

Trends and Insights: Drivers of homeowners' insurance rate increases

Homeowners' insurance premium rates have risen significantly since the pandemic. Much of the increase can be attributed to supply-chain issues and labor shortages driving up the cost of home repairs and replacement, but longer-term trends also affect rates. It is important for consumers and policymakers to understand why this is happening and why it is likely to continue.

From 2017 through 2021, premium rates are up 12.2 percent on average nationwide, according to S&P Global Market Intelligence data. The national average annual premium increased to \$1,398 in 2021. But this trend predates pandemic-driven economic conditions. A key factor has been growth in insured losses due to natural catastrophes.

Key drivers of rate increases

- Rising catastrophe losses related to extreme weather
- Population shifts into disaster-prone regions
- Increasing home repair and rebuilding costs

Damage from tornadoes, hurricanes, severe storms, wildfires, floods, and other natural disasters reached \$92 billion in 2021, bringing the total from 2017 through 2021 to more than \$400 billion. As the chart below shows, average insured natural catastrophe losses have risen nearly 700 percent since the 1980s.

In the United States, much of this loss trend is due to people moving into risk-prone areas. More people, homes,

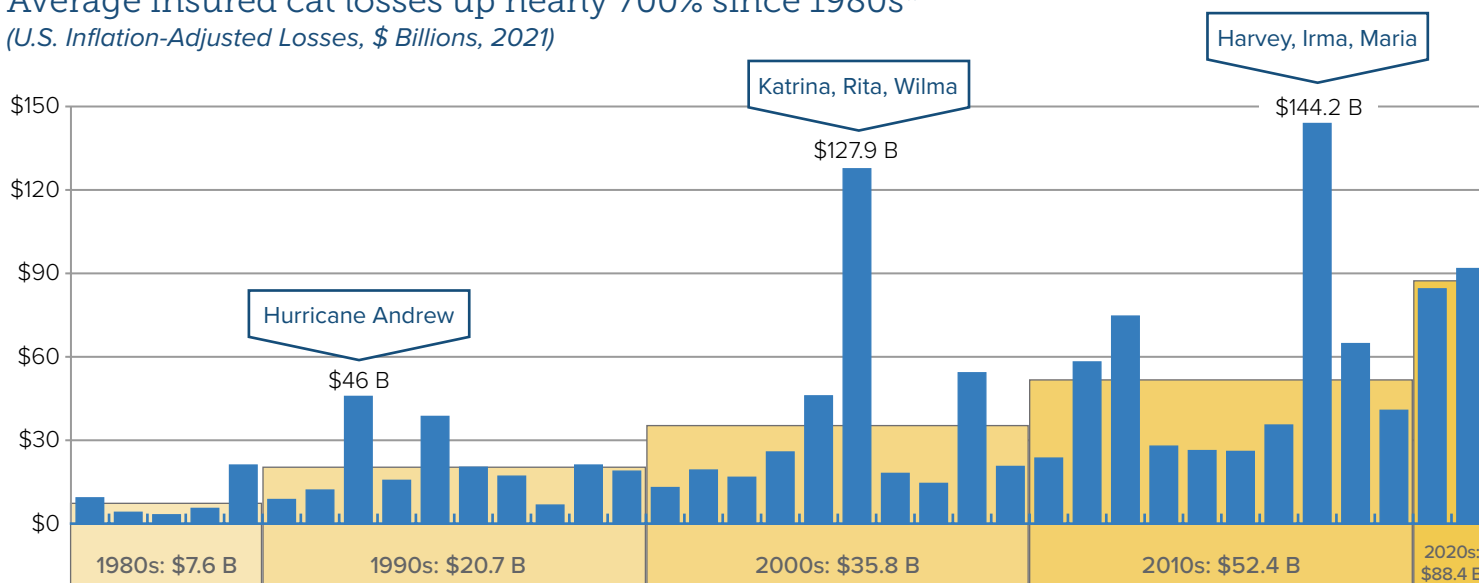
businesses and infrastructure mean more costly damage when extreme events occur. An Aon analysis of U.S. Census Bureau data shows the number of housing units in the United States has increased most dramatically since 1940 in areas that are most vulnerable to weather and climate-related damage.¹

From 2016 through 2020, the 50 U.S. counties with the largest share of homes facing high heat risk experienced population growth of 4.7 percent on average, according to an analysis by real estate information company Redfin. "Meanwhile, the 50 counties with the largest percentage of homes facing high drought, fire, flood, and storm risk experienced average population growth of 3.5 percent, 3 percent, 1.9 percent, and 0.4 percent, respectively, due to positive net migration," [Redfin reported](#).

In the event of a loss, most homeowners want their homes back in pre-event condition. This is why it is so important for policyholders to work with their insurers to make sure their dwelling coverage amount reflects their current replacement cost. Insurance replacement cost — the cost to rebuild the home as it was — often differs materially from a home's market value, which includes the value of the land and is highly influenced by supply and demand.

