Scorching Premiums: Climate Costs Hit Insurance Markets

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Ariana Brocious: I'm Ariana Brocious.

Kousha Navidar: I'm Kousha Navidar.

Ariana Brocious: And this is Climate One.

[music change]

Ariana Brocious: Around the country, homeowners insurance prices are going up sharply. One study found premiums rose by 33% between 2020 to 2023. And there's a clear reason why.

Kousha Navidar: It's the climate. Human-caused climate change is making extreme weather more intense and more frequent all across the country (and globe, really) – from floods to wildfires to hugely powerful windstorms and more. And insurers are reacting to that increased risk.

Ariana Brocious: Not just by raising rates, which in most states they can do with impunity, but also by not renewing policies. That's leaving increasing numbers of homeowners **without** insurance. A couple Climate One staffers have already been dropped by their home insurance company at least once.

Kousha Navidar: And it's easy to assume the places where policies are being canceled are super risky or rural places, but that's not always true. Later we'll hear from an LA resident who lived near Sunset Boulevard who lost her insurance last year.

Ariana Brocious: The financial impacts reach far beyond housing. Gunther Thallinger, a board member of Allianz, one of the world's largest insurers, recently warned that the insurance meltdown could get so bad that quote “The financial sector as we know it ceases to function…. capitalism as we know it ceases to be viable.”

Kousha Navidar: It’s a powerful statement; he’s saying just adapting to all these disasters and cleaning up afterward becomes economically unviable. The system is facing collapse. People don’t think about this but insurance companies take the premiums we pay them and invest in skyscrapers in large cities and other safe assets, like municipal bonds to build roads and schools. They are an important source of capital in the economy.

Ariana Brocious: Yes. And yet there ARE ways to address this crisis. Dave Jones, California’s former insurance commissioner, helped design a homeowners insurance policy for an area with very high wildfire risk, but one that takes fire prevention measures into account. We’ll get into that later in the episode. But in short, we need more insurers to do that.

Kousha Navidar: Yeah. And that will probably take political will, which feels in short supply right now. We’re seeing the Trump administration cut or defund numerous federal resources that collect data and help insurers evaluate risk. So we’ve got lots to dig into today.

Ariana Brocious: First up, my conversation with Rachel Cleetus, senior policy director at the Union of Concerned Scientists. She helped unpack how climate change is disrupting the US home insurance market.

Rachel Cleetus: We've seen a rise in extreme climate-fueled disasters all across the nation, including more large catastrophic wildfires, longer wildfire seasons, intensified tropical storms. These unrelenting heat waves, increased precipitation and flooding, and all of these have the fingerprints of climate change in them. What's happening with the insurance market is that we have more and more property and people in harm's way now, as climate change is unfolding. And at the same time, we do have people moving into places that are more exposed. We have more high-value property located in these areas that are more prone to these climate risks. So all these factors together mean that we're seeing insurance losses rise and we're seeing insurance premiums increased and in some cases we're seeing insurance companies completely withdraw from markets or stop issuing new policies, and that's leaving homeowners in a very tight spot. They need the insurance to make sure that they can face these disasters and recover from them, but at the same time, insurance is becoming more expensive and harder to get.

Ariana Brocious: Yeah. And it's not just the cost of insurance, which is rising for most of us really, but there's also the costs of housing that are rising in many places. So there's a real affordability crisis here. So people, in some cases, are unable to live in the city centers and are thus pushed out into areas that might have more climate risk, particularly wildfire risk is, is what I'm thinking of, right?

Rachel Cleetus: Yeah, what we're seeing as a collision of what I think of as three crises colliding here. We have the climate crisis. We have an affordable housing crisis that is a very long standing crisis in our nation. And now this insurance challenge that many people are facing. And indeed the cost of insurance premiums has been going up faster than inflation. It is now a significant factor in terms of adding to the affordability challenges for many homeowners. And it's not just the owner market, it's also hitting the rental market and specifically really the affordable housing that's for the lowest income and fixed income folks does have a very pernicious knock-on effect. We've had a longstanding challenge around not building enough affordable housing in our country and making it available to those who have the lowest incomes and they're now being increasingly squeezed because of the rising cost, but also because when these disasters hit, sometimes they're being displaced temporarily or even permanently from their homes.

Ariana Brocious: We know that about 40% of the US population lives on the coasts, and those places are becoming higher risk because of extreme events, storms flooding the like. How are localized effects of climate disruption affecting insurance markets in different regions differently?

Rachel Cleetus: Yeah, what started out as a crisis that was related to higher costs in areas that were most climate exposed has now become a nationwide problem. So the acute edge of it is clearly in places that are in coastal areas exposed to flooding and intensified storms and sea level rise, or in wildfire prone areas. Places like California, like Florida, like Massachusetts, but what's really important to recognize from the data is that there are many states, inland states, that are also seeing very high jumps in insurance rates. So, for example, the data shows that some of the states with the highest increases include Colorado, Nebraska, Iowa, Minnesota. So it's really affecting all parts of the country. And it is spilling over into places where maybe people hadn't thought of themselves as exposed to these risks, but now those risks are growing, or, insurers are spreading the risk over the entire property market. And so everybody is seeing these kinds of insurance rate increases.

Ariana Brocious: And we touched on this, but you know, fewer, more expensive homeowners insurance options feeds into this larger financial crisis because most homeowners need a mortgage. To get a mortgage, you have to have insurance. So what happens if you can't get insurance on your home?

