

As the Planet Warms, Insurance Markets Burn: Homeowners Face Tough Choices

In the quiet, tree-lined hills of Berkeley, California, Diane Wolf and her neighbors are grappling with an unexpected consequence of climate change: skyrocketing insurance costs. After 26 years of coverage with AAA, Wolf, a faculty assistant at the University of California, Davis, received a shocking notice last spring. Her insurance wouldn't be renewed due to a lack of fire coverage—a new reality for millions of Americans living in high-risk areas prone to wildfires and other natural disasters exacerbated by rising global temperatures.

Acting quickly, Wolf and her husband secured fire insurance for a steep \$7,000 a year. However, AAA demanded further inspections, flagging issues like a wire hanging and a lopsided gate. The couple spent \$60,000 on repairs to keep their coverage, a financial burden many homeowners are now facing. Wolf's story reflects a growing trend across the country, as insurers review policies with increasing scrutiny in light of climate change-related risks.

In California alone, wildfires have become a frequent and devastating force, with 16 of the 19 most expensive wildfires in U.S. history taking place in the state. As private insurers either exit the market or drastically raise rates, homeowners like Wolf are turning to last-resort state-backed programs such as the California FAIR Plan. But even these plans come with costly demands, and many residents are finding it harder to maintain adequate coverage.

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Meanwhile, Florida residents are grappling with a similar crisis. The state, notorious for its exposure to hurricanes, has seen homeowner insurance premiums rise by more than 40% in the past year alone. With residents paying four times the national average for coverage, the financial strain is severe. Hurricane Ian, which devastated the Gulf Coast in 2022, caused \$112 billion in damages, the costliest storm in Florida's history. The fallout from Ian has led to more homeowners rethinking their long-term housing plans.

Steve Swanson, a 57-year-old lawyer, had initially planned to purchase a condo on Sanibel Island after selling his home in suburban Chicago. But with insurance rates skyrocketing post-Ian, he opted instead for a tiny home in a mobile park, leaving his remaining proceeds in a

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money market account as a buffer for future potential losses.

Swanson's approach highlights a growing trend in which homeowners are opting out of traditional insurance altogether. A study by the Insurance Information Institute found that 12% of homeowners are now voluntarily forgoing home insurance, a stark increase from the pre-pandemic rate of 5%. Many, however, lack the financial cushion needed to handle disaster-related expenses, raising concerns about the sustainability of this trend.



The rising cost of insurance, driven by the growing risk of climate-related disasters, is now

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putting pressure on the broader economy. Senate Budget Committee Chairman Sheldon Whitehouse recently warned that an insurance market meltdown could trigger a mortgage crisis. Properties that become uninsurable are often also unmortgageable, leading to fears of a housing market crash in areas with high climate risks.

Experts agree that climate change is at the heart of the issue. Susan Crawford, a senior fellow at the Carnegie Endowment for International Peace, explains that as global temperatures rise, financial markets are beginning to reassess risks, particularly in sectors like insurance. Insurers, she says, have no choice but to adjust prices to reflect the heightened danger of wildfires, hurricanes, and flooding.

Blaming the insurance industry for higher rates, however, is misguided, says Whitehouse. He argues that the root cause lies with the fossil fuel industry, whose emissions continue to drive climate change, forcing insurers to adapt their pricing models.

Ironically, as private insurers pull back, state-backed insurers of last resort are swelling. In California, the FAIR Plan is growing rapidly, while Florida's Citizens Insurance has become the largest home insurer in the state, covering over 1.2 million policies. This dependence on state programs could spell disaster if another catastrophic event strikes, like California's 2018 Camp Fire, which caused \$16.5 billion in damages.

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The ripple effects of these crises extend beyond the states already experiencing them. As Whitehouse notes, wildfire risks in California mirror the hurricane risks in Florida, and extreme weather events are becoming more frequent across the country. In September alone, Hurricane Francine caused \$1.5 billion in damage in Louisiana, while a tropical storm in North Carolina led to an additional \$7 billion in losses.

These escalating costs are not just the result of more frequent storms or fires, says Mark Friedlander of the Insurance Information Institute. Labor shortages, higher rebuilding costs, and increased migration to high-risk areas also contribute to the economic strain. Yet, at the root of it all is the warming planet.

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Some experts argue that the U.S. needs to rethink its housing and zoning policies to better adapt to these risks. Crawford suggests incentives for people to relocate to safer areas, along with stricter building codes in vulnerable regions. However, she acknowledges that local officials and developers may resist such changes due to financial interests in maintaining the status quo.

For many, like Diane Wolf, the situation is pushing them to reconsider their futures. “It’s really made me think about leaving Berkeley,” Wolf said. “It’s getting more and more expensive to live here, and I don’t think we’re done with this craziness.”

As climate change continues to reshape the landscape—literally and financially—it’s clear that both homeowners and governments will need to make difficult decisions in the years ahead. For now, though, it appears that the cost of climate change is finally coming due.