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Improving US Homeowners Results Challenged by January 2025 Wildfires

The elevated direct loss ratio for 1Q 2025 was driven by billions in insured losses from January's California wildfires and tornadoes across the Midwest, Southern, and Plains states

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2025-100

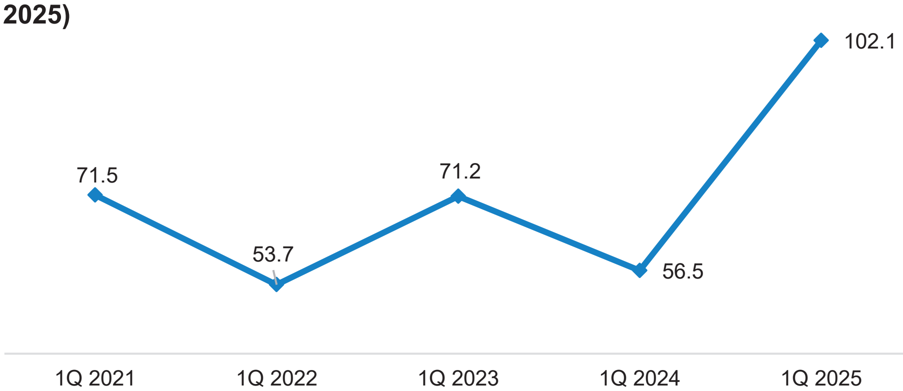
Principal Takeaways

- In calendar year 2024, the homeowners line significantly advanced despite a reported $2.2 billion net underwriting loss, which represented a $13.0 billion improvement over 2023's underwriting loss.
- So far, 2025 has been a tumultuous start for the homeowners segment with wildfires in January and tornado outbreaks in other states during 1Q 2025, which impacted direct underwriting results more than any first quarter over the last five years.
- The segment continues to face significant headwinds, including severe natural catastrophes, inflation, rising repair costs, labor shortages, and evolving regulatory pressures.
- The erosion of the capabilities previously offered by the National Oceanic and Atmospheric Administration could create a critical gap for insurers, agents, brokers, and policyholders that rely on catastrophe data and information that is instrumental in pricing, reinsurance planning, and identifying geographic exposure trends.

Homeowners insurers have so far endured destructive, record-setting wildfires in 2025, which engulfed the Los Angeles metropolitan area and surrounding regions in January. First quarter results were also affected by several billion dollars of insured losses from severe tornado outbreaks that swept across the Midwest, Southern, and Plains states. These deadly tornadoes also led to wildfires, dust storms, extreme winds, and severe thunderstorms, causing widespread destruction. As a result, as shown in **Exhibit 1**, the direct incurred loss ratio for homeowners insurers in 1Q 2025 spiked to 102.1, which is thirty points worse than any other first quarter since 2021.

A confluence of factors led to or exacerbated the California fires, including drought conditions, dry vegetation, low humidity, and hurricane-force Santa Ana winds. There has been tremendous

Exhibit 1
US Homeowners — First Quarter Direct Incurred Loss Ratios (2021-2025)



Source: BESTLINK

variance in homeowners insurance results on a quarter-over-quarter and annual basis, seemingly due to changing climatic conditions such as rising temperatures, shifting precipitation patterns, increased frequency and intensity of extreme weather events such as heat waves and heavy rainfall, and rising sea levels.

These wildfires represented the continuation of a recent pattern of more severe weather events. According to data from NOAA, from 1980 to 2023, California was affected by 46 weather/climate disasters with incurred losses exceeding $1 billion each, averaging 1.0 of these events per year, which rose to 1.8 events per year from 2019 to 2023. Many of the homeowners insurers in California have reported great swings in their year-over-year underwriting results, prompting them to seek rate increases to reflect their changing risk profiles, but they have also limited new business writings, including areas of higher risk.

California recently implemented regulations mandating catastrophe models to account for mitigation efforts by homeowners, businesses, and communities. A wildfire catastrophe model currently under review by the state could provide insurers with greater intelligence to help better underwrite and price wildfire risk. The new regulations and efforts make use of modeling specific to the wildfire catastrophe peril and are part of an effort to move to a more resilient and sustainable property market in California. However, the effectiveness of any new wildfire initiatives will likely concentrate on the affordability and availability of appropriate coverage, given the high risk of wildfire.

