



Recalibrating the Role of Insurance in Resilience

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Introduction

Since the emergence of modern insurance for trade ships in the late 1600s, the insurance sector has been designed primarily to protect against risk and absorb financial losses. However, as compounding pressures are reshaping the insurance system, there is a growing focus on the role of insurers in supporting investment in and adoption of resilience solutions not only to manage risk but also to actively reduce it.¹

As narratives about insurers' role regarding resilience gain momentum, it is important to check assumptions and identify areas for further nuance and shared responsibility. In this report, we argue for a recalibration of expectations and aim to foster a deeper understanding of the role and current capabilities within the insurance sector. In doing so, we call for support from across the industry and from other actors such as policymakers, regulators, academics and think tanks to help overcome the barriers that limit insurers ability to play a more proactive role in enabling resiliency. We acknowledge that insurance companies are only one component of a broader resilience-enabling ecosystem and that they are currently neither designed nor equipped to address resilience-related opportunities and challenges alone.

To advance this recalibration, this report briefly highlights work being done across the insurance system to support resilience, before interrogating some key assumptions and expectations regarding insurers' role and the organizational and structural constraints that affect their capacity to act. This report then outlines opportunities to accelerate approaches we think will help rightsize and support the role of insurance in resilience.

This report builds on work already being done, affirms the important contributions that insurance actors can make to enabling more resilience investments, and seeks to highlight underlying challenges and tensions in this work. We hope that this report will help inform and guide all those interested in advancing resilience solutions, whether from a policy, consumer, commercial, or financial lens.

The insurance system is a complex web of stakeholders and is both fragmented and context dependent. It is therefore important to caveat that not every insight will be applicable in every context, given myriad nuances in the localized insurance system structures, varied hazard risks, and differentiated costs, benefits, and impacts of available resilience solutions. There are many definitions of resilience, but for the purpose of this report we were informed by this quote from Marsh: "Resilience is commonly defined as the ability to bounce back after some type of hardship, but in insurance speak, the concept is broader and more forward-looking. Resilience is how homeowners can act in the present to protect themselves from the impact of future catastrophes."² This report focuses primarily on the property insurance market in the United States. Most insights relate to the role of private insurance carriers, including mutual insurers, but we include reference to other key parts of the system, such as public insurance programs, brokers, and reinsurance markets, where relevant. We therefore include examples that can provide lessons from and for other geographies and market segments.

About This Report

RMI has a long history of working on resilience solutions across the energy sector and built environment in the United States and globally.³ The clean energy transition will both contribute to a more resilient energy system and economy and benefit from investments in asset hardening and community resilience.

The financial sector is increasingly attuned to the need to address risks from rising extreme weather and resulting physical damages and financial losses. Before we rally to elect the insurance sector as the sole champion to solve the resilience challenge, we see the need to further test our assumptions, identify with precision where incentives for resilience investment are broken, and build communities of practice to codevelop effective, timely interventions. These opportunities for more nuanced and collaborative problem solving are what we seek to explore and support with this report on the role of the insurance sector. This report builds on 18 months of research and industry engagement, including via a roundtable discussion, a series of expert interviews, and a thorough consultation process. We are grateful to those who have already engaged with this report, including practitioners and thought leaders from across insurance, brokerage, academic, and nonprofit organizations. We look forward to continuing this work, guided by the insights and conclusions in this report.



Insurance and Resilience at a Crossroads

Work on resilience by the insurance sector is not new,⁴ but there is arguably increasing urgency and momentum in the work, and an opportunity for slower adopters to catch up to leaders in the field.

Several related issues are converging to draw attention to the role of insurance in resilience, including:

- **Rising risk:** Extreme weather events are increasingly frequent, severe, and widespread. Insured and uninsured losses are both trending upward, with 192 billion-dollar weather-related events in the United States in the past decade costing more than \$1.5 trillion.⁵ Other factors, including geopolitics, demographics, technology advances, outdated building codes, and aging infrastructure, are also reshaping risk landscapes.
- **Affordability:** Affordability of insurance is being threatened as rising insurance premiums coincide with inflation and higher energy and housing costs. This indicates both the need for resilience actions to reduce risk and improve affordability in the long run, and the challenge of supporting resilience if it will increase costs and premiums in the short run due to more accurate risk pricing.
- **Protection gaps:** As of 2025, half of global catastrophe risk remains uninsured, with a global protection gap exceeding \$133 billion.⁶ While the protection gap in the United States is lower than the global average, it still signals not only lost revenue and market share for insurers, but also that risk is not being fully absorbed by the combined public and private financial system. Although there are many reasons for this gap, it indicates that there are limits to insurance as a tool to manage and mitigate impacts from physical climate risk.
- **Adaptation and resilience:** There is a growing awareness of the need to adapt economies, communities, and homes to ongoing and future climate change. Building resilience to shocks is a critical element of this adaptation and will contribute to risk reduction and future avoided losses. However, there is an estimated \$350 billion financing gap for adaptation and resilience,⁷ and the longer deployment is delayed, the higher economic and social losses will be.

As the impacts of these trends in the insurance sector become clearer — including increased premiums and premium nonrenewal, market withdrawal, and insolvency⁸ — there is a deepening assumption that insurers have both the influence and the incentive to support resilience efforts.

