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Rising Property Insurance Costs: Opportunities for Federal Action

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ABOUT BPC'S J. RONALD TERWILLIGER CENTER FOR HOUSING POLICY

The Bipartisan Policy Center's J. Ronald Terwilliger Center for Housing Policy is dedicated to realizing an America where every family, regardless of wealth or background, can live in a decent, safe, and affordable home. For more information on the center and its work, please visit: https://bpcdc.org/housing.

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Preface

The devastating wildfires that struck Southern California in January 2025 underscore the urgency of addressing the impact of rising property insurance costs on housing affordability. The wildfires caused an estimated $250 billion to $275 billion in physical damage and broader economic losses, with insurers covering approximately $30 billion to $40 billion—making it one of the costliest natural disasters in U.S. history.[1] At least 29 people lost their lives, more than 37,000 acres burned, and 16,000 structures were destroyed.[2] This devastation occurred outside California's traditional "fire season."

The full implications of the wildfires on California's insurance industry remain unclear, but they will undoubtedly be significant and are likely to extend beyond the state. Insurance companies operating in California, along with the state's insurer of last resort, will be under significant financial pressure. Policyholders statewide will feel the impact for years to come, perhaps in the form of higher premiums and reduced coverage. Although state regulators acted in late 2024 to strengthen the state's insurance industry by allowing insurance companies to incorporate catastrophe modeling and reinsurance costs into premiums, additional efforts will likely be necessary. State and federal policymakers will need to come together to address the escalating risks of natural disasters and the accompanying difficulties of finding and affording adequate property insurance—not just in California, but also in high-risk communities throughout the United States.

This white paper outlines the challenges facing the property insurance market and the homeowners, housing developers, and operators who depend on it. It also presents potential opportunities for federal policymakers to help mitigate the impact of rising property insurance costs on housing affordability. While the policy options we highlight are not exhaustive, we hope they will encourage greater federal focus on this daunting problem.

Executive Summary

PRIMARY TAKEAWAYS

Scale and Scope of the Problem

The cost of property insurance has been increasing in all corners of the country, and, in many states, homeowners and rental housing providers alike are receiving less coverage despite paying higher premiums.

Private insurers have begun exiting some regional markets due to uncertain levels of risk and to restrictions preventing insurance companies from charging adequate premiums to account for the level of risk present.

Causes of Rising Insurance Prices

Growing disaster risk is a major driver of rising insurance prices nationwide. Natural disasters, including hurricanes, wildfires, floods, and severe thunderstorms, have become more frequent, destructive, and costly. However, rising disaster risk has not deterred people from moving to high-risk communities. During the pandemic, net migration to areas at high risk of a natural disaster doubled.

Inflation is driving up the cost of replacing or repairing homes damaged by natural disasters. Insurance companies factor the replacement cost of a home into premium calculations, and both the labor and materials needed to rebuild a home have become more expensive in recent years.

Reinsurance, often referred to as "insurance for insurance companies," is frequently purchased by insurance companies to reduce their risk. Reinsurance prices doubled between 2018 and 2023 due to many factors, including a high-interest rate environment, migration to higher-risk areas, and the growing awareness of reinsurers of their increased exposure to disaster risks. Increased costs have been largely passed onto policyholders through higher insurance premiums.

Legal system abuse and litigation-related costs have contributed to rising premiums as well. Litigation has become more common and expensive. The costs associated with defending lawsuits have put additional financial strain on insurance companies, particularly in states like Florida, where, until recently, insurance companies have faced much greater litigation costs as compared to insurers in other states.

Who Is Impacted?

While homeowners have been hit hard by rising property insurance costs, they are not the only ones affected.

Affordable housing developers are finding it increasingly difficult to finance projects in the face of rising costs.

Affordable housing operators, who are unable to pass on cost increases to their tenants through higher rents, may have to cut other services, reduce insurance coverage, or postpone maintenance or other investments to keep their buildings in operation.

Most **first-time homebuyers** need to consider insurance costs when they are calculating how much they can afford to spend on a home. The cost can push the purchase out of reach, even if they can afford the monthly mortgage payment.

For **households on fixed incomes**, such as seniors or those with disabilities, the unpredictability of insurance rates from year-to-year is particularly concerning. Those who have paid off their mortgage might opt to go without property insurance but doing so carries significant financial risks. If those who are uninsured suffer damage to their homes in a disaster, they might lack the funds to repair or rebuild them.

Roles and Capabilities of State and Federal Governments

State governments play the dominant role in regulating the property insurance market. They have the authority to approve premium increases and can use consumer protection laws to require insurance companies to disclose their full terms, mandate fair claims handling, or implement risk mitigation programs, including flood control and wildfire prevention efforts.

Many state governments have also established Fair Access to Insurance Requirements (FAIR) plans, sometimes referred to as "insurers of last resort," to provide insurance to households that cannot otherwise obtain insurance through the private market.

The federal government has a more limited role in insurance regulation. It provides a backstop for catastrophic insurance coverage for terrorism risk and flood risk, and it monitors the insurance market on a limited basis through the Federal Insurance Office (FIO) within the Department of Treasury. However, because it backs a large number of mortgages, the federal government plays a role in enabling home construction in disaster-prone areas, often assumes the financial burden of major disasters, and provides funding for housing, infrastructure, and disaster mitigation.

Mitigating Disaster-Related Risks

Because insurers set premiums to reflect real risk factors, investments to reduce the likelihood of damage and claims when disasters hit should result in lower insurance costs.

- Option 1: Encourage Better Alignment of Federally Funded Building Requirements
- Option 2: Support Communities in Meeting Minimum Building Codes
- Option 3: Incentivize Communities to Exceed Minimum Building Codes
- Option 4: Maintain and Strengthen Federal Support for State-Run, Evidence-Based Hazard Mitigation Programs
- Option 5: Exclude State Hazard Mitigation Grants from Federal Income Tax
- Option 6: Create Tax-Advantaged Catastrophe and Hazard Mitigation Savings Accounts for Homeowners
- Option 7: Use Federal Loan Programs to Incentivize Hazard Mitigation

Improving Market Data Collection, Transparency, and Stability

Improved data collection, enhanced data-sharing, and greater transparency across the industry could increase competition between insurance companies, leading to lower rates and allowing customers to make more informed decisions. At the same time, strengthening relationships and improving coordination among federal actors and other stakeholders could support market stability.

- Option 1: Conduct a National Study on Disaster Risk Mitigation Efforts
- Option 2: Improve Data Collection from State Regulators
- Option 3: Establish Federal Requirements for Disaster Risk Disclosures
- Option 4: Establish Federal Requirements for Policy Transparency
- Option 5: Promote Data-Sharing Among Federal Agencies and Industry Partners
- Option 6: Consider Developing a Risk-Sharing Agreement with Private Insurers

Supporting Affordable Housing

Affordable housing operators, limited in their ability to raise revenue or lower their costs, are left with few options when struggling to afford insurance. The federal government's more direct role in supporting affordable housing presents an opportunity to take actions that would have immediate benefits for affordable housing operators.

- Option 1: Direct FHFA to Work with the FHLB System and Its Insurance Company Members to Better Support Affordable Housing Operators
- Option 2: Examine Opportunities for HUD to Increase Flexibility Around Property Insurance Requirements for Affordable Multifamily Housing Operators
- Option 3: Include Insurance Premiums in LIHTC Calculations
- Option 4: Convene a National Working Group on Harmonizing Lender Insurance Requirements

Although these policy options are not exhaustive, they can serve as a starting point for policymakers as they consider how the federal government can play a meaningful role in addressing rising property insurance costs. Together, some combination of these ideas may have an appreciable impact in both the short and long term.

Overview

The United States is mired in a housing affordability crisis, largely due to a mismatch between strong demand for housing and limited supply.[3] In many areas, rising property insurance costs have significantly exacerbated the problem.[4] This white paper examines the main drivers of these increases and their impact on homeowners, as well as on multifamily developers and operators, and outlines several federal policy options to address these challenges.

SCALE AND SCOPE OF RISING PROPERTY INSURANCE COSTS

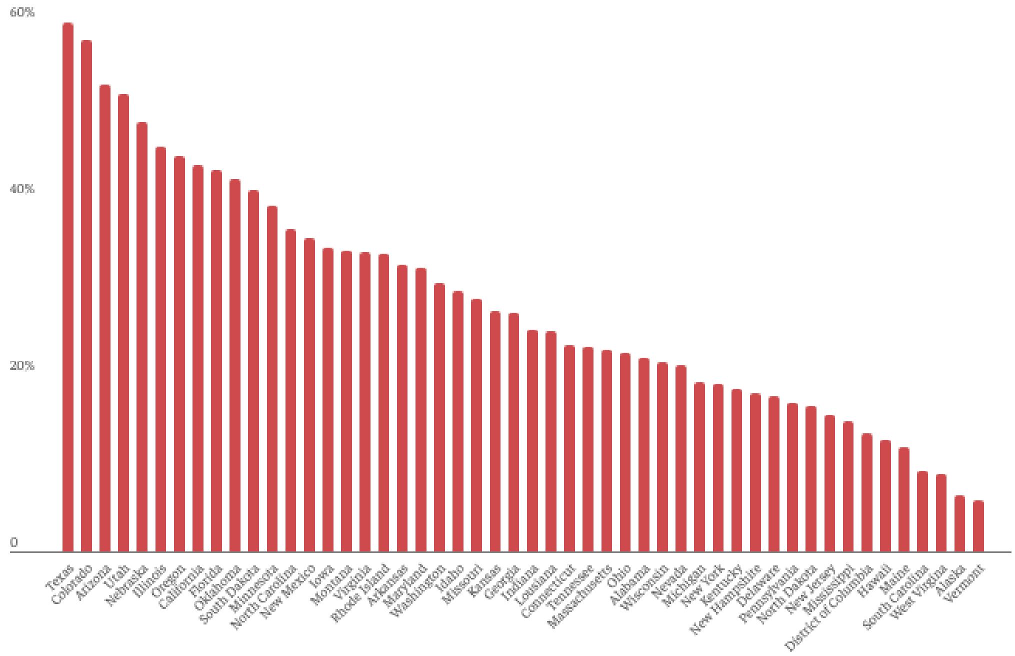
Homeowners insurance premiums have been increasing nationwide, and in many states, homeowners are receiving less coverage despite paying higher premiums.[5] According to a Morning Consult poll commissioned by BPC and the National Housing Conference, about 40% of homeowners surveyed experienced either an increase in the cost of their homeowners insurance or had difficulty securing coverage between May 2023 and May 2024.[6] Others have estimated that as many as 90% of homeowners experienced a premium increase between May 2022 and May 2023.[7]

Recent research shows that homeowners premium payments nationwide rose on average 33% between 2020 and 2023.[8] From 2017 to 2023, some states saw their average insurance premiums jump by as much as 50%. Texas experienced the highest increase, with premiums climbing 59.9% during this period. States with the lowest increases—Vermont, Alaska, West Virginia, and South Carolina—saw rates grow between 5% and 10%.[9]

In 2023, the average annual cost of homeowners insurance was $2,530, but many people pay far more.[10] In parts of Louisiana, Florida, Nebraska, and Oklahoma, annual costs average between $5,000 and $7,000.[11]

