Protection or Profit?

Solutions to Transform Home Insurance for Resilience and Affordability

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Contents

Summary

The US home insurance crisis made national headlines in 2025 after the January Los Angeles fires and July Texas Hill Country flash floods. But the home insurance crisis is not new and is much larger than California and Texas: Those climate-driven disasters followed billions of dollars in losses, hundreds of lives lost, and the destruction of thousands of homes from disasters in previous years. The physical damages from those disasters, the household financial strain of increased premiums, and the increasingly limited reach of private sector insurance policies in these and other geographies are symptomatic of a broader crisis that affects not just single-family homeowners but also renters, multifamily housing providers, and manufactured and condo homeowners.

Across the country, the chaotic and financially ruinous aftermath of floods, wildfires, hailstorms, hurricanes, tornadoes, and other disasters demonstrate that reliance on traditional home insurance models is unsustainable and perpetuates inequalities that preexisted this crisis and may increase under the current federal political landscape.

Only a holistic response to this crisis, intended to ensure safe, affordable housing for all—rather than prioritizing insurance company profits—can fully address the interconnected risks communities face.

This brief provides an overview of the purpose and structure of home insurance in the United States, the disaster risks the climate crisis poses for housing, and the inadequacy of current policy responses. It then offers recommendations for reimagining disaster insurance.[1]

Efforts to rethink home insurance policy should prioritize:

- Comprehensive disaster risk reduction
- The availability of equitable, stable, and affordable insurance

[1] For a fuller dive into the home insurance crisis and proposed policy recommendations, see Climate and Community Institute's 2024 report "Shared Fates: A Housing Resilience Policy Vision for the Home Insurance Crisis."

- New housing in locations least at risk of disaster

State-level policy recommendations:

- States should set up new entities for housing risk reduction and insurance provision: Housing Resilience Agencies.
- At minimum, states should redesign existing insurers of last resort.

Federal-level policy recommendations:

- Redesign the National Flood Insurance Program into a National Disaster Insurance Program.
- Set up federal reinsurance for Housing Resilience Agencies and redesigned FAIR Plans.

What is home insurance?

Home insurance—whether for single-family homeowners, renters, condo owners, manufactured home dwellers, or rental property providers—is meant to ensure that people can recover the value of homes even after disasters. It promises that even if a home and its contents are lost, the policyholder will not be financially ruined as a result.

Like other forms of insurance, home insurance operates by:

- assessing risk and defining the terms on which people can or cannot access protection,
- defining responsibility for damages,
- determining the legitimacy of claims,
- assigning accountability, and
- providing compensation for losses in the event of disasters and other emergencies.[2]

Insurance premiums are paid by an individual person or entity for the protection of their assets. In this way, insurance is a one-to-one contract: A policyholder pays in with the expectation of a payout if the housing incurs damage.

But insurance is also collective: It brings together many policyholders across different risks and geographies to reduce the burden of risks for everyone. In this way it's like mutual aid—we all pool resources so that you get help when disaster strikes you, and I get help when disaster strikes me.[3]

[2] Rebecca Elliott, *Underwater: Loss, Flood Insurance, and the Moral Economy of Climate Change in the United States* (Columbia University Press, 2021).

[3] One origin of insurance is the "friendly societies" that operated in Europe in the 17th and 18th centuries. See, e.g., Simon Broek et al., "Study on the Current Situation and Prospects of Mutuals in Europe," Panteia, 2012, https://ec.europa.eu/docsroom/documents/10390/attachments/1/translations/en/renditions/pdf.

The fundamental principle of insurance is the pooling and spreading of risks so that financial harm from disaster is more easily absorbed by a greater number of policyholders sharing different risk profiles. It works best when pools are large—when they contain many policyholders—and the risks held in that pool are spread across **types**, **levels**, and **geographies** of risk. Spreading risk in these ways ensures that no single event collapses the entire pool.

Background

Escalating disasters, rising home insurance costs, and profit over protection

The climate crisis is fueling extreme weather and increasing disaster risk for households across the country.[4] No individual household or housing provider can mitigate that risk alone.

Climate and Community Institute (CCI) research shows that people across the country are at risk of significant loss from disasters, often from multiple, overlapping hazards. Almost 40 percent of households in the United States are living in areas at high risk of property damage and destruction from at least one—but often multiple—types of hazard. Far from being just a coastal issue, concentrations of these at-risk populations exist in the Southeast and the upper plains; these communities are particularly vulnerable when factoring the scale of damage compared to housing value. The distribution of climate risk is also racialized: Some populations are disproportionately exposed to high levels of risk from multiple types of hazard, especially American Indians and Alaska Natives.[5]

Despite the increasing need for the recovery resources that home insurance provides, insurance gaps keep growing.

Despite the increasing need for the recovery resources that home insurance provides, insurance gaps keep growing. Research by the Consumer Federation of America (CFA) found that 15 percent of lower-income homeowners are without coverage of any

[4] Earthjustice, "How Climate Change Is Fueling Extreme Weather," July 28, 2025, https://earthjustice.org/feature/how-climate-change-is-fueling-extreme-weather.

[5] Moira Birss et al., "Shared Fates: A Housing Resilience Policy Vision for the Home Insurance Crisis," Climate and Community Institute, September 2024, https://climateandcommunity.org/research/shared-fates-home-insurance/.

kind.[6] That number does not include rental housing, about which an enormous data gap currently exists.

