United Policyholders
Empowering the Insured

Outlook for home insurance in 2024

USA Today

Key points

- Climate change is increasing homeowners insurance claim severity and frequency.
- In the short term, homeowners can expect higher home insurance premiums, the possibility of nonrenewal and fewer options for insurance.
- In the long term, home insurance rates may start to stabilize.

2023 was a rough year to be a home insurance customer. Two of the 10 largest homeowners insurance companies, USAA and Farmers, implemented double-digit rate increases of nearly 15% in many states, according to S&P Global. The other eight largest companies increased rates by 6% to 10%.

Inflation, supply chain issues and severe weather have been driving premiums higher nationwide. Rising claims costs are also causing some home insurance companies to leave high-cost states or go out of business, which is pushing more Americans to their state's insurer of last resort.

Will the home insurance crisis continue next year, and is there any hope on the horizon? Here's what's in store for home insurance in 2024.

How inflation and severe weather may lead to higher home insurance costs in 2024
In 2024, insurers could break even on property and casualty (P&C) insurance, per projections published in July 2023 from S&P Global Market Intelligence. The P&C insurance category, which includes residential and commercial buildings and automobiles, has suffered homeowners losses in five of the last six years due largely to higher labor and material costs to rebuild and severe weather.

The outlook is improving for insurers thanks to premium rate increases and more caution about which properties to insure. At the macro level, this is good news. Homeowners need insurers to remain profitable if they are to stay in business and continue to offer essential protection against losses that would be financially devastating without coverage.

At the micro level, thousands of individual homeowners and, indeed, entire communities have received shocking rate increases or nonrenewals. They've been forced to shop for new home insurance coverage among a smaller pool of insurers or to obtain pricier, less comprehensive coverage from their state's insurer of last resort.

Supply chain and inflation concerns

Supply chain disruptions were not as prominent in 2023 as they were in 2020 through 2022. Still, many factors affect stability, including:

- Commodity availability and pricing.
- Extreme weather events.
- Geopolitical tensions.
- Inflation.
- Labor shortages.

Supply chain disruptions can increase additional living expenses and exacerbate housing shortages when homeowners are displaced after a serious loss.

"The best way to keep from being surprised in the recovery process following a natural disaster is for consumers to review their coverage with their insurance agent or company each year," said Karen Collins, vice president, property and environmental for the American Property Casualty Insurance Association (APCIA). "This has been critically important in the last few years due to severe inflation and supply chain constraints that have been impacting the costs and timeframes needed to rebuild."

In 2023, the inflation rate for shelter was 7.2% vs. 6.6% for the year prior. That means increased housing costs continue to drive overall inflation, a pattern that could potentially continue in 2024.

Driven by higher costs of construction materials and labor, average property and casualty replacement costs have increased by about a cumulative 45% since 2020, according to Mark Friedlander, spokesperson for the Insurance Information Institute (Triple-I).

Natural disasters increase home insurance rates and claim costs
Insured losses from natural disasters have increased by almost 700% since the 1980s, according to Triple-I. More extreme weather events are occurring, and there's a lot of overlap between where people want to live and areas that have a higher risk of these events.

Natural disasters pose a major threat to the solvency of insurers because they cause so many costly claims to be filed over a short period. One way insurers address this risk is through reinsurance — basically, insurance for insurance companies. Reinsurance costs have risen substantially for insurers, that have had to pass some of that increase along to their customers.

"Chances are good that until reinsurance prices come back down to earth and materials and labor cost increases triggered by COVID-19 supply chain interruption stabilize, insurers will continue to non-renew existing customers and slow underwriting and sales in the states most vulnerable to disasters associated with climate change," said Amy Bach, Esq., executive director of United Policyholders, a consumer advocacy organization for insurance customers nationwide.

Wildfires

Wildfires continue to be a devastating issue for many homeowners and insurance companies. While western states grab most of the headlines, most states are at some risk of wildfire — and most of the ones that destroy structures are caused by people.