Rising property insurance costs are similarly reflected in multifamily housing. From 2018 to 2023, the average annual cost of insurance rose 129% nationally to $636 per unit of market rate rental housing. In 2024, the sharpest increases in property insurance premiums for multifamily properties were in the Southeast, with some metro areas in Florida, Alabama, Virginia, and Louisiana experiencing over 50% increases year over year.[12]

Figure 1: Change in Average Homeowners Insurance Premium, 2017-2023



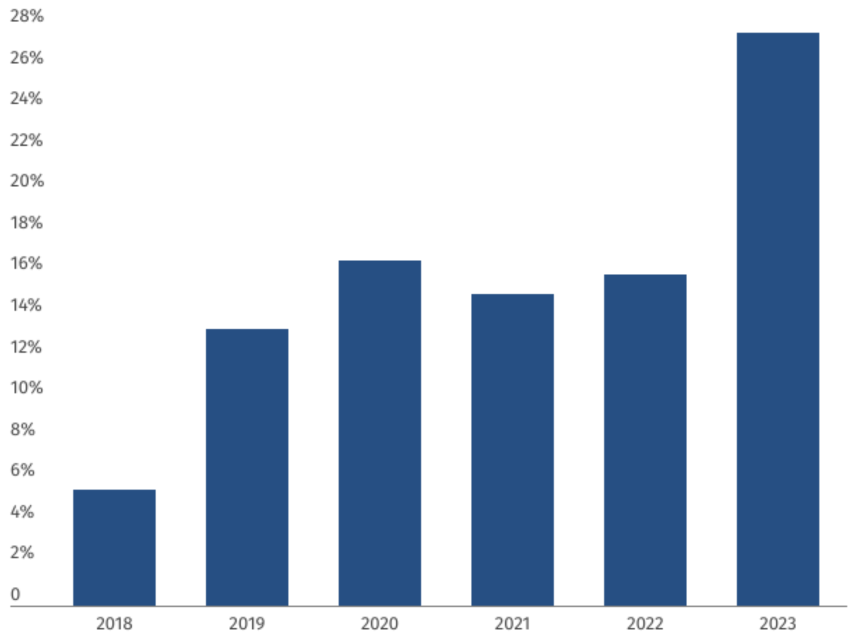
Note: Data for Wyoming is not available.
Source: Federal Reserve Bank of Minneapolis

Property insurance costs are also rising acutely for affordable housing providers.[13] In New York, the average cost to insure an affordable rental unit has doubled since 2020, rising to $1,770 per unit annually. Mixed-income housing in New York City saw a 58% increase during that same period, although these developments generally have lower insurance costs than developments that exclusively consist of affordable units.[14] In other communities, costs have tripled or even quadrupled since 2020.[15]

Insurers have begun to exit some markets, leaving many residents in those markets uninsured or with limited options. Insurers usually leave a state for one of two reasons: Either the risks in the area are too uncertain and potential losses too difficult to accurately estimate, or insurers are unable to charge premiums high enough to cover potential losses.[16]

Insurance nonrenewals are a growing problem nationwide, particularly in states facing an elevated risk of hurricanes, coastal erosion, or wildfires. A 2024 Senate Budget Committee report found that, in 2023, all 10 states with the highest nonrenewal rates were either coastal or had a history of extensive wildfire damage. From 2018 to 2023, nonrenewal rates in Florida and Louisiana increased by a staggering 280% and 267%, respectively. The impact of rising nonrenewals is significant, as higher nonrenewal rates are positively correlated with higher premiums.[17]

Figure 2: Change in Average Multifamily Property Insurance Premium, 2018-2023



Source: Yardi Matrix

In addition to insurers limiting their exposure through nonrenewals, some homeowners are choosing to forgo insurance to save money. Going without insurance is risky, especially in disaster-prone areas. Mortgage lenders generally require homeowners to carry property insurance, so only those without a mortgage—because they have paid off or inherited their home—can forgo insurance. In 2023, nearly 30% of homeowners who inherited their homes did not have homeowners insurance.[18]

About 6 million homes were uninsured in 2021, and these homes were significantly more likely to belong to households making under $50,000 per year. Native American, Black, and Hispanic households are more likely to be uninsured than white households.[19] For most households, a home is their largest financial asset, and for Black and Hispanic homeowners in particular, their homes make up a larger share of their wealth compared with white and Asian homeowners.[20]

Beyond the wholly uninsured, many homeowners are underinsured. Even if households can find and afford homeowners insurance, they may receive less coverage than before. To reduce monthly premiums, many homeowners have voluntarily decreased their coverage and increased their deductibles. [21] Insurers are also reducing coverage to limit their risk exposure.[22]

In many states, regulators must sign off on any insurance rate increases.[23] Regulatory review can help prevent insurance prices from becoming unaffordable, but it can also lead insurers to withdraw from a state if they cannot charge rates adequate to cover the risks associated with a property. When an insurer leaves a state, its customers are left scrambling to find a company that will insure them, as happened recently in California when State Farm and Allstate both stopped writing new policies in the state.[24]

In addition to no longer issuing new policies in California, State Farm has announced plans to reduce its number of policies in the state by 1 million by 2028 through a combination of nonrenewals and regular attrition of policyholders.[25] Many homeowners in areas impacted by the January 2025 wildfires had already lost private insurance coverage due to high wildfire risks.[26] After the fires, California's insurance commissioner issued a one-year moratorium on nonrenewals in affected areas, but the long-term impact on insurance availability in the state remains unclear.[27]

WHAT DOES A TYPICAL HOMEOWNERS INSURANCE POLICY COVER?

Most homeowners insurance policies cover fire, severe storms (including wind, hail, and lightning), smoke damage, damage from vehicles, explosions, riots, vandalism, theft, volcanic eruption, and other events.[28]

However, homeowners insurance policies typically do not cover flood or earthquake damage. Homeowners must purchase this coverage separately. Although earthquake insurance is optional, government-backed mortgage lenders require flood insurance for homes in high-risk areas. In 2023, flood insurance through the National Flood Insurance Program (NFIP) cost a household an average of $888 annually.[29]

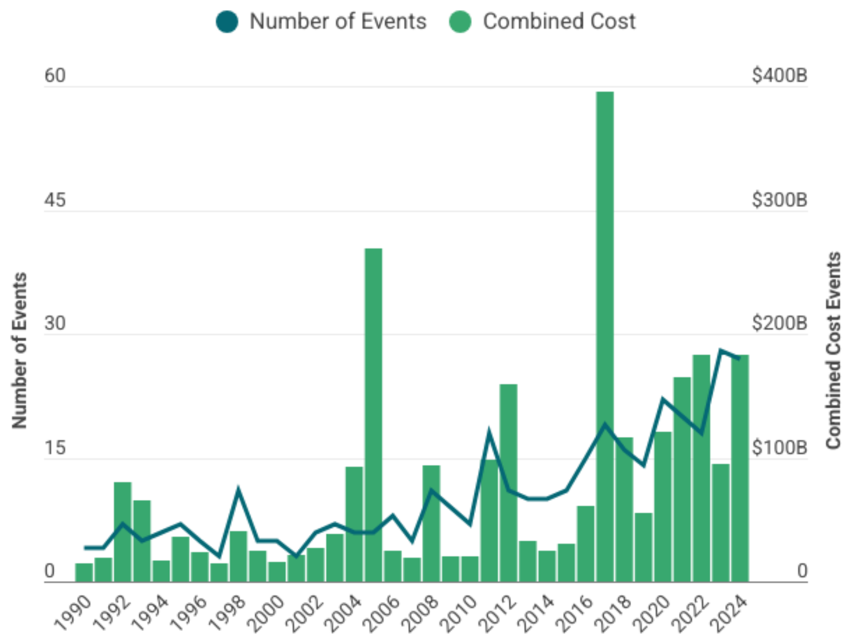
PRIMARY CAUSES OF RISING INSURANCE PRICES

Several factors have contributed to the sharp increase in property insurance prices, although the impact of these factors varies by state.

Increasing Disaster Risk

Growing disaster risk is a major driver of rising property insurance prices nationwide. Natural disasters, including hurricanes, wildfires, and severe thunderstorms, have become more frequent, destructive, and costly.[30] Residential buildings alone suffer 80% of disaster-related damage.[31] In 2022, property damage from weather events—such as wind and hail, water damage, fires, and lightning—accounted for 90% of homeowners insurance claims.[32]

Figure 3: Billion-Dollar Disaster Events in the U.S. (CPI-Adjusted)



Source: NOAA National Centers for Environmental Information

Since 2024, the U.S. has seen some of the most damaging natural disasters in years, bringing significant costs to insurers. Early estimates indicate the January 2025 wildfires in Los Angeles could be the costliest in U.S. history, with insured losses exceeding $30 billion.[33] This amount would surpass the 2018 Camp Fire, which destroyed communities like Paradise, California, and resulted in $12.5 billion in insured losses.[34] In 2024, Hurricanes Helene and Milton caused $16 billion and $25 billion in insured losses, respectively.[35] Hurricane Katrina in 2005 remains the most expensive natural disaster in U.S. history, with $102 billion in insured losses after adjusting for inflation.[36]

HOW DO INSURERS CALCULATE DISASTER RISK?

Insurance companies often use catastrophe models to quantify risk levels and estimate the financial impact of a hypothetical disaster. These models use historical, current, and near-term data to generate computerized simulations of potential catastrophic scenarios. A property's risk profile is determined based on an analysis of its possible hazards, vulnerability, exposure, and financial losses.[37]

Although companies use different proprietary datasets and models in their calculations, an increase in risk is expected to cause an increase in premiums. A recent study found that between 2018 and 2023, the sharpest average property insurance premium increases occurred primarily in ZIP codes with the highest disaster risk levels.[38]

However, rising disaster risks have not deterred people from moving to high-risk communities. During the pandemic, net migration to areas at high risk of a natural disaster doubled, according to Freddie Mac.[39] Homeowners often underestimate disaster risk, and many high-risk areas offer other benefits, such as desirable waterfront views or more affordable prices, that can outweigh the perceived level of danger.[40]

Americans also continue building new homes in high-risk areas. Between 2001 and 2019, about 844,000 homes were built in floodplains, and more than half of the homes built since 2010 are in areas at risk for wildfires.[41] As of 2022, nearly 7 million homes were in ZIP codes with a major wildfire risk and 3.7 million were in ZIP codes with a major flood risk.[42]

WHAT IS PARAMETRIC INSURANCE?

Parametric insurance covers specific events that meet a set threshold; when a covered event occurs, the policy provides a predetermined payment, regardless of damage to the home.[43] The threshold must be objectively measurable and defined, such as an earthquake of a certain magnitude or a storm with wind reaching a certain speed.[44] Homeowners, renters, and commercial property owners can all use parametric insurance, although it is intended to complement, not replace, traditional property insurance.