We also have few measures of under-insurance (when a policyholder does not have enough coverage to fully recover after a major disaster); under-insurance gaps can grow when high premium prices make full-coverage policies unaffordable and people opt for less expensive, but lower-coverage, policies. And premium prices continue to climb: Nationwide, the average homeowner's premium went up 40.5 percent from 2019 through 2024, with accelerating increases since 2020.[7] In some regions, the situation is particularly acute: In Louisiana, 3 in 5 households would have to spend more than 10 percent of their income to pay for a standard home insurance policy.[8]

Rising home insurance costs and coverage issues are a serious problem for individual households and housing providers, as well as for wider housing and financial systems and public budgets. That's because, among other possible effects:

- Affordable housing developers and providers may cancel new projects or abandon existing ones if they cannot afford to insure them.[9]
- When property owners cannot afford to pay premiums and maintain their insurance as a condition of their loans, mortgage and commercial loan defaults could spread out to wider financial system stress.[10]

[6] Sharon Cornelissen et. al., "EXPOSED: A Report on 1.6 Trillion Dollars of Uninsured American Homes," Consumer Federation of America, March 12, 2024, https://consumerfed.org/wp-content/uploads/2024/03/Exposed-UninsuredHomes-1.pdf.

[7] Maggie Davis, "State of Home Insurance: 2025," LendingTree, June 9, 2025, https://www.lendingtree.com/insurance/state-of-home-insurance/.

[8] Nick Graetz et al., "Shared Fates: Rising Insurance Costs in Louisiana," Climate and Community Institute, February 5, 2025, https://climateandcommunity.org/research/shared-fates-louisiana/.

[9] Moira Birss et al., "How the Insurance Crisis Threatens Affordable Housing Development," Climate and Community Institute, April 29, 2024, https://www.climateandcommunity.org/insurance-affordable-housing; David W. Chen, "'Not Sustainable': High Insurance Costs Threaten Affordable Housing," *The New York Times*, June 7, 2024, https://www.nytimes.com/2024/06/07/us/home-insurance-homeless-affordable.html; David Brand, "Landlords of NYC Affordable Housing Launch New Venture to Combat Spiking Insurance Costs," *Gothamist*, July 8, 2024, https://gothamist.com/news/landlords-of-nyc-affordable-housing-launch-new-venture-to-combat-spiking-insurance-costs.

[10] Susan Crawford, "Alarm Bells Ringing for Fannie and Freddie," *Moving Day* (Substack newsletter), May 31, 2024, https://open.substack.com/pub/susanpcrawford/p/alarm-bells-ringing-for-fannie-and; Jordan Haedtler and Tracey Lewis, "The Home Insurance Crisis Is a Threat to Financial Stability," Climate and Community Institute, May 16, 2024, https://climateandcommunity.org/research/insurance-financial-stability/.

- Homelessness may increase, especially in renter populations, since evictions and rent increases tend to follow climate-related disasters, and recovery assistance for renters is much lower and more difficult to access than aid provided for homeowners.[11]
- Nonexistent or even low insurance coverage increases reliance on ex post facto disaster relief budgets.[12] This strains both state and federal public purses, diverting spending from other key public goods, yet typically amounts to only a fraction of what each household needs to recover.[13]

The profit vs. protection conflict in insurance markets

While insurance, in its mutual aid-like pooling of risks, provides an essential service for households and housing providers, the fact that the business decisions of private insurance companies dictate much of today's home insurance system leaves households and housing providers vulnerable.

The insurance industry financial model

The basic financial model of insurance companies relies on three uses of premium income:

1. Capital retention: Insurers keep some cash on hand to pay immediate claims and remain solvent.

[11] Joint Center for Housing Studies at Harvard University, "America's Rental Housing 2024," Harvard Kennedy School, 2024, https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_Americas_Rental_Housing_2024.pdf.

[12] Moira Birss and Rebecca Elliott, "How Do We Fix Public Insurance Programs?," Climate and Community Institute, August 21, 2024, https://www.climateandcommunity.org/fix-insurance-programs.

[13] Elena Krieger, "Facing Disaster Alone: FEMA Rollback Threatens to Overwhelm States," Just Solutions, 2025, https://justsolutionscollective.org/solution/facing-disaster-alone-fema-rollback-threatens-to-overwhelm-states/; Carloyn Kousky and Leonard Shabman, "The Realities of Federal Disaster Aid: The Case of Floods" (Issue Brief 12-02), Resources for the Future, 2012, https://media.rff.org/documents/RFF-IB-12-02.pdf.

2. Risk transfer: Insurers purchase their own insurance, called reinsurance, which allows them to transfer some of their risk exposure.
3. Investment for profit: Insurers invest premium dollars in capital markets, the returns on which can be used to cover claims and/or generate profit.

Because so much of insurers' financial model relies on global reinsurance and investment markets, the risks insurers are willing to insure at a given time depend as much on financial market dynamics as they do on actuarial science.[14]

The profit-seeking structure of private insurance companies conflicts with the expectation that they will provide financial protection for policyholders.

