V.

State Policy Recommendations for Protecting Against Financial Threats from Climate Change

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For U.S. states to protect themselves from the financial shocks that climate change may bring , their economies will need to become more resilient to the worsening impacts of extreme weather. Achieving resilience will require attention to three areas that help finance both resilience and recovery: insurance markets, disaster mitigation and recovery funding, and the wider credit markets that finance investment in resilience, even as they enable the energy transition.

Homeowners and businesses often rely on insurance markets to protect them financially from the impacts of disasters. But as discussed above, those markets are in crisis from the strain of worsening climate disasters. States, as the primary and usually sole regulators of the business of insurance in the U.S., will bear the primary brunt of a total collapse. However, they also have access to the tools and authority needed to avert the worst case scenarios. To do this, each state will need to designate a lead agency to manage the interlocking and cascading effects of the insurance crisis, with a mandate and budget to address the problem.

State insurance regulators will need to broaden their oversight of the climate risks faced by insurers to avoid systematic and unexpected collapses. They will also need to change the way that insurers set prices to make them more transparent and to reflect investment in community resilience. They can also improve transparency by publishing public catastrophe models, as California is already doing. States should also encourage insurers to recover the costs of climate disasters from the fossil fuel companies who caused the problem, and direct insurer investments away from funding those same companies. Finally, state insurance regulators should improve the options of residents of climate-impacted areas who can no longer obtain private insurance by strengthening the transparency and governance of state-backed insurers of last resort. Taken together, these recommendations will buttress state insurance markets and help contain the property insurance crisis.

Even as the availability of insurance coverage declines, disaster-affected areas also face significant cutbacks in the availability of federal disaster aid. Historically, this aid has been most of the money that enters disaster-stricken areas. Already-strained state budgets cannot replace this lost aid, so states will need to adopt innovative policies that build resilience. Such policies start with comprehensive disaster resilience and recovery strategies, which take into account insurance market conditions. States should invest in modern flood maps and data, require flood history

disclosures, and enforce stringent, climate-informed building codes. They should build capacity by hiring resilience specialists, who go beyond emergency management to holistically address these issues. They should also create incentives for hazard mitigation and climate resilience activities and set up resilience networks that let communities learn best practices from each other. These recommendations will not replace federal disaster aid, but they will allow states to do more with less when disasters do occur.

Failing insurance markets and reductions in disaster recovery funding will degrade the financial standing of climate-impacted areas. If that happens, the banks, credit unions, and other lenders that serve those areas will become more vulnerable to failure, even as the federal government steps back from its financial supervision responsibilities. Constrictions in credit availability will weaken state economies, reduce funding for resilience and transition activities, and disproportionately harm the most vulnerable communities. State banking regulators and legislatures have an opportunity to improve the resilience of credit availability from the lenders they oversee, and keep vital credit flowing. They can do that by requiring regulated institutions to assess and mitigate their own climate risks, collecting climate-risk related data, building capacity to manage climate risk at the regulator level, and coordinating with other state agencies.

State banking regulators can also ensure that when disasters do strike, borrowers are not unfairly foreclosed on or otherwise mistreated by their mortgage servicers. While banking regulators do not direct lending, they can encourage lenders to support climate resiliency and disaster recovery, ease green investment by setting consistent standards for underwriting and appraising the economic benefits of those investments, and ensure strong consumer protections that let homeowners make those investments with confidence. Together, these recommendations will keep the flow of credit open to vulnerable communities and help prevent widespread financial crises from harming state economies.

A. PROPERTY INSURANCE REGULATION

The nationwide property insurance crisis is now beginning to destabilize other economic sectors and to spread climate risk throughout the financial system. Increasingly, state lawmakers are recognizing the growing salience of insurance and intervening to stabilize their insurance markets. Policymakers must stabilize insurance markets in a holistic way that improves the ability of communities to handle climate change over the long term.

In recent years, states have taken steps to harmonize their system of insurance regulation with investments to upgrade infrastructure and bolster climate resilience. This is the most productive approach to managing the availability and affordability of property insurance. State governments' fiscal and regulatory policy choices must be rooted in a recognition that climate change is driving the crisis and that this crisis cannot be fully addressed without a successful energy transition.

Reporting by the *Wall Street Journal* has shown that the insurance industry has been exploiting the climate crisis to privatize gains and socialize losses. In their work to make communities safer from climate hazards, state governments must limit this excessive profit-taking and cost-shifting to the public to the greatest extent possible.

Insurance regulation gives states unique opportunities to address climate risk because states are the primary insurance regulators, not the federal government. Under the federal McCarran-Ferguson Act, state law generally governs the business of insurance.

Aerial view of homes devastated by the Palisades fire. Source: Sgt. 1st Class Jon Soucy

BOX 04

A primer on the insurance regulatory landscape

The McCarran-Ferguson Act and Reverse Preemption

The McCarran-Ferguson Act leaves some of the largest, most complex, and systemically important financial institutions in the U.S. with state insurance offices as their primary regulators. Although the National Association of Insurance Commissioners (NAIC) works to set a regulatory baseline across all states and territories, there is wide variation from state to state. Some federal oversight exists but it is limited.

