



# When Coverage Disappears

HOW CLIMATE RISK IS DRIVING INSURERS OUT AND PREMIUMS UP



Home insurance rates in the U.S have steadily risen over the past few years. According to a September 2025 report from ICE Mortgage Technology, average property insurance costs have climbed nearly 70% over the past five years, with single-family homeowners who carry a mortgage now paying an average of \$2,370 annually for coverage.<sup>1</sup>

Several factors are driving this increase, including higher home values, rising building material costs, and climate change — one of the most significant contributors to the sharp rise in premiums. The growing volatility and intensity of storms and other climate-related events are increasingly viewed as direct threats to homes and the long-term value they represent. In 2024 alone, there were 27 confirmed weather and climate disasters in the U.S. that caused more than \$1 billion in damages each.<sup>2</sup>

These risks are not confined to the United States. By 2050, financial losses from climate-related natural disasters across G20 countries are projected to total \$28.3 trillion in gross domestic product.<sup>3</sup> The economic consequences are global and insurers are paying attention.

In response, many insurers across the U.S. have begun pulling back from high-risk areas, leaving some homeowners without coverage and without the financial protection needed to rebuild after a disaster. To date, many of these exits have occurred in states that face more acute climate exposure, such as California, where wildfires pose persistent threats, and Florida, where hurricane risk remains elevated. However, pressure is building in other regions as well, as insurers reassess risk models and, in some cases, determine that certain areas are becoming increasingly difficult to insure.

So how can homeowners continue to protect their property as insurance costs rise and climate-related risks intensify? Below, we examine how climate change is reshaping insurance markets in certain states, what it means for housing affordability, how legislative efforts may help address market instability, and what steps to take if coverage becomes limited or unavailable in your area.



## Why Insurers Are Pulling Back

In early 2025, residents in Southern California were forced to evacuate as 14 destructive wildfires tore through their communities. Many lost their homes, businesses, and the lives they had built there. As of early 2026, many homeowners were still waiting on their insurance companies to process their claims, which has further slowed the rebuilding process. In fact, in November 2025, the Los Angeles County Counsel opened an investigation into State Farm—California’s largest home insurer—claiming that the insurer allegedly delayed, underpaid, and denied insurance claims following the fires.<sup>4</sup>

Yet even before these historic fires, some Californians had already lost coverage. Insurers had begun canceling or declining to renew policies in certain areas due to mounting weather-related risks and the rising cost of rebuilding after disasters.

In 2023, State Farm announced it would stop accepting new applications for property insurance in California. A year earlier, Allstate paused new homeowners, condo, and commercial insurance policies, citing the need to “protect current customers,” likely in an effort to stabilize rates amid growing losses.<sup>5</sup>

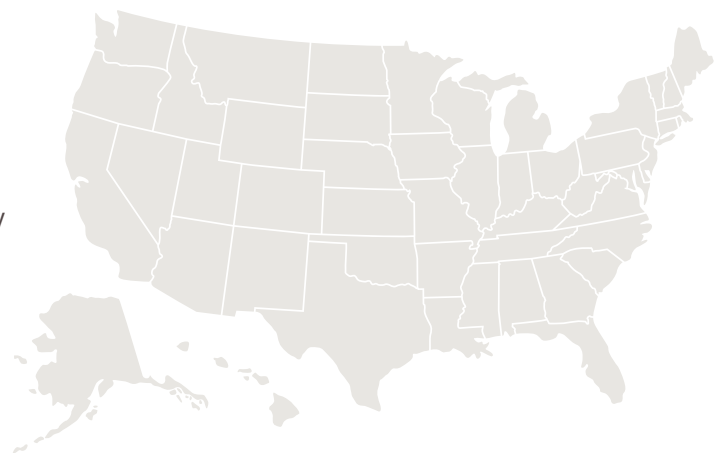
For insurance companies, the issue ultimately comes down to risk and how frequently and excessively they may have to pay out following a claim. Premiums are calculated using several factors, including the age of the home, the policyholder’s claims history and credit profile, and, most importantly, location.

Location remains the cornerstone of pricing. A home in a floodplain or in a state prone to tornado outbreaks will generally carry a higher premium because the likelihood of damage is greater. But risk assessment goes even deeper. A property’s proximity to a river, pond, or coastline can increase the chance of flooding and raise costs. Conversely, living closer to a fire station may reduce premiums because emergency response times are shorter.

As climate-related events become more frequent and severe, insurers are reassessing how they price — and whether they price at all — in certain areas. Rebuilding costs have risen sharply, and homeowners often rely on insurance proceeds to cover repairs after major weather events. Faced with higher claims and more volatile risk patterns, insurers are responding by raising rates, tightening underwriting standards, or, in some cases, exiting markets they view as increasingly difficult to insure.

