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Hearing on "Next to the Fall: The Climate-Driven Insurance Crisis is Here – And Getting Worse"
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Chairman Whitehouse, Ranking Member Grassley, and Members of the Committee: Thank you for inviting me back to address the turmoil in insurance markets, its connection to climate change, and its effect on housing, mortgages, and household well-being. My name is Ben Keys and I am a Professor of Real Estate and Finance at the University of Pennsylvania's Wharton School. My research agenda examines how households interact with the financial system and how the financial system manages risk.

I first testified before this committee in March 2023. In the last year and a half, the situation in the homeowners insurance market has gone from bad to worse. Both affordability and accessibility issues have reached a crisis point in many communities across the country.

In terms of affordability, my new research with Professor Philip Mulder uses mortgage escrow data to build a dataset of 47 million homeowners insurance premiums from 2014 to 2023. Our dataset shows rapidly increasing premiums across the country, but especially in the highest-risk areas.[1] We attribute this increase to a combination of inflation and financial frictions associated with the pass-through of rising reinsurance costs to homeowners policies.

Insurers are responding to larger realized disaster losses, better data and risk models, and growing reinsurance costs.[2] While raising premiums is one margin of adjustment, insurers also change where they are willing to write policies. Some of the largest insurance companies have exited markets, deciding that they cannot charge premiums that adequately reflect this growing risk.[3] While many of these high-profile departures have been publicly announced, all insurers continually reassess their risks and adjust their portfolios of policies in force.

Turning to the issue of accessibility, the data collected by this committee provide an unprecedented look at insurers' decisions to not renew an annual policy. To my knowledge, there are no available granular data on non-renewal behavior beyond the data collected by this committee.

This new data covers 249 million policies from 2018 to 2023 and yields a number of striking findings.

- First, since 2020, average non-renewal rates have almost exactly doubled (from 0.53% to 1.06%). These rates and their increases are highest in those areas with the greatest risk of climate-related disasters.
- Next, while Florida and California are seeing the highest rates of non-renewals, they are also prevalent in high-risk coastal areas like the Carolinas and along the New England waterfront. Heightened non-renewal rates are also found elsewhere in the country, such as in areas affected by tornadoes and hail.

[1] Keys and Mulder, "Property Insurance and Disaster Risk: New Evidence from Mortgage Escrow Data," NBER Working Paper 32579, July 2024.

[2] See, e.g. AM Best, "Market Segment Outlook: US Personal Lines," December 2, 2024.

[3] See, e.g. Flavelle, Cowan, and Penn, "Climate Shocks are Making Parts of America Uninsurable. It Just Got Worse," New York Times, May 31, 2023.

- Finally, while rate regulation may play a role in insurers' reluctance to do business in some markets, the most striking pattern from the data is that both premiums and non-renewal rates are higher in markets with more disaster risk. In other words, accessibility and affordability issues go hand in hand.

To briefly characterize the accessibility issues, the data show that 1.9 million policies were non-renewed between 2018 and 2023. That amount represents 1.9 million times that a household had to quickly find a new insurer, very likely at a higher premium, while juggling many other expenses and commitments on their time. If non-renewal rates had stayed at their 2020 level, there would have been 423,000 fewer non-renewals.

The cornerstone of the private homeowners insurance market in the United States is healthy and robust competition. When fewer insurers do business in a market, as we see now, this reduces the options available to homeowners and their ability to shop for the best rate. In the most extreme case, where a homeowner cannot find any private insurer, these risks fall on state-backed insurers of last resort, and potentially on taxpayers themselves.[4]

The rising cost of coverage and the departure of insurers from property markets has serious implications for home values, the dominant store of wealth for the average household.[5] It also threatens communities that rely heavily on property taxes to provide basic services and defend against further climate-related damage. In addition, the insurance crisis raises concerns for mortgage giants Fannie Mae, Freddie Mac, and the FHA, especially as the number of outstanding flood insurance policies backed by the NFIP have fallen by 16% since 2009.[6]

There is an enormous imbalance between the rich data and sophisticated models that insurers have at their fingertips and the information available to the average American household or city mayor. Without adequate data, households and policy makers cannot develop meaningful solutions to mitigate growing climate-induced disaster risk. A starting point would be a coordinated federal effort to collect and distribute relevant data on insurance costs, physical risks, and resiliency investment options.

I commend this committee for taking unprecedented steps to measure accessibility issues and look forward to further coordinated efforts to provide timely data to decision makers. Property insurance is facing a crisis on two pressing fronts, affordability and accessibility. While the Rolling Stones might say "You can't always get what you want," in insurance markets now households can't even get what they need.

Thank you again for the opportunity to testify.

[4] See, e.g. Senate Joint Economic Committee, "Climate Risks Present a Significant Threat to the U.S. Insurance and Housing Markets," December 16, 2024.

[5] Jones and Neelakantan, "Portfolios Across the U.S. Wealth Distribution," Federal Reserve Bank of Richmond *Economic Brief* 23-39, November 2023.

[6] Koller, "The Insurance Crisis Continues to Weigh on Homeowners," Harvard Joint Center for Housing Studies *Housing Perspectives*, December 9, 2024.