Climate Risk and State Insurance Policy
Insurance is a key channel through which climate risk is transmitted through the financial system, and it is almost entirely regulated at the state level. As the climate crisis has intensified, insurance markets have begun to dysfunction, and consumers have suffered from insurance company withdrawals, premium spikes, cancellations, and other hazards. These insurance market disruptions have made state insurance policy an increasingly important political issue. Thankfully, state lawmakers have many opportunities to intervene in this issue with thoughtful regulatory interventions and consumer protections. Reach out to the Climate Cabinet team to learn more and be connected with subject matter experts.
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Overview

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The Treasury Department’s Federal Insurance Office (FIO) has issued 20 recommendations for how state policymakers can integrate climate risk into state insurance regulation. Adopting these recommendations can help state leaders make insurance markets healthier and more resilient. These recommendations can also help state leaders protect their constituents from the worst consumer hazards.

To date, insurance lobbyists have been the dominant voices at the table as state legislatures have debated insurance policy overhauls. This helps explain why two states with very disparate political landscapes (Florida and California) have seemingly moved in similar directions. At a minimum, climate advocates should be working to introduce the FIO’s recommendations into the conversation as state legislatures take up insurance policy reforms. In this overview, we will review numerous state policy developments, define and describe several key terms and trends, summarize the FIO’s most important recommendations, and suggest helpful policy interventions for state policymakers to consider.
Climate Change and Insurance: An Issue of Emerging Political Salience

As insurance disruptions have grown, so has the political salience of insurance. Voters are beginning to internalize the insurance crisis as a major way that climate is becoming a pocketbook issue. Evidence of the growing political salience of insurance can be seen in:

- Substantial media attention to the climate-driven insurance meltdown, including from the *Wall Street Journal*, *Bloomberg*, *Washington Post*, and the *New York Times*, which began its story about State Farm withdrawing from California with a succinct lede: “The climate crisis is becoming a financial crisis.”

- A spate of recent state insurance policy interventions, including in California, Colorado, Florida, Louisiana, New York, and Oregon.

- **Warnings** from Treasury Secretary Janet Yellen and Federal Reserve Chair Jay Powell about insurance market disruptions, plus actions and investigations by federal agencies and Congress.

- **Polling data** suggesting that Ron DeSantis’ industry-friendly 2022 insurance overhaul was an electoral liability during his failed presidential campaign.
• A January 2024 special election in which Democrats flipped a Central Florida state house seat that Ron DeSantis had carried by 12 points two years prior, in part on the basis of insurance policy.

• The introduction of legislation on this subject by California Rep. Adam Schiff, seemingly aimed at conveying action as Schiff campaigns for US Senate.

• Recognition of the relevance of climate to state insurance commissioner elections.
Uninsurance and underinsurance

For many American families, their home is their most precious and valuable asset. The vast majority of households rely on mortgage lenders to obtain that asset. Since insurance protects the value of that asset against damage and destruction, obtaining homeowners insurance is a requirement by nearly all mortgage lenders and issuers. Because of this, insurance plays a critical role in the functioning of America’s housing finance system.

Still, there is a high prevalence of homeowners who lack insurance, and it is most common among individuals who own older homes, inherited homes, or manufactured homes. The Consumer Federation of America (CFA) used data from the 2021 American Housing Survey to estimate that as many as 6.1 million homeowners-- 7.4% of the housing market-- are “going bare,” meaning they do not have insurance. There are stark disparities behind this figure along racial, socioeconomic, and geographic lines. CFA cautioned that these estimates may actually be conservative, and that “the skyrocketing increase of homeowners insurance premiums in the years since these data were collected make it likely that many more households are uninsured in 2024 than were in 2021.”
The growing trend of “going bare” has far-ranging implications. As CFA notes, “amidst rising insurance costs nationwide, the disproportionate levels of uninsured homes in communities of color helps to perpetuate the longstanding racial wealth and homeownership gaps.” Growing insurance costs will also continue to drive higher housing costs, which contributes to inflation, and risks making homeownership unattainable for more and more people.

In addition to uninsurance, there is also a problem of underinsurance. The costs for repairs and damages often greatly exceed what insurance companies are willing to pay to policyholders. For example, reporting from the Washington Post has documented considerable pressure on insurance adjusters to underpay policyholders in the aftermath of Hurricane Ian.

Lastly, if insurance policies are not renewed or become so costly that homeowners can no longer afford them, policyholders may be subject to what is called “force-place” or “lender-placed” insurance. It is important to understand that even though these policies are paid for through charges that are issued to homeowners, ‘force-place’ insurance policies protect lenders rather than homeowners.

