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The Insurance Crisis is a Housing Crisis

by Zac Taylor, Delft University and Sarah Knuth, Durham University
April 18, 2024

Home insurance markets in the United States are experiencing a mounting crisis. Worsening climate disasters like more intense hurricanes, wildfires, and hailstorms are making multi-billion-dollar payouts an annual occurrence, hitting a broad range of US states. Insurance protections are shrinking and becoming increasingly unaffordable, while private insurers are raising rates or pulling out of some markets entirely. Homeowners left behind face dilemmas like potential mortgage defaults—personal risks which may spiral into broader property market collapses. Meanwhile, renters and other households confront future uncertainties with even more limited protections. **How can we more fully understand this mounting housing crisis, and what is to be done about it?**

An Increasingly Strained Insurance System

Home insurance is not government-mandated in the United States. **However, lenders typically require it as a condition of approving and maintaining a mortgage.** These multi-decade home loans are secured by properties themselves, and lenders want to be able to foreclose in case of nonpayment. Therefore, lenders require homeowners to take out home insurance policies to protect themselves financially in case of major damage to a property.

Households might seek to insure their homes against both everyday risks and certain acute disasters anyway if insurance is available and affordable, since either could result in major personal losses. However, mortgage requirements mean that insurance itself is becoming a problem, even for those not yet directly affected by climate disasters. Issues making national news today include rapidly climbing premiums and scaled-back protections in existing policies. Insurance costs demand a rising share of total household incomes nationwide and are becoming increasingly unaffordable, especially for already cost-burdened homeowners. Another major issue is private insurers pulling out of some states and zip codes completely, citing both skyrocketing payouts and regulations in certain states that limit their ability to increase premiums.

To illustrate some of the costs now hitting homeowners, one estimate suggests that average yearly premiums for disaster insurance rose 21% nationwide between 2022 and 2023 (after already climbing 12% the year before). Some states and zip codes with more acute disaster exposures saw even higher price rises that year—Florida's already-high average premiums increased by 35%. The average yearly cost of home insurance overall is projected to climb to over $2,500 nationally in 2024. And it's projected to grow at multiple times that rate in more exposed states and cities, for example $11,800 for Florida as a whole, over $15,500 in Miami, and $16,700 in Fort Lauderdale. These state- and city-wide averages conceal costs for some zip codes and homeowners that will be even higher, and can also conceal the different ways wealthier and poorer areas are impacted.

Despite the variety of disasters that may befall a home, floods are the only climate-related risk covered by the US federal government, via the National Flood Insurance Program (NFIP). Homeowners' wind,

wildfire, and hail risks are covered by private insurers. Because it harms people more than buildings, extreme heat has historically fallen through the cracks of household insurance coverage—though this may be changing. Private policies usually only guarantee homes' protection for one to three years and must be renewed after that—an opening for insurers to raise premiums or decline to renew policies entirely. Meanwhile, insurers are themselves effectively insured by larger reinsurance companies, which contract to bail consumer-facing firms out if they are overwhelmed by very big payout events like a major hurricane.

These private, consumer-facing US insurance markets are largely regulated at the state level, although many reinsurance companies are transnational and barely regulated. Each US state and territory has an insurance commissioner; these regulators are in turn members of and guided by a relatively opaque nongovernmental body, the National Association of Insurance Commissioners (NAIC). NAIC receives much of its funding from the insurance industry itself and has strenuously lobbied against more stringent regulation, especially arguments to move regulatory authority to the federal level. It's also at the state level where we find government-mandated "insurers of last resort," like Florida's Citizens Property Insurance Corporation or California's FAIR Plan. Both are not-for-profit (though not fully public) insurers that were originally intended as temporary backstops if private insurance became unavailable or unaffordable, targeting tropical storms/hurricanes and wildfires respectively.

The US insurance system faces growing tensions under rising climate risks and damages. It is caught between acting as a mechanism of collective protection versus a viable private market, and between protecting residents versus the housing finance institutions that make mass homeownership possible. If insurance becomes too expensive, this fragile bargain could unravel. Homeowners could walk away from a mortgage despite years of financial and more-than-financial investment in a home. What, then, becomes of these residents, their housing, and the communities they call home?