Rachel Cleetus: Well, what's happening increasingly is that people are turning to insurers of last resort. These are the state so-called fair plans, where bare bones insurance made available under state mandates, a private insurers pool, and provide bare bones, high-cost insurance. And a very troubling sign right now is we're seeing in many insurance markets, including in places like California and Florida, that more and more people are turning to the fair option, the last resort option, because they can't get insurance in the open market. But also people who aren't carrying a mortgage, say they already own their home, many people are dropping insurance because they can't afford it. And that means when the next disaster hits, they will be completely out of pocket in terms of the costs. And another very troubling sign is that we are seeing in some cases, insurers not live up to their side of the bargain, which is paying out quickly post-disaster. So there have been cases where payouts have been slow or even denied, and there is a real need for oversight and regulations to understand what is happening in the insurance market and how are consumers being treated.

Ariana Brocious: And we've been talking largely about homeowners, but as you mentioned, they're not the only ones affected. So how are renters experiencing this insurance crisis?

Rachel Cleetus: So renters like everybody else, they're also living in these places that might be exposed to these climate fuel disasters and should a disaster strike, many people don't carry rental insurance. So they may not be able to recoup the cost of their belongings. Renters may also find themselves in a situation where, especially if they're renting affordable housing units and landlords are being squeezed because their insurance premiums are going up, and they're no longer able to keep those units. At that affordable rate, they might start withdrawing units from the affordable housing market. And we are starting to see survey data that's showing this to be the case. So in an already constrained environment where low-income folks don't even have much access to affordable housing, now we're seeing units being withdrawn. And overall, in general, when we look across the country, renters tend to be people with lower incomes, and so when this affects them, it has an even more devastating impact.

Ariana Brocious: So there's pretty widespread agreement that to shore up insurance markets, homes and communities have to become more resilient, especially as we're facing these increasing climate risks and threats. But who pays for that? Who should pay for that?

Rachel Cleetus: What's happening right now is many people, through no fault of their own, are finding themselves on the front lines of this climate crisis which is human-caused and caused by burning fossil fuels. So there is a clear accountability here around what the underlying causes are. But, when it comes to building resilience, they may not have the resources to invest in fireproofing or flood-proofing their homes. So the first part of the puzzle is, of course, being aware of your risk, having that freely accessible public data that lets people understand what is the risk in my neighborhood. And right now we have the Trump administration literally taking down websites that have that kind of data, websites like climate.gov which have publicly accessible data on a whole range of climate risks. They have also torpedoed the next national climate assessment, another way in which many communities and decision makers and policy makers across the nation access this information. So having the information about the risk is first and foremost, really, really important. The next piece is thinking about how you can lower those risks. And there are many common sense approaches. Better building codes, better roofs, fire standards that apply not just at the individual home, but at the community level. Thinking about defensible space. How you build and don't build next to flammable vegetation, et cetera. And there are opportunities for insurance companies to incentivize these kinds of measures by offering reductions in premiums if people make these kinds of investments. But obviously the scale that's needed does require a greater set of resources. So state and federal policy makers do need to invest in resilience, to make that possible for everybody to be able to make those kinds of investments. There are some places that are so highly exposed to climate risks that they will increasingly become uninsurable and to be honest, will become too dangerous for people to stay in. And there has to be a broader conversation about where can people go and how will they be helped and supported so that it's not just an individual picking up and going, but there's actually investments in jobs and infrastructure schools and receiving communities. And then finally, of course, we can't adapt to runaway climate change, so we have to make investments in sharply cutting our heat trapping emissions. And right now we have a congress and an administration that seems hellbent on going in the exact opposite direction.

Ariana Brocious: Right. Yes. We have been seeing a lot of cuts that you mentioned, uh, not just to resources, data, but also lots of funding sources and, and even agencies like FEMA, right now under the Trump administration. I wanna return to something you just said, which is “we can't adapt to runaway climate change.” And I think about places that are just. To me, kind of ground zero for this discussion about risk and, and insurability and Florida comes to mind. There are parts of Florida where I have to wonder if, you know, 10, 20 years from now, the only people left there will be the wealthy who can self-insure essentially, because there will be no insurance left. And, and you know, the rest of us won't be able to bear that risk. Do you think that's a possibility?

Rachel Cleetus: What's pretty evident is that the market is very myopic. So even though the science has been clear for decades now, and in the case of Florida, the sea level rise projections have been stark and available for a long time now. We still have so much building happening right on the coastline, a lot of very expensive real estate. And when we have had conversations with various market actors, it's pretty clear that they don't deny the science, but they're operating on a timeframe of two to five years where it seems rational to be doing what they're doing. But this is a house of cards, you know, Those places where this frantic building happening right now are pretty clearly within our lifetimes and even less, going to be flooding because of sea level rise, and not just the water over land, but in the case of Florida, the water that's coming from underneath that's, there's a porous substrate there. So market incentives right now are at odds with climate realities. Although when you see what's happening in the insurance market, you start to see the first signs that yes, the market is starting to recognize that the risk is real, but the response is so jagged and so harsh it leaves most ordinary people, sort of just stunned by these kind of year on year massive insurance increases.

So it's clear we need a public investment and a broader social collective action around this that isn't just about. These harsh market adjustments that leave people marooned dealing with this. When I think about the future though, when we look around the world there are places like Bangladesh and small island nations that are facing existential threats from sea level rise, and people stay much longer than you think they will because the pull of place is strong. People have a community that they love. They have culture and places that they're deeply attached to. So there's a lot of human suffering written into the story that's coming our way, and that is on the doorsteps of policymakers who fail to act quickly and the fossil fuel companies that are continuing to ramp up fossil fuels, even as ordinary people are paying the penalty.

