U.S. Chamber of Commerce
Center for Capital Markets
Competitiveness

The Path to Affordability and Availability in Homeowners Insurance

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Introduction and Executive Summary

Property and Casualty (P&C) insurance[1] can trace its origins to Edward Lloyd's Coffee House in London where, in the late 1600s , Lloyd's began renting out its tables to entrepreneurs who sold insurance to ship owners to cover the risk that their ships would not return from their journeys.[2] From these beginnings in maritime insurance, the concept of transferring risk from an insurance buyer to the insurer spread to cover a wide array of perils.

The insurance buyer pays a small, certain financial cost, receiving in return protection against an unexpected large financial loss. Insurance allows individuals to purchase protection against the financial impact of major risks, allowing them to engage in day-to-day activities without fearing the risk of ruin. Similarly, insurance allows businesses to implement ideas and deploy capital while limiting the financial consequences of unexpected events.

Competition within the private P&C insurance market encourages innovation, improves insurance product features and services, and incentivizes lower premiums and rates to attract customers—all of which foster economic growth. Additionally, private insurance offers societal benefits through promoting safer practices, safeguarding businesses from financial disruption, and mitigating risk. "Mitigating risk is essential to innovation. In that way, insurance is a necessary catalyst for economic growth, human development, and, frankly, societal progress."[3]

For many homeowners and businesses, their home and property are by far their largest and most valuable assets. Property insurance protects owners from several types of losses, including damage or theft; without it, they could potentially suffer life-altering changes and significant financial hardship. The societal impact also cannot be understated as lending institutions will not provide mortgages without proof of insurance coverage, and homeownership plays a significant role in economic growth by creating jobs in construction and contributing to spending on goods and services.[4] In essence, similar to other forms of insurance, property insurance is a key contributor to commerce by protecting a policyholder's assets and allowing businesses to function effectively.

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1 P&C Insurance encompasses a wide range of policies that protect individuals and businesses from financial losses caused by property damage and liability claims. Examples include homeowners, commercial or personal auto, rental insurance, and general liability insurance.

2 Lloyds. "About Lloyds – Our History." Website.

3 Claims and Litigation Alliance. 2025. "CLM Voices: Getting to Know Anthony Vidovich."

4 Alcova Mortgage. "Why Homeownership Matters." Website.

Should the Cost of Insurance Reflect the Risk? Not Everyone Seems to Agree

Along with the range of benefits insurance provides a consumer, insurance comes with a financial cost. Standard risk-based pricing, based on actuarial ratemaking principles, considers a reasonable rate or premium to cover the insurance company's expected loss (essentially, the insurer's mean loss based on projected likelihood and severity of the claims), expenses, and cost of capital (which reflects unexpected loss, protecting against particularly large or catastrophic disasters). Yet, in today's environment of instantaneous access to news and social media misinformation, it is easier than ever for the cost of insurance premiums to be magnified and sensationalized without a full understanding of how risk-based pricing works or regulation impacts rates and premiums.

Insurers use risk-based pricing, with premium designed to cover the costs associated with bearing the risks. The insurer must synthesize many underlying risk characteristics, some—like physical location and exposure to natural catastrophes—are external, while others, such as structural maintenance are internal, in order to determine premium.

Some risk characteristics, such as locating property in an area prone to natural catastrophes or using building materials that cannot withstand the effects of significant weather events, will raise the likelihood or magnitude of losses, and with risk-based pricing, raise the premium for an insurance company to cover the risk. The higher the risk, the higher the premium, which potentially exceeds a customer's ability or willingness to purchase coverage.

If an insurance company is unable to charge premiums that adequately reflect the cost of bearing the risk, it may choose to exit the market—potentially leaving customers without access to coverage for those risks. When a critical mass of insurance companies effectively exits a particular market because premiums cannot be set at a level sufficient to cover insurers' risk exposure, the result is an availability problem—property owners may not be able to readily purchase insurance coverage at a prevailing market rate. As such, affordability and availability of insurance are highly linked, yet distinct considerations for a healthy, competitive insurance marketplace.

Headwinds Impacting P&C Homeowners Insurance Markets

Recent homeowners' insurance premium increases have been driven by economic inflation (general and construction-specific); exposure growth (more and higher-value property being built in areas long exposed to perils); changing severe weather volatility in certain regions; and legal system abuse, with additional pressures in specific markets from regulatory frictions. Importantly, outside inflation, these pressures exhibit considerable regional variability and most markets remain functional, while affordability and/or availability stresses are concentrated in specific states and sub-state geographies.

As more people and valuable buildings move into high-risk areas—like coastal zones, hail-prone regions, and the wildland-urban interface—the same size storm affects more expensive assets, increasing potential insurance losses even without any change in the weather. (e.g., Hurricane Ian's corridor saw substantial in-migration over recent decades, as noted in Figure XX below). Premiums must be set to cover expected loss, expenses, and the cost of capital (including unexpected loss) over a one-year policy term, so higher potential losses translate into higher actuarially indicated rates, which in turn can lead to higher premiums and affordability stresses. That is, as expected losses rise, the premium as a share of household income tends to rise in the most exposed counties and states unless risk is reduced or income growth rises at a commensurate pace.

States with restrictive regulatory regimes can exacerbate affordability pressures. In prior approval jurisdictions with slow or opaque processes, and/or bans or constraints on the use of risk characteristics, there tends to be a considerable lag between rising costs and approved rates, particularly during inflation spikes. That lag forces insurers to "catch up" later with larger filings (where permitted), producing bigger price shocks for households than if timely, prospective adjustments had been permitted.

When rising costs significantly exceed approved rates, the problem turns from affordability to availability. If allowed, premiums remain below expected costs for extended periods, and insurers then limit growth in markets, tighten underwriting, or exit the market to protect solvency, leading to consumers with fewer private market options. Residual market expansion is a visible symptom of availability stresses: Fair Access to

Insurance Requirements (FAIR) Plans grow when private capacity contracts, as seen in California's sharp FAIR Plan exposure growth amid pricing constraints in a high hazard environment.

Legal system abuse (LSA) often acts as a force multiplier on both price and access in markets with high regulatory frictions and concentrations of risk exposed assets. National tort costs grew about 7.1% annually from 2016 to 2022 (outpacing the Consumer Price Index and the Gross Domestic Product), and these costs ultimately flow through to policyholders in the form of higher premiums. In the homeowners insurance market specifically, tactics like post-loss Assignment of Benefits (AOB) mills, short-fuse time-limited demands, and inflated contractor billing increase the number of litigated claims, average paid severities, and loss adjustment expenses (LAE), raising the actuarially indicated rate for the one-year term. Where regulatory processes already lag, LSA-driven loss and LAE inflation deepen the gap between costs and allowed rates, so insurers face larger, less predictable deficits and may pull back faster—tightening availability.

It is critical for state-level policymakers to analyze the policy factors and physical risks unique to their jurisdictions that may be creating stresses on affordability and/or availability and make decisions that address those factors and reduce risks. Those changes will ultimately promote the health of local insurance markets. Key recommendations include the following:

- State regulation using risk-based pricing (RBP) while upholding the long-standing principle that rates not be excessive, inadequate, or unfairly discriminatory. Risk-sensitive pricing ultimately leads to more predictable premiums, promotes availability of coverage, and, significantly, sends important price signals to consumers, builders, and others to engage in behavior to reduce the overall risk of injury and property damage. Due to a combination of demographics and catastrophe exposure, affordability issues may result in some locales where more tailored solutions may be needed.
- Legal system reforms that protect and fairly compensate injured parties while reining in the lawsuit abuses that result in unwarranted costs.
- The implementation of governmental initiatives, primarily at the state and municipal level, include the following:
    - Building code enhancements and zoning to reflect peril exposure.
    - Pre-disaster mitigation and building resilience strategies. Incentives, such as grants, rebates, and tax credits, for individuals and businesses to adopt resilient building techniques.
- Consumer education focused on the interaction of underlying risks and loss drivers with the premiums that insurance companies are charging.

A Primer on Property & Casualty Insurance

A. State-Based Regulation

"The insurance market is the largest financial services sector to be regulated almost entirely at the state level."[5]

Background

Property insurance in the U.S. operates under a state-based regulatory framework established by the McCarran-Ferguson Act of 1945, which affirmed that, "the business of insurance, and every person engaged therein, shall be subject to the laws of the several States" (15 U.S.C. §1012). Beyond constitutional principles of federalism, the rationale for a state-based regulatory system is that states have a better understanding and ability to respond to local market conditions due to the following:

- *Local market knowledge:* States have a better understanding of regional risks, construction practices, and economic conditions (Grace & Klein, 2009; NAIC, 2021).
- *Consumer proximity:* State regulators provide more accessible consumer protection and complaint resolution (Klein, 1995).
- *Regulatory flexibility:* States can adapt regulations to local conditions and emerging risks (Harrington, 2000).

State insurance regulators have worked over the decades through a cooperative body made up of state insurance regulators (the National Association of Insurance Commissioners, or NAIC)[6] to establish model laws and regulations for state insurance markets. While NAIC has no direct regulatory authority, it plays a crucial role in developing **model laws and regulations** that states may adopt to promote consistency across jurisdictions (Klein, 1995; Grace & Klein, 2009). ASK

The NAIC has developed model laws affecting homeowners insurance, including the Property and Casualty Model Rating Law, which provides frameworks for rate regulation approaches (e.g., prior approval, file-and-use) and consumer protection standards (NAIC, 2021; Harrington & Niehaus, 2004).

5 Theodorou, Jerry. December 2024. R Street. "2024 Insurance Regulation Report Card."

6 Established in 1871, NAIC is a nonprofit organization that supports state insurance regulators in the U.S. The organization is committed to setting standards and ensuring fair, competitive, and healthy insurance markets to protect consumers.

Historical Foundation

The state-based system predates federal involvement in most financial services regulation. Early insurance regulation began in the 1850s when states established insurance departments to protect consumers from insurer insolvencies (Meier, 1988; Grace & Klein, 2009). The Supreme Court's decision in Paul v. Virginia (1869) initially held that insurance was not interstate commerce, solidifying state authority until the Supreme Court's 1944 South-Eastern Underwriters decision held that insurance was subject to federal commerce clause jurisdiction (specifically, with respect to federal antitrust laws). In response to the 1944 court case, Congress in 1945 enacted the McCarran-Ferguson Act, which reaffirmed state primacy over the regulation of the business of insurance, absent Congress specifically applying a law to the business of insurance.

