Trends and Insights: Homeowners Insurance Rates

INSURANCE INFORMATION INSTITUTE
Affiliated with The Institutes

Rising Costs Keep Upward Pressure on Rates

Rising homeowners insurance costs since the pandemic have been driven by a combination of:

- General inflation;
- Replacement-cost inflation due to supply-chain issues and labor shortages that increase home repair and replacement costs; and
- Losses related to natural disasters, which vary by state.

Consumers and policymakers should be cognizant of the dynamics underlying these price shifts and understand why insurers must be forward looking in their approach to pricing these policies.

Homeowners insurance premiums rose consistently from 2001 to 2021, according to the Insurance Research Council (IRC). These costs surpassed household income growth, leading to decreased affordability among U.S. consumers. As expected, disaster-prone states like Florida – which the IRC ranks as the least affordable in the country – have the least affordable homeowners insurance.

Also embedded in these costs is legal system abuse, which includes false claims of damage to homes. This has been a common issue in disaster-prone areas, where claims of roof damage, in particular, dramatically increase insurance costs.

When consumers think about "inflation," they typically are thinking about the Consumer Price Index (CPI), which measures the average change in prices paid by consumers for a basket of goods and services. However, 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, for example, are especially relevant to home repair and rebuilding costs.

Although 2023 marked a decline in certain metrics – such as housing unit starts and construction materials – the general trend has been a persistent rise in costs. Indeed, the decrease in construction material costs in 2023 comes just two years after the 26.9 percent increase in costs in 2021. It is important to remember that declines in inflation do not necessarily reflect declines in prices but of the rate at which they are increasing.

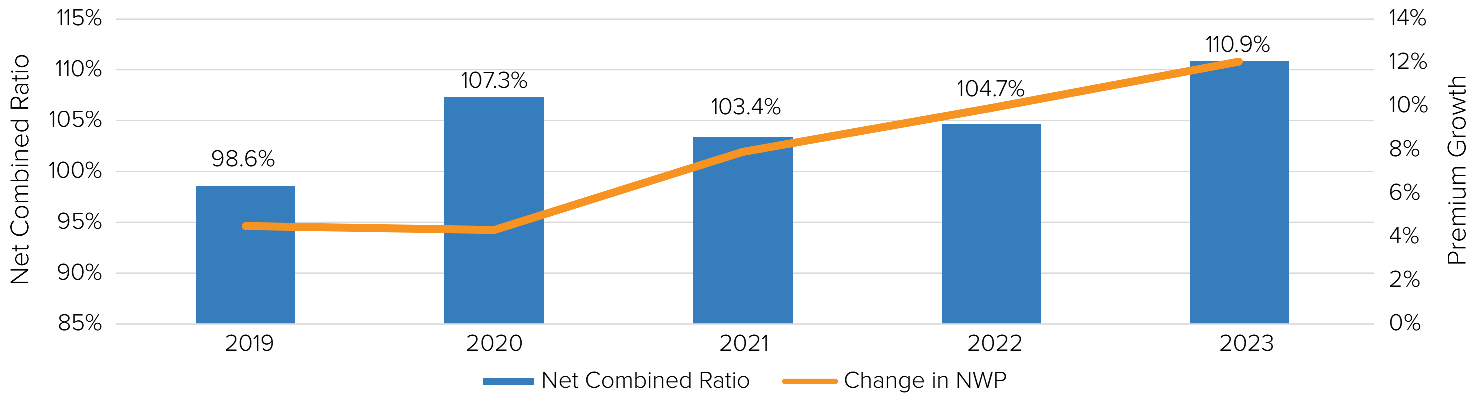
Insurer profitability

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 indicates a profit. A ratio above 100 indicates a loss.

Net premiums written are the total premiums paid by

Homeowners (YoY%)	2019	2020	2021	2022	2023
Underlying Growth	**3.7%**	**3.7%**	**14.9%**	**1.7%**	**-5.4%**
Housing Unit Starts	4.6%	6.5%	17.6%	-4.2%	-12.3%
Residential Construction Employment	2.8%	-1.5%	7.2