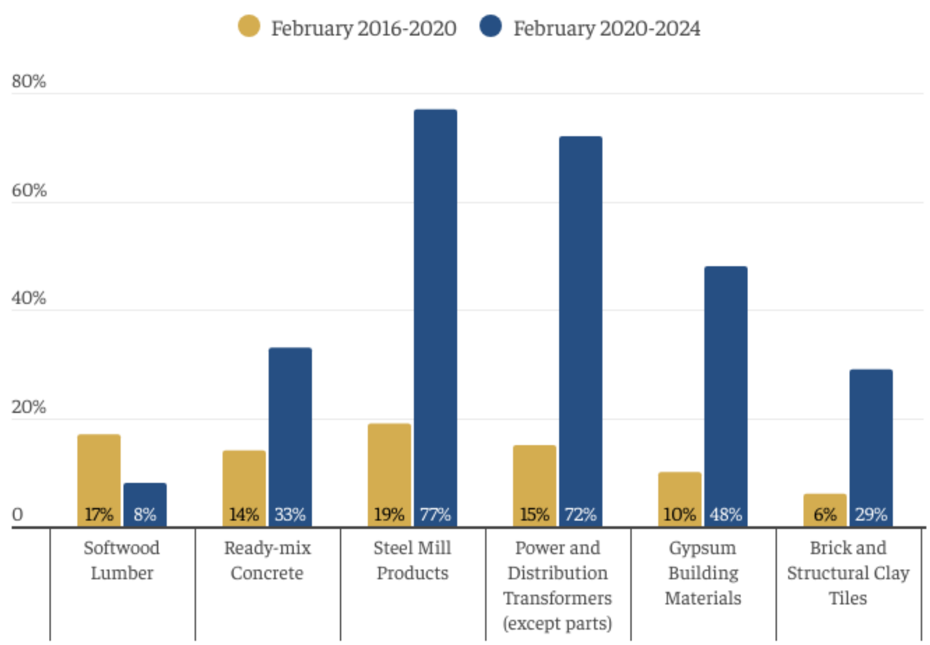
Policyholders benefit from parametric insurance because claims can be paid out much faster, thanks to the simplicity of the policies, and the funds can be used for expenses other than property repairs.[45] Although these benefits allow policyholders to address various needs following a severe weather event—such as replacing lost food or covering evacuation costs—it can also incentivize them to strengthen their properties.[46] Since property owners receive a payout regardless of the level of damage to their home, the more resilient their property is, the more money they can keep from their parametric insurance claim.

Parametric insurance policies also benefit insurers because they can precisely determine which events will and will not trigger claims, and they can more accurately calculate how much those claims will cost.[47] With traditional property insurance coverage, the damage to a property determines the claim amount, which is harder to predict and requires an insurance adjuster to examine the property after a disaster.[48]

Inflation

Inflation has driven up the cost of replacing or rehabilitating homes damaged by disasters.[49] Insurance companies factor the replacement cost of a home into premium calculations, and many of the materials needed to rebuild a home have become more expensive in recent years. Supply chain disruptions and other factors caused lumber prices to spike as much as 300% at the start of the COVID-19 pandemic, although they returned to prepandemic levels by 2024.[50] Other building materials such as drywall, concrete, and steel saw price increases of 33% to 77% between 2020 and 2024.[51] At the same time, construction wages have increased primarily due to a high demand for a limited pool of workers.[52]

Figure 4: Four-Year Price Percentage Change of Building Materials Pre- and Post-Pandemic



Source: National Association of Home Builders

Reinsurance Costs

WHAT IS REINSURANCE?

Insurance companies purchase reinsurance, often referred to as "insurance for insurance companies," to reduce their risk. They buy reinsurance for numerous reasons, including expanding their own capacity and providing themselves with catastrophe protection. Reinsurance companies can assume part or all of an insurance policy, reducing or fully transferring the insurer's risk.[53]

The price of reinsurance has also risen, doubling between 2018 and 2023.[54] This cost increase has largely been passed onto policyholders through higher insurance premiums. The spike in reinsurance rates can be attributed to several factors, including the current higher interest rate environment, migration to higher-risk areas, and reinsurers' growing awareness to their increased exposure to disaster risks.[55]

Litigation Costs

Private insurers and industry groups point to abuse of the legal system and litigation-related costs as significant contributors to insurers' increasing costs and, as a result, rising insurance premiums.[56] Litigation has become more common and costlier due to changes in social expectations, legal practices, and outright fraud.[57] The share of litigation costs varies widely across states with disparate laws. These increasing costs put additional financial strain on insurance companies. This phenomenon is particularly prevalent in states like Florida, which has seen high levels of fraud. Many attribute the high volume of fraud in Florida to the state's laws, which until recently allowed for assignment of benefits without insurer consent and one-way attorney's fees.[i]

Together, these factors have pushed insurance prices to record highs and suggest that prices will continue to rise until changes are made.

WHO IS IMPACTED?

Homeowners are usually the first group that comes to mind when thinking about who bears the burden of rising property insurance costs, but they are not the only ones impacted. Insurance costs contribute to higher building operating expenses for multifamily operators. These costs can be passed on to already struggling renters through higher rents and can discourage rental housing construction, further constraining rental housing supply and driving rents higher.

Affordable housing developers and operators, first-time homebuyers, and households on fixed incomes are particularly affected.

Affordable Housing Developers

For developers trying to move new affordable rental housing through the construction pipeline, rising insurance prices can make a project financially unfeasible.[58] Although property insurance accounts for a small piece of overall development costs, unexpected increases in any costs can cause a project to fall through, especially for complex deals that require multiple financing sources. Insurance costs now make up about 8% of apartment buildings' operating costs, up from around 4% five years ago.[59] Since 2018, property insurance costs for

[i] See Appendix I for more details.

affordable housing have risen 136%, with the average cost per unit exceeding $800 in September 2024.[60]

Affordable Housing Operators

Affordable housing operators have seen insurance costs rise due to what some believe are changes in the way that insurers consider low-income tenants in their risk models. Affordable housing providers have raised concerns that responses to questions from insurers about how many voucher-holding, low-income, or formerly homeless tenants live in their buildings may be one of the reasons their premiums have increased.[61] Because not all the factors insurers use to determine premiums are public, it remains unclear how much these responses affect insurance costs.

The complicated financing structure of affordable housing developments can also create a patchwork of insurance requirements from different lenders, specifying both the type of insurance and the amount of coverage an affordable housing operator needs.[62]

Although most landlords can pass on cost increases to their tenants through higher rents, affordable housing operators cannot. To keep their buildings in operation, they may have to cut other services, reduce insurance coverage, or postpone maintenance or other investments. In a 2023 survey, more than 90% of affordable housing providers said they would need to adjust their operations to manage rising insurance costs. Over half said they would reduce or delay investments in both existing housing stock and new housing projects to offset rising costs.[63]

First-Time Homebuyers

Anyone purchasing a home with a mortgage is required to have homeowners insurance, so this cost is one most first-time homebuyers will need to consider when they calculate how much they can afford to spend on a home. Other factors include the mortgage rate, property taxes, and the cost of private mortgage insurance. However, unlike a monthly mortgage payment, which a buyer typically locks in for 30 years, insurance costs are not fixed for the life of the loan. As recent trends demonstrate, insurance premiums have been unpredictable and have increased much faster than expected.[64]

For first-time homebuyers, the cost of insurance can make a purchase unaffordable, even if they can afford the monthly mortgage payment. An additional $150 per month for homeowners insurance—roughly the national average, though it varies by state, the characteristics of the home, and the specifics of the policy—can be the difference between buying a first home or not.[65]

Households on Fixed Incomes

For households on fixed incomes, such as seniors or those with disabilities, the unpredictability of annual insurance rates is particularly concerning. To afford higher insurance costs, older homeowners may have to spend down retirement savings quickly, take out a reverse mortgage to continue making payments, or forgo homeowners insurance entirely, while also managing other expenses, such as groceries, utilities, gas, and property taxes.[66] Those who no longer have a mortgage may opt to go without insurance, but this carries significant financial risks depending on the community's risk profile and the home's physical condition. Homeowners with mortgages, who are required to maintain homeowners insurance, may be forced to sell their homes if they cannot keep up with rising premiums.[67]

Older adults who are Black, Hispanic, Asian, or Pacific Islander are notably more likely to be uninsured than younger households in the same demographic, although there is no age-based difference for white homeowners.[68] If a disaster damages their property, uninsured owners might lack the financial resources to repair or rebuild their homes, especially if they live on a fixed income.

ROLES AND CAPABILITIES OF LOCAL, STATE, AND FEDERAL ACTORS IN ADDRESSING THE ISSUE

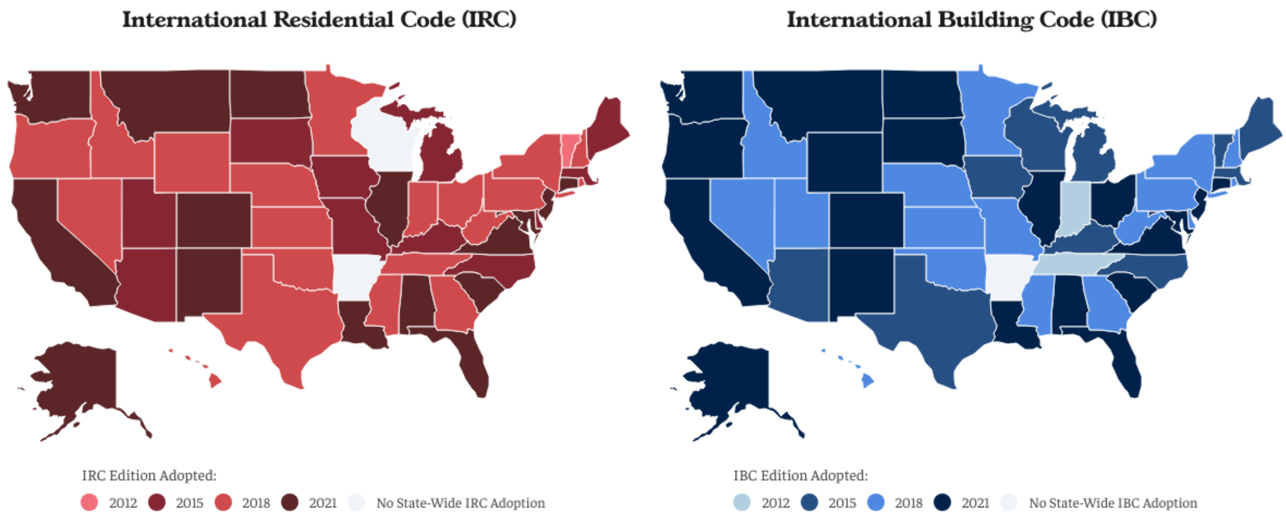
Moderating property insurance rates is a formidable challenge, largely because the insurance marketplace is complex, with local, state, and federal actors playing distinct roles in providing, regulating, and requiring property insurance coverage.

Local and State Governments

One of the ways that local and state governments influence insurance rates is by establishing building codes, which dictate where and how building can occur. Building codes are a critical tool for managing risk and preventing large-scale losses and rate hikes.