State authority is particularly expansive for property and casualty insurance regulation, where the federal role is limited to: regulation and supervision of depository institution holding companies that engage in insurance activities and certain limited insurance authorities of banks; data collection; entering into international treaties on insurance regulation; running federally- enacted insurance schemes such as the National Flood Insurance Program (NFIP), the Federal Crop Insurance Program, and the Terrorism Risk Insurance Act program; and supervision and regulation of insurers designated as systemically important financial institutions (SIFIs) (no insurers are currently so designated). (See below for a discussion of the two areas of broad federal insurance industry oversight.)

McCarran-Ferguson has three important components that result in a regulatory framework for insurance that differs from banking and securities regulation, where federal regulation dominates. First, it codifies the default rule that states regulate the business of insurance (and every person engaged in that business). Second, it prevents federal statutes from preempting state insurance law unless the federal law "specifically relates to the business of insurance." Finally, it shields some activities in the business of insurance from federal antitrust enforcement, and permits states to regulate insurance rates without federal interference.

The legislative history of McCarran-Ferguson indicates that Congress intended for its antitrust exemption to be limited and temporary, yet courts have interpreted its provisions to be broader and more permanent. Congress repealed antitrust exemptions with respect to health insurance at the end of the last Trump administration, but the exemptions remain in place for property insurers. A few states (California most notably) have clarified that their state antitrust laws apply to property insurance companies.

Hurricane Helene (2024), high floodwater in Burke County. Source: NCDOTcommunications

State Insurance Law and Regulation

State insurance law has two components: (1) statutes regulating the business of insurance and conferring regulatory authority on state insurance commissioners and (2) the common law governing insurance contracts.

Statutes regulating property and casualty insurance address insurers' financial condition (i.e., keeping insurers solvent and able to pay claims), reserving requirements, licensing of insurers and agents/brokers to transact insurance in the state, rates, the content of insurance policies, how insurers must handle claims, and market conduct involving claims handling and marketing practices. Although 49 states have laws prohibiting rates for property and casualty insurance for homes and small businesses that are "inadequate, excessive or unfairly discriminatory," only 15 states require prior approval from the insurance commissioner to raise rates.

State insurance commissioners have a variety of tools at their disposal to enforce these requirements and regulate insurance underwriters, from chartering and licensing to ongoing oversight authorities. State insurance commissioners can institute administrative enforcement actions against insurers and individuals affiliated with those companies if they find violations of state insurance laws or regulations.

Every state also has a large body of common-law court decisions that construe the meaning of insurance policies (insurance contracts) and establish precedent for sales and claims practices involving those policies.

Following the 2008 financial crisis, state legislatures and state insurance commissioners took actions to address systemic risk posed by some insurers to the financial system, both through regulation and the examination process. To cite just one example, state insurance commissioners rolled out the Own Risk and Solvency Assessment (ORSA) to enable them to better understand insurers' ability to withstand financial stress.

The ruins of Altadena Community Church. Source: Wikimedia Commons

Regulation of national insurance companies that operate in a number of states with complex holding company and subsidiary structures requires insurance departments across those states to undertake joint financial examinations and to share information. In addition, state insurance commissioners often lack complete visibility needed to gauge the potentially systemic risk of transactions between insurance conglomerates and outside non-insurance affiliates. Finally, if insurance companies have insufficient funds to pay claims, they are treated as "insolvent" under state law. They are not governed by federal bankruptcy law. Instead, state insurance commissioners initiate state rehabilitation, conservation, or liquidation proceedings, under state law and usually under the supervision of a state judge.

In order to ensure a level of uniformity across state laws with regard to regulating the business of insurance, which is of particular concern for insurance companies who operate in a number of different states, the NAIC promulgates model insurance laws and regulations. By and large states adopt model laws and regulations issued by the NAIC, but states retain the option not to do so and to modify them.

The NAIC also facilitates examinations of insurance companies operating in multiple states. In order to ensure that states are abiding by the national regulatory standards that NAIC model laws and regulations set, the NAIC subjects state insurance departments to an accreditation process, which is renewed each time that regulatory standards are updated.

In 2020, the NAIC established its Climate and Resiliency Task Force and four separate workstreams: pre-disaster mitigation, solvency, climate risk disclosure, and innovation/technology. In 2024, the mitigation workstream culminated in a task force report titled National Climate Resilience Strategy for Insurance to "formalize resilience actions that can be coordinated by the NAIC, both pre- and post-disaster."

Two Limited Areas of Broad Federal Oversight of the Insurance Industry

There are two areas where the federal government can undertake broad oversight of insurance underwriters: oversight of systemic risk and depository institutions engaged in insurance activities. Only the latter is active today, and the number of insurers affected is low. Although the Federal Insurance Office (FIO) collects data and issues reports, it does not regulate insurance carriers or any of their parent companies or affiliates.

Financial stability oversight

After the 2008 financial crisis, Congress enacted a financial stability oversight framework in Title I of the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010. Dodd-Frank created the Financial Stability Oversight Council (FSOC), chaired by the Treasury Secretary. Its voting members consist of the major U.S. financial regulators plus "an independent member . . . having insurance expertise." In addition, the Director of the FIO and a state insurance commissioner participate in FSOC as non-voting members.

Dodd-Frank conferred powers on FSOC to mitigate nonbank systemic risk, including with respect to insurers, that could arise from their "material financial distress or failure, or ongoing activities." Any insurer that is designated as a systemically important financial institution (SIFI) becomes subject to consolidated supervision and regulation by the Federal Reserve, including heightened capital, stress testing, liquidity, and risk management standards. During the Obama administration, the FSOC exercised its nonbank SIFI designation powers over three life insurers: AIG, MetLife, and Prudential Financial Inc. Each of these insurance giants has since shed SIFI designation. Since 2018, no insurers are designated as SIFIs and none are anticipated.