On June 9, 2025, AM Best published a report titled, First Look: Three-Month 2025 US Property/Casualty Financial Results, based on data collected and aggregated as of May 29, 2025. The report stated that the P/C industry recorded a $1.1 billion net underwriting loss in the first three months of 2025, down from a $9.4 billion gain recorded in the prior year period. Those results included the impact of 7.8% growth in net premiums earned (NPE) that were more than offset by a 15.8% increase in losses incurred and loss adjustment expenses (LAE) and a 7.4% rise in other underwriting expenses. The increase in losses across both personal and commercial lines was attributed to the January 2025 California wildfires. For full year 2025 results, the uncertainty of tariffs on imported goods remains a potential headwind as construction and material costs could face substantial increases in the near term.

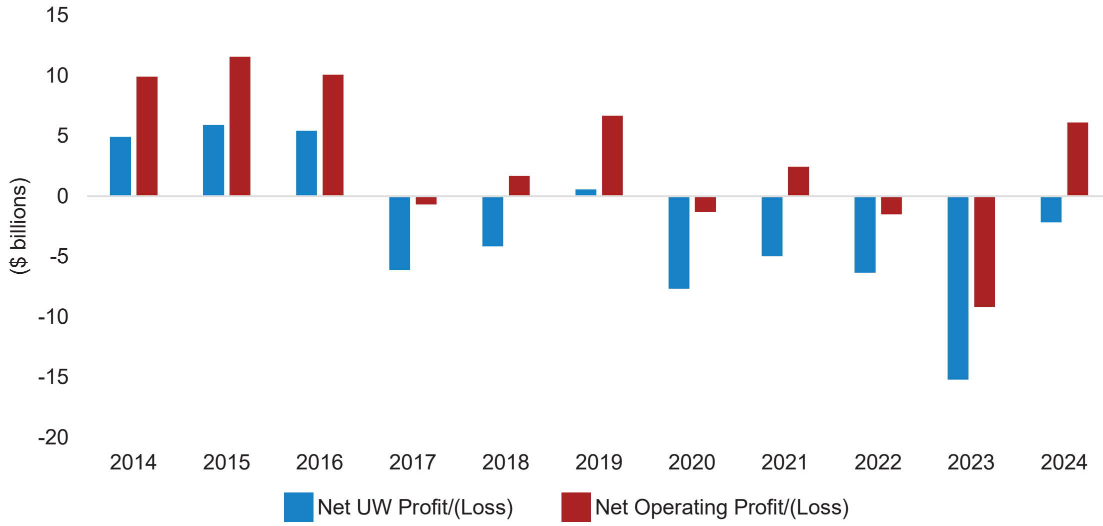
Risk Selection, Underwriting, and Pricing Initiatives Come to Fruition in 2024

In 2024, the US property/casualty (P/C) industry recorded greatly improved net underwriting and operating results compared to 2023. The notably improved, albeit still slightly unprofitable, net underwriting result for the homeowners segment was achieved despite multiple hurricanes making landfall during the year. Additionally, other losses from perils such as tornadoes, severe convective storms, and wildfires also factored in. Elevated loss costs stemming from economic inflation remained a prevalent issue for insurers, and was consistent with cost trends reported in the homebuilding and construction industries.

Despite the prevailing headwinds, the aggressive push by homeowners insurers for more adequate pricing helped drive the reduction in the underwriting loss reported in 2024 compared to the recent trend over the past several years. Insurers have consistently pushed rate to address their calculated rate level needs. Just as impactful as the rate increases, there have been other underwriting initiatives focused on taking advantage of more precise data analytics and modeling to foster better risk selection.