Between 2000 and 2040, the use of modern building codes, defined by the Federal Emergency Management Agency (FEMA) as the two most recent editions of the International Codes (I-Codes), is expected to reduce property losses by $132 billion.[69] Building codes are extremely cost-effective: Every $1 spent on building to the most recent codes is estimated to save $11 in future disaster losses and recovery costs.[70] Overall, the features that enable buildings to survive natural disasters account for just 1% to 2% of total construction costs.[71] The cost of complying with a code requirement for a new home is often much lower compared with the overall cost of construction and average losses avoided over the years. For example, the average cost of complying with hurricane protection requirements for a new house is about $4,500, but the cumulative losses avoided are roughly $48,000.[72]

Figure 5: I-Code Adoption by State



Note: The IRC applies to detached one- and two-family dwellings and townhouses up to three stories The IBC applies to all building types not covered by the IRC (includes multifamily residential). Adoption information is provided for states where the IRC is adopted statewide, adopted statewide for certain categories of buildings, or adopted by a state body to guide local code adoption.

Source: International Code Council

Despite evidence that adopting modern building codes mitigates risk and prevents runaway losses, the uptake of modern building codes remains low. As of 2020, 65% of towns, cities, and counties had not adopted modern building codes.[73] States are responsible for adopting and enforcing their own codes, although the federal government regulates specific federal program requirements. As a result, building codes vary significantly by state. Many states also allow local governments to manage their own codes, adding another layer of complexity. Additionally, building codes typically apply only to new construction or rehabilitation projects for substantially damaged buildings.

State governments play the dominant role in regulating the property insurance market. They have the authority to approve insurance premium increases, although the process varies by state.[74] State insurance commissioners can regulate the rates that insurance companies charge by reviewing requests for rate hikes and pushing for actuarily fair pricing. Some state regulators must approve any rate increase before it can go into effect, while in other states, rate increases can go into effect automatically.[75] This state-by-state regulatory landscape can help explain the sizable differences in average insurance premiums across states.[76] States can also use consumer protection laws to require insurance companies to disclose their full terms, mandate fair claims handling, or implement risk mitigation programs, including flood control and fire prevention efforts. The National Association of Insurance Commissioners (NAIC) brings together state insurance regulators to coordinate on setting standards, regulating the insurance industry, and developing best practices, although states are not required to follow NAIC standards.

WHAT IS A FAIR PLAN?

Fair Access to Insurance Requirements (FAIR) plans are a type of backstop in which state-mandated property insurance plans provide coverage for properties in high-risk areas where the regular market does not offer coverage. While states administer FAIR plans, they are backed by private insurers operating in the state. These insurers assume the profits, losses, and expenses proportionally to their share of the state marketplace. FAIR plans are generally more expensive and offer more limited coverage than private insurance.[77]

Many state governments have established FAIR plans, sometimes referred to as "insurers of last resort," to provide insurance to households that cannot otherwise obtain insurance through the private market. As of June 2024, 33 states and Washington, DC, offered FAIR plan coverage for high-risk property owners.[78] As a testament to the growing need for FAIR plans as private insurers withdraw from costly markets, the aggregate value of state-created property insurance plans concentrating on high-risk home coverage increased by more than 150% between 2014 and 2023, according to the Insurance Information Institute.[79]

However, it is concerning when insurers of last resort become the only option for a large portion of a state. In California, for example, the number of FAIR plan policies grew from 200,000 in September 2020 to over 450,000 in September 2024, increasing the plan's total exposure by more than $300 billion.[80] An early analysis of the January 2025 wildfires in the Los Angeles area estimates that the state's FAIR plan insures between $10.5 billion and $24 billion worth of property in the path of the fires.[81]

If the California FAIR plan cannot cover the costs from the wildfires, the program may need to raise the money through a large assessment on the private insurers operating in the state. Although the program has taken steps, such as purchasing reinsurance, to ensure it can pay claims in the event of a concentrated disaster, a large assessment would put additional financial pressure on those companies.[82] Much of those costs would be passed on to the insurers' customers across California.[83] Increasing costs for insurers in California could have more widespread effects, as research suggests insurers might raise rates in lower-risk, less regulated states to help offset losses in highly regulated states.[84]

Federal Government

The federal government is directly involved in the property insurance market, though this involvement is mostly limited to a few specific programs. One major example is the NFIP, created by the National Flood Insurance Act of 1968.[85] Administered by FEMA, the NFIP provides flood insurance directly to property owners and renters. Recent efforts to align NFIP premiums more closely with actual property-level risk and reduce premium subsidization through the Risk Rating 2.0 system have faced opposition from several states.[86]

Another example of direct federal involvement is the Terrorism Risk Insurance Program, created in 2002 with the passage of the Terrorism Risk Insurance Act (TRIA) after many private insurers left the terrorism insurance market following the September 11, 2001, attacks. Administered by the Treasury Department, TRIA allows insurers and the federal government to share losses resulting from acts of terrorism; this enables private insurance companies to continue offering terrorism insurance.[87] Although the federal government provides a backstop for catastrophic coverage for terrorism risk insurance and flood insurance, no federal backstop exists for catastrophic coverage of all natural disasters.

The federal government plays a more limited role in the property insurance market through several channels. For example, the federal government engages in limited monitoring of the insurance market through the Federal Insurance Office (FIO) within the Treasury Department. Numerous federal or federally overseen actors—including the Department of Housing and Urban Development (HUD) and its Federal Housing Administration (FHA); the Department of Agriculture (USDA); the Treasury Department; Fannie Mae; and Freddie Mac—support loans for multifamily rental housing in some way. Many of these loans require a baseline level of insurance, including flood insurance for properties located in Special Flood Hazard Areas (SFHA).[88]

HUD has few levers to directly influence property insurance rates but it has taken several notable actions to cushion the financial blow caused by rising rates:

1. HUD increased the allowable deductible amount for wind and named storm coverage for properties with multifamily mortgages insured by the FHA.[89] The changes aim to provide more flexibility and to help owners reduce premium costs while ensuring that properties have adequate insurance coverage.
2. In 2022, HUD revised its methodology for calculating contract rents for Section 8 Project-Based Rental Assistance.[90] The revised methodology better accounts for the impact of rising insurance costs on overall operating costs. At the end of 2024, HUD updated its methodology for calculating Operating Cost Adjustment Factors to allow for state-specific increases based on actual property insurance cost increases.[91]

3. HUD also clarified that public housing authorities (PHAs) can appeal the amount of operating funding they receive based on increased operating costs, including insurance costs.[92] It affirmed that PHAs can submit requests to waive public housing insurance requirements for good cause.[93] For example, HUD encourages PHAs with pending demolition applications to submit waiver requests to obtain liability-only policies, rather than full coverage.[94]
4. HUD clarified that grants from the Community Development Block Grant (CDBG) program can be used to pay insurance premiums as part of housing or emergency subsistence activity.[95] In limited circumstances, income-eligible grantees may use CDBG funds toward the insurance portion of their mortgage payment when the money is included with the principal, interest, and taxes. This measure is intended to provide flexibility and support for those facing acute cost burdens.
5. On December 30, 2024, HUD issued a Request for Information (RFI) calling for public input on the best way to assess measures to increase the resilience of residential properties to natural hazards and extreme weather.[96] This RFI comes in the wake of HUD's 2024 summit on challenges in the property insurance market, which highlighted the need to clarify the relationship between resilience measures and costs to property owners, including the cost of insurance.

Rising property insurance costs pose risks for the primary and secondary mortgage markets, and, by extension, the U.S. economy. These risks have significant implications for the federal government, which backed about 75% of outstanding mortgage debt for single-family homes in 2024.[97]

The Congressional Budget Office (CBO) estimates that annual damage (both insured and uninsured) from flooding alone to homes with federally backed mortgages totaled $9.4 billion in 2020, and that number is expected to rise to $12.8 billion per year by 2050.[98] Homes with federally backed mortgages must carry flood insurance if they are in a SFHA, but CBO estimates that between 40% and 50% of the expected annual damage will affect areas that are not designated as high risk.[99]

Increases in property insurance premiums correlate with higher rates of mortgage defaults and prepayments, both of which decrease the value of mortgage-backed securities. The rise in mortgage defaults likely results from decreased liquidity for households hit by sharp insurance premium increases, while the rise in prepayments is likely driven by households moving to areas with lower insurance premiums or planning to reduce or drop their insurance coverage once their mortgage is paid off.[100]

Underinsured borrowers might also default on their mortgages if they are hit by a disaster and cannot afford to rebuild or repair their home. If the value of the damaged home falls below the value of the outstanding mortgage, then lenders, mortgage servicers, and investors in mortgage-backed securities could face losses.[101] Eventually the federal government, which guarantees a large portion of these mortgage loans, could be left to cover those losses.[102]

Menu of Potential Policy Options

Rising property insurance costs negatively impact millions of people throughout the country, demonstrating that the status quo is no longer tenable. Insurance costs are high because homes face more risks than ever before and are more expensive to repair than they used to be. Policymakers should respond accordingly.

When identifying solutions, it is important to consider ways to diminish the damage that natural disasters can cause in the first place, while taking action to improve the availability and affordability of property insurance.

Although the NFIP is beyond the scope of this paper, identifying ways to strengthen this important federal insurance program is an essential element of any federal response. Similarly, this report does not consider the role of managed retreat—the voluntary transition of people away from vulnerable areas, which is a critical option for some of the country's most at-risk communities.[103]

Below, we outline a series of potential federal policy options that could, individually or in combination, help mitigate the impact of rising property insurance rates. To be most effective, any federal response must be developed with the support of, and implemented in tandem with, state and local governments. Importantly, no policy option outlined below is intended to undermine the primacy of our nation's system of state insurance regulation.

MITIGATING DISASTER-RELATED RISKS

As outlined earlier, the increasing strength and frequency of natural disasters is a primary cause of rising property insurance rates. Because premiums reflect real risk factors, building homes and communities in ways proven to reduce the likelihood of disaster-related damages should lower insurance costs. The following is a menu of policy options that could help communities and individuals better assess disaster risk, set standards to mitigate future risk, and meet or exceed those standards.

Option 1: Encourage Better Alignment of Federally Funded Building Requirements

Building codes are an essential way to protect communities against disaster risk, but they can vary significantly across states and cities. Certain building codes and standards have naturally fallen into common use—such as the I-Codes, which have been adopted in most states—but no singular, universally accepted building code has emerged.[104] Moreover, many states and cities require outdated versions of the I-Codes. This inconsistency can cause confusion, resulting in slower project delivery and potentially differing codes within the same region.[105]

Certain federal programs have their own set of requirements, which must be met in addition to a project's state or local building codes. However, these requirements vary across programs and even within the same agency, such as the programs under the Stafford Act.[106] There have been efforts to standardize federal program building code requirements, such as FEMA's 2022 Building Codes Strategy, which aimed to create a consistent set of building codes within FEMA.[107] Other federal agencies could undertake similar efforts to streamline their own programs or coordinate program requirements across agencies.

One unique example of a multiagency government standard is the Federal Flood Risk Management Standard (FFRMS), which raised the level of flood protection required for federally funded new construction and rehabilitation projects. Although revoked by executive order in January 2025, the FFRMS was expected to generate significant cost savings by better protecting government-funded investments while reducing disaster risk and potentially lowering insurance premiums.[108,ii] The cost of compliance with the FFRMS was also expected to be relatively low, although some critics disputed the potential benefits. For example, FFRMS often requires projects to incorporate extra elevation to meet updated floodplain concerns. The cost to include the elevation of a new building design by 2 feet is estimated to be less than 2% of the project's total expense.[109] Agencies could create similar standards to better protect federal projects from other types of disaster risk.

