Jim's Perspective…

Property Insurance and Climate Change

We have all seen and heard about the Malibu wildfire which is the latest "climate change" disaster to strike the United States. Reuters reports that 6,300 people were ordered to evacuate. This even includes famous television actor Dick Van Dyke! Reuters also reports that the fire has scorched roughly 4,000 acres in the Malibu area. No doubt there will be many fire insurance claims for the property and casualty insurance industry to handle.

The continued occurrence of catastrophic property insurance claims has had an impact on Congress as many constituents contact their elected representatives and beg for federal assistance for losses sustained from catastrophic weather events. This year, it has been reported that there have been at least two dozen U.S. disasters with losses exceeding $1 billion for each disaster. This also involves a year that is on track to be the hottest on record. On Monday, a Congressional Committee released a report detailing how the fossil fuel-driven climate emergency poses a "significant threat" to the country's housing and insurance markets.

The report was released by Democrats on the Joint Economic Committee (JEC). This "joint committee" is made up of ten Democrats and ten Republicans in Congress. The JEC was established as part of the Employment Act of 1946. The main purpose of the JEC is to study matters related to the U.S. economy.

Some conclusions or determinations in the report are as follows:

> Climate-exacerbated disasters, such as wildfires, hurricanes, floods, droughts, and excessive heat, are increasing risk and causing damage to homes across the country. Last year, roughly 70% of Americans reported that their community experienced an extreme weather event.
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> In the 1980's, the United States experienced an average of one, billion-dollar disaster, every four months; now, these significant disasters occur approximately every three weeks. The year 2023 was the worst year for home insurers since 2000, with losses reaching 15.2 billion, which is more than twice the losses reported in 2022.
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> Insurers are pulling out of states with substantial wildfire or hurricane risk, such as, California, Arizona, Florida and North Carolina, which is leaving some areas uninsurable, and, in many regions, even if the homeowner can get insurance, the policy covers less than all of the actual physical climate risks (such as rising sea levels) that their home faces, leaving them underinsured.
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> Last year, the average U.S. homeowners' insurance rate rose over 11%, and from 2011 to 2021, it has soared 44%. State by state increases in homeowners insurance for the period 2020 to 2023 show Florida with the highest increase of $1,272,

followed by Louisiana ($986), District of Columbia ($971), Colorado ($892), Massachusetts ($855), and Nebraska ($849).

I am not quite sure why California, Texas or Arizona did not have higher increases than Nebraska. One of the main data sources for the JEC report is the National Centers for Environmental Information. It is the United States scorekeeper in terms of addressing severe weather and climate events from a historical perspective. The JEC report also recommends that Congress pass H.R.7462, Wildfire Insurance Coverage Study Act of 2024, introduced by JEC Chair, Sen. Martin Heinrich (D-N.M.). This bill would require the Government Accountability Office to study the nature and extent of wildfire risk in the United States; the availability of private insurance for this risk; and state regulation of those private insurance entities insuring this risk exposure.

All of this causes me to be concerned about the future of state regulation of insurance. My concern is even stronger when, in addition to the above study, three congressional representatives from California sent a letter to the Federal Insurance Office and the NAIC, urging them to ensure comprehensive and transparent data collection to understand and address the impact of climate change on property insurance premiums. They suggested the FIO use its subpoena power to collect data from states that can be used to manage and assess insurance coverage for weather catastrophes and wild fires. All of this suggests to me that Congress may be interested in organizing and adopting federal regulation of property insurance.

In January of 2024 we also saw the introduction of a bill to create a federal catastrophic property loss reinsurance program within the Department of the Treasury which would provide reinsurance coverage for insurers that write residential and commercial property insurance. Representative Adam Schiff (D-Calif.) introduced H.R.6944 to "stabilize the home insurance market, and insuring that vulnerable communities are not excluded from property insurance coverage." This bill would also give the Department of the Treasury authority require property insurers to invest in loss prevention and risk mitigation partnerships with policyholders, and it extends authority to the Federal Insurance Office (FIO) to improve market monitoring techniques which would be accomplished by also working with state regulators [I can't imagine that property insurers would object to these proposals!!]. It is very interesting that the national insurance industry trade association, American Property and Casualty Insurance Association (APCIA) told the Business Insurance magazine that this reinsurance proposal should be carefully considered because of what currently exists with the federally funded National Flood Insurance Program. It has a $20.525 billion debt which ultimately is a financial risk exposure for federal taxpayers. Ah-yes! Politicians are always quick to provide constituents with government benefits, but they are slow to require constituents to pay for the full cost of benefits!

The property insurance marketplace seems to be in a state of disarray. There is a lot of uncertainty within the catastrophe property loss sector of insurance. I wish I had a solution to all of this that would leave the matter resolved only within the private enterprise sector of the property and casualty insurance industry, but I don't. We shall see. . .

But wait! There is one potential solution for homeowners property insurance. There is a new, non-admitted insurance company, called "Stand" operating in California. It uses AI to determine how to protect a home from wildfires and other catastrophic weather events. Half of the workforce at Stand is traditional insurance-trained employees. The other half of the company consists of scientists from SpaceX and Boeing. Why employ people with a background in rocket science? They build a digital twin of the home, and then use physics to simulate how the home could withstand catastrophe weather events or other disasters. This start-up company has raised $30 million in funding. Since it is not licensed in California, it writes homeowners insurance in the surplus lines market. Just when you think there is no solution . . . presto! A new way to write insurance! Only in America!

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