Even though underwriting results for the year still represented a net loss, 2024 was a year of substantial improvement for the homeowners segment. While seven of the last eight years resulted in P/C industry insurers generating a net underwriting loss for homeowners insurance, the $2.2 billion loss in 2024 was

Exhibit 2
US Homeowners Multiperil — Net Underwriting and Operating Profit/(Loss)



Source: BESTLINK

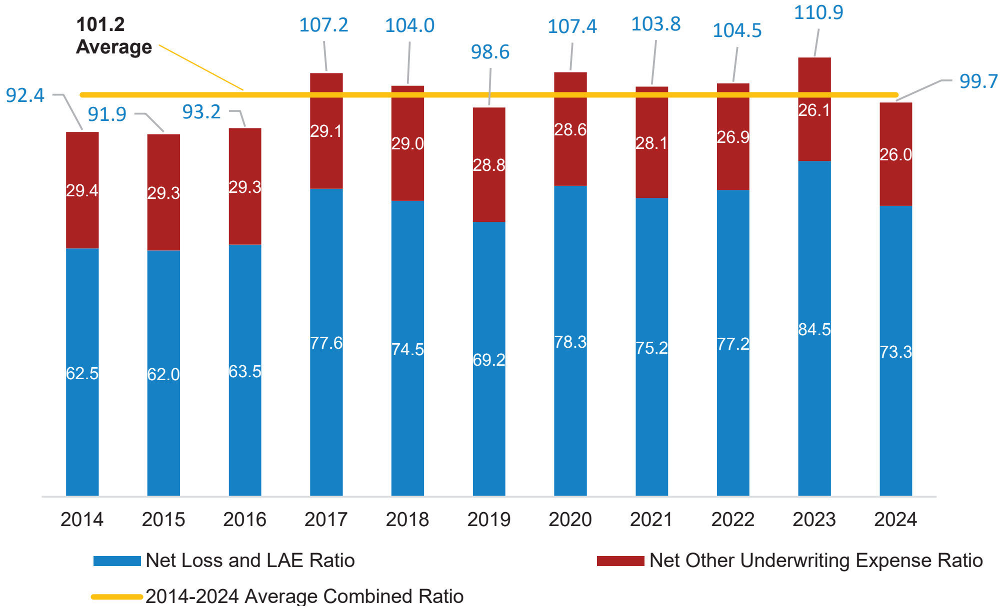
the smallest during the 2017 to 2024 period (**Exhibit 2**). In the four years immediately prior to 2024, total underwriting losses for homeowners insurers totaled more than $34 billion.

Improvements in catastrophe risk management strategies, in addition to the pursuit of rate adequacy, were reflected in bottom-line underwriting results in 2024. Significant rate activity, specifically in states where results have notably trended downward, has been a constant among homeowners insurers. Other initiatives, such as inflation guard adjustments, more restrictive underwriting practices, and greater pricing sophistication have assisted carriers in their attempt to achieve premium adequacy. However, it should be noted that not all carriers raised rates by the same amount based on differences in key rating variables. AM Best also believes the segment's better performers are more effective at leveraging technology to enhance underwriting, loss prevention, and service capabilities, particularly in strengthening the risk selection process.

The positive, aggregate effect of these changes is also seen in **Exhibit 3**, featuring the last 11 years of key net underwriting ratios. In 2024, the 99.7 net combined ratio for homeowners insurers improved by 11.2 points YoY; it was the best result since the 2019 combined ratio of 98.6. With the net other underwriting expense ratio remaining virtually the same from 2023 to 2024, all the improvement occurred on the net incurred loss ratio, indicative of the measures taken to augment the quality of risks insured, the effectiveness of individual account underwriting, and the concerted effort for account pricing to match the risks presented.

Looking at the 11-year history of net underwriting results, the 2023 net loss and LAE ratio of 84.5 was somewhat of an aberration, and to some extent, the improvement in 2024 reflected a return to the long-term average (72.5 10-year average). The primary claims issue for homeowners insurers in 2023 was losses from "secondary perils," which is not necessarily limited to coastal states and has become more of a widespread issue across various regions of the country. Notable secondary perils' losses in 2023 included the Lahaina wildfires in Hawaii, the winter freeze in the Northeast, the drought/heat wave across the South and Midwest, and heavy rainfall and subsequent flooding in California's Bay area. In that year, secondary peril losses were double the historical average.

