

Storms in California hit homeowners already facing an insurance crisis

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The storms pummeling California this week hit a part of the US already being battered by a home insurance crisis.

Insurance costs in much of California have become exceedingly high, with some insurers abandoning the market, unwilling to take on the risk presented by the frequency and severity of climate disasters in the region.

With insurers strained by climate change and inflation, many are demanding higher premiums, making it much harder to find affordable (or any) home and fire insurance.

But it is not just California; homeowners in other areas prone to weather events like Florida, Louisiana, and Texas are also facing challenges.

“It has evolved from a very regional crisis impacting few areas to a much bigger crisis,” said Amy Bach, executive director of United Policyholders, a personal insurance consumer advocacy group based in San Francisco.

Nationally, home insurance premiums shot up an average of 21% between May 2022 and May 2023, according to Policygenius, which analyzed internal policyholder data from renewals. And that’s on top of a roughly 12% increase the year before.

Some insurers have decided to leave certain markets altogether, making it even harder for homeowners to protect what is often their most valuable asset.

For example, last May, State Farm, California’s largest home insurer, announced it would pause issuing

policies in the state, citing wildfire risks. That came after Allstate also stopped issuing policies in the Golden State. Meanwhile, in hurricane-battered Florida, Farmers Insurance deemed it too risky to continue insuring homes and pulled out of that market entirely.

“With many carriers pulling out, that leaves other companies underwriting these really expensive policies,” said Michael Monaghan, a real estate agent with Coldwell Banker Sellers Realty in northern California. “Policies that cost \$10,000 for a year? That is impossible for some buyers who have to pay that all at once [along] with their closing costs.”

The average cost of a homeowner’s insurance policy is \$126 per month, or \$1,516 per year, according to Value Penguin. But that varies significantly by location, from \$57 per month in Vermont to \$242 a month in Colorado. Many places require additional policies, and the cost will go up if you’ve filed previous claims.

The affordability and availability of insurance is one more worry in the current rough housing market, said Jennifer Branchini, a Compass agent in Pleasanton and president of the California Association of Realtors. A lack of options can push buying a home, in a market already the least affordable in several decades, further out of reach for prospective homeowners and hurt current homeowners’ odds of selling their homes.

“Buyers are facing high interest rates,” she said. “There is already a lack of availability and lack of affordability. And for many of the properties that are on the market you can’t obtain insurance? Or it is very unaffordable insurance?”

More severe storms

As climate change builds, a standoff has developed over who should pay the cost of insuring homes against ever-growing risks.

Last year was a record-breaking year for costly extreme weather. There were 28 weather and climate disasters in the US, each with losses exceeding \$1 billion, according to the National Oceanic and Atmospheric Administration. By comparison, between 1980 and 2023, the typical annual average was 8.5 climate disasters, and the average for the most recent 5 years was 20.4 per year.

Disasters in 2023 included one drought, four floods, 19 severe storms, two tropical cyclones, one winter storm and one wildfire and surpassed the previous record of 22 events in 2020. Damages last year came to a total price tag of at least \$92.9 billion, as costs from events in December are still being tallied.

Home insurance woes are becoming even more widespread

As insurance becomes scarcer and costlier, homebuyers are walking away from deals more often than in the past, said Bach of United Policyholders.

“Florida and Louisiana have been having extreme property insurance drama for a while, starting from Hurricane Andrew in 1992, then Hurricane Katrina in 2005,” Bach said. “The severity of the storms and the price tag of the repairs started to get insurers’ attention.”

Bach said that in places like Louisiana, insurers were shown the large-scale risk mitigations put in place in the face of more frequent and harsher storms, such as stronger levees.

“But I don’t think they are there yet,” she said. “Insurers are not yet accepting the value of risk reduction. They aren’t able to reduce prices, they aren’t willing to have it impact their underwriting. That is where the heart of the fight lies now.”

In the meantime, she said, on top of climate change, other issues are also pushing the risk and cost even higher.

“This isn’t just climate change, it is climate-change-plus,” Bach said. It is climate change, plus the Covid hangover pushing costs up, plus inflation, plus technology that allows insurers to evaluate risks in a wider array of ways.

Her organization, whose main focus was once helping those impacted by disaster to recover money from insurance companies, is now primarily devoted to working on insurance availability and affordability issues.

Still, Bach said, it is important to keep the crisis in perspective. In California, for example, the share of homeowners using FAIR plan — the insurer of last resort made up of a syndicated fire insurance pool comprised of all insurers licensed to issue property and casualty in the state — remains under 5%,

according to the California Department of Insurance.

But competition isn't coming to save the day.

While insurers have always dropped out of markets or changed their conditions in reaction to a policy, Bach said a competitor would always move in.

"Competition would, in fact, heal the wound," she said. "But that isn't happening now."