January 31, 2025

FIO Report on U.S. Homeowners' Insurance Market

Report Acknowledges Adverse Consequences of Climate-Related Events on Cost and Availability of Coverage. Next Steps Uncertain as EO Providing Framework for the Report Was Repealed by New Administration.

SUMMARY

On January 16, 2025, amid historic wildfires in the Los Angeles metropolitan area and surrounding regions, and the day after a call by a number of U.S. senators for the report's release,[1] the U.S. Department of the Treasury's Federal Insurance Office ("FIO") published a report ("Report")[2] analyzing the private U.S. homeowners' insurance market.[3] The Report is based on ZIP-Code-level underwriting data provided by more than 330 U.S. insurers to state insurance regulators and shared with FIO by the National Association of Insurance Commissioners ("NAIC"). As indicated in the accompanying press release, the data

> show[s] that homeowners insurance is becoming more costly and harder to procure for millions of Americans as the costs of climate-related events pose growing challenges to insurers and their customers alike.[4]

The Report, unsurprisingly, finds that:

- homeowners' insurance costs have risen faster than the rate of inflation during the five-year period between 2018 and 2022, and
- homeowners typically pay higher premiums and suffer higher insurance policy non-renewal rates, and insurers typically incur higher costs, in communities affected by substantial weather events.

The Report does not offer any substantive recommendations, but concludes that ZIP-Code-level underwriting data should continue to be collected from insurers and analyzed by FIO on an annual basis.

The January 20, 2025 repeal of the Executive Order on Climate-Related Financial Risk, however, casts doubt on whether any steps will be taken in furtherance of the Report or otherwise in addressing insurance coverage gaps in risk-prone areas at the U.S. federal level.

THE FIO REPORT

The Report sets forth FIO's analysis of the ZIP-Code-level data obtained as a result of a Property & Casualty Market Intelligence Data Call issued in March 2024 by FIO, the NAIC and state insurance regulators, which covered over 246 million homeowners' insurance policies issued by 330 insurers between 2018 and 2022, representing approximately 80% of homeowners' insurance premiums written by private U.S. insurers in the period for the two most common homeowners' insurance policy forms.[5] Based on its analysis of the data, the Report finds:

1. Insurance premium rates increased, on average, 8.7% faster than the rate of inflation between 2018 and 2022—but changes in premium costs varied significantly across ZIP Codes.
2. Homeowners' insurance premiums in ZIP Codes with the highest expected losses from climate-related perils ("High-Risk ZIP Codes") were significantly higher than in ZIP Codes with the lowest expected losses from such perils ("Low-Risk ZIP Codes").
3. Insurers' loss ratios were 18% higher for homeowners' insurance policies covering High-Risk ZIP Codes than for Low-Risk ZIP Codes—even though homeowners in High-Risk ZIP Codes paid higher insurance premiums on average.
4. The average five-year homeowners' insurance policy nonrenewal rate in High-Risk ZIP Codes was 1.61%—80% higher than in Low-Risk ZIP Codes.
5. Claims and loss patterns varied across regions, depending on the type of climate-related peril. For example, susceptibility to severe convective storms typically resulted in higher claims frequency, and susceptibility to wildfires in higher claims severity.
6. Regardless of peril, ZIP Codes with the highest expected losses generally also had the highest insurance premiums, highest losses paid by insurers and highest nonrenewal rates within each region.

The Report notes that publicly available information "suggests that these market patterns have continued into 2023 and 2024".

The Report recommends that state insurance regulators, the NAIC and FIO continue collaborating and require insurers to submit an enhanced set of homeowners' insurance data on an annual basis, which would also include additional data fields[6] and types of homeowners' insurance policy forms, along with data from large residual market insurers.[7] The Report also recommends that state and federal regulators and policymakers continue their efforts to improve public awareness of the importance of adequate homeowners' insurance.

RELATED DEVELOPMENTS

During the week preceding the Report's release, and in response to historic wildfires in the Los Angeles metropolitan area and surrounding regions, California Governor Gavin Newsom proclaimed a state of emergency in affected counties,[8] and the California Department of Insurance, among other emergency measures, declared a one-year moratorium on non-renewal and cancellation of residential property insurance policies in ZIP Codes within or adjacent to the wildfire perimeter, to the extent based solely on the fact that the insured structure is located in the area in which a wildfire has occurred.[9]

On January 20, 2025, a few days after the Report's release, President Trump issued the Executive Order "Unleashing American Energy", which repealed, among others, the May 20, 2021 Executive Order on Climate-Related Financial Risk that included the directive to Treasury/FIO to assess climate-related issues or gaps in the supervision and regulation of insurers, and the potential for major disruptions of private insurance coverage in regions particularly vulnerable to climate change impacts.