The problem of uninsurance and underinsurance has contributed to what Treasury Secretary Yellen has described as a “protection gap.” Each year, billions of dollars in damages from climate disasters are not covered by
insurance. In its 2023 annual report, the Financial Stability Oversight Council warned that the “increasing frequency and severity of extreme weather could affect the solvency of insurers” and “could also affect the cost and availability of coverage for homeowners and businesses, which could have implications for financial stability.” Underscoring how serious the threat of the protection gap is for financial stability, CFA estimates the value of uninsured homes in the US is already $1.6 trillion. This figure is poised to grow further in the years to come, unless action is taken to mitigate climate pollution and make insurance more affordable.
Fiscal Pressures on States: Insurers of Last Resort, State Guaranty Funds, Surplus Lines

As losses and damages from climate disasters increase, the risk that policyholders and the public will end up on the hook for insurers’ failure increases as well. This could happen primarily in two ways:

1. **Insurers of last resort**: Many states have insurers of last resort or FAIR plans that are designed to ensure coverage in communities where private insurance is not widely available. Policies from these insurers of last resort usually offer barebones coverage and expensive premiums, yet the climate crisis is driving increased reliance on them. For example, Florida’s insurer of last resort, Citizens, is now the largest insurer in the state. Under Florida law, all policyholders in the state are charged a surcharge in the increasingly likely event that damages exceed the premiums that Citizens can collect. A *Bloomberg* piece exploring increased reliance on state insurers of last resort found that:
“Homeowners in the most risky places are now more likely to be covered by state-created, “last resort” insurance programs that provide protection where the private market won’t.

Those plans have more than doubled their market share since 2018, and their liabilities crossed the $1 trillion threshold for the first time in 2022, according to Property Insurance Plans Service Office Inc., a research firm that tracks the programs....

But even as states have assumed more and more risk, they’ve largely dodged a fundamental question: How will they cover claims in the wake of a truly major catastrophe? There are limited options—levies on private insurers or state residents, or more state borrowing—and none of them are good.

Most states haven’t thought this far ahead, or if they have, they’re not explicit about where the money will come from. Out of 36 residual insurance plans that offer coverage for natural catastrophes, 21 don’t explicitly detail how they’d pay deficits, according to new research from consulting group Milliman.”

The research paper by Milliman, which was commissioned by a trade association called the Personal Insurance Federation of California, detailed which state insurers of last resort have plans for recouping deficits when losses exceed premiums, and which do not. In the 21 states that do not clarify how they would recoup losses, the insurance companies that participate in the FAIR plan would presumably be required to fill deficits themselves. Millman’s analysis called for this “financial burden” to be “shared among policyholders and insurance companies,” essentially arguing for more states to adopt surcharges like the one required under Florida law.

2. State guaranty funds: Insolvency by insurers places pressure on state guaranty funds. State guaranty funds build up reserves meant to compensate policyholders if and when their insurer goes bankrupt. In a 2022 study, scholars from the University of Alabama examined catastrophic but plausible adverse climate scenarios, and estimated that a significant number of insurers would become insolvent and that “it [would] take the average state 123... years to fully pay the original loss amount through guaranty fund assessments.”
State guaranty funds are supported by assessments on all insurance companies doing business in the state. State governments can also use public dollars to contribute to the guaranty fund, though there have also been instances where states have sought to raid the guaranty fund to fill budget gaps. Because state guaranty funds are underfunded in catastrophic scenarios, there is a growing likelihood that insurers will be forced to pay assessments, and that guaranty funds will search for revenue in the form of either policyholder surcharges or tax collections.

After Hurricane Ian, this scenario transpired when the Florida Insurance Guaranty Association (FIGA) approved an assessment in early 2023, which Florida insurers passed on to consumers through a surcharge. One of the few actions on insurance taken by Florida lawmakers in the 2024 legislative session was a modest series of insurance tax breaks. The tax package was framed as relief for homeowners paying higher insurance costs, and the initial proposal contemplated making up for the 2023 FIGA assessment by temporarily suspending the 1% assessment paid by homeowners to shore up the FIGA. In the end, the suspension of the FIGA assessment was rejected due to widespread agreement that Florida’s insurance market is not in a position to deprive the FIGA of $200 million in revenue.

