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Paying a High Premium: How Climate Change Is Crippling Homeowner's Insurance and Fueling a Housing Crisis

by

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ABSTRACT

This paper examines the growing impacts of climate change in the US homeowner's insurance industry. As climate change-driven weather extremes and natural disasters have accelerated in their frequency and severity, they have inflicted increasingly more residential property damage and destruction, leading to surging losses and claims payouts for the US homeowner's insurance industry. Faced with worsening underwriting performance, the US home insurers have responded with higher homeowner's insurance premiums, reduced home insurance coverage, policy non-renewals, exits from high-risk geographic areas, and other changes to their business practices. Such climate-driven actions by home insurers have led to a crisis of homeowner's insurance affordability, availability, and protection. This crisis further undermines homeownership affordability, eroding homeowner finances, and threatening the stability of the US financial system. By focusing on the US homeowner's insurance industry, this paper provides a case study on the growing economic costs and impacts of climate change.

KEYWORDS: climate change; extreme weather; homeowner's insurance; homeownership affordability; homeowner finances; financial stability; federal policy

JEL CODES: D14; E31; E44; G01; G21; G22; G28; G51; G52; Q54; R31

INTRODUCTION

In recent years, the physical impacts of climate change have intensified across the US, imposing “significant costs on the public and the economy” (FSOC 2023, 11). Along with growing damage to infrastructure and property, the climate-driven acceleration in weather extremes and natural disasters (Seneviratne et al. 2021; NASA 2024) has been creating operational disruptions and cost pressures in a range of industries, from agriculture to manufacturing to insurance (Semenova 2024). Focusing on the US homeowner’s insurance industry, this paper examines the rising economic costs and impacts of climate change.

For the US homeowners, the costs of climate change include a rapid rise in homeowner’s insurance premiums, falling homeowner’s insurance coverage, and declining availability of homeowner’s insurance, alongside other financial impacts. For the US home insurers, the costs of climate change include an upsurge in insured losses and claims payouts, an escalation in the price of reinsurance, a rise in home rebuilding and repair costs, and declining underwriting performance. As the frequency and severity of weather extremes and natural disasters have accelerated (NOAA NCEI 2024), the climate costs on the US homeowners and home insurers have been magnifying, creating further repercussions for the nation’s housing and financial markets. As has been recently warned by the Financial Stability Oversight Council (FSOC), the financial impacts of weather extremes in the homeowner’s insurance industry could have implications for the overall stability of the US financial system:

Insurers play an important role in the financial system by absorbing losses stemming from physical risks. However, the increasing frequency and severity of extreme weather could affect the solvency of insurers. It could also affect the cost and availability of coverage for homeowners and businesses, which could have implications for financial stability (FSOC 2023, 47).

Given the far-reaching financial implications of climate change impacts on homeowner’s insurance, the FSOC has “identified climate change as an emerging and increasing threat to U.S. financial stability” (FSOC 2023, 45). Homeowner’s insurance now increasingly resembles adjustable-rate mortgages which helped bring down the US financial system in 2007-08.

This paper begins with a general overview of the US homeowner's insurance industry and its regulation. The paper then examines the recent upsurge in weather and climate disasters across the US. The financial impacts of growing weather and climate disasters in the US homeowner's insurance industry are further explored. Next, the paper discusses the climate-driven trends of rising homeowner's insurance premiums, declining homeowner's insurance coverage, and decreasing availability of homeowner's insurance. The paper draws the implications of these trends for the US homeownership affordability and homeowner financial well-being. The paper concludes by addressing the policy implications of the climate-driven crisis of homeowner's insurance affordability, availability, and protection.

WHAT IS HOMEOWNER'S INSURANCE AND HOW IS IT REGULATED?

Homeowner's insurance is a critical component of the US housing market currently valued at about \$50 trillion. To protect their investment, most lenders require homeowner's insurance as a pre-condition of mortgage financing (First Street 2025). About 77 percent of US homes are financed with mortgages and are subject to the homeowner's insurance purchase requirement (Fliegelman 2023). US homeowners with mortgages must maintain homeowner's insurance throughout the lifetime of a mortgage. In 2023, owner-occupied housing units constituted about 65 percent of all occupied housing units in the US (Insurance Information Institute 2025). In the same year, 88 percent of the US homeowners had an active homeowner's insurance policy (Vukelich 2024; Financial Stability Oversight Council 2023). Given its key role within the US housing market, homeowner's insurance is of crucial importance for the US economy and the nation's financial system (FSOC 2023).

Homeowner's insurance helps protect homeowners in an event of property damage or destruction due to severe weather, fire, theft or other peril (Allstate 2023). Homeowner's insurance provides dwelling, personal property, liability, and other types of coverage. Dwelling coverage helps pay for home repairs or rebuilding in an event of home damage or destruction. Personal property coverage assists with replacing homeowner's personal belongings if they get damaged, destroyed or stolen. Liability coverage helps protect homeowners in cases of third-party accidents or

injuries on their property. Additionally, homeowner's insurance could pay for temporary housing and meal expenses during the time when a home is uninhabitable due to damage or destruction. Homeowner's insurance could help cover medical and other expenditures as well (State Farm 2024).

With weather-related claims constituting over 40 percent of homeowner's insurance claims (Wawanesa 2024), homeowner's insurance plays an increasingly vital role in the age of rapidly accelerating climate change. As climate change has driven more frequent and severe weather hazards, weather-related residential property damage and destruction have been soaring. As a result, more and more homeowners have been in need of quality home insurance as a source of financial protection against losses (First Street 2025, Cornelissen et al. 2025).

Standard homeowner's insurance policies have traditionally covered property damage or destruction due to most types of extreme weather (Farmers Insurance 2025), such as tornadoes, hurricanes, convective storms, severe hail events, and wildfires, among others¹. However, standard homeowner's insurance does not provide protection against property damage or destruction caused by flooding², regardless of its cause, be it a rainstorm or an overflowing river (Allstate 2024). Instead, flood damage is covered under the National Flood Insurance Program (NFIP)³, which is managed by the Federal Emergency Management Authority (FEMA) (First Street 2025). While the NFIP is the primary source of flood protection for the US homeowners (Horn 2025), separate flood insurance coverage is also available for purchase from private

¹ In certain cases, standard homeowner's insurance policies can exclude property damage or destruction caused by high winds and wildfires (Keys and Mulder 2024). According to the Congressional Budget Office, private insurance coverage for wind damage from hurricanes has been trending downward, a consequence of growing climate risk and uncertainty (Congressional Budget Office 2024).

² In a recent survey of 2,496 US homeowners in every US state and Washington DC, 56 percent of homeowners believed that property damage or destruction due to flooding was covered by their homeowner's insurance policies. However, only about 4 percent of US homeowners actually have flood insurance, given that standard homeowner's insurance policies do not provide flooding protection (Groshong et al. 2021).

³ Property owners in FEMA-designated Special Flood Hazard Areas (SFHAs) must purchase flood insurance through the NFIP (First Street 2025). It must also be noted that in recent years, flooding has increasingly occurred outside of FEMA-designated flood zones. For example, Hurricane Helene caused widespread flooding outside of the SFHAs in North Carolina in 2024 (Cornelissen et al. 2025).

insurers. This coverage is not, however, part of a standard homeowner's insurance policy (Insurance Information Institute 2024).

Further, standard homeowner's insurance policies do not offer protection for property damage or destruction caused by earthquakes (Allstate 2024). Earthquake protection may be purchased separately, and is offered by many private insurers. In the earthquake-prone state of California, earthquake coverage is provided by the California Earthquake Authority (CEA), a publicly managed, privately funded, not-for-profit organization (Insurance Information Institute 2025a; State of California 2018).

The cost of homeowner's insurance can be influenced by a range of factors. Such factors include the amount of dwelling and other coverage, a home's geographic location, the price of labor and building supplies in the area, home construction materials and design features, home size, its proximity to a fire hydrant or a fire station, homeowner history of prior insurance claims, and the deductible amount selected (Progressive 2025). Homeowner credit score could impact the cost of homeowner's insurance as well. However, certain states⁴ restrict the use of a credit score as a factor in homeowner's insurance pricing (DeNicola 2025). Home age is another key factor when it comes to the cost of homeowner's insurance, with properties built more than 40 years ago being more expensive to insure (Progressive 2025a). While home age has always been a pricing factor, roof age and condition have now emerged as additional focal points in determining the cost of homeowner's insurance (Matic 2025).

While many variables can influence the price of homeowner's insurance, a home's geographic location and the cost of rebuilding are the biggest factors in homeowner's insurance pricing (American Express 2024). A home's geographic location determines the risk of property damage or destruction due to weather extremes and natural disasters. The cost of rebuilding a home includes the price of construction materials and labor in the area. The cost of labor is likewise important for estimating potential home repair expenses (Allstate 2025).

⁴ These states include California, Hawaii, Maryland, Massachusetts, Michigan, Oregon and Utah (DeNicola 2025).