B. Regulation of Admitted Insurers

Overview

Admitted insurance companies are licensed and regulated by the states in which they operate and are subject to comprehensive regulatory oversight, including these key areas: (1) financial solvency regulation (capital and surplus requirements, financial exams, reserve requirements); (2) rate and form regulation (rate filing requirements, policy form approval, underwriting guidelines); (3) market conduct regulation (claims handling standards, consumer protection, market conduct exams); and (4) guaranty fund protection. [7]

While all aspects impact the functioning of insurance markets, rate and form regulation is most salient to the current debate relating to affordability and availability stresses in homeowners insurance markets, with rate regulation playing a significant role. [8]

A Deeper Dive: Rate Regulation

Here are some key tenets of rate regulation:

- **Rate Filing Requirements:** Admitted insurers must file their rates with state regulators according to the state's rate regulation system, with rates required to be *adequate, not excessive, and not unfairly discriminatory.* Rate filings must include actuarial support demonstrating the reasonableness of proposed rates.
- **Underwriting Guidelines:** States regulate underwriting practices to prevent unfair discrimination, requiring that underwriting decisions be based on actuarially sound risk factors and comply with state fair housing and civil rights laws.

How regulators implement these core tenets can, however, differ dramatically, with two key differences having a particular impact on insurance markets: (1) the method of rate approval and (2) the degree of underwriting freedom.

On the method of rate approval, the two ends of the spectrum are open competition and explicit prior approval of rates. In between full open competition and prior approval are gradations of state approval. These include "use and file" where an insurer may begin using rates before they are filed with the state; "file-and-use" where an insurer may begin using rates that are filed if the state regulator has not objected within a specified time frame; and flex band pricing where rate changes exceeding a specified threshold must be approved prior to use.

While prior approval and flex band systems are not per se problematic, they often are operationalized in an onerous manner that harms homeowners insurance markets. Specifically, delays in approvals prevent insurers from promptly adjusting rates to reflect changing risk exposure, while the approval process itself opens the process to political pressure to suppress actuarially justified rate increases, leading to systemic underpricing. Rate delays and/or suppression cause profitable insurers to exit markets, reduce competition, and force consumers to rely on residual markets (discussed below) or face coverage unavailability altogether.

On underwriting freedom, some states restrict the use of actuarially relevant risk factors or require adjustments that compromise actuarial soundness. Regulatory frameworks that limit underwriting in this way result in unfair cross-subsidization within a market (high-risk homeowners are subsidized by lower-risk homeowners); moral hazard (price signal of risk is distorted); and increased reliance on residual markets as insurers exit.

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7 All admitted insurers contribute to state guaranty funds, which, in the case of an insurer insolvency, provides payments to the insolvent insurer's policyholders. Claim payments from guaranty funds for homeowners are typically capped at $300,000 or $500,000. See https://www.ncigf.org/comparison-of-laws-by-provisions. Current home values often exceed these caps, meaning that many homeowners would not receive full compensation from a guaranty fund if their home was a total loss. It is critical to ensure that insurance companies remain viable such that reliance on guaranty funds is minimized.

8 Form regulation refers to policy form approval. All insurance policy forms used by admitted insurers must be filed with and approved by state insurance departments before use (Abraham, 2010; ISO, 2019). This ensures that policy language (the insurance contract) complies with state insurance laws and provides required consumer protections (NAIC, 2021).

C. FAIR Plans and Alternative Residual Market Plans

Background

Fair Access to Insurance Requirements (FAIR) Plans are state-mandated insurance pools established to provide property insurance to applicants who cannot obtain coverage in the voluntary market. Created initially in response to urban riots and civil unrest in the 1960s,[9] FAIR Plans were designed to address redlining practices where insurers refused to write coverage in certain geographic areas, particularly urban neighborhoods.

Today, FAIR Plans (often referred to as the "residual" market) serve properties in high-risk areas, including wildfire-prone regions, hurricane-exposed coastal areas, and some urban areas with elevated crime rates.

Because properties that qualify for coverage from FAIR Plans are at higher risk than properties underwritten by private insurers, FAIR Plan policies are typically more expensive than admitted market options. FAIR Plans also offer less coverage, such as dwelling-only coverage or a specific peril coverage, compared to private plans offered in the admitted market.[10]

FAIR Plans operate as **involuntary pools** where all property insurers licensed in the state must participate. Participation is often determined by market share. While the specifics may vary from state to state, in general, for a consumer to qualify for FAIR Plan coverage, a prospective policyholder must present proof of denied coverage by the private market.[11]

Today, thirty-three (33) states, the District of Columbia, and Puerto Rico have FAIR plans or an equivalent; each plan may be tailored to reflect the unique exposures and perils that affect most property owners in the respective jurisdiction.

9 The Urban Property Protection and Reinsurance Act of 1968 provided the federal framework encouraging states to establish FAIR Plans following widespread property damage during urban riots in Detroit, Newark, and other cities, including by offering a federal reinsurance backstop. The federal backstop terminated in the early 1980s.

10 NAIC. December 2024. "Fair Access to Insurance Requirements Plans." (NAIC FAIR 2024)

11 Insurance Information Institute. 2025. "What are Fair Plans and how might they provide insurance coverage?"

FAIR Plans: Design Versus Reality

While FAIR Plans were originally designed as a solution "to mitigate urban deterioration by reducing unfair insurance practices"[12] and as a means to supplement rather than compete with private insurers, over time their function and use has expanded, including in ways that are likely to worsen existing stresses in some state markets.

First, FAIR Plans have grown exponentially in markets where insurers have restricted their exposure or exited entirely due to an inability to appropriately price risks, typically owing to a combination of asset development and concentration in high-risk areas, constraining rate regulation, and/or excessive fraud and legal abuse.

Second, with the growth in FAIR Plans due to admitted carrier retrenchment, some state FAIR Plans are now under pressure (and sometimes actual regulatory constraints) to underprice the risk in order to ensure affordability.

Third, those FAIR Plans that are underpricing their risks are imposing greater additional stress in their state insurance markets. Specifically, in the event that catastrophic losses exceed a FAIR Plan's capital and reserves, the Plan is able to assess its insurance company members (the private insurers) relative to each member's market share in order to maintain the FAIR plan's solvency. The private insurers are therefore expected to proportionally pay their pro rata share after an assessment.

The threat of FAIR Plan assessments can cause private insurers to manage their exposure (market share) in such markets, including by reducing renewals, stopping writing new insurance, or exiting the private market. Those actions further intensify the lack of availability of property insurance. Additionally, price suppression by FAIR Plans hides the important risk signal sent by actuarially indicated pricing, which leads to both moral hazard and continuation of practices—such as building in high-risk areas—that led to the initial affordability and availability stresses in the first place.

12 NAIC FAIR 2024

Other Alternative Residual Market Plans

States like Florida and North Carolina have taken a different but similar approach to provide plan options that function as insurers of last resort.

Citizens Property Insurance Corporation (CPIC), Florida's state-run organization, is also an alternative residual market plan, but it differs from typical FAIR Plans in three key respects. First, it is state run as opposed to being an involuntary pool of private insurers. Second, eligibility to purchase insurance from CPIC is more liberal than other FAIR Plans. In addition to offering policies when not available in the open private market, consumers can also access CPIC coverage if premiums are more than 20% higher in the private market for comparable coverage. Third, if CPIC experiences a capital and reserve deficit, the deficit is funded as an assessment on Florida policyholders—not an assessment on insurers operating in the state.[13]

North Carolina's FAIR Plan is the North Carolina Joint Underwriting Association (NCJUA), and it operates in most respects like other FAIR Plans (regulated, involuntary pool of insurance companies licensed to write property insurance in North Carolina, with participating insurers potentially subject to assessments based on market share). Yet, NCJUA does not provide windstorm/hail exposure in the coastal area. Instead, that coverage is carved out to a separate involuntary pool, the North Carolina Insurance Underwriting Association (NCIUA, also known as the Coastal Property Insurance Pool, formerly, the Beach Plan).

NCIUA is also an involuntary pool composed of all insurers operating in the state, and participating insurers are subject to assessments if NCIUA experiences a deficit. Many coastal insureds pair an NCJUA or private-market policy (excluding wind/hail) with NCIUA wind/hail coverage to obtain complete protection.

13 Cappelletti, Anthony. June 2024. Society of Actuaries. "Property Insurance in California and Florida: A Problem of Availability and Affordability."

D. A Deeper Dive Into Insurance Pricing

Risk-based pricing (RBP), which is the use of a policyholder's risk characteristics in determining premiums, is the critical underpinning of pricing P&C insurance. As noted, RBP enables the risk to be priced so that it accurately reflects the unique characteristics of the exposure, thereby promoting fairness by reducing cross-subsidization between higher-risk and lower-risk policyholders and incentivizing risk mitigating behavior.

However, the use of certain risk characteristics as rating variables has been restricted or is currently under consideration to be restricted by insurance policymakers. To the extent that these contentious rating variables meet the criteria for a sound rating factor, for instance, accurately predicting risk, being objective and easily verifiable, and abiding with existing anti-discrimination laws against protected classes, its prohibition will produce negative consequences for policyholders and society.

1. How Risk-Based Pricing Works

As stated, risk-based pricing is the use of a policyholder's risk characteristics and expected loss levels in determining premiums. This system relies on two interconnected components: **risk characteristics** that identify the underlying drivers of loss, and **rating variables** that operationalize these characteristics within pricing algorithms.

Risk Characteristics: The Actuarial Foundation

Risk characteristics represent the fundamental attributes that actuaries identify as statistically significant drivers of loss frequency and severity through analysis of historical claims data. These characteristics provide the actuarial justification for why different properties should carry different premiums based on their risk exposure to the insurer, including. the following:

Property-specific risk characteristics directly impacting loss potential, such as**:**

- **Construction materials and methods** (e.g. frame, masonry, fire-resistive materials)
- **Age of structure** and compliance with modern building codes
- **Property size** and replacement cost exposure
- **Safety and mitigation features** (e.g. smoke detectors, sprinkler systems, hurricane shutters)
- **Roof age and condition**, which affects susceptibility to weather damage

Geographic and environmental risk characteristics that affect exposure to natural perils, such as:

- **Property location** in areas susceptible to physical damage from natural catastrophes (e.g. hurricanes, earthquakes, wildfires)
- **Local weather patterns** and climate conditions
- **Fire protection service availability** and response capability
- **Proximity to water bodies** and flood exposure

Policyholder risk characteristics, such as:

- **Historical claims experience** and loss patterns
- **Property occupancy patterns** (owner occupied versus rental)
- **Credit-based insurance scores**, which utilize credit history data shown to statistically correlate with claim costs
- Rating Variables: Translating Risk Characteristics I Into Pricing

Rating variables serve as the **operational bridge** between identified risk characteristics and actual premium calculations. These variables convert the conceptual understanding of risk differences into specific mathematical factors within the insurer's rating algorithm, enabling consistent and systematic premium determination across the portfolio.

For example, the risk characteristic of construction materials becomes operationalized through specific **construction class codes** with corresponding premium relativities, while "natural catastrophe exposure" translates into **territorial rating factors** that reflect geographic risk differences.