In this way, home insurance collapses also threaten to spiral into macro-structural risks and crises. For example, if investors and inhabitants exit housing markets in droves, state and local governments—which have no such ability to abandon their jurisdictions—may be stuck with decimated property tax bases. This problem could be compounded by downgraded municipal bond ratings that will raise the cost of borrowing money for investments in schools, transportation, and other infrastructure projects. Private credit rating agencies impose these downgrades because they argue that growing climate risks make exposed governments less likely to repay their long-term public debt. Ironically, these multi-sided cuts to public resources may hit just when funds are most needed for proactive initiatives to reduce cities' and regions' climate risks and for action after climate-related disasters strike. **Meanwhile, if housing values and associated mortgage markets deflate too much, too quickly due to unavailable or unaffordable insurance, they risk spiraling into broader economic crises—a worrying echo of the subprimebubble.**

The Insurance Crisis is a Housing Crisis

Influential actors such as mainstream insurance scholars, industry figures, and market regulators have focused first on shoring up the insurance industry itself when it comes to understanding and responding to these problems. These voices have pointed to the undeniably difficult financial bind that insurers increasingly find themselves in. If major insured disasters become increasingly frequent and insurers must pay out more money more often, these payouts may soon outweigh premiums being paid by homeowners. (Though it is important to note that insurers also get income from their investments: paradoxically, US property insurers still have hundreds of billions of dollars invested in fossil fuels.) At the same time, reinsurers may charge insurers more to cover growing catastrophe risks. **Meanwhile, the withdrawal of national insurers from markets like Florida means that smaller local and regional insurers are filling these gaps. Worryingly, these smaller players have both more limited financial resources and more concentrated portfolios of risk.**

All these problems go beyond cutting into commercial insurers' profits—i.e. simply making insuring homes less good business for them. If disasters hit too quickly and unexpectedly, for example, due to a particularly catastrophic Miami hurricane landfall, or a chain of smaller but substantial losses, they may force some insurers out of business entirely. These problems are real and hitting sector-wide, from a series of private insurer bankruptcies following recent Florida hurricanes to growing debt burdens facing the NFIP and state insurers of last resort—especially as the latter become the default and only option for many homeowners in some states.

The focus on these factors has prompted a search for solutions that frequently emphasizes getting insurers more capital, so they have more of a cushion against big payouts. Some pathways, including insurance-linked securities (ILS) like catastrophe bonds, turn to financial innovation and capital markets as a solution. Another proposed solutionis to "rationalize" premiums, including allowing more expansive uses of catastrophe modeling in rate-setting. The theory here is that better understanding and quantifying climate-related risks, and allowing insurance premiums to rise in response, will both balance insurers' actual payouts and ultimately push homeowners living in "risky" locations to voluntarily leave.

However, this theory discounts peoples' many other attachments to place, and overlooks many classed and racialized inequities. Richer, typically whiter US property owners may simply choose to absorb rising costs in ways other community members cannot, since they have deeper pockets to pay for rebuilding. Beyond that, wealthier communities have historically had more opportunities to make their communities physically less risky, and to make governments foot the bill. These protections go beyond insurance to large-scale infrastructures and de-risking initiatives—for example, seawalls, levees, and wildfire risk reduction programs.

Reframing these discussions from an insurance crisis to part of a broader housing crisis is crucial to more fully understand the risks facing many US households, and to generate more just, effective solutions.

Understanding that the US's underlying housing crisis shapes all these problems helps us see them more clearly in multiple ways. First, this refocusing elevates another form of climate risk entering mainstream discussions. As discussed, insurance contracts' short timelines allow ample opportunities for insurers to simply exit markets. This footlooseness increasingly clashes with the longer-term contracts of mortgage debt, municipal bonds, and other more durable (and locked in) investments in place and housing markets. **As we have argued, mortgage risks associated with these diverging timelines may generate more systemic financial breakdowns.** Conversely, efforts to diffuse these more systemic risks and prop up financial system stability may generate capital flight and new forms of "climate redlining." We use the latter term to refer to processes by which the federal government may itself inadvertently drive disinvestment in certain housing markets and frontline communities.

President Biden's 2021 executive order requiring federal agencies to better account for their climate-related financial risks illustrates this issue. Responding to the order, federal mortgage entities like Fannie Mae are tracking historically undercounted climate risks to their portfolios. Better understanding these risks may prompt Fannie Mae to withdrawfrom some markets, which threatens to turn them into no-go areas for many private mortgage lenders as well. In broader terms, new government risk accounting drives are likely to fuel additional financial market scrutiny of underlying housing risks and their insurability—and could see some capital retreat for "safer" assets and locations at the expense of the most exposed frontline communities. There is no shortage of evidence that cities and local governments already have uneven vulnerability to climate risks as well as unequal capacity to respond to them—including limits on their ability to pay for needed investments. These worsening dilemmas could trigger new or worsened forms of place-based devaluation, disinvestment, and displacement.