Oversight of depository institution holding companies engaged in insurance activities

Finally, the Federal Reserve's authority over depository institution holding companies includes those that are engaged in insurance activities. For depository institution holding companies that are significantly engaged in insurance activities, the Federal Reserve has developed tailored holding company-level supervisory approaches and regulations. However, at the end of 2023 the Federal Reserve supervised only five such holding companies, and it does not have direct authority over insurance subsidiaries.

POLICY RECOMMENDATION 1

Designate a lead agency to respond to the climate-driven insurance crisis

The climate-driven insurance crisis requires a coordinated government response that goes beyond the traditional roles of insurance regulators. Each state should designate a single agency to lead these efforts.

The insurance crisis poses inherent tensions between consumer and regulatory demands. Experts such as the First Street Foundation and Ceres have called for greater recognition of climate risks in insurance pricing. But climate-risk driven insurance "price signaling" (allowing insurers to charge higher premiums in climate-risky areas) is already causing insurance policyholders to become "overburdened." Moreover, University of Queensland professor Paula Jarzabkowski argues that it is important to measure household and community exposure to climate risk, but that price signaling is most useful as a tool for guiding where public resources should be directed.

State governments have a role to play in managing and resolving these tensions. By enlisting all relevant state agencies in the task of accurately measuring climate risk and investing the resources necessary to reduce that risk, state governments can stop the trend of insurance markets becoming ever more unaffordable and unavailable. Though insurance market disruptions require a "whole of government" response, states should designate a lead agency responsible for fulfilling this mission and coordinating governmental action.

POLICY RECOMMENDATION 2

Increase budgets and capacity for insurance offices and other relevant agencies

The climate-driven insurance crisis requires greater resources for all state agencies tasked with responding to the crisis, notably including state insurance offices. States should increase funding for insurance offices and other agencies to ensure they have the financial resources to meet the moment.

States have long failed to provide adequate funding for insurer oversight, and climate change is making the problem worse. University of Minnesota professor Daniel Schwarcz has pointed out that states suffer from understaffing due to insufficient funding that compromises their ability to supervise insurers, writing that "[s]tates increasingly rely on rate or form 'analysts' to review the rate filings of every insurer operating in their state. Many of these analysts lack technical expertise to understand the complex statistical rating and underwriting models insurers now use." According to a 2022 NAIC report on state insurance department staffing, only seven states have five or more actuaries on staff reviewing property and casualty (P&C) insurance rate filings, and in 20 states, the number of P&C actuaries on staff is zero.

As state insurance market disruptions and their economic harms have continued their dramatic increase, state capacity to understand, analyze, and effectively manage climate risk has not kept pace. Increasing state insurance office budgets is the first step in overcoming this challenge.

POLICY RECOMMENDATION 3

Integrate climate risk into supervision frameworks

Climate risk is financial risk, but insurance regulators' supervisory frameworks do not treat it as such. Insurance regulators should fix this by fully integrating climate risk into supervision frameworks.

In 2023, the FIO issued a report outlining gaps in climate-related supervision in the insurance sector. The FIO wrote that "Climate-related risks—including physical, transition, and litigation risks—present new and increasingly significant challenges for the insurance industry. The oversight of climate-related risks is therefore an emerging and increasingly critical topic for state insurance regulators. Climate-related risks also warrant careful monitoring by financial regulators, policymakers, and insurers."

While praising certain steps taken by the NAIC to address climate change's impact on insurance markets, the FIO concluded that "[m]ore work is needed by state and federal regulators and policymakers, as well as by the private sector and the climate science and research communities, to better understand the nature of climate-related risks for the insurance industry, their implications for insurance regulation and supervision, and for the stability of the financial system—including for real estate markets and the banking sector."

The U.S. Treasury Department, which oversees the Federal Insurance Office. Source: Wikimedia Commons

The FIO's report also included a list of 20 policy recommendations for how state policymakers can incorporate climate risk into state insurance supervision. It is incumbent upon state legislatures to ensure implementation of these recommendations. Below, we highlight several critical recommendations for legislatures.

Most of the FIO's recommendations can be implemented through unilateral action by individual insurance commissioners or collective action by the NAIC. However, state insurance commissioners have been slow to embrace the FIO's policy recommendations within their remit. In 2021, New York instituted guidance establishing the expectation that insurers conduct climate-related scenario analysis, followed soon thereafter by Connecticut. But as of summer 2025, no other states had issued such guidance.

Some of the FIO's recommendations can only be implemented by the NAIC as a whole. There, action has been slow as well. This includes one of the FIO's most important recommendations: updating insurers' risk-based capital (RBC) formula to integrate wildfire and other climate-related perils. As of the end of 2024, wildfire and other climate perils are currently only embedded into RBC "for informational purposes," meaning that the measurement of whether insurers are well-capitalized to withstand large payouts excludes a calculation of their exposure to wildfires and other climate risks. The NAIC's leadership has acknowledged that the RBC formula needs to be updated to reflect modern realities, but progress thus far is slow.