Another climate-driven state insurance policy trend is increased reliance on surplus lines. Surplus lines are a unique set of insurance products that can be made available to policyholders for whom private market insurance is not readily available. They are not subject to the same consumer protections and regulations as products offered by non-surplus insurance companies. Nonetheless, lawmakers in Florida recently approved a new law that expanded provisions from the state’s 2022 insurance overhaul to surplus insurers. Under the change, policyholders who own a second property that is covered by Citizens would be required to take a policy with a surplus line so long as that policy was within 20% of the annual premium that they paid. Because these surplus line policies are often expensive and are not subject to the same rules, the FIO explained that their expansion is not necessarily a healthy trend in state insurance policy:
“In the surplus lines market certain non-admitted insurers are permitted to offer coverage that is of limited availability in the admitted market. The ability of the surplus lines market to sell insurance that is otherwise of limited availability may permit (although not require) them to provide insurance to higher risk policyholders at higher premiums than that offered by admitted insurers in the standard market. Regulatory oversight and applicable laws differ for insurers in the surplus lines market that may have “more freedom to modify underwriting standards and rates, adopt new policy provisions, or exit geographic areas with accumulating correlated risks by choosing not to offer new policies in a geographic area or non-renewing existing policies in a geographic area than admitted insurers offering homeowner insurance.” The increased frequency and severity of climate-related disasters may lead to more correlated risks that cause insurers to shift their business to the surplus lines market.”

Policymakers must be sophisticated about how they manage and coordinate the public costs associated with the disruption that fossil fuel pollution is inflicting on insurance markets. If insurers are permitted to charge higher prices to reflect higher climate risk, the models, data, and maps informing that climate risk should be public and transparent to the greatest extent possible. Any allowances for higher premium prices must also come with the tradeoff of stringent regulations that require insurance companies to be well-capitalized against mounting climate risk.

We know that significant public resources will need to be spent on climate resilience, including upgrades to public infrastructure and assistance to homeowners and businesses when they pursue hazard mitigation measures. This public spending must be carried out with a conscious eye toward making insurance more accessible and affordable.
Ever since Hurricane Andrew caused a spate of insurance insolvencies in 1992, Florida has attempted to stabilize its insurance market through a state-run reinsurance program called the Catastrophe Fund and an insurer of last resort called Citizens. Today, 10% of Florida homeowners hold a policy through Citizens, but the system faces enormous challenges as the insurance market enters a fossil fuel-induced “meltdown.”

In 2022, the Florida legislature held two special sessions concerning insurance, and lawmakers considered several bipartisan proposals that sought to bolster the insurance market by lowering the “retention point” at which insurers pay into the Catastrophe Fund, and by repealing tax exemptions enjoyed by big businesses. But those options were rejected.

After Hurricane Ian caused hundreds of billions of dollars worth of damage to Florida properties in the fall of 2022, Florida governor Ron DeSantis convened another session to negotiate an insurance overhaul. That overhaul, which appears to have been drafted in consultation with State Farm and other major insurance industry donors, was scheduled to maximize the time between the
legislative changes and the next election.

Consequently, the 2022 insurance overhaul changes are projected to be very costly for consumers, with provisions making it more difficult for policyholders to sue insurers; shortening the time window that policyholders can file claims after climate disasters; and forcing Citizens’ policyholders to accept premium hikes if a private insurer offers a premium within 20% of Citizens’ rate.

Insurance industry lobbyists have resisted further reforms to give the overhaul more time to “work.” This was the reasoning deployed when insurance lobbyists testified against a bill in 2024 that would have instituted a one-year prohibition on the cancellation or non-renewal of policies on properties that have been damaged by hurricanes until owners have had a chance to make repairs. That bill ultimately did not pass.

During a February 2024 hearing on her bipartisan proposal to create a public option for insurance, Rep. Hillary Cassel (D-HD 101) pointed out that the 2022 reforms have only resulted in a handful of new insurers entering the market, all of which are small, undercapitalized, and have received low ratings from independent rating companies. There is limited evidence that the 2022 overhaul succeeded in its goals of depopulating Citizens or in halting the exodus of insurers from Florida’s market.

Absurdly, many Florida politicians, including the state’s top insurance regulator, continue to blame the problems of Florida’s insurance market on baseless conspiracy theories rather than on climate change. Perhaps unsurprisingly then, Florida’s 2022 overhaul has proven politically vexing for the state Republican party.

In September 2023, news media reported on a behind-closed-doors deal materializing in the California legislature. The deal was reportedly aimed at enticing insurers back to California’s market after a high-profile series of withdrawals earlier that summer. Consumer advocates rushed to Sacramento to learn details, and captured a recording of an insurance lobbyist boasting of plans to circumvent the public legislative process and “jam” through an agreement in the final days of the session. The deal, as outlined in media reports, would have:
• Weakened a consumer protection law called Proposition 103 by streamlining the process for approving insurance premium increases.
• Expanded the state’s insurer of last resort, known as the FAIR plan, and enacted a “surcharge” on all Californians’ insurance policies.
• Permitted the use of forward-looking catastrophe models in insurers’ pricing of policies.

