

U.S. Coastal Communities Could Become Uninsurable

It's been all storm no calm for property insurance buyers in coastal regions in recent years, and many catastrophe-prone communities run the risk of becoming uninsurable, according to a new report from credit analyst DBRS Morningstar.

“The increasing strength of these large storms has resulted in significant insured losses over the years and seem to be getting worse.”

- **DBRS Morningstar**

“The exit of insurers from catastrophe-prone states in the U.S. creates an insurance coverage gap. We anticipate that this could eventually be a trigger for declines in property valuations in the affected regions in the absence of alternative sources of insurance protection,” said Victor Adesanya, vice president of insurance for DBRS Morningstar’s Global Financial Institutions Group, in a statement.

Approximately 40% of the U.S. population lives along the coast, having seen significant growth over the last 50 years. In Florida, coastal counties saw a 217% increase in population between 1970 and 2020, while Texas coasts saw a 160% increase. Georgia and North Carolina also saw jumps of 133% and 105%, respectively.

In addition to harming real estate values, the lack of insurance availability makes it harder for

communities to bounce back after severe weather events. A 2016 World Bank study found that a lack of resilience to extreme weather events pushes an estimated 26 million people into poverty each year and can lead to long-term negative effects for entire regions.

With more people comes more property in harm’s way, boosting both insured and economic losses. DBRS Morningstar cited data from Swiss Re showing tropical cyclones, severe convective storms and flooding as the main drivers of catastrophe losses over the last decade.

“The erratic nature of these events also makes planning and creating reserves for claims difficult for insurance companies. While insurers can react quickly to these losses by adjusting their pricing after a year when policies are being renewed, affordability becomes an issue for policyholders as they have to contend with annual risk-based rate increases,” analysts said in the report.

However, they also noted that catastrophe loss exposure doesn’t currently have negative credit rating implications for insurers as “the risks are being managed appropriately.” Management of risk for several insurers has meant exiting markets like California, Florida, Louisiana, and other states prone to natural disasters.

“The insurers that still offer coverage in these areas have increased their rates because of elevated demand and rely heavily on reinsurers to cover limits that exceed their risk appetite, while some insurers are lowering coverage limits to reduce exposure,” the authors of the report said.

The pullback of private insurers also leads to greater reliance on government mechanisms, including state FAIR Plans and the National Flood Insurance Program (NFIP), the analysts noted. The NFIP is \$20.5 billion in debt to the U.S. Treasury, according to a recent statement, and accrues \$1.7 million in interest per day that must be paid back out of the premiums collected. This week, a senior NFIP official called for the debt to be canceled, along with 17 other reforms proposed with a goal of putting the program on sounder fiscal footing.

“We think a better use for these interest payments would be to help policyholders rebuild their lives instead of being paid to Treasury,” said David Maurstad, NFIP senior executive, in a statement. “It’s a vicious cycle that will only end with cancellation of the debt to avoid compounded interest and future borrowing.”

A recent scientific study published in the journal *Scientific Reports* cited evidence that hurricanes appear to be intensifying more quickly due to warmer sea temperatures.

“Many of the most damaging [tropical cyclones] to impact the U.S. in recent years have been notable for the speed at which they have intensified. For instance, Hurricane Maria (2017), the climate disaster with the highest death toll since 1980, and the 4th highest economic cost in the last four decades, strengthened from a tropical storm to a Category 5 hurricane on the Saffir-Simpson scale in just over 48 hours,” said researchers. Hurricanes Harvey, Ian, Sandy, Ida and Irma—the five other costliest weather disasters in the last decade—all strengthened into major hurricanes in less than three days, they found.

Natural disaster risk also isn’t likely to abate any time soon, with DBRS Morningstar noting, “U.S. states along the Atlantic coast, in particular, should expect turbulent times ahead as it is almost certain they will experience at least one major storm every year during hurricane season.”

The firm added, “The increasing strength of these large storms has resulted in significant insured losses over the years and seem to be getting worse.”