“ **Insurers must move to the front line by developing resilience solutions that aid recovery and prevent losses. By leveraging technical expertise, financial strength, and global networks, insurers can become true partners in weaving resilience into society’s fabric... The world needs insurance, and what the industry does now matters more than ever. It also needs an insurance industry that is evolving, from paying for the cost of disasters to preventing them.**”

— World Economic Forum

This report agrees with both the need and capacity of the insurance sector to support resilience, and that this resilience can be enabled by letting insurers play to their strengths and partner with other stakeholders to support resilience at scale.

However, we also see that as civil society expects insurance to evolve and take a more proactive role, those efforts will not happen in a vacuum. Managing the risks and opportunities within this evolution will be critical in maintaining profitability and social license to operate, as well as in supporting economic stability because insurance is inexorably tied to and influences the fate of global economies: Insurance price hikes can increase mortgage defaults and delinquencies,¹⁰ and higher insurance market penetration is associated with reduced gross domestic product contraction following major disasters.¹¹ Protecting insurance availability and affordability, alongside profitability, is necessary to ensure the stability of the insurance system and by association the wider economy. Doing so will require action across the financial and real economy and will depend significantly on policy and regulatory conditions.



What Are Insurers Doing to Support Resilience?

Many insurers are taking resilience into account and exploring ways to incentivize more action within their spheres of influence. A recent article by the Environmental Defense Fund noted resilience-related activities across the full climate risk lifecycle, from risk identification and measurement to post-disaster resilient repair and adaptation.¹²

Insurance and reinsurance models tend to integrate multiple risk reduction metrics, including resilience, as part of the hundreds of data points used to make decisions and model future risk impacts. Insurers are also incentivizing homeowners and businesses to identify and invest in resilient solutions. Several approaches exist, including offering premium reductions to more resilient properties, or tying payouts and future coverage to resilient rebuilding techniques after an event. In high-risk areas, insurers are also exploring offering direct incentives or partnerships with policymakers, standards setters, and other public and private organizations to support resilient construction standards and pre-disaster preparedness.

Case Study: FM Resilience Credit

FM is an example of a property insurance company actively supporting resilience improvements by customers. FM's resilience credit, launched in 2022, offers a 10% premium offset to support commercial clients in making climate-related risk improvements. FM offers free tools and advice to help customers prioritize effective resiliency improvements based on localized hazard information. The program has seen significant uptake and impact, with FM noting that implementation of recommendations to protect against natural hazards such as wind, flood, and wildfire could prevent economic losses of nearly \$80 billion. The credit was expanded in 2025 to include operational resiliency measures, with FM dedicating \$825 million to the scheme, highlighting how they view resilience and loss prevention as a business strategy and the value of these actions in driving strong client relationships.¹³

Innovative insurance solutions are also being designed specifically around identifying resilient customers in high-risk markets (e.g., resilient homes in otherwise uninsurable zip codes) who would otherwise struggle to gain affordable or comprehensive insurance. Using AI models to conduct enhanced risk analytics, insurance companies can target these products to specific (often underserved) customers to offer them premium reductions, enhanced hazard coverage, or both while minimizing their own risks.¹⁴

In addition to underwriting activities that help incentivize and support adoption of resilience, insurance companies can also act as direct financiers of resilience through their capital market activities, including both balance-sheet investment and third-party asset management. With approximately \$33 trillion in assets under management globally, insurers are well positioned to finance resilience projects that both reduce risk and align with their long-term liability horizons and fiduciary responsibilities. Research from the United Nations Development Programme highlights insurers' growing role in allocating capital toward sustainable and resilient infrastructure through direct infrastructure ownership, project finance,

infrastructure debt investments, and specialized investment funds.¹⁵ In parallel, some insurers are integrating climate and resilience considerations into broader investment allocation, stewardship, and engagement practices.

Beyond their individual capacity to act, insurance industry actors have also collectively invested significant effort to understand and advance the science of resilience, including funding the Insurance Institute for Business & Home Safety (IBHS) to develop the FORTIFIED Home standard, a construction and building standard designed to help protect homes against severe weather in the United States, and supporting international research efforts via groups such as the Geneva Association.

Building resilience into insurance business models is increasingly seen as both a risk management strategy and a source of business growth. According to MSCI, 71% of insurers see significant potential for new resilience-related underwriting opportunities over the next five years,¹⁶ while Oliver Wyman estimates a \$71 billion annual revenue opportunity from reducing losses in existing markets and expanding coverage into underserved ones.¹⁷

Despite this potential, adoption of resilience-focused approaches varies widely across the insurance sector. Differences in strategy, leadership priorities, geographic exposure, and risk appetite all influence the level of engagement. While broader uptake could be driven through voluntary action and the sharing of best practices, regulatory requirements are also beginning to play a role. For example, in response to the increasing frequency and severity of wildfires, the California Department of Insurance introduced regulations requiring homeowners insurers to provide premium discounts to policyholders who undertake approved wildfire risk-reduction measures.¹⁸



What Common Assumptions Underpin Insurers' Perceived Role in Resilience?

The question, then, is not whether insurers can or should support resilience, but what role they are best positioned to play — and how that role can be most effectively supported by policymakers, regulators, communities, and other stakeholders.