California’s FAIR plan is currently funded and backstopped by insurance companies. Consumer Watchdog argued that using a “fee” to pass responsibility for adequately funding FAIR plans to all California policyholders was a “bailout.” It should also be noted that California’s requirement that rates be based only on past damages is unique, and was cited implicitly as a negative feature of California law in the FIO’s report. According to the FIO, there is a strong need for catastrophe models to be improved to incorporate a long-term focus and better climate data. Consumer advocates have cautioned that updates to these models must be made transparently and with proper scrutiny of insurer practices like drone flyovers.

Consumer Watchdog mobilized climate and civil society advocates to oppose the late-breaking deal in California, pointing out that the deal as reported in some ways resembled DeSantis’ 2022 overhaul. Consumer Watchdog stressed that California’s insurance market remains by and large healthier and more affordable than Florida’s, notwithstanding continued distress driven by fossil fuel pollution. Ultimately, California’s insurance deal fell through, although Insurance Commissioner Ricardo Lara has proceeded with his own set of reforms.

Insurance market disruptions have continued in both California and Florida. However, it is becoming apparent that deregulation and greater allowances for premium hikes are not sufficient enticements to ease pressure on state insurers of last resort by encouraging private insurers to re-enter the market.

Further policy interventions are needed. To be clear, the public will continue to bear many costs associated with disaster relief and addressing the climate crisis. To the extent that higher insurance premiums are a part of these costs, they should be managed and coordinated in tandem with the substantial public expenditures from federal, state, and local governments that are necessary to make society more resilient against climate change.
Uniform Climate Risk Disclosure Standards

As climate change makes insurance markets more volatile, there is a strong need for more and better data on how insurance companies are responding, both in terms of how they are faring with the rise in damages from climate disasters, and in terms of how they are adjusting their risk management practices. An initial step toward collecting this data was taken in 2010, when the National Association of Insurance Commissioners (NAIC) initiated a voluntary climate risk disclosure survey. In 2022, the states participating in the NAIC’s survey updated their methodology to align it with international climate risk disclosure standards.

Ceres’ analysis of the most recent climate risk disclosure survey results shows how valuable these climate risk disclosures can be. As Ceres notes, participating state regulators “receiv[ed] responses from more than 1,500 companies representing over 80% of the U.S. insurance market.” Ceres’ analysis also makes clear that this data shows an incomplete picture. For instance, only 12% of insurers reported their Scope 3 emissions (indirect emissions stemming from the value chain), and only 20% of insurers’ disclosures included any discussion of scenario analysis. Ceres’ more in-depth analysis of 15 large insurers found that only two insurers are reporting doing a full range of scenario analysis, including...
discussion of how the company would respond to physical risks from a climate scenario above a 2C temperature rise.

One reason for the inadequacy of these disclosure survey results is a lack of uniform standards for disclosure requirements. For example, the FIO notes that insurers are allowed to choose for themselves which standard of ‘materiality’ to use in disclosing climate risk. Further, the FIO’s report notes that “NAIC survey results remain largely qualitative and are currently difficult to analyze quantitatively across respondents.” To help fill these information gaps, the FIO encouraged all state regulators to participate in the climate risk disclosure survey. The FIO also encouraged the adoption of strong and uniform climate risk disclosure standards nationally:

“The NAIC should consider revising its Climate Risk Disclosure Survey over the next several years to incorporate more prescriptive elements, including around quantitative financial impacts, scenario analysis, and consistent metrics and targets, with the goals of enhancing: (a) transparency about how insurers manage climate-related risks and opportunities, (b) the identification of good practices and vulnerabilities, and (c) the assessment of how climate-related risks are affecting the insurance industry.”
Instituting Climate Risk-Based Capital (RBC) Requirements

One way to protect against major public costs is to ensure that insurance companies do not become undercapitalized. **Risk-based capital (RBC) requirements are the primary regulatory tool** that insurance regulators use to promote solvency by ensuring that insurance companies are well-capitalized. The RBC formula was developed in the 1980s to replace a one-size-fits-all capital requirement regime, and was intended to reflect the reality that different sectors and firms face different risks. However, the RBC formula used by all state insurance regulators has been slow to adapt to growing climate risk across a range of perils. As the [FIO’s report](#) explained:

> “Current considerations of climate-related risks in RBC formulas are limited and apply only to P&C insurers. The RBC formula requires a special charge (the Rcat component) for just one climate-related risk: hurricanes. Further, that charge applies only to those P&C insurers writing business in jurisdictions identified by the NAIC as having hurricane exposure. In 2022, the NAIC Capital Adequacy Task Force approved a proposal to add wildfire as one of the perils covered by the Rcat component for P&C insurers. Unlike the charge for hurricanes, however, the charge for
wildfire is for informational purposes only (meaning that insurers are not required to actually hold more capital to cover the potential exposures) and applies only only to larger companies (with smaller companies exempted from calculating the capital charge so long as it remains for information-only purposes).”