The recent upsurge in homeowner’s insurance premiums across many parts of the US (First Street 2025) has raised concerns about homeowner’s insurance industry regulation (Schwarcz 2025; O’Hara 2021). In accordance with the McCarran-Ferguson Act of 1945⁵, the US has a state-based insurance regulation system. Each US state and territory has its own entity responsible for regulating insurance companies and their products (Horn and Webel 2024). With 56 different regulatory regimes, insurance rate regulations vary by state, ranging from “file-and-use” schemes to strict rate increase pre-approval requirements (Jones 2025). “File-and-use” systems do not require rate approvals, and encompass 34 US states, the District of Columbia, and Puerto Rico. While insurers operating in “file-and-use” states are required to file rate increases with their respective insurance regulators, the new rates become effective without an administrative review or approval (Jones 2025).

When it comes to rate increases, insurers have historically had more flexibility in states like Florida, Texas and Illinois⁶, and have faced more restrictions in states like New York and California⁷. For example, California Proposition 103 requires prior approval for any rate increase, while a rate increase above 6.9 percent can initiate a public intervenor process (California Department of Insurance 2020). Florida, on the other hand, historically has not regulated rates and has recently taken a number of other deregulatory measures (Jones 2025).

While every US state has its own system of private insurance regulation, each state’s insurance regulator is part of the National Association of Insurance Commissioners (NAIC). Established in 1871, the NAIC “is the U.S. standard-setting and regulatory support organization” which is governed by its member regulators (NAIC 2025). In practice, however, the NAIC’s standard-

⁵ The McCarran-Ferguson Act affirmed the states’ authority in regulating the business of insurance and exempt the states from federal regulations. <https://www.govinfo.gov/content/pkg/COMPS-12153/pdf/COMPS-12153.pdf>

⁶ In January 2025, Illinois state lawmakers introduced legislation SB0268 requiring public disclosure and a comment period for homeowner’s and auto insurance rate increases greater than 10 percent in a 12-month period. If approved, SB0268 will further require exceptional justification for premium increases greater than 15 percent per year (Illinois General Assembly 2025). In April 2025, the Texas Senate has passed SB1643 which requires insurers to obtain approval for rate changes above 10 percent (Texas State Senate 2025).

⁷ In 2024, California regulators approved changes that give the state’s private insurers more flexibility in setting insurance premiums (Jones 2025).

setting role has been limited. According to Webel (2023), while the NAIC “fosters some uniformity in insurance regulation, particularly in insurer solvency regulation” (p. 5), “substantial differences” (p. 5) do remain across different states, especially when it comes to insurance rate regulations.

Given the states’ exclusive regulatory power over the insurance industry, the US federal government’s presence in private insurance markets has historically been limited (Zaring 2018). However, the US federal government was given a greater role in 2010, when the US Federal Insurance Office (FIO) was created in the wake of the 2008 financial crisis. Triggered by the collapse of the American International Group (AIG), the FIO was established as part of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (2010) (United States Department of the Treasury 2025). The FIO is housed within the US Department of the Treasury, and is headed by a Director appointed by the Treasury’s Secretary (NAIC 2024). While the FIO’s regulatory purview has been limited (Keys and Mulder 2024), the FIO has broad financial stability and insurance industry monitoring responsibilities, including the following:

- Monitoring all aspects of the insurance industry;
- Identifying issues or gaps in insurance regulation that could contribute to a “systemic crisis in the insurance industry or the U.S. financial system”;
- Monitoring the extent to which traditionally underserved communities, minorities, low- and moderate-income persons have access to affordable non-health insurance products;
- Consulting with states regarding insurance matters of national importance (United States Department of the Treasury 2025).

In accordance with its financial stability responsibilities, the FIO can recommend to the FSOC⁸ that an insurer be supervised by the Federal Reserve (the Fed) and prudential standards as a non-bank financial company (United States Department of the Treasury 2025). Under the *Dodd-Frank Act* (Section 113), the FSOC may determine that a non-bank financial company be subject

⁸ The Financial Stability Oversight Council (FSOC) was created as part of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* to monitor the stability of and identify systemic risks to the US financial system (United States Department of the Treasury 2025a).

to supervision by the Fed and prudential standards⁹ if the material financial distress at the company or the company’s financial activities could pose a threat to the US financial system stability¹⁰ (Federal Register 2023).

Since 2021, the FIO has been increasingly focused on monitoring and evaluating climate-related financial risks in US insurance markets. The 2021 *Executive Order* 14030 on “Climate-Related Financial Risk” directed the FIO to assess “the potential for major disruptions of private insurance coverage” due to the impacts of climate change (Federal Register 2021, 27968). In response to the *Executive Order*, the FIO produced a 2025 report titled “Analyses of US Homeowners Insurance Markets, 2018–22: Climate-Related Risks and Other Factors”. In this report, the FIO highlighted the heightened vulnerability of US homes to natural catastrophes. The FIO further identified the growing frequency and severity of climate-related disasters as one of the key factors behind the rising cost and reduced availability of homeowner’s insurance coverage across the US (United States Department of the Treasury 2025b).

Previously, in its 2023 report, the FIO warned about the implications of climate-related financial risks in insurance markets for the broader stability of the US financial system. Given the threats to the nation’s financial system stability, climate-related risks in insurance markets have been established as one of the FIO’s key priorities (United States Department of the Treasury 2023).

The FIO’s 2023 report further recognized important climate-related gaps in the supervision and regulation of the insurance industry. According to the FIO, climate-related risks “present new and increasingly significant challenges for the insurance industry,” rendering the oversight of such risks “an emerging and increasingly critical topic for state insurance regulators” (United States Department of the Treasury 2023, 1). According to the FIO, while state regulators and the NAIC have been increasingly focused on incorporating climate-related risks and considerations

⁹ Under Section 165 of the *Dodd-Frank Act*, the Federal Reserve is responsible for establishing prudential standards applicable to non-bank financial companies which are subject to the FSOC’s designation under Section 113 of the *Dodd-Frank Act* (Federal Register 2023).

¹⁰ Additionally, the FIO has the authority to recommend an insurance company for the Federal Deposit Insurance Corporation (FDIC) receivership, in accordance with Title II of the *Dodd-Frank Act* (United States Department of the Treasury 2025).

into the regulation and supervision of private insurance markets, most of their efforts have been at preliminary stages so far. The FIO's 2023 report concluded that climate-related risks to the US insurance industry warrant additional monitoring by the federal financial regulators and policymakers (United States Department of the Treasury 2023).

THE GROWING FREQUENCY AND SEVERITY OF WEATHER AND CLIMATE DISASTERS

Prior to 2025, the growing frequency and severity of weather and climate disasters across the US was tracked by the National Oceanic and Atmospheric Administration's (NOAA) National Centers for Environmental Information (NCEI). According to the data provided by NOAA's NCEI, the frequency and severity of weather and climate disasters have accelerated in recent years. While the incidence and magnitude of weather and climate disasters have been growing significantly over the past four decades, there has been a notable escalation in the frequency and magnitude of weather and climate catastrophes in 2020–24.

Specifically, in 2024, the US endured as many as 27 billion-dollar weather and climate disasters¹¹, which included severe storms, tropical cyclones, winter storms, wildfires, freeze events, and droughts. The 27 billion-dollar weather and climate calamities witnessed by the US in 2024 represented the second highest number of billion-dollar weather and climate disasters to affect the US in a given year. The record was set in 2023, when the US witnessed 28 billion-dollar weather and climate catastrophes. In 2022, the country experienced 18 billion-dollar weather and climate disasters, preceded by 20 billion-dollar weather and climate events in 2021. In 2020, the nation bore the brunt of 22 billion-dollar weather and climate calamities, the fourth highest yearly count to date (NOAA NCEI 2024). The third highest annual number of billion-dollar weather and climate disasters was witnessed by the US in 2025, when 23 such disaster events occurred. These and other statistics are presented in Table 1 below.

¹¹ A billion-dollar weather/climate event is a weather/climate event that causes an estimated economic loss of \$1 billion or more (NOAA NCEI 2024).

Table 1. US Billion-Dollar Weather and Climate Disasters, 2010 –25.

Year	Number of billion-dollar weather/climate events	Combined disaster cost, billions of USD (CPI-adjusted)	Five-year average combined disaster cost, billions of USD (CPI-adjusted)
2010	7	20.2	35.6
2011	18	98.1	50.2
2012	11	158.9	78.2
2013	10	32.3	65.9
2014	10	25.4	67.0
2015	11	31.0	69.1
2016	15	61.3	61.8
2017	19	395.9	109.2
2018	16	116.1	125.9
2019	14	55.5	132.0
2020	22	120.6	149.9
2021	20	164.5	170.5
2022	18	183.6	128.1
2023	28	95.3	123.9
2024	27	182.7	149.3
2025	23	115.0	148.2

Source: NOAA NCEI 2024; Climate Central 2025.