2. Regulatory Framework and Standards for Risk-based Pricing

State insurance regulators establish comprehensive oversight to ensure that risk-based pricing serves both actuarial soundness and consumer protection objectives. Some requirements follow:

- **Actuarial justification:** Risk characteristics must be actuarially sound and supported by credible statistical evidence demonstrating correlation with loss experience; rating variables must accurately reflect the underlying risk characteristics without distortion or manipulation; and premium differentials must be proportional to demonstrated differences in expected losses.
- **Consumer Protection Requirements:** Even when risk characteristics show valid actuarial correlation with losses, their use in pricing must comply with broader public policy objectives. Regulators prohibit unfair discrimination and may restrict or ban certain risk characteristics that, while predictive, violate state civil rights laws or public policy priorities.

Standard Homeowners Policy Coverage and Insurance Fundamentals

Annual Policy Structure and Risk Pooling
Homeowners insurance policies are **annual contracts** that operate on a one-year policy period basis. This annual structure reflects the fundamental insurance principle of **risk pooling**, where premiums collected from all policyholders in a given year are used to pay claims that occur during that policy period regardless of which specific policyholders experience losses.

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Risk Pool Economics: Each policy year creates a distinct risk pool where ”the losses of the few are paid by the contributions of the many.” Premium payments for a given year purchase coverage for that specific 12-month period and contribute to the collective pool used to pay all covered claims occurring during that year.

Annual Pool Reset: At the end of each policy year, the risk pool effectively “resets.” Premiums collected in Year 1 are used to pay Year 1 claims, premiums collected in Year 2 are used to pay Year 2 claims, and so forth. Premiums collected for a given policy period fund the insurer’s obligation to pay losses that arise during that same period, while the insurer overall manages many overlapping policy periods across its book of business.

Policyholders who pay premiums for multiple years without filing claims have received the full value of their premium payments in the form of coverage protection during each policy period. Additionally, risk-based pricing means pooling does not produce equal costs for all insureds; premiums reflect each insured’s expected losses and expenses, so higher-risk exposures generally pay more than lower-risk ones.

Actuarial Foundation: This annual pooling mechanism is actuarially sound because it spreads risk across the entire insured population for each policy period, allowing insurers to predict aggregate losses with greater accuracy than individual losses. The **law of large numbers** enables insurers to estimate total claims costs for a portfolio of policies even though individual claim outcomes remain uncertain.

Property Insurance Affordability and Availability

A. Overview

Insurance rates across the country have risen, and the impact of both generalized inflation trends and even higher inflation trends in construction materials and labor are major cost drivers in most markets. Even with inflation increases, however, homeowners insurance on average still remains a relatively small portion of the total cost of U.S. homeownership.[14]

Other factors vary by market, but include some or all of the following factors:

- **Increasing Population and Asset Density in Catastrophe-Prone Areas:** Heightening the impact of inflation is rapid population growth in catastrophe-prone areas. For instance, from 2000 to 2023, Florida's population increased by 3 million, while North Carolina's and South Carolina's increased by 2.5 million, with many of these residents moving to exposed coastal regions. Population shifts toward areas known for exposure to various perils are further exacerbated by higher-value homes being built in those locations.
- **Regulatory Challenges:** While most regulators balance the dual responsibilities of protecting consumer interests and insurance solvency, some departments have prioritized keeping rates at levels that destabilize the private market. To the extent that regulation does not allow timely, actuarially sensitive adjustments to reflect these higher expected losses, availability stress often follows, as extended approval lags or rate suppression create a persistent gap between allowed premiums and expected costs, prompting insurers to restrict policy growth, tighten underwriting, or even exit geographies. Regulatory interference with insurers' ability to charge adequate rates undermines availability, increases reliance on residual markets, and distorts insurers' role as risk signalers.
- **Legal System Abuse:** Another factor having an impact on rising costs and insurance pricing is legal system abuse (LSA). For homeowners coverage, insurers are exposed to both first- and third-party LSA, with first-party LSA driving the majority of losses. First-party legal system abuse is most prevalent in the storm restoration industry where well-organized networks are focused on generating additional profit at the expense of the property insurance industry and ultimately consumers.
- **Climate Change:** Climate change remains a key factor due to its gradual, long-term influence on natural catastrophes—especially hurricanes, wildfires, and floods. The share of losses from weather-related events varies widely by peril. Hurricanes have the most pronounced impact on residential insurance markets, often driving property losses and helping set national catastrophe capacity (alongside earthquakes). Wildfires and floods, while considered nonpeak perils, are rapidly intensifying and causing stress in specific, high-risk regions.
- **Reinsurance costs:** Insurers purchase reinsurance coverage to mitigate catastrophic loss, manage regulatory capital requirements, and, in turn, free up additional capacity to underwrite homeowners policies. Reinsurance costs/pricing, however, are driven by many of the same factors that impact the cost of primary coverage—namely, inflation, population growth in disaster-prone areas, rising values of housing stock, legal system abuse, and changes in physical risk. Therefore, adverse trends in these factors increase the cost of reinsurance to primary underwriters, which in turn contributes to higher premiums for policyholders. Moreover, the increase in reinsurance costs to the primary insurer can exceed the ability of those primary insurers to commensurately increase premiums in rate-regulated jurisdictions.

14 For example, the American Property Casualty Insurance Association (APCIA) has conducted research quantifying the "total cost" of home ownership, and homeowners insurance remains a relatively small proportion of the overall cost, factoring in mortgages, homeowners insurance, maintenance, utilities, and property taxes. Recamara, Josh. January 2025. Insurance Business Magazine. "APCIA responds to Treasury Department report on homeownership costs."

Each of these factors is explored in greater detail below.

Rising loss costs flow directly into homeowners insurance pricing because premiums are set prospectively to cover expected losses, loss adjustment expenses (LAE), operating expenses, and a reasonable return on capital over the one-year policy term.

In general terms, actuaries first estimate an "indicated" rate needed to cover next year's expected claim costs; the costs of handling those claims (i.e., loss adjusted expenses or LAE, which includes costs of investigating, handling, and settling claims, including litigation); operating expenses; and a reasonable return on capital. That estimate is forward looking for the duration of the policy term, so it adjusts recent experience for trends like inflation and potential demand surge after big events.

Second, that overall need is distributed across individual policies using a risk classification plan built from rating characteristics (rating variables) that are objective and predictive of loss, such as location/territory, construction and roof features, prior loss history, and other verifiable factors. In practice, each policy's premium equals a base rate (reflecting the overall indication) multiplied by "relativities" from these variables, so higher-risk profiles pay more, and lower-risk profiles pay less in proportion to their expected costs. This is the essence of risk-based pricing and is required by actuarial standards for fairness and accuracy.

When loss costs rise—for example, because rebuild materials and labor get more expensive—the overall indicated rate goes up. At the same time, the relativities on some rating variables can also change if the cost gap between risk groups widens. Using predictive variables in this way reduces cross-subsidies: Lower-risk households aren't overpaying to cover higher-risk losses, and higher-risk households see price signals that encourage mitigation. Sound classification plans also ensure that rates are not "unfairly discriminatory" as required by law (by preventing the same rate for different risks).

B. The Role of Inflation

Inflation significantly impacts insurance premium levels—but often in ways not fully captured by the headline consumer price index (CPI). First, prices relevant to a given coverage, such as homeowners, are not weighted similarly to the basket of goods used to compute the CPI. For instance, home construction materials and labor costs—which are key drivers of loss costs for property insurance—increased significantly more than overall consumer inflation during the years following the COVID-19 pandemic. Second, the impact of inflation on insurance rates appears significantly later than general inflation due to the regulatory process—i.e., insurers must file for rate changes with valid forecasts for inflation (so after inflation appears) and often in prior approval and flex band states insurers may not be able to get full rate increases approved by regulators

Loss Costs and Risk-Based Pricing

Insurance premiums are determined prospectively to cover expected losses, operating expenses, and a reasonable return on capital.

As loss costs rise—such as from increased material or labor expenses—rates adjust accordingly.

Risk-based pricing ensures that higher-risk policyholders pay more and lower-risk ones pay less, maintaining fairness and actuarial accuracy.

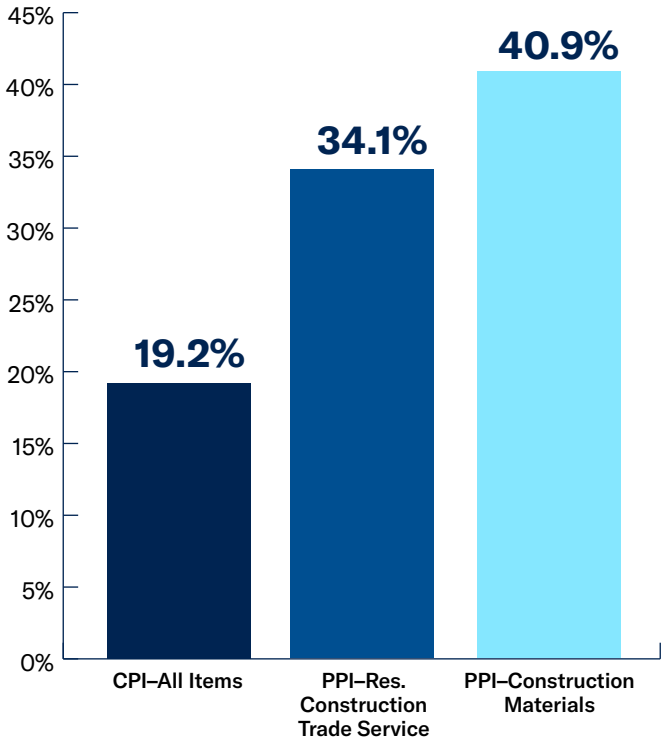
in a timely manner. This means that during periods of abnormally high inflation, insurance rate increases often significantly lag underlying inflation.

Data confirms that recent increases in insurance rates nationally were primarily driven by the high inflation during the 2020–2024 time period:

- Between 2020 and 2024, inflation, driven by global supply chain shocks and other factors, led to a dramatic increase in the cost of materials to rebuild after a catastrophe or other loss event, leading to higher actual and estimated claims costs. Higher actual and expected claims costs necessitated higher insurance rates. For instance, the price of lumber more than doubled in 2021 and 2022 relative to its pre-pandemic baseline.[15]

Also, during this 2020 to 2024, construction labor and materials (again, a driver of property insurance pricing due to its impacts on loss costs) were significantly higher than the headline inflation level, as shown below.

CPI vs Cost of Construction Labor/Materials



Source: U.S. Bureau of Labor Statistics; Jan. 2020-Dec. 2023.