Second, regulators and climate justice organizers must relate insurance dilemmas to the US's broader housing crisis, and make common cause with the housing justice movements increasingly taking on climate risk. Rising insurance premiums are only one among many mounting cost burdens facing US homeowners today: climate-related property and insurance crises are hitting amid farther-reaching affordability crunches which have worsened since the subprime crisis. These housing problems have arguably struck hardest for households largely excluded from the mainstream framings above: the almost 40% of Americans who now do not own their own homes, or who own under-protected housing forms like mobile and manufactured housing. Renters in particular have historically had far more limited access to insurance than homeowners, particularly protections sufficient to cover the full household costs of home destruction and displacement in a disaster.

These housing-related inequities are both classed and racialized in the United States: Black and Brown Americans are much less likely to own their homes, significantly harming their overall economic security. Housing-related injustice is deeply rooted in the United States, including but not limited to 20th century racial redlining by public and privateactors—among them commercial insurance providers. **Climate risk reduction programs that exclusively focus attention and resources on homeowners' risks while excluding renters threaten to reinforce these preexisting exclusions and injustices, and to abet worsening problems like climate gentrification.**

On the housing provision side, insurance unavailability also appears to be affecting many corners of the residential design and construction sector, especially those building affordable and social/public housing, who increasingly cannot sufficiently cover their liabilities. The rise of large corporate landlords like BlackRock in US housing—marked by a disproportionately large flow of investment into acutely climate risk-exposed markets in states like Arizona and Florida—must prompt further questions: how will these new owners shape and respond to property market risks? Initial evidence suggests that well-capitalized institutional real estate investors may be walking away from deals in the most exposed markets and carefully reconsidering their existing investments.

Crises Are Not Always Hitting Where We Might Think—But We Need to Know More
Organizers and regulators also need to better understand where and how these intersecting crises are hitting—which may not always be where we think. Climate-related risks to property like floods, high winds, wildfires, and hail events vary substantially by US region and more site-particular characteristics like location on a coast, in a floodplain, or in a forested area. In addition, climate adaptations like updated building codes or large flood levees—which as we noted above are more likely to be built in wealthier areas—likely render properties in certain sub-regions less exposed to some climate hazards than even their nearby neighbors.

Certain US states and locations have assumed an outsize role in popular understandings of the insurance-housing problem, with media attention often focused on Florida and California and their particular regional climate crises. These states clearly face acute challenges, especially as private insurers pull out of their insurance markets en masse. However, too much focus on these places risks mistaking the problem as one affecting only a handful of supposedly "naturally risky" locations. **This too-narrow view misses broader geographies of climate risk, of insurance markets themselves, and of potential solutions.** Case in point: a common early framing of the housing and climate crises has contrasted growing climate risks in the US South and West with lower risks faced by Rust Belt states. Narratives of managed retreat in the United States can accordingly take on tones of Rust Belt "return"—a loss for some states painted as an unexpected windfall for others with historical disinvestment and depopulation.

In important ways, such narratives flatten more complex geographies of climate risk. Severe weather events like floods, wind events, and hailstorms are already increasing across much of the United States, as

are wildfires, causing multi-billion dollar payout events and insurance crises across a broader geography. We can see the effects of this in spiking home insurance costs in Northern states like Minnesota, Idaho, and South Dakota. Meanwhile, though rising insurance premiums are particularly acute in some states, as noted above, recent double-digit increases in excess of inflation are a US-wide phenomenon. Transnational insurance and reinsurance markets, geographies of risk exposure and risk-handling, and strategies for redistributing risk are more connected than narrow state-focused accounts would suggest, and these dynamics require more relational understandings.

Unfortunately, researchers currently lack the data to fully understand the issues discussed here. Where is the housing-insurance crisis happening, and just how serious is the risk, where, and for whom? These questions will be hard to pinpoint in the granular ways needed for effective, place-appropriate responses without better information on both insurance and housing costs. **A key starting point must be to gather and integrate better data on climate risk, asset exposures, and housing unaffordability**—an exercise that may pinpoint US geographies especially at risk for the multifaceted dilemmas discussed here. Climate and housing justice movements must push regulators to do more to require insurers and their investors to track and publicly disclose more information. More insight is also needed into the financing instruments that sustain insurance markets in particularly risk-exposed places, as in the case of catastrophe bonds in Florida, which are often capitalized by public pensions and retirement funds. Which public institutions provide this capital? How can our collective wealth be directed to reducing community vulnerabilities in a more integrated fashion?

