Testimony on the Future of Housing

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Thank you, Madam Chair Britt, ranking member Smith, and committee members, for the opportunity to speak with you about this important topic.

My current research is focused on the intersection of insurance, catastrophe risk, and housing markets. Much of what I share today is explained in detail in a recent report, which I have attached to my written testimony.[1]

Over the last several decades, the risk facing our housing stock has grown substantially. Storms and fires seem to be more frequent and destructive, and we have built a huge number of houses in harms way, including along the coast, and in the wildland-urban interface areas. The concentration of exposure makes it more difficult for insurance markets to diversify catastrophic risk, which leads to higher premiums.

Although consumers feel the pain of catastrophic risk in their insurance premiums, this is not an insurance problem. Insurance markets are doing exactly what they are supposed to do. Rather, it is a "how and where we build houses" problem.

It is desirable and economically beneficial to have houses at the coast and in less-developed wildlands. We do not propose that people stop building in these areas. Instead, we point out that building there is a choice for which consumers should weigh appropriate costs and benefits. If we build in harms way, we must build to stronger standards or be prepared to pay more for insurance.

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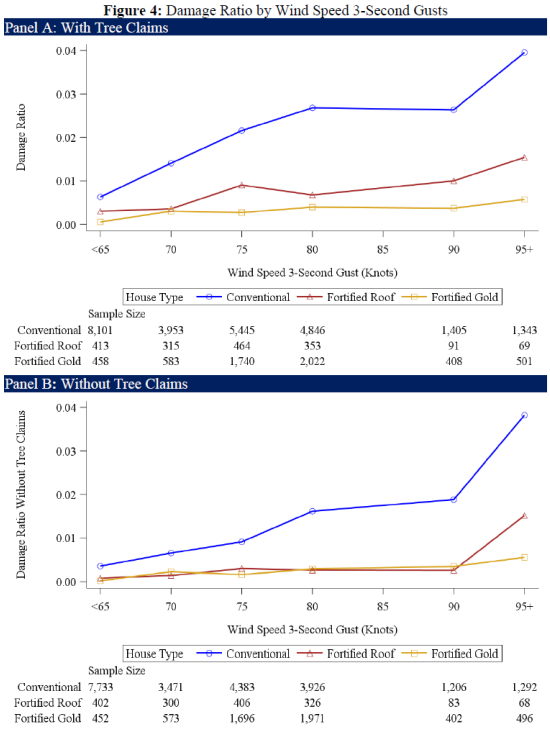
[1] Powell, LS, 2025. Performance of IBHS FORTIFIED Home™ Construction in Hurricane Sally

Ten years ago, our coastal counties in Alabama began building single-family houses to the Insurance Institute for Business and Home Safety (IBHS) FORTIFIED™ standard. Today, more than 20% of houses in those two counties have been built or retrofitted to achieve a FORTIFIED™ designation.

In 2020, Hurricane Sally struck Alabama's coast and the 17,000 FORTIFIED™ houses that had been built at that time, providing an opportunity to evaluate the performance of FORTIFIED™ construction. The Alabama Department of Insurance sent a data call to the insurance companies doing business in the area. We analyzed the data and drew several important conclusions.

First, FORTIFIED™ houses performed much better than conventional houses in terms of both loss frequency and loss severity. The following figure from the attached report charts the difference between conventional and FORTIFIED™ houses by wind speed. We differentiate between tree claims and non-tree claims, because the IBHS system does not account for trees falling on houses. In all cases, losses for conventional houses are more than twice as large as those for FORTIFIED™ houses. As the wind speed increases, so does the difference in performance.

Figure 4: Damage Ratio by Wind Speed 3-Second Gusts



Notes: Damage ratio is the average damage ratio in each wind speed bin. The first bin includes houses that incurred wind speed of less than 65 knots. The last bin includes houses that incurred wind speed of 95 knots or greater. The strongest gust in our sample is 109 knots. The sample size table on the X-axis shows the number of houses in each category and wind speed bin. The upper chart includes tree claims. The lower chart excludes tree claims.
Sources: ALDOI data call, IBHS, and RenaissanceRe Risk Sciences

At the end of the report, we show that if Alabama had begun building FORTIFIED™ in 1980 instead of in 2015, we could have decreased insured losses by 75%, and consumers would have saved more than 65% of what they spent on deductibles. This level of loss mitigation has a huge effect on insurance markets. As importantly, the incremental cost of FORTIFIED™ construction is very small. Some of the volume builders in Alabama indicate that they can build to the FORTIFIED™ Gold designation for about 1% more than conventional construction. On average the cost is estimated to be between 3% and 7% more than current International Residential Code construction. We are confident that FORTIFIED™ construction can serve a solution to catastrophic wind risk at the coast.

Unfortunately, the science, engineering, and analysis surrounding FORTIFIED™ is the easy part of the solution. The heavy lift happens among policymakers at the local, state, and federal levels, and among builders and insurance companies. Creating incentives for people to build and retrofit to high-performance standards is more difficult than we initially anticipated. However, we learned a few tactics that worked for us and are now working for several other states around the country.

First, we created the Strengthen Alabama Homes (SAH) program, which provides grants that help homeowners pay to retrofit their houses to the FORTIFIED™ standard. The important aspect of these grants is to create the supply of contractors who know how to build better houses. Data from the program show that once contractors have bid on a project for SAH, they also sell FORTIFIED™ construction outside of the grant program. At least 29 states are currently working to create this type of grant program.

Second, insurers in Alabama provide discounts for houses with FORTIFIED™ designations. This gives homeowners a concrete incentive to build or retrofit to a stronger standard.

Finally, insurers in Alabama are required to offer an endorsement to homeowners insurance policies that will replace a conventional roof with a FORTIFIED™ roof, if the roof is damaged by a covered peril. A common refrain we hear after each storm is that we cannot delay rebuilding by requiring a different or more expensive building standard. Unfortunately, after a large storm event is the best time to make meaningful changes in the built environment. Having the FORTIFIED™ endorsement ensures that everyone expects to rebuild to a stronger standard, because they have been paying for this guarantee.

The three-pronged approach to wind resilience in Alabama (grants, discounts, and endorsements) has been effective thus far, but we could do more with your help. There are

several bills before Congress that would create additional incentives for resilient construction. For example, a federal tax-advantaged Disaster Savings Account could incentivize more people in more places to build to higher standards. We are working on a report that will estimate the costs and benefits of such a program, and I will share the results with you as soon as the report is complete.

Thank you again for the invitation to join you today. I am happy to answer questions and look forward to continuing the discussion of this important topic at your convenience.