Capital requirements in all 50 states are based on the NAIC’s model law, which is automatically updated at the discretion of the NAIC’s Capital Adequacy Task Force. Minutes from the task force’s most recent meeting do not show any actions or updates to integrate climate risk beyond the 2022 steps highlighted in the FIO report. The first draft strategy document from the NAIC’s climate resilience task force does not mention any further pending actions regarding the RBC formula. The Solvency Workstream of the NAIC’s climate resilience task force has indicated its intention to gather data about insurers’ exposure to wildfire risk, but has expressly clarified that this data will not be embedded into capital requirements. This process for integrating wildfire perils into capital requirements is playing out too slowly for the many communities facing soaring wildfire risk, including in Arizona, California, Colorado, Hawaii, Oregon, New Mexico, and Washington.
Promoting solvency is one of the most important duties of insurance regulators. Major questions exist around how certain state insurance regulators are handling this duty, particularly in the face of a climate-driven uptick in insurance company insolvencies. For example, reporting by the *Tampa Bay Times* found that Florida’s Office of Insurance Regulation failed to conduct required financial condition exams in the run-up to one insurer’s insolvency.

In addition to instituting capital requirements, state insurance regulators are supposed to guard against insolvencies by conducting periodic financial condition exams and requiring insurers to produce annual Own Risk and Solvency Analysis (ORSA) reports. ORSA reports are confidential filings that insurance companies submit to regulators containing the firms’ own evaluation of what factors might prevent them from meeting their obligations to policyholders.

As with RBC requirements, state insurance regulators base their ORSA guidance off the NAIC’s ORSA Model Act. In the case of New York, regulators did not wait for the NAIC to finalize the steps it has taken toward integrating climate risks into its ORSA Model Act. As the FIO explains:
“The NAIC’s Solvency Workstream of its Climate and Resiliency Task Force in May 2022 proposed several enhancements to the ORSA Guidance Manual that would, if adopted, encourage state insurance regulators to require integration of climate-related risks into the ORSA of each insurer.

The proposed enhancements would provide guidance on the following ORSA elements:

- the insurer should include a description of how climate change risk is addressed through its risk management framework;
- if climate change has the potential to materially impact the insurer’s asset portfolio or its liabilities, then the exposure of assets or liabilities to transition or physical risks should be presented, discussed, and assessed in both a quantitative and qualitative manner; and
- encourage qualitative discussion of the material medium and long-term impacts of climate change risk on the insurer’s near-term risk appetite, asset management, underwriting, and business strategy, as well as efforts to limit the impact on near-term solvency.

These enhancements, which remain under consideration by the NAIC, contemplate that insurers would assess the near-term impact of climate change on their asset portfolio and insurance liabilities, in alignment with the time horizon generally covered by an ORSA, i.e., one that corresponds to an insurer’s current business plan. As noted previously, however, climate-related risks can be either acute or chronic, such that it would be more beneficial for insurers (and regulators) to consider a longer-term risk horizon in addition to the near-term horizon. To date, only one state (New York) has developed and implemented a version of the ORSA Model Act that requires insurers to consider climate-related risks as part of their risk management.
Scenario analysis is a commonly used tool in banking regulation. Regulators require banks to examine how their balance sheets would respond to various adverse economic events. As climate change emerges as a threat to financial stability, scenario analysis can be a useful tool to require financial institutions to measure their exposure to physical and transition risks from climate change. In 2023, the Federal Reserve initiated a pilot project for the largest U.S. banks to begin conducting climate scenario analysis.

In 2021, the New York Department of Financial Services adopted guidance expecting insurers to conduct scenario analysis to determine whether they would be solvent several decades into the future under different possible pathways for pollution and temperature increases. Consumer groups praised this guidance as necessary to give regulators more insight into how insurers can manage their risks and avoid consumer harms. In 2022, Connecticut became the first state to adopt a scenario analysis requirement for insurers via legislation.