The profit-seeking structure of private insurance companies conflicts with the expectation that they will provide financial protection for policyholders. Because their primary profit source is the returns they earn from investing premium income, insurance companies are incentivized to raise premium rates, transfer financial risk to reinsurance markets and policyholders (the latter in the form of increased deductibles or reduced coverage), and reduce payouts (sometimes to the extent of apparent fraud).[15] Insurers may also have incentives to exploit, not just avoid, risk—increasing disasters gives them an excuse for premium hikes and can serve, essentially, as free advertising.[16] Insurers can make a lot of money in these ways: A recent analysis found $6 in profit for every $1 in underwriting losses across the country.[17]

While this profit-protection conflict is only growing as the climate crisis worsens, insurers may also take advantage of marginalized groups of people to further avoid or profit from perceived risk.[18] After all, insurers were key players in historical practices of redlining by refusing to provide coverage to Black households—practices that have contributed to persistent housing wealth gaps and chronic

[14] Bench Ansfield, *Born In Flames: The Business of Arson and the Remaking of the American City* (Norton, 2025), 93-97; Birss et. al., "Shared Fates," p. 104.

[15] Sharyn Alfonsi, "Florida Home Hurricane Damage Reports Changed, Whistleblowers Say," *60 Minutes Overtime*, CBS, September 29, 2024, https://www.cbsnews.com/news/florida-family-hurricane-ian-insurance-payout-accusations-60-minutes/.

[16] Ansfield, *Born In Flames* 93-96.

[17] Martin D. Weiss, "Large Property Insurers in Florida Fail to Pay Nearly Half of Homeowner Claims," Weiss Ratings, June 25, 2024, https://weissratings.com/en/weiss-news/weiss-ratings-reveals-large-property-insurers-in-florida-fail-to-pay-nearly-half-of-closed-homeowner-claims.

[18] Ansfield, *Born In Flames*.

underinvestment in communities of color.[19] Research from CCI and CFA demonstrates that insurers today charge households with low credit scores in low-disaster-risk areas higher premiums than households with high credit scores in high-disaster-risk areas. Not only does this practice perpetuate the disparate and unfair impact of credit scores themselves, it also calls into question the claim that insurance pricing provides clear signals to households about disaster risk (more on this below).[20]

Insurers of last resort are riddled with policy design flaws

In response to insurance market failures since the 1960s, the federal government and many states have set up insurers of last resort. At the national level is the National Flood Insurance Program, a federally run insurance program established by Congress in 1968 when private companies refused to underwrite flood risk. At the state level are Fair Access to Insurance Requirement (FAIR) Plans, the model for which was designed in the late 1960s in response to insurance gaps created by insurers' refusal to provide coverage in largely Black and Latinx inner-city neighborhoods. The federal government also supported the establishment of these private insurer associations with a temporary reinsurance program to incentivize private insurer participation.[21] In setting up such programs, governments have affirmed that home insurance is an essential service for which backstops are required when private markets fail.

Yet while these programs provide important safety nets for households today, their financial models are overstretched, their

[19] Gregory D. Squires, "Racial Profiling, Insurance Style: Insurance Redlining and the Uneven Development of Metropolitan Areas," *Journal of Urban Affairs* 25, no. 4 (2003): 391–410, https://doi.org/10.1111/1467-9906.t01-1-00168; Daniel Aaronson et al., "The Effects of the 1930s HOLC 'Redlining' Maps," *American Economic Journal: Economic Policy* 13, no. 4 (2021): 355–92, https://doi.org/10.1257/pol.20190414.

[20] Moira Birss et al., "Penalized: The Hidden Cost of Credit Score in Home Insurance Premiums," Consumer Federation of America & Climate and Community Institute, August 12, 2025, https://climateandcommunity.org/research/penalized-the-hidden-cost-of-credit-score-in-homeowners-insurance-premiums/; Joshua A. Blonz et al., "Pricing Protection: Credit Scores, Disaster Risk, and Home Insurance Affordability," Social Science Research Network, November 1, 2024, https://doi.org/10.2139/ssrn.5026600.

[21] State insurer-of-last-resort programs also include so-called Beach or Wind Plans, which provide coverage for limited types of hazards (typically hail and hurricanes) in limited geographic areas. Two states (LA & FL) have converted their FAIR Plans into a slightly different structure, known as Citizens. For more on the history and structure of these state insurer-of-last-resort programs, see: Isabel Peñaranda Currie, Moira Birss, Ruthy Gourevitch, and Tanaya Srini, "Insurers of Last Resort: Why Today's FAIR Plans Need a Redesign to Address the Home Insurance Crisis," Climate and Community Institute, October 2025, https://climateandcommunity.org/research/insurers-of-last-resort.

premiums tend toward the unaffordable, and they insufficiently drive disaster risk reduction.[22] Given the design flaws in this last-resort model, however, such problems are no surprise.