Exhibit 3
US Homeowners Multiperil - Calendar Year Underwriting Ratios



Note: Policyholder Dividend Ratio not shown but included in determining the Net Combined Ratio.

Source: BESTLINK

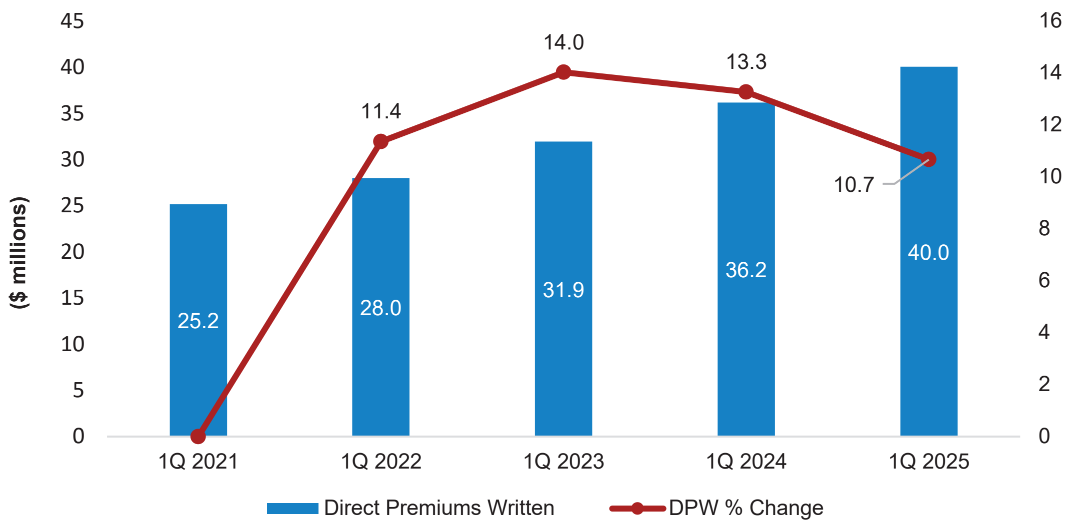
Underwriting results for homeowners insurers have benefited from leveraging technology to augment many aspects of their operations, including underwriting, and service capabilities. These efficiency enhancements have yielded a steadily improved underwriting expense ratio. In the aggregate, the underwriting expense ratio for homeowners' insurers has improved by almost 340 basis points, from 29.4 in 2014 to 26.0 in 2024, which has countered some of the weather-driven volatility affecting the loss and LAE ratio during the last decade.

Results for 1Q 2025 show insurers are continuing to pursue premium adequacy in order to establish more favorable underwriting results for the homeowners insurance line rather than having the marked improvement in 2024 prove to be a one-year phenomenon. As shown in **Exhibit 4**, total homeowners direct premiums written increased by 10.7% in the first quarter of 2025 compared to the same period in 2024. In each of the past four years, the segment posted double-digit direct premium increases, and in 2025, the first quarter premium was almost $15 billion higher than it was just four years prior in 2021. The 2025 Atlantic hurricane season (June 1 through November 30) provides another test for how well insurers have underwritten the risks that remain in their portfolios. While the flash floods that impacted central Texas over July 4th weekend caused an estimated $18 billion to $22 billion in economic damage, most homeowners policies do not cover flood damage. Although still too early, this weather disaster could further complicate the insurance availability and affordability challenges that currently exist in the state.