Over the 2020–24 period, the US endured an annual average of 23 billion-dollar weather and climate disasters. This represented a 53 percent increase compared to the previous 5-year period. During that time (2015–19), the country experienced an annual average of 15 billion-dollar weather and climate calamities. Earlier, during the 2010–14 period, the US witnessed an annual average of 11.2 billion-dollar weather and climate disasters (NOAA NCEI 2024). As these

statistics indicate, the frequency of billion-dollar weather and climate disasters has increased significantly during the 2020–24 period.

The 27 billion-dollar weather and climate disasters endured by the US in 2024 caused a combined economic loss of \$182.7 billion, rendering 2024 the nation’s third costliest disaster year to date. The record was set in 2017, when \$395.9 billion was lost to 19 billion-dollar weather and climate catastrophes, including Hurricane Harvey. The second costliest disaster year on record was that of 2022, when the US endured 18 billion-dollar weather and climate calamities with \$183.6 billion in total estimated economic losses (NOAA NCEI 2024).

The \$182.7 billion economic loss sustained by the US in 2024 was 22.3 percent greater compared to the 5-year average economic loss of \$149.3 billion (2020–24). The 2020–24 annual average loss further represented a 13 percent increase relative to the previous 5-year period average. During that time (2015–19), billion-dollar weather and climate disasters cost \$132 billion in annual average economic losses. Lastly, the \$182.7 billion economic loss sustained by the US in 2024 represented a nearly 30 percent increase compared to the decadal average loss of \$140.6 billion (2015–24) (NOAA NCEI 2024).

Globally, there were 58 billion-dollar weather and climate disasters in 2024, the second highest yearly count to date.¹² In 2023, as many as 73 weather and climate calamities were registered globally, the record number to date (Gallagher Re. 2025). Global property insurers sustained over \$137 billion in weather-related natural catastrophe losses in 2024. This represented a significant increase from the ten-year average loss of \$98 billion. The estimates for global property insurance losses in 2025 varied from \$145 billion to \$300 billion (Jones 2025).

The intensification in weather and climate disasters across the US and globally has inflicted increasingly more residential property damage and destruction. This has led to surging claims payouts and worsening financial performance in the homeowner’s insurance line of business. To

¹² The same number (58) of billion-dollar weather and climate disasters was recorded globally in 2020 (Gallagher Re. 2025).

improve their financial performance and ensure sufficient cash reserves to cover future losses, home insurers have responded with higher homeowner’s insurance premiums, reductions in home insurance coverage, policy non-renewals, exits from high-risk geographic markets, and other changes to their business practices (FSOC 2023, First Street 2025, Congressional Budget Office 2024, United States Department of the Treasury 2025, Waters 2024). Recent financial impacts in the US homeowner’s insurance industry are analyzed in the next section.

FINANCIAL IMPACTS IN THE US HOMEOWNER’S INSURANCE INDUSTRY

The climate-driven surge in claim severity¹³ has been the driver of mounting claims payouts in the homeowner’s insurance industry¹⁴ (Lexis Nexis 2025, Jones 2025). In 2020, the nationwide average claim severity for the homeowner’s insurance industry was \$15,053 (see Table 2 below). This represented a 6.8 percent increase compared to the previous year (2019). In 2021, the nationwide average claim severity for the homeowner’s insurance industry rose by 11.6 percent, averaging \$16,801 nationwide. In 2022, the nationwide average claim severity for the homeowner’s insurance industry reached \$18,311—a 9 percent increase compared to 2021. Relative to the 2017–21 nationwide average (\$15,290), the claim severity for the homeowner’s insurance industry increased by almost 20 percent in 2022 (Insurance Information Institute 2025).

¹³ Claim severity refers to the average claim amount paid by an insurer in a given year (United States Department of the Treasury 2025b).

¹⁴ According to the Insurance Information Institute (2023), claim frequency is declining, partly due to the “widespread adoption” of higher deductibles, including percentage deductibles for certain perils, “and premium surcharge programs designed to reduce the number of lower-cost claims” (p. 1). The reduction in claim frequency has been noted by Lexis Nexis (2025) as well. However, the rise in claim severity has been offsetting the reduction in claim frequency, leading to greater loss costs for the homeowner’s insurance line of business.

Table 2. US Homeowner’s Insurance Industry Average Claim Severity, 2003–22.

Year	Average Claim Severity, USD	Change Relative to the Previous Year, percent
2003	5,316	
2004	8,029	51
2005	8,705	8.4
2006	7,293	-16.22
2007	8,668	18.85
2008	7,789	-10.14
2009	8,411	7.9
2010	8,568	1.87
2011	8,492	-0.88
2012	8,842	4.1
2013	10,603	19.9
2014	11,319	6.7
2015	11,440	1
2016	11,977	4.7
2017	15,928	33
2018	14,579	-8.5
2019	14,090	-3.3
2020	15,053	6.8
2021	16,801	11.6
2022	18,311	9

Source: Insurance Information Institute 2025.

Impacts on Underwriting Performance

Insurance companies finance the claims they pay with the premiums earned, reinsurance, and their own capital (Congressional Budget Office 2024). When assessing the underwriting performance of the insurance industry, several key indicators are commonly used. One such

indicator is a “net combined ratio”, which is a measure of an insurer’s underwriting profitability based on incurred claims and operating expenses relative to the premiums earned in a given year (Lloyd’s 2024).

$$\text{Net Combined Ratio} = \frac{\text{Net Incurred Claims} + \text{Net Operating Expenses}}{\text{Net Earned Premiums}}$$

A net combined ratio of 100 percent indicates that net claims and operating expenses incurred by an insurer in a given year were equal to the net premiums earned in that year. A net combined ratio greater than 100 percent indicates that net claims and operating expenses incurred by an insurer in a given year were greater than the net premiums earned. Conversely, a net combined ratio less than 100 percent indicates that net incurred claims and operating expenses were less than the net premiums earned in a given year. A net combined ratio greater than 100 percent represents an underwriting loss, while a net combined ratio below 100 percent represents an underwriting profit. For example, a net combined ratio of 110 percent signifies a 10 percent underwriting loss, while a net combined ratio of 90 percent is indicative of a 10 percent underwriting profit (First Street 2025). To maintain underwriting profitability, insurers must generate sufficient premium income relative to their operating expenses and claims payouts.

Table 3 below presents net combined ratios for the US homeowner’s insurance line of business (2004–23). As the data in Table 3 indicates, the US homeowner’s insurance industry has been posting underwriting losses since 2017. With the exception of 2019, the net combined ratio exceeded 100 percent in every year during the 2017–23 period. During that time, the industry’s net combined ratio rose from 106.7 percent to 110.5 percent. Posting a 12-year low underwriting performance in 2023, the home insurance industry incurred a \$15 billion loss. This underwriting loss was 154 percent greater compared to the \$5.89 billion loss in the previous year (2022) (Woleben 2024). The industry’s poor underwriting performance in 2023 coincided with a record number of billion-dollar natural disasters that affected the US in that year (First Street 2025, Woleben 2024).

Table 3. US Homeowner’s Insurance Industry Net Combined Ratio, 2004–23.

Year	Net Combined Ratio, percent
2004	94.2
2005	100.1
2006	88.7
2007	95.3
2008	116.2
2009	105.4
2010	106.5
2011	121.9
2012	103.7
2013	89.8
2014	92.0
2015	91.3
2016	92.8
2017	106.7
2018	103.5
2019	97.9
2020	106.9
2021	103.3
2022	104.0
2023	110.5

Source: Woleben 2024.

A “paid loss ratio” is another key metric used to evaluate an insurer’s financial performance. A subset of the “net combined ratio”, a paid loss ratio is the ratio of incurred losses and loss-related expenses to premiums earned in a given year. Incurred losses include claims payments, adjustment expenses and other claims-related costs. Unlike the net combined ratio, a paid loss ratio does not take into account operating expenses. A paid loss ratio above 100 percent indicates

that an insurer paid out more in claims and related expenses compared to the premiums earned in a given year (Thornburg Insurance Agency 2024). Conversely, a paid loss ratio below 100 percent indicates that an insurer earned more in premiums than it paid out in claims and claims-related expenses in a given year. The “ideal” paid loss ratio depends on the type of insurance and the company’s business model, but generally falls within the 40 percent – 60 percent range (Relativity 6, 2025). Paid loss ratios above 60 percent are typically considered to be elevated (Hopkins 2020). According to the FIO, extended periods of elevated paid loss ratios may lead insurers to increase premiums, modify coverage, and withdraw from certain geographic areas (United States Department of the Treasury 2025b).

The paid loss ratio for the US homeowner’s insurance industry was 70.5 percent in 2023, up from 55.9 percent in 2022 (United States Department of the Treasury 2025b). The paid loss ratio varied greatly by state, exceeding 100 percent in Oklahoma (100.84 percent), Minnesota (110.2 percent), Iowa (112.74 percent), Colorado (115.05 percent), Kentucky (130.95 percent) and Arkansas (133.29 percent) (NAIC 2024a). On average, the homeowner’s insurance paid loss ratio was 18 percent greater for the highest-risk geographic areas compared to the lowest-risk regions, even though policy premiums are greater in the highest-risk areas (United States Department of the Treasury 2025b).