The need to close the supervisory gaps that the FIO identified is urgent. State legislatures should require state insurance regulators to establish a comprehensive climate risk supervision framework. We recommend that this include:

- Mandating the hiring of a climate risk resilience officer within the state insurance office.
- Requiring the state insurance commissioner to file an annual report on climate risk supervision within the state insurance department, including a description of what the office is doing to advocate for advancement of responsible climate risk management within the NAIC and its various working groups. Just as is required in Connecticut by SB 1047, passed into law in 2021, the state insurance commissioner should report on how climate change is impacting "risk based capital requirements, regular supervisory examinations, and risk and solvency assessments." Importantly, the state insurance department should be obligated to describe what it is doing to promote solvency with climate risks in mind and also how the department is engaging within the NAIC, so that state leaders can be confident that their insurance department is doing everything within its power to positively influence processes like the NAIC's updates to the RBC formula.

Aerial view of homes that were ravaged by fire in the community of Breezy Point, New York as a result of Hurricane Sandy. Source: Andrea Booher/FEMA

- Integrating climate risk into financial condition exams and ORSA assessments.
- Requiring insurers to conduct annual climate-related scenario analysis, building on the Connecticut and New York guidance. In addition to establishing standards similar to those in place in those two states, state insurance commissioners should be empowered to review and reject scenario analysis submissions. In reviewing insurers' submissions, the state insurance commissioner should have statutory authority to evaluate the submitted scenario analysis on the basis of how reliant it is on exiting certain markets and raising premiums significantly to manage elevated risks. Insurers that receive a low evaluation score on this basis should be required to resubmit analysis so that it better reflects risks associated with shifting costs onto consumers. In addition, state insurance commissioners should make a determination as to whether the steps that insurers take to reduce their exposure to climate risk in their underwriting portfolios are likely to lead to disproportionate harm to low-income policyholders and communities of color, in contravention of laws prohibiting discrimination.
- Requiring an annual stress test of insurance companies' investment portfolios' exposure to climate risk, similar to the 2024 exercise conducted by the state insurance commissioners of California, Oregon, and Washington.

POLICY RECOMMENDATION 4

Compel climate risk disclosure and data collection from insurers

Since getting a clear understanding of how climate change is affecting the insurance sector will only become more urgent over time, states should compel greater information from insurers about how climate change is impacting insurance markets and how they are managing climate risks.

In the final days of the Biden administration, the FIO published findings from a climate-related data collection it conducted with the NAIC. The factors considered were substantially narrowed from the data call as originally proposed in 2022, and requests to make the data more granular and publicly available were not heeded. Collecting and releasing a more granular set of data might have also shed further light on the available data suggesting that insurance market disruptions are affecting renters, not just homeowners.

Although the data collected was not granular or complete enough to be maximally useful (seven states had opted out entirely), the report nevertheless provides one of the most comprehensive reviews to date of how climate change is affecting the availability and affordability of insurance. North Dakota insurance commissioner Jon Godfread opted out of the FIO-NAIC data call, but, in his capacity as the NAIC's president, he has announced his intention to standardize an annual data collection from state insurance commissioners. States passing their own data collection laws would help raise the bar for this ongoing data collection.

States have advanced legislation mandating ongoing participation in the NAIC's climate risk disclosure survey (e.g., SB 23-016, enacted in Colorado in 2023, and HB 3799, which passed both legislative chambers in Illinois in 2025 but did not become law due to a failure to reconcile differences between the two chambers). State legislatures should also codify their state's participation in the NAIC's climate risk disclosure survey and should set the highest possible baseline for how this data is disclosed and shared with the public.

In 2010, select state insurance commissioners began circulating the climate risk disclosure survey, although it wasn't until 2022 that the NAIC mandated that large insurers abide by the Task Force on Climate-Related Financial Disclosures' (TCFD) standards when responding to the survey.

Ceres' June 2025 analysis of climate risk disclosure survey responses found that only "28% of insurers disclosed across all four pillars of the TCFD framework" — governance, strategy, risk management, and metrics and targets. Only 29% of insurers' survey responses disclosed metrics and targets for managing and reducing their climate risk. An August 2025 report from Ceres found that although "87% of the 45 U.S. insurance groups we analyzed have set broad climate goals, none provide the targets necessary to track progress on those goals." States can start to fill these gaps in data collection and disclosure by codifying their participation in surveys and data calls, and raising the standards for participation, disclosure and target-setting by insurers.

POLICY RECOMMENDATION 5

Build Public Catastrophe Models

States should develop public catastrophe models to ensure consistent and transparent consideration of climate risk. Developing models that accurately capture the full range of climate risks is a complex task that will require states to work together.

Insurance companies use catastrophe models to evaluate risk and inform their underwriting and price requests. Analyses of proprietary or "black box" catastrophe models have found "glaring inconsistencies" in what widely used modelers' data shows about the same neighborhoods. Even worse, some insurance companies have justified pricing and underwriting decisions through the use of flyover drones, which generate unreliable and non-standardized data.

A robust, well-resourced public standard for the data and inputs that climate risk modelers use to inform insurance decisions would address these inconsistencies and shortcomings. The Biden administration floated the concept of a national catastrophe model platform to be hosted at NOAA or another federal agency, but no federal agency is likely to develop a platform in the near future, since President Trump is in the process of dismantling the agencies that would be the most likely candidates for housing it.