Geographic Variability Becoming the Norm

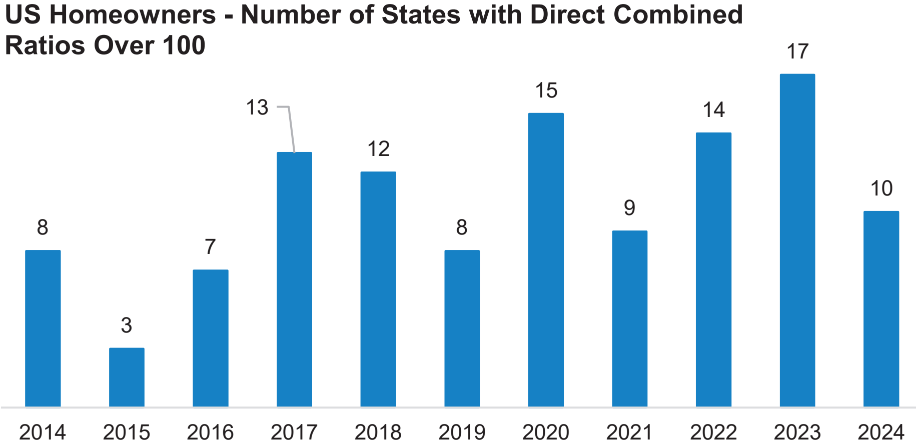
Over the past decade, volatility in homeowners results has been significant year over year in states prone to severe weather. In an attempt to improve the bottom line, insurers have invested in sophisticated modeling tools to improve the quality of their overall book of business to better adapt to changing climatic conditions. More informed decisions are also important to help companies make better reinsurance program structure decisions as well. Overall, the last two years' reinsurance renewals have been described as orderly. The property catastrophe reinsurance market came off its

Exhibit 4
US Homeowners — First Quarter DPW Growth (2021-2025)



Source: BESTLINK

Exhibit 5
US Homeowners - Number of States with Direct Combined Ratios Over 100



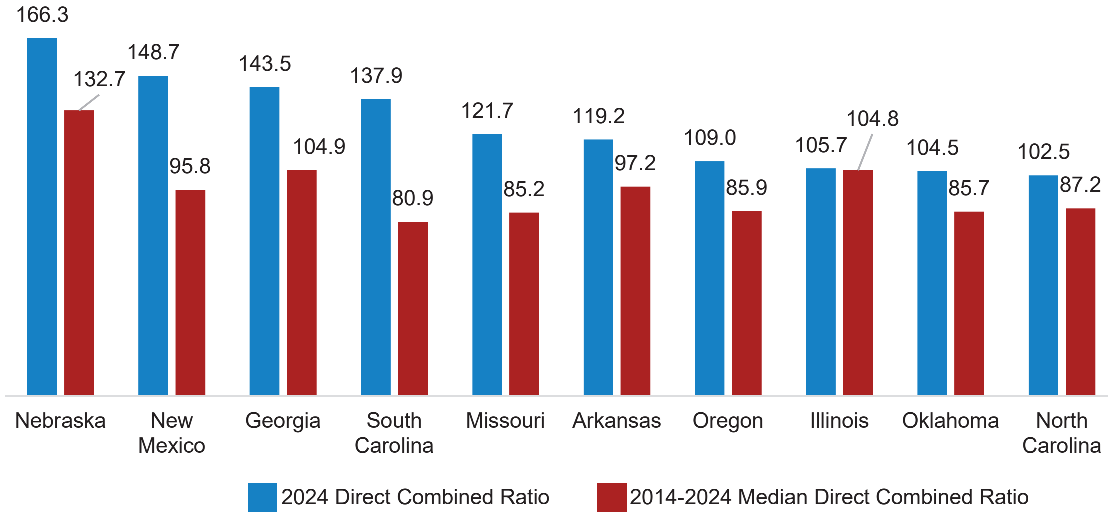
Note: States with Direct Combined Ratios over 100 in 2024: NE, NM, GA, SC, MO, AR, OR, IL, OK, and NC.
Source: BESTLINK

2023 peak pricing during 2024 and price softening is expected to continue in 2025. Overall, there was more consistency in terms and conditions and attachment points largely remained stable.

From 2014 through 2024, the number of states posting unprofitable homeowners results on a direct basis has grown. In calendar year 2024, the direct combined ratio in 10 states exceeded the breakeven point of 100.0, which was down notably from 17 in 2023 (**Exhibit 5**). The 10 states include three that have historically produced direct combined ratios higher than 100, but in other cases, the 2024 combined ratio results were clearly elevated compared to the 2014-2024 period (**Exhibit 6**). This shows the degree of variability regarding the number of states impacted by not only traditional catastrophes (hurricanes leading to wind and flood losses) but also secondary perils.