The FIO recommended that:

“The NAIC and state insurance regulators should prioritize their work on scenario analysis for climate-related risks, initially as a capacity building exercise for large insurers. Future NAIC work should include developing a pilot analysis with defined scenarios and assumptions for insurers to run and submit to regulators, commensurate with an insurer’s size, complexity, business activity, and risk profile.”
Although insurers should be required to adopt and analyze forward-looking models projecting how their business will be affected by climate change, it is important to recognize that scenario analysis alone--absent consumer protections and other reforms--may only hasten premium spikes and market withdrawals. This is because insurance policies are set annually, and a sober assessment of their exposure to climate risk could prompt insurers to accelerate their plans to raise rates and cancel policies in vulnerable communities, particularly if climate scenarios turn out worse than their forecasts had anticipated.

Legislators should get in touch with Climate Cabinet and consumer experts if considering legislation to require scenario analysis. An optimal scenario analysis proposal would empower state insurance commissioners to reject insurers’ scenario analysis submissions that show that insurance companies plan to rely heavily on premium spikes or market withdrawals, particularly those that would violate laws against discrimination in the insurance sector.

Ultimately, the establishment of long-term insurance policies is necessary to stabilize the insurance market in a warming world. Section 6 of Rep. Adam Schiff’s INSURE Act would establish a federal pilot program aimed at creating all-perils insurance policies with terms of at least five years.
As communities face dramatic increases in climate risk, regulatory reforms must be combined with major fiscal investments in climate resilience. States, municipalities, businesses, and individuals must be making upgrades that harden property against more extreme climate disasters. Congress approved the Safeguarding Tomorrow Revolving Loan Fund program for states to respond to disasters by building climate resilience, and funded it through the Infrastructure Investment and Jobs Act in 2022.

Robust federal and state spending toward climate resilience and hazard mitigation investments is needed, and should be integrated with insurance policy pricing to the greatest extent possible.

In 2023, Louisiana approved $30 million in funding for a roof fortification program. Funding like this can and should be made with an eye toward enhancing affordability. For example, states should pursue policies like California’s regulation requiring insurers to offer discounts to policyholders that pursue home hardening retrofits and other wildfire safety measures. In Alabama, the state’s grant program to help residents fortify their homes is funded with fees on insurance companies, and has reportedly resulted in insurer discounts and a relatively affordable insurance market, compared with neighboring hurricane prone states.
State Capacity Building

In a recent letter to Treasury Secretary Janet Yellen, dozens of advocacy organizations outlined how insurance market dysfunction is posing a threat to financial stability, and urged Yellen to integrate the implications of the climate crisis for the insurance sector into the work of the Financial Stability Oversight Council (FSOC). As the letter noted, “there are serious reasons to doubt that state insurance offices have the capacity, expertise, and resources needed to rise to the challenge.”

Following the decision by FSOC to eliminate federal oversight over Prudential during the Trump administration, there are no insurance companies whose activities are subject to consolidated supervision from the Federal Reserve or any other federal regulator. This means, as University of Michigan Professor Jeremy Kress wrote in a 2018 paper criticizing FSOC’s deregulation, that firms like Prudential—a complex, $832 billion multinational conglomerate—now have state agencies like the New Jersey Department of Banking and Insurance as their primary regulator.

This is an alarming development, in light of a lack of bandwidth at most state insurance offices. University of Minnesota insurance scholar Daniel Schwarcz has written: “approximately forty states have no more than three actuaries on staff to review rate filings. Instead, states increasingly rely on rate or form ‘analysts’ to review the rate filings of every insurer operating in their state. Yet most analysts simply do not have the technical background or experience to
have the slightest chance of understanding, at any level of depth, the statistical rating and underwriting models that insurers are now deploying; such analysts are often hired right out of college, generally have no graduate degree, and are typically paid much smaller sums than could be fetched in private industry.”

States and municipalities have also faced capacity constraints responding to a host of climate disasters. One year after 2022’s devastating wildfires in New Mexico, the federal government had only distributed 1% of the aid that Congress approved. Similar delays following climate disasters in Florida, Texas, and elsewhere have led to the advancement of bipartisan legislation to streamline disaster relief spending, but it has stalled in the Senate. Disaster relief spending and the reauthorization of the National Flood Insurance Program have also been subject to huge uncertainty and delay surrounding government shutdown and spending agreements.

In the face of this federal dysfunction, it is imperative that state governments build more robust infrastructure to respond to the growing costs of climate disasters. As states make more climate resilient investments, both separately from and in response to federal infrastructure funding, they must be sure to include steering state resources toward better staffing and capacity by state insurance regulators.
Without insurance, fossil fuel projects cannot move forward. Yet even though insurers have been warned for decades that climate change poses a major threat to their industry, they continue to underwrite new and expanded fossil fuel infrastructure. The insurance industry cannot have it both ways: retreating from communities as climate disasters worsen, but continuing to support the pollution causing that destruction.