Average insured cat losses up nearly 700% since 1980s*

(U.S. Inflation-Adjusted Losses, \$ Billions, 2021)



*Includes insured losses from all natural perils.

Source: Aon (Catastrophe Insight)

¹ Insurance Information Institute, [Beyond Risk Transfer Why closing the flood protection gap will take innovation and collaboration](#), April 29, 2021.

How inflation affects premiums

When consumers think about “inflation”, they typically are thinking about the [Consumer Price Index](#) (CPI), which measures the average change in prices paid by urban consumers for a basket of goods and services. But CPI is only one inflation gauge and consists of industry- and sector-specific measures that provide a more granular look at how inflation is distributed throughout the economy. Measures like lumber and labor prices are especially relevant to home repair and rebuilding costs.

Homeowners’ insurance profitability

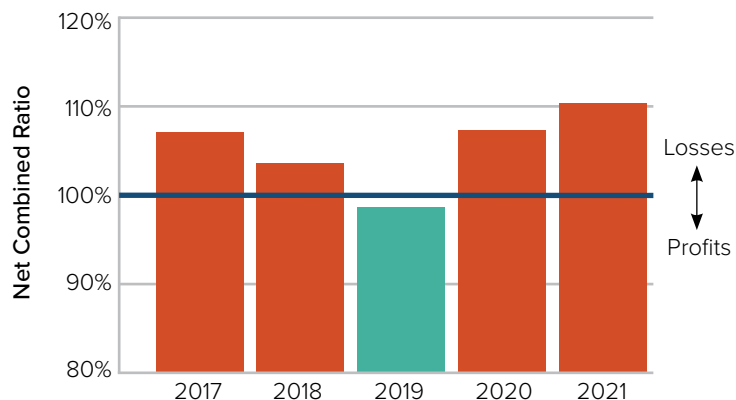
Any business needs to make a reasonable profit. Insurers’ underwriting profitability is measured by a “[combined ratio](#)”, which is calculated by dividing the sum of claim-related losses and expenses by earned premium. A combined ratio under 100 percent indicates a profit. A ratio above 100 percent indicates a loss.

The chart on the top right shows how unprofitable homeowners’ coverage has been for insurers in recent years. The chart on the bottom compares homeowners’ insurance premium rate changes with CPI and home replacement cost inflation. A sharp drop in home replacement cost inflation and lower catastrophe losses in 2019 correlate with the only year in the past five in which writing homeowners’ coverage was profitable for insurers.

Long-term maintenance of an unprofitable product line is not a sustainable business model. Without substantial rate increases, insurers might have to dip into their policyholder surplus – the funds regulators require them to maintain to keep their promises to pay future claims. If policyholder surplus approaches defined regulatory thresholds, insurers will be required to raise rates or, potentially, go out of business.

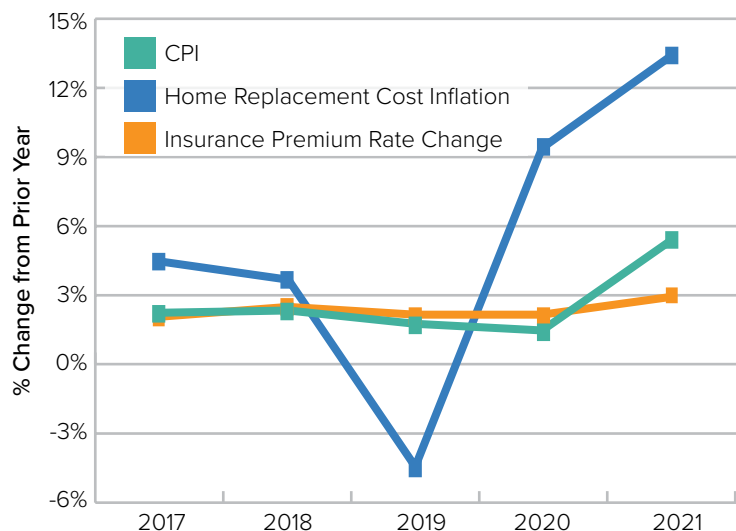
These trends – rising costs of building materials, appliances, and labor; rising insured losses related to extreme weather; and population shifts into disaster-prone locales – predate the pandemic and are unlikely to go away after COVID-19 and its disruption of the global economy fades into history. This is why homeowners’ insurance premium rates will need to increase in the years ahead.

Homeowners’ insurance underwriting profitability nationwide



Source: Triple-I analysis of S&P Global data.

Average premium rate increase versus inflation



Source: Triple-I analysis of S&P Global data.

Homeowners can find recommendations for [lowering their homeowners insurance costs](#) on Triple-I’s website.