Exhibit 6

US Homeowners — Variability Among States with Highest 2024 Direct Combined Ratios and Long-term Combined Ratios



Source: BESTLINK

Leading Insurers Help Drive the 2024 Improvement

Leading insurers drove the improvement in homeowners results, as 19 of the top 20 carriers by annual DPW produced improved net loss and LAE ratios in 2024 (**Exhibit 7**). With improved premium adequacy being a major part of the strategy for homeowners insurers, it isn't surprising that all but two of the top 20 experienced YoY DPW growth in 2024. It also shows how concentrated the US homeowners insurance segment is that the top 20 in 2024 consisted of the same companies as the list in 2023, with some movement either up or down by a few spots within the group, but all 20 remaining the same. State Farm and Allstate remained comfortably entrenched in the top two positions in the homeowners market nationally.

Florida's Citizens' Property Insurance Corporation (Citizens) dropped to #13 from #10, which was in line with the established depopulation program to reduce the number of policies written by Citizens and transition homeowners to private insurers willing to provide coverage. The market has shown signs of improvement since reforms have been enacted into law. As the Florida market becomes more open, with more private insurers offering residents different homeowners insurance options, it allows Citizens to more closely fulfill its role as the property insurance company of "last resort" for Florida homeowners.

US Migration a Key Factor in Rising Insured Losses

As stated in previous reports on the homeowners market segment, AM Best continues to believe that population migration into hazard-prone areas has been a contributing factor to rising insured losses. Urbanization and rising populations have become more problematic in regions susceptible to natural perils. Population growth is also adding to exposure, which has disproportionately impacted those areas most affected by the rise in secondary peril events. Catastrophes, including storms and wildfires that strike densely populated US communities, are contributing to the rise in insured losses. This is especially true in areas that have become even more populated over the last 20 or so years. Repairing damaged properties with newer construction materials following cat events has been more costly.

According to the US census, six states—Texas, Florida, California, Georgia, Washington, and North Carolina (in order of population growth)—account for 53% of the US population growth between 2010 and 2020; all six are in areas prone to severe events. Residents have been moving from regions

Exhibit 7

US Homeowners Multiperil - Top 20 Insurers

(Ranked by 2024 Homeowner's Multiperil Direct Premiums Written)

($ millions)

	2023			2024			
	DPW	Market Share (%)	Net Incurred Loss & LAE Ratio	DPW	2023-24 YoY DPW % Change	Market Share (%)	Net Incurred Loss & LAE Ratio
State Farm Group	27,038	17.71	86.3	31,461	16.4	18.20	82.4
Allstate Insurance Group	13,551	8.88	84.4	15,490	14.3	8.96	68.9
USAA Group	10,346	6.78	91.8	11,904	15.1	6.89	84.7
Liberty Mutual Insurance Companies	10,476	6.86	82.7	10,610	1.3	6.14	65.7
Farmers Insurance Group	8,981	5.88	81.1	9,516	6.0	5.50	58.8
American Family Insurance Group	7,010	4.59	79.5	8,618	22.9	4.98	77.3
Travelers Group	7,570	4.96	78.8	8,154	7.7	4.72	67.7
Chubb INA Group	3,892	2.55	60.3	4,394	12.9	2.54	51.8
Nationwide Property & Casualty Group	4,077	2.67	93.3	3,726	-8.6	2.16	70.9
Auto-Owners Insurance Group	2,564	1.68	98.7	3,435	34.0	1.99	88.2
Erie Insurance Group	2,659	1.74	99.0	3,329	25.2	1.93	77.8
Progressive Insurance Group	2,953	1.93	71.7	3,274	10.9	1.89	68.3
Citizens Property Insurance Corporation	3,209	2.10	49.3	2,718	-15.3	1.57	130.8
Universal Insurance Holdings Group	1,819	1.19	86.3	1,954	7.4	1.13	79.3
Tokio Marine US PC Group	1,405	0.92	72.2	1,670	18.9	0.97	61.0
Auto Club Enterprises Insurance Group	1,244	0.81	93.3	1,603	28.8	0.93	88.5
The Cincinnati Insurance Companies	1,197	0.78	73.5	1,598	33.5	0.92	65.5
CSAA Insurance Group	1,323	0.87	80.2	1,533	15.8	0.89	58.7
Mercury Casualty Group	1,144	0.75	82.3	1,428	24.9	0.83	69.4
Amica Mutual Group	1,134	0.74	71.3	1,230	8.5	0.71	63.0
Top 20 Subtotal	**113,593**	**74.4**	**88.6**	**127,645**	**12.4**	**73.9**	**75.2**
Total P/C Industry	**152,675**	**100.0**	**84.5**	**172,894**	**13.2**	**100.0**	**73.3**

