Discussion of "Property Insurance and Disaster Risk: New Evidence from Mortgage Escrow Data"

Keys and Mulder (2024)

FHFA Econ Summit

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Key Takeaways

Establishes several novel facts about property insurance expenditures

- ▶ Sharp increase in premium-climate risk correlation starting in 2020
- ▶ Implications for household financial resilience against growing climate risk
- ▶ New method and data for observing insurance information using reasonable assumptions

Reinsurance costs are large determinant of rise in premium-climate risk correlation

- ▶ Accounts for 2/3 of the correlation
- ▶ Growth in reinsurance rates exacerbates financial burden of future climate risks
- ▶ Policy challenge: reinsurers and insurers are rarely regulated at same level

What does reinsurance exposure capture?

Main finding: premium-climate risk relationship strongest in states with high reinsurance exposure
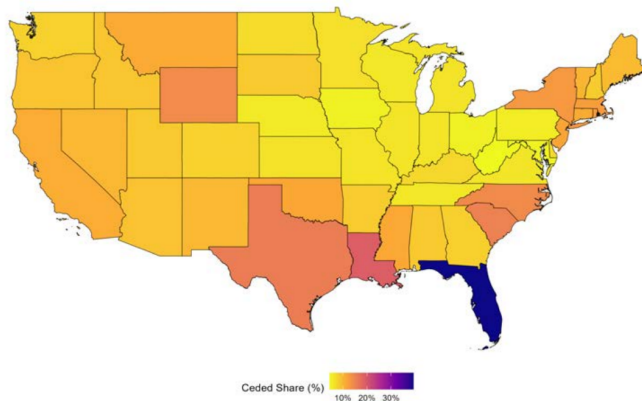

Figure 9: Map of state-level reinsurance exposure. Reinsurance exposure for each state is defined as the market-share weighted average of the share of premiums ceded by each insurer.

What does reinsurance exposure capture?

Interpretation depends on determinants of reinsurance exposure:

- ▶ Climate risk
- ▶ Composition of insurers – less-diversified insurers in FL (Sastry et al., 2024)
- ▶ Insurance pricing regulations
- ▶ Availability of state reinsurance

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Two suggestions:

1. Descriptive comparison of insurers by reinsurance exposure
2. Within-state reinsurance exposure analysis of CA and FL
   - ▶ CA and FL have data on insurer market share by zip/county
   - ▶ Construct $ReExposure_s$ at zip- or county-level
   - ▶ Would allow for state-year fixed effects

Premium expenditures measure both price and coverage

Annual premiums can change due to:

- ▶ Rate change per unit of coverage
- ▶ Change in household insurance coverage

Different interpretations of distribution of ΔIPI_{zs}

- ▶ Always-renewers might face small ΔIPI_{zs} due to rate increase caps
- ▶ ΔIPI_{zs} understates price change if households reduce coverage

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- ▶ Insurer-initiated non-renewals $\rightarrow$ large or missing ΔIPI_{zs}
- ▶ Restricted choice set or state-plans that may not be escrowed
- ▶ Testable in CA with zip-code nonrenewal data

Consumer welfare

How does measurement of $Premium_{ist}$ affect consumer welfare consequences of reinsurance shock?

- ▶ Pass through to higher rates reduces affordability $\rightarrow$ welfare loss
- ▶ Availability of reinsurance may allow insurers to offer coverage to higher risk properties $\rightarrow$ welfare gain due to greater insurer access

Net welfare effect is difficult to measure but more discussion would be helpful