Effective Responses Require a Deeper Rethinking

Ultimately, organizers and policymakers must push for more holistic and effective solutions to the multifaceted challenges introduced in this discussion. What can be done about these interconnected housing-insurance problems? A crucial first step, we suggest, are further efforts along the lines surveyed here—work to more fully grasp the geography and magnitude of this crisis. Essential to this effort is the release of expanded data from insurers, which regulators should require since insurers are highly unlikely to do so on their own.

Second, programs to stabilize US housing and insurance markets must take a more expansive approach than simply "saving" or "fixing" insurance, particularly in its existing private sector forms. Initiatives should include using public insurance mechanisms to expand the insurer of last resort institutions noted above. However, promised payouts from insurance policies still only go so far in mitigating underlying climate-related threats to homes and their surrounding urban and rural built environments. Accordingly, it's vital to also invest in direct risk mitigation for properties, households, and communities above and beyond insurance reforms—particularly when attention is paid to ensuring that it's not just the wealthy who benefit.

For example, policymakers have already begun to take interest in direct physical "climate-proofing" interventions like home "hardening", targeting the whole range of climate-related risks—though again, often first and foremost as a way of reducing insurance payouts and premiums. The theory goes that if homeowners can undertake retrofits like putting in more wind- and fire-resistant roofs and windows, installing more floodproof and fireproof materials, or elevating buildings above flood level, relevant private or public insurers will recognize these improvements with lower premiums. However, as we have discussed elsewhere, homeowners face many questions in practice. If they pay for sometimes very expensive retrofits, will insurers actually reduce charges enough to pay back these upfront costs? Can homeowners afford the initial price tag at all, or trust financing solutions pitched by some local governments and private subcontractors? Should they take the risk of acting early and individually, or wait for larger-scale government interventions that might address these dilemmas? Public initiatives so far have been piecemeal and voluntaristic. These limitations have both sparked consumer protection battles across multiple US states and risk creating new or stronger enclaves of protection for the

wealthiest. At the same time, it is clear that home hardening, among other physical risk mitigation options, has real benefits for US households which go above and beyond potential savings on insurance bills. In the case of home hardening, these might combine direct risk reduction with other climate and more-than-climate benefits including energy cost savings, decarbonization, and health improvements, since hardening can be bundled with other weatherization retrofits and energy upgrades. For example, including heat pumps in retrofit schemes can get homes off of natural gas or propane, but also protect home heating and cooling bills against weather extremes. Incorporating other decentralized energy options like rooftop solar can cut households' emissions and electricity costs, but also better protect them against climate-related grid blackouts.

All this points to a need for more ambitious and better coordinated collective responses to intersecting climate and housing crises—a key task for progressive movements, regulators, and policymakers at both the state and federal level. More expansively imagined financial, physical, and planning interventions will require more upfront spending. Expanded federal funding for resilience projects under the Bipartisan Infrastructure Law is an important start here. However, programs also need broader understandings of what protection of homes and households really needs and could look like. This broadening will help combat the exclusionary and voluntaristic tendencies—and ultimately the ineffectiveness—of today's more limited interventions. It will also take fuller advantage of the multi-sided opportunities presented above: when more public funds are used to directly benefit households rather than propping up private insurers, many creative and progressive options may become possible. Around the world, so-called "protection gap entities" are increasingly taking up this work of combining institutional and physical de-risking measures. When envisioned for the US housing-insurance crisis, such entities may be needed to coordinate more holistic adaptation strategies—including but again going beyond strictly insurance-centric approaches.

Third, and in parallel, expanded de-risking efforts must occur within a deeper collective political conversation about the social purpose of insurance markets, as well as broader climate risk initiatives rolling out around housing. Certainly, progressive movements and regulators must combat efforts to further weaken insurance regulation and consumer protections—which threaten to actively worsen household harms while dodging the underlying challenges discussed here. However, we must also ask how more serious response efforts can be better focused and joined up in ways that directly confront inequalities. With this reimagination must come important conversations about values—what and whom should large-scale public interventions and resources prioritize? It also means asking big but concrete questions about how to redesign today's housing institutions for equitable climate adaptation. These needs echo the Biden Administration's existing whole-of-government mandate for climate-financial risk disclosure, but demand an expanded and more proactive social purpose. Many local, state, federal, and international regulations combine today to drive current insurance market design in the United States, and its growing instabilities. Accordingly, we must more purposefully deploy these institutions to create long-term access to safe housing for all.

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