The Hidden Driver of Soaring Home Insurance Costs

A looming round of reinsurance renewals could signal slowdown in premium increases

Home insurers are raising rates and pulling back from disaster-prone areas including suburban Houston.

Joshua Enloe has gone from home-insurance paragon to pariah in just three years. Since 2021, the 36-year-old Texan has been twice dropped by insurers, and his annual rate has almost tripled to $13,000 from $5,000, before ending up with a bare-bones state insurer of last resort.

His offense? Living in El Lago, a coastal suburb of Houston. The 1960s, 2,200-square-foot home Enloe shares with his wife and dogs is in Harris County, hammered by 2017's Hurricane Harvey. Last week the city's latest deadly storm swept through El Lago.

One leading, but little-discussed, cause of this coverage crunch: a big increase in the cost of reinsurance policies. Now all eyes are on a round of reinsurance renewals currently under way in Florida and elsewhere that will help determine whether more premium increases are in store for homeowners.

Insurers buy reinsurance policies to limit their risks. After suffering a sharp drop in profits, reinsurers raised rates and cut coverage at the start of last year. That hit home insurers, making it harder to manage their losses from storms and other extreme-weather events. Many of them passed on the higher costs and reduced coverage to their customers.

"The unregulated, global reinsurance market is a significant driver of the high cost of property coverage across the country, including in Houston," said Douglas Heller, director of insurance at the Consumer Federation of America.

Home insurers are hiking rates and pulling back from disaster-prone areas, such as Houston. Since the start of last year, regulators have greenlighted a 26% home-insurance rate increase in Texas, one of 45 states to suffer a double-digit increase, according to an analysis by S&P Global Market Intelligence for The Wall Street Journal.

Joshua Enloe, a resident of Texas, ended up with a bare-bones state insurer of last resort. Enloe now has very basic coverage from the state's FAIR Plan insurer of last resort. The Texas FAIR Plan, which has more than half of its policies in Enloe's Harris County, reported a 41% increase in its reinsurance premiums last year.

Reinsurance lets insurers sell policies in vulnerable areas without the risk of being wiped out by one big disaster. Those policies have become increasingly expensive. A 63% rate increase last year by Louisiana's Citizens plan was "almost totally a result of the increased cost of reinsurance," state insurance regulators said.

David Duffy, head of global clients at the reinsurance broker Guy Carpenter, said: "The whole premise of the reinsurance industry is that you can be a Florida or a Louisiana homeowner's insurer and you can spread your very concentrated catastrophe risk…to the global insurance market."

The cost of this industry safety net increased sharply at the start of last year, after reinsurers suffered a yearslong profits slide. “The companies decided they weren’t getting the returns their investors needed,” said Brian Schneider, a senior director at Fitch Ratings. “We saw 30%, 40%, even 50% rate increases.”

Most states, including Texas, allow insurers to share this pricing pain with their customers. The impact can be particularly marked in disaster-prone states, such as North Carolina. Insurers there say soaring reinsurance costs are a “major driver” of their requests to regulators to raise home-insurance rates by 99% in coastal areas, or 42% on average across the state. The request is due to go to a hearing this fall.

The tough reinsurance market is affecting the availability of home insurance, as well as its cost. The shift goes back to late 2022, when reinsurers significantly hardened their policy terms. The companies raised the level of losses at which they would typically pay out and reduced coverage for rapidly rising losses from perils such as thunderstorms.

“The market restructuring shifted a lot of the risk of relatively frequent catastrophes back to insurers,” said David Flandro, head of strategic advisory at the reinsurance broker Howden Re. “Reinsurers by and large have stood their ground since then,” he added, leaving insurers saddled with greater exposure to storms and wildfires.

That has contributed to consumers’ being charged higher premiums and required to pay a greater share of hail and wind claims. Some smaller, regional companies have been forced to take more-drastic action, pulling back from certain areas.

The home insurer Cypress Property & Casualty has reduced sales of home-insurance policies in the interior of Texas. The reason: Affordable reinsurance is no longer available to offset losses from the “incredibly destructive” storms battering the state, according to Co-Chief Executive Enda McDonnell. “When you’ve got grapefruit-sized hail coming down, that does serious damage to a roof,” he said. “No reinsurer is willing to take on that risk.”

While home insurers have struggled—the industry last year lost almost 11 cents for every dollar of premium written, according to S&P—reinsurers are enjoying their most profitable stretch in years.

The 2023 market reset has had a “dramatic effect on the fortunes of reinsurers,” according to the broker Aon. The industry, which tends to operate in cycles, is now on a strong upswing.

Consumer advocates have complained that reinsurer profits have come at the expense of homeowners. They have called for a federal reinsurance program to “insulate consumers from unrestrained cost increases.”

The industry says critics of reinsurers are aiming at the wrong target. “The reinsurance market is not the tail that’s wagging the dog. The fundamental issue is the heightened level of losses in the system associated with home insurance,” said Josh Knapp, an executive vice president at the broker Gallagher Re North America.

Insurance brokers tracking a round of reinsurance policy renewals next month say they expect premiums to stay fairly level, including in Florida. One driver is a wave of new money coming into the industry, which could lower prices. The wild card that could make the expected pricing reprieve short-lived is the hurricane season, which begins June 1.

On Thursday, the National Oceanic and Atmospheric Administration predicted an above-normal Atlantic hurricane season with the largest number of major hurricanes it has ever forecast.

“Consumers are still feeling the rate increases because there’s a lag time. A lot of time, the reinsurance pricing from last year is still rolling into renewals,” said Lisa Miller, a Florida-based insurance adviser and former regulator. “But the 2024 reinsurance costs are going to be better, with a capital B."