As resilience becomes a growing focus across the insurance sector, several commonly held assumptions have emerged about how insurers can influence resilience outcomes. While these assumptions often contain elements of truth, they can overlook important market realities, operational constraints, and trade-offs. A more nuanced understanding of insurers' role is essential to identifying where insurers can have the greatest impact and where broader system-wide action and support is required.

This section examines four common assumptions about insurers and resilience. The sections that follow explore the practical constraints insurers face and identify opportunities to better align incentives and accelerate resilience outcomes.

Four common assumptions about insurance and resilience:

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|---|--|---|--|
| 1 Investments in resilience should automatically translate into lower insurance premiums | 2 Insurers can be primary actors responsible for incentivizing resilience | 3 Demonstrating a clear return on investment is sufficient to unlock more investment | 4 Managing losses with reinsurance and withdrawing from markets help insurers to significantly reduce their risk and limits their incentive to support resilience |
|---|--|---|--|

ASSUMPTION 1

Investments in resilience should automatically translate into lower insurance premiums

Increased news coverage of extreme weather events and rising insurance costs, coupled with insurers exiting certain hazard-prone markets, has contributed to the perception of a strong and direct correlation between climate risk and insurance premium pricing.ⁱ There is therefore a common assumption that investments in resilience solutions, which can lower risk, should translate into lower premiums for homeowners.

This may be true in certain cases. As noted above, some insurance companies are building specific products and services linking premiums to resilience, and some state insurance commissions are mandating

ⁱ For examples, see *The Guardian's* feature "How Climate Risks Are Driving Up Insurance Premiums Around the US — visualized" (<https://www.theguardian.com/environment/2024/dec/05/climate-crisis-insurance-premiums>) and the *Los Angeles Times* article "Home Insurance Premiums Set to Rise Again as Extreme Weather Drives Costs Up" (<https://www.latimes.com/business/story/2026-03-18/home-insurance-premiums-set-to-rise-again-as-extreme-weather-drives-costs-up>).

reductions to reward consumer action. As well as reflecting changing risk exposure, resilience discounts are also seen as helping build consumer trust and education and potentially correcting for market failures that disincentivize long-term resilience.¹⁹

However, treating premium reductions as a primary driver of resilience investment underestimates the complexity of insurance pricing and the business model constraints facing insurers.²⁰ Premiums are a function of broader market dynamics, including inflation, rising costs of reinsurance, increasing replacement costs, policy and regulation, building codes, and more. So even if resilience is factored in by insurance pricing models, it may not be a significant enough risk reduction to alter the premium price point. And even though hazard intensity is a significant driver, a report by Swiss Re found that exposure growth — the increasing volume and value of insured assets and risks — is having a larger effect on prices and insured losses globally.²¹

Furthermore, individual homeowner risk is not the sole driver of premiums. Insurers price risk at both the household and broader community levels, and they must balance liabilities and income across their entire underwriting portfolios. The effectiveness of resilience measures also varies by peril, and in many cases, community- or neighborhood-level interventions have a greater impact on overall risk than individual actions. As a result, both individual and collective approaches are necessary to strengthen resilience, but factoring these benefits into premium pricing is complicated and nonlinear, despite the positive correlation between resilience and risk reduction.

Offering cheaper premiums is often treated as the main mechanism for insurers to incentivize homeowners to invest in resilience, and it is assumed that doing so will foster uptake. However, premium reductions are typically only a small percentage of an annual policy, so reductions are unlikely to be significant enough to alter consumer willingness or ability to pay for resilience investments with high up-front costs, such as roofs that meet FORTIFIED standards.

Therefore, although premium reductions can and are being used to support resilience, expecting them to be a material driver of resilience uptake is impractical in most contexts. The efficacy of this mechanism will depend on the size of the incentive and the type of resilience solution and risk involved, as well as other co-benefits and co-incentives.

Premium reductions are also not the only incentive mechanism available to insurers, with resilience solutions potentially altering insurance contracts in other ways. For example, resilience investments could keep premiums stable where rate increases might have otherwise occurred, or they could improve policy terms via lower deductibles, higher limits, fewer exclusions, etc.

ASSUMPTION 2

Insurers can be primary actors responsible for incentivizing resilience

There is a common assumption that because insurance carriers are the first line of risk transfer in the market, they have the power and incentive to be primary drivers of resiliency efforts in a bid to reduce and manage growing risks. It is assumed that insurers can act both directly (e.g., tying resilience upgrades requirements to premium prices, exclusions, and coverage limits) and indirectly (e.g., through consumer education and standards setting). This makes sense on paper, but insurers are often not well incentivized to act first or to act alone.

Where insurers have played an enabling role in resilience solutions, it has often been alongside supportive policy and regulatory actions, such as in the rollout of FORTIFIED roof upgrade grants.²² However, such multistakeholder alignment and collaboration is necessarily uneven throughout highly fragmented policy and regulatory environments across the United States and internationally.