Ariana Brocious: Right, and I wanna get to that because a lot of these large insurers like State Farm, both cover and invest in fossil fuel companies. And in turn these are, you know, the leading causes of the climate disruption, which is making the insurance business, all the more challenging, yet they continue to invest in and profit from these fossil fuel interests. So what would get insurance companies to stop insuring and investing in the fossil fuel industry?

Rachel Cleetus: Yeah, it's completely irrational. They're egregiously insuring the very industry that's causing the other side of their market to flounder and fail. So I think what's really important when we think about this insurance crisis is to really center people. This is not about solving a market issue for insurance companies. This is about making sure that the market is delivering outcomes for people in a way that respects their needs. And so I think there is a need for greater oversight and regulation. First of all, transparency around what's being insured, where by whom. And then there does have to be some accountability about the damages associated with this continued expansion of fossil fuels. There's very clear attribution science now, and the Union of Concerned Scientists has contributed to that research tying the emissions of the largest fossil fuel emitters and cement manufacturers to climate impacts, like wildfires, like sea level rise. They need to be held accountable and policy makers need to take that seriously. And already we're seeing jurisdictions in different states take these entities to court to hold them responsible legally for the damages that they're causing because they're privatizing and reaping the profits and socializing the costs of their industry. And that's clearly unfair.

Ariana Brocious: Yeah. So what do policy makers need to hear to take action on this?

Rachel Cleetus: Well, I think the most important thing to recognize right now is first of all, climate change is here and now it's at our doorstep everywhere, and it's causing real harm to people. Both the human toll as well as the economic toll. It's very, very clear. So let's stop denying this reality. That just doesn't make any sense. But once we recognize that reality, we know there are things we can do and that's really crucial. We are not without means here, there are things we can do to invest in resilience all across our nation to make sure that where people live is safe and that their homes are climate resilient and affordable, we can actually solve these crises that seem disparate at the same time, if we invest in safe, affordable, climate resilient homes, we can help keep people safe. We can find ways to address the insurance challenges. We can make sure that people have a roof over their head that they can depend on. But I think it's really important in this moment to recognize that every year, around this time of year and summer, we see a number of extreme disasters happen and collide and hit people hard. The Union of Concerned Scientists has taken to calling this dangerous season this time in the United States between May and October when we see so many things like hurricanes, heat waves, wildfires. We have to stop acting as if these are one-off disasters. It's very, very clear that we are now in a world that's dangerously altered by climate change and these disasters are going to keep worsening if emissions continue to rise. And we have to prepare ahead of time, not just for what's here at our doorstep, but what we know is coming based on the science. And so that science informed policymaking that's also equitable is I think at the heart of how we can address the challenges we face right now. What we can't afford to do is keep postponing or ducking the problem. What we can't afford to do is let people who have profit motivations decide what the right solution is. The solution has to be one that really centers the interests of the public. So this is a call to policy makers and regulators to, to conduct that oversight, create that transparency so that people can more easily anticipate and protect themselves from these changes.

Ariana Brocious: Rachel Cleetus is Senior Policy Director with the Climate and Energy Program at the Union of Concerned Scientists. Thank you so much for joining us on Climate One.

Rachel Cleetus: Thank you so much for having me. I appreciate it.

Kousha Navidar: Coming up, when climate change hits home – YOUR home:

Claire O'Connor: I absolutely never in a million years would've thought that I would be in the middle of something like this, because obviously I know about climate change. I care about climate change. I recycle, you know, all the things that I, I feel like I should be doing to be a responsible citizen.

Kousha Navidar: That's up next, when Climate One continues.

This is Climate One. I'm Kousha Navidar. The stories of homes lost during any weather disaster are tragic and often heartbreaking. And yet they're becoming more common as climate change amplifies weather systems. So when will we see that affect where people choose to live? Our co-host Austin Colón spoke with Claire O'Connor, who has a unique perspective on this question. Claire is a homeowner in Los Angeles, and also a real estate agent. And she lived through the massive LA wildfires and their aftermath in January.

Austin Colon: So last year, you lost your homeowner's insurance. Why was that? And were you expecting that to happen?

Claire O'Connor: No, I think we, we lived in sort of a false sense of security that we would always be able to get insurance. No, we were not expecting it, but State Farm announced that they would be dropping everybody, most of the Palisades, and then a lot of Brentwood as well. Not dropping, but not renewing. So when your policy came up for renewal, it was not renewed. So I would say, about half of the people who had State Farm at the time of the fire, their insurance had been dropped.

Austin Colon: So what did you do after they refused to renew the policy?

Claire O'Connor: Well, we reached out to our insurance broker who does a lot in LA, and a lot of LA is a very high fire severity zone. So he's very familiar with these issues and really our only option was FAIR plan. and then you can get a wrap on top of FAIR Plan.

Austin Colon: Okay, so for people who aren't familiar, the fair plan is a state-run plan that provides basic insurance to individuals and businesses who can't get it through the, you know, traditional insurance market. Is that correct?

Claire O'Connor: That's correct. Yeah.

Austin Colon: And, and could you explain what the wrap policy is you're talking about?

Claire O'Connor: So these are, I think they're referred to as non-admitted carriers.

Austin Colon: So if, if they're not admitted, that means they're not licensed or regulated–

Claire O'Connor: Regulated by the California Insurance Commissioner. Yeah. So they're more expensive. But the fair plan is the insurer of last resort, but this is the very, very last resort is adding a wrap on top of fair plan. Because fair plan only covers property up to 3 million and a lot of the properties in the Palisades were more than that, so.

