Freedom to Invest

The Cost of Restrictions:
How State Bills Are Disrupting Risk Analysis and Management in the Insurance Industry

As insurance losses to businesses, homeowners, and municipalities from flooding, fires, hurricanes, and other natural disasters increase, insurers need to be able to integrate all relevant information into their risk analysis and management to ensure market stability and consumer protection.

However, state legislation that has passed or is being proposed threatens to limit insurers' ability to incorporate climate risk data into their decision-making—undermining the core business model of the insurance industry and forcing insurers to ignore immediate risks. Since insurance is regulated at the state level in the U.S., state legislation restricting the use of data can fundamentally alter risk assessment processes and premium calculations.

Texas SB 833 and North Dakota HB 1429, both passed in 2023, prohibit insurers from using certain risk assessment criteria when writing policies. Similar bills introduced in South Dakota (HB 1207) and Arizona (SB 1014) failed to pass, largely due to private sector opposition. Insurance industry argues that such legislation would undermine their business practices and could destabilize the industry.

Economic losses from natural disasters reached $217.8 billion in 2024, representing an 85% increase from 2023 and the highest annual total since 2017, according to insurance broker Aon. Insured losses climbed 36% to $112.7 billion, exacerbating an already fragile insurance market. For example, in California, major insurers such as State Farm and Allstate stopped issuing new homeowner policies even before the January Los Angeles wildfires, which caused $40 billion in losses, according to reinsurer Swiss RE. In Florida, more than a dozen insurers have left since 2020. All of this was before the L.A. fires that are estimated to cost $250 - $275 billion.

The Growing Impact of Restrictive Legislation on Insurance

Bills that ban insurers from considering all factors in analysis pose a significant threat to the insurance industry's ability to accurately assess and price risk. There are growing concerns among the insurance industry that many of the bills would have negative impacts, including:

- Undermining the free market
- Increasing costs for insurers
- Increasing regulatory burdens and costs
- Increasing insolvency of insurers in certain markets
- Preventing comprehensive risk management

Industry Perspectives on the Risks of Restrictive Bills

1. Undermining the free market

The insurance industry depends heavily on data to function effectively. Insurers collect and analyze vast amounts of data to accurately assess risks, set premiums, and provide appropriate coverage. Industry participants warn that limiting insurers' ability to consider all relevant risk data not only disrupts this process but also weakens the free market and how it functions.

> *"The free market best serves its consumers. Any legislation of this type will place insurers in a Catch-22—forced by some states to follow one business model while other states demand a completely different one. This, coupled with additional regulatory constraints, introduces unnecessary and costly complexities into the insurance market."* Dave Snyder, Vice President of State Government Relations at the American Property & Casualty Insurance Association (APCIA)

> *"It would be very difficult for the industry to remain economically viable and sustainable without factoring in environmental patterns."* Michel Leonard, Chief Economist at the Insurance Information Institute

2. Increasing costs

Several industry participants have raised concerns about potential cost increase and the risk of insurer insolvency. Some warn these laws targeting insurers could reduce market competition, leading to higher premiums.

> *"It just seems unfathomable to me that insurance companies will be able to avoid having to factor these considerations into how they're doing business. My biggest concern would be restrictions on insurance companies that then translate into a burden on consumers—on businesses and individuals trying to insure their homes and livelihoods."* Bessie Daschbach, Partner, Hinshaw & Culbertson

> Doug Abraham, a lobbyist for the American Property Casualty Insurance Association (APCIA), testified against a South Dakota bill that would bar insurers from using anything other than "*impartial risk-based financial standards.*" He warned that such measures could drive up insurance rates statewide and push some insurers toward insolvency.

3. Increasing complexities and regulatory burdens

Insurers operate on multiple fronts: as businesses, as underwriters, as institutional investors, and as claim processors. Risk analysis and considerations play a key role across these areas and removing them from underwriting could disrupt traditional risk assessment.

> The Reinsurance Association of America describes such bills as regulatory "*overreach*," arguing that they interfere with insurers' ability to conduct precise actuarial analyses.

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