In fact, analysis shows that the longer-term rise in insurance pricing nationally is primarily tied to inflation. For example, the figure below[16] shows the estimated contributions of various factors to severe convective storm (SCS) insurance losses between 2000 and 2024.[17] (SCS events are, on an aggregated basis, the largest driver of losses for the U.S. property insurance industry.) It shows that inflation accounted for about half of the increase in losses, with consumer inflation (CPI) accounting for about one quarter of the increase, while inflation in other categories more relevant to insurance losses accounting for another one quarter of the increase. In contrast, noneconomic factors, such as changes in the SCS events themselves, accounted for only 10% to 20% of the increase.

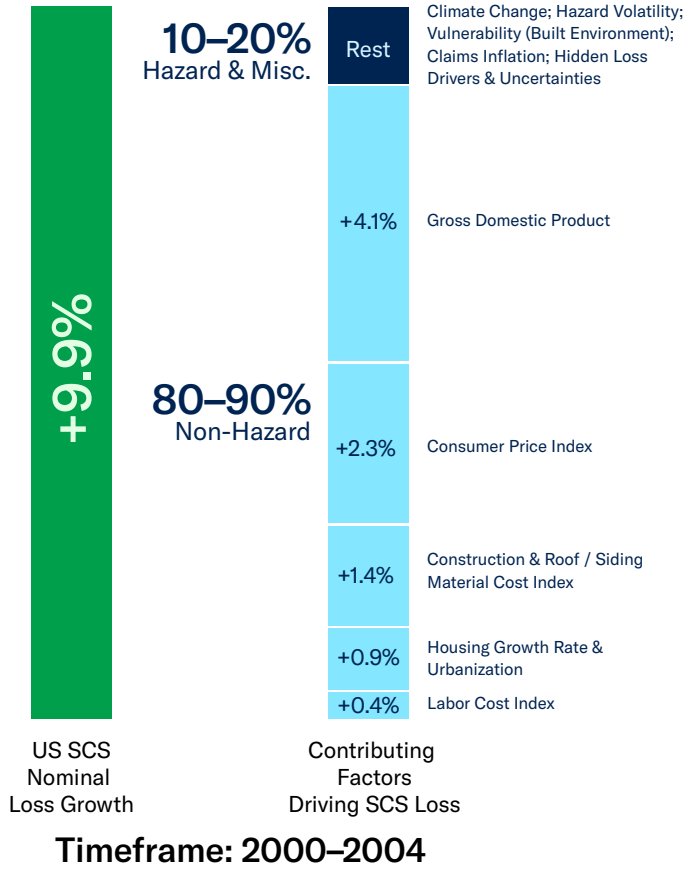


Figure 14: Contributing factors of US SCS loss growth since 2000
Socioeconomic Data: US Census Bureau | **Loss Data & Graphic:** Gallagher Re

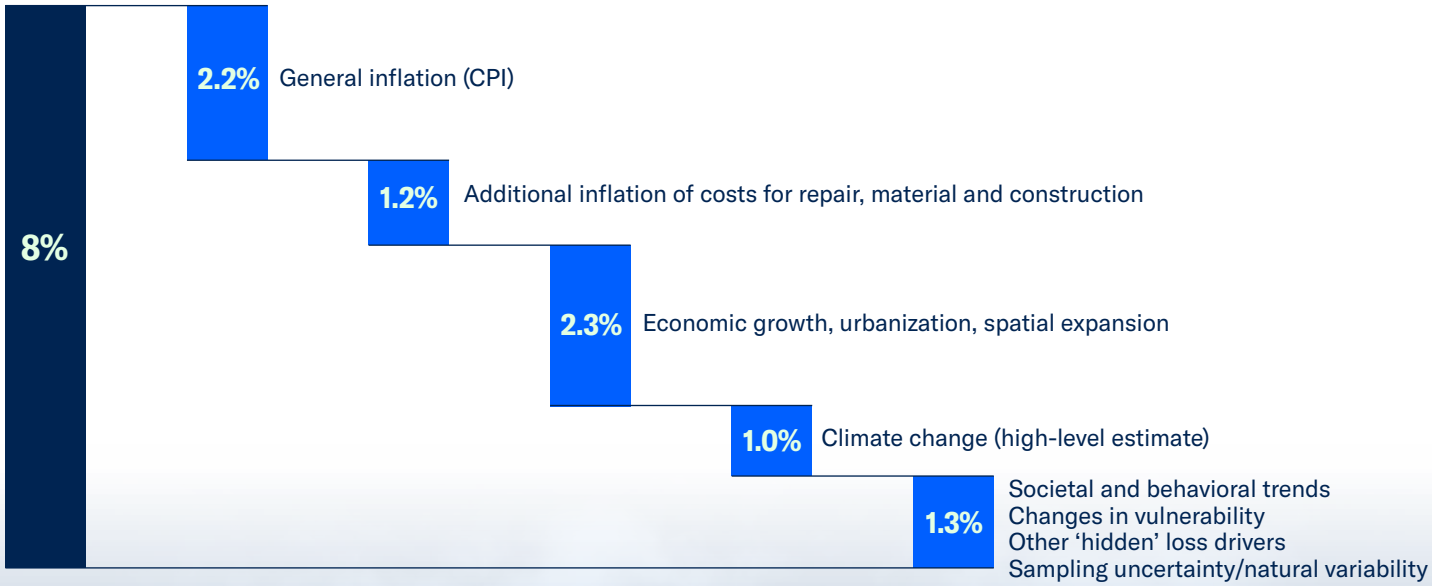
15 Federal Reserve Bank of St. Louis. Producer Price Index by Commodity: Lumber and Wood Products: Lumber.

16 Gallagher Re. January 2025. Natural Catastrophe Report: 2024.

17 Bowen, Steve; Kerschner, Brian; and Ng, Jin Zheng. January 2025. Gallagher Re. "Natural Catastrophe and Climate Report: 2024."

A separate Swiss Re analysis of the growth in loss costs attributable to U.S. SCS events from 2008 to 2023 echoes these findings, with general and construction-related inflation accounting over 40% of the increase in losses.[18]

Growth in annual insured losses from SCS mostly due to macroeconomic factors



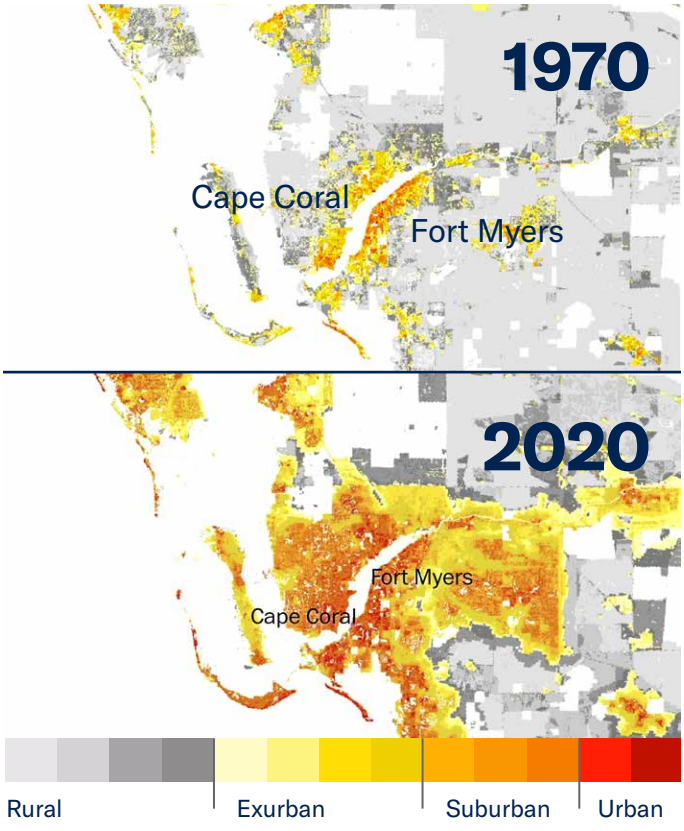
Source: Swiss Re Institute

18 Swiss Re Institute. No.1/2024. Sigma. "Natural catastrophes in 2023: gearing up for today's and tomorrow's weather risks."

C. Asset and Population Shifts Toward Exposed Regions

Another important factor missing from the discussion around availability and affordability of insurance is the growth of more and higher value property in known risk zones.

National Hurricane Center forecast



Source: https://www.washingtonpost.com/climate-environment/2022/09/28/florida-population-growth-hurricane-ian-path

Asset growth in risk-prone areas raises both the number of structures and the replacement value of what sits in harm's way, so identical physical events now produce larger insured losses than they did a decade ago. This phenomenon is illustrated in the map below, which shows the explosion in growth in the Tampa Bay area ultimately hit by Hurricane Ian from 1970–2020.[19] In 1970, there were simply fewer structures and people in the region, so losses from an event like Ian would have been considerably lower, even accounting for inflation.

A similar exposure dynamic is unfolding beyond the coasts, particularly along the wildland-urban interface and at the expanding edges of metropolitan areas, where local land-use constraints in lower-risk cores can push new construction outward into higher-risk zones. SCS events (hail, straight-line winds, tornadoes)—which are now a leading U.S. loss driver—exhibit the same pattern: Decompositions of insured loss growth since the late 2000s show that after inflation, exposure accumulation is the second-leading driver of larger loss costs. For example, growth of asset accumulation in known risk areas directly impact affordability and availability in the regions where they occur.

Higher and more widespread losses flow directly into indicated rates, because, as noted, premiums must cover expected loss, expenses, and the cost of capital (including unexpected loss) over the one-year policy term. When more policies within a region are hit simultaneously and the average severity per claim rises, the actuarially indicated premium increases (or should increase) to keep pace with expected loss. The net result is affordability stress where premiums rise faster than household incomes. And in markets where regulators prevent appropriate pricing—either through regulatory delays or limitations on the use of valid risk variables, over time, insurers will leave those markets—creating availability stresses.

19 Ducroquet, Simon et al. September 28, 2022. *The Washington Post.* "Maps show have millions of people have moved into Hurricane Ian's path."

D. The Role of Regulation

The use of rating variables that are predictive of a policyholder's underlying risk characteristics is beneficial to insurance availability, competition, and cost by allowing premiums to appropriately reflect risk, enabling the insurance market to function effectively. States with limited risk-based pricing recently have seen private insurers leaving or reducing their participation in the market and a marked rise in their residual markets' volume.

In those states that require rate approvals, several aspects of the approval process inhibit the ability of insurance companies to charge actuarially sound rates based on risk-based pricing principles. A significant and growing trend is the delay in approving rate filings due to a confluence of factors. These factors include a trend toward more frequent rate filings in an effort to keep up with unexpected spikes in inflation in recent years and the use of more sophisticated modeling techniques to analyze rate indications. This, in combination with staffing shortages, hinders state insurance departments' abilities to review such filings in a timely manner. In the recent past, it has not been uncommon in certain jurisdictions for rate filing approvals to take twelve (12) or more months. When this is the case, and especially in a high inflationary environment, an insurance company can find that its rates are quickly out of date and not commensurate with risk-based pricing.