It must be noted that to provide a buffer against losses, insurers routinely invest their capital and customer premiums into various assets (Congressional Budget Office 2024, Cornelissen et al. 2025). Insurance companies are among the largest institutional investors in the world (Cornelissen et al. 2025), with investment income constituting a major part of the property and casualty insurers’ net earnings (pre-tax). For example, for the 2014–23 period, investment income averaged about 75 percent of the industry’s net earnings, ranging from 70 percent to 140 percent (Kwan 2025).

Because a net combined ratio does not take investment income into account, a net combined ratio above 100 percent does not necessarily mean that an insurer is overall unprofitable (Cornelissen et al. 2025). Due to their investment income, insurers can sustain many years of net combined ratios in excess of 100 percent (Cornelissen et al. 2025, United States Department of the

Treasury 2025b). Nevertheless, the recent trend of underwriting losses in the homeowner's insurance line of business has been a cause of concern for home insurers (Cusick et al. 2024, First Street 2025). Faced with declining underwriting performance, home insurers have been raising premiums, reducing coverage, implementing greater deductibles, non-renewing policies, and exiting high-risk geographic areas (First Street 2025, FSOC 2023, Waters 2024, United States Department of the Treasury 2025b, Congressional Budget Office 2024).

Alongside the surge in claim severity, home insurers have been responding to other climate-driven impacts in the homeowner's insurance industry. Such impacts include a rapid rise in the global price of reinsurance, and higher home repair and rebuilding expenses. These impacts will be discussed in the next section.

RISING REINSURANCE AND CONSTRUCTION COSTS

The climate-driven escalation in the global price of reinsurance has been an important catalyst of rising homeowner's insurance premiums in the US (Horn and Webel 2024, Kwan 2025, United States Department of the Treasury 2025b, Congressional Budget Office 2024, Cornelissen et al. 2025, Fliegelman 2023, Financial Stability Oversight Council 2023, Jones 2025). Reinsurance is insurance purchased by primary insurers as a way to mitigate and manage their own risk.

Typically, reinsurance covers about 30 percent of insured losses from natural disasters.

Reinsurers can share in primary insurer losses on a percentage basis, or reinsurance can apply when primary insurer losses exceed a certain amount (Congressional Budget Office 2024).

Driven by rising weather and climate risks and uncertainty (Jones 2025), the global price of reinsurance has been skyrocketing in recent years¹⁵. Just in the first half of 2023, US reinsurance rates went up by as much as 20 percent – 50 percent (FSOC 2023). According to the

¹⁵ Given the acceleration of weather extremes and natural disasters, the loss costs for the reinsurance industry have been magnifying. To mitigate the rise in payouts for insured losses, reinsurers have been raising premiums and revising the terms and conditions of reinsurance coverage (United States Department of the Treasury 2025b, Congressional Budget Office 2024, FSOC 2023, Fliegelman 2023, Waters 2024, Cornelissen et al. 2025). The growing uncertainty regarding future climate-related losses for the reinsurance industry has been contributing to the rise in the price of reinsurance as well (Congressional Budget Office 2024).

Congressional Budget Office (CBO) (2024), US reinsurance rates doubled between 2017 and 2023. Some estimates suggest that US reinsurance rates went up by 45 percent – 100 percent in 2023 alone (Fellowes-Granda et al. 2025). The escalation in the price of reinsurance has had direct impacts on the premiums paid by the US homeowners, as reinsurance costs are passed through to the primary policyholders¹⁶ (United States Department of the Treasury 2025b, Congressional Budget Office 2024, FSOC 2023, Fliegelman 2023, Waters 2024, Cornelissen et al. 2025, Jones 2025). However, despite the upsurge in the price of reinsurance, reinsurance availability remains limited, which further constrains the availability of homeowner’s insurance in the US, especially in high-risk geographic areas with heavy insurer reliance on reinsurance (Fliegelman 2023).

Rising Costs of Construction Materials and Labor

Because homeowner’s insurance covers home repair or rebuilding expenses, the costs of construction materials and labor are an important factor in homeowner’s insurance pricing. As these costs have grown, home insurance premiums have risen due to the greater home repair and rebuilding expenses faced by the insurers (Cornelissen et al. 2025, United States Department of the Treasury 2025b, Kwan 2025). While the higher prices of construction materials and labor are reflective of the broader inflationary trends in the US economy, the acceleration in weather extremes and natural disasters has been an important cost driver in the construction industry (Schuldt et al. 2021, Cordulus 2025, Morrison 2024, Reusable Weather Enclosure Systems Group).

Due to its reliance on labor and outdoor activities, the construction industry is one of the most exposed to extreme weather (Schuldt et al. 2021). By reducing construction labor supply and productivity, extreme weather conditions and natural disasters can create labor shortages and increase labor costs in the construction sector (Schuldt et al. 2021, 44). Extreme weather conditions and natural disasters can likewise exacerbate existing construction labor shortage. For example, a rise in rebuilding and restoration activities in the wake of a natural disaster can increase demand for construction professionals. If straining an already limited professional

¹⁶ Prior to January 2025, California was the only US state that did not allow insurers to include reinsurance premiums in their rates (Jones 2025).

construction workforce, a natural disaster can further increase the cost of construction labor in a given area (CMiC Global). The negative impacts of weather extremes and natural disasters on construction labor supply have been recently noted by the Nationwide:

Unprecedented labor shortages continue to challenge contractors, and issues securing skilled labor are magnified following weather events. For example, after a flood, general contractors frequently need to bring on subcontractors to help with remediation efforts. However, if the flood impacted multiple businesses in the area, these professionals are likely to be in high demand and short supply (Nationwide 2023).

In addition to construction labor, weather extremes and natural disasters can affect the availability and cost of construction materials. For example, hurricanes, floods and wildfires can disrupt global, national and regional supply chains, creating construction materials' shortages and price spikes. The global supply chain crisis of 2021 is a good case in point. Driven partly by extreme weather, the 2021 supply chain fiasco resulted in significant procurement delays and higher prices of essential construction materials, including timber and steel (CMiC Global).

The higher costs of construction materials could also be driven by a rise in rebuilding and restoration activities following a natural disaster. This can happen when multiple construction firms bid on the same supply of construction materials (Nationwide 2023). Natural disasters and weather extremes can further create cost pressures by damaging construction materials or reducing their material performance, requiring expensive restorations or replacements. Protecting building supplies from growing weather extremes and natural disasters can be costly as well (Cordulus 2025).

All in all, the impacts of weather extremes and natural disasters can be costly for the construction industry (Cordulus 2025). As the frequency and severity of weather extremes and natural disasters have accelerated, their cost impacts in the construction sector have grown. Consequently, US homeowner's insurance premiums have been rising, accounting for the greater home repair and rebuilding expenses faced by the insurers. The material and labor cost impacts in the construction sector represent an important channel through which growing weather

extremes and natural disasters have been making homeowner’s insurance policies more expensive.

RISING HOMEOWNER’S INSURANCE PREMIUMS

The estimates of the average price of homeowner’s insurance vary by source, and depend on the amount of dwelling and other coverage (as well as the deductible amount applied). Based on NerdWallet’s analysis, the average cost of homeowner’s insurance in May 2025 was \$2,110 per year for \$300,000 in dwelling coverage (with a \$1,000 deductible) (Schlichter 2025). According to Bankrate, the average cost of homeowner’s insurance in May 2025 was \$2,329 per year for \$300,000 in dwelling coverage (with a \$1,000 deductible) (Todoroff et al. 2025). Forbes Advisor analysts calculated that the average cost of homeowner’s insurance in April 2025 was \$1,951 per year for \$350,000 in dwelling coverage (with a \$500 deductible). As estimated by Forbes Advisor, the average cost of homeowner’s insurance in April 2025 was 14 percent – 17 percent greater than the 2024 average (see Table 4 below) (Gusner 2025).

Table 4. Average Cost of US Homeowner’s Insurance in April 2025.

	2024	April 2025	Increase, percent
Dwelling Coverage			
\$200,000	\$1,150	\$1,348	17
\$350,000	\$1,678	\$1,951	16
\$500,000	\$2,212	\$2,553	15
\$750,000	\$3,068	\$3,496	14

Source: Gusner 2025. *Percentage increase relative to the 2024 average.

The cost of homeowner’s insurance can differ widely by state. In 2025, the US states with the highest average cost of homeowner’s insurance included Nebraska (\$6,097), Florida (\$5,409), Oklahoma (\$4,623), Kansas (\$4,415), Louisiana (\$4,145), Texas (\$4,049), Kentucky (\$3,501), Mississippi (\$3,450), Colorado (\$3,282), Arkansas (\$3,103) and Alabama (\$3,027). The state with the lowest average cost of homeowner’s insurance was that of Vermont (\$839), followed by Alaska (\$942), Delaware (\$964) and West Virginia (\$1,009) ¹⁷ (Cox-Steib 2025).

