The Possible Collapse of the U.S. Home Insurance System

0:01

from The New York Times I'm Sabrina

0:03

tavernes and this is the

0:06

[Music]

0:10

daily today my colleague Christopher FLL

0:15

on a times investigation into one of the

0:17

least known and most consequential

0:20

effects of climate change

0:23

insurance and why it may now be a

0:26

concern for every homeowner in the

0:28

country

0:29

[Applause]

0:31

[Music]

0:35

it's Wednesday May

0:37

[Music]

0:42

15th so Chris you and I talked a while

Climate change and insurance

0:45

ago about how climate change was really

0:48

wreaking havoc in the insurance Market

0:50

in Florida you've just done an

0:53

investigation that takes a look into the

0:55

insurance markets more broadly and more

0:58

deeply tell us about it yeah so I cover

1:01

climate change in particular the way

1:03

climate shocks affect different parts of

1:05

American life and insurance has become a

1:09

really big part of that coverage and

1:11

Florida is a great example as hurricanes

1:15

have gotten worse and more frequent

1:17

insurers are paying out more and more

1:20

money to rebuild people's homes and

1:22

that's driving up Insurance costs and

1:25

ultimately driving up the cost of owning

1:28

a home in in Florida so we're already

1:32

seeing that climate impact on the

1:34

housing market in Florida my colleagues

1:36

and I started to think well could it be

1:38

that that that kind of disruption is

1:41

also happening in other states not just

1:44

in the sort of obvious Coastal States

1:47

but maybe even through the middle of the

1:49

us so we set out to find out just how

1:52

much it is happening how much that

1:53

Florida kind of turmoil has in fact

1:56

become really a contagion that is

1:59

spreading across the country so how did

How did you report this

2:02

you go about reporting this I mean where

2:04

did you start all we knew at the start

2:06

of this was that there was reason to

2:08

think this might be a problem if you

2:10

just look at how the federal government

2:12

tracks disasters around the country

2:14

there's been a big increase almost every

2:16

year in the number and severity of all

2:20

kinds of disasters around the country so

2:21

we thought okay it's worth trying to

2:23

find out what does that mean for

2:25

insurers the problem is getting data on

2:29

the insurance industry is actually

2:30

really hard there's no Federal

2:32

Regulation there's no government agency

2:34

you can go to that holds this data if

2:36

you talk to insurers directly they tend

2:38

to be a little reluctant to share

2:41

information about what they're going

2:42

through so we weren't sure where to go

2:46

until finally we realized the best

2:48

people to ask are the people whose job

2:50

it is to gauge the Financial Health of

2:54

insurance

2:55

companies those are rating agencies in

2:58

particular this one rating company

3:00

called am best whose whole purpose is to

3:03

tell investors how healthy an insurance

3:06

company is whoa so this is like way down

AM Best

3:09

in the nuts and bolts of the US

3:11

insurance industry right this is a part

3:13

of sort of the broader economy that most

3:15

people would never experience but we

3:17

asked them to do something special for

3:18

us we said hey can you help us find the

3:22

one number that would tell us reporters

3:25

just how healthy or unhealthy this

3:28

insurance Market is state byst state

3:30

over time and it turns out there is just

3:32

such a number it's called a combined

3:37

ratio okay plain English plain English

3:40

it is the ratio of Revenue to costs how

3:45

much money these guys take in for

3:46

homeowners insurance and how much they

3:48

pay out in costs and losses you want

3:52

that ratio to be positive if it's

3:55

negative you're in trouble so what did

The Ratio

3:58

you find out well we got

4:00

that number for every state going back

4:03

more than a decade and what it showed us

4:05

was our suspicions were right this

4:09

Market turmoil that we were seeing in

4:11

Florida and California has indeed been

4:14

spreading across the country and in fact

4:16

it turns out that in 18 states last year

4:20

the homeowners insurance Market lost

4:23

money and that's a big jump from five or

4:26

10 years ago and spells real trouble for

4:30

insurance and for homeowners and for

4:33

almost every part of the economy so the

The Contagion

4:36

contagion was real right this is our

4:39

first window showing us just how far

4:43

that contagion had spread and you know

4:45

one of the really striking things about

4:46

this data was it showed the contagion

4:49

had spread to places that I wouldn't

4:51

have thought of as especially prone to

4:54

climate shocks for example a lot of the

4:58

Midwest a lot of the southeast

5:00

in fact if you think of a map of the

5:02

country there was no State between

5:05

Pennsylvania and The Dakotas that didn't

5:08

lose money on homeowners insurance last

5:11

year so just huge parts of the middle of

5:14