## States with the Highest Risks and Rates

As noted, California and Florida are the two states where major insurance companies considerably raised costs and ultimately decided to cancel coverage to policyholders. However, trailing closely behind them are a few other states that have similar challenges.



Louisiana leads as the state that is projected to face the steepest home insurance rate in the country.<sup>6</sup> Those with a mortgage typically pay \$2,000–\$2,499 annually for homeowners' insurance, while those without a mortgage average \$1,000–\$1,499.<sup>7</sup> The state is considered one of the most climate-vulnerable states as it is frequently exposed to hurricanes, flooding, and even tornadoes. This vulnerability was particularly made evident following the devastation from Hurricane Katrina in 2005. New Orleans sits six feet below sea level.<sup>8</sup> As a result, the city relies on levees and pumps in order to keep the city from experiencing catastrophic floods. But, during Katrina, those levees failed, causing the neighborhoods to flood to 15 feet deep. While New Orleans has gradually repaired those levees to prevent that chance of the city flooding to that extent again, New Orleans and the state of Louisiana are at high risk of flood because the state is experiencing coastal erosion and rising sea levels. The larger property and casualty insurance companies like Allstate, State Farm, USAA, and Farmers have not yet declared the state insolvent, but small and mid-size have and in some cases are no longer doing business in the state.

Additionally, according to Congress, states in the South (North Carolina, South Carolina, Texas, Mississippi, Alabama, Arkansas, Oklahoma), Colorado in the West, and states in the Midwest (Missouri, Illinois, Iowa, Michigan, and Minnesota) and Hawaii are all at heightened risk for weather-related rate hikes and declining competition in the insurance market from insurers leaving the state.<sup>9</sup> For residents living in these states, rate hikes pose a significant risk to their long-term financial security as protection becomes unaffordable.

## **When Coverage is Canceled: The Mortgage and Financial Consequences**

Property insurance is a vital wealth-preservation tool for homeowners. It protects the structure of the home, the personal property inside it, and provides liability coverage. When major insurers leave a state or refuse to renew or accept new applications, homeowners face the risk of experiencing a damaging event without the financial support needed to recover. So where do you begin if you lose coverage?

By law, insurers must provide notice before canceling or declining to renew a policy. The required notice period varies by state but is typically 30 to 60 days. Some states mandate longer timeframes like California, for example, requires at least 75 days' notice.<sup>10</sup> If an insurer's decision is based on your individual risk profile rather than broader state-level conditions, such as multiple claims or deferred maintenance, you may have the option to appeal, particularly if you believe the decision was made using incorrect or incomplete information.

If an appeal is not possible, or if the insurer is exiting your state due to weather-related risks, you still have options. Begin shopping for replacement coverage immediately and notify your mortgage lender as soon as possible.

If you do not secure new coverage in time, your lender may purchase a force-placed insurance policy on your behalf. Force-placed insurance occurs when a loan servicer obtains coverage for a property after a lapse, cancellation, or failure to meet loan requirements. While this ensures the home remains insured, these policies are often significantly more expensive and may offer more limited protection. Proactively securing your own policy is typically the more cost-effective option.

If private insurance is unavailable or prohibitively expensive, homeowners may need to turn to state-backed insurers of last resort. These programs, known as Fair Access to Insurance Requirements (FAIR) plans, operate in 26 states, including higher-risk markets such as California, Louisiana, and Florida. They are designed to provide coverage to homeowners who have been repeatedly denied in the private market. In Florida, for example, the state-backed Citizens Property Insurance Corporation has become the largest insurer in the state as several private carriers have either left or declared insolvency.<sup>11</sup>

FAIR plans are considered a last-resort option because they often carry higher premiums and may offer more limited coverage than standard homeowners policies, potentially leaving homeowners underinsured. Additionally, they can place strain on the broader insurance market. In states such as Louisiana, California, and Florida, FAIR plans may have the authority to allocate a portion of their losses to private insurers operating in the state. Those insurers may then pass those costs on to policyholders, contributing to higher premiums more broadly. As a result, losses concentrated in high-risk areas can ripple outward, affecting homeowners statewide.