Consumer education is one area where insurers (and brokers) could individually and collectively play a more proactive role. Although homes are often people's highest-value asset, homeowners are not always willing or able to make the necessary upgrades to ensure resilience. This is often an economic decision, but a lack of understanding about insurance is also a potentially limiting factor. Most consumers simply choose the cheapest premium without understanding their coverage of likely hazards and how their risk profiles might change based on resiliency improvements. However, insurers can only do so much to incentivize change. The business case for investing in education programs and other solutions is often difficult to quantify and justify, and the final decision about what resilience changes to make comes down to individual homeowners, whose decisions are influenced by broader behavioral and socioeconomic factors. Many individuals are also choosing to forgo insurance altogether, further limiting insurers' capacity to influence outcomes. So while insurers can support resiliency efforts, their incentives and capacity to drive change will likely depend on additional support and alignment with other stakeholders.

ASSUMPTION 3

Demonstrating a clear return on investment is sufficient to unlock more investment

One common barrier discussed in resilience finance communities is that investment is hindered by inconsistent evidence and unclear links between resilience actions and financial returns. Return on investment (ROI) data for resilience solutions is variable in its quantity, quality, and usefulness in decision-making. It is estimated that the ROI of investing \$1 in resilience is between \$2 and \$43 depending on the type of intervention and hazard.²³ It is therefore assumed that additional evidence and granular quantification of ROI will unlock additional resilience investment.

Although these challenges are real, and further granular evidence of ROI could strengthen the case for resilience — especially on the investment side of insurance businesses — this is only a partial view of the benefits of resilience and assumes the existence of an unallocated pool of resilience capital waiting to be deployed.

Resilience benefits are hard to integrate into economic models and financial decision-making frameworks: Success means limited damages when disasters strike; avoided losses are hard to observe and quantify; and benefits materialize in the future. The benefits of resilience investments also may accrue to policyholders, reinsurers, or society at large, rather than to the insurer making the investment or offering the incentive. This means that, especially in the homeowners insurance underwriting market, ROI is an imperfect metric. Insurers interested in quantifying resilience are focused not only on ROI but also on risk reduction, capital preservation, and regulatory compliance. Overemphasizing ROI can overlook the broader social, environmental, and economic benefits of resilience investments and overstate confidence in projected outcomes, which are ultimately based on uncertain assumptions about future risks and scenarios.

Furthermore, key actors — including local governments, households, and small businesses — often face binding fiscal constraints, limited access to capital, and competing budget priorities that prevent action even when investments are economically justified. This suggests that a larger evidence base for the ROI will not necessarily unlock more investment in resilience.

ASSUMPTION 4**Managing losses with reinsurance and withdrawing from markets help insurers to significantly reduce their risk and limits their incentive to support resilience**

As the expectation of risk management in the real economy grows, greater attention is being paid to how insurers manage their risk in the financial economy. Although there are many risk reduction mechanisms available to insurers, reinsurance and market withdrawal are assumed to be important response options for risks that are particularly severe or frequent. These mechanisms arguably reduce the need for insurers to invest in resilience but are ultimately limited in their capacity to reduce financial risk to insurers and underlying physical climate risk.

Reinsurance as risk management

Reinsurance functions as a critical risk transfer mechanism in the insurance market, enabling insurers to pool and manage exposure to catastrophic losses.²⁴ Its existence can create the perception that primary insurers are insulated from severe loss events. However, reinsurance (and second-order reinsurance, i.e., retrocession) costs are rising, and coverage of certain hazards is shrinking, just as in the insurance markets.²⁵ Furthermore, reinsurance payouts are governed by predefined contractual terms and are triggered only under specified conditions. Excess of loss reinsurance, frequently used to cover catastrophic events, only pays out above a certain loss level. As such, insurers cannot rely solely on reinsurance to assume and manage growing risks. The concentration of extreme risk in the reinsurance market does, however, mean that reinsurers also have a financial interest in managing and mitigating risk and therefore investing in resilience.

Market withdrawal as risk management

There is also an assumption that insurers can withdraw coverage from regions or customer segments to avoid exposure to high-risk markets. This view has been supported by recent high-profile withdrawals by some carriers from states experiencing more frequent extreme weather disasters, including California, Florida, and Louisiana.²⁶ However, this logic reflects a simplified, short-term understanding of insurance business models. As climate risks and extreme weather events intensify and become more widespread, the feasibility of market exit as a durable risk management strategy diminishes because leaving markets can have negative impacts for insurance companies through concentration risk, a smaller market share, and damaged market relationships and reputations.

Although it is feasible to withdraw from high-risk markets and raise premiums elsewhere to preserve profitability, this approach is unlikely to constitute a viable long-term business strategy and does not alter the underlying financial or physical climate risk. Risk is simply reallocated, shifted from exiting insurers to homeowners, businesses, remaining insurance carriers, and government entities. Pulling out of markets is therefore likely to be an insurer's last-resort action, often as a response to regulatory pressures that skew financial risk and business feasibility calculations, rather than a standard risk reduction mechanism.

Supporting resilience can therefore be seen as part of a longer-term business continuity solution for insurers, and if scaled successfully, it could reduce (but not necessarily eliminate) the need for market withdrawal. Collaborative action with the actors noted above, including reinsurers and public insurance programs that might need to cover risks if insurers withdraw, is explored below as a recommendation for effective action.

