

The Impact of Climate Change on the Insurance Industry And What it Means for Maine



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Climate change is increasingly causing severe weather events, posing significant risk to homes and businesses and displacing millions of people. In fact, a new Census Bureau tally shows that more than 3.4 million adults were displaced in 2022 by catastrophic weather events, around 1.4% of the U.S. adult population. Most of those displacements were short term but the census figures also show that 16% of those displaced adults never returned home, and 12% were out of their homes for more than six months.

In addition to the social cost that these severe weather events pose, in 2022 the U.S. experienced 18 separate weather and climate disasters costing at least \$1 billion, the third highest number in a calendar year, behind the 22 events in 2020 and 20 events in 2021. Clearly this trend indicates that the high frequency and severity of extreme weather events affecting people's lives and livelihoods represents the new normal

creating far reaching economic and social impacts that will indelibly shape the future of where and how we live in our country and the world beyond.

The rise in population and wealth over the past decades is an important factor in these increased costs. This trend is further complicated by the fact that much of the development has taken place in highly vulnerable areas like coasts, wild-land urban interface, and river flood plains. Vulnerability is especially high where building codes are insufficient for reducing damage to extreme events. This challenge is compounded by the fact that extreme weather events are hitting areas that have not experienced these storms in the past and are therefore far more vulnerable. One example is the deadly tornadoes that devastated parts of Tennessee and Kentucky in 2022, two states historically considered to be well east of tornado prone areas.

Ultimately, this means that climate change and associated severe weather events are, in some ways, destabilizing society, and relevant to this column, most certainly destabilizing the insurance industry. Prices have been driven up and severe storm risk has pushed many insurers out of high-risk markets. Insurance markets are in crisis in Florida, Louisiana, and California and states like Colorado and Oregon are not far behind. As private insurers pull out of these states, homeowners are forced to insure through state-run insurance plans – sometimes called FAIR plans – that cover people who cannot buy insurance from a company. As more people are forced into these plans, the risk that they become insolvent increases dramatically. In California, the state-run FAIR plan is running a \$332 million deficit while it charges premiums that are too low and has limited reinsurance to cover claims. If these plans go broke, it is the responsibility of the insurers operating in the state to pay claims based on an unlimited assessment.

Insurers in Maine haven't been as directly impacted by severe weather-related losses. From the perspective of climate risk, Maine is still seen as a relatively safe place to insure. Our broad selection of high-quality insurers and relatively affordable rates stand in sharp contrast to other parts of the country. With that said, we're not at all immune to the macro trends characterized by increasing rates and an unwillingness of many insurers to cover what is perceived to be higher risk homes and commercial properties. Reinsurance, the insurance that insurers buy to offset large losses, has increased in cost dramatically in response to 3 years of unprecedented losses. By its nature, reinsurance costs are spread across a broad base and Maine insurance consumers are ultimately footing some of the bill for the large losses in other states. As mega-disasters ultimately force population shifts and disrupt the real estate market in high-risk states through prohibitively expensive or unavailable insurance, Maine will benefit from an influx of new homebuyers. Expect this influx to impact the entire spectrum of the market, from luxury homes to affordable housing. While this is a boon to those in the real estate industry it also has the effect of driving home prices to levels out of reach for many who live and work in Maine. A complicated problem requiring a thousand separate solutions to address.

In the meantime, we can count ourselves lucky to call Maine home, even if it is a home that will look a little different in the years to come.