Austin Colon: Right. And so a few months after your insurance refused to renew State Farm, you unfortunately lost your home in the Los Angeles wildfires. That must have been devastating.

Claire O'Connor: Yeah. To say the least, it was, yeah, insurance was definitely in the moment, the last thing on my mind. But then as the, as everything sort of became clear, we realized that when our insurance was non-renewed, I told my husband, we were deciding between two plans. And I told him, we don't need the more expensive plan because we were so far from any brush, we were actually really close to Sunset Boulevard. Like, there's no way our house is gonna burn down. and so we did get the less expensive option. Thankfully, we at least had more than just fair plan, but I just never would've expected that we needed, that we would have needed to rely on fire insurance. So now being in this position of dealing with fair plan and our other insurance carrier is not anything we thought we would be doing.

Austin Colon: Right. And can you describe what your home and even your neighborhood were like before the fire?

Claire O'Connor: Yeah. I lived in an area of the Palisades called the Alphabet Streets, and it was very quintessential Americana. Didn't really feel like la. In the sense that I think a lot of tourists would think of LA. We were very far from the Hollywood sign.

Austin Colon: Right.

Claire O'Connor: There weren't any characters on the main street to take photos with. It just felt like a little village. Everybody who lived there felt like we'd found this idyllic utopia. Once you got to the Palisades, very rarely, unless you were transferred out of LA did anybody leave the Palisades. So there was a mix of people that had been there for 60 years and then newer, younger families who had moved in. White picket fence is kind of the image of my neighborhood, in particular of the Palisades. We walked to breakfast every morning at the village, every weekend morning, with our kids and we would often see friends coming out of their houses, and meet up with them and walk together. There was a big green grassy area in the middle of the village where all the kids would play together. And so those are the memories and the images that just sort of are still heartbreaking to think about because that's sort of the most devastating thing about this. When I was watching it on the news as it was happening, I was thinking. That it's not just my house burning down, to have an entire community wiped out, it's just been really kind of catastrophic and I think because it was such a great place to raise kids. And so there's so many children that have been affected by this that I really, I just think we'll keep seeing the after effects for a long time. But what it taught me is that. What really matters. So cheesy, so has so been said, but what really matters is like the people that are around you, you know, you think of your house as kind of like this really important thing. And it is, and. It just sort of houses your memories. It's the four walls of I, I look back at pictures of like bringing my babies home and it's that house and it just, the first thing I think is like, oh, it. Just, it's not there. It doesn't exist anymore.

Austin Colon: I can’t imagine how devastating that was. And insurance doesn't cover that loss of community or, you know, lifestyle. Kind of the, the theme we've been dancing around here is that, you know, wildfires are exacerbated by climate. And so, you've been a realtor in California for eight years. How much does climate or climate risk come into discussions with your clients?

Claire O'Connor: A lot more now. It's on everyone's mind in LA especially when they're purchasing property. How close are they to brush? What kind of escape route are there? That's something that I've never had discussed, I've never discussed that before. And now I have a listing that's sort of down a long, windy road and everybody's thinking, well, if there's a fire, how will I get out? You know, it was always maybe in the far back of somebody's mind, these climate risks. But everything's at the forefront now. What I'm already seeing though is that memories are short and that people are thinking, wow, I can get a great deal. So, you know, if I'm trapped when the whole place burns down, at least I paid like 500 k less than I would've before.

Austin Colon: Interesting. Yeah, I mean that makes sense. As you know, the effects of climate disruption become more and more obvious, but it's also true that. You know, people are not good at processing risk, really. And we're distracted by so many other things, you know, if the risk seems at all long term, I feel like we're kind of pushed to the back of our minds. And I'm curious how the last year has changed or shaped the work you do now.

Claire O'Connor: I absolutely never in a million years would've thought that I would be in the middle of something like this, because obviously I know about climate change. I care about climate change. I recycle, you know, all the things that I, I feel like I should be doing to be a responsible citizen. I never thought that I would be doing those things because I would be directly impacted by a climate disaster. I thought that was something that would happen to other people or in third world countries or we, I mean in Florida where they have hurricanes. None of these things really seemed to be potentially directly impactful to me. And so. It's, it's really that, in particular over the last year, that's been such a change for me is to now think about this all so much more acutely. And with kids thinking about them and their long-term future, and obviously protecting them more, having better insurance, but, thinking about where we live.

Austin Colon: And kind of along the same lines, like, I'm curious what changes you've witnessed in home buying and selling

Claire O'Connor: Since January 7th, there's been much more hesitation when it comes to buying properties. Sunset Boulevard is kind of the dividing line throughout all of LA so everybody kind of has their, their reference point of where they are in relation to Sunset Boulevard, and north of Sunset is experiencing a real drop in home values because north of Sunset is where you kind of like get up into the canyons or get closer to Mulholland, which goes across the top of the Santa Monica mountains. And that is just because of this one, because of the fear of wildfires, but two, because the cost of insurance has gone up significantly. And I think with this news, this being on the news and people hearing about people having fair plan and not feeling like they were sufficiently covered, a lot of people now don't want fair plan. And so when you don't want fair plan and there aren't any admitted carriers that you can go to, then you're getting all of your insurance from a non-admitted carrier. So it takes something like that listing, I was telling you, down a long, windy road from about between $10 to $15,000 a year in home insurance to between $50 and $60,000 a year in home insurance, which is quite –

Austin Colon: That's a big jump.

Claire O'Connor: an issue when it comes to affordability.