Role of governments and public insurance programs in risk management and resilience

Governments can play multiple roles in managing risks that are too large or uncertain for private insurance markets, including directly assuming risk, providing guarantees, or acting as an insurer of last resort. These interventions can enhance economic stability and protect communities from catastrophic losses in the short term, particularly when private coverage is otherwise unavailable or unaffordable. These roles may be undertaken at the national, state, or local level, depending on the structure of the risk and the availability of policy mandates and incentives. Examples include property insurance coverage via state-based Fair Access to Insurance Requirements (FAIR) plans in the United States, and a public-private reinsurance scheme called Flood Re in the United Kingdom, which enables insurers to offer more affordable flood coverage for high-risk households by transferring risk into a pooled fund, supported by industry levies and reinsurance premiums.

However, these are not perfect solutions and could present a moral hazard, whereby policyholders or local governments may feel less urgency to invest in resilience or move away from high-risk zones if they can expect to rebuild and recover based on insurance payouts.²⁷ Such approaches transfer risk onto public balance sheets, exposing taxpayers to potential future fiscal burdens. Reliance on public insurance markets has been increasing, and in some places they have become the only insurance option for homeowners.²⁸ These public programs often come with higher premiums, more limited coverage terms, longer processing times, and narrower protection that may apply only to specific hazards rather than providing comprehensive coverage. For example, FAIR plan policyholders have seen greater premium increases in recent years than private insurance policyholders, with some homeowners choosing to forgo insurance in response, widening the protection gap and highlighting the shortfalls of such plans as a long-term risk management and risk transfer solution.²⁹ By providing a short-term solution, these interventions can obfuscate prudent risk discovery and pricing signals across the insurance market.

There is also a prevailing expectation that governments will intervene to provide post-disaster aid in cases of uninsured losses, while also addressing market gaps by ensuring access to affordable and comprehensive coverage. However, the extent to which insurance should be treated as a public good is still widely debated, as is how such a public or blended public-private insurance system should be equitably funded and structured. These government-backed insurance options are viewed as absorbing excess risk in the market, but the cost eventually comes back to taxpayers and homeowners through increased taxes and premiums, which further exacerbates affordability and protection gaps.

Investing in pre- and post-disaster resilience is therefore seen as a solution for private insurers to limit the need for governments to step in and for public insurance programs to limit their own liabilities and losses. This suggests that greater coordination on resilience incentives among insurers, reinsurers, and governments could be an effective path forward. To be truly effective, this coordination will likely also need to be extended to other market stakeholders, including investors, banks, developers, catastrophe modelers, and others.

What Constraints Do Insurers Face in Incentivizing Resilience?

A lot of news coverage and debate focuses on what insurers *should* do but pays too little attention to what they *can* do. To further unpack the nuances outlined above and ensure that future expectations are pragmatic, it is important to understand the operational structures and key market dynamics that guide — and limit — insurance companies’ strategic focus and decision-making.

We note five barriers hindering insurers’ capacity to incentivize resilience:

Five constraints hindering insurers’ capacity to incentivize resilience:

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|----------------------------|--------------------------------------|---|--|---|
| 1 Misaligned time horizons | 2 Misaligned cost-benefit incentives | 3 Organizational business models and governance | 4 Methodological gaps in translating resilience into financial metrics | 5 Policy, market, and customer dependencies |
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CONSTRAINT 1

Misaligned time horizons

A major constraint hindering insurers’ role in incentivizing resilience is misaligned time horizons among stakeholders. This manifests over several key dimensions:

- **Annual policy cycles versus long-term risk reduction:** Annual insurance policy timelines don’t match multiyear resilience payoffs. An insurer has limited incentive to support high up-front costs of resilience when a policyholder may change carriers before those benefits are realized. While some insurers may support resilience as a strategy for building longer-term customer relationships, calculating the suitable incentive for a homeowner is difficult when future risk reduction and avoided losses may accrue nonlinearly over time.
- **Behavioral biases and impact timing:** A report by the US Chamber of Commerce and Allstate found that “dollars spent on preparedness and resilience are much more effective at reducing the overall cost of disasters than dollars spent after the fact on recovery.”³⁰ However, individuals — whether insurers acting directly via the capital markets or policyholders investing in home improvements — tend to exhibit present and certainty biases, preferring guaranteed short-term returns rather than uncertain long-term benefits, even if those future benefits could be higher. These tendencies work against resilience investment. Especially in the absence of recent loss events, policyholders may discount future risk and benefits, leading to lower perceived need and willingness to pay for resilience investments.
- **Historical versus forward-looking data:** Most financial decisions depend on large historical datasets. This is true across insurance and reinsurance markets, where past hazard and loss data is used to build forward-looking risk and pricing models. However, new resilience solutions often lack the data

needed to demonstrate their risk reduction impact and broader direct and indirect benefits. Together with growing uncertainty around future policies, climate risks, and technology deployment, this limits insurers' ability to predict risk and losses and assess the impact of resilience investments. Various intermediaries, including catastrophe modelers and data providers, are trying to help overcome these barriers, but data gaps and nascent resilience assessment methodologies remain a challenge.

