Memo: Hurricanes, Severe Weather, Climate Change, and an Unfolding Insurance Crisis

The 2024 hurricane season is predicted to be extremely active, according to researchers at Colorado State University, with 23 named storms forecasted, nearly twice the average. While 23 storms represents the highest prediction ever issued with their April outlook, it matches a broader trend of increasing frequency and costs of weather climate-related disasters. In 2023, the United States experienced $28 billion weather or climate disasters. Globally, 398 global natural disaster events created $380 billion in losses, the highest on record.

An intense hurricane season could wreak havoc on coastal insurance markets which already show signs of fragility due to greater climate-related losses. With little visibility on a national crisis, members of Congress are increasingly asking insurance companies and their regulators for answers on how they are adjusting to climate change. There are several trends worth noting:

1. While multiple factors, including inflation and construction costs, impact insurance premiums, climate change is the factor that will only grow over time.
2. Market challenges once associated primarily with Florida and Louisiana are becoming national problems plaguing the Midwest and states once seen as climate havens.
3. While the largest national insurance companies can exit and profit, small insurers and vulnerable consumers, overrepresented in communities of color, are unprepared to absorb the costs.

As global losses have risen, reinsurers, who provide insurance for other insurance companies, raised prices by nearly 40% in the last two years. Primary insurers have passed on those costs to consumers in the form of higher premiums and deductibles or dropped policyholders entirely. In North Carolina, one insurer dropped 10,000 policies in 2023, and the industry proposed a 42% premium increase this year. In Florida, Farmers alone dropped 100,000 policies, and home insurance premiums in Florida increased by an average of 35%.

Coastal states may be hardest hit, but insurance challenges are quickly becoming a national problem. In California, a growing list of insurers, including State Farm, Allstate, and The Hartford are either retreating or pausing coverage in wildfire-prone areas. The Midwest will not be immune either, as smaller events like severe thunderstorms, once known as secondary perils, are increasingly making up a large portion of the losses. Even states like Vermont that might once have seemed like climate havens are recognizing that warmer and wetter weather will increasingly drive up insurance premiums.

What happens when insurers withdraw?

When large national insurers leave entire states, small ones tend to fill their place, creating even more vulnerability. The market in Florida, which experienced an exodus after Hurricane Andrew in 1992, is dominated by small insurers that are less diversified, hold less capital, and are more likely to become insolvent. A combination of small, undercapitalized companies, weak state oversight, and increasingly frequent and intense storms can create a perfect storm for fraud and can threaten the broader economy.

Backstops to the market are already starting to fray, leaving consumers and taxpayers vulnerable. As consumers increasingly struggle to find insurance on the private market, they are turning to state last resort programs, which offer expensive barebones coverage. Florida's last resort program, known as Citizens, had over a million policies in force as of April, making it the largest insurer in the state. In the event that losses exceed premiums for these high-risk policyholders, policyholders across the state will be on the hook for increased fees.

When insurers go under, consumers rely on state-backed guaranty funds, which can pay claims through fees assessed on other policies. However, guaranty funds only cover insurers who are admitted to that state. As those insurers leave, more consumers may be turning to non-admitted carriers, which typically cover uncommon or high risks, leaving those consumers exposed in the event of the insurer's failure. Still other consumers are opting to forgo insurance entirely. An estimated one in thirteen homeowners across the United States are already uninsured, and communities of color bear a disproportionate burden, with an estimated 22% of Native American, 14% of Hispanic, and 11% of Black homeowners having no homeowners insurance at all.

Financial regulators are struggling to catch up

Senator Warren, Congressman Schiff and Congressman Levin recently led a letter to the Federal Insurance Office and National Association of Insurance Commissioners, the convening body for regulators, seeking answers on how regulators will evaluate climate impacts on insurance markets. While insurance is primarily regulated at the state level, the Federal Insurance Office (FIO) found that efforts by regulators have been "fragmented" and "limited." Following that report, the NAIC published a national climate strategy, but delays and ambiguity are already undermining the process. The centerpiece of the NAIC's strategy is a data collection effort originally proposed by FIO, which would help the NAIC advocate for increased federal investments. Currently, key states like Louisiana and Georgia are opting out of the NAIC's collection, and the NAIC has not said which data will be shared publicly or even with the federal government.

The lack of data is a problem for regulators, consumer advocates, and media, but also other actors in the financial system. Because climate risks are concentrated in certain regions, rising costs and falling availability could lead to a foreclosure crisis, which could in turn threaten the tax base needed to fund basic mitigation and increase risks for community and regional banks. In a recent report from the Federal Reserve's Climate Scenario Analysis with six large banks, participating banks reported significant data challenges in estimating climate-related financial risks due to a lack of comprehensive and consistent data on insurance coverage.

Insurers still aren't dropping their fossil fuel clients

While insurers are dropping homeowners quickly, that's not the case for their oil, gas and coal clients. An analysis of insurers investments from California, Washington and Oregon shows insurers' investments in fossil fuels remain high, while investments in renewables remain low, and these companies could face billions of dollars in losses if they stay on the current course of investments. While some insurers like Zurich have started to limit coverage of certain fossil-fuel exposures, most U.S. insurers continue to insure new projects, potentially in violation of their own climate policies, and the Senate Budget Committee is currently investigating how insurers like Liberty Mutual and State Farm are continuing to invest in or underwrite fossil fuel expansion projects.

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Resources:

- Colorado State University, Forecast for 2024 Hurricane Activity
- Aon, 2024 Climate and Catastrophe Insight
- California Department of Insurance, The Hidden Cost of Delaying Climate Action for West Coast Insurance Markets
- Public Citizen, Testimony on the Impacts of Extreme Weather on the Property and Casualty Insurance Market
- Public Citizen, Letter to the National Association of Insurance Commissioners, Climate and Resiliency Task Force
- Consumer Federation of America, EXPOSED: A Report on 1.6 Trillion Dollars of Uninsured American Homes
- Senate Budget Committee, Investigation into Climate Change-Fueled Insurance Crisis