Rate regulation, if resulting in gaps between premiums and loss costs to the insurer, can exacerbate exogenous stresses on premiums. One concrete example of how the restrictions on rating variables can impact the function of homeowners markets is California (which, as discussed below, is a prior approval state) and its restrictions on the use of wildfire catastrophe models.

Modern wildfire catastrophe models produce highly granular, location-specific loss projections, incorporating fuel, topography, exposure, and mitigation features, and are accepted by most state insurance regulators. Until recently, California's insurance regulations banned use of wildfire catastrophe models and, instead, required insurers to rely on 20 historical average wildfire loss data. That prohibition effectively prevented (and continues to prevent) insurers from actuarially substantiating differences in territorial rating factors based on current wildfire risk, which led to rates in high-risk areas not keeping pace with prospective risk. In turn, this has meant that lower-risk wildfire areas in California are likely paying more than they should for insurance (cross-subsidization) and has "dulled" the risk price signal embedded in premiums, which may have been helpful toward encouraging housing developments in less risky areas or adoption of resilience measures.

In addition, when an insurance company determines that its required adjustment to its rates is significant, its proposed rate change may be tempered both for purposes of avoiding large shocks to its existing consumer base and in an effort to move through the regulatory process more quickly than otherwise be the case. Regardless of the reason, this, too, produces a gap between premiums and expected losses.

Significantly, a recent study of homeowners insurance demand versus premium levels concludes that even in states where rate regulation suppresses pricing that reflects the true costs of underlying risks, financially constrained consumers are not willing to secure adequate insurance. This indicates that rate regulation resulting in rate suppression or significant delays in allowing requested rate adjustments is not a viable solution for affordability.

E. Climate Change Impacts on Frequency and Severity of Weather Events and Impact on U.S. Insurance Markets

After exposure to growth and inflation, much of the remaining increase in property premiums is driven by an increase in catastrophe risk driven by severe weather events. The proportion of losses attributed to weather events varies significantly by type of event. The hazards with the clearest weather impacts that affect residential insurance markets are hurricanes, wildfires, and floods. Hurricane risk drives property losses and often sets total natural catastrophe capacity for national property insurance writers (along with earthquakes), while wildfires and floods are fast-rising nonpeak perils that contribute to market stress in geographically concentrated areas.

Here are some of the direct impacts of weather events with respect to natural catastrophes:

- **Hurricane:** Communities will see increased storm surge losses as a result of sea level rise, potential increases in extreme rainfall, and a higher likelihood of high category wind events.
- **Wildfire:** Higher temperatures increase evaporation from soil and plants, leading to larger burn areas. Wind events are not strongly directly affected by climate change, but the hotter and drier conditions when wind events are present may increase wildfire risk, and high wind events produce 60% of structure losses.[20]
- **Flood:** Coastal flooding and sea level rise contribute to storm surge and high tide flooding. Extreme rainfall worsens flash flooding. Most flood losses are covered by federal, not private insurance markets, but many people away from coastal areas do not have any flood insurance at all.

Here are some indirect impacts of weather events:

- Over time, higher reinsurance costs, or less protection offered by reinsurance, due to higher losses experienced by the underlying insurance companies.
- Potentially declining property values in high-risk areas as properties become less desirable over time. Depending on the geographic footprint, this could spread the impact of severe weather events to nearby properties that are in lower-risk areas.

Growing exposure in areas prone to severe weather events compounds affordability and availability problems and is a policy choice. Implicit and explicit subsidization through infrastructure spending, mortgage lending, inadequate building codes, land use and zoning decisions, public insurance products, and more means that taxpayers and the broader society foot the bill for growing risk. Increases of exposure in high-risk areas act as a multiplier of increasing climate hazard, compounding losses and community impacts. Land use policies have enabled the migration toward high-risk areas. This may increase the local tax base, but in high-risk areas this also increases insurance premiums for people in those communities and can also impact insurer decisions about overall risk appetites and pricing in a state.

20 Abatzoglou, J.T. et al. May 2, 2023. Earth's Future. "Downslope Wind-Driven Fires in the Western United States."

F. The Impact of the Litigation Environment

Legal system abuse (LSA) refers to tactics that exploit litigation rules or incentives in ways that inflate insurance claim frequency, claim severity, and defense costs beyond what underlying losses would warrant. As mentioned, national tort costs grew an estimated 7.1% per year between 2016 and 2022—well above the CPI and the GDP—and totaled about $529 billion (2.1% of GDP) in 2022, with large "nuclear verdicts" trending higher; those costs ultimately flow through to insurance premiums paid by households and businesses. In property insurance, LSA raises loss and expense trends, lengthens claim cycle times, and increases uncertainty. Actuarially, higher expected loss and loss adjustment expense (LAE) push indicated rates up for the one-year policy term.

Specific LSA mechanisms that raise homeowners costs include the following:

- **Assignment of Benefits (AOB) litigation mills and contractor/public adjuster conflicts.** AOB allows a policyholder to sign over policy rights to a vendor after a loss. In practice, vendors have used AOBs to inflate damage assessments and costs of repairs, duplicate or perform unnecessary work, and lodge fee claims, and then they sue the insurer directly driving up both indemnity and attorney/adjuster costs.

  A related issue is conflicts of interest and deceptive practices between contractors, public adjusters, appraisers, and law firms—which leads to bill padding and unnecessary litigation that inflate LAE and premiums.

- **Time-limited settlement demands, "phantom damages," and "jury anchoring".** In some jurisdictions, plaintiffs' counsel issue very short-fuse settlement demands designed to set up bad-faith claims if insurers cannot respond on compressed timelines, which can force imprudent payouts and increase legal costs. Separately, courts that admit "phantom damages" (billed rather than paid medical amounts) and tolerate "jury anchoring" (suggesting extreme damages figures) see higher verdicts that feed litigation inflation across lines.

- **Attorney advertising and claim generation.** Spending on legal advertising has surged—more than $2.5 billion across media and 26.9 million ads in 2024, up 32% since 2020—which can stimulate claim volume (as well as shape juror attitudes). Post-storm canvassing by vendors often pairs with attorney advertising to convert borderline issues into litigated claims, raising frequency and LAE that feed into rate filings.

- **Fraud and inflated billing.** The Coalition Against Insurance Fraud estimates overall U.S. insurance fraud at roughly $308 billion annually—a sharp increase from prior estimates—costs that eventually show up in consumer prices. For homeowners, roof replacement scams and inflated contractor invoices after hail or wind events directly increase losses and premiums.

Each of these mechanisms elevates either the number of claims (frequency), the average cost per claim (severity), or the cost to adjust and defend claims (LAE). Insurers must set one-year homeowners premiums to cover expected losses and expenses plus a reasonable cost of capital; higher expected loss/LAE means higher indicated rates. LSA also increases loss volatility and uncertainty, raising reinsurance costs and capital needs.

After several years of average underwriting losses, the P&C industry in aggregate has recently swung back to underwriting profitability. According to the 2025 Federal Insurance Office Annual Report, the combined ratio (which indicates underwriting profitability for ratios below 100%) improved to 96.65% in 2024, relative to a ratio of 101.8% in 2023 and 102.74% in 2022. The 2024 industry combined ratio was the lowest observation over the past decade. These strong headline numbers, however, must be put in context:

- **Performance variability across markets.** Industry combined ratios represent an average of performance across product lines and geographies; however, the performance in particular lines and regions vary and can significantly exceed the industry average. According to the Insurance Information Institute, the 10-year (2014 to 2023) average combined ratio for California homeowners coverage was 109.7%, a significant underwriting loss. (The combined ratio reflects profit/loss for every dollar of "earned" premium—a combined ratio of 109.7% means that over the 10-year period, the industry paid out $1.09 for every premium dollar taken in.) Underwriting losses in some lines and some geographies are expected to occur—but repeated underwriting losses of certain lines in certain markets are not sustainable. For insurance to remain commercially viable and as a matter of policyholder fairness, the premiums paid by lower-risk segments of the market should not cross-subsidize premiums paid by higher-risk segments.

State Case Studies Illustrate the Complicated, Multifaceted Factors That Drive Availability and Affordability Challenges

While each of these stresses plays a role in worsening affordability and availability challenges, the type and severity of factors often vary across individual states. For instance, in terms of regulation and state insurance policy, the factors driving affordability and availability challenges in California are in certain respects different than those driving affordability and availability challenges in Florida.

A. California: Regulatory Constraints, Though Intended to Help Consumers, Have Exacerbated the Affordability and Availability Challenges

In fairness, a confluence of factors created the current property insurance crisis in California. The state is particularly prone to wildfires, and zoning and land use policies have shifted the population away from low-risk areas into high-risk areas.

At the same time, California's insurance regulatory environment is uniquely problematic, including that it is the only state in the country with a prior approval regime and also the only state that allows nongovernmental third parties to intervene in rate filings— both of which result in California filings taking longer than anywhere else in the country. And even when rates are approved, they are relative to risk-based pricing. This has led to private insurers exiting the market and to a flight of policyholders entering California's FAIR Plan, where rates also remain below an adequate level. These factors mask the true risks of providing insurance protection in the state.

California's Regulatory Constraints and Their Impact

California's Proposition 103, a ballot initiative that was passed in 1988, includes multiple provisions that impose regulatory constraints relative to risk-based pricing and the process for obtaining rate approvals. Key provisions in Prop 103 that complicated California's regulatory environment include the following:

- Establishment of the insurance commissioner as an elected official, and one of only five statewide elected offices (which makes the position more prone to political pressure, as it is viewed as a steppingstone).
- Replacement of "file-and-use" rate approval with a prior approval system and a mandate for public hearings for personal lines increases of more than 7%.
- Creation of a role for "public intervenors," who are empowered to file objections on behalf of consumers, with fees to be paid by the applicant insurance company. The creation of intervenors has delayed approval of rate increases and effectively forced insurers to limit rate requests to 7% or less.

Beyond Proposition 103, there are numerous statutes, regulations, and California Department of Insurance (CDI) administrative rules that constrain rates. As noted earlier, for example, historically, CDI commissioners have prohibited the use of catastrophe models commonly employed by insurance companies to model wildfire risk. CDI has also historically prohibited the inclusion of a company's cost of reinsurance in ratemaking, despite the fact that the cost of reinsurance is a particularly significant cost of doing business (i.e., offering property insurance) in areas that are susceptible to natural catastrophes such as wildfires.