Although state and local governments retain the authority to regulate legally required building codes, standardizing building requirements both within and across agencies could help to increase industry familiarity and ensure more efficient and consistent application of codes and standards required for federally funded projects. Aligning federal programs around code use could also better protect federal investments by ensuring structures are built to last, while furthering consistency in construction approaches and enabling increased cost savings through standardization and economies of scale. In turn, this approach

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ii On January 20, 2025, President Trump signed [Executive Order 14148](), "Initial Recessions of Harmful Executive Orders and Actions," which revokes a previous executive order establishing the FFRMS. However, some experts have argued that FEMA and HUD rules for implementing the FFRMS will remain in effect until a formal rulemaking is advanced to undo them.

could also help lower insurance premiums, in accordance with lowered disaster risk levels.

Option 2: Support Communities in Meeting Minimum Building Codes

Many communities still face challenges in fully complying with the minimum building codes required by states and cities. The disjointed system of state and local codes increases complexity and confusion for a myriad of actors, from homebuilders and homeowners to state and local government officials. In addition to regional variations, the I-Codes are updated every three years to keep pace with advancements in best practices, making it difficult to keep up with the latest version. The way a state or local government adopts codes can also complicate matters. For example, Virginia updates building codes regularly through a public code development process, while West Virginia can update building codes only through the legislative process, which has historically been less consistent and can slow or stall the adoption of important updates.[110]

The federal government can help communities better understand the minimum building codes required at the state or local level. Technical assistance can help to educate and empower communities. For example, FEMA created a Building Codes Toolkit to help homeowners understand the importance of codes and the roles of local, state, and federal governments.[111] Similarly, HUD created a Resilient Building Codes Toolkit to provide local officials and other stakeholders with detailed information on adopted codes and mandates by state, code amendment processes, and other valuable information.[112] Technical assistance efforts like these can help different groups of stakeholders comply with required state and local building codes.

The additional costs associated with meeting minimum state and locally required codes can be challenging for homebuilders, homeowners, and housing providers. Although implementation costs are proportionately low compared with the overall cost of a new construction project or the value of an existing home, building codes add to initial building costs for new homes and to rehabilitation costs for substantially damaged homes. The federal government could help subsidize these costs by offering small grants or loans. For example, the California Earthquake Authority offers $3,000 grants to help cover the cost of seismically retrofitting homes, an update that can bring the home into compliance with current state building codes.[113] A program like this could be scaled up to the federal level to help homebuilders or homeowners cover the cost of bringing new construction or rehabilitation projects into compliance with minimum code requirements. It could also target support to lower-income homeowners, landlords of rental properties with predominately low-income tenants, or areas identified as the most high risk and in-need, such as Community Disaster Resilience Zones.

Homes that meet minimum state and locally required codes are better protected against disasters and could see lower premiums in accordance with their lowered risk. More hazard-resistant, insured homes also stand to save the federal government money in the long term by reducing the likelihood that such homes would need federal assistance after a disaster.

Option 3: Incentivize Communities to Exceed Minimum Building Codes

For communities that already meet minimum state and local building codes, the federal government can offer incentives to encourage improvements that surpass required codes. Because building codes generally only regulate new construction and substantial rehabilitation, incentive programs could help to better protect existing homes.

Figure 6: Examples of Federal Programs That May Be Used to Support Reducing Flood Risk and Enhancing Resilience to Floods

Agency or Department	Program or Activity	Type of Federal Assistance
Federal Emergency Management Agency	Flood Mitigation Assistance Program	Grant
	Hazard Mitigation Grant Program	Grant
	Building Resilient Infrastructure and Communities Program	Grant
	Safeguarding Tomorrow Revolving Loan Fund Program	Grants to capitalize state revolving funds
U.S. Army Corps of Engineers	Authorized projects and Continuing Authorities Programs	Federal studies and construction projects
U.S. Department of Agriculture	Watershed and Flood Prevention Operations Program for rural communities	Grant
	Emergency Watershed Protection—Floodplain Easements	Federal acquisition of easements
National Oceanic and Atmospheric Administration	National Coastal Resilience Fund (with the National Fish and Wildlife Foundation) and coastal zone management and habitat restoration grants or cooperative agreements	Grants and cooperative agreements
Environmental Protection Agency	Clean Water Act State Revolving Fund	Grants to capitalize state revolving funds
	Water Infrastructure Finance and Innovation Act	Credit assistance (e.g., direct loans)
U.S. Department of Housing and Urban Development	Community Development Block Grant and Community Development Block Grant-Disaster Recovery	Grants
	Section 108 Loan Guarantee Program	Loan guarantee

Source: Congressional Research Service

As an initial step, federal agencies could work to better promote and coordinate existing hazard mitigation grant and loan programs. With numerous programs spread across multiple agencies, it can be difficult for communities and homeowners to know what types of assistance are available to them. Additionally, many programs not specifically intended for hazard mitigation can be used to harden homes beyond minimum state and local code requirements. For example, the Department of Energy's Weatherization Assistance Program (WAP) is intended to increase the energy efficiency of homes. However, WAP upgrades can include improvements like installing storm windows or doors that enhance hazard resistance. The federal government could create more accessible, streamlined informational resources to help homeowners easily locate all available potential hazard mitigation programs and highlight opportunities in nondisaster-focused programs.

In addition, existing programs could increase the federal cost share for projects that implement more up-to-date building codes. For example, FEMA's Public Assistance program increases the federal cost share by 10% if an applicant has adopted one of the two most recent I-Codes, among other requirements.[114,iii] Similarly, without incurring any additional cost, the federal government could include criteria in competitive applications that make projects more likely to receive funding if they plan to exceed minimum state and locally required codes. Applications to FEMA's Building Resilient Infrastructure and Communities (BRIC) program, for instance, are more competitive if they incorporate activities related to surpassing existing code requirements.[115] Federal agencies could apply these strategies across a variety of existing programs. However, these strategies must be carefully and thoughtfully crafted so they do not exclude high-risk, low-income, or rural communities that cannot cover the additional costs associated with building to the most up-to-date codes.[iv]

Voluntary labeling programs have the potential to drive consumer demand for buildings that surpass state and local building code requirements. For example, the Department of Homeland Security's 2013 Resilience STAR Home Pilot Project was created to incentivize buildings to exceed minimum state and locally required building codes. Similar to the Environmental Protection Agency's ENERGY STAR program for energy efficiency, buildings constructed to meet FORTIFIED standards—voluntary, third-party verified construction standards designed to minimize damage from severe weather that go beyond typical building codes—could receive a Resilience STAR designation.[116] Similar voluntary labeling programs could further incentivize more hazard-resistant buildings, with little to no additional cost to the federal government.

Buildings that exceed state and local building codes create more hazard-resistant communities and could lead to lower insurance premiums due to reduced disaster risk.

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iii This change was implemented on an interim basis while FEMA sought public comment ending on January 29, 2025. Some have advocated for changes to the interim policy, including ways to better align the policy with congressional intent, more effectively encourage hazard mitigation measures, and reduce administrative burden and complexity.

iv For example, the bipartisan Promoting Resilient Buildings Act of 2025 proposes allowing certain federal disaster preparedness and hazard mitigation grants to be used to implement the two most recent building code editions (as opposed to only the most recent code). This change would make it easier for communities with fewer resources or those that are further behind the newest I-Codes to qualify for federal assistance.

Option 4: Maintain and Strengthen Federal Support for State-Run, Evidence-Based Hazard Mitigation Programs

Recognizing the value of hazard mitigation investments and their potential to prevent losses, several states offer programs that incentivize homeowners to invest in hazard mitigation measures for their homes.

Examples of the many evidence-based state programs that could benefit from sustained federal support include North Carolina's Strengthen Your Roof program and the Strengthen Alabama Homes program. The North Carolina Insurance Underwriting Association, the insurer of last resort for beach-area homes in the state, offers grants of up to $10,000 to its policyholders to help cover the replacement cost of a roof built to the FORTIFIED standard.[117] The Strengthen Alabama Homes program provides grants for residential wind mitigation on existing, owner-occupied, single-family homes, providing up to $10,000 to homeowners to upgrade their homes to comply with the FORTIFIED standard.[118] Homes with the FORTIFIED designation in Alabama then receive discounts on the wind portion of their homeowners insurance premium; these discounts vary widely but can be as high as 55%.[119]

However, this type of program can be difficult for states to fully finance on their own.[120] As the body of evidence illustrating the efficacy of hazard mitigation investments grows and both federal and state actors consider how to incentivize homeowners to invest in mitigation measures, it would help homeowners to have a clearer understanding of whether their investments will be accompanied by a reduction in their insurance premiums.

The federal government administers several predisaster hazard mitigation grant programs for which state and local governments can apply for funding to support their larger hazard mitigation goals, including FEMA's BRIC and Flood Mitigation Assistance Grant (FMA) programs.[121] Investing in mitigation is cost-effective: According to the Multi-Hazard Mitigation Council, every dollar spent on mitigation through select federal grant programs saves roughly $6.[122] Competition among state and local governments for federal predisaster grant and loan dollars is fierce, with funding requests regularly exceeding supply. For example, FEMA received 803 BRIC applications in 2022 and was able to fund only 124 projects. These 124 projects spanned 38 states and all 10 FEMA regions.[123] The subapplication volume for FMA grants nearly quadrupled between fiscal years 2021 and 2022. The 149 FMA subapplications selected by FEMA in 2022 covered 28 states and nine FEMA regions.[124]

FEMA's hazard mitigation grant programs can provide critical support for state programs, especially if they provide more explicit and extensive support to mitigate leading hazards like hailstorms.[v] Hail is often a hallmark of severe

v While FEMA offers six types of grants for hurricanes or severe storms, three of these grants cover only flood and post-fire mitigation. Among the remaining three FEMA mitigation grants for hurricanes or severe storms, there is scant focus on hailstorms and hail mitigation. For example, FEMA's Mitigation Action Portfolio lists eleven major types of natural hazards, but this list does not include hailstorms. The Portfolio does not include any mention of hailstorms or hail mitigation.

storms, which have accounted for half of the nation's billion-dollar loss weather disasters since 1980.[125] Several states, including Texas, Nebraska, Colorado, and Wyoming, are highly vulnerable to hail damage.[126]

Recognizing the potential of predisaster grant and loan programs to reduce damage and save money, the Infrastructure Investment and Jobs Act (IIJA) of 2021 appropriated $1 billion for BRIC, $3.5 billion for FMA, and $500 million for the Safeguarding Tomorrow Revolving Loan Fund program, which was created under the Safeguarding Tomorrow through Ongoing Risk Mitigation (STORM) Act.[127] However, this IIJA funding expires in FY2026.[128]

Using these existing federal programs to support evidence-based, state-run hazard mitigation programs can save money because disaster prevention costs less than postdisaster recovery. Investing in state programs that encourage hazard mitigation uptake has the potential to reduce the damage wrought by natural disasters and save money at both the federal and state levels. Taking proactive measures to ensure funding continuity beyond FY2026 would allow states to continue and expand existing programs with a track record of improving property resilience and disaster outcomes.