Austin Colon: Yeah. Yeah. That is like the definition of unaffordability.

Claire O'Connor: Oh, right. Yeah. That's a salary for a lot of people.

Austin Colon: And, and speaking of affordability, it sounds like the economics are really, what have you locked into rebuilding on your same lot. I'm curious that if that weren't the case, would you rebuild or buy in the same area knowing the risks?

Claire O'Connor: I'm of two minds. I have that memory and reference of what we had before and how lovely and idyllic that life was. But I also do wonder if having my children in a house that has burned down once, is something that I can really accept. So I don't know. Right now we're going through the motions and we're building because of those economics that you mentioned. So, yeah, I guess that really long answer is that I don't know.

Austin Colon: Yeah, I think that's fair. It's just one of those things where we're finding out that there really is no safe place. Although, there are places of higher risk. And I'm, I'm curious, like what do you tell homeowners who want to buy in high risk areas?

Claire O'Connor: I mean, honestly, my answer might be a little cavalier because, my thinking now is if it's coming for you, it's gonna get you. Like I told you, I lived with that false sense of security where I wasn't affected by climate risk. So I think, especially in these areas of LA that are so desirable and that people do love living in, there's nowhere to go. There's not a safe place to be, I guess is kind of my, my thinking. If you can afford the insurance, that's the problem.

Austin Colon: Claire, thank you so much for sharing your story with Climate One.

Claire O'Connor: Thank you.

Ariana Brocious: Months after the devastating and deadly Los Angeles wildfires, many residents are still struggling to recover, even those who had homeowners insurance. From KJZZ in Phoenix, Camryn Sanchez reports that rising premiums, and outright cancellations by insurers is also a problem in Arizona.

Camryn Sanchez: Vivien Winneke adores the views from her home in Dewey-Humboldt, a tiny town of less than 5-thousand east of Prescott. Walking through her backyard, there's rolling hills as far as the eye can see, carpeted in desert shrubs, with the occasional creosote and juniper tree rustling in the wind.

Camryn Sanchez: To protect it, Winneke spends hours "FIRE-WISING" her three acres to mitigate the risk of wildfire. That includes trimming up her trees and clearing space out between shrubs…

Vivien Winneke: So all that was fire-wised over there. All the way around. So I've got a pretty good break around the property, but it could be better…

Camryn Sanchez: Winneke knows what it takes to prevent the spread of wildfires. She's a volunteer assessor with the Dewey-Humboldt Firewise community. She advises on how to mitigate fire risk, and helps distribute grants to other residents trying to clear out brush on their property. She's made her own home as safe and risk averse as possible. But last August she got a big shock.

Vivien Winneke: All of a sudden my renewal went up from $1,450 a year to $4,500. That's more than my property taxes.

Camryn Sanchez: When Winneke realized she wouldn't be able to pay her new insurance rates, she panicked.

Vivien Winneke: I actually felt like I might have to sell the house. Because I'm on a fixed income like most of the people in Dewey-Humboldt, most of the people here retired. And they're not high income.

Camryn Sanchez: Winneke says she was rejected by **22 insurance companies** before finding one that offered a rate she can afford. Even still, she's paying more than what she used to. And the policy only covers about half of what her home's worth.

Vivien Winneke: It's almost not worth having insurance, but you can't have a mortgage without insurance, and you got to be insured for a reasonable amount. So, I'm not even sure if my mortgage company knows that I'm slightly underinsured.

Camryn Sanchez: Winneke isn't alone. State Representative Selina Bliss, who represents Dewey-Humboldt and other small towns in Northern Arizona, says she's heard of other homeowners who've seen insurance premiums tripled or quadrupled… Some simply lost coverage entirely.

Selina Bliss: My parents even lost their homeowners insurance about a year ago. So, you know when you get trends from the constituents, you realize, oh, we got an issue.

Camryn Sanchez: According to data from the National Association of Insurance Commissioners, homeowners insurance rates increased in Arizona by 9% between 2018 and 2021, and rates have since continued to rise nationally.

Camryn Sanchez: Laura Curtis is the vice president of the American Property Casualty Insurance Association.

Laura Curtis: It is the law of Arizona for insurers to remain solvent and we just want to ensure that you know, if we are insuring something that we have the ability and the resources to do so.

Camryn Sanchez: Curtis says hikes in premiums coincide with rising cost of rebuilding a home… Up 44% with inflation in the last 5 years. According to the state Department of Insurance and Financial Institutions, rural Arizona counties have the highest risk for wildfires. And climate change has extended the fire season and increased fire risk across the entire state.

Bliss, the state lawmaker, says insurance companies are using outdated information to make their policies, or disregarding mitigation efforts. Last session, she supported legislation that would have required insurers to consider a community's firewising efforts when setting rates. The bill would have also blocked insurers from canceling policies for wildlife risks near a given property. But the bill didn't pass.

Winneke says it makes sense that some insurance companies are canceling policies in parts of California.

Vivien Winneke: Shortly, it'll be Arizona, where they just don't want to do business here anymore. And I don't blame them.

Camryn Sanchez: Arizona has had an unusually hot and dry winter. So she's preparing for a summer with a heavier wildfire risk. As of early July, most of the state was in moderate to extreme drought.

For Climate One, I'm Camryn Sanchez in Phoenix.

Ariana Brocious Coming up, a former state insurance commissioner says it's clear who we should hold accountable for the climate risk that’s hurting the insurance markets:

Dave Jones: Who is a major contributor to the temperature rise which is causing more extreme and severe weather related events, which are landing as catastrophes, which are causing I insurers to have to pay out more? The oil and gas industry.

