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# Climate Change Is Destabilizing Insurance Industry

Insurers face a “crisis of confidence” as global warming makes weather events unpredictable and increases damage

BY THOMAS FRANK & E&E NEWS



In an aerial view, damaged buildings are seen as Hurricane Ian passed through the area on September 29, 2022 in Fort Myers Beach, Florida. Insurance experts say climate change is roiling the industry. [Joe Raedle/Getty Images](#)

Climate Change ▾

**CLIMATEWIRE** | The president of one of the world's largest insurance brokers warned Wednesday that climate change is destabilizing the insurance industry, driving up prices and pushing insurers out of high-risk markets.

Aon PLC President Eric Andersen told a Senate committee that climate change is injecting uncertainty into an industry built on risk prediction and has created “a crisis of confidence around the ability to predict loss.”

Reinsurance companies, which help insurers pay catastrophic losses, “have been withdrawing from high-risk areas, around wildfire and flood in particular,” Andersen told the Senate Budget Committee.

He added, “Just as the U.S. economy was overexposed to mortgage risk in 2008, the economy today is over exposed to climate risk.”

Andersen testified at the Senate Budget Committee in its latest hearing aimed at drawing attention to climate risk and its potential threat to the federal budget.

The hearing did not address the federal budget and instead highlighted the various ways climate change is hurting property insurers and triggering dangerous growth in state-run insurance plans — sometimes called FAIR plans — that cover people who cannot buy insurance from a company.

Although the hearing covered familiar themes, it occurred at an opportune moment. Major hurricanes and wildfires have driven insurance markets into crisis in Florida, Louisiana, California and are weakening insurers in other Western states such as Colorado and Oregon ([Climatewire](#), Dec. 23, 2022).

Florida's state-run property insurer warned recently that Hurricane Ian had “significantly depleted” its reserves and that it might impose a surcharge on

millions of policyholders in the state if another major hurricane generates massive claims ([Climatewire](#), March 21).

In California, the state-run FAIR plan has accumulated a \$332 million deficit while it charges premiums that are too low and has limited reinsurance to cover claims from a catastrophic wildfire, Milliman actuary Nancy Watkins told the committee.

“The California FAIR plan is growing unsustainably high,” Watkins said. She noted that the plan can impose an “unlimited assessment” on insurance companies operating in the state if it is unable to pay claims.

“They are on the hook for the FAIR plan’s potential insolvency,” Watkins said.

FAIR plans have been growing in many states. Florida’s state-run Citizens Property Insurance Corp. now has 1.2 million policies, nearly triple the number it had in 2019.

Nationwide, FAIR plans have experienced a 29 percent increase in their policy count from 2018 to 2021, Benjamin Keys, a professor of real estate and finance at the University of Pennsylvania’s Wharton business school, told the committee.

Growing risks from climate change and rising reinsurance costs have caused insurers to raise premiums and pull out of markets, “leaving homeowners with fewer choices, less protection, and more financial distress,” Keys said.

Watkins said that when insurance companies stop selling policies in an area, it “can cause ripple effects that endanger entire communities and create a downward spiral that’s difficult to emerge from.”

The spiral could occur gradually, Watkins said, “but it’s possible for weakened markets to collapse quickly through a crisis of confidence triggered by one event.”

Committee Chair Sheldon Whitehouse (D-R.I.) asked how insurers are dealing with “weather anomalies” caused by climate change that make storms and other events harder to predict.

Andersen of Aon acknowledged it is a problem. “The models of old that have been used looking backwards are not as valuable to the models that need to be developed for a changing climate,” he said.

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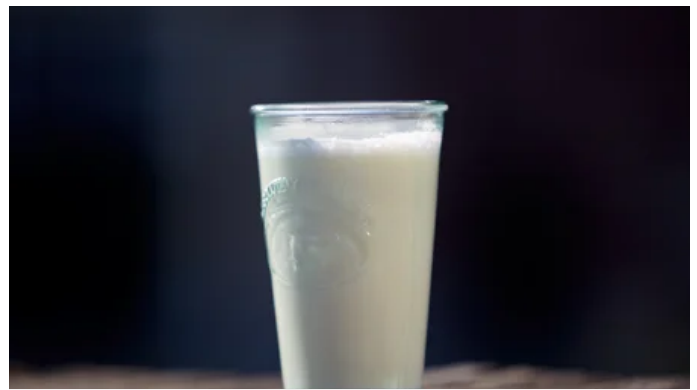


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