

In the United States, standard homeowners insurance policies typically exclude coverage for earthquakes and floods, focusing instead on damages from fire, wind, and hail. This gap in coverage leads individuals to often overlook potential disasters or react disproportionately to recent events, resulting in a pattern of purchasing insurance only after a loss and subsequently canceling it when no claims arise. For all-hazards homeowners insurance to be viable, insurers must be permitted to charge risk-based premiums, incentivizing homeowners to invest in cost-effective hazard mitigation measures. The public sector plays a crucial role in making coverage affordable for lower-income residents and could help mitigate catastrophic losses. The reauthorization of the National Flood Insurance Program (NFIP) presents an opportunity for reform, potentially establishing a long-term risk reduction and affordability strategy applicable to various extreme events.

Currently, earthquake insurance is primarily provided by the California Earthquake Authority, while flood insurance is largely managed by the federally run NFIP. In contrast, other countries like Belgium and the UK offer all-hazards coverage, often mandated by the government, but typically without risk-based premiums that encourage mitigation. For an all-hazards insurance system to succeed in the U.S., it is essential that premiums reflect the specific risks faced by property owners, which would motivate them to adopt loss-reduction measures.

Homeowners desire comprehensive coverage for potential disasters but resist higher premiums that account for risks not relevant to their location. Insurers could benefit from offering all-hazards policies by reducing legal disputes over damage causes and diversifying risk, which would lower administrative costs. To encourage the adoption of all-hazards policies, two guiding principles are proposed: premiums should reflect risk to provide accurate hazard signals and promote mitigation, and policies should address equity and affordability, particularly for low- and moderate-income households.

The public sector can facilitate the adoption of all-hazards insurance through means-tested

vouchers to help cover costs, contingent on property owners investing in mitigation measures. Additionally, multiyear insurance contracts could stabilize premiums and incentivize insurers to maintain property inspections. Public reinsurance or federal backstops may be necessary to protect against catastrophic losses, and regulations could mandate catastrophic coverage for those at risk.

Reforming the NFIP could lay the groundwork for all-hazards homeowners insurance by establishing risk-based premiums, providing financial assistance for mitigation, and encouraging private reinsurance. The overarching goal is to enhance community resilience to natural disasters, particularly in light of climate change and development in hazard-prone areas. The U.S. could benefit from examining international models of all-hazards insurance to create effective long-term strategies that also address immediate concerns.