Homeowner’s insurance premiums have seen a sustained rise in recent years. In 2020 and 2021, the national calculated weighted average effective rate increase for homeowner’s insurance was 3 percent and 3.8 percent¹⁸, respectively (see Table 5 below). The rates spiked by as much as 6.3 percent in 2022, and 12.7 percent in 2023, followed by a 10.4 percent hike in 2024.

Cumulatively, homeowner’s insurance premiums went up by 24.4 percent in just the two years of 2023 and 2024. The double digit premium growth in 2023 and 2024 outpaced the CPI inflation, which was measured at 4.1 percent and 2.9 percent, respectively (Woleben 2025). The estimates of average premium increases in 2025 vary from 8 percent to 9.3 percent (Brannon et al. 2025; Matic 2025).

Table 5. Annual Average Percentage Increase in Homeowner’s Insurance Premiums and CPI Inflation, 2019–24.

Year	Premium Increase, percent	CPI Inflation, percent
2019	2.5	1.8
2020	3.0	1.2
2021	3.8	4.7
2022	6.3	8.0
2023	12.7	4.1
2024	10.4	2.9

Source: Woleben 2025, Federal Reserve Bank of Minneapolis 2025.

¹⁷ The rates are as of May 2025, and apply to homeowner’s insurance policies with \$300,000 in dwelling coverage.

¹⁸ According to the Insurance Information Institute 2025, the average rate increase in 2021 was 7.6 percent.

During the five-year period spanning 2020 to 2024, the cumulative rise in homeowner’s insurance premiums was a staggering 41.4 percent, which exceeded the 22.56 percent cumulative rise in CPI inflation. Averaging 8.28 percent per year, homeowner’s insurance premiums grew almost twice as fast as CPI inflation, which was annualized at 4.51 percent (2020–24) (Federal Reserve Bank of St. Louis 2025). The rise in homeowner’s insurance premiums outpaced home price appreciation as well. In the five years spanning 2020 to 2024, the US median home sale price went up by 28 percent, averaging 6.16 percent annually (Federal Reserve Bank of St. Louis 2025a).

The rise in homeowner’s insurance premiums has differed by state. While the weighted average premium increase was 10.4 percent nationwide in 2024, homeowner’s insurance premiums went up by a greater percentage in as many as 29 states. Premium hikes exceeded 20 percent in the following six states: Nebraska (22.7 percent), Montana (22 percent), Iowa (21.1 percent), Minnesota (20.7 percent), Utah (20.5 percent) and Washington (20.2 percent). Similarly, while the weighted average premium increase was 12.7 percent nationwide in 2023, premiums rose by a greater percentage in as many as 16 states. Premiums spiked by more than 20 percent in Arizona (23.2 percent), Texas (23.9 percent) and Utah (21.1 percent) (Woleben 2025).

Homeowner’s insurance premiums are typically bundled into homeowner’s monthly mortgage payments¹⁹ (Congressional Budget Office 2024). Consequently, premiums are commonly analyzed as a share of total mortgage costs. In 2013, homeowner’s insurance premiums accounted for 7–8 percent of total mortgage costs. In 2022, this share increased to more than 20 percent. As such, just in ten years, homeowner’s insurance premiums almost tripled as a percentage of total mortgage expenses. More recently, from 2017 to 2022, the share of premiums in overall mortgage costs increased by 66 percent (First Street 2025).

Homeowner’s insurance premiums have risen as a percentage of annual household income as well. According to the Insurance Research Council, US homeowners spent an average of 1.21 percent of their annual household income on home insurance premiums in 2000. This share

¹⁹ Mortgage lenders collect insurance payments through an escrow account, and pay the home insurer when the premiums are due (Congressional Budget Office 2024).

increased to 1.85 percent and 1.93 percent in 2019 and 2020, respectively. In 2020, the five US states with the highest share of premiums in annual household income included Louisiana, Florida, Oklahoma, Mississippi and Alabama. In Louisiana and Florida, the share of premiums in annual household income exceeded 3.8 percent (Insurance Research Council 2023). According to a recent study by the Lending Tree, US homeowners spent an average of 2.41 percent of their annual household income on homeowner’s insurance premiums in 2024. The states with the greatest share of premiums in annual household income in 2024 included Oklahoma (6.84 percent), Nebraska (5.73 percent) and Kansas (5.58 percent)²⁰. While household income rose slightly faster than home insurance premiums from 2019 to 2022, premium increases outpaced the growth of income in 2023 and 2024 (Davis and Shepard 2023).

Despite the growing financial burden of home insurance expenses, home insurance premiums remain underpriced in many parts of the US, as they do not adequately reflect the actual weather- and climate-risks faced by the insurers (First Street 2025, Jones 2025). According to First Street, more than 27 percent of homes across the contiguous US “have insurance premiums that are too low to cover their actual climate risk exposure” (First Street 2025, 12).

Given the challenges involved in weather- and climate-risk estimation, many home insurers have been unable to price their premiums in accordance with their actual risk exposure (Congressional Budget Office 2024, First Street 2025). As explained by the CBO, the estimates of climate risk can lag given their reliance on both historical climate data and climate projections. Further, certain US states prohibit the use of climate projections²¹, limiting insurers to the use of historical climate data (Congressional Budget Office 2024, Jones 2025). Where the use of climate projections is permitted, climate risk assessment is complicated given the rising uncertainty regarding future climate change impacts (First Street 2025).

²⁰ The analysis by the Insurance Research Council (2023) utilizes median household income data, while the study by the Lending Tree (2023) employs average household income data.

²¹ Historically, the use of climate change projections in homeowner’s insurance pricing has been prohibited in California (Congressional Budget Office 2024). However, new California insurance regulations allow home insurers to use forward-looking climate modeling to assess climate risks and price homeowner’s insurance policies (Rahim 2025).

In addition to climate risk assessment limitations, the underpricing of homeowner’s insurance can stem from state regulations. Aimed at protecting consumers, insurance industry regulations in certain states limit insurers’ ability to price their policies in accordance with climate risk assessments (First Street 2025, Jones 2025). As a result, premium increases do not always compensate insurers for the estimated increases in climate risk. Consequently, state regulations can make insurance pricing unviable in certain high-risk geographic areas (Congressional Budget Office 2024). According to the Deloitte Center for Financial Services, the gap between “viable insurance pricing and what some state regulators permit” has been widening, leading to rising insurer exits from high-risk geographic areas²² (Cusick et al. 2024).

While rate regulations have contributed to insurer exits from certain states, a deregulatory approach may not be a solution to the homeowner’s insurance availability crisis. As emphasized by Jones (2025), an escalation in climate risks and climate change-driven losses has caused policy non-renewals and insurer withdrawals from states with no regulations of rates and overall lax regulatory environments:

Even in states where rates are unregulated and insurers are free to set rates as high as they want, losses driven by climate change are causing insurers to increase non-renewals, stop writing new insurance, and depart markets entirely (Jones 2025, 204).

The underlying issue is the climate crisis, which is rendering the business of property insurance increasingly more unviable. With surging climate risks and uncertainty, home insurers are struggling to price premiums at levels that are both profitable for them and affordable for the homeowners.

²² There is evidence that insurers operating in multiple states can respond to rate increase restrictions in some states by raising rates more in other states where rate increase regulations are less stringent (Congressional Budget Office 2024; Joint Economic Committee Democrats 2024).

Falling Homeowner's Insurance Protection

Rising Insurer Exits from High-Risk Geographic Areas

As climate risks and climate-driven losses have mounted, insurer exits from high-risk geographic areas have grown (Cusick et al. 2024, Congressional Budget Office 2024). At least a dozen home insurers left Louisiana following four major hurricanes endured by the state in 2020 and 2021 (Jones 2024). In 2022, US home insurers cancelled 1 in 6 homeowner's insurance policies due to rising hurricane risks. In the same year, twelve home insurers withdrew from Florida or suspended new homeowner policy offerings in the Sunshine State (Jones 2024). In June 2022, AIG announced that the company was reducing its home insurance offerings in as many as 200 zip codes, including New York, Delaware, Colorado, Montana, Idaho, and Wyoming (in addition to Florida) (FSOC 2023). Farmers Insurance pulled out of Florida in the summer of 2023. AIG, Allstate and State Farm stopped issuing new homeowner policies in California in the first half of 2023 (Congressional Budget Office 2024). At least four home insurers retreated from Iowa in 2023 due to the rising frequency of severe convective storms (Jones 2025). With rising insurer exits from a growing number of geographic areas, many US homeowners have been confronted with sudden policy non-renewals by their long-time insurers (Cornelissen et al. 2025).