Last-resort insurance model design flaws include:

- Ignoring the basic principle of good insurance design (spreading across types and levels of risk and creating broad and diverse risk pools). Instead, these programs tend to concentrate on one type of risk, like wildfire, and only for the "riskiest" policies; some also intentionally push policyholders with "less risky" policies onto private company policies.[23] Concentrating risk like this is like a health insurance pool only for stage 4 cancer patients; of course it won't work well.
- Failing to address risk mitigation beyond the individual level (if at all). Broader and more collective risk mitigation would both better protect the program's assets and the communities it serves (more on this below).
- Preclusion of diverse financing sources (more on this below).
- Provision of inferior products—most only provide "actual cash value" rather than "replacement cost" claims payouts.
- Lack of a reparative approach that accounts for the legacy of discriminatory practices that have forced many of the most-marginalized communities into high-risk geographies.[24]

Such design flaws are particularly pernicious in the last-resort model in states. Rather than adequately responding to risk and/or checking the excesses of private markets, these programs are designed to protect the profitability of the private insurance sector, and most are run by insurers themselves.[25]

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[22] Carolyn Kousky et al., "Driving Loss Reduction Through State-Created Residual Insurance Markets," Environmental Defense Fund, 2025, https://library.edf.org/AssetLink/v7l028dx0x68g22mj067j2kw411s28nj.pdf.; Brian Palmer and Jeff Turrentine, "It's Time to Fix Our Water-Logged National Flood Insurance Program," July 22, 2022, https://www.nrdc.org/stories/time-fix-water-logged-national-flood-insurance-program; Megan Fan Munce and Susie Neilson, "'What Are We Paying for?' California FAIR Plan Complaints from People Whose Homes Have Burned," *San Francisco Chronicle*, January 25, 2025, https://www.sfchronicle.com/california-wildfires/article/insurance-fair-plan-20036794.php.

[23] Peñaranda Currie et. al., "Insurers of Last Resort."

[24] Jade A. Craig, "Struggle Against the Water: Connecting Fair Housing Law and Climate Justice," *Nevada Law Journal* 24, no. 3 (2024): 737–92, https://scholars.law.unlv.edu/cgi/viewcontent.cgi?article=1942&context=nlj.

[25] Peñaranda Currie et. al., "Insurers of Last Resort."

Problems with today's disaster insurance system

Other design flaws in insurer-of-last-resort programs are symptomatic of problems also present in the overall disaster insurance finance system that includes private insurance companies. Primary among such flaws is the belief that insurance markets can effectively guide risk reduction to housing through "risk-based pricing" (also known as price signaling).

In the disaster context, risk-based pricing rests on the notion that setting premium prices based on disaster risk level is an effective way to get people or housing providers to reduce risks themselves, through actions like moving to a new location or installing a new roof in the hopes insurance premiums will go down. But the use of price signaling for disaster risk is misguided and ineffective, as demonstrated by the lived reality of individuals and communities:

- People make decisions about where to live for all kinds of reasons, like where schools, family, or jobs are located.
- Some households may have been forced into a risky location because housing discrimination or affordable housing shortages left them no choice on where to live.
- Low-income households, as well as many middle-income ones, cannot afford to pay upfront for big retrofits. Renters have almost no power to enact them.
- Many of the necessary risk-reduction measures to respond to these big disasters, like sewer upgrades or neighborhood brush clearings, aren't measures individual households or building owners can take on their own.
- The wealthiest homeowners can always override these "price signals."
- Market rate housing developers don't have to think about insurance coverage past the build completion date and so keep building new housing in high-risk areas.

The risk-assessment tools of insurance provide useful information about the location and scale of disaster risk, but given the collective nature of disaster risk, they are most effectively and equitably deployed as inputs to policymaking. To identify, for example, where collective risk-reduction resources should flow or where land use policy should proactively direct housing away from high-risk geographies.[26] But insurance tools are incapable of directly causing those risk mitigation measures to occur; for that, we need clear and precise policy measures.

Reimaging the disaster risk insurance system

Since insurance tools are not capable of all the things currently asked of them, and insurance companies prioritize profit over protection, the policy question should not be "How to save insurance companies?" but rather, "How can insurance tools help keep people safely and affordably housed as disasters increase in frequency and scale?" Approaching the question this way leads to the prioritization of resilience, equitable protection, and support for the people most at risk of financial devastation after disasters.

Principles for redesigning disaster home insurance

Greater resilience means less need to rely on the safety net of insurance.

A. Comprehensive disaster risk reduction

Comprehensive disaster risk mitigation is essential to transforming home insurance because of the essential role proactive risk reduction plays in limiting damage before disasters strike. Greater resilience means less need to rely on the safety net of insurance.

[26] Paula Jarzabkowski, "Are Premium Price Increases Really a Way to Reduce Climate Risk Exposure?," Climate and Community Institute, May 2, 2024, https://www.climateandcommunity.org/premium-price-increases; Birss and Elliott, "How Do We Fix Public Insurance Programs?"; Jarzabkowski, "Are Premium Price Increases Really a Way to Reduce Climate Risk Exposure?"; Laurence Barry, "The Moral Economies of Natural Disasters Insurance: Solidarity or Individual Responsibility?," *Journal of Cultural Economy* 17, no. 1 (2024): 39–51, https://doi.org/10.1080/17530350.2023.2258909; Elliott, *Underwater*.

