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Property Insurance Pricing Increases are Happening Now

For some time now, we've written on trends in the Property & Casualty insurance market and highlighted that insurance carriers are pulling coverage from catastrophe-prone regions. Homeowners of high-value properties may combat rising premiums or loss of coverage by upgrading their properties or employing a creative broker to find surplus lines. Some states have insurance programs that offer below-market P&C insurance rates through subsidies. However, recently, there have been changes to certain state-run programs. As a result of these changes, premiums are likely to rise.

Last month, Florida announced that homeowners currently insured by Citizens Insurance, the state-subsidized insurer, may be required to transition to private insurance coverage as early as October. This move is aimed at reducing the risk associated with Florida's state-sponsored insurance, which covers 1.3 million homeowners, equating to 18% of market share. Policyholders affected by the program can expect an increase in their premiums. Homeowners, however, can 'opt out' and remain with Citizens if the estimated hike exceeds 20% of their current rate. With an increasing number of private insurance companies withdrawing coverage from high-risk states, state-subsidized insurers are passively increasing their market share. It is likely that other states, including Louisiana and California, will consider implementing similar programs.

Beyond state-level changes, there are also national shifts to be aware of. Homeowners living in flood-prone areas may experience changes to their flood insurance policy. The Federal Emergency Management Agency (FEMA) is the only carrier that issues flood insurance and coverage is through the National Flood Insurance Program. Flood insurance may be acquired through a non-risk-bearing service provider, but the underlying coverage is from FEMA.

In 2021, FEMA initiated a pricing program called the 'Equity in Action' plan. The purpose is to accurately reflect risk premiums in flood-prone regions. Premiums were previously based on zones, not home values. Prior to the new FEMA plan implementation, the owner of a $10mm home was paying the same amount as the owner of a $1mm home in the same zone. Under the 'Equity in Action' plan, premiums are aligned with home values. Homeowners with high-valued properties in flood zones should expect an increase in flood premiums. Additionally, designated flood zones are likely to expand, and more homes will require flood protection. Homeowners whose properties are newly mapped in flood zones can establish policies with FEMA at reduced rates. Homebuyers can also receive discounts if they can lock-in a grandfathered policy from the home's previous owners.

Nationally, increases in premiums are expected with the increasing probability of catastrophic events. Approximately one-fourth of all US real estate is set for insurance adjustments, especially as publicly subsidized programs undergo repricing.

Homeowners may utilize various strategies to mitigate rising P&C insurance rates. Insurance companies often offer discounts for home improvements that reduce individual property risks, such as updating roofs, upgrading plumbing systems, and adopting green energy solutions. Implementing centralized home security can also lead to an annual premium reduction of up to 10%. For homeowners living in flood zones, reducing flood insurance premiums is possible by implementing modifications, such as elevating utilities, installing floor openings, filling in basements, or raising a property's elevation. Lastly, moving to an area that is less prone to catastrophic loss is a good avoidance strategy.

Individuals affected by the Citizen depopulation program in Florida should reach out to their insurance broker and Wealth Manager to weigh their options.