State governments can and should fill the void. State insurance regulators should collaborate and coordinate their data collection tools toward this end. That was the principle behind the FIO's 2023 recommendation that the "NAIC should continue to refine the capabilities and role of the Catastrophe (CAT) Modeling Center of Excellence. The FIO recommends that incorporating climate-related risk considerations into CAT modeling will allow it to be used more effectively by state insurance regulators to enhance assessment and supervision of insurers' climate-related risks. To enable sharing of resources among state insurance regulators, the Center should develop a platform for access to models, methodologies, and related data."

While cross-state collaboration is critical, states can also make progress independently. In California, lawmakers passed SB 429 to create a public catastrophe model. Other states should create such models and establish protocols for sharing data, learning best practices, and adjusting models accordingly.

POLICY RECOMMENDATION 6

Integrate resilience-building into pricing and underwriting

States can harmonize insurance regulation with the community and household investments that are needed to drive down insurance losses by requiring insurers to factor climate resilience into their pricing and underwriting.

Numerous studies have shown insurance becomes more cost-effective with adoption of climate-resilient practices such as ecological forest management and ecological floodplain management. For example, a 2021 study by the Nature Conservancy and Willis Towers Watson demonstrated that insurers' risk models to write and price insurance can account for forest management practices that reduce wildfire risk, reducing insurance losses by 20 to 40 percent. In February 2025, Swiss Re confirmed that natural barriers such as coral reefs and salt marshes are effective at risk reduction from sea level rise and flooding and therefore can help lower insurance losses.

Numerous experts have called upon policymakers to integrate resilience criteria and resilience-friendly policy into insurance regulation. For example, the Financial Stability Institute of the Bank for International Settlements advised that "Climate risk adaptation measures need to be... taken into account explicitly in insurers' and reinsurers' pricing and underwriting practices, which may not currently be the case." Professors at the University of Southern California and University of California, Los Angeles issued a report on rebuilding after the historic Los Angeles wildfires, recommending that insurers "factor in home hardening, defensible space and community-wide mitigation efforts when setting rates or renewing policies." The Center for American Progress called for states to "require insurers to consider [mitigation] in their rate and underwriting models."

In 2025, Colorado's legislature acted on these recommendations by enacting HB 1182. The law requires insurance companies to disclose the factors that they use in generating wildfire risk scores for policyholders and empowers the state insurance commissioner to challenge insurance premiums that do not sufficiently account for household or community mitigation measures. When combined with funding for climate resilient infrastructure upgrades, incorporating climate resilience into insurance rate setting will enable state policymakers to not only act in the face of a federal retreat from disaster relief and climate adaptation, but also create long-term political incentives for that responsible fiscal choice.

Integrating hazard mitigation into insurance regulation incurs a multitude of benefits supporting healthier insurance markets. Compelling greater transparency in risk modeling and clarifying the regulatory expectation that hazard mitigation is a factor in that modeling will likely yield more responsible actions from governments, insurance companies, and policyholders alike. As numerous witnesses emphasized in testimony in favor of HB 1182, homeowners want a clear picture of what mitigation steps will result in more affordable insurance. Because community-level investments scale much faster and deliver greater risk reduction than household-level investments, state legislatures should pass measures that simultaneously encourage individual mitigation measures while creating a strong incentive for communities to invest more in mitigation.

Investing in community-level mitigation and then incorporating those investments into insurance pricing and underwriting can help address concerns that home hardening is an intervention that

disproportionately benefits higher-income communities. Moreover, multiple state agencies can help drive the equitable investment that communities need. Just as state green banks are useful models for closing financing gaps so that low-and-moderate communities can access the cost savings from solar rooftop, these and other state programs can expand access to cost savings from hazard mitigation that are out of reach for many households.

BOX 05

Excessive Deference to Industry in the Formation of Insurance Policy

The insurance industry has responded to the climate crisis with a well-worn playbook: claiming that higher premiums are needed to ease access and blaming rising costs on excessive litigation. The logic of accommodating the industry's demand for higher premiums is that "price signaling" prompts people to move away from risky markets. Higher premiums may ease access issues somewhat in the short term, but to the extent they place pressure on surplus lines or force households to go without insurance altogether, they still increase public costs and undermine financial stability by increasing the protection gap. There is also limited evidence that price signaling achieves the objective of prompting movement away from climate-threatened areas. As Florida's policy landscape of rising prices and shrinking coverage over the past several years highlights, truly stabilizing state property insurance markets requires much more than deferring to the insurance industry perspective on raising premiums.

Lawmakers in Florida, Georgia, and Louisiana have also responded to the insurance crisis by making it harder to sue insurers. However, there is also little evidence that making it more difficult to sue insurers does anything to make insurance markets healthier, more affordable, or more competitive. Analysis from the independent credit rating agency Weiss reinforces that "tort reform" in Louisiana reduced claims payments and likely improved insurer profitability without a corresponding improvement in insurance availability or affordability for homeowners. Indeed, tort reform has not even succeeded in reducing lawsuits, and has been shown in the case of Florida to reduce claims payments.

Despite this evidence that the insurance industry's prescription for the insurance crisis does not solve the problems it purports to address, policymakers tend to accommodate the industry. State lawmakers largely defer to the NAIC in setting insurance regulation, even as the NAIC functionally operates like a trade group. Many legislators also rely on the National Council of Insurance Legislators (NCOIL), a group funded by industry interests and one that appears to follow the American Legislative Exchange Council (ALEC) playbook of producing model bills favorable to industry. State policymakers must listen to the perspectives of the full range of stakeholders, not just those of the insurance industry.