Ariana Brocious His proposal for how to make them pay, when Climate One continues.

This is Climate One. I’m Ariana Brocious. We’ve heard about the challenges homeowners and insurers are facing as climate risks become more real and costly. Dave Jones served two terms as California’s Insurance Commissioner from 2011 to 2018, during which he responded to some of the state’s most deadly and destructive wildfires. Now he’s director of the Climate Risk Initiative at UC Berkeley’s Center for Law, Energy and the Environment. We discussed some of the finer points of this insurance crisis and how to begin to address it.

Ariana Brocious: We have a rapidly growing crisis in the home insurance market. Growing climate risk is driving many insurers in some places to stop renewing policies and not issue new ones. And where policies continue, prices arising dramatically. So how did we get into this mess?

Dave Jones: Fundamentally, what's happening is that we're not doing enough fast enough to combat climate change. We're not doing enough fast enough to transition from fossil fuels and other greenhouse gas emitting industries. That in turn is causing global temperatures to rise. That in turn is causing more severe, extreme and frequent weather related events, which are killing more people, injuring more people, damaging more property. And causing insurance companies to pay out larger and larger amounts. So the fundamental driver is climate change. It hasn't helped that we've put more people in businesses into harm's way, and it hasn't helped that the price of replacing property has gone up. But those two other factors wouldn't matter as much if we didn't have more wildfires, droughts, extreme heat, severe convective storms, river floods, coastal floods, hurricanes, tornadoes, you name it, landing across the United States.

Ariana Brocious: Right, and it seems like honestly every week there's another tragic report about one of these major weather events hitting people and, and people being unprepared or under prepared. Even at the highest prices in some places, insurers are deciding they can't afford to underwrite policies, and so they're leaving homeowners without insurance, and that's pushing increasing numbers of people onto these state plans of last resort called FAIR Plans. Can you give us just the overview of how those plans work?

Dave Jones: There are some 36 states that have enacted FAIR plans, which stands for fair access to insurance requirements. They're otherwise referred to as residual markets. What these are is state, statutorily-created private associations of insurance companies writing insurance in the state, and that association, that fair plan to that residual market is required by state law to write for the risks that the private insurers have decided are too risky to write insurance for. Now, the way that they were originally structured was that they were not required to have the same reserves as a private insurance company because. If they're already ensuring the riskiest risk, so the price is gonna be very high. If they were required to have big reserves like an insurance company, nobody could afford a policy from a residual market or fair plan.

Instead, they have to have enough money to cover a typical year. But if they have a catastrophic year, the state law provided that they could assess the member insurers based on their market share to cover any shortfall in their ability to pay claims. However, about 20 years ago, insurers in Florida, not liking having that exposure on their balance sheet, went to the state legislature and governor and got law enacted shifting their responsibility for a shortfall in case Florida Citizens, which is the insurer of last resort in Florida, runs outta money. Shifting that to all Florida home and small business policy holders, Louisiana enacted similar legislation about three years ago, California by order of the Insurance Commissioner last year, limited private insurers exposure to a California fair Plan shortfall to $500 million. That sounds like a lot, but it's not much at all. And so what we're seeing in state after state is insurers either getting through legislation or commissioner order relief from potentially being on the hook if the fair plan or the residual market runs outta money. So then who is on the hook? All policyholders in the state.

Ariana Brocious: All of us. Yeah. then those costs are being borne by people who are already seeing higher insurance regardless. I mean, they're, they're already facing higher premiums and now this is, would be added on top. So I, I wanna ask you about California specifically 'cause I was reading an article in the New York Times by Christopher Flavell, and I wanted to read just a quote from there that I thought summed up this challenge of the fair plans, running outta money to pay claims. So he writes, quote, “as wildfires get worse, a vicious cycle is emerging. More insurers leave pushing more homeowners toward the fair plan, which is less able to cover claims after the next disaster. Leading to more assessments on regular insurers, pushing them outta the state even faster.” That's a lot in there, but do you agree with that? That it's this kind of, it's snowballing almost?

Dave Jones: Well, it is true that things are getting worse 'cause we're not doing enough, fast enough to transition from fossil fuels and other greenhouse gas emitting industries. And it's not just a California problem, it's not just a West wildfire problem, there's no get outta climate change free card in the United States. These events are landing everywhere and causing insurers to dramatically raise rates and write less insurance and they are impacting fair plans across the country with different levels of acuity. And it is the case that to the extent that the insurers are solely on the hook, then that reduces their appetite to write more insurance in high risk areas. But I believe that the better structure is, in fact, the insurers continuing to be on the hook since they're the ones deciding whether to write or renew insurance, ultimately. Now there's some things we could do to shore up fair plans. One idea I've proposed is a federal reinsurance program for fair plans. Insurance companies buy insurance. Fair plans buy insurance. It's super expensive 'cause the fair plans are insuring the riskiest risks. So the reinsurers charge a lot of money for that insurance for the fair plans.

Ariana Brocious: Reinsurance is basically insurance for insurance companies.