These types of prohibitions, which are unique to California, severely limit insurers' ability to employ risk-based pricing. In late 2024, in response to the destabilization of the insurance market, CDI adjusted the restrictions on the use of catastrophe models and consideration of reinsurance costs. Specifically, wildfire models and reinsurance cost considerations may be used if an insurer commits to meet a quantitative underwriting threshold in high-risk areas (the threshold is 85% of the insurer's statewide market share in designated high-risk areas).

CDI also requires that insurance companies use a standardized ratemaking template with mandated underlying assumptions to be used in the rate computation. While insurers may request variances to these mandated assumptions, such requests can be challenged by intervenors, lengthening the prior approval process. This hinders the ability of an insurance company to set rates that are reflective of the risks that the individual company is writing.

This suppression of market-driven pricing has muted critical risk signals, encouraging development in fire-prone areas and reducing incentives for homeowners to invest in supplementary fire protection measures.

As insurers withdraw, many homeowners are unable to get coverage and are forced to rely on the state's FAIR Plan, which has seen a growth in exposures of 289% since September 2021.[24]

In fact, California's FAIR Plan recently reported that its exposure to potential claims ballooned 42% to $650 billion in the 9-month period between October 1, 2024, and June 30, 2025,[25] a clear signal of a distressed market.

Moreover, due to the significant losses in the FAIR Plan from the January 2025 wildfires and concerns about the FAIR Plan's ability to pay its claims, CDI approved a $1 billion assessment of member insurers. While CDI is allowing member insurers to recoup from their policyholders up to half of the assessment through a temporary supplemental fee, insurers are still facing unrecouped costs, which they will not be able to incorporate in future rate requests.[26]

In response, the organization Consumer Watchdog filed a lawsuit challenging CDI's allowance of the assessment. The outcome remains to be seen. However, if insurance companies are unable to raise rates to a reasonable level commensurate with the risk they are assuming and cannot pass on even some level of assessments through surcharges, that will make it even more difficult for insurance companies to write coverage profitably in California. This is a vicious cycle in which the consumers ultimately lose.

Accordingly, California's historical regulatory environment has exacerbated challenges facing the state's home insurance market. There are signs that CDI is recognizing that changes are needed in order to stabilize the insurance marketplace in the state. The recent policy changes with respect to the allowance of catastrophe models and reinsurance costs as part of the pricing process are positive steps in reaching that goal.

B. Florida's Reforms to Curb Loss Cost Drivers Like Legal System Abuse and Homeowner Reliance on Residual Markets Have Reinvigorated Insurance Market Competition

Florida's homeowners insurance market has faced twin challenges in recent years. The first is an existing and increasing exposure in hurricane-prone areas, driven by skyrocketing coastal development—which has led to a significant concentration of assets (properties) in areas known to be at high risk for hurricane exposure. The second is a growing crisis caused by legal system abuse and assignment of benefit (AOB) claim fraud unique to the state. In the background, the nationwide increases in construction costs and rising catastrophe reinsurance costs also contribute to the need for significant increases in premiums to cover the associated losses. Admitted market rates in Florida are subject to review and approval by the Florida Office of Insurance Regulation under the standard that rates not be excessive, inadequate, or unfairly discriminatory.

As private insurers withdrew or limited their coverage, many homeowners turned to CPIC, the state-run insurer of last resort. Originally intended as a safety net, CPIC was structured to allow consumers to obtain CPIC coverage in the event that private coverage was not available or was only available at a price that was 20% or higher than CPIC's price. When CPIC attempted to raise its rates to keep up with rising loses, the state regulator rejected those actuarially indicated rates. State regulatory efforts to keep CPIC affordable ended up creating far greater demand for CPIC coverage, as the price differential between CPIC policies and the private market increased, with CPIC's policy count swelling to 1.4 million and becoming the largest insurer in the state as of 2023. As Governor Ron DeSantis acknowledged, CPIC was "not solvent" should a significant catastrophe occur. If CPIC is unable to fully pay claims, it can add an assessment to nearly every type of property or casualty policy in the state, which in turn drive up costs for Floridians covered in the private market.

In response to this brewing crisis, Florida policymakers implemented a series of reforms targeting underlying cost drivers of property premiums, which indirectly improved the rate environment. Specifically, the state banned Assignment of Benefits (AOB) for new residential property policies issued on or after January 1, 2023, limited attorneys' fees, and rebalanced claim timelines. By reducing first-party litigation and inflated scopes of repair, these reforms lowered expected losses and loss-adjustment expenses, which supported private insurer filings for smaller increases—or decreases—and encouraged new/returning entrants.

In parallel, policymakers enacted CPIC-focused changes—namely, allowing private takeout offers where the price differential was higher than the previous 20% threshold. That reform reduced residual-market crowd out and made private participation more sustainable by increasing the feasibility of private offers at actuarially supported prices.

These measures have led to a reduction in CPIC's policy count, and in a sign of market recovery, private insurers are now entering or returning to the market with a total of fourteen (14) insurers entering the state since 2023. CPIC policies have decreased by nearly 40% to 850,000 as of February 2025. Further, claim costs have been decreasing since the reforms took place, and in reaction, private insurers have filed lower than expected rate increases, or rate decreases, for 2024 and 2025.

High Premiums in Colorado Homeowners Insurance Market Tied to Multiple Challenges

According to Insure.com, the average homeowners premium in Colorado in 2025 is $4,099,[21] 58% higher than the national average. A 2025 study by the Metro Denver Economic Development Corporation (EDC) attributes Colorado's high homeowners premiums to factors such as increasing frequency and severity of severe natural disasters, compounded by population shifts into areas impacted by wildfires, floods, and hailstorms; increasing inflation and home values; and higher reinsurance costs, all contributing to higher insurer costs and subsequently premiums.[22]

Even though homeowners premiums in Colorado are higher than the national average, they may not be enough to cover the confluence of these factors. The study shows that the five-largest homeowners insurers, with more than 60%

market share, experienced loss ratios[23] greater than 100% for the majority of the years between 2017 and 2023. All these insurers lost money writing homeowners insurance in Colorado for seven consecutive years. Colorado employs "file-and-use" rate regulation, meaning that there is a review and approval process. From an insurance company's perspective, timely rate increases would be necessary to return to profitability; the alternative may be that insurers withdraw from the market altogether.

Further, the study recaps multiple bills introduced in the Colorado Legislature with the potential for unintended consequences. As an example, HB25-1302[24] would require P&C insurers that are breaking even or making a profit for three consecutive years to reduce premiums by 5%. Such a policy goes against the tenets of risk-based pricing and potentially disincentivizes writing insurance in the state. What may seem like a positive outcome for the policyholder could backfire by instead encouraging insurance companies to exit the market.

On the other hand, in recognition of the need to mitigate the growing risks associated with wildfires, in March 2024, HB24-1091, Fire-Hardened Building Materials in Real Property was signed into law.[25] This law now prohibits covenants that had previously restricted homeowners from retrofitting their properties to better withstand natural disasters. For instance, some covenants required properties to use wooden fencing and decking, all of which are far more combustible than other potential building materials.[26]

What We Can Learn

Averting both affordability and availability issues in Colorado will require recognition of the risks of living in disaster-prone areas, the benefits of risk mitigation activities through resilience strategies, and the maintenance of a regulatory environment that encourages rather than discourages insurers from providing coverage to property owners in high-risk areas.

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21 Insure.com. "Homeowners insurance rates by state in 2025." https://www.insure.com/home-insurance/home-insurance-rates-by-state See elsewhere.

22 Metro Denver EDC. 2025. Colorado Property & Casualty Insurance Report. "A Narrow Policy Margin for Sustaining the State P&C Market."

23 Loss ratio is a percentage used to evaluate an insurer's performance and profitability. It represents the proportionate relationship of incurred losses to earned premiums. For example, a loss ratio of 150% means the insurer pays out $1.50 in claims for every $1 received in premium.

24 Colorado General Assembly. 2025. "HB25-1302: Increase Access Homeowners Insurance Enterprises."

25 Colorado General Assembly. March 12, 2024. "HB24-1091: Fire-Hardened Building Materials in Real Property."

26 Cooke, Kyle. April 15, 2024. Rocky Mountain PBS. "Colorado HOAs Can No Longer Stop You From Hardening Your Home Against Wildfires."

Multifaceted Policy Solutions Needed to Address Availability and Affordability Issues in Impacted Markets

Since multiple and different factors are driving affordability and availability challenges in the homeowners property insurance market, the optimal policy response entails a package of distinct but complementary solutions. Importantly, these solutions depend not only on action by insurance regulators but also by legislators and state and local officials with responsibility for zoning, land use, resilience incentivization, and litigation reform.

These policy initiatives are multifaceted, complicated, and to some extent politically challenging to execute. At the same time, even if an optimal set of policy solutions were implemented, some degree of affordability challenges would persist in specific regions, since future inflation and climate-driven physical risks are prone to volatility and are exogenous to these regulatory, resilience, and legal initiatives. Nevertheless, concerted efforts to reduce lost cost drivers through the policies outlined in this paper would meaningfully alleviate current challenges and collectively help bend the cost curve. Broadly, the main categories of reform include the following:

- On the regulatory side, efforts should concentrate on promoting flexibility in rate approvals and alignment with actuarially indicated premiums, which supports sustainable underwriting, competition and consumer choice, and policyholder protection.
- Public land use and resiliency measures, including zoning codes, risk mitigation incentives for homeowners, and public investment in resilient infrastructure, are instrumental to reducing both the likelihood and severity of catastrophe loss.
- On the legal front, initiatives to curb legal system abuse would reduce the distortive impact of fraudulent claims on insurer expenses, an important cost reduction that helps restore premium pricing to actuarially indicated levels.

A. Insurance regulatory reforms

Insurance regulatory reforms should promote and support risk-based pricing, including the flexibility to use actuarially relevant factors, full loading of costs in premiums, efficiency in rate setting, market-oriented incentivization of homeowner risk mitigation and resilience investment, and reduced reliance on residual markets (FAIR Plans).

- **Flexibility to use actuarially relevant indicators.** Permit forward-looking catastrophe models and updates and promote the use of accredited vendor catastrophe models (with filing of critical assumptions) for perils like wildfires, hurricanes, and convective storms and explicitly allow model updates between filings. Moreover, codify actuarial standards by enshrining "actuarially sound" with "not excessive, inadequate, or unfairly discriminatory." Regulatory prohibitions on the use of rating variables often results in unintended consequences, namely, a distortion of premiums leading to reduced coverage availability, especially for high-risk policyholders.[27]
- **Full loading of costs:** Enable insurers to reflect catastrophe reinsurance costs in assessing premiums in order to reflect the true cost of capital for providing coverage. This inclusion could apply multiyear smoothing to mitigate volatility and dampen the impact of year-over-year fluctuations in the cost to policyholders.
- **Efficiency in rate setting.** Limit interventions in rate setting by moving to open competition and "file-and-use." Limit the requirements for prior approval to significant changes or outliers for rates that are outside a flex-band range. Moreover, to resolve today's multi-month delays, promote statutory timeliness, for example, by applying 60-day deemed approval for homeowners rate filings with transparent, limited "clock-stops" (based on clear criteria and documented restarts). For jurisdictions that use intervenors, their incentives should be shifted to materially improving actuarial accuracy and consumer outcomes, not rate level outcomes alone, with timelines that avoid open-ended process risk.