Many oil and gas producing regions are now on the frontlines of the climate-driven insurance crisis. Data from the First Street Foundation shows that among the nation’s top 20 counties most vulnerable to wildfire risk are several oil and gas producing communities: Kern County, CA; Lea County, NM; and Hutchinson County, TX.

There has also been considerable public pressure on insurance companies to withdraw their support for fossil fuels, and some major insurance companies have begun to announce plans to phase out their support for fossil fuel production. These voluntary actions are not occurring at nearly the pace and scale needed to mitigate how fossil fuel pollution is driving higher damages in the insurance sector, however. There has also been a disappointing trend of large insurers exiting the Net Zero Insurance Alliance in response to right-wing attacks on Environmental, Social, and Governance (ESG) investing.
In 2023, Texas legislators escalated these attacks when they passed a law banning insurance companies from using ESG risk analysis factors in their business. Insurance trade associations were opposed to the bill, but it passed over their objections. Numerous industry and legal experts expressed concerns that the “law’s vague language could drive insurers from a state or raise the likelihood of insolvency.”

Connecticut lawmakers have put forward a proposal to discourage insurers’ support for fossil fuels by enacting a surcharge on insurers’ underwriting of fossil fuel infrastructure. Importantly, revenue from the Connecticut bill would be dedicated to a fund to support Connecticutians by maintaining an affordable insurance market and making investments in climate resilience.
Insurance companies build up their capital to pay out damages by investing premiums in financial markets. This practice of investing policyholders premiums—known within the industry as “float”—makes insurance companies some of the largest institutional investors in the economy. Trillions of dollars from insurers’ investments flow to various segments of financial markets—and insurers constitute some of the largest players in the corporate bond, municipal bond, and commercial mortgage markets.

Insurers therefore are propping up the fossil fuel industry not only through providing insurance to fossil fuel projects but also by investing in fossil fuel companies and assets. This also means that insurance is a channel for spreading risk across the financial system in more ways than one. Not only are banks and other financial institutions exposed to insurance companies’ physical risks when the losses from climate disasters cause larger payouts, they are also exposed to insurance companies’ transition risks and the growing likelihood that insurers’ fossil fuel investments will become stranded assets.

In February 2024, the Insurance Commissioners of California, Oregon, and Washington released an analysis of insurers’ investment portfolios titled “The Hidden Cost of Delaying Climate Action for West Coast Insurance Markets.”
Highlighting the important role that insurance companies play as institutional investors, the report quantified insurers’ exposure to transition risk through billions of dollars in fossil fuel investments, and warned that a sudden loss in value of these holdings could contribute to an economic “shock.” Among the report’s key findings:

- “Insurance companies invest the proceeds of the premiums that they collect from people and businesses, making them some of the largest institutional investors in the U.S. with approximately $8.2 trillion in cash and invested assets reported in 2022. As some of the largest institutional investors, insurance companies can be exposed to climate risks and are also well positioned to take advantage of opportunities to invest in low-emissions technology.”

- “Exposure of investments to fossil fuel extraction varies widely between insurers. No aggregate insurer group (Life, P&C, Health, Fraternal) has more than 4.5% of their analyzed corporate bond portfolio and 2.5% of their analyzed listed equity portfolio exposed to fossil fuel extraction. However, some individual insurers have up to 95% and 30% exposure in their analyzed corporate bond and listed equity portfolios, respectively. Life insurers have the most value invested in the oil & gas extraction sector ($150B) and the power sector ($100B), based upon the analyzed investments... P&C has significant exposure to fossil-based power production (~5% of portfolio value amounting to $4B). Another upwards of $6 billion of their investments are in steel and cement production.”

- “For many sectors (oil power, oil extraction, coal mining), the plans of the companies associated with the aggregate portfolio of insurers are not aligned even with the current energy and climate policies that were implemented in 2021, implying exposure to transition risk even in the absence of any additional collective climate action, whether by policy, societal preferences, or technological advancement.”