In 14 western states, millions of homes are at moderate to high risk of wildfire losses according to CoreLogic, a global property analytics company. While home insurance covers wildfire damage, some insurers are pulling out or limiting coverage in high-risk fire areas.

California, Texas and Colorado have the largest numbers of susceptible homes. CoreLogic forecasts that average annual losses in California could increase by almost a third by 2050 with a moderate to extreme increase in greenhouse gas and aerosol emissions.

If you're shopping for the best home insurance for 2024, be sure to talk to your insurer about wildfire risk and your dwelling coverage limits — you'll want enough coverage so that you can fully rebuild your house in the event of a wildfire.

Storms

Severe storms are another major driver of homeowners insurance claims. Convective storms (derechos, tornados, hailstorms and thunderstorms) cause average annual insured losses of around $17 billion, CoreLogic estimates. Severe convective storms caused a record-breaking $38 billion in insured losses in the first half of 2023, according to Aon, a risk-mitigation company.

As of Nov. 2023, the U.S. experienced 25 weather or climate-related disasters — including, droughts, floods, tornadoes, hurricanes, tropical storms, winter storms and wildfires — with losses exceeding $1 billion each.

Home insurance companies leave high-risk states due to increase in natural disasters
If you're shopping for home insurance in 2024, depending on what state you live in, you may have fewer options and face higher rates when it's time to purchase or renew coverage. Major insurers have stopped writing new policies or have implemented major premium increases. Here's how these changes are playing out in some of the country's largest markets.

Florida
"Because of the unstable market, Florida homeowners are paying the highest average premium in the U.S. at $6,000 annually, a 102% cumulative increase over the past three years," said Friedlander.

Property insurers lost more than $1 billion per year in 2020 and 2021, according to a Feb. 2023 Triple-I issue brief. The state's largest insurer by far is Citizens, the insurer of last resort.

"Florida has been the most volatile property insurance market in the U.S. for several years due primarily to two man-made factors — legal system abuse and claim fraud," Friedlander said.

Shopping for home insurance in Florida in 2024? The best home insurance companies in Florida

Lawsuits

Around 76% of all homeowners insurance lawsuits in the United States in 2021 were filed in Florida, according to the most data from state insurance regulators. Over that same period, Florida accounted for about 7% of all homeowners insurance claims nationwide.

Abuse of the legal system made six of the state's residential insurers insolvent that same year, caused 12 insurers to pull out and put 24 on the financial solvency watch list. The Florida legislature passed laws in Dec. 2022 to curb the abuses and to lower insurers' reinsurance costs. These changes could bring homeowners more options and lower premiums in 2024 or 2025.

Hurricanes and floods

When a hurricane makes landfall in the U.S., it's almost always in Texas or Florida. Hurricane Ian caused Florida about $60 billion in insured losses in 2022, according to reinsurance provider Munich RE. Florida homeowners (and homeowners in 18 other states) pay a separate home insurance deductible for hurricane damage.

Homeowners insurance doesn't cover flood damage, yet most homeowners nationwide don't carry flood insurance unless their mortgage servicer requires it. Even in high-risk Florida, fewer than 2 in 10 homeowners carried flood insurance in 2022, according to Friedlander.

Under a new law being phased in from Apr. 2023 through Jan. 2027, homeowners who get their home and wind insurance through Citizens Insurance must purchase flood insurance through the National Flood Insurance Program (NFIP) or a private carrier.

While this protection is essential, it can add hundreds or thousands of dollars a year to a homeowner's insurance costs — and these costs will likely increase in 2024 and the coming years as the NFIP transitions to a new pricing model that more accurately reflects risk. The average Florida flood insurance premium in Sept. 2022 was $958 but should have been $2,213 based on a risk-based assessment, according to FEMA.

California
The California homeowners insurance market is plagued by nonrenewals and premium increases related to wildfires and regulations.

State Farm and Allstate stopped issuing new policies in California and Farmers announced it would limit how many new policies it issued. In 2022, high-end insurers Chubb and AIG decided to reduce their exposure in the state.