Physical risk-reduction measures can also save money—estimates suggest as much as $13 for every $1 invested.[27]

Many states have implemented risk-mitigation initiatives, like California's Wildfire Mitigation Program[28] or Minnesota's Strengthen Minnesota Homes grant program.[29] While these initiatives are important, risk reduction is not currently proceeding at the scale necessary—not at the individual home or community level, typically not for households beyond single-family homeowners, and not in a coordinated way. Furthermore, the Trump administration's cutbacks to disaster preparedness and response aid, along with threats to eliminate the Federal Emergency Management Agency, create an ever-larger resilience hole to be filled.[30]

Key to a more effective approach to risk mitigation is recognizing that disaster risk cannot be adequately mitigated through isolated, voluntary improvements to individual homes. Though individual measures can help, housing resilience also requires taking collective action beyond the scale of individual home or multifamily buildings and toward community- and landscape-level measures, such as home hardening across a neighborhood, regional fire breaks in wildfire-prone areas, sewer upgrades in flood zones, infrastructure relocation, and more.[31] Necessary collective action should also include identifying where it is too risky to build new housing and formulating land use policy on that basis, and helping communities relocate from where it's too dangerous to stay. Furthermore, comprehensive and collectively-oriented risk reduction strategies should place the onus on public and private institutions—not individuals with their limited knowledge, means, and capabilities—to navigate.

Of course, if we want to reduce disaster risk across the board, we must also stop climate change from getting worse than it already is

[27] National Institute of Building Sciences, "Mitigation Saves: Mitigation Saves up to $13 per $1 Invested," 2019, https://nibs.org/wp-content/uploads/2025/04/ms_v4_overview.pdf.

[28] "California Wildfire Mitigation Program," California Governor's Office of Emergency Services, accessed August 23, 2024, https://www.caloes.ca.gov/office-of-the-director/operations/recovery-directorate/hazard-mitigation/california-wildfire-mitigation-program/cwmp-about-page/.

[29] Minnesota Department of Commerce, "Strengthen Minnesota Homes," March 7, 2023, https://www.house.mn.gov/comm/docs/bol1A_0qjUuAqERjojXkc0.pdf.

[30] Elena Krieger, "Facing Disaster Alone: FEMA Rollback Threatens to Overwhelm States," Just Solutions, June 2025, https://justsolutionscollective.org/solution/facing-disaster-alone-fema-rollback-threatens-to-overwhelm-states/.

[31] Birss et al., "Shared Fates," p. 82–86.

by ending the fossil fuel economy. As CCI has previously noted, every degree of warming stopped will lower the frequency and severity of future disasters. Doing so necessitates shifting energy systems toward renewable energy and decarbonizing homes, buildings, and transportation, as well as winding down polluting fossil fuel infrastructure.[32]

B. Equitable, stable, affordable insurance

Insurance tools are uniquely positioned to support post-disaster recovery and increase resilience; insurance therefore must be available, affordable, and effective for all households and housing providers as the climate crisis increases the frequency and severity of disasters. It must cover the full range of disasters that have some likelihood of affecting households in a particular region, given the overlapping types of disaster risk faced by communities across the country.[33] Particularly as the climate crisis drives increasing frequency and severity of disasters, insurance must not just support post-disaster recovery but must also support proactive disaster risk mitigation. Furthermore, coverage and protection from climate impacts and major disasters should embody principles of solidarity, safeguarding everyone regardless of socioeconomic status, race, or geography; while disaster risk affects us all, the burdens fall heaviest on those who can least afford them.

The only way to ensure the existence of affordable, accessible, comprehensive home insurance is to shift away from the current model that privatizes profit and socializes losses.

Yet, as described above, the profit-protection tension in today's private insurance markets will perpetually produce insurance gaps, particularly as climate change worsens disasters. The only way to ensure the existence of affordable, accessible, comprehensive home insurance is to shift away from the current model that privatizes profit and socializes losses. At CCI we see single-payer disaster insurance as the best way to do this (see more below), though this brief also considers alternative approaches.

C. New housing in lower-risk places

Without the existence of sufficient affordable, dignified, and safe housing, the necessary risk reduction measures of relocation programs and limiting where new housing can be rebuilt will further

[32] Johanna Bozuwa et al., "Toward Just Disaster Response in the United States and US Territories," Climate and Community Institute, October 2022, https://climateandcommunity.org/research/just-disaster-response.

[33] See a detailed analysis and maps of overlapping disaster risks in "Shared Fates," p. 16–21.

exacerbate the country's housing crisis.[34] Although some advocates for addressing the nation's housing crisis propose eliminating permitting, zoning, and land use rules to build more, doing so without consideration for impacts from the climate crisis risks putting millions more households at the mercy of major disasters and the ensuing financial fallout. Instead, policies to address housing availability and affordability must also consider climate risk, and policies to address the home insurance crisis must actively participate in work to increase green, resilient, affordable housing development in lower-risk areas.

Policy proposals for new home disaster risk insurance systems

Proposal 1: State Housing Resilience Agencies

CCI's primary proposal to transform home insurance involves states creating entities, termed Housing Resilience Agencies (HRAs), to run the state's housing risk-reduction work and home disaster insurance provision with transparency, democracy, and equity.

[34] Julia Wagner et al., "Transforming the Housing Sector with Green Industrial Policy," Climate and Community Institute, July 15, 2025, https://climateandcommunity.org/research/transforming-the-housing-sector-with-green-industrial-policy.

HRAs would oversee the state's housing risk-reduction work and home disaster insurance provision with transparency, democracy, and equity. They are comprised of two interconnected parts:

The HRA model combines comprehensive risk mitigation with public disaster insurance provision, while also facilitating collaboration with other state entities to ensure coordinated policy that increases affordability, availability, and resilience of housing and related infrastructure.