the US have become unprofitable for

5:18

homeowners insurance this Market is

5:20

starting to buckle under the cost of

5:22

climate change and this is all happening

This Market is Starting to Buckle

5:24

really fast like when we did the Florida

5:27

episode two years ago it was a

5:28

completely new phenomenon and really

5:31

only in Florida and now it's everywhere

5:34

yeah and that's exactly what's so

5:36

striking here the rate at which this is

5:39

becoming again a contagion and spreading

5:41

across the country is just demolishing

5:44

the expectations of anyone I spoken to

5:46

No One thought that this problem would

5:49

affect so much of the US so quickly okay

Whats Happening in New States

5:53

so in these states these new places that

5:55

the contagion has spread to what exactly

5:58

is happening that's causing the

6:00

insurance companies to fold up shop yeah

6:03

something really particular is happening

6:05

in a lot of these states and it's worth

6:06

noting how it's surprised everyone and

6:10

what that is is formerly sort of

6:13

unimportant weather events like hail

6:15

storms or wind storms those didn't used

6:18

to be the kind of thing that would scare

6:20

insurance companies right obviously a

6:22

big problem if it destroys your home or

6:23

damag your home but for insurers it

6:25

wasn't going to wipe them out

6:27

financially right it wasn't just a

Secondary Perils

6:29

complete an utter wipe out that the

6:31

company would then have to Pony up a lot

6:33

of money for exactly and insurers called

6:35

them secondary perils sort of a

6:38

belittling term right something other

6:40

than a big deal like a hurricane these

6:42

minor league weather events right but

6:43

those are becoming so frequent and so

6:47

much more intense that they can cause

6:50

existential threats for insurance

6:52

companies and insures are now fleeing

6:55

States not because of hurricanes but

6:58

because those former things that were

6:59

small are now big hail storms wildfires

7:03

in some places previous sort of

7:05

annoyances are becoming real threats to

The Big Picture

7:10

insurers Chris what's the big picture on

7:13

what insurers are actually facing like

7:15

what's happening out there numbers wise

7:17

this is a huge threat in terms of the

7:19

number of states where this industry is

7:22

losing money it's more than doubled from

7:24

10 years ago to basically a third of the

7:27

country the amount they're losing is

7:29

enormous and some states insurers are

7:31

paying at a125 or even $150 for every

7:35

dollar they bring in in Revenue it's

7:37

just totally

7:39

unsustainable and the result is insurers

7:41

are making changes they're pulling back

7:44

from these markets they're hiking

7:46

premiums and often they're just dropping

7:49

customers and that's where this becomes

7:51

real not just for you know people who

7:54

surf balance sheets right and and trade

7:57

the stock market this is becoming real

7:59

for homeowners around the country who

8:02

all of a sudden increasingly can't get

The Implications

8:06

insurance so Chris what's the actual

8:09

implication I mean what happens when

8:11

people in a state can't get insurance

8:14

for their homes getting insurance for a

8:17

home is crucial if you want to sell or

8:18

buy a home right most people can't buy a

8:21

home without a mortgage and Banks won't

8:24

issue a mortgage without home insurance

8:26

so if you got a home that insurance

8:28

company does doesn't want to cover you

8:30

get a real problem you need to find

8:32

insurance or that home becomes very

8:35

close to unsellable uh and as you get

8:37

fewer buyers the price goes down so this

8:40

doesn't just hurt people who were paying

8:42

for these insurance premiums it hurts

8:44

people who want to sell their homes it

8:46

even could hurt at some point whole

8:48

local economies right if home values

8:50

fall governments take in less tax

8:52

revenue that means less money for

8:54

schools and police it also means people

8:57

who get hit by disasters and have to

8:59

rebuild build their homes all of a

9:00

sudden can't because their insurance

9:02

isn't available anymore it's hard to

9:05

overstate just how big a deal this is

Are housing markets being dragged down

9:08

and is that actually happening Chris I

9:09

mean are housing markets being dragged

9:12

down because of this problem with the

9:14

insurance markets right

9:16

now anecdotally we've got reports that

9:19

in places like Florida and Louisiana and

9:23

maybe in parts of California the

9:26

difficulty of getting Insurance the in

9:28

crazy high cost of insurance is starting

9:31

to depress demand because not everyone

9:33

can afford to pay these really high

9:36

costs even if they have insurance what

9:38

we wanted to focus on with this story

9:39

was also okay we know where this goes

9:42

eventually but where is it beginning

9:45

right what are the places that are just

9:46

starting to feel these shocks from the

9:48

insurance

9:49

[Music]