27 An example helps illustrate: Assume an appropriate rating variable is prohibited, and as a result, low- and high-risk policyholders are charged the same premium. As such, all policyholders will be charged an inaccurate premium for their risk, e.g., lower-risk policyholders will–with all else being equal–face higher premiums than they would have while higher-risk policyholders benefit from lower premiums than they would have. In addition to the prohibition resulting in lower-risk policyholders subsidizing higher-risk policyholders, it also disincentivizes coverage for the high-risk policyholders. Specifically, the lower-risk policyholders will be more profitable (as without the use of the prohibited rating variable they will be paying higher rates) while the higher-risk group will be less profitable (as the rate does not reflect the actual risk due to the absence of the rating variable).

- **Market-oriented incentivization of homeowner resilience.** Enable insurers to offer financial incentives to homeowners that invest in loss mitigation for their property and dwelling; however, this incentivization should be sufficiently flexible and tailored to demonstrable mitigation investments and not hardwired as a mandatory discount.
- **Reduce reliance on residual markets.** To the extent that broader regulatory reforms enable insurers to align premiums with risk exposure and promote competition, states will likely rely less on residual markets as a primary source of coverage. At the same time, states can further enable this transition through targeted reforms to FAIR Plans.

Reducing reliance on residual markets. In terms of reducing reliance on residual markets, state policymakers should revisit the intended purpose and statutes for FAIR Plans and alternative residual markets, to ensure insurance availability for high-risk properties that cannot obtain coverage through the private market. Here are some principles to consider:

- Ensure that residual market premiums are determined using risk-based pricing and thus fairly account for the risk inherent in providing insurance coverage. This would prevent the residual market from competing with the private market.
- Design the plans such that moral hazard, i.e., ease of locating properties in high-risk areas, is minimized. This would also be accomplished by setting premiums through risk-based pricing commensurate with the risk being insured.
- Allow private insurance companies to recoup assessments that are levied when there is a shortfall in the residual market plan.

At times, a federal reinsurance backstop has been proposed to alleviate the pressure on residual market plans. Such a backstop could have the unintended consequence of increasing—rather than decreasing—moral hazard, as the state residual markets could allow more risk in their plans than would otherwise be the case, only exacerbating existing issues. Another approach could include Congress establishing pass-through tax treatment of catastrophe bonds, encouraging the onshoring and growth of the catastrophe bond market. These transactions would be revenue neutral to the U.S. Treasury, while onshoring would create additional tax revenue by encouraging related taxable economic activity to occur within the U.S.

Reducing reliance on residual markets

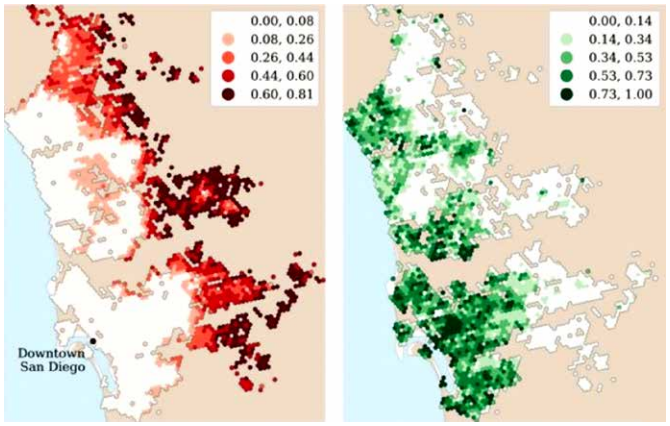
In terms of reducing reliance on residual markets, state policymakers should revisit the intended purpose and statutes for FAIR Plans and alternative residual markets, to ensure insurance availability for high-risk properties that cannot obtain coverage through the private market.

B. Building Resilience Policy: Zoning Laws, Infrastructure Investment, and Mitigation Incentives Can Reduce Loss, Risk, and Cost for Property Owners

Enhancing resilience by promoting risk mitigation measures supports insurance affordability and availability by reducing both the likelihood and severity of insurance claims. In practical terms, strengthening resilience encompasses the following:

- **Limiting the construction of new housing in disaster-prone areas** Policy choices are pushing people to build in the riskiest areas. In much of the Western U.S., strict land use limits in low-risk areas of a metropolitan region force new housing construction out into the highest-risk parts of the wildland-urban interface—a clear example where housing affordability and insurance risk compound one another, as seen in the example from San Diego in the figure below. [28]

Development practices amplify risk



- Strict land use limitations (GREEN) and affordability have constrained housing availability in low-risk areas
- Leading to increased development in high-rish wildfire zones (RED)

While not specific to California, the APCIA, citing a Redfin analysis of data from ClimateCheck, shows that 55% of single-family homes built between 2020 and 2022 are subject to wildfire risk, whereas only 14% of those built between 1900 and 1959 were.[29]

Ensure That Community Rules Do No Harm: In the wake of the 2021 Colorado Mashall Fire, some impacted residents reported that their Homeowners Associations (HOAs) had restrictions that effectively precluded them from undertaking retrofitting measures to protect their properties from natural disasters. For instance, some HOA rules required properties to use wooden fencing and decking, all of which are far more combustible than other potential building materials.[30] In response, in 2024, Colorado enacted HB24-1091, Fire-Hardened Building Materials in Real Property to prohibit HOAs and other covenants from restricting homeowners from undertaking resilience upgrades.[31]

Ensure That Community Rules Do No Harm

After the 2021 Marshall Fire, some Colorado homeowners couldn't use fire-resistant materials because HOA rules required flammable ones like wood. In 2024, Colorado passed HB24-1091, banning HOAs from blocking resilience upgrades with fire-hardened materials.

28 Ospital, Augusto. April 24, 2023. "Urban Policy and Spatial Exposure to Environmental Risk."

29 AICPA Mitigation.

30 Cooke, Kyle. April 15, 2024. Rocky Mountain PBS. "Colorado HOAs Can No Longer Stop You from Hardening Your Home Against Wildfires."

31 Colorado General Assembly. March 12, 2024. "HB24-1091: Fire-Hardened Building Materials in Real Property."

- **Enhancing building codes**
  A Federal Emergency Management Agency (FEMA) *Building Codes Save Study* found that communities that have implemented modern building codes have collectively avoided approximately $1.6 billion in average annualized losses from natural disasters, including savings of $484 million from floods, $60 million from earthquakes, and $1.1 billion from hurricane winds. Significantly, savings from mitigation measures are not one time. For example, the same FEMA study found that going forward, projected cumulative savings from those same investments will reach over $132 billion by 2040.

Furthermore, if all new buildings nationwide adhere to the latest International Codes (I-Codes), the U.S. could prevent more than $600 billion in losses by 2060.[32]Beyond the headline numbers, there are numerous examples of how jurisdictions, including Florida, that have taken decisive action to strengthen building codes have helped bend their loss curves. After Hurricane Andrew destroyed many coastal homes in 1992, state policymakers acknowledged the need for more resilient home construction and appointed a commission to reevaluate the state's building codes. The effort culminated in the 2002 adoption of the new Florida Building Code, which included design standards intended to mitigate wind and water damage. The Florida Building Code has cut hurricane losses on updated buildings by 72%.[33]

There is considerable room for building code improvement in the U.S. FEMA data from 2025 data says that just one third (33%) of all "natural hazard-prone jurisdictions" have successfully adopted the most current hazard-resistant building codes. [CITE] Further, many states and localities lack the resources to carry out adequate building code inspection and enforcement. Studies also find that mitigation strategies consistently yield high benefit-to-cost ratios (BCR). For instance, a 2019 National Institute of Building Sciences (NIBS) study found savings ranging from 3:1 to 12:1 (3 dollars in savings for every one dollar invested, and 12 dollars in savings for every 1 dollar invested).

Significantly, these are the direct savings due to damage mitigation—so without considering secondary economic and societal damages.[34]

The example of a fully mitigated home withstanding Hurricane Katrina illustrates the practical benefits of homeowner investment in resilience:

> *The Sundbergs had been building their fully mitigated home for eight years, and it was 85% complete when Hurricane Katrina slammed into their area on August 29, 2005, with a huge storm surge and reported sustained winds of 125 mph. The water reached an elevation of 28 feet. The winds died down and the water retreated to the Gulf of Mexico, revealing that the Sundbergs' home had survived the storm. It was intact except for windows that blew out, some lost materials and tools, and some items, including panels upstairs, that blew away. (FEMA: Concrete House Stands up to Katrina)[35]*

- Incentivizing Homeowners and Builders to Undertake Mitigation Measures

32 FEMA. November 2020. *Building Codes Save: A Nationwide Study.*

33 Simmons, Kevin M. July 25, 2017. "Economic Effectiveness of Implementing a Statewide Building Code: The Case of Florida."

34 NIBS. 2019. Natural Hazard Mitigation Saves: 2019 Report. Other examples: adopting the 2018 International Residential Code (IRC) and International Building Code (IBC) achieves a BCR of 11:1, while exceeding 2015 I-Code provisions for flood, wind, earthquake, and wildfire mitigation results in a BCR of 4:1.

35 FEMA. February 2021. "Concrete House Stands up to Katrina."

Because housing affordability is a crucial concern, and because regulatory barriers have led to the current U.S. housing shortage, policymakers should focus on **incentives** rather than on **regulatory** requirements.

Many incentive structures beyond lower insurance premiums exist and should be studied. NIBS prepared a *Resilience Incentivization Roadmap* in 2023.[36] Among the study's many recommendations, the study finds that both financial and behavioral incentives are required:

- **Financial incentives** (e.g., grants, tax credits, insurance discounts) reduce upfront costs.
- **Behavioral incentives** (e.g., certifications, public awareness campaigns) address uncertainties and encourage action.

