Opening Statement of Chairman Whitehouse
Senate Budget Committee Hearing: "Riskier Business: How Climate Change is Already Challenging Insurance Markets"
June 5, 2024

Members of the Committee, witnesses, guests. More than a year has passed since our hearing on climate havoc in the insurance industry upending housing markets, mortgage markets, and local property tax bases, spilling over into the broader economy. It's just one of the systemic risks climate change poses to our economy and to our financial system. Since then, things have gotten worse in insurance markets, and worse for American families that rely on them.

As we heard in our original hearings, you need insurance to get a mortgage. Without a mortgage, most of our constituents could not purchase a home. What happens when insurance companies go bust? Or don't renew policies? Or pull out of a state? Families lose insurance. They can't find a decent policy; they can't afford what's available; some even pack up and move away. Some end up with state-backed insurers of last resort, which may or may not be solvent.

This is what we've begun to see in several states. One is Florida. 10% of our nation's homeowners live in Florida. Florida homeowners pay on average over $6,000 for insurance, the highest in the country and more than three times the national average, $1,700. Florida's average premium doubled between 2020 and 2023. And it's likely getting worse.

This has put a strain on many Florida residents. They install hurricane windows and doors, but premiums continue their upward march. They put off retirement, or skip vacations. For some, such as Deb Wood and her husband, it is simply too much.

In Florida, insured losses grew by 206% between 2003 and 2018. 2022 saw residents file over 678,000 personal and commercial claims. Over 40% were hurricane-related. NOAA predicts an 85% chance of an above-normal 2024 hurricane season, with 17 to 25 total named storms and 4 to 7 major hurricanes.

In 2022 and 2023, more than a dozen insurance companies left the Florida residential market, including national insurers like Farmers. Residents fled to Citizens Property Insurance, the state-backed insurer of last resort, which ballooned from a 4% market share in 2019 to as much as 17% last year. If it has to pay out claims that exceed its reserves, Citizens can levy a surcharge on Florida insurance policyholders across the state. Good luck with that; particularly if the surcharge grows to hundreds or even thousands of dollars.

To depopulate its books, Citizens lets private insurers cherry-pick its least-risk policies. Those private insurers may have problems of their own, as we will learn. It looks like an insurance market that is swirling the drain. As one of our witnesses put it, "unreliable insurance could result in a situation where large climate shocks may cause property damage at the exact time that the property insurer becomes insolvent, increasing household default incentives and losses given default." What will the collision of increasingly unreliable insurance and greater mortgage defaults mean? Who will be left holding the bag?

The federal budget takes a hit because these insurers and their policies are accepted by Freddie Mac and Fannie Mae, who either own or guarantee a large part of our $12 trillion mortgage market. Sounds eerily like the run-up to 2008.

Florida is far from alone. A *New York Times* investigation found that the insurance industry lost money on homeowners coverage in 18 states last year. The states may surprise you. The list includes Illinois, Michigan, Utah, Washington, and Iowa. Insurers in Iowa lost money each of the last four years.

Hurricanes and earthquakes, once the most prevalent perils, are being rivaled by hail, windstorms, and wildfires. Last year, the U.S. experienced 28 billion-dollar extreme weather events. Over the past decade, 28 states have been hit by such events more than twice in a year; 38 states were hit in back-to-back years. Losses are expected to climb.

So, too, will premiums – that is, where insurers are even willing to stay. In one example, the premium on a $250,000 home for 40-year-old couple with a combined good credit rating and clean claims history would increase by as much as 63% in Louisiana and 61% in Nebraska.

To borrow from the *Times*, "the question facing insurance companies around the country, and the homeowners who rely on them, is which state might be heading in the same direction as Florida. The answer from our reporting: It could be any of them." Or, as a former state insurance commissioner said, "… we're marching toward an uninsurable future."

This isn't complicated. Climate risk makes things uninsurable. No insurance makes things unmortgageable. No mortgages crashes the property markets. Crashed property markets trash the economy. It all begins with climate risk, and a major party pretending that climate risk isn't real imperils our federal budget and millions of Americans all across our country.