9:52

market and so I called around and asked

9:55

insurance agents who are the front lines

9:58

of this they're the ones who are

10:00

struggling to find insurance for

10:01

homeowners and I said hey is there one

10:04

place that I should go if I want to

10:06

understand what it looks like to

10:07

homeowners when all of a sudden

10:09

Insurance becomes really expensive or

10:11

you can't even find

10:13

it and those insurance agents told me if

10:16

you want to see what this looks like in

10:18

real life go to a little town called

10:22

Marshall Town in the middle of Iowa

10:27

[Music]

10:36

we'll be right

10:40

[Music]

10:48

back so Chris you went to Marshall Town

10:51

Iowa what' you find you know even before

10:53

I got to Marshall Town I had some idea I

10:56

was in the right spot when I landed into

10:59

Mo and went to rent a car the nice woman

11:03

at the desk who rented me a car she said

11:05

what are you doing here I said I'm here

11:06

to write a story about people in Iowa

11:08

who can't get insurance because of storm

11:10

she said oh yeah I know all about that

11:12

that's a big problem here okay even the

11:14

rental car lady even the rental car lady

11:17

knew something was going on and so I got

11:19

into my rental car and drove about an

11:20

hour Northeast of De Moine through some

11:23

Rolling Hills into this lovely little

11:25

town of Marshall Town Marshall Town is a

11:28

really cute little Midwestern town with

11:30

old homes and a beautiful courthouse in

11:32

the town square and when I drove through

11:35

I couldn't help noticing all the roofs

11:38

looked new what does that tell you turns

11:41

out Marshall Town despite being sort of

11:44

a pastoral image of Midwestern Easy

11:48

Living was hit by two really bad

11:51

disasters in recent Years first a

11:53

devastating tornado in 2018 and then in

11:56

2020 what's called a Duro sort of a a

11:59

straight line wind event that's also

12:02

just enormously damaging and the result

12:05

was lots of homes in this small town got

12:09

severely damaged in a short period of

12:11

time and so when you drive down you see

12:13

all these new roofs that give you the

12:15

sense that something's going on so

IMT Insurance

12:17

climate had come to Marshall Town

12:20

exactly a place that had previously

12:22

seemed maybe safe from climate change if

12:25

there is such a thing all of a sudden

12:28

was not

12:29

so I found an insurance agent in

12:31

Marshall Town um talk to other agents

12:34

but haven't talked to many homeowners so

12:36

named Bobby Sho and he invited me to his

12:39

office early one morning and said you

12:41

know come meet some people and so I

12:43

parked on a quiet street outside of his

12:46

office across street from the courthouse

12:48

which also had a new roof and went into

12:51

his conference room and met a procession

12:54

of clients who all had versions of the

12:57

same Horror Story

12:59

it was more well more of double huge

13:03

huge reduction in coverage with a huge

13:05

price increase you know and these are

13:07

some people had faced big premium hikes

13:09

I'm just a little small business owner

13:11

so every little bit I do feel they had

13:14

so much trouble with their insurance

13:16

company I was with IMT Insurance forever

IMT Cancellations

13:20

and then when I moved in 2020 Bobby said

13:23

they won't ensure a pool some people

13:26

have gotten dropped we used to see

13:28

carriers canceling someone for frequency

13:30

of three or four or five claims it's one

13:33

or two now some people couldn't get the

13:36

coverage they needed but it was versions

13:38

of the same tale which is all of a

13:41

sudden having homeowners insurance in

13:43

Marshall Town was really difficult but I

13:47

wanted to see if it was bigger than just

13:49

Marshall Town so the next day I got back

13:51

in my car and drove East to Cedar Rapids

13:54

where I met another person having a

13:57

version of the same problem Named Dave

13:59

Langston tell me about Dave Dave lives

14:03

in a handsome modest little townhouse on

14:06

a quiet culde saac on a hill at the edge

14:09

of Cedar Rapids he's the president of

14:13

his homeowners association there's 17

14:16

homes on this little Street and this is

14:19

just as far as you could get from a

14:22

danger zone right it looks as safe as

14:25

could be but in January they got a

14:27

letter from the company that ures him

14:30

and his neighbors saying his policy was

14:32

being cancelled even though it wasn't as

14:34

though they'd just been hit by some

14:36

giant storm so then what was the reason

What Was The Reason

14:38

they gave yeah know they didn't give a

14:39