Option 5: Exclude State Hazard Mitigation Grants from Federal Income Tax

Many states have created their own incentive-based, hazard mitigation programs. However, these state grants are generally considered income for federal tax purposes, potentially placing a financial burden on the families these programs are trying to help. Such a tax burden can ultimately reduce both the appeal and impact of state mitigation programs. For example, California's ReCoverCA program provides homeowners with up to $50,000 for home hardening and defensible space efforts.[129] For many households, an additional $50,000 in income could result in an unexpected tax burden, as it increases overall taxable income and may reduce eligibility for certain tax credits or deductions.

Mitigation investments ultimately benefit the local, state, and federal government by reducing the amount of funding needed to recover from future disasters. Congress recognized the importance of investing in mitigation measures when in 2005 it amended the tax code to exclude FEMA mitigation grants from income.[130] In bipartisan legislation like the Disaster Mitigation and Tax Parity Act of 2025 and the Disaster Resiliency and Coverage Act of 2025, federal lawmakers proposed amending the tax code to similarly exclude qualified state disaster mitigation payments from income.[131] This reform would enhance the effectiveness and attractiveness of existing state mitigation programs, which could in turn lower disaster risk and potentially insurance rates for the households who take advantage of them.

Option 6: Create Tax-Advantaged Catastrophe and Hazard Mitigation Savings Accounts for Homeowners

To encourage homeowners to prepare for the financial impact of a disaster, some states—such as Mississippi and South Carolina—created tax-advantaged catastrophe savings accounts. Similarly, federal lawmakers could exempt from federal income taxes money that homeowners place in a catastrophe savings account and the annual interest that accrues, if the money is left in the designated account or used for qualified expenses. These accounts could also be used to save for upgrades to mitigate disaster risks, which can be exorbitantly expensive without financial assistance. For example, it costs anywhere from about $28,000 to $100,000 to elevate an existing home above expected flood levels, depending on the size of the home and how high it needs to be elevated.[132]

Creating tax-advantaged savings accounts to encourage homeowners to save for disasters or mitigate their risks would come with a cost in the form of forgone tax revenue. Should Congress pursue the creation of tax-advantaged catastrophe and hazard mitigation savings accounts, it would need to address numerous technical questions, many of which would affect the overall cost of the tax expenditure.[vi] For example, in Mississippi, catastrophe savings account contribution limits are tied to the cost of a homeowner's insurance deductible (or the value of the home if self-insured).[133,vii] Similar constraints on contribution amounts, limitations on qualified expenses, and other features could limit the budgetary impact of a new tax incentive. Although many tax-advantaged savings accounts have disproportionately benefited higher-income earners, this type of savings account could ultimately decrease future funding needed for federal disaster assistance by helping homeowners strengthen their homes before a disaster and better cover postdisaster losses on their own. Recovery funding could then better target those most in need of assistance.

Because Congress has established numerous tax-advantaged savings accounts—including health savings accounts, retirement accounts, and 529 college savings plans—a new tax-advantaged account to encourage catastrophe and hazard mitigation savings should align, to the extent possible, with existing ones. Notably, federal lawmakers have also proposed amending the tax code to create a tax-free savings account through the bipartisan Residential Emergency Asset Accumulation Deferred Taxation Yield (READY) Account Act.[134]

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vi When drafting legislation to create a taxed-advantaged savings account, members of Congress should consider numerous technical specifications and design features including a potential escape clause for unused dollars, income limits or phaseouts, and penalties for using account dollars on nonqualified expenses.

vii A homeowner can contribute up to $2,000 if their insurance deductible is $1,000 or less, $15,000 or twice the amount of the deductible (whichever is less) if their deductible is higher than $1,000, or $350,000 or the value of the residence (whichever is less) if they are self-insured for any amount of their policy and cannot or chose not to obtain insurance.

Option 7: Use Federal Loan Programs to Incentivize Hazard Mitigation

Congress could encourage federal agencies that guarantee mortgages to work with lenders to create and test loan products that encourage homeowners to adopt hazard mitigation measures. As one example, HUD could help to pilot hazard mitigation upgrades financed similarly to Property Assessed Clean Energy (PACE) loans.[135] PACE loans are an increasingly prevalent financing tool to help residential and commercial property owners finance the upfront cost of energy efficiency and renewable energy improvements with loans repaid through property assessments added to the owner's property taxes. A similarly financed pilot program could support specific hazard mitigation measures, such as hurricane-proof windows or flood barriers, and enable homeowners to pay for these upgrades over time through property taxes. A hazard-resistant PACE pilot program could reduce upfront costs, potentially leading to lower insurance premiums in accordance with the property's lowered risk. However, such a pilot should be initiated in close coordination with market participants, federal regulators, and other housing stakeholders to address the concerns that traditional PACE financing has encountered, such as those related to disclosure, lien priority, and the borrower's ability to repay.

Similarly, federal agencies could encourage multifamily property owners to invest in hazard mitigation measures by offering mortgage insurance discounts for those who invest in these upgrades. For example, under HUD's Green and Energy Efficient Housing rule, FHA multifamily mortgage insurance rates decrease for covered properties that adopt specific energy efficiency and sustainability measures.[136] Under a similar principle, home and property owners could qualify for reduced mortgage insurance premiums based on specific upgrades, helping to directly offset the upfront costs and indirectly offset generally high property insurance premiums.[viii]

IMPROVING MARKET DATA COLLECTION, TRANSPARENCY, AND STABILITY

Improved data collection, enhanced data-sharing, and greater transparency throughout the industry could increase competition among insurance companies, potentially leading to lower rates and allowing customers to make more-informed decisions. The federal government also has opportunities to work with state insurance commissioners, private insurance companies, lenders, and other stakeholders to identify ways to improve the stability of the property insurance market.

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viii This policy option is based on a June 2024 letter sent to Congress by a wide coalition of 24 housing development stakeholders, including the National Multifamily Housing Council, the National Apartment Association, Stewards of Affordable Housing for the Future, and the National Association of Homebuilders.

Option 1: Conduct a National Study on Disaster Risk Mitigation Efforts

The Mitigation Framework Leadership Group—a coordinating body of leaders from relevant federal agencies and departments as well as state and local representatives that works to improve mitigation efforts and awareness—could conduct a study examining the effectiveness of various interventions intended to increase resilience for residential properties.[137] Any study should evaluate effects for both single-family and multifamily properties. The resulting data could inform which mitigation choices warrant federal incentives or a reduction in premiums from insurance companies.

Option 2: Improve Data Collection from State Regulators

State regulators are primarily responsible for collecting data from the insurance industry, but many have not been collecting data that would allow them to fully evaluate the availability and affordability of property insurance in their state. Historically, most regulators have focused on collecting data that allows them to monitor the stability of insurance companies operating in their state.[138]

Recognizing the changing forces in the property insurance market, NAIC and FIO issued calls to collect more granular information on homeowners insurance.[139] FIO announced its data call in October 2022. After NAIC issued its own data call in March 2024, FIO and NAIC combined efforts to reduce the burden on insurers, with NAIC leading the data collection process.[140] NAIC requested state- and ZIP code-level data from 2018 to 2022 and received it in June 2024, although it is being kept confidential.[141] Some states opted not to participate in the NAIC data call, but the association has said the data it received is of sufficiently high quality to draw meaningful conclusions and should allow for accurate evaluation of 80% of the homeowners insurance market.[142]

NAIC plans to use the data to better understand changes in the homeowners insurance market, while FIO focuses on analyzing potential disruptions in the market and monitoring access to and affordability of insurance, particularly for low- and moderate-income households.[143] Importantly, because the data does not include information on multifamily property insurance, a gap remains in the dataset. NAIC agreed to share an anonymized subset of its data with FIO, and FIO released a report in January 2025 using early data collected through NAIC's data call.[144]

Although the early data used in FIO's report provides an incomplete picture of the market and might be subject to revisions after NAIC finalizes the complete dataset, this joint effort of NAIC and FIO demonstrates the need for more high-quality data on property insurance affordability and availability, as well as the importance of continued collaboration. FIO, working with state regulators, could work to establish regular reporting procedures for insurance companies to follow. This change could provide more consistent data from each state on basic information, including the number of policies issued each year, the number of active policies at the ZIP code or census track level, and the cost of coverage. Ultimately, access to consistently collected and formatted data from all states would allow state regulators and researchers to better identify market trends and potential areas of risk for the industry.

Option 3: Establish Federal Requirements for Disaster Risk Disclosures

Currently, disaster risk disclosure requirements exist almost exclusively for flood risk, with only 36 states having any kind of flood risk disclosure requirements.[145] These requirements can include a property's flood history, whether the property is located in a floodplain, and its claims history. Oregon and California are the only states that require wildfire risk disclosures.[146] Private companies have responded to the demand for accessible, accurate information.[147] For instance, Zillow recently introduced a tool that provides information for active listings on the risk of flood, wildfire, and wind.[148]

Creating a uniform federal requirement for disclosing various disaster risks, which could be constructed similarly to the federal lead-based paint disclosure requirement, would ensure that homebuyers are well-informed about a property before purchasing it. It would also give them a chance to consider what risks may need to be mitigated, the potential impact of disasters, and anticipated property insurance costs, including the need for coverage beyond a traditional insurance policy.

Disclosures could incorporate a disaster risk score or simply provide information on any history of disaster-related claims. Accurately assessing a property's disaster risk level would be critical to ensuring the effectiveness of disclosure requirements. Moreover, deciding which measure of disaster risk would be used, what information would be disclosed, and in what format must be carefully considered as requiring disaster risk disclosures could negatively affect the resale value of homes in at-risk areas.[149] With respect to flood risk, research shows that homebuyers want information about their potential risk and are willing to make concessions on property amenities to purchase a home with a lower risk level.[150] At least nine states have strong rules on disclosing a property's exposure to flood risk specifically.[151]

Any effort to increase federal disclosure requirements should consider ways to balance a desire for increased transparency for homebuyers with the importance of minimizing bureaucratic burdens on insurers, while carefully evaluating the potential effects on housing markets.

Option 4: Establish Federal Requirements for Policy Transparency

The quality and level of insurance coverage can vary significantly depending on a homeowner's specific policy, making it difficult for customers to shop around and compare policy details before purchasing a plan. Requiring insurance companies to provide clear, consumer-friendly information on what is and is not covered by homeowners insurance policies before customers take out a policy could help property owners make more informed decisions. Efforts to increase policy transparency could be paired with additional public education to help consumers better understand the information they receive. NAIC has prepared a series of best practices documents for both insurers and policyholders, but Congress could consider establishing a national standard or encouraging states to adopt these best practices.[152]

Option 5: Promote Data-Sharing Among Federal Agencies and Industry Partners

A comprehensive analysis of federal agencies' insurance and underwriting data could provide proof of concept for novel property insurance relief products. These products could include mortgage policies that reward borrowers for making proactive resilience upgrades to their properties or that offer discounted mortgage insurance premiums for specific improvements that lower a home's risk profile. Another potential product that could be developed through a better understanding of federal agencies' insurance and underwriting data is a mortgage product that has adjustable insurance premiums. Adjustable premiums would enable borrowers to qualify for reductions over time based on incremental property improvements. These products could lower long-term risk exposure for both lenders and insurers.[ix]

Option 6: Consider Developing a Risk-Sharing Agreement with Private Insurers

Over the past 25 years, the proportion of uninsured losses from catastrophic events has risen significantly. From 2013 to 2022, uninsured losses grew by approximately $50 billion (adjusted for inflation), reaching more than $60 billion.[153] Uninsured losses have increased even though mortgage lenders typically require property insurance. For example, in California, more than 20% of wildfire-related property losses from 2017 and 2018 were uninsured.[154] The growing gap between total and uninsured losses, coupled with private insurers reducing coverage in or departing high-risk markets, prompts concerns about the private insurance market's ability to address these challenges alone.