But there might be some good news ahead for California homeowners shopping for home insurance in 2024. In 2023, the Department of Insurance in California issued new executive orders around rate increases to better reflect risk. If passed and rolled out, this measure would attempt to get policyholders out of the Fair Access to Insurance Requirements (FAIR) plan and into the normal insurance marketplace, and require all home insurance companies to offer discounts for wildfire mitigation efforts.

Shopping for home insurance in California in 2024? The best home insurance companies in California

Insurers of last resort stretched thin in high-risk states
Many states have FAIR plans for homeowners who can’t get coverage in the private insurance market.

Florida’s insurance market became so dysfunctional that its FAIR plan, sold by Citizens Property Insurance, is the state’s largest insurer, providing coverage to more than 1.2 million homeowners with an average premium of $4,450 per year for $500,000 in dwelling coverage, though many see even higher rates than that.

State legislative reforms passed in Dec. 2022 and in 2023 have begun to attempt to reverse this trend. Florida’s insurance regulator has approved new residential insurers, which means consumers now have more choices and potentially more competitive pricing.

Further, “Numerous private insurers have agreed to take on large volumes of Citizens policies, something we haven’t seen in many years,” Friedlander said.

California’s FAIR plan also ballooned in recent years. While policies have increased, the number of insurers backing the plan has decreased, and the plan’s rates may be too low to maintain its solvency.

Tips for keeping home insurance costs down in 2024
As insurance costs rise, maintaining affordable home insurance coverage becomes a higher priority. Dropping or reducing coverage is not usually the way to go. In fact, it’s a good idea to make sure your dwelling coverage limit reflects increased building costs so that you’re fully covered if you experience a total loss.

“Too often people overestimate their preparedness for natural disasters and other emergencies, and this can lead to gaps in preparedness and insurance coverage,” Collins said. “Even if you don’t live in a high-risk area, you still need to be prepared for the unexpected and should close any insurance coverage gaps to ensure you have enough insurance to recover."

Here are some tips for securing a home insurance policy with premiums that fit your budget — without taking on more risk than you can afford.

Improve your credit score

Insurers in most states are allowed to use consumer credit scores as a factor in setting premiums based on studies that have shown that consumers with lower scores are more likely to file claims. Making all your payments on time (or at least avoiding payments that are 30 days or more late) and keeping your credit utilization low can make a big difference in your score.

Participate in loss mitigation programs

Savings opportunities vary by state and insurer, but you could be eligible for grants to help strengthen your home against natural disasters and insurance discounts for meeting strengthening requirements. Replacing your roof with more weather-resistant materials and updating windows and exterior doors are examples of projects that could make your home more resilient and save you money and headaches in the long run.

Both Florida and California have risk mitigation programs in place to help you weather-proof your house and potentially score home insurance discounts.

Shop around

The time-honored advice for all expensive purchases applies equally to home insurance. Through an insurance broker or your own legwork, get home insurance quotes for identical amounts of coverage from multiple companies (or as many homeowners insurance companies as offer coverage in your area).

You'll likely find significant premium differences among them. Check the insurer's financial strength rating before you purchase coverage; you want them to be able to pay any claims you need to file.

Ask about smart home and security discounts

"Explore potential discounts for smart home technology that might help detect and prevent losses from occurring within your home, such as security cameras, leak detection sensors and automatic shut-off valves," Collins said.

Many insurers also offer discounts for having a home alarm system that’s connected to a nearby police station.

Consider risk before you buy
If you’re planning to buy a house in 2024, it may be a smart long-term decision to avoid homes in higher-risk flood zones and the wildland-urban interface — areas where costly water and fire damage are more likely and insurance may become increasingly pricey or difficult to obtain.

“Most important is finding out whether the property is in a mandatory purchase flood zone, getting a quote for flood insurance (NFIP and a private company option) and getting a quote for home insurance before you close the deal,” said Bach. “You need to know the insurance cost before you purchase because in many areas annual premiums have doubled, tripled and more, and it’s hard to find a company willing to take on new customers.”

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