CONSTRAINT 2

Misaligned cost-benefit incentives

Another core constraint is the disconnect between who pays for and who benefits from resilience solutions. The misalignment between costs and benefits is evident across key stakeholders, including homeowners, insurers, communities, and policymakers, and is further complicated by behavioral biases, intrinsic and exogenous incentives, and knowledge of each actor. Below we explore these dynamics as they relate to insurers' underwriting role:

- **Homeowners** often need to pay high up-front costs for resilience solutions. They may get value back through reduced claims, uninsured losses, and disruption costs, but these benefits are uncertain, long term, and hard to quantify. Insurance incentives, such as premium reductions, lower deductibles, and expanded coverage, could offset some of the cost, but are often worth only a small fraction of those costs and are subject to change due to other exogenous pricing factors or if the homeowner switches insurance providers. Rather than fixating on whether they can negotiate a premium reduction, homeowners could better recognize the asset value protection and other benefits of resilience upgrades.
- **Insurers and reinsurers** can benefit from long-term risk reduction and payout reductions across portfolios if large numbers of policyholders invest in resilience. However, insurers and reinsurers lack a standardized and scalable way to validate and quantify the benefits of resilience measures made by homeowners, disincentivizing them from offering incentives to customers,³¹ particularly at a meaningful size relative to the up-front costs of investment. Furthermore, exposure to perils and capacity to invest in resilience varies among customer bases, so granular, targeted solutions are necessary but more costly for insurance companies to design and deploy compared with market-wide products and services.
- **Community-level action** is particularly important for building resilience to specific hazards. Wildfire land management solutions, for example, are most effective when undertaken at a neighborhood scale, and flood-resistant stormwater systems require community or municipality interventions. Because insurance company coverage varies in most communities, this reduces insurers' capacity and incentive to support these solutions.
- A fundamental misalignment persists between public expectations of **government-backed insurance programs** offering affordable, comprehensive coverage and the practical constraints under which these programs operate. FAIR Plans and similar mechanisms are typically designed as market backstops, yet they are increasingly relied on to fulfill roles that exceed their financial design and statutory mandate. Policymakers may incentivize resilience solutions through state-led grants, and governments and taxpayers can benefit indirectly through lower claims against state-led insurers and potentially through fewer insurers exiting the market. Grant programs, however, are subject to funding availability, policy cycles, and uptake.

These insights suggest that partnerships among policymakers, insurance industry actors, and standards setters will be needed to build effective incentives and expectations for resilience activities, alongside greater homeowner education. Such system-wide collaboration is particularly important when accounting for the insurance protection gap. An estimated 7%–13% of homes in the United States are uninsured,³² highlighting insurers' limited capacity to absorb growing catastrophe risk and incentivize action. Who pays for and who benefits from resilience in the case of uninsured losses will likely vary by region, with individual households having to absorb much of the losses, whether directly or indirectly via wider taxpayer liability where emergency relief or social welfare measures are available. Private insurance companies are unlikely to work to lower the protection gap by supporting resilience unless they are incentivized by policies or regulations or they see a clear business case from increasing market share or profits at a suitable risk level.

CONSTRAINT 3

Organizational business models and governance

Expectations of insurers' climate and resilience leadership have tended to overestimate the influence of insurance on the real economy and underestimate the constraints on insurers' ability to innovate within their legal and economic frameworks. **As profit-driven entities, insurance companies must ensure their financial sustainability by managing loss exposure and maintaining sufficient capital buffers, which inherently constrains the level of risk they can assume.** Insurance products are typically offered on very thin margins and on the basis that small risks can be diversified across large portfolios. This limits insurers' ability to offer large financial incentives, especially for smaller carriers.

Related, short-term profit and relationship continuity expectations — along with increased capital and affordability requirements — pressure insurers to maintain current underwriting and investment processes. Leadership and governance structures will therefore play a significant role in determining strategic focus on these topics, including building the internal culture and capacity to innovate. Traditional risk models rely on historic risk and pricing data, often resulting in mispricing of new risks, markets, and technologies. Understanding the risk implications of different resilience solutions, especially against uncertain future hazard scenarios, is time intensive and difficult to standardize across different market segments and perils. These challenges further raise costs and reduce incentives for innovation. However, there are opportunities to build and invest in risk and pricing data through industry and customer partnerships as has been done in other markets, such as the preventive healthcare market, where risk reduction has been successfully incentivized, and the auto insurance market, which uses telematic data for individualized pricing.

Each insurance company has its own internal teams and models, proprietary data, stakeholder relationships, and differentiated product lines relating to climate risk and resilience. Although this is helpful for driving resilience as a competitive advantage, it also constrains knowledge sharing, price signaling, and transparent decision-making. Brokers and industry associations could play an important role, acting on behalf of clients to engage with multiple insurers and reinsurers to support knowledge- and market-building efforts.

CONSTRAINT 4

Methodological gaps in translating resilience into financial metrics

One of the biggest challenges — and the biggest opportunities — is the translation of resilience benefits, particularly avoided future losses, into financial terms. The benefits of resilience are often described

qualitatively, whereas financial decision-making revolves around quantitative assessments of future expected losses and returns. Even when benefits are translated into quantitative measures, they are often derived from cost-benefit analyses that do not quantify which costs and which benefits flow to different parts of the system,³³ reducing their relevance for individual stakeholder decision-making. Because insurance and reinsurance pricing and capital allocation decisions are primarily based on expected losses rather than recognizing avoided ones, the financial value of resilience remains only partially captured, limiting its integration into underwriting, investment, and pricing decisions.

Recent examples show that, despite the challenges, developing a methodology that translates resilience benefits into financial terms is possible. For example, Howden modeled the reductions in average annual losses and probable maximum losses for an investment in coastal resiliency and calculated benefits including potential insurance coverage and premium changes.³⁴ Standardizing such resilience quantification across different contexts and solution sets will help support effective capital deployment and underwriting decisions.