POLICY RECOMMENDATION 7

Incentivize subrogation claims against fossil fuel companies

States should encourage insurers to bring claims against fossil fuel companies using the legal doctrine of subrogation, in which insurers are empowered to bring claims against third parties responsible for damages. Doing so would help shift the cost of climate disasters to those responsible for them.

In 2018, the Camp Fire devastated Butte County, California, killing 85 people and causing $16.5 billion in damages. After a state investigation found PG&E's mismanagement and neglect of its infrastructure to be the source of the fire, the liability incurred by PG&E caused the utility to declare bankruptcy. Later that year, Federal Reserve governor Lael Brainard cited that headline in a speech on climate change and financial stability.

During PG&E's bankruptcy proceedings, the utility paid an $11 billion settlement to compensate insurers affected by the Camp Fire and a 2017 fire that it had also been found responsible for. These subrogation lawsuits allowed many insurance policyholders affected by the Camp Fire to have their claims paid indirectly by PG&E, ensuring greater accountability for a climate-related disaster and thereby creating incentives for utilities to take stronger precautionary measures.

Subrogation can and should be used against fossil fuel polluters, since courts are increasingly ruling that fossil fuel companies can be held responsible for climate disasters. GHG emissions cause more extreme weather, and fossil fuel companies deliberately sowed misinformation about this for decades. This resulted in decades of largely unchecked fossil fuel pollution, leading directly to today's insurance market disruptions and ever more unsustainable insurance costs.

In California, SB 222 would create a private right of action for individuals harmed by climate disasters to sue fossil fuel companies and a direct cause of action for insurers. According to the bill's author, "By allowing insurance companies and the FAIR Plan to recoup losses for major climate disasters from the fossil fuel companies responsible for the damage, SB 222 provides a major infusion of financial support to stabilize the insurance market and contain the high cost of insurance for Californians."

During Hawaii's 2025 legislative session, a similar bill was introduced as SB 1166. Though SB 1166 didn't become law in 2025, Hawaii's legislature approved a resolution "calling for property insurers in the state to recoup rising costs by taking the fossil fuel industry to court instead of hiking premiums for homeowners." States should follow the example of this resolution passed in Hawaii by giving insurers more direction and tools to exercise their rights of subrogation against fossil fuel companies.

POLICY RECOMMENDATION 8

Discourage insurers' investments in and underwriting of fossil fuels

States should discourage insurers from investing in or underwriting fossil fuels, which are directly responsible for the climate-driven insurance crisis. Allowing insurers to continue supporting the activities that are undermining their businesses and harming communities — ultimately leaving swaths of the country uninsurable — is imprudent and irresponsible.

Insurers and reinsurers continue to underwrite and invest in fossil fuel projects and infrastructure. On the underwriting side, insurers' support for fossil fuel projects and infrastructure fail to grapple with the impacts of fossil fuel pollution to their bottom lines. As Insure our Future has noted, climate-related insurance losses exceeded fossil fuel premium intake for more than half of insurers globally — a trend that is only poised to accelerate. Meanwhile, U.S. insurers are badly lagging behind insurers globally (particularly in China) in terms of capitalizing on the growth of clean energy, with no U.S. insurer reaching $25 million in premium growth for renewable energy projects.

On the investment side, insurance companies play a major role as institutional investors. Insurers have a major impact on financial markets generally, in part because they are some of the largest investors in the corporate bond market. Insurance companies' continued investment in fossil fuel companies is therefore a channel that exposes the entire financial system to greater transition risk.

The insurance commissioners of California, Oregon, and Washington quantified insurers' exposure to climate risk in 2024, collaborating on a stress test of domestic insurance companies' fossil fuel holdings in the three states. The commissioners' report found that: "Expected losses for corporate bonds related to coal, oil & gas, power, and automotive sectors are large, and losses increase dramatically the longer the transition is delayed. Aggregate expected losses on bonds range from $7 billion to $28 billion, depending on the pathway, with a shock transition in the year 2026 but more than double to range between $14 billion and near $40 billion if the transition is delayed to 2034."

Various approaches have emerged that would disincentivize insurers' support for the fossil fuel industry. In Maine, the Insure our Community Act was introduced but not passed. That bill would require insurers to disclose their investments in and underwriting of fossil fuel assets, and to adopt a "precautionary principle" of taking preventative action with respect to fossil fuel underwriting and investments. Another bill called the Insure our Communities Act was introduced in New York, and that version would require "insurance companies to report on their investments in fossil fuel industries, align their underwriting and investment activities with climate mitigation targets, and prevent 'bluelining' (discriminatory insurance practices in vulnerable communities)." A Connecticut bill would impose a surcharge on Connecticut insurers that supported underwriting for fossil fuel projects.

States should embed the "precautionary principle" into insurance companies' management of their fossil fuel assets, charging surcharges that disincentivize investing in and underwriting of fossil fuel projects until insurers eventually phase out those investments.

