

Written Testimony of

Commissioner Glen Mulready,
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Before the United States Senate
Committee on the Budget

Regarding:

Riskier Business: How Climate is Already Challenging Insurance
Markets

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Chairman Whitehouse, Ranking member Grassley, and members of the committee,

Thank you for the opportunity to address you today on a topic that is becoming increasingly important to homeowners across the nation: increasing homeowners insurance premiums. As natural disasters continue to arise, understanding the dynamics of insurance pricing is crucial for both homeowners and policymakers.

Homeowners insurance is a fundamental safeguard for what is for many Americans, their single largest asset. This important coverage protects against financial loss due to damage or destruction of a home and its contents. However, recent years have seen a notable increase in insurance premiums. One significant driver of this rise is convective storms and other severe weather events. Convective storms, which include phenomena like thunderstorms, tornadoes, and hail, have caused substantial damage in various regions. The cost to repair homes and replace belongings after such events has skyrocketed, leading insurance companies to adjust their premiums to cover the increased risk.

Beyond convective storms, we have witnessed hurricanes, wildfires, and flooding. These events have not only caused damage but have also increased the long-term risk profile of many areas. Insurance companies, tasked with managing risk, have responded by raising premiums to ensure they can cover those potential claims.

Another major factor influencing homeowners insurance premiums is inflation. Inflation affects the cost of building materials, labor, and other expenses related to home repair and reconstruction. As the cost of living increases, so does the cost of claims for insurers. When the price of lumber, steel, and other essential materials goes up, the expense of repairing or rebuilding homes also rises. Insurance companies must reflect these higher costs in their premiums to maintain financial stability and ensure they can meet their contractual obligations to policyholders.

So, what can homeowners do to mitigate these rising costs? One of the most effective strategies is proactive mitigation. Homeowners can invest in measures that reduce the risk of damage from severe weather events. For instance, installing storm shutters, reinforcing roofs, using “hail resistant” shingles and using fire-resistant materials can make a home much more resilient. Additionally, maintaining proper drainage systems and removing potential fire hazards from around the property can help. Insurance companies often provide discounts for homes that incorporate these protective measures, making them a worthwhile investment for homeowners.

I believe the most essential aspect of managing insurance premiums is fostering a robust competitive free market. Competition among insurance companies encourages innovation and efficiency, leading to better pricing and services for consumers. When insurers can properly underwrite and price for risk, they create a more balanced and fair market. This involves using advanced data analytics and modeling techniques to accurately assess the risk levels of different properties. By doing so, insurance companies can offer premiums that reflect the true risk, avoiding excessive charges for low-risk homeowners and ensuring high-risk properties are adequately covered.

Regulation also plays a crucial role in maintaining a healthy insurance market. Policymakers must strike a balance between consumer protection and allowing insurers the freedom and flexibility to adjust their pricing based on risk. Overly stringent regulations can stifle competition and lead to market exits, reducing choices for consumers. We have seen this play out most recently in another state where there were artificial caps put in place on premium increases. That worked well for consumers in the short term but then one by one all of the major insurers began announcing that they would cease to write any new homeowners insurance in that state. These are all private companies and if there is not the freedom and flexibility to price their products properly, they may have to take drastic steps as we have seen. Conversely, a well-regulated market encourages transparency and fairness, ensuring that homeowners have access to the most affordable and adequate coverage options.

In conclusion, the rise in homeowners insurance premiums is driven by severe weather events and the impact of inflation. However, homeowners are not powerless in the face of these challenges. By investing in mitigation measures and supporting a competitive insurance market, they can manage costs and ensure their homes are protected. Collaboration between homeowners, insurers, and policymakers is essential to create a sustainable and resilient insurance landscape.

Thank you for your attention, and I look forward to any questions you may have.