



The US Homeowners' Insurance Affordability Crisis Calls for Greater Federal Oversight

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Homeowners' insurance is a critical component of the US housing market, currently valued at about \$50 trillion, with owner-occupied housing units constituting 65 percent of all occupied housing. To protect their investment, most lenders require homeowners' insurance as a pre-condition of mortgage financing. Given its key role within the US housing market, homeowners' insurance is of crucial importance for the US economy and the nation's financial system stability.

The current climate-driven crisis of homeowners' insurance affordability and availability has raised questions about homeowners' insurance industry regulation. Because the industry is systemically important for the nation's economic and financial stability, greater federal oversight and regulation of the industry has been suggested.

The Current State-Based Insurance Landscape

Since 1945, the US has operated under a state-based insurance regulation system. This system is a product of the McCarran-Ferguson Act of 1945. The Act affirmed the US states' authority to regulate the business of insurance, and exempt insurance companies from federal regulations. In accordance with the McCarran-Ferguson Act, each US state has its own entity charged with regulating insurance companies and their products. As a result, insurers' ability to raise homeowners' premiums varies greatly by state. Different states have set different maximum rates at which the cost of homeowners' insurance can increase each year without a prior regulatory review.

When it comes to annual premium increases, home insurers have historically had more flexibility in states like Texas and Illinois, and have faced more restrictions in states like New York and California. For example, the state of California requires that insurers obtain regulatory approval for premium increases exceeding 6.9% year-over-year. Florida, on the other hand, necessitates approval for 12-month rate increases greater than 15%. Insurers have had even more latitude in Texas, where rate increases overseen by state regulators averaged 55% from 2019 to 2024.

Given the states' exclusive regulatory power over the insurance industry, the US federal government's presence in private insurance markets has traditionally been limited. However, the US federal government was given a greater role in 2010, when the US Federal Insurance Office (FIO) was created in the wake of the 2008 financial crisis. The FIO has broad financial stability and insurance industry monitoring responsibilities, and is charged with identifying issues or gaps in insurance regulation that could contribute to a "systemic crisis in the insurance industry or the U.S. financial system."

Since 2021, the FIO has been increasingly focused on monitoring and assessing climate-related financial risks in US insurance markets. The FIO identified the growing frequency and severity of climate-related disasters as one of the key factors behind the rising cost and reduced availability of homeowners' insurance. The FIO warned that climate-related financial risks in insurance markets could threaten the broader stability of the US financial system. Although the FIO can monitor the insurance industry and recommend action, it lacks direct regulatory authority over the insurance markets.

Federal Actions to Protect Homeowners and Stabilize Climate-Exposed Insurance Markets

To stabilize homeowners' insurance markets and protect financial stability, Congress should:

- **Expand the Federal Insurance Office's authority.**
- **Establish federal minimum consumer protection standards.**
- **Create a federal reinsurance backstop tied to climate adaptation incentives.**
- **Provide targeted affordability support for homeowners.**

The climate-driven crisis of homeowners' insurance and its risks to the US financial system stability warrant greater federal presence in homeowners' insurance markets. Given the systemic financial risk posed by the crisis of homeowners' insurance availability and affordability, the state-based insurance regulatory system alone is no longer sufficient. The system needs to be supplemented with greater federal regulation and oversight, aimed at addressing climate-related gaps in homeowners' insurance industry regulation. Federal regulations further need to ensure comprehensive minimum home insurance coverage standards. The goal is not to displace the state-based insurance regulatory system, but to establish key standards for selling, underwriting and pricing of homeowners' insurance, while allowing state insurance regulators the flexibility of responding to their unique weather and climate challenges.