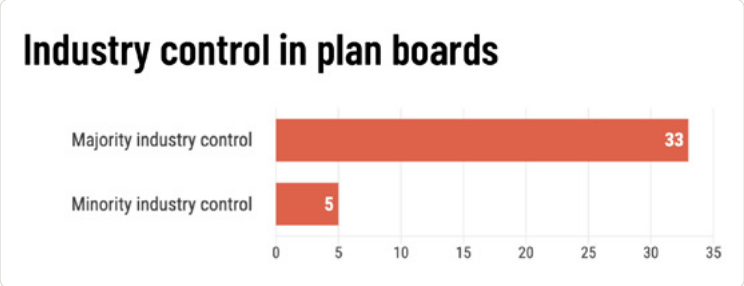
POLICY RECOMMENDATION 9

Strengthen FAIR plans based on principles of transparency, public governance, and long-term planning

States should establish or strengthen existing FAIR plans to address the growing insurance protection gap. In doing so, however, states must take proactive measures to ensure that FAIR plans are affirmatively made a part of public policy, and should strengthen their oversight and management of FAIR plans. Thus, FAIR plans can be part of the toolkit for resolving insurance market disruptions, rather than a band-aid that ends up exacerbating public costs.

Since the late 1960s, 33 states have created state insurers of last resort, which are privately run insurance pools, usually called FAIR plans but also referred to as residual markets. States that have FAIR plans require admitted insurers to write FAIR plan policies as a condition of being admitted to the market. These FAIR plans fill gaps in coverage in neighborhoods where primary market insurance is not widely available. FAIR plans are often described as "state-run," but after passing enabling statutes setting up FAIR plans (which in most cases occurred many decades ago), state legislatures and state officials have virtually no role in overseeing how FAIR plans are governed or operated.

Climate change is placing enormous pressure on FAIR plans. The FIO's 2025 report showed that the total number of residual line policies grew by over 50% between 2018-22, although that growth mostly occurred in California, Florida, and Louisiana. A discussion on residual markets at the spring 2025 NAIC meeting centered around the recent trend of states setting up or considering new FAIR plans for the first time in decades.

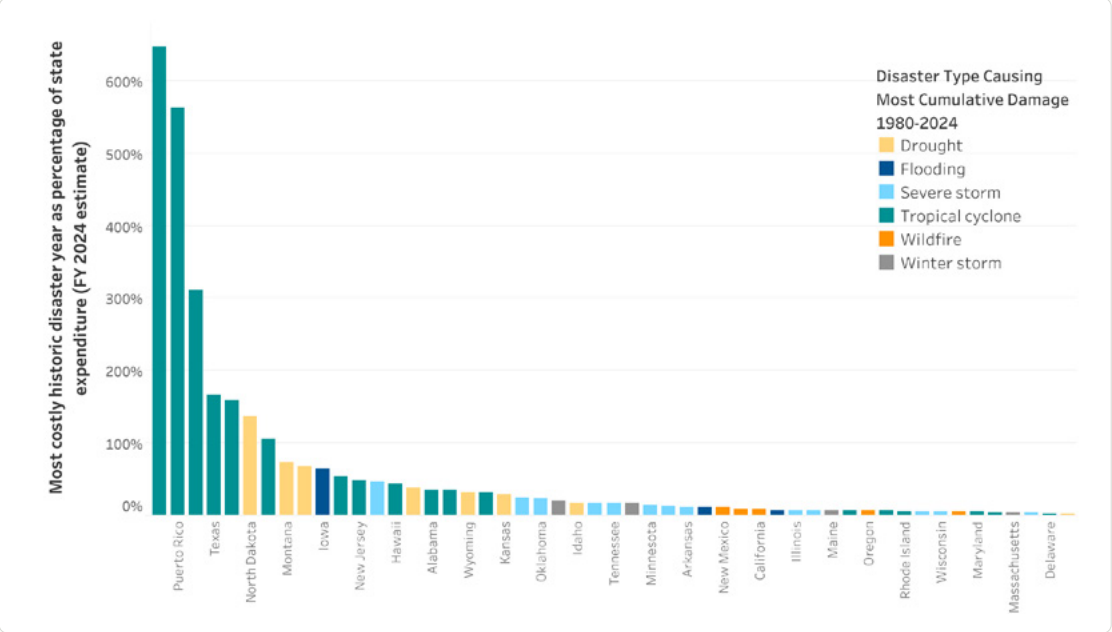


Source: Climate & Community Institute

Most FAIR plan policies offer barebones, expensive coverage. Therefore, absent reforms, FAIR plan growth is not desirable. Still, establishing new or shoring up existing FAIR plans can be a sensible step toward stabilizing state property insurance markets, so long as steps are taken to bring down climate risk in communities where the FAIR plan has become the only option. A federal reinsurance program temporarily existed for FAIR plans, but was phased out in the 1980s. Re-creating a federal reinsurance program to shore up FAIR plans has been suggested.