CONSTRAINT 5

Policy, market, and customer dependencies

Insurers have an important role in the financial sector, but achieving resilience at scale depends on the decisions of a variety of actors. Insurers' ability to support resilience is shaped by many factors, including policy incentives, data availability, industry guidance, customer preferences and willingness to pay, and resilience technology maturity. These dependencies vary significantly across the United States because the insurance system is highly fragmented and primarily regulated at the state level. This further complicates how the insurance system can work to incentivize resilience and limits the extent to which the role of insurers in resilience should be generalized. Insurers also tend to be conservative, risk-averse institutions. Uncertainty in policy and market signals can change the underlying incentives and economics of resilience for insurers, and insurers are likely to revert to what they know best while waiting for clearer or more aligned signals.

Furthermore, insurers are only one part of the capital stack available to support investment in resilience solutions. They should be seen as having a funding role alongside other capital providers, such as banks, investors, and public finance organizations, which have their own incentives and capacity to influence resilience outcomes.

Although insurers' limited sphere of influence and their dependencies affect where and how they can support resilience, insurers have agency in managing and mitigating these dependencies. Engagement with regulators, policymakers, data providers, other financial institutions, clients, and communities can help overcome roadblocks to progress and encourage collective solution design.

What Does a New Path Forward Look Like?

As the case for resilience solutions becomes increasingly evident, this report has shed light on some of the action and innovation already happening in the insurance sector, as well as on the misaligned incentives, underlying assumptions, and the conflicting policy and market pressures that have contributed to a gap between expectations and business realities.

Rightsizing insurers' role in resilience requires a recalibration toward on-the-ground results and system coherence rather than merely fixating on consumer pressure for premium reductions. The goal is not to downplay ambition, but to ensure we focus our collective efforts on practical solutions and add nuance to key narratives.

Below we outline three essential shifts we think are needed to unlock a more constructive path forward:

Three essential shifts to unlock a more constructive path forward:

- | | | |
|---|---|---|
| 1 Rightsize the role of insurers within an enabling system | 2 Improve methodologies for quantifying resilience benefits and co-benefits and reflect these in insurance pricing and risk models | 3 Enhance public-private partnerships and involve insurers earlier in resilience incentive and policy design |
|---|---|---|

These are not new recommendations. Other organizations have made similar calls to action in various configurations in recent years, and in some cases are already actively working to implement them. Yet, we include them here to acknowledge that they are not yet common practice, to demonstrate their importance in unlocking our vision for a recalibration of the role of insurance in resilience, and to affirm our willingness to roll up our sleeves and support these efforts going forward.

SHIFT 1 Rightsize the role of insurers within an enabling system

The expectation that insurers can drive resilience solutions fails to fully factor in the misaligned incentives and time horizons of short-term profit-driven business models. Insurance markets face structural barriers to driving progress and must be seen as part of a wider system of enabling actors, which will include policymakers, developers, other financial institutions, and communities. For example, progress on integrating resilience at scale across the US homeowner market will depend significantly on local and state-level land-use and building codes because they guide residual risk and which resilience technologies can be installed during construction and upgrades.

However, this does not mean that insurance industry participants have no agency or incentive to act. Resilience solutions will be key to maintaining an insurable economy as rising risks and affordability pressures continue to converge.³⁵ As such, market actors (including insurers, reinsurers, brokers, and others) should collaborate with academics and nonprofits to further clarify what support insurance market

stakeholders *can* offer. Innovation and educational efforts must then follow to build those solutions because reducing risk at a meaningful scale will require more than individual homeowner action. Progress therefore depends on understanding and managing wider dependencies and supporting the design and implementation of system-wide incentives and actions.

SHIFT 2

Improve methodologies for quantifying resilience benefits and co-benefits and reflect these in insurance pricing and risk models

Some insurers are already taking steps to integrate resilience considerations into their pricing and risk models and there are examples of innovative disruptors building resilience into insurance business models from the bottom-up. However, supporting resilience is not a universal practice in the insurance industry, and is currently more an art than a science. Without advances in industry best practices, households, communities, and financial institutions that invest in resilience will find it harder to reap the rewards and be less incentivized to act in the first place. However, updating the models is not as simple as flicking a switch or changing some code or proving out ROI. Change will likely require clearer standards on what counts as a resilience solution, more granular and comprehensive data on adoption of resilience solutions, and evidence of the range of benefits and co-benefits of those solutions translated into a suite of quantifiable financial metrics. These metrics will need to be comparable and applicable at scale, factoring in the range of resilience solution sets available to mitigate various hazards for different users and scenarios. This will be further complicated by the time lag between resilience implementation and evidence of impact. Nonetheless, it is critical that we make progress now while accepting that methodologies and data will improve in the future. Methodological research and innovation are underway across different sectors and solutions, such as McKinsey mapping current and future cost-benefits of resilience technologies and Cambridge University exploring resilience-adjusted credit risk frameworks,³⁶ but more work is needed.