FIO's efforts also face headwinds from others, including state insurance commissioners and federal legislators calling for its elimination. In a December 20, 2024 letter, insurance commissioners of nine U.S. states[10] urged the proposed co-heads of the U.S. Department of Government Efficiency to abolish FIO,[11] arguing that regulation of insurance "is already effectively fulfilled by state regulators," criticizing FIO's dealings with state regulators since its inception in 2010, and characterizing some of FIO's recent efforts (including, seemingly, the Report) as "risk[ing] misleading the public" due to "flawed information". The letter also urged the Department of Government Efficiency to collaborate with Congressman Troy Downing (R-MT), a former Montana Commissioner of Securities and Insurance who days later reintroduced a bill to abolish FIO and "return sole regulatory authority over the insurance industry to the states".[12] According to the press release announcing the introduction of this bill, the bill is supported by a number of insurance industry trade associations.

The Executive Order repeal and efforts to eliminate FIO cast doubt on whether any actions will be taken, by FIO or other U.S. Federal agencies, in furtherance of the Report. More likely, further efforts to collect and analyze further data on affordability and availability of homeowners' insurance coverage in affected areas will be left to individual states and/or the NAIC.

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ENDNOTES

1 On January 15, 2025, eight U.S. Senate Democrats sent a letter to Treasury Secretary Janet Yellen and FIO Director Steven Seitz urging FIO to "immediately" make public and share with all FSOC member agencies the data shared by the NAIC with FIO and promptly publish FIO's initial analysis of this data. This letter is available at https://www.wyden.senate.gov/imo/media/doc/letter_to_fio_treasury_on_insurance_datapdf.pdf.

2 *See* FIO, "Analyses of U.S. Homeowners Insurance Markets, 2018-2022: Climate-Related Risks and Other Factors" (Jan. 16, 2025), *available at* https://home.treasury.gov/system/files/311/Analyses_of_US_Homeowners_Insurance_Markets_2018-2022_Climate-Related_Risks_and_Other_Factors_0.pdf.

3 Concurrently with the Report, the U.S. Department of the Treasury also publicly released a large subset of aggregated ZIP-Code-level data provided to FIO by the NAIC (covering ZIP Codes with at least 10 insurers and at least 50 homeowners' insurance policies). This publicly released dataset is available at https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fhome.treasury.gov%2Fsystem%2Ffiles%2F311%2FSupporting_Underlying_Metrics_and_Disclaimer_for_Analyses_of_US_Homeowners_Insurance_Markets_2018-2022.xlsx. The U.S. Department of the Treasury also plans to share the full aggregated ZIP-Code-level data with certain researchers and academics.

4 *See* U.S. Department of the Treasury, "U.S. Department of the Treasury Report: Homeowners Insurance Costs Rising, Availability Declining as Climate-Related Events Take Their Toll" (Jan. 16, 2025), *available at* https://home.treasury.gov/news/press-releases/jy2791.

5 These policy forms are HO-3 (the most common homeowners' insurance policy form providing coverage for dwellings and personal property for any peril except those specifically excluded from coverage) and HO-5 (a homeowners' insurance policy form that provides more comprehensive coverage of personal property than an HO-3 policy form).

6 The Report does not specify which additional data fields are recommended by FIO to be included in future data calls.

7 Residual market entities, called Fair Access to Insurance Requirements (FAIR) plans in some states, have been created in a number of U.S. states to provide access to homeowners' insurance coverage to applicants who are unable to access such coverage in the private insurance market. Each state's FAIR plan or residual market entity is unique vis-à-vis, among other things, the plan's structure (not-for-profit, government-owned entity, or an association of which licensed insurers are required to be members), types of coverages offered to policyholders (including the perils covered) and sources of potential funds to cover losses.

8 *See* Executive Department, State of California, Proclamation of a State of Emergency (Jan. 7, 2025), *available at* https://www.caloes.ca.gov/wp-content/uploads/Legal-Affairs/Documents/Proclamations/1.7.2025-SOE_Palisades-Fire_Formatted.pdf.

9 *See* California Department of Insurance, Bulletin 2025-1 (Jan. 9, 2025), *available at* https://www.insurance.ca.gov/0250-insurers/0300-insurers/0200-bulletins/bulletin-notices-commiss-opinion/upload/Bulletin-2025-1-One-Year-Moratorium-for-Palisades-and-Eaton-Fires-9-January-2025.pdf.

10 New Hampshire, Oklahoma, Tennessee, Alabama, Louisiana, Kansas, Arkansas, North Carolina and West Virginia.

11 *See* Letter to Elon Musk and Vivek Ramaswamy – Department of Government Efficiency (Dec. 20, 2024), *available at* https://www.insurance.nh.gov/sites/g/files/ehbemt861/files/inline-documents/sonh/doge-letter-20241220.pdf.

12 *See* H.R. 643 (119th Congress (2025-2026)), *available at* https://www.congress.gov/bill/119th-congress/house-bill/643. Congressman Downing's press release related to the introduction of this

ENDNOTES (CONTINUED)

bill, which is entitled the "Federal Insurance Office Elimination Act", is available at https://downing.house.gov/media/press-releases/downing-introduces-federal-insurance-office-elimination-act.

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