The HRA vision is intended to lay out broad approaches and principles, not to define every detail of the design and implementation of HRAs, since the best policy approach will vary according to geography. For more details, see the full HRA proposal in Shared Fates.

HRA pillar 1: Comprehensive risk mitigation.

HRAs would play a key role in land use policy by developing, implementing, and enforcing building codes for preventing construction of new housing and other infrastructure in high-risk areas, like easements or setbacks along coastal and other flood-prone areas. Such restrictions might also apply to rebuilding in high-risk areas, though such restrictions would need to be coupled with adequate, equitable relocation support for the people currently living in those areas.

HRAs would also carry out holistic, community-oriented risk reduction and decarbonization for existing housing that would combine structural fortifying measures with energy efficiency updates (which also contribute to lowering housing cost burdens through lower energy bills). And they would institute comprehensive, science-based, equitable, and democratic mechanisms to proactively protect people at the greatest risk of disaster by supporting them in relocating to safer, affordable housing.

To ensure that the HRA's risk-mitigation work does not exacerbate housing availability or affordability, the HRA would work closely with relevant state and federal entities to increase green, affordable housing development in lower-risk areas.[35]

HRA pillar 2: Single-payer public disaster insurance program.

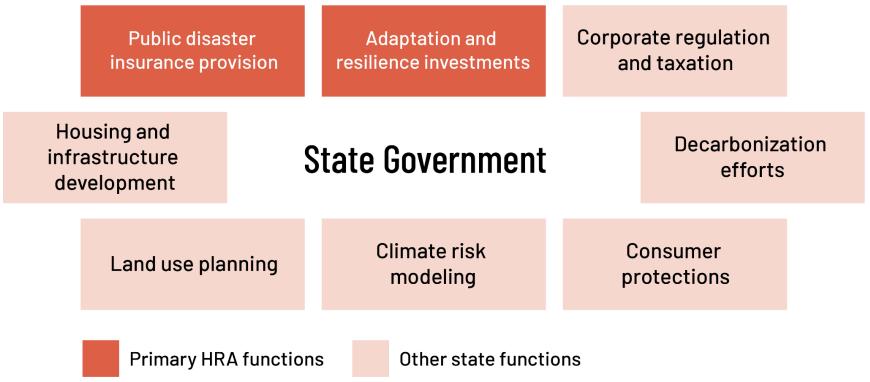
In order to ensure the availability and affordability of home insurance, HRAs would stand up a public disaster insurance program. After all, insurers have proven incapable of the task of dealing with large-scale, highly correlated disasters, particularly for the non-wealthy, affordable housing providers, and those living in risky areas through no fault of their own. We propose a single-payer version of disaster insurance rather than a public option because the latter runs the risk that private insurance providers would cherry-pick all the "best" policies, thus kneecapping the public program's ability to create a large pool with broad risk spread.

While the HRA would provide single-payer disaster insurance, private insurers could still provide the standard policies that cover things like kitchen fires and burglaries. This separation of roles between the public disaster and the private individual policies helps avoid the aforementioned cherry-picking and prevents private insurers benefiting from public investments in risk reduction without putting their own skin in the game. Private insurers could offer "surplus" insurance policies on top of the standard HRA policies: While HRA policies would cover what an ordinary household needs, the affluent could purchase further protection—as long as it complied with the risk reduction–oriented land use policies established by the HRA.

[35] CCI's Green Social Housing Development Authority proposal provides a model for this; while it is a federal-level proposal, it could also be adapted to the state level: Gianpaolo Baiocchi et al., "Green Social Housing at Scale: How a Federal Green Social Housing Development Authority Can Build, Repair, and Finance Homes for All," Climate and Community Institute, June 2024, https://www.climateandcommunity.org/green-social-housing-at-scale.

Because shifting away from today's model of privatizing profits and socializing losses is so central to the HRA's design, premiums would be defined primarily by household income level or housing providers' budget level, along with prorated coverage amounts delineated by both a floor and a ceiling. This pricing mechanism turns traditional "price signaling" on its head by incentivizing the HRA to reduce the total costs of the program through population-level risk reduction (the first pillar of the HRA). Furthermore, this approach eliminates the possibility of rate setting that discriminates on marital status, credit score, or other problematic factors that private insurers may use to set rates.[36]

HRAs would be key players in a whole-of-government approach to the housing and climate crisis.