reason and I think people might not

14:41

realize insurers don't have to give a

14:42

reason insurance policies are year to

14:45

year and if your insurance company

14:47

decides that you're too much of a risk

14:49

or your neighborhood is too much of a

14:50

risk or your state is too much of a risk

14:52

they can just leave they can send you a

14:54

letter saying forget it we're canceling

14:56

your insurance there's almost no

14:57

protection people have and in this case

15:00

the reason was that this insurance

15:02

company was losing too much money in

15:04

Iowa and didn't want to keep on writing

15:07

homeowners insurance in the state that

15:10

was a situation that Dave shared with

15:13

tens of thousands of people across the

15:15

state they were all getting similar

15:17

letters what made Dave's situation a

15:19

little more challenging was that he

15:22

couldn't get new insurance he tried for

15:24

months through agent after agent after

15:28

agent agent and every company told him

15:30

the same thing we won't cover you even

15:32

though these homes are perfectly safe in

15:35

a safe part of the state nobody would

15:38

say yes and it took them until basically

15:41

two days before their insurance policy

15:44

was going to rout until they finally

15:46

found new coverage that was far more

15:50

expensive and far more Bare Bones than

15:53

what they'd had but at least it was

15:55

something it was something but the

15:56

problem was it wasn't that good under

15:58

the new policy if Dave's streets got hit

16:02

by another big

16:04

Windstorm the damage from that storm and

16:07

fixing that damage would wipe out all

16:10

the savings set aside by these

16:12

homeowners the deductible would be

16:15

crushingly high

16:17

$120,000 to replace those roofs if the

16:20

worst happened because the insurance

16:23

money just wouldn't cover anywhere close

16:26

to the cost of rebuilding wow he said to

16:28

me me we didn't do anything wrong this

16:31

is just what insurance looks like today

16:34

and today it's us and Cedar Rapids

16:36

everyone though is going to face a

16:38

situation like this eventually and Dave

16:41

is right I talked to insurance agents

16:43

around the country and they confirmed

16:45

for me that this kind of a shift towards

16:48

a new type of insurance insurance that's

16:51

more expensive and doesn't cover as much

16:54

and makes it harder to rebuild after a

16:56

big disaster it's becoming more and more

16:58

more common around the country so Chris

Possible Solutions

17:01

if Dave and the people you spoke to in

17:04

Iowa were really eviden that your hunch

17:06

was right that the problem is spreading

17:09

and rapidly what are the possible fixes

17:12

here the fix that people seem most

17:15

hopeful about is this idea that what if

17:18

you could reduce the risk and cause

17:20

there to be less damage in the first

17:22

place so what some states are doing is

17:24

they're trying to encourage homeowners

17:27

to spend more money on hardening their

17:29

home or adding a new roof or you know if

17:33

it's a wildfire Zone cut back the

17:35

vegetation things that can reduce your

17:37

risk of having really serious losses and

17:39

to help pay for that they're telling

17:40

insurers you've got to offer a discount

17:43

to people who do that and everyone who

17:45

works in this field says in theory

17:47

that's the right approach right the

17:48

problem is number one hardening a home

17:52

costs a fantastic amount of money so

17:55

doing this at scale is hugely expensive

17:57

number two it takes a long time time to

17:59

actually get enough homes hardened in

18:03

this way that you can make a real Dent

18:05

for insurance companies we talking about

18:07

years or probably decades before that

18:10

has a real effect if it ever works okay

Government Solutions

18:14

so that sounds not particularly

18:17

realistic given the urgency and the

18:19

timeline we're on here so what else are

18:21

people looking at option number two is

18:24

the government gets involved and instead

18:26

of most Americans buying home insurance

18:29

from a private company they start buying

18:32

it from government programs that are

18:35

designed to make sure that people even

18:38

in Risky places can still buy insurance

18:40

that would be just a gargantuan

18:43

undertaking the idea of the government

18:44

providing homeowners insurance because

18:46

private companies can't or won't would

18:49

lead to one of the biggest government

18:52

programs that exist if we could even do

18:56

it so huge change like the federal

Flood Insurance

18:59

government actually trying to kind of

19:01

write these markets by itself by

19:03