Although resilience benefits may or may not be significant enough to materially lower premiums given the pricing dependencies and constraints discussed above, insurers need to be able to integrate more holistic and standardized metrics that quantify resilience benefits into decision-making. Regulation that supports risk-based pricing could help. Although more risk-based pricing might affect perceived affordability in the short term by allowing insurers to accurately price risk, this will help demonstrate the need and impact of resilience investments and reduce insurability gaps. These measures will also allow insurers to better assure regulators and consumers that they are considering resilience actions while prudently pricing risk and risk reduction. Furthermore, if insurers collaborate with policyholders, policymakers, data providers, and risk and catastrophe modelers, more innovative solutions to valuing and incentivizing resilience investments could emerge within and beyond the insurance sector.

SHIFT 3

Enhance public-private partnerships and involve insurers earlier in resilience incentive and policy design

Coordination among public and private insurers and other financial and market actors will be key to aligning incentives, designing new or improved policies, and unlocking catalytic financing for resilience solutions. As noted throughout this report, various configurations of stakeholders could collaborate productively on these topics. Deepening the interest in and impact of these partnerships will also require trust and a mutual understanding of both the problems they are trying to solve and the range of solutions available.

To be successful, different actors need to leverage their strengths and acknowledge their respective perspectives, motivations, and structural and fiscal limits. For example, private insurers can help develop clearer risk signals through their advanced analytics, while public actors can help send clearer signals through land-use planning, building codes, and infrastructure standards to incentivize and enable more resilient construction and upgrades. Collaborative risk-sharing mechanisms are evolving, and this could be a key to reducing protection gaps. The reinsurance market's growing role as a private partner for public-sector risk transfer is also an interesting development, with national efforts elsewhere potentially offering lessons for the United States (See *Case Study: Elementar Re Public–Private Reinsurance Partnership*).

Case Study: Elementar Re Public–Private Reinsurance Partnership

While generally true that misaligned incentives exist across the market, examples show that resilience can be scaled via innovative collaboration. For example, Elementar Re, the public–private reinsurance scheme recently proposed by the German Insurance Association, includes resilience-oriented prevention measures, mandatory risk assessments, and risk pooling in its operational design for a national default property insurance scheme that would keep insurance available and affordable to all. In this case, primary insurers can transfer policies for high-risk buildings in regions of high natural catastrophe risk into the Elementar Re pool. In the event of a claim, the program would first draw down private reinsurance, then a reserve fund, and finally a state backup mechanism if private reserves are depleted and catastrophes exceed a €30 billion threshold.

Examples do exist, but these opportunities are not widely or systematically realized. RMI is therefore interested in scaling key partnerships and solution sets via detailed case studies of effective collaborations and innovative insurance structures as well as contextualized multistakeholder community resilience roadmaps.

Including private insurance actors early in financial and policy decision-making is a critical shift to improve these activities. Recent interventions aimed at addressing affordability or market stability have, in some cases, produced unintended consequences, including reduced insurer participation and constrained coverage availability.³⁷ Earlier consultation with insurers can ensure that incentives are grounded in risk realities, aligned with market dynamics, and supportive of sustainable insurance provisions. This will be important in a range of situations and could accelerate both insurers' underwriting capacity and direct investments in this space.

Conclusion

As insurers withdraw from certain markets and premiums increase, policyholders and civil society are quick to question whether the insurance system is prepared to face growing risks, and whether it can be doing more to incentivize systemic financial and real-economy resilience. Evidence suggests that even those within the sector remain concerned about its readiness. In a global survey of insurers, MSCI found that only 38% think the sector is “somewhat” prepared for rising future risks, and only 2% think the sector is “very much” prepared.³⁸

Let’s be clear: Insurers do have a role in supporting resilience, and many are already taking steps to do so. However, this report argues that civil society expectations for insurers to drive climate resilience are outpacing the realities of how insurance markets function. While insurers are increasingly expected to move beyond risk transfer into incentivizing risk reduction and lowering premiums to reflect resilience efforts, structural constraints — including misaligned incentives, short time horizons, fragmented regulation, and data and methodological gaps — limit their ability to do so at scale.

This report sheds light on common assumptions and constraints in insurers’ role and proposes a more constructive path forward. Rather than positioning insurers as primary drivers of resilience, the report calls for a recalibrated approach in which insurers play a targeted role as a risk signal and resilience enabler within a broader ecosystem. We propose three shifts that could further support action at scale: rightsizing the role of insurance within an enabling system, improving quantification of resilience benefits to inform pricing and risk models, and strengthening public–private coordination. There are important opportunities to showcase best practices already happening and bring different stakeholder groups working on critical resilience topics together in new ways to address persistent barriers. RMI is ready to support this work and partner with others committed to recalibrating and enabling the role of insurance in resilience.



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OpenAI GPT4o was used in the research stage for summarizing and comparing relevant insights in human-identified leading industry reports. All references were pre-selected by the RMI authors and insights and phrasing were selectively used and verified by the authors.



About RMI

Rocky Mountain Institute (RMI) is an independent, nonpartisan nonprofit founded in 1982 that transforms global energy systems through market-driven solutions to secure a prosperous, resilient, clean energy future for all. In collaboration with businesses, policymakers, funders, communities, and other partners, RMI drives investment to scale clean energy solutions, reduce energy waste, and boost access to affordable clean energy in ways that enhance security, strengthen the economy, and improve people's livelihoods. RMI is active in over 50 countries.

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