The US is currently facing “an unfortunate reality that more and more borrowers will be faced with renewal concerns or difficulty obtaining affordable initial insurance policies when they buy a home” (FSOC 2023, 26). A growing number of US homes may ultimately “become uninsurable due to the increasing frequency and severity of climate-related events and the associated changes in insurance policies’ structure, pricing, and availability” (FSOC 2023, pp. 46 – 47). The US Federal Reserve Chair Jerome Powell has warned about the long-term consequences of these climate-driven developments in the US homeowner's insurance markets:

[...] banks and insurance companies are pulling out of areas, coastal areas and things like that or areas where there are a lot of fires. So what that is going to mean is that if you fast-forward 10 or 15 years, there are going to be regions of the country where you can't get a mortgage, there won't be ATMs, the banks won't have branches and things like that. That's a possibility coming up down the road. It's not that the banks will stay there and keep making loans in the face of evidence of disaster or that insurance companies will do right policies, they can cancel those policies every year. So I

think the risk is that they just won't be there and that people won't be able to get them. That's really the issue. (Powell 2025).

The rising frequency and severity of weather extremes and natural disasters foretells an unmortgageable, “uninsurable” future (Jones 2025, 181), as the surge in losses from climate disasters is making the business of property insurance unsustainable.

Growing Incidence of “Force-Placed” Plans

US homeowners with mortgages are required by lenders to maintain homeowner's insurance, even when faced with sudden non-renewals or a lack of affordable coverage options.

Consequently, given the rise in insurer exits from high-risk geographic areas, the incidence of “force-placed” or “lender-placed” homeowner insurance plans has been rising (Cornelissen et al. 2025, First Street 2025, FSOC 2023). Homeowner reliance on state-managed insurance programs has been growing as well (First Street 2025). Examples of state-managed insurance programs include *Citizens Property Insurance of Florida* and the California *Fair Access to Insurance Requirements* (FAIR) plans (Cornelissen et al. 2025). California FAIR plan membership more than quadrupled from 140,000 policy holders in 2018 to over \$610,000 users in 2025 (Jones 2025).

Compared to standard homeowner's insurance, “force-placed” plans are more expensive and offer more limited homeowner protections. For example, while “forced-placed” insurance covers a home's dwelling structure, it does not offer coverage for homeowner's personal items, relocation expenses or potential liability (Rao 2024). FAIR²³ and other state-managed plans are typically more expensive as well, while they provide more limited coverage (Pating and Moore 2025, Jones 2025). For example, a standard California FAIR plan provides home dwelling and

²³ FAIR plans have been established in 34 US states and the district of Columbia. A FAIR plan is an involuntary association of *private* property and casualty insurers that are admitted and licensed in a state. FAIR plan participation is a pre-condition for maintaining a license to sell insurance in a state. If a FAIR plan faces a shortfall of reserves to pay out claims, the private insurer-members of the plan make up the shortfall based on their relative market shares in the state. A notable exception is Louisiana and Florida, where the FAIR plan's shortfall is made up by the state's policyholders, including those not in the FAIR plan. Effective January 2025, private insurer contributions to the FAIR plan shortfalls have been capped at \$500 million in California. Any additional California FAIR plan shortfalls will be covered through a surcharge on home insurance policyholders in the state (Jones 2025).

personal property protection for just four perils: fire, smoke, lightning and internal explosion²⁴. Further, the plan insures at actual cash value and does not provide liability coverage (Todoroff et al. 2025a). Despite the limitations of “force-placed” and government-managed home insurance plans, the premiums in those plans have been rising in recent years (FSOC 2023).

“Shrinkflation” in the Home Insurance Industry

While more and more US homeowners have found themselves in “force-placed” or government-managed plans (FSOC 2023), the remaining homeowners with standard policies have witnessed reductions in coverage (First Street 2025, Tran 2024, Cornelissen et al. 2025, Congressional Budget Office 2024). Standard homeowner’s insurance policies now contain greater exclusions and limitations for covered events and circumstances and offer less homeowner protection (Cornelissen et al. 2025, FSOC 2023). For example, policies can have limits and exclusions for damage caused by hail, wind, fire, mold or burst pipes (United Policy Holders 2026; Kousky 2024). The Federal Reserve Bank of St. Louis has described this phenomenon as “shrinkflation” in the home insurance industry:

In addition to increasing premiums, insurers have adopted a similar strategy to the food manufacturers’ “shrinkflation” strategy, where packaging shrinks while prices stay about the same. Homeowners are seeing their standard coverage decrease while their premiums increase; to receive what used to be standard coverage, homeowners often must pay more (Tran 2024, 4).

Alongside reductions in coverage, many insurers have implemented higher deductibles (Cornelissen et al. 2025, FSOC 2023). In 2024 and 2025, the average deductible increased by 15 percent and 24.5 percent, respectively. While flat deductibles were standard practice in the past, many policies now have separate percentage-based deductibles for certain perils, such as wind and hail. A percentage-based deductible can vary from 1 percent to 5 percent of the home’s insured value, and represents a large out-of-pocket expense for most homeowners (Matic 2025). Further, to moderate the rise in premiums, home insurers have been offering more actual cash value (ACV) policies, as opposed to the conventional replacement cost value (RCV) plans (Cornelissen et al. 2025, Ge et al. 2025).

²⁴ In June 2025, a California state court determined that the state’s FAIR plan “has been unlawfully limiting or denying payments for smoke damage” that resulted from early January 2025 wildfires in Los Angeles and Ventura counties (Jones 2025, 202).

The RCV of a home is the estimated cost of rebuilding a home should it get destroyed or severely damaged. Conventional RCV policies cover the full cost of rebuilding or replacing a homeowner’s residential property (Cornelissen et al. 2025, Ge et al. 2025). The ACV policies, on the other hand, apply a depreciation deduction to claims, reimbursing a homeowner for the actual (i.e., depreciated) value of their residential property (Cornelissen et al. 2025). As an example, consider wind damage to a 10-year-old roof. A homeowner with an ACV policy will not get paid for the full cost of installing a new roof. Instead, a homeowner will get paid for the current market value of a 10-year-old roof. If a homeowner had a RCV policy instead, they would get paid for the market value of a new roof (Cornelissen et al. 2025, Ge et al. 2025). Given that ACV policies reduce insurer payments for covered losses, the rising trend of ACV policies “increasingly shifts the burden of risk back to individual homeowners, even if they have insurance” (Cornelissen et al. 2025, 9).

As home insurance protection has been shrinking, more and more US homeowners without a mortgage have been declining to purchase homeowner’s insurance²⁵ (First Street 2025, Cornelissen et al. 2025, FSOC 2023). From 2015 to 2023, the share of uninsured homeowners more than doubled from 5 percent to 12 percent (First Street 2025). The number of uninsured homeowners surpassed 6 million in 2023, with 1 in 13 homeowners being without home insurance²⁶ (Fellowes-Granda 2024). Alarming, 48 percent of uninsured homeowners earn less than \$40,000 per year (Insurance Information Institute 2023a), while uninsured homes represent more than \$1.6 trillion in unprotected market value (2023) (Fellowes-Granda et al. 2025). The rise in the number of uninsured homeowners has contributed to the rise in premiums, as insurance works by spreading risk across a larger group of policyholders who make regular premium payments (First Street 2025).

²⁵ While homeowners without a mortgage are not required to purchase homeowner’s insurance, being without home insurance can have negative financial consequences, such as lower collateral property valuation and reduced homeowner ability to borrow (FSOC 2023).

²⁶ According to Lending Tree, 12.2 million or 14.1 percent of owner-occupied homes were uninsured in 2024. This amounted to 1 in 7 homes being uninsured. The number of uninsured homes rose 6.6 percent nationwide from 2023 to 2024 (Davis and Stanek 2026).

IMPLICATIONS FOR HOMEOWNERSHIP AFFORDABILITY

The rapid rise in homeowner's insurance premiums has been increasing the cost of homeownership, exacerbating the nation's housing affordability crisis. As home insurance becomes increasingly more expensive and less available, a growing number of individuals and families become unable to purchase a home, as mortgage lenders require homeowner's insurance²⁷ (First Street 2025, Horn and Webel 2024, Tran 2024, FSOC 2023, Jones 2025, Waters 2024).

For the existing homeowners with mortgages, mortgage payments have become more unaffordable and more unpredictable²⁸. Homeowner mortgage expenses are now increasing each year due to the rapid rise in the cost of homeowner's insurance (Waters 2024, Cornelissen et al. 2025, First Street 2025, Keys and Mulder 2024). The growing unaffordability and unpredictability surrounding homeowner's insurance premiums have been undermining the stability of the traditional, 30-year fixed rate mortgage system in the US (First Street 2025).

While the 30-year fixed rate mortgage has historically provided Americans with predictable monthly payments and a path to building wealth, rapidly escalating insurance premiums undermine this stability, with costs in some high-risk areas increasing by thousands of dollars annually. Combined with high deductibles often reaching tens of thousands of dollars in areas at risk of hurricanes and wildfires, mounting insurance premiums are fundamentally challenging the traditional model of stable and predictable homeownership costs that the 30-year fixed-rate mortgage was designed to provide (First Street 2025, 9).