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ix This policy option is based on a June 2024 letter sent to Congress by a wide coalition of 24 housing development stakeholders.

A recent CBO report explored strategies to increase insurance availability and affordability for homeowners and renters. One proposal is a public-private risk-sharing program, in which the federal government would act as a reinsurer, sharing catastrophic losses with private insurers.[155] This section draws on CBO's analysis to outline the potential structure and benefits of such a program.

The concept of a federally backed insurance program is nothing new. For example, Congress passed TRIA after the September 11, 2001, attacks to address gaps in the market for terrorism-related insurance. Under TRIA, the federal government shares property and casualty insurance losses from terrorist attacks, with opportunities to recoup these losses later.[156] Similar discussions are underway about the need for federal involvement in cyber insurance to mitigate risks to critical infrastructure from catastrophic cyberattacks.[157]

In a public-private risk-sharing program, private insurers would remain the primary providers of homeowners insurance, setting coverage terms and bearing initial insured losses. The federal government would assume only a specified portion of the catastrophic risk from private insurers. The government could set premiums, dictate when federal coverage is triggered, and potentially cap its exposure to limit liabilities.

A public-private risk-sharing program could offer several advantages:

1. Improved market stability: By sharing catastrophic risks, the program could encourage private insurers to remain in higher-risk markets.
2. Cost control mechanisms: The federal government can manage exposure by building in cost controls, such as limiting the scope of covered disasters, requiring private insurer participation, or mandating coverage for homeowners.
3. Scalability: The program could adapt over time to reflect changing market conditions or insurer capabilities.[158]

A public-private risk-sharing program comes with tradeoffs. The cost of the program would largely depend on how the government prices risk. Critics worry that federal involvement in the catastrophic insurance market could become inordinately expensive, pointing to the Federal Crop Insurance Program's projected $125 billion price tag for 2023 to 2033 and the NFIP's $20.5 billion debt as examples of costly federal programs.[159]

The concept of public-private risk-sharing has attracted congressional interest. Rep. Adam Schiff (D-CA) proposed the Incorporating National Support for Unprecedented Risks and Emergencies (INSURE) Act, which would create a federal catastrophic reinsurance program.[160] The legislation has garnered support from consumer advocacy organizations, who argue that a federal catastrophic reinsurance program has the potential to address market failures, improve homeowners' access to affordable and adequate coverage, and promote risk reduction.[161] However, the INSURE Act has drawn staunch opposition from the insurance industry and policy researchers alike.[162] Opponents caution that the federal catastrophic reinsurance program proposed by the INSURE Act could endanger homeowners' access to coverage, further increase coverage costs, and risk incurring the type of deficits generated by federal backstops like the NFIP and crop insurance program.

A broad group of stakeholders is interested in what a public-private risk-sharing program could look like and how it might function. This interest demonstrates the value of exploring the option, while still recognizing that achieving bipartisan consensus on the myriad policy design questions would be challenging.

SUPPORTING AFFORDABLE HOUSING

Affordable housing operators have few options when they are struggling to afford insurance because of their limited ability to raise rents or lower costs. The federal government's more direct role in supporting affordable housing may offer opportunities to take actions that provide immediate benefits to these operators.

Option 1: Direct FHFA to Work with the FHLB System and Its Insurance Company Members to Better Support Affordable Housing Operators

The Federal Home Loan Bank (FHLB) System is a group of 11 regional banks that provide low-cost loans to their member institutions to facilitate mortgage lending while also providing financing for affordable housing and community development projects. FHLB member institutions include commercial banks, thrift institutions, credit unions, community development financial institutions, and insurance companies.

About 580 insurers—roughly 12% of all U.S. insurers—are FHLB members, making up nearly 9% of the total 6,500 FHLB member institutions.[163] In 2023, about half of the FHLB System's insurance company members were property and casualty insurers.[164] These companies benefit from FHLB membership in several ways, including gaining access to lower interest rates than those offered by commercial lenders and low-cost advances.[165] To qualify as FHLB members, insurance companies must make or purchase some mortgages or mortgage-backed securities, although each FHLB can set additional requirements above this minimum threshold.[166]

In crafting its 2023 *FHLBank System at 100* report, the Federal Housing Finance Agency, the FHLBs' regulator, sought and considered public input on how the FHLBs could better advance housing and development activities.[167] Two concepts outlined in the report, if continued under new FHFA leadership, could be implemented to also benefit affordable housing providers as they work to mitigate disaster risks and lower their insurance costs: FHFA could consider creating more specific membership requirements for insurance companies, either as part of their initial membership or on an ongoing basis, or give the FHLBs the flexibility to provide added benefits (such as discounted advance rates) to reward member activities that support housing and development activities above a set baseline.[x]

Member companies could either be required or rewarded for activities like offering discounted insurance premiums to affordable housing operators who have implemented hazard mitigation measures or voluntarily reporting data on insurance coverage provided for affordable housing. Relevant data could include the number of policies issued or canceled for affordable housing operators each year, the number of active policies at the ZIP code or census track level, and the cost of property insurance premiums.

Importantly, any of these changes should be developed with input from member insurance companies to ensure that new requirements or incentives do not create negative market impacts or discourage insurers from joining the FHLB System.

Option 2: Examine Opportunities for HUD to Increase Flexibility Around Property Insurance Requirements for Affordable Multifamily Housing Operators

HUD has already taken steps to provide additional flexibility for affordable housing operators, including increasing allowable deductible amounts, accounting for rising premiums in its methodology for setting contract rents, and clarifying that CDBG grants can be used to pay insurance premiums.[168] Making these steps permanent and building on them through additional actions could create more opportunities for affordable housing operators to choose how to adjust to changing property insurance rates.

Rising construction costs, driven by inflation and other factors, have increased the replacement value of housing assets; as a result, many owners have had to buy more insurance coverage and pay higher premiums.[169] One way to increase flexibility is to adjust HUD requirements that affordable housing owners maintain property insurance at 100% of the building's replacement cost, or the total insurable value (TIV) of the building.[170,xi] Even slightly lowering this requirement could help operators bear high insurance costs.

Although increasing flexibility could help affordable housing operators manage rising insurance costs in the short term, changes to insurance requirements based solely on affordability could blur important market signals. Therefore, policymakers should consider long-term solutions alongside short-term adjustments.

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x This policy option is based on a June 2024 letter sent to Congress by a wide coalition of 24 housing development stakeholders.

xi Roundtable participants in Florida noted that TIVs for affordable housing operators have increased by roughly 25% in the last three years alone.

Option 3: Include Insurance Premiums in LIHTC Calculations

The Low-Income Housing Tax Credit (LIHTC) is the largest affordable housing production program in the U.S. Since its launch nearly four decades ago, the program has supported the construction and rehabilitation of over 4 million affordable rental homes.[171] Rising insurance costs now jeopardize the viability of many new LIHTC projects and strain the operating budgets of existing ones. However, insurance costs are excluded from calculations of a property's tax credit, which is determined based on its eligible basis—primarily composed of depreciable project costs.

Although state housing finance agencies administer LIHTC, the Internal Revenue Service (IRS) is responsible for setting general guidelines. Accordingly, the IRS could issue guidance to help developers account for increasing insurance costs, such as allowing the inclusion of a predefined amount of insurance premiums in eligible basis calculations. This guidance could also be limited to specific geographic areas or be issued on an emergency or temporary basis.

To include insurance premiums in eligible basis calculations, developers would likely have to set aside funds upfront in a capital reserve dedicated to future insurance costs. This prefunded reserve would be considered part of the project's initial eligible costs, increasing the total tax credits available. However, prefunding a capital reserve for insurance premiums could reduce the overall amount available for other project costs. Without additional equity, subsidies, or debt to offset these costs, developers might need more private activity bonds (which help finance 4% LIHTC deals) or the already oversubscribed 9% credits to make their deals work, potentially limiting some projects' feasibility.

In addition to the standard eligible basis calculation, projects can receive a basis boost of up to 30% for projects located within two types of areas: Qualified Census Tracts (QCTs), areas that have at least 50% of households with incomes below 60% of the area median income (AMI) or a poverty rate of 25% or higher; and Difficult Development Areas (DDAs), areas with high land, construction, and utility costs relative to the AMI.[172] These designations are defined in law and assigned by HUD. To help offset the rising cost of premiums up-front, Congress could update the DDA definition to include areas with high insurance costs. Because HUD updates these designations annually, this change could be implemented relatively quickly and without adding a significant amount of complexity for developers.

Adjustments to LIHTC calculations could make more affordable housing projects financially viable in the short term, but offsetting insurance premiums could have the unintended consequence of concealing signals of increasing risk or eventually driving insurance costs up. Accordingly, policymakers should also consider future-oriented options.

Option 4: Convene a National Working Group on Harmonizing Lender Insurance Requirements

Federal agencies like HUD and USDA, government-sponsored enterprises Fannie Mae and Freddie Mae, and others are vital sources of liquidity for affordable housing developments. However, the financial support these institutions provide often comes with varying insurance requirements, including differences in minimum insurance coverage amounts and specific hazard protections, such as earthquakes.

Convening a national working group composed of affordable housing stakeholders—including lenders, insurers, regulators, and borrowers—could provide an opportunity to evaluate these disparate insurance requirements and identify opportunities for standardization. This group could meet regularly to revisit insurance coverage requirements and adjust them as market conditions change.[173,xii]

[xii] This policy option is based on a June 2024 letter sent to Congress by a wide coalition of 24 housing development stakeholders.

Conclusion

These policy options are not exhaustive, but they offer a starting point for policymakers who are considering ways in which the federal government can help address rising property insurance costs. A combination of these ideas could have a meaningful impact both in the short and long term. High insurance premiums are straining households nationwide, many of which struggle to obtain adequate coverage amid increasingly devastating natural disasters. The problem will only worsen if it is not properly addressed.

Appendix I: Case Studies

In October 2024 and January 2025, BPC's J. Ronald Terwilliger Center for Housing Policy hosted two state-focused roundtable discussions on the challenges of a changing property insurance market and the effects on housing affordability. We focused on Florida and Colorado due to the rising costs in both states, each with distinct risk profiles—Florida is mostly at risk from hurricanes, while Colorado faces risks largely from wildfires and hailstorms. The Florida-focused roundtable was held in Orlando in partnership with Wendover Housing Partners, and the Colorado-focused roundtable took place virtually. The discussions aimed to better understand the scope of the problem in each state and identify areas where the federal government could have an appreciable impact on insurance costs.

Small groups of experts from the industry, the public sector, and relevant nonprofits attended. To encourage open dialogue, these roundtables operated under the Chatham House Rule, which allows participants to use the information shared but prohibits attributing comments to any individual.

Below are two brief case studies outlining the situation in Florida and Colorado, as well as actions the states have taken to address the challenges posed by the changing property insurance market.

