside of regions thought of as climate disaster zones. Rising damage across the country — and the world — has also put pressure on regions like Kansas or Oklahoma, which are experiencing some of the fastest growing rates in the country despite a lack of exposure to hurricanes or wildfires.

That's because insurers in those states rely on the kind of stable reinsurance market — which sells the kind of insurance that insurers buy — that, in a world of rising weather disasters, no longer exists.

Homeowners who are covered by federal insurance, meanwhile — or those left out in the cold by private insurers — face an onrushing fiscal crisis in the federal agencies that are supposed to help them.

Battered by repeated disasters and systematically starved for decades, key programs like the Small Business Administration (SBA), FEMA's disaster fund and the NFIP are on the verge of running out of cash, Politico reported.

President Biden warned that the SBA could run out funding "in a few weeks" in a letter to Congress last week, Secretary of Homeland Security Alejandro Mayorkas warned that FEMA itself could be right behind it.

Rep. Maxine Waters (D-Calif.), who has led repeated failed attempts to update the FEMA maps and to get the NFIP back onto firm financial footing, has long warned about this precise dynamic playing out.

Last year Waters, in yet another failed attempt to fund the NFIP over the long term, decried "a pattern that has put the NFIP repeatedly at risk of lapse throughout the years."

Aid money could take months or years to reach the flooded zones, and be insufficient once it gets there, Carolyn Kousky of the Environmental Defense Fund told Grist.

In part, that's a result of the acute crisis confronting the agencies. It's also partially due to more structural factors, Kousky said — a relic, like cheap Kansas homeowners insurance, of a system built around the assumption of a stable insurance market. "These programs were intentionally designed not to replace insurance [and are] really limited."

In the aftermath of Helene, people are going to be disappointed in their insurers and they are going to be disappointed in FEMA," Amy Bach, executive director of United Policyholders, a consumer advocacy group, told The Associated Press.

While some level of federal aid will eventually materialize, Bach said, "FEMA cannot match the kind of dollars private insurers are supposed to be contributing to the recovery."

Amid calls for emergency funds in the face of the hurricanes, House Speaker Mike Johnson (R-La.) has declined to call lawmakers back to pass a disaster relief bill.

“We’ll be back in session immediately after the election,” Johnson said Sunday in an interview with “Fox News Sunday.”

“The thing about these hurricanes and disasters of this magnitude is it takes a while to calculate the actual damages, and the states are going to need some time to do that,” he continued.