²⁷ The rise in the cost of homeowner's insurance has made rents more expensive as well, as landlords pass the rising cost of property insurance onto renters. However, the option of rent increases is not available to the providers of permanently affordable multifamily housing, which serves low- and moderate-income households. Unable to increase rents in response to rising home insurance costs, affordable housing providers could face potential defaults on mortgages and other loans, or be forced to sell their properties. Such developments would further reduce the supply of affordable housing across the nation. At the same time, the rise in the cost of homeowner's insurance discourages the development of new permanently affordable housing units across the country (Jones 2025).

²⁸ The uncertainty about future premium increases stems from the uncertainty about the future impacts of climate change.

A concern about rising homeowner's insurance premiums and their threats to homeownership has been recently expressed by the US Federal Housing Finance Agency:

The Federal Housing Finance Agency (FHFA) recognizes that the growing frequency and severity of natural disasters, as well as rapidly increasing insurance costs, presents a serious threat to homeowners, renters, and the U.S. housing finance system. (US Federal Housing Finance Agency 2024).

The rise in homeowner's insurance premiums could become unmanageable, forcing many homeowners to sell their properties or face mortgage default (Cornelissen et al. 2025). Current research already established a link between rising homeowner's insurance premiums and growing mortgage delinquencies. It has been estimated that the rise in home insurance premiums from July 2022 to June 2023 led to an 8 percent increase in US mortgage delinquency rates (Ge et al. 2025).

Mortgage defaults could further be triggered by falling homeowner's insurance protection. As homeowners see their coverage shrink and property damage expenses rise, they may lack the funds needed for home repairs. Faced with a lack of funds for home repairs following a natural disaster, homeowners may be forced to sell their properties or face default. In addition to harming homeowners, mortgage defaults would represent losses for the mortgage lending industry, with potential loss repercussions for other parts of the US financial system (FSOC 2023).

IMPLICATIONS FOR HOMEOWNER FINANCES

Homeowner's insurance helps mitigate homeowner financial losses by covering property damage or destruction due to various perils, including weather extremes and natural disasters. Amidst the current trends of rising homeowner's insurance premiums and falling home insurance protection, it is becoming increasingly more difficult for the US homeowners to protect themselves against financial losses due to property damage or destruction. As insurance protection is shrinking, even those with homeowner's insurance are finding it more challenging to mitigate the financial impacts of property damage or destruction.

Falling home insurance protection is projected to increase homeowner reliance on loans and credit cards as a means of financing expenses related to property damage or destruction. According to a recent survey by the US Census Bureau, more than one-third of Americans impacted by a climate disaster in 2022 resorted to loans or credit cards as a means of managing the unforeseen, disaster-related expenses. Given the surge in homeowner’s insurance premiums, homeowner reliance on credit as a means of financing regular household expenses is projected to rise as well (United States Department of the Treasury 2023a). A recent study by the Federal Reserve Bank of Dallas already established a link between rising homeowner’s insurance premiums and greater homeowner reliance on credit cards (Ge et al. 2025).

Faced with rising debt levels and growing financial strains, US homeowners could become more likely to skip debt payments or pay less than what is owed towards debt obligations. As a result, delinquencies, forbearances, and other modifications to regular debt payments could become more common. Consequently, homeowner’s creditworthiness could be adversely affected, leading to higher borrowing costs and reducing homeowner’s ability to obtain credit in the future²⁹ (United States Department of the Treasury 2023a). A link between rising homeowner’s insurance premiums, growing credit card delinquencies, and worsening borrower creditworthiness has been recently documented in the literature (Ge et al. 2025). Worsening homeowner creditworthiness could further increase homeowner’s insurance premiums, as credit can be a factor in homeowner’s insurance pricing³⁰. Going from a “good” to a “poor” credit score could raise home insurance premiums by an average of 63 percent, or an extra \$1,557 per year (Todoroff 2025).

The financial consequences of falling homeowner’s insurance affordability, availability and protection exert disproportionate impacts on low-income and minority homeowners. Such

²⁹ According to the United States Department of the Treasury, a natural disaster could reduce household access to credit for years to come (United States Department of the Treasury 2023a).

³⁰ As previously mentioned, some states prohibit the use of a credit score as a factor in homeowner’s insurance pricing.

homeowners are more likely to live in poorly built homes which are more prone to damage or destruction due to weather extremes and natural disasters. Low-income and minority homeowners often lack the funds they need to make their homes more resilient to weather and climate hazards. At the same time, low-income and minority homeowners are more likely to live in high climate hazard exposure areas (United States Department of the Treasury 2023a). Yet, despite their heightened climate vulnerabilities and greater climate risk exposures, low-income and minority homeowners are also more likely to be uninsured or underinsured. As a result, low-income and minority homeowners are more likely to face greater financial losses due to property damage or destruction from weather extremes and natural disasters (Congressional Budget Office 2024, United States Department of the Treasury 2023a, FSOC 2023). Further, faced with low savings, limited insurance protection, and greater climate vulnerabilities, low-income and minority homeowners are disproportionately affected by rising consumer reliance on credit as a means of financing property damage- or destruction-related expenses (United States Department of the Treasury 2023a).

HOMEOWNER’S INSURANCE AND THE CONSUMER PRICE INDEX

Despite the growing burden of homeowner’s insurance expenses, the cost of homeowner’s insurance is not reflected in the CPI. While the “shelter” component of the CPI includes a “tenants’ and household insurance” sub-component, this sub-component takes into account the cost of *renters’* insurance only. The cost of homeowner’s insurance is explicitly excluded from the CPI calculation: “insurance on physical damage to structures and liability coverage included in homeowner’s policies as well as insurance on commercial properties are excluded from the index” (United States Bureau of Labor Statistics 2025, 1). Unlike homeowner’s insurance, the cost of renters’ insurance has been relatively stable (Insurance Information Institute 2025). As such, by excluding the cost of homeowner’s insurance, the CPI has been underreporting the rise in the cost of living for the US homeowners. Further, by neglecting the cost of homeowner’s insurance, the CPI has been failing to adequately account for the rising economic costs of climate change.

For example, the “tenants’ and household insurance” sub-component of the CPI was weighted at 0.4 percent in 2023 (United States Bureau of Labor Statistics 2025a). If the cost of homeowner’s insurance was included instead and held at the same weight, the rate of the CPI inflation in 2023 would have been nearly 80 basis points higher. As JP Morgan Asset Management analysts have put it, the “U.S. homeowners have been experiencing “shadow inflation” beyond what the traditional CPI index would suggest” (Manley and Gauba 2024, 1).

A FOOTNOTE ON CLIMATE CHANGE, HOMEOWNER’S INSURANCE, AND RESIDENTIAL PROPERTY VALUES

There are several mechanisms through which climate change, and climate change impacts in homeowner’s insurance markets could affect residential property values. With the presence of both deflationary and inflationary pressures, the permanent effects of climate change on home values are complex and not yet fully understood.

On the one hand, rising homeowner’s insurance premiums and declining availability of homeowner’s insurance could reduce consumer demand for residential properties. In that case, home values could potentially fall, offsetting the rise in homeowner’s insurance premiums. Further, if rising homeowner’s insurance premiums trigger mortgage defaults and home sales, residential property values could decline (First Street 2025, Cornelissen et al. 2025, FSOC 2023).

Home values in high-risk geographic areas could further decrease due to the fall in the homeownership appeal of those areas. Such possibility has been suggested by the FSOC: “the increasing occurrence of hurricanes, wildfires, or other climate-related disasters in a region may reduce ownership appeal over time, thus lowering home prices” (FSOC 2023, 26).

Climate risk disclosure requirements for home sales could also lessen the homeownership appeal of certain geographic areas, causing property values to fall. According to the CBO, “[s]ales prices of homes in places with disclosure requirements are generally lower than sales prices of comparable homes in areas without such requirements” (Congressional Budget Office 2024, 10).

However, climate risk disclosures for home sales are not required in every US state (Congressional Budget Office 2024).

While growing climate risks, rising homeowner’s insurance premiums, and falling home insurance availability could lower residential property values in high-risk geographic areas, home values could rise in regions with less exposure to climate hazards (United States Department of the Treasury 2023a). What is more, if climate-driven destruction and damage of residential properties curtail the nation’s housing supply, residential property values would rise nationwide. The possibility of this development was suggested by the United States Department of the Treasury:

In addition to causing expensive physical damage, climate change may reduce housing availability; increase the cost to rent, buy or maintain housing (including through consequences for mortgage availability); and affect property values and home insurance coverage (United States Department of the Treasury 2023a, 30).

