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SFA Research Corner

Warning: Rising Insurance Costs Could Undermine Your Financial Stability

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The ongoing Los Angeles wildfires, with insured losses estimated by Morningstar DBRS at $30 billion, highlight escalating challenges in California's property insurance market. While insurers absorb some losses through diversified risk and reinsurance, soaring construction costs and rising reinsurance expenses have already forced several major insurers to reduce or cease coverage in high-risk areas like California and Florida. However, the financial burden extends nationwide, as insurers raise premiums even in lower-risk regions, putting additional strain on household budgets.

Top 10 Costliest Wildfires in the U.S.

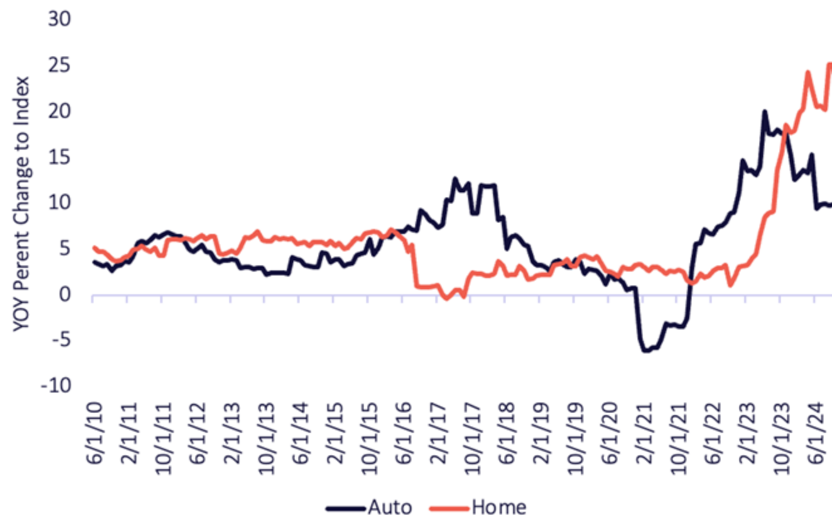
Year	State	Name of Fire	Insured Losses ($ billions)
2025	CA	Los Angeles	30.0 (estimated)
2018	CA	Camp	12.5
2017	CA	Tubbs	11.1
2018	CA	Woolsey	5.3
1991	CA	Oakland (Tunnel)	3.9
2017	CA	Atlas	3.8
2020	CA	Glass	3.6
2020	CA	CZU Lightning Complex	3.0
2017	CA	Thomas	2.9
2021	CO	Marshall	2.8

Source: Morningstar DBRS

Household Financial Strain: Inflation, Rising Insurance Costs, and Higher Debt Burdens

Rising home and auto insurance premiums, coupled with higher mortgage payments, are intensifying financial strain on households already grappling with inflation and rising costs of essentials like food, utilities, and healthcare. Home insurance premiums have climbed steadily since February 2023, with costs up 25% year-over-year as of October 2024, according to the Bureau of Labor Statistics's Producer Price Index. In disaster-prone areas premiums have surged even more, driven largely by soaring reinsurance costs. A recent National Bureau of Economic Research paper found that between 2018 and 2023, the impact of reinsurance price hikes on premiums grew by more than 60%, contributing to over half of the overall increase. The average annual premium for a $250,000 home with a $1,000 deductible now stands at $2,238, according to MarketWatch Guides. Meanwhile, BLS data shows that auto insurance premiums rose as much as 20% year-over-year in 2023. Although the pace has slowed to 9% as of December 2024, the average annual auto insurance premium remains high at $2,767, per MarketWatch Guides.

Rising Home and Auto Insurance Costs



Index June 1998=100, Not Seasonally Adusted
Source: U.S. Bureau of Labor Statistics, Producer Price Index

These rising costs erode financial flexibility, leaving many with little room to absorb unexpected expenses. With inflation already reducing purchasing power, more consumers are prioritizing immediate necessities over longer-term financial obligations, increasing the risk of delinquencies and financial distress.

The Spillover Effects of Debt Distress

The strain is materializing in higher delinquencies. A Federal Reserve Bank of Dallas study found that a $500 increase in annual home insurance premiums raises mortgage delinquency risk by 20%. The same study found that higher insurance costs also drive up credit card delinquencies and worsen creditworthiness, as households shift spending away from debt payments to cover essential expenses.

While lower-income and renter households remain the most vulnerable, financial strain is spreading across all income levels. The VantageScore January CreditGuage report shows that early-stage delinquency (30-59 days past due) for high-income earners ($150K+) across all consumer loans has surged 72% from January 2023 to December 2024—a far greater increase than among middle-income (+46%) and low-income (+20%) borrowers for the same period. The delinquency rate for this cohort now stands at 0.43%, the highest level in five years.

“We’ve seen significant increases in service costs, like home insurance and auto insurance, and that is hitting the high-income consumer harder than most. That’s what’s driving that delinquency rate,” said VantageScore CEO Silvio Tavares in an interview with CNBC. “The cost of wildfire damage will spread across all consumers of those insurance companies nationwide, raising rates and worsening delinquencies.”

As rising insurance and mortgage costs force consumers to cut back spending, delay major purchases, and take on more debt, the ripple effects are spreading into broader economy. A 2023 survey by Assurance IQ found that 51% of Americans have reduced non-essential spending due to rising insurance premiums, while 45% have cut back on savings. This trend has persisted into 2024, as a Wall Street Journal report notes that despite slowing inflation, rising costs for essentials like rent, utilities, and car insurance are forcing many households to downsize homes and further limit discretionary spending. At the same time, a growing home equity protection gap is emerging. According to the Joint Center for Housing Studies of Harvard University, 12% of homeowners lacked insurance in 2022, with those without mortgages—who are not subject to lender insurance requirements—accounting for more than 40% of homeowners. While mortgage-free homeowners can opt out of rising premiums, this choice is not available to mortgage holders, who must absorb escalating insurance costs, further widening the financial divide.

If distress continues to accelerate across consumers, lenders and structured credit markets will feel the strain, particularly in residential mortgage-backed securities (RMBS) and consumer asset-backed securities (ABS)—a $10 billion market—where loan performance in some subprime pools is already under pressure.

Total Debt Burden: A Systemic Challenge

Rising insurance costs have become a financial albatross for many households, straining budgets and reshaping financial stability. For renters and lower-income families, the burden is particularly severe, as they face amplified debt pressures and diminished financial flexibility. However, this strain is no longer limited to lower-income groups—high-income earners now face delinquencies at a five-year high as these traditionally resilient households struggle to absorb rising fixed costs, raising deeper concerns about affordability and economic stability, especially as the Fed's January pause on rate cuts signals that rates could remain at these levels longer than expected. The broadening impact pose a systemic challenge with ripple effects across financial markets and the broader economy, raising critical questions for stakeholders across the financial ecosystem: At what point do escalating insurance costs threaten housing affordability and financial stability? How should insurers, lenders, and policymakers balance risk management with the need to maintain broad access to affordable coverage? What role do investors and financial institutions play in ensuring rising costs don't accelerate delinquencies and credit deterioration? If consumers are forced to reallocate spending, delay major purchases, or take on unsustainable debt, how will this reshape economic growth and credit markets in the long run? The growing pressure on household budgets underscores the need for a strategic approach to affordability and risk mitigation.