- “The 1-in-1000 TRISK Climate Stress test estimates the additional costs to the financial sector when climate action by companies is delayed. The stress test considers a scenario in which companies associated with an investment...
portfolio are subject to a sudden transition policy shock, in a specified “shock year”, which compels them to transition their production from a baseline scenario (a projection of current production plans into the future) to meet a target scenario (a projection of how production would need to change for the company to contribute its share to meeting the target set through the Paris Agreement). The 1-in-1000 model may also subject the firms to a carbon tax shock associated with the scenario that places additional financial pressure on high carbon-emitting firms. This transition shock scenario reflects the concept that pathways to achieving the targets set forth in the Paris Agreement are not static, as they involve keeping to a specific budget of emissions. The pathway to remaining within that budget becomes more difficult and costlier the longer actions to reduce emissions are delayed.”

“The results show that there are significant impacts to insurers’ bond portfolios even with a transition that begins as early as 2026, indicating a disorderly (or disruptive) transition. In addition, each year that the transition is delayed leads to more significant negative impacts to the profitability of insurers’ investments. A delayed onset of the shock transition from the benchmark (business-as-usual) to the target (net-zero emissions by 2050) scenario, generally yields greater probability of default, more value loss, and more transition risk, because of the growing divergence of the production volumes under the baseline and the target scenarios and because there would have been more time where production was out of alignment prior to the shock that must be compensated for to remain within the emissions budget. That would require more abrupt changes throughout the economy, creating potentially significant changes for investors both through heightened risks and increased opportunities.”
Reinsurance

Reinsurance is essentially insurance for insurance companies. Reinsurance firms sign contracts with insurance companies that provide coverage in the form of liquidity in the event of catastrophic losses. This helps insurance companies remain solvent in the aftermath of particularly intense hurricane seasons or other extreme loss events.

Just as one might expect, it has been reinsurance companies that have been at the forefront of warning that climate risk would drive higher costs, with Munich reissuing a report about the implications of climate science for the insurance industry as far back as 1973. Another warning that the reinsurance landscape would experience significant volatility as a result of the climate crisis came through the significant shifts in reinsurance markets that occurred after Hurricane Andrew in 1992 and after Hurricanes Katrina, Rita, and Wilma in 2005. As the number of billion dollar weather events have set new records in recent years, reinsurance companies have offered more expensive contracts to insurance companies. In turn, this is driving higher costs in the primary insurance market.

A Financial Times piece exploring our “uninsurable world” explained:
“The dramatic pullback in the reinsurance market after years of underperformance has added to the urgent sense among insurers that they must reprice. The cost of property catastrophe reinsurance cover, which they use to share the burden of natural disaster claims, is at its highest in a generation. Reinsurers have also sharply raised their so-called attachment points — the level of losses that need to be reached for the reinsurance to kick in. That has left more risk with primary insurers. Dean Klisura, head of reinsurance broker Guy Carpenter, told analysts in January that attachment points “did not come down” in crucial turn-of-the-year negotiations and that continued to “expose [insurers’] balance sheets to attritional volatility.”

A number of options have been suggested to make the private reinsurance market more expansive and resilient, but fundamentally, none of them truly circumvent the problem that climate change is driving more extreme weather. For example, catastrophe bonds—securities issued by insurance companies that pay out to investors if high damage thresholds from unlikely catastrophic events are not met—are sometimes cited as an alternative to reinsurance. Indeed, as reinsurance has become more costly in recent years, insurance companies have increasingly relied on issuing catastrophe bonds to hedge funds and other investors. However, there is substantial concern that the thresholds that make catastrophe bonds a risky investment will increasingly be met as the climate crisis worsens.

To sum up, the challenges in the reinsurance market will continue to grow so long as the climate crisis continues to escalate. When it comes to assuring an affordable insurance market, there is no substitute for mitigating the climate crisis. Effective policy solutions will all require substantial public investment, including toward climate adaptation and hazard mitigation.
Antitrust

A common refrain from insurers is that insurance is one of the most competitive industries, with more than 2,000 property and casualty insurers operating nationally. While this may be true on a national scale, a state-by-state analysis of insurance markets shows fairly high degrees of concentration in many instances.

The same 1945 law that broadly preempts federal regulation of insurance also exempts insurance companies from federal antitrust enforcement. At the end of 2020, Congress pared back this antitrust exemption with respect to health insurance, but it remains in place for property and casualty insurance. Some states have taken action to affirmatively add antitrust scrutiny for insurers to their state codes.

California is one of the states that has clarified that state antitrust laws apply to the “business of insurance.” After insurance companies colluded in retaliation against the passage of a consumer protection law known as Prop 103 in 1988, California’s Attorney General concluded that they had violated this provision of state antitrust law. In 2023, Consumer Watchdog wrote to California Attorney General Rob Bonta alleging that insurance companies had again been colluding in violation of state antitrust laws, coordinating their market withdrawals in an effort to pressure lawmakers to weaken Prop 103 and other state insurance regulations.