FLORIDA CASE STUDY

Key Challenges in Florida

1. Cost

Florida has experienced some of the highest average premium increases of any state, with premiums rising 68% between 2021 and 2023.[174] According to the Florida Office of Insurance Regulation (FLOIR), Palm Beach County had the highest average premium cost in the state as of March 2024, with an annual cost of $6,379. Only one county in Florida, Sumter County west of Orlando, had an average premium under $2,000.[175]

In 2022, Miami had the third-highest cost per unit for multifamily property insurance in the nation, just behind San Francisco and New Orleans, at just over $1,000 per unit. Palm Beach, Fort Lauderdale, and Tampa-St. Petersburg were also in the top 10 metro areas.[176]

2. Coverage and Accessibility

In response to hurricanes and other risks, major insurers like Farmers Insurance, which had approximately 100,000 policyholders in Florida, have withdrawn from the market. An estimated 15 other insurers have also stopped issuing new policies.[177]

In 2002, due to a diminishing private market, Florida legislators established a FAIR plan, or a last-resort property insurance option: Citizens Property Insurance Corporation.[178] This state-managed insurer adheres to regulations set by the state legislature and operates under a strategic plan set by the Florida Financial Services Commission.[179] Citizens is funded by premiums from policyholders but can raise additional funds through assessments on Florida policyholders in the private market if needed.[180]

Originally intended to serve a small population of residents with no other options, Citizens has grown to cover more than one million policyholders in recent years. In 2023, it became the 10th largest homeowners insurance provider in the U.S. when measured by number of direct premiums written.[181]

However, recent program changes aim to reduce this number by requiring homeowners to leave Citizens if they receive a comparable private insurance offer at a similar price.[182] These changes appear to be influencing the migration of former Citizens policyholders into the private market, as about 650,000 Citizens policies were assumed by private insurers in 2023.[183] In the first quarter of 2024, Citizens held approximately 16.2% of the market share for homeowners policies.[184]

3. Risk

Florida is a state particularly vulnerable to weather-related risks, with over 8,000 miles of coastline and the highest number of homes exposed to hurricane risk in the U.S.[185] The state has nearly 3 million homes at risk of being hit by a Category 5 hurricane.[186] The reconstruction value of those homes is estimated to be over $580 billion.[187] Between 2001 and 2019, 47% of all residential development on flood-prone land occurred in Florida.[188]

4. Litigation

Insurers in Florida face greater litigation costs than those in other states. In 2022, Florida accounted for 14.9% of the nation's homeowners insurance claims but 70.8% of the nation's homeowners insurance-related litigation, despite having only 7% of the nation's homes.[189] This outsized share of litigation is largely due to unique aspects of the Florida legal system, which permits assignment of benefits without insurer consent and one-way attorney's fees.[190]

Assignment of benefits allows a third party to assume some of the aspects of a policy, including the right to sue the insurance company.[191] The assignment is meant to streamline the process for the homeowner, allowing vendors to file claims directly with insurers after repairs have been made.

The one-way attorney's fees in Florida dictates that if a policyholder sues an insurer and wins—or if the lawsuit is settled—the insurance company must pay the plaintiff's attorney's fees. However, if the insurer wins, the plaintiff is not required to pay for any of the insurer's legal fees. While this system theoretically protects individuals going up against large insurance companies, combined with the assignment of benefits provision, it has incentivized third-party vendors to submit inflated or unnecessary repair claims. When the insurer declines payment or counters with a lower amount, these vendors can sue and receive a payout in most cases.[192]

State-Level Efforts in Florida

Following Hurricane Andrew in 1992, Florida updated and consolidated its building codes, resulting in the Florida Building Code, which supersedes local codes and includes various requirements to make homes more resistant to high hurricane-force winds.[193] Some of these hazard-resistant requirements include stronger windows, doors, and roofs.[194] The Florida Building Commission updates the state building code every three years.[195]

Moody's estimates that the difference in average annual damage to a home built in South Florida to 1990s code standards, compared with one built to 2022 code standards, is about $24,000. Similarly, the estimated difference in average annual damage for a home built to meet the base flood elevation requirement (which new homes in Florida must adhere to), compared with one built below that elevation, is about $26,000. Homes built above the required level have a difference of about $50,000.[196]

In 2022, the state Legislature took a series of actions to address the high costs of property insurance in the state. Senate Bill 2-A established the Florida Optional Reinsurance Assistance (FORA) program, an optional hurricane reinsurance program for 2023. It also ended Florida's one-way attorney's fee structure for insurance cases and prohibited the assignment of benefits in property insurance claims. The bill reduced the claim filing deadline from two years to one year for new claims, and from three years to 1.5 years for supplemental claims; strengthened the regulatory authority of the Office of Insurance Regulation over property insurers; and made Citizens policyholders who receive an offer from a private insurance company within 20% of the Citizens premium ineligible to maintain their Citizens policy, encouraging them to switch to private insurance.[197]

The Legislature also established the My Safe Florida Home program in 2022.[198] The program provides free wind mitigation inspections, which can help lower premiums when submitted to insurers, and grants to strengthen homes against high wind. The grants match $2 to every $1 spent by the homeowner on recommended wind mitigation efforts (following an inspection), up to $10,000.[199] Initially restricted to homes insured for $500,000 or less, the limit was raised to $700,000 in 2023.[200] Types of improvements covered by the grants include upgrading roof coverings, enhancing the strength of roof deck attachments, reinforcing roof-to-wall connections, and installing a secondary water barrier for the roof.[201]

Through the program, roughly half of the homeowners who complete the inspection and grant application process see a reduction in their premiums, with an average reduction of 16%.[202] Premium reductions on the wind portion of a home insurance policy associated with the program vary widely, ranging from 3% to 55%.[203] However, premium decreases are not guaranteed: Roughly 14% of homeowners who completed the program saw their premium increase.[204] As a testament to the program's potential to save money on an individual and state-wide level, Gov. Ron DeSantis (R-FL) signed a $200 million appropriation for the program in 2024.[205]

In 2023, Gov. DeSantis signed additional legislation requiring insurance companies to provide clear, accessible information to consumers about hurricane mitigation discounts they might qualify for. The legislation also requires FLOIR to evaluate and update those discounts every five years.[206] In 2024, as part of a tax relief package, the Legislature provided a one-year exemption to insurance companies from taxes on the property and flood insurance premiums they receive and mandated that the companies offer a temporary discount to policyholders in an amount equivalent to those taxes.[207] The insurance companies can recoup the amount of the discount through a tax credit.[208]

These changes seem to be making a difference, although costs remain high. Ten insurance companies filed a zero percent rate increase for 2024, and eight filed a rate decrease. Some insurance companies in Florida saw a net profit in 2023, compared with all Florida domestic insurers losing over $1 billion each year in 2020, 2021, and 2022. In 2023, Citizens had a net income of $746 million, compared with a loss of $2.2 billion the year before.[209]

However, recent damage from Hurricanes Helene and Milton will test these new laws. Some have raised concerns that the legal reforms could make it harder for policyholders whose claims are denied by insurers to seek recourse.[210]

COLORADO CASE STUDY

Key Challenges in Colorado

1. Cost

Homeowners insurance in Colorado is expensive, costing roughly 32% more than the national average.[211] In fact, premiums surged 51.7% between 2019 and 2022 alone.[212] Between 2021 and 2022, the rate of average premium increase was more than double the rate of consumer inflation in the Denver metro area.[213] Notably, this growth in premiums has been unpredictable and irregular, with Coloradan homeowners reporting premium increases ranging from 30% to a staggering 130%.[214]

The average home insurance cost for a $300,000 dwelling in Colorado is $3,167 per year, with the highest average premium costs in Colorado Springs ($3,254), Aurora ($3,278) and Denver ($3,311).[215]

2. Coverage and Accessibility

Property insurance companies in Colorado were unprofitable in eight of the past 11 years.[216] Between 2013 and 2022, these companies faced an underwriting loss of nearly 20%.[217] Accordingly, private insurers have cited high payouts due to damaging hailstorms and wildfires as key drivers of premium increases.[218]

Disaster events outside the state can also have a major impact on insurance affordability and availability in Colorado. In response to the Los Angeles-area wildfires in early 2025, nearby wildfire-prone states like Colorado are likely to see a decrease in coverage options and a rise in premiums.[219]

3. Risk

Colorado faces numerous disaster risks, chiefly hailstorms and wildfires. The state ranks second only to Texas in the volume of hail insurance claims. Hail is startlingly destructive, as demonstrated by a May 2024 hailstorm in the Denver metro area, which left nearly $2 billion in damage in its wake.[220] The frequency of hailstorms is also mounting, with 2024 marking a record number based on data collected since 1950.[221]

As of 2023, 1 million Coloradans lived in areas at an elevated risk of wildfire.[222] Currently, $141 billion in property stands at risk of wildfire.[223] This exposure will only grow, with the share of Colorado property facing wildfire risk set to rise by nearly 20% over the next 30 years, affecting roughly 450,000 additional buildings. This increase in property facing wildfire risk is the largest in the nation.[224]

The destructive capacity of wildfires in the state was evident in the Marshall Fire that began in late December 2021. In a single day, the fire destroyed 1,084 homes in Boulder County, collectively valued at more than $500 million.[225] At least two-thirds of residents affected by the fire faced an average insurance gap of over $100,000, complicating their effort to afford the costs of rebuilding and exacerbating the already significant affordability crisis in the state.[226]

4. Litigation

A 2008 Colorado law prohibits insurance companies from unreasonably denying or delaying payment of claims, at the penalty of paying attorney's fees and double for damages.[227] Despite this, homeowners in Colorado still struggle with claim denials, leaving them with little recourse outside the legal system. For instance, after a hailstorm in Loveland in July 2024, several homeowners had claims for repairs denied multiple times, while others in the neighborhood received immediate approval.[228]

State-Level Efforts in Colorado

Gov. Jared Polis (D-CO) has signed several bills aimed at improving the affordability of property insurance in Colorado, including measures to 1) establish new coverage requirements in the event of total loss resulting from a declared fire disaster; 2) guarantee replacement-cost coverage in homeowners insurance policies; and 3) extend the required notice period that insurers must give prior to nonrenewal from 30 to 60 days.[229] In 2024, Colorado passed a law requiring the state's insurance commissioner to conduct a study of the state's insurance market and recommend measures to ensure the long-term sustainability and accessibility of property and casualty insurance coverage.[230]

Recognizing the risk of insurance companies refusing or minimizing coverage due to high-risk factors, Colorado announced the creation of a state FAIR plan in 2023. Set to begin offering policies in 2025, the plan will provide coverage for homeowners unable to access coverage through traditional means. It is expected to cover an estimated 1% of Colorado properties (both residential and commercial) located primarily in mountainous areas with high wildfire risk.[231]

Colorado's FAIR plan will only accept homeowners who have received three declinations from insurance companies.[232] Unlike Florida's Citizens plan, which is funded exclusively through policyholder premiums, Colorado's FAIR plan will be funded by a combination of policyholder premiums and contributions from insurance companies operating within the state, based on their market share.[233]

Although it is too early to assess the full impact of these reforms, Colorado hopes these measures will help stabilize the state's property insurance market.

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