Aware that many states are increasingly turning to FAIR plans as a policy intervention to address climate-related insurance market disruptions, Climate Cabinet and the Climate and Community Institute issued an October 2025 report titled "Insurers of Last Resort: Why Today's FAIR Plans Need a Redesign to Address the Home Crisis." That report examined the history, governance, and makeup of the 38 existing state insurers of last resort programs across 33 states. The report issued detailed policy recommendations for states setting up new FAIR plans or reforming existing ones. Some of the most critical policy recommendations are excerpted below:

- **State legislatures should restructure FAIR plans' financial models.** The state-enabled but privately-run design of today's FAIR plans means that public officials have little insight into, let alone oversight of, plans' financial workings — from balance sheets to investment guidelines to assessment criteria. State lawmakers, not private companies, should structure financial models so that they reflect a clear-eyed risk assessment. Plan resources should be allocated prudently, taking into account the drivers and beneficiaries of stable property insurance markets.
- **States should require primary market participants to bear more risk** by prohibiting insurers from pushing FAIR plan costs on to their customers. In order to disincentivize insurers from using the existence of FAIR Plans as a mechanism to cherry-pick only the lowest-risk homes (and thus concentrate the riskiest policies in the FAIR plan), the industry should be responsible for backstopping the FAIR plans. Specifically, FAIR plans should not allow insurers to pass on to policyholders the baseline costs for FAIR plan membership or the assessments levied to cover unexpected FAIR plan claims payouts. This would both reduce cost burdens to all home insurance policyholders in the state and better align private insurer incentives with the public good so that they do not privatize the profits and socialize the losses of this public policy.
- **States should establish more transparent, democratic governance for FAIR plans.** Reforms should: limit the private insurance industry's role in FAIR plan governance; establish democratic accountability in FAIR plan administration; provide transparency in FAIR plan administration through publicly accessible meeting agendas, minutes, and financial statements; and ensure adequate support for policyholders through minimum staffing and funding levels.
- **FAIR plans should be engaged in comprehensive, proactive hazard mitigation. State FAIR plans should invest in individual-, community-, and landscape-level hazard mitigation.** While some FAIR plans offer premium discounts for individual mitigation on single family homes, not all do, and none appear to offer comparable discounts for multifamily housing. FAIR plans should develop robust hazard mitigation support programs at all three levels and ensure such programs are truly accessible and beneficial to households of all income levels, housing providers, and communities.



Most costly historic disaster year compared to state expenditures. Source: Just Solutions Collective

BOX 07

Public insurance programs and state insurers of last resort

The Florida Wildlife Corridor protects critical floodplains. Source: Carlton Ward, Jr.

The insurance crisis has prompted renewed interest in public insurance programs. Criticisms of public insurance programs have often centered on the many problems that have beset the National Flood Insurance Program (NFIP), especially since Congress has now failed to modernize the NFIP for over a decade. London School of Economics professor Rebecca Elliott has pointed out that, for all its flaws, the NFIP's fundamental mission of resolving private market failures and defraying public costs from disasters has never been more relevant or necessary. Indeed, despite the criticisms of NFIP, some members of Congress seem to be contemplating expanding it to cover additional climate perils.

Just as federal policymakers should modernize and reform the NFIP rather than eliminating it, state policymakers should look to emulate the NFIP's best features, while avoiding its flaws. For example, the NFIP's Community Rating System creates a smart system for rewarding communities that invest in floodplain management, though its incentives and standards could be substantially strengthened. These lessons can be applied by state policymakers, whether via design considerations for their state insurers of last resort, or in developing new public options (or insurers of first resort) as contemplated by lawmakers in Florida and New Mexico.

One public insurance idea is the Climate and Community Institute's proposal for states to establish housing resilience agencies. These agencies would bring together the interconnected questions of insurance regulation, housing development, land use, building codes, disaster relief, and climate resilient infrastructure all under one leadership structure.

States will continue to pursue different approaches: while some may consider setting up housing resilience agencies, others may experiment with insurers of first resort. Other states will continue to rely on FAIR plans as insurers of last resort, while making changes to coverage limits or other adjustments to accommodate the pressures that climate change is placing on those plans. Regardless of which approach a given state favors, this report recommends designating a lead agency to foster coordination between the various governmental functions that are relevant to managing property insurance markets.

LEADERSHIP PROFILE

Colorado Insurance Commissioner Michael Conway

Source: Colorado Division of Insurance.

At the NAIC's spring 2025 meeting, Colorado Insurance Commissioner Michael Conway outlined concerning trends in his state's property insurance market, describing how a dwindling number of property insurers was causing the market to become more concentrated.

As in many states, Colorado's insurance market faces two major challenges. Faced with mounting climate risk, insurance underwriters are more cautious when deciding where to offer coverage. This is threatening the availability of insurance policies in general. Insurance companies are also using climate risk as a justification to continually raise insurance premiums.

During his NAIC presentation, Conway described his two-step approach to soothing Colorado's insurance market disruptions. Step one was establishing Colorado's Fair Access to Insurance Requirements (FAIR) plan, which was authorized in 2023 and began writing policies in 2025. FAIR plans are insurers of last resort that are designed to offer coverage (albeit with policies that offer less generous terms at a more expensive rate) in markets where primary market insurers have withdrawn. Coloradans who struggle to obtain insurance from the insurance market can at least turn to the FAIR plan, which should help ease access issues.

Conway then characterized Colorado's 2025 reforms as step two, turning to the affordability side of the equation. Led by Commissioner Conway, Colorado's legislature passed HB 1182 in 2025, becoming the first state to integrate hazard mitigation and climate resilient investments into insurance pricing and underwriting. This reform is explained in greater detail in policy recommendation 6 above.

Although additional reforms creating state roof fortification and reinsurance programs fell through near the end of Colorado's 2025 legislative session, HB 1182 is still expected to help with affordability. Indeed, lawmakers asserted that the new law will "reduce property insurance costs" when the bill was signed. Although it is still very early, enrollment in Colorado's FAIR plan has been slower than anticipated so far, a potential sign that Colorado's insurance market is becoming healthier due to these intentional actions by Conway and others.