JP Morgan Asset Management analysts have also noted that a widespread depreciation of home values may be unlikely, even with the surging cost of homeowner’s insurance. While “[h]ome prices could in theory fall to account for this increased ancillary cost but may not, as many homeowners are reluctant to sell property at a loss (Manley and Gauba 2024, 1). Consequently, rising homeowner’s insurance premiums could lead to a “further stagnation in the housing market and a deepening of the supply dearth already making home ownership unattainable” (Manley and Gauba 2024, 1).

The downward pressures on residential property values could also be offset by the persistence of consumer preferences for homes with certain features, such as proximity to coastal areas (Congressional Budget Office 2024). As noted by the Deloitte Center for Financial Services, despite the rise in climate risks, Americans continue to migrate to and build homes in natural disaster-prone areas (Cusick et al. 2024). For example, US regions with high wildfire and flood risks are still experiencing positive net population migration (First Street 2025).

It is also worth mentioning that while residential property values could fall in the wake of a natural disaster, such price effects could be temporary: “it is not clear whether the effects of a disaster on home prices persist” (Congressional Budget Office 2024, 13). Based on historical evidence, home prices could rebound a few years after a natural disaster takes place (Congressional Budget Office 2024).

Lastly, deflationary pressures in residential property markets could be offset by the rising costs of construction materials and labor, which make new home construction more expensive. Growing institutional investment into residential properties could create inflationary pressures as well (Young 2020).

All in all, the effects of climate change and its impacts in the homeowner’s insurance markets on property values remain to be further monitored and assessed. As has been concluded by the United States Department of the Treasury, while the availability and the cost of homeowner’s insurance will be a “significant vector for the impact of climate hazards on housing”, “the extent to which property values and broader housing market dynamics reflect future exposure to climate hazards remains uncertain” (United States Department of the Treasury 2023a, 8).

POLICY IMPLICATIONS

According to the Consumer Federation of America, the rapid rise in home insurance premiums has become “increasingly unsustainable” for the US homeowners (Cornelissen et al. 2025, 6). A recent study by the National Bureau of Economic Research has further concluded that the affordability and availability of homeowner’s insurance can no longer be assumed (Keys and Mulder 2024, 2). Given the current trends of rising homeowner’s insurance premiums, growing policy non-renewals, accelerating insurer exits from high-risk geographic areas, and falling homeowner’s insurance protection, more and more US homeowners are becoming underinsured or uninsured (FSOC 2023, First Street 2025, Cornelissen et al. 2025, United States Department

of the Treasury 2025b). The widening of the insurance protection gap³¹ has disproportionate impacts on low-income and minority homeowners, given their heightened climate vulnerabilities and limited financial resources (United States Department of the Treasury 2023a). The financial consequences of rising homeowner’s insurance premiums and falling home insurance protection further threaten the stability of the US financial system, as has been noted by the former US Secretary of the Treasury Janet Yellen (2023):

This “protection gap” may indicate that Americans are facing challenges in finding available and affordable insurance in their area. This can have significant consequences for homeowners and the values of their assets. In turn, these developments can have cascading effects on the financial system.

The current crisis of homeowner’s insurance affordability and availability, and its potential threat to the US financial system stability, call for policy intervention in the homeowner’s insurance industry. Policy intervention must be aimed at stabilizing the homeowner’s insurance markets and increasing the availability and affordability of quality homeowner’s insurance coverage (Cornelissen et al. 2025). To that end, different policy intervention measures have been proposed, with varying degrees of the federal government’s involvement in the homeowner’s insurance industry.

To begin with, the federal government could provide means-tested or income-based home insurance premium subsidies for low- and moderate-income homeowners. Such subsidies would help improve the quality and affordability of homeowners insurance (Ge et al. 2025, Congressional Budget Office 2024). Federal investments into climate change adaptation and mitigation measures could play an important role as well. By lessening property damage and destruction, such investments could help reduce insured losses for the homeowner’s insurance industry, thereby mitigating the rise in premiums (Congressional Budget Office 2024).

Public-private investments into “residential dwelling resiliency measures” could also have significant impacts (Cusick et al. 2024, 1). According to the Deloitte Center for Financial Services, if home insurers partnered with government agencies and policyholders and invested

³¹ The insurance protection gap refers to economic losses not covered by insurance and absorbed by households instead (United States Department of the Treasury 2023a).

\$3.35 billion in residential dwelling resiliency measures, the two-thirds of US homes that are currently not built to code could be made resistant enough to withstand greater weather extremes. Greater home resilience would help reduce weather-related claims losses, saving home insurers as much as \$37 billion. Such savings would help moderate the rise in homeowner's insurance premiums (Cusick et al. 2024, 1).

Additional policy measures include public-private risk-sharing programs. Within such programs, the federal government could act as a reinsurer for residential property losses, charging premiums to private insurers and paying out claims when insured losses exceed a certain amount (Cornelissen et al. 2025, Congressional Budget Office 2024). Alternatively, the federal government could assume all of the risks for certain natural disasters, such as wildfires and hurricanes, and sell insurance coverage directly to homeowners. The US federal government could set the premiums and the terms of coverage, similar to the way the NFIP currently does for flooding (Congressional Budget Office 2024). A federal all-risk all-disaster insurance program could be considered as well (Cornelissen et al. 2025; O'Hara 2021). Such a program could co-exist alongside private homeowner's insurance options. The federal government already plays a major role in the homeowner's insurance market through the NFIP, and a further expansion of the federal government's role in the homeowner's insurance market could be crucial (Cornelissen et al. 2025).

The climate-driven crisis of homeowner's insurance affordability, availability and protection warrants greater regulation and oversight of the homeowner's insurance industry (Schwarcz 2025). Given the systemic financial risk (FSOC 2023) posed by the crisis of homeowner's insurance, the state-based regulatory framework may no longer be sufficient, and needs to be supplemented with greater federal supervision and regulation. Federal regulations need to ensure comprehensive minimum home insurance coverage standards. The goal is not to displace the state-based regulatory framework, but to establish key federal standards for selling, underwriting and pricing of homeowner's insurance, while allowing state regulators the flexibility of responding to their unique climate challenges (Schwarcz 2025).

Lastly, the homeowner's insurance crisis underscores the urgent need for increased federal support for affordable housing. Rising property insurance costs are driving up rents and undermining homeownership, while climate disasters continue to damage and destroy housing stock. In response, the federal government must take a more active role in expanding the supply of affordable housing, particularly in areas with lower exposure to climate hazards. New property development in high climate risk exposure areas must be limited, while building codes must be improved to require more resilient housing. Finally, to address the underlying causes of the homeowner's insurance crisis, we must combat climate change by shifting away from fossil fuels and cutting greenhouse gas emissions. Unless we target the root causes of the homeowner's insurance crisis, we will face a future that is uninsurable and un-mortgageable.

CONCLUSIONS

The climate-driven acceleration in weather extremes and natural disasters has had profound impacts on the US homeowner's insurance industry. As weather extremes and natural disasters have intensified in their frequency and severity, they have inflicted increasingly more residential property damage and destruction, creating greater losses for the US homeowner's insurance industry. To mitigate the rise in losses and improve their financial performance, home insurers have responded with premium hikes, reductions in coverage, greater deductibles, policy non-renewals, exits from high-risk geographic areas, and other changes to their business practices. As a result, homeowner's insurance has become increasingly unaffordable and unavailable for millions of Americans at a time when they need it the most: a time of escalating climate-driven disasters which wreak havoc to residential properties.

The spikes in homeowner's insurance premiums have been further amplified by the climate-driven upsurge in the global price of reinsurance. The upswing in the cost of construction materials and labor has been another key driver of rising homeowner's insurance premiums. While the higher prices of construction materials and labor have been reflective of the broader inflationary trends in the US economy, the climate-driven acceleration in weather extremes and natural disasters has been an important cost catalyst in the construction sector.

The US is currently in a major crisis of homeowner's insurance affordability and availability. This crisis is worsening the nation's housing affordability crisis, affecting both homeowners and renters. By causing mortgage delinquencies and defaults, the homeowner's insurance crisis could further threaten the stability of the US financial system. Comparisons between the 2007–8 financial crisis and the climate-driven crisis of homeowner's insurance have become increasingly more common. While adjustable-rate mortgages helped bring down the US and the global financial system in 2007-08, the escalation in the cost of homeowner's insurance is the next major stress test for the US housing market and the nation's financial stability.

The systemic financial risk posed by the crisis of homeowner's insurance necessitates federal regulation and oversight of the homeowner's insurance industry. Other federal interventions include premium subsidies for low- and moderate-income homeowners, investments in climate change mitigation and adaptation measures, and support for residential property resiliency initiatives. Federal reinsurance programs could play a key role as well. While such measures could help improve the affordability and availability of homeowner's insurance in the short- and the medium-run, the US might be facing the unfortunate reality that the long-run future is uninsurable (Jones 2025). To provide for an insurable future, we must address the underlying causes of the homeowner's insurance crisis by shifting away from fossil fuels and cutting greenhouse gas emissions. Unless we tackle the climate breakdown, the homeowners' insurance crisis will lack sustainable, long-term public policy solutions.

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