## Broader Housing Market Implications

As home insurance premiums rise and monthly mortgage payments increase alongside them, homeowners face a greater risk of mortgage delinquency. A research report from the Federal Reserve Bank of Dallas found that for every \$500 increase in annual homeowners insurance costs, a borrower is 20% more likely to become delinquent on their mortgage.<sup>12</sup>

When a household falls behind on mortgage payments, financial strain often extends beyond housing. Credit card balances and other consumer debt may also become harder to manage. This pattern reflects a common prioritization: households typically focus first on keeping their home, even if that means delaying payments on other obligations. Over time, however, missed payments and rising balances contribute to broader consumer debt levels, which are already at historic highs.

The broader economic implications of rising delinquencies are significant. Persistent mortgage stress can lead to foreclosures, eroding household wealth and putting downward pressure on local home prices. At the same time, banks may increase loan-loss provisions to account for greater credit risk, raising operational costs and tightening lending standards. The result can be reduced credit availability and added strain on overall financial stability.

Higher property insurance premiums also affect prospective buyers. Because insurance is typically escrowed into a mortgage payment, rising premiums directly increase monthly housing costs and reduce affordability. Buyers may find their purchasing power constrained, pricing them out of certain markets, while sellers in higher-risk areas may face growing pressure to adjust expectations.

But beyond individual transactions, the broader concern is market stability. When insurance becomes scarce or prohibitively expensive, it does not just reshape affordability — it alters the viability of entire housing markets. In that environment, the conversation shifts from household budgeting to policy and regulatory frameworks that determine how risk is priced, shared, and managed across states.



## How Homeowners Can Fight for Policy Change

As an individual homeowner, it can feel difficult to influence insurance pricing or ensure continued access to coverage. But collective action and community engagement can play a meaningful role. Legislative change often begins when communities organize and advocate for reform.

Lake County, California, offers one example. Homeowners there have invested in mitigation upgrades such as installing fire-resistant gutters and adding gravel along exterior walls to reduce the spread of wildfire between properties. These types of risk-reduction efforts are increasingly being recognized at the state level. Some insurers that continue to operate in California now offer premium discounts — often in the range of 5% to 10% — for homeowners who take approved steps to harden their properties against disaster.<sup>13</sup>

These types of incentive programs are not limited to California. In Alabama, the Strengthen Alabama Homes program provides grants of up to \$10,000 to eligible homeowners to complete wind mitigation improvements designed to protect against strong storms and heavy rain.<sup>14</sup> Louisiana and other Gulf Coast states offer similar programs. When communities invest in disaster mitigation collectively, they may reduce overall risk exposure and strengthen the case for more stable insurance pricing.

While mitigation efforts alone will not solve the broader issue of insurers exiting certain markets, they represent an important step in reducing risk and potentially moderating premium increases. At the same time, additional regulatory clarity may be necessary to ensure that mitigation efforts are consistently reflected in underwriting and pricing models. In some states, insurers are not uniformly required to incorporate homeowner mitigation improvements into rate-setting formulas, which can limit the financial benefit homeowners receive from making these upgrades.

State legislatures and departments of insurance also play a central role in overseeing rate approvals and model transparency. Some states, including Illinois, have considered legislation that would require insurers to obtain regulatory approval before implementing certain rate increases and to provide greater disclosure around catastrophe models and climate-related assumptions used in pricing. Increased transparency may help regulators better evaluate whether proposed rate increases are actuarially justified and aligned with statutory standards.

## CONCLUSION

Rising insurance premiums and shifting coverage standards are not just housing issues, they are financial planning issues. When a core cost of homeownership becomes volatile, it affects cash flow, long-term wealth preservation, and risk management decisions across a household balance sheet.

A financial advisor can help assess how higher premiums impact your overall plan. For homeowners with a mortgage, rising insurance costs may increase escrow payments and strain monthly cash flow. Reviewing liquidity reserves, emergency savings, and debt obligations becomes especially important in this environment.

Advisors can also help evaluate whether your current coverage aligns with your long-term financial goals. As premiums rise, reducing coverage or increasing deductibles may seem like an easy solution, but those decisions should be weighed carefully against the potential financial consequences of a major loss.

For both current and prospective homeowners, insurability should now be part of strategic planning. That includes stress-testing affordability under different premium scenarios, evaluating mitigation investments, and considering how regional risk trends may affect long-term property values.

In a climate of rising uncertainty, the goal is not to eliminate risk; it is to plan for it. If you have questions about how rising insurance costs may affect your financial plan, we encourage you to connect with your advisor. Together, we can review your coverage, evaluate your broader strategy, and help ensure you are positioned to navigate a more volatile risk environment with confidence.



## FOOTNOTES

- <sup>1</sup> September 2025 Mortgage Monitor. (n.d.). Retrieved February 24, 2026, from <https://mortgagetechnice.com/resources/data-reports/september-2025-mortgage-monitor>
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## DISCLOSURES

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