Source: BESTLINK

like New England and the Mid-Atlantic, which have not historically been affected by frequent, severe weather-related catastrophes, to Gulf Coast states, which are prone to hurricanes, and to Southern inland states, which are prone to severe convective storms. The US population also has been shifting westward, a region susceptible to wildfires. Because average household size is diminishing, a growing population indicates an even larger increase in real property development is required for housing—and, thus, an increase in insured value.

Regulatory Changes Could Impact the Quality and Availability of Valuable Data

Changes enacted by the current administration to scale back and de-emphasize certain federal agencies could have an impact on the quality and availability of natural catastrophe and other climate-related data that is highly valued within the insurance industry. The erosion of the capabilities of NOAA (which has performed and provided valuable research through monitoring the effects of climate change and recording natural catastrophe data) and the Federal Insurance Office (and its work on climate change) could create a critical gap for insurers, agents, brokers, and policyholders regarding available catastrophe data and information that is instrumental in pricing, reinsurance planning, and identifying geographic exposure trends.

As of May 2025, NOAA will no longer update a free, public database of climate- and weather-related disasters that caused over $1 billion in damage. While the database will remain publicly accessible and includes data going back to 1980, it will not reflect disasters occurring after December 2024. Its interactive maps and charts were not only accessible to the public, but they were also instrumental in pricing, reinsurance planning, and identifying geographic exposure trends. Additionally, NOAA's sub-agency, the National Weather Service, is also experiencing deep budget and staffing cuts. AM Best believes this is a decidedly negative change considering that recent, significant catastrophes, such as the January 2025 Los Angeles-area wildfires, as well as the March tornado outbreak, will not be formally recorded by NOAA moving forward. California continues to make progress towards addressing the homeowners insurance availability crisis. Over the last year, the state implemented a number of regulatory changes, as a growing number of major insurers ceased writing new business in the state. California continues to push reform with a heavy regulatory focus on potential legislative action.

For the insurance industry and the policyholders that it serves, this represents a significant loss. The NOAA database offered near real-time standardized reporting of direct economic damage, in addition to business interruption and emergency response costs. In the absence of ongoing data and information updates from NOAA, (re)insurers will have to rely more heavily on private modeling tools and proprietary loss data. Although the utilization of these other sources is important and helpful in the aggregate, the loss of data and information from a reliable, neutral source such as NOAA could put undue pressure on the private sources to make up for the information lost as these public agencies focus on other priorities as directed by the administration.

As a result of the loss of this information source, the P/C industry could experience a shift that materially alters future rate filings and the underwriting of catastrophe-exposed risks, especially for risks where data over the last 10-20 years indicates that the properties are more prone to secondary perils such as floods, wildfires, and severe convective storms. As noted, these perils are increasing in both frequency and severity based on the data that has been available, which will now be lessened. With some models predicting that tornadoes, hurricanes, floods, and wildfires will continue at elevated levels, and with population growth pushing development into high-risk zones, accurate and timely data will become even more important going forward.

Having a common and universally accepted data source helps insurers trend catastrophe losses in their modeling and use the data for pricing, reinsurance, and risk management. In addition, the data helps insurers assess the gap between insured losses and economic losses and see how insurance can work to minimize the gap. Private firms and reinsurers may be able to step up and produce more of their own assessments; however, the discontinuation of a centralized, public database will make it imperative for segment carriers to deploy a greater percentage of resources towards modeling tools and greater pricing sophistication to effectively manage increasingly volatile climate patterns.

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