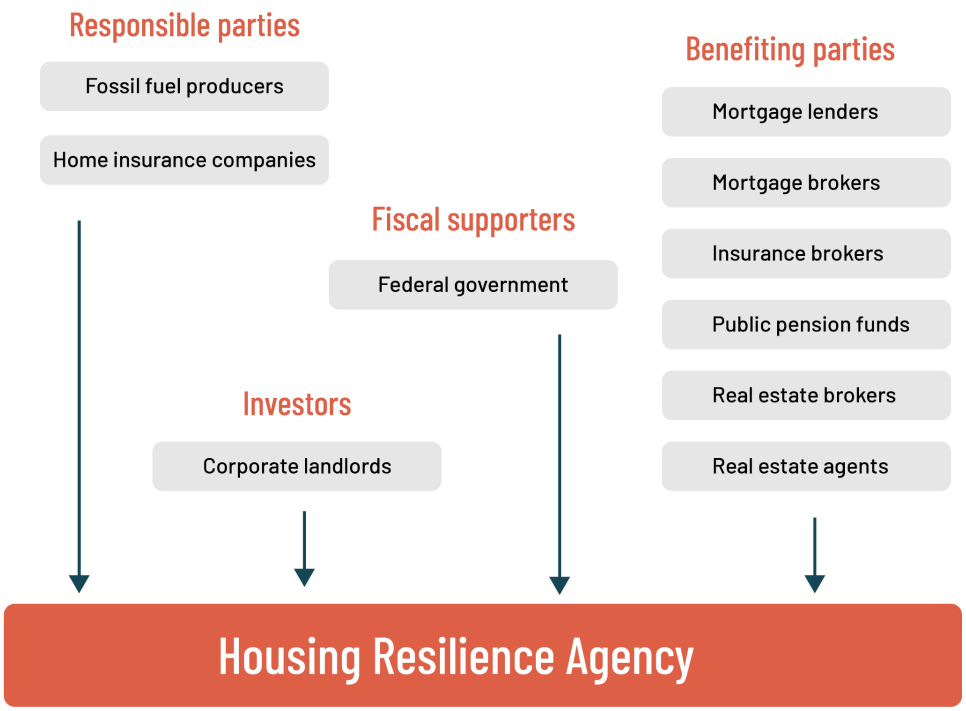


Funding the HRA

Avoiding the privatization of profits and the socialization of losses is also why additional funding for the agency's work should come from a variety of sources. Dedicated funding sources alongside premium income would also reduce the need for the HRA insurance program to rely on risky and/or expensive hedging products like catastrophe bonds. To identify those funding sources, we suggest an analysis of which entities are most responsible for the current climate-driven insurance crisis, and which would most benefit from stability in home insurance. Such an analysis is essential to more equitably spread the costs and benefits of a more stable insurance system (and to address the current reduction in federal disaster-prevention dollars).

[36] Moira Birss et al., "Penalized: The Hidden Cost of Credit Score in Home Insurance Premiums," Consumer Federation of America & Climate and Community Institute, August 2025, https://climateandcommunity.org/research/penalized-the-hidden-cost-of-credit-score-in-homeowners-insurance-premiums.

Potential funding sources for Housing Resilience Agencies



When it comes to assigning responsibility, we suggest taxes or fees on fossil fuel companies causing climate change and the insurance industry players that long knew climate change was a risk to housing and did little to change industry practices (including investments in fossil fuels).[37] Among the types of entities that would benefit from stability in home insurance and therefore should contribute to a better system are property market lenders: The existence of insurable properties means they can lend against them, while reducing climate-related risks reduces the likelihood of defaults. Stable mortgage markets also allow lenders to profit from the packaging and selling of mortgages on investment markets.

Risk sharing could also provide support for HRA financial stability. Multiple state HRAs could set up cooperation agreements with one another to pool resources, share risk, and provide mutual support during disasters.[38] And the federal government could set up a reinsurance facility to support state HRAs (more on this below).

[37] Peter Bosshard, "Fifty Years of Climate Failure: 2023 Scorecard on Insurance, Fossil Fuels and the Climate Emergency," Insure our Future, November 2023, https://global.insure-our-future.com/wp-content/uploads/2023/11/IOF-2023-Scorecard.pdf.

[38] Birss et al., "Shared Fates," p. 87–88.

Proposal 2: Reform state insurer-of-last-resort programs

State insurer-of-last-resort programs (henceforth referred to simply as FAIR Plans) have many design flaws, as noted above, including violating the fundamentals of risk pooling and spreading. These flaws arise in no small part because these programs are intended as short-term backstops for temporary private insurance gaps. But the growing disaster risks facing every state in the country make clear that these temporary backstops are inadequate and require overhaul to adequately ensure insurance availability and affordability for all. While we advocate for a robust policy approach like the HRA proposal outlined above, immediately correcting the most glaring flaws in current FAIR Plan design can transform these stopgap programs into better-designed providers of accessible, affordable disaster insurance closely coordinated with comprehensive risk-reduction measures.

Recommendations for FAIR Plan reform:[39]

1. **Restructure FAIR Plan finances** such that state lawmakers determine the guidelines and principles for FAIR Plan financial structures, not private companies, and that such structures be oriented toward clear-eyed risk assessment, prudent use of Plan resources, and funding structures that better reflect the drivers and beneficiaries of stable property insurance markets.

2. **Offer adequate policies at affordable rates** rather than more expensive or lower-quality policies designed to avoid competing with the private insurers that are refusing to serve those in need of the FAIR Plan.

3. **Require private insurance companies to bear more risk**, since FAIR Plans currently provide a mechanism by which insurers can refuse to serve customers in the state, and which incentivizes them to cherry-pick only the lowest risk homes. This not only loads the higher-risk policies into the FAIR Plan but also violates the core insurance principle of risk spreading, even for the private companies. Instead, policymakers should make the industry responsible for backstopping the FAIR Plans

[39] For more details on these recommendations and the arguments for them, see Peñaranda Currie and Birss, "Insurers of Last Resort" p. 39-48.

and prohibit industry players from pushing those costs on to their customers.