An example of a successful incentive program is the Berkeley, California's, voluntary Seismic Retrofit Rebate Program. Under the program, which is aimed at incentivizing residents to take earthquake protection measures, property owners can receive a refund of up to one third of the city's base 1.5% real property transfer tax for voluntary seismic upgrades to residential properties, equating to a potential refund of 0.5% of the property's purchase price. As noted in the NIBS study:

> *"Within 10 years of the program's inception in 1992, 40% of single-family homes had been voluntarily retrofitted (EERI Northern California Chapter 2020). Between 2003 and 2014, the city provided 1,400 refunds, an average of 130 retrofits per year in that city of 113,000 people (Daniel 2015). The program costs the city very little, since the buyer is paying or the retrofit."*[37]

Another example of how incentives can meaningfully impact resilience is the Strengthen Alabama Homes Program, which was created in 2016 to respond to availability stresses along the Alabama coast. The Strengthen Alabama program provided grants up to $10,000 to homeowners in coastal areas to retrofit their homes to the IBHS FORTIFIED standards (discussed in **Section VII**) for wind resistance. The program saw broad uptake, with over 8,000 homeowners taking advantage as of early 2025. Moreover, the program spurred retrofits outside the program, whether driven by publicity or the FORTIFIED experience gained by local contractors, with over 40,000 Alabama homes installing the FORTIFIED retrofit without state funding. As a result, Alabama now has more than 80% of the nation's certified FORTIFIED homes.

After Hurricane Sally struck the Alabama coast in 2020, the Alabama Department of Insurance partnered with the University of Alabama to study the damage mitigation impact of the FORTIFIED standard. The study found that the FORTIFIED standards reduced claim frequency by 55% to 74%, depending on the level of the standard compared to non-FORTIFIED homes. Overall, it found that homeowners saved millions in deductibles and insurers saved millions in claims as a result of the FORTIFIED standard.[38]

- **Developing, upgrading, and retrofitting public infrastructure to better withstand high severity catastrophe events**

The American Society of Civil Engineers' *2025 Report Card* for America's Infrastructure lists as its first key finding that "[a]ging infrastructure systems are increasingly vulnerable to natural disasters and extreme weather events, creating unexpected and often unavoidable risks to public safety and the economy."[39] Moreover, historical investments in improving infrastructure resilience are often made only **after** a disaster hits, such as in the cases of strengthening New Orleans' levees after Hurricane Katrina and clearing trees around powerlines after California wildfires.

36 NIBS. September 2023. Committee on Finance, Insurance and Real Estate Multi-Hazard Mitigation Council. *Resilience Incentivization Roadmap 2.0.* (Incentivization Roadmap)

37 Incentivization Roadmap 2023

38 Alabama Department of Insurance and the University of Alabama Center for Risk and Insurance Research. May 2025. "Performance of IBHS FORTIFIED Home Construction in Hurricane Sally."

39 American Society of Civil Engineers. 2025. "A Comprehensive Assessment of America's Infrastructure." American Society of Civil Engineers. (ASCE)

The lack of attention to ensuring that U.S. infrastructure is resilient is unfortunate, given its clear dividends. For example, the 2019 NIBS *Mitigation Saves* study considered site elevation and infrastructure investments, such as elevating roads, moving electrical transmission lines underground, and protecting water and wastewater treatment plants, finding that federal grants investing in resilient utilities and transportation were cost effective.

The story of how the Babcock Ranch community came through Hurricane Ian provides another lesson in how sound planning—well beyond simply meeting required building codes—may make continued occupancy in high-risk areas more viable. Babock Ranch is a planned community in Florida, and its developers gave particular thought to including features that would protect its residents from mega storms. Giant retaining ponds and streets designed to absorb floodwaters help protect the development's homes from flooding. Underground power lines prevent high winds from taking out the community's solar-powered energy supply. These systems and high, storm-focused building standards helped Babcock Ranch emerge from Hurricane Ian (the second costliest hurricane on record) virtually unscathed.[40]

- **Leveraging Public-Private Cooperation to Support Resilience**

Public collaboration with the private insurance industry can help bolster the affordability and availability of insurance. For example, P&C insurance companies formed the Insurance Institute for Business & Home Safety (IBHS), a nonprofit focused on science and research-based initiatives like the FORTIFIED Roof standard and the Wildfire Prepared Home program. IBHS has worked with multiple federal agencies addressing housing and resilience to promote research-backed solutions for strengthening communities. Since 2022, IBHS and FEMA have been collaborating on the advancement of building codes, the ability of buildings to withstand natural disasters, and a shared vision for pre- and post-disaster mitigation. Additionally, IBHS has worked with FEMA to update its *Wind Retrofit Guide*, which now specifically cites IBHS' solution to more resilient construction (the FORTIFIED standard) throughout.[41] Implementing pre-disaster mitigation strategies that lead to decreased damages from severe weather events will naturally lead to lower insurer risk exposure and policyholder premiums in a competitive insurance market.

Federal solutions can also complement state regulations, targeting exposures like wildfire, pandemic, earthquake, and other traditionally uninsurable perils. For instance, the Fire Management Assistance Grant (FMAG) program is a federal program available to state, local, and tribal governments to help control and suppress wildfires on public or privately owned land that threaten to cause major disasters. The grant may be used to cover the cost of mitigation and management of the fire, including field camps, repair and replacement tools, mobilization and/or demobilization activities, materials, and equipment usage. The request for a grant is initiated when a state submits a request for assistance at the time of impending disaster, and an expedited FEMA decision is made within hours.[42]

As another example, the National Earthquake Hazards Reduction Program (NEHRP) is led by the federal government in partnership with state and local governments with the goal of reducing the fatalities, injuries, and property losses caused by earthquakes. This is accomplished through a combination of research into how earthquakes impact our surroundings and the development and implementation of strategies to mitigate the related damages. NEHRP provides grants to states for various earthquake risk mitigation, including awareness campaigns.[43]

Established pursuant to the Disaster Reform and Recovery Act of 2018, the Building Resilient Infrastructure and Communities (BRIC) program permits FEMA to set aside an amount equal to 6% of FEMA's disaster recovery spending and use such funds to provide mitigation grants to states and local governments.

Exemplified through programs like FMAG, NEHRP, and BRIC, the marriage of federal and state initiatives offers bolstered support to property owners in instances of unpredictable or seemingly uninsurable events. Though states function as insurance regulators and implement policies, the federal government can support property owners in managing systemic, traditionally uninsurable risks and influencing national coordination and consumer protection.

40 Bernard, Stan. March 2024. Zurich NA Insights. "Florida's take: Hurricane resilience & mitigation planning."

41 Insurance Institute for Business & Home Safety. November 2023. "Strategy 2026: Turning Science into Solutions."

42 FEMA. "Fire Management Assistance Grants." Website.

43 FEMA. "National Earthquake Hazards Reduction Program." Website.

- **The Benefits of Investing in Resilience Are Clear**

A U.S. Chamber of Commerce, a U.S. Chamber of Commerce Foundation, and an Allstate study shows that every $1 spent on climate resilience and preparedness saves communities $13 in damages, cleanup costs, and economic impact. The study included the following case studies:

- Sacramento, California: Modeling three disaster scenarios—drought, major storm/mudslide, and wildfire—revealed that for every $1 spent on resilience, Sacramento could save $10.80 in economic productivity, damages, and cleanup costs.
- Miami, Florida: An investment of $10.8 billion in resilience and preparedness for a Category 4 hurricane could prevent the loss of approximately 184,000 jobs and save about $26 billion in production and $17 billion in income.
- San Diego, California: Allocating $833 million toward resilience measures for a major earthquake could save about 38,000 jobs, with production and income savings estimated at $5.8 billion and $3.3 billion, respectively.

The report's key takeaway is that every $1 invested in disaster preparedness reduces a community's economic costs after an event by $7. That's on top of the $6 of savings in damage. These outcomes do not mean that losses will be eliminated. But by investing ahead of the next crisis, the impact on GDP, jobs, and income is reduced so that economies and people will recover faster.

C. Continued focus on legal reforms to address a critical cost driver of insurance premiums

Finally, efforts to reduce legal system abuse would reduce costs related to fraud and frivolous litigation and help align premiums with true risk exposure, which benefits policyholders who no longer would have to bear the costs of these inefficiencies. A number of state legislatures have recognized lawsuit abuse as a troubling trend. Policymakers should enact regulations to rein in such abuses in order to limit frivolous litigation, fraud, and excessive attorney fees while still protecting claimants who have been harmed and are due compensation for such harm. Some states have already begun to react, with measures such as the following:

- Increased transparency and disclosure requirements surrounding cases that utilize third- party litigation funding (TPLF).
- Disallowance of "jury anchoring."
- Reforms designed to prevent phantom damages, with increased transparency around actual damages and uniform processes surrounding the admissibility of evidence.
- Prevention of "double dipping" of attorney fees.
- Setting statute of limitations that appropriately consider the rights of a claimant while limiting the potential for fraudulent claims and abusive plaintiffs' bar techniques.
- Changes to premises liability.
- Limitations on what is considered a public nuisance.
- Time-limited demand reforms.

D. Focus on Consumer Education

The news that consumers often hear about insurance is that prices are increasing or that insurance is limited, but they often don't understand how the cost of insurance is determined and the factors that make premiums vary across geographies. An education campaign that focuses on the underlying risks and other drivers of premiums could alleviate the misconceptions that many consumers have surrounding both affordability and availability of insurance and bolster public understanding and support for reforms that are designed to foster a thriving and competitive insurance marketplace.

Such a campaign could include education regarding the following:

- What risk signals are and how they impact insurance premiums, including how risk mitigation and building resilience strategies can lead to lower premiums.
- The difference between affordability and availability of insurance.
- The impact that macroeconomic trends (e.g., inflation) and societal trends (e.g., lawsuit abuse and fraud) have on loss costs and subsequently premium pricing.

This type of education could alleviate the potential for failed real estate transactions or defaulted mortgages due to the inability to secure or afford property insurance. Such an education campaign could start with various stakeholders related to property owners, like local governments, real estate agents, mortgage lenders, and title insurance and escrow agents, all of whom have an economic incentive to provide such education. As an example, having risk data from credible sources such as the National Oceanic and Atmospheric Administration or the U.S. Forest Service available at the onset of real estate purchase decisions—as opposed to after the real estate transaction when trying to purchase an insurance policy—has the potential to help consumers make more informed decisions about what is likely the most consequential and significant purchase of their lives.

Conclusion

The magnitude of insurance premiums, when allowed to be determined using risk-based pricing principles, provides a strong signal of risk both for an individual policyholder and for an overall market. But, at times, the risk signals become muted due to headwinds like complex and differing regulatory environments, the increasing challenges of socioeconomic factors, the elevated frequency and severity of severe weather events, and the impact of litigation. Yet overcoming these challenges is not insurmountable as it takes sound policies that are grounded **in preparation over reaction, resilience over short-term fixes, and incentives over regulation.** Insurance companies are well suited to partner with state and federal policymakers to help mitigate the risks and challenges facing property owners.

Insurance remains a necessary and relatively affordable mechanism for protecting assets and fostering economic growth. By working with insurers, policymakers can leverage best practices, implement innovative solutions, and shape outcomes that enhance access to and affordability of insurance while better protecting lives and homes, the largest financial investment most people will ever make.

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