providing homeowners insurance but is

19:06

that really feasible well in in some

19:08

areas we're actually already doing it

19:10

the government already provides flood

19:12

insurance because for decades most

19:15

private insurers have not wanted to

19:18

cover flood it's too risky it's too

19:21

expensive but that change with

19:23

governments taking over that role

19:25

creates a new problem of its own because

19:29

the government providing flood insurance

19:30

that you otherwise couldn't get means

19:33

people have been building and building

19:35

in flood prone areas because they know

19:37

they can get that guaranteed flood

19:39

insurance interesting so that's a huge

Government Flood Insurance

19:42

new downside like the government would

19:44

be incentivizing people to move to

19:46

places that they shouldn't be that's

19:48

right but there's even one more problem

19:50

with that approach of using the

19:51

government to try to solve this problem

19:53

which is these costs keep growing right

19:57

the number of billion dollar disasters

19:59

the US experiences every year keeps

20:01

going up and at some point even if the

20:03

government pays the cost through some

20:06

sort of subsidized Insurance what

20:08

happens when that cost is so great that

20:11

we can no longer afford to pay it that's

20:14

the really hard question that no

20:17

official can

20:18

answer so that's pretty doomsday Chris

The End of Insurance

20:22

are we looking at the end of

20:24

insurance I think it's fair to say that

20:26

we're looking at the end of insurance as

20:28

we know it the end of insurance that

20:32

means most Americans can rest assured

20:36

that if they get hit by a disaster their

20:38

insurance company will provide enough

20:40

money they can rebuild that idea might

20:43

be going away and what it shows is maybe

20:47

the threat of climate change isn't quite

20:49

what we

Conclusion

20:51

[Music]

20:52

thought maybe instead of climate change

20:56

wrecking communities in the form of a a

20:58

big storm or a wildfire or a

21:01

flood maybe even before those things

21:03

happen climate change can wreck

21:05

communities by something as seemingly

21:07

mundane and even boring as insurance

21:10

right maybe sort of the the harbinger of

21:13

Doom is not a giant storm but an anod

21:18

letter from your insurance company

21:20

saying we're sorry to inform you we can

21:22

no longer cover your home right like

21:25

maybe sort of the future of climate

21:27

change is best seen not by pouring over

21:31

weather data from Noah but by pouring

21:33

over spreadsheets from rating firms

21:36

showing the profitability from insurance

21:38

companies and how bit by bit that money

21:42

that they're losing around the country

21:43

tells its own story and the story is

21:46

these shocks are actually already

21:51

[Music]

21:55

here Chris as always terrifying to talk

21:59

to you always a pleasure

22:01

[Music]

22:08

Sabrina we'll be right

22:14

back here's what else you should know

22:16

today on Tuesday the United Nations has

22:20

reclassified the number of women and

22:22

children killed in Gaza saying that it

22:25

does not have enough identifying

22:27

information to know exactly how many of

22:30

the total dead are women in children the

22:33

UN now estimates that about 5,000 women

22:36

and about 8,000 children have been

22:39

killed figures that are about half of

22:42

what it was previously citing the UN

22:45

says the numbers dropped because it is

22:47

using a more conservative estimate while

22:49

waiting for information on about 10,000

22:53

other dead Goins who have not yet been

22:57

identified a and Mike Johnson the

23:01

Speaker of the House gave a press

23:03

conference outside the court in lower

23:05

Manhattan where Michael Cohen the former

23:07

fixer for Donald Trump was testifying

23:10

for a second day answering questions

23:12

from Trump's lawyers Trump is bound by a

23:15

gag order so Johnson joined other

23:18

standin for the former president to

23:20

discredit the

23:21

proceedings Johnson one of the most

23:24

important Republicans in the country

23:26

attacked con but also the trial itself

23:30

calling it a sham and political

23:34

theater today's episode was produced by

23:37

Nina Feldman Shannon Lynn and Jessica

23:40

Chong it was edited by MJ Davis Lynn

23:44

with help from Michael benois contains

23:47

original music by Dan Powell Marian

23:50

Lozano and Rowan

23:52

Nimo and was engineered by Alysa Moxley

23:56

our theme music is by Jim brunberg and

23:58

Ben Lanser of

24:00

[Music]

24:07

[Music]

24:09

wonderly that's it for the daily I'm

24:12

Sabrina Tavern see you tomorrow

24:18

[Music]