4. **Establish transparent, democratic governance** instead of today's opaque entities largely governed by private company members and subject to minimal public oversight.

5. **Engage in comprehensive, proactive hazard mitigation**, since as more hazard risk is mitigated the safer households are, and the less need exists for the safety net of insurance. Given the collective nature of large-scale disasters, such hazard mitigation should prioritize proactive, community-level risk reduction over individualized incentives for risk reduction that do not work well to reduce risk at scale.

6. **Coordinate insurance, housing, land use, and disaster response policymaking**, given the direct link between risk reduction, housing availability and affordability, land use and zoning policy, and insurance stability and affordability.

Proposal 3: Remake the federal National Flood Insurance Program

Like state insurers-of-last-resort programs, the National Flood Insurance Program (NFIP) was set up to address insurance gaps left open by private insurance markets. Better than most of today's FAIR Plans, the NFIP embodies some of the core principles for insurance solutions outlined above: It was designed to incentivize good community-wide floodplain management practices and create a government-run, not profit-driven, insurance program. However, while the NFIP provides vital financial support after disasters, it violates the fundamental risk pooling and spreading principle of good insurance design by just addressing flood risk for the riskiest homes.

Attempts to modernize the NFIP have missed the mark on correcting this and other fundamental flaws. For example, despite the importance of more accurate flood mapping through the update process known as Risk Rating 2.0, participation in the NFIP has declined over the last decade.[40] This decline suggests that the "price signal" cost increases associated with Risk Rating 2.0 have discouraged rather than encouraged participation, highlighting a

[40] Diane P. Horn, "National Flood Insurance Program Risk Rating 2.0: Frequently Asked Questions," Congressional Research Service Insight, May 28, 2024, https://crsreports.congress.gov/product/pdf/IN/IN11777.

The NFIP could be converted into a National Disaster Insurance Program that requires coverage for multiple disasters for all risk levels—a single-payer system for disaster insurance coupled with risk mitigation.

critical issue: without aligning insurance pricing, community hazard mitigation efforts, and housing availability and affordability policy, the NFIP will continue to flounder.

Instead, the NFIP could be converted into a National Disaster Insurance Program (NDIP) that requires coverage for multiple disasters for all risk levels—a single-payer system for disaster insurance coupled with risk mitigation. This could take the form of a federal version of the state HRA outlined above and would obviate the need for state-level HRAs. Changes to current NFIP structure essential to this overhaul include:

- substantially more robust integration of community-oriented risk-reduction measures that are affordable and accessible to low-income homeowners, renters, and multifamily housing providers;
- a move away from the ineffective use of individualized premium rates to "signal" risk;[41]
- significantly differential pricing treatment for second homes and vacation units;
- coordination of and investment in robust, community-wide disaster prevention and risk reduction projects across the country;
- establishment of a national climate risk model; and
- a climate risk advisory council to guide the NDIP's risk assessment and mitigation efforts.

A federal disaster insurance approach would have the advantage of circumventing the fact that many states with the biggest insurance crises have governments that are so captured by the industry that an overhaul in the form of a state HRA would be unlikely in the foreseeable future.[42] It would also have the advantage of the federal

[41] Laurence Barry, "The Moral Economies of Natural Disasters Insurance: Solidarity or Individual Responsibility?," *Journal of Cultural Economy 17(1)*: 39–54, doi:10.1080/17530350.2023.2258909; Jarzabkowski, "Are Premium Price Increases Really a Way to Reduce Climate Risk Exposure?"

[42] Jordan Haedtler and Kenny Stancil, "Demystifying the National Association of Insurance Commissioners," Revolving Door Project, April 2024, https://therevolvingdoorproject.org/wp-content/uploads/2024/04/Demystifying-the-National-Association-of-Insurance-Commissioners.pdf.

government's unlimited financing capacity to invest in risk reduction and thus ensure reduction in liabilities an NDIP might generate.[43]

Proposal 4: Federal reinsurance for HRAs and redesigned FAIR Plans

Instead of a national HRA/NDIP, the federal government could set up a federal reinsurance program that incentivizes and supports states that set up state-level HRAs and/or redesign their FAIR Plans in the ways described above. The Urban Property Reinsurance Program, set up by Congress as a temporary program to provide reinsurance for insurers and insurance pools that would write policies in uninsured urban areas, can inform the design of such a federal facility.[44] If a federal reinsurance instrument were dedicated to covering HRAs or redesigned FAIR Plans—both of which would better pool and spread risks than today's FAIR Plans—its purpose could be limited to risk transfer for high-loss, low-probability disasters, such as a major California earthquake or strong Florida hurricane. This would be a lighter lift financially and administratively than a federal HRA, though would forgo the benefits of creating an enormous countrywide risk pool and of tying disaster insurance so directly to risk reduction, as in the full HRA proposal outlined above.

[43] See "Shared Fates" (p. 90-91) for a discussion of some of the consumer protection and climate change mitigation drawbacks to this approach.

[44] The Urban Property Protection and Reinsurance Act of 1968 (a subset of The Housing and Urban Development Act of 1968), Public Law 90-448, titles XI-XII, Aug. 1, 1968. See the discussion of this law in Peñaranda Currie and Birss, "Insurers of Last Resort," p. 6.