



Home Insurance and Climate Change: More Claims, Less Coverage

Home insurers are pulling out of high-risk states like Florida and California in the face of rising losses from climate-related disasters.

Farmers, Allstate, State Farm and others have limited or stopped offering certain homeowner policies in California or Florida.

Hurricanes, floods, droughts, wildfires, tornadoes. Extreme weather events are becoming more frequent and more severe as the planet heats up. That's not just bad news for homeowners, but insurers as well. Claims from these events have grown to the point where even steep rate increases have not been sufficient to cover losses. In fact, several of the country's biggest insurance companies have decided to pull out of high-risk states like California and Florida.

In May, the country's largest property and casualty insurance company, State Farm, announced that it would stop offering new homeowners insurance policies in California. In June, Allstate made a similar move, followed in July by Farmers, which said it would limit the number of new policies written in the state. Farmers subsequently announced that it would stop renewing almost a third of the policies it has in Florida. Farmers is one of more than a dozen insurers that have decided to no longer write new business in that state.¹ A growing list of insurance companies have chosen to back out of Louisiana as well.

All these insurers cite climate risks and the rising cost of rebuilding homes as the main reasons for dropping coverage. Regulatory restrictions and skyrocketing reinsurance premiums have also contributed to the decisions to back out, but rising weather risks and damages are the ultimate causes.

And the damages have indeed been high. In California, there have been eight disaster events since 2020 that have caused between \$20 billion and \$50 billion in combined damages. And in Florida, 16 severe storms or hurricanes have resulted in \$100 to \$200 billion in damages over the same period.¹ Unsurprisingly, insurance premiums have soared. In California, the average annual home insurance premium is \$1,300 today -- up 16% from 2019. But that's peanuts compared to Florida, where the average annual property insurance premium had risen to more than \$6,000 -- up 200% from 2019.¹

A Wake-Up Call for Homeowners

Like other states, both Florida and California have state-backed programs (Fair Access to Insurance Requirements, or FAIR plans) that will act as insurers of last resort. But these programs have restrictions, can be expensive, and face mounting

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deficits. A growing number of strapped homeowners are opting to "go naked" -- take their chances and do without home insurance altogether. But even that risky option is unavailable for those with a mortgage, since most lenders require borrowers to carry home insurance.

As weather-related events get worse, it's likely that other disaster-prone areas may also be dropped by home insurers. Here are some tips homeowners in disaster-prone areas may want to consider.

- If your existing insurance company will not renew your policy, there are usually other insurers who will -- but at a price. You may also be able to keep your policy by reducing your coverage.
- State regulations require that insurance companies provide you with advance written notice if they decide not to renew your homeowners insurance.
- If you're unable to obtain a policy from another home insurance company, you may be able to purchase coverage through your state's FAIR program.
- If you are considering "going naked," think again. This could prove devastating if a disaster does strike, especially if your home represents your principal asset, as it does for many homeowners.
- If you are a prospective homebuyer, make sure to check the availability and cost of insurance before you make an offer. Even if available, the cost could tip the economics of the purchase into the red.
- A typical homeowners policy will not cover damage caused by flooding. And although it may cover wind damage, it may have a separate deductible for hurricane damage.
- Federal flood insurance is available in communities that adopt and enforce sound floodplain-management practices. To find out whether your community participates in the flood insurance program, contact your local government or one of the resources provided by the national flood insurance program ([NFIP](#)).

¹NBC News, [Homeowners in California and Florida Are Running Out of Options to Protect Their Homes](#), June 17, 2023.