Dave Jones: That's right. Yeah. You have global reinsurers like Swiss Re, Munich Re, Hanover Re, a bunch of others that write insurance for insurance companies. But the global reinsurers are seeing their losses go up. So they're charging a lot for reinsurance. And if they're writing insurance for a fair plan, they know they're writing for the riskiest risk, so they're gonna charge even more. So one way to help a fair plan out would be essentially nonprofit federal reinsurance for fair plans to help reduce the cost of reinsurance. Another reform that's desperately needed is to get private insurers and fair plans to take into account the risk reduction benefit of investments in adaptation and resilience. So it turns out there's a lot of science and empirical evidence that in various geographies across the United States for different perils, you can do things to make your property less likely to burn, less likely to blow down, less likely to be impacted by a heavy wind event. And you can do things on a landscape scale to reduce those impacts as well. In the wildfire context, for example. Actively managing the forest using prescribed fire and thinning to reduce the amount of fuel in the forest to mimic the way that nature used to manage our western forest before 120 years of fire suppression. California's appropriated $3.6 billion over the last couple of years to reintroduce fire in a controlled way and to thin, not clear cut forest, to reduce the volume of fuel, reduce the risk of loss associated with wildfire. So there are things you can do at the property level, home hardening defensible space to make your home less likely to burn. The problem is that even though these adaptation and resilience measures empirically and demonstrably reduce the risk of loss, insurance companies are not taking them into account in the models they use for pricing and for deciding whether to write and renew insurance.

Ariana Brocious: I mean the entire model of insurance is evaluating risk. These companies have troves of data they use to do this kind of analysis to, to decide what the cost would be to, you know, replace somebody's property. So why are these companies not accounting for risk mitigation measures?

Dave Jones: So that's a very good question because we've proven that they can, in a paper that I led when I was at The Nature Conservancy in 2021 with Willis Towers Watson, a global risk advisory firm and insurance broker. We demonstrated that with a little bit of adjustment, the computer models the insurers use in California and elsewhere in the United States to decide whether to write and renew insurance and how to price it. That those models are technically able to account for landscape scale for treatment, and it results in 20 to 40% reduction in their average annual losses. So it's technically feasible. Our results were replicated a year later in a study that was done by Moody's RMS, the big insurance industry cap modeler. Just the other month, a collaborative project I led through my center with the Nature Conservancy and Willis Towers Watson, we successfully placed the first property insurance product that was written specifically because forest management was occurring in and around the homeowner's association for which the insurance policy was written. And the insurer wrote the policy for this homeowner's association smack in the middle of the forest in Northern California, in an area where other insurers are not writing or renewing because of wildfire risk. Why did this insurer agree to write the insurance? 'cause we were able to show them that forest management occurring in the area reduces risk of loss and that they could write this insurance and do so profitably.

So we know that it can be done technically. We know that it's feasible to write insurance policies like this. Our hope is that home insurers and small business insurers will take this up voluntarily. Why haven't they done so? It's simply easier for them not to renew the policy and to keep renewing the 85 or 90% of their policies outside of the high wildfire risk area and make money on those and simply turn down people that need insurance in the other areas. But that's not a good result for homeowners or small businesses or communities. And one state has gotten tired of waiting for the insurers to do the right thing. Colorado just enacted a law this very year signed into law by governor Jared Polis, supported by Insurance Commissioner Mike Conway, that requires the insurers in Colorado, requires that the computer models they use account for property, community and landscape scale mitigation, and I anticipate other states will do the same if the insurers don't voluntarily take this up as we've just demonstrated they can with the placement of this first ever wildfire resilience insurance product in Northern California.

Ariana Brocious: Yeah. And that particular product is really interesting because the area, as you mentioned, is near Lake Tahoe. It's like many other parts of California, it's a prime area for wildfires. And so the success of that plan is great to see. And I think this example coming from Colorado is equally important because as the climate continues to change, as the planet is warming, we are seeing more people end up in areas of higher risk, even if they don't move the place they might be, is getting more risky. Right? And so there just needs to be more regulation of these companies to not abandon people who are already in harm's way. Why is there not more regulation of insurance?

Dave Jones: So state insurance commissioners and state legislatures are the ones that set the rules for insurance regulation. It is done at the state level. The United States is unique in that respect. As with many things, there's a big red blue divide. There are some 16 states that have passed laws that allow the insurance commissioner to regulate rates. The vast majority, the other 34 and five territories don't. And that reflects a difference of view with regard to whether or not you can just rely on the free market versus whether these insurance markets are actually what economists would call an oligopolistic market, where there are a few players. You have to be really big. As is the case with insurance companies, there are natural barriers to entry. There's never gonna be enough competition because of the nature of the market itself. And as a consequence, oligopolies have a tendency to price in excess of what they need to make a reasonable profit. So that's where you have regulation. Utilities are another example, right? Most states have public utility commissions. Why? Because the utility, it's an essential good. You need electricity. There are a few providers, they're gonna have you over the barrel. Well, so too, with insurance as well, you need insurance. In fact, you're required to have it if you wanna have a mortgage in this country. You gotta have their product. They're able to price in a way that can be excessive. And so 16 states have said, well. We're gonna allow them to make a profit, but it can't be an excessive rate. The other states have decided just to leave it to the private market. In the long run, we're not gonna price increase and deregulate our way outta this problem. We need to look at the root cause which is greenhouse gas emissions and focus on accelerating the transition to net zero in order to get outta this problem. Otherwise, we'll just keep marching steadily towards an uninsurable future in this country and across the globe.

Ariana Brocious: Right. So you mentioned Colorado, who just passed the state legislature there, just passed a bill requiring insurers to take property, community, landscape level mitigation measures into account when they're issuing and pricing their homeowners policies. Have you had any indication yet of other states that are likely to follow suit or have already been considering similar laws?

Dave Jones: Well, California tried to pass such a law last year and the insurance industry opposed it and killed it, but I suspect that a number of states, including California, will look at the Colorado reform and say, look, if they can do it in Colorado, why not here? And it stands to reason. A homeowner might spend tens of thousands of dollars hardening their home against wildfire, having defensible space. They're paying a local homeowners a fee. They're paying a local tax, they're paying state taxes. They're paying federal taxes to do forest management in the National Forest, close to their community, and yet they're still not being renewed. They're still not being written insurance. And so there's a lot of justifiable frustration out there, and that's why I think Colorado did what it did. It got tired of waiting for the insurers to do the right thing and went ahead and required it, and I think we'll see other states do so as well.

Ariana Brocious: You've argued that insurance companies should bring what are known as subrogation claims. against oil and gas majors for their contributions to climate change. So can you explain how this would work and who would benefit?

Dave Jones: There is a doctrine of law in every state and territory in the United States called subrogation, which allows the insurance company to stand in the shoes of its policy holder and then bring lawsuits against third parties whose actions or inactions injured the policy holder and cause the insurance company to pay out. So the best examples of this recently are health insurers suing big tobacco for health insurance payments to patients associated with respiratory illness. Health insurers suing big opioid for health insurance, payments for medical care associated with opioid addiction and even more recently in California in 2018 in the wake of the Camp Fire home insurers suing PG&E, the major gas and electrical utility in Northern California, which started the Camp Fire, suing PG&E to recover for their payouts associated with the campfire. And in fact, home insurers in California recovered $11 billion from PG&E of the $12.6 billion they paid out for that event.

Ariana Brocious: So most of it.

Dave Jones: Exactly. So this concept of subrogation is well founded. Insurers avail themselves of it routinely, Who is a major contributor to the temperature rise, which is causing more extreme and severe weather related events, which are landing as catastrophes, which are causing insurers to have to pay out more? The oil and gas industry, and who lied for decades about the impact of their emissions on climate change and the concomitant impact on catastrophic events? The oil and gas industry. So the insurance company should be bringing subrogation claims against the oil and gas industry for the oil and gas industry's emissions contribution to global temperature rise, which in turn is driving a number of these catastrophic events. So far, the insurers have not done so. Why? Well, part of the explanation might be that they have over half a trillion dollars invested in the oil and gas industry, and that's an explanation, but not a legal excuse. I believe they actually have a fiduciary duty to bring these lawsuits because they are supposed to be acting in the best interest of their shareholders and owners. And one way they can do so as they've done in other contexts, whether it's big opioid, big tobacco or utilities, is to bring subrogation claims and collect back some of that money that they're paying out and collect it back from the industry whose emissions are a major driver and whose lies and deceptions were a major driver of the phenomenon we find ourselves in the middle of right now, and that's the oil and gas majors.

Ariana Brocious: Right, who also continue to profit as we sit here today.

Dave Jones: And then at the same time, we have a federal administration that's decided to stick its head in the sand, eliminate those federal agencies that would help insurers better understand these risks and model them, not to mention all the rest of us. And the Federal Administration at the same time is essentially gutting both the independence of and the ability of federal financial regulators to focus on climate related risk, whether it's the SEC or the OCC or the CFTC or the Federal Reserve, the President is leaning in and trying to eliminate the independence of these agencies, but also prevent them from looking at climate risk to the very financial sectors that they regulate.

Ariana Brocious: We started talking about how we got into this mess. So could you summarize, how do we get out of it?

Dave Jones: Well, first and foremost, we need to accelerate the transition from fossil fuels and other greenhouse gas emitting industries because it's those emissions that continue to contribute to global temperature rise. Which are contributing to and driving more severe and extreme weather related events, which are killing more people, injuring more people causing insurers to pay out more and causing to raise prices and not right insurance. The insurance crisis is really the canary in the coal mine with regard to the climate crisis. And the canary is dying. And sadly, again, we have a federal administration that's taking us in exactly the wrong direction, but states still have a lot they can and should do in are doing to try to advance the transition to a net zero economy.

Second, more investments in adaptation and resilience, So whether it's ecologically based forest treatment or doing things to reduce the risk of river flooding, like levee setbacks and other measures that are good for nature, but also reduce flood risk. Restoring coral reefs where they exist, restoring mangroves where they exist also dramatically reduces the impact of storm surge. So there are, there are gray infrastructure investments and also green investments we need to make in adaptation and resilience.

Third, we need the insurers to take the adaptation measures into account when they're pricing and deciding whether to write insurance. Right now they're not. They need to do so. If the insurers won't take that up voluntarily, then the path is that blazed by Colorado, no pun intended, which is to require it.

I think fourth, we have to look at things to shore up the fair plans, as we talked about earlier in the conversation. One proposal I've made is for a federal reinsurance program for fair plans. So reduce the cost of reinsurance for fair plans by having a nonprofit reinsurance program fair plans. And we need to not undermine the very agencies that are necessary to collect data, to give insurers better information and communities better information about risk and loss.

One has to ask this question, why does the insurance industry have a over half a trillion dollars invested in the oil and gas industry? The very industry whose emissions are causing insurers to say to states, I'm sorry. I can't afford to write insurance in your state anymore because the risks are just too great. Why are they allowed to keep these investments? They shouldn't be. States can enact the legislation to require them to move out of those investments over time to move out of writing insurance for that industry as a way of contributing to the necessary transition away from fossil fuels.

Ariana Brocious: Dave Jones is California's former insurance commissioner and the director of the Climate Risk Initiative at the Center for Law Energy and the Environment at UC Berkeley. Thank you so much for joining us on Climate One.

Kousha Navidar: And that’s our show. Thanks for listening. You can see what our team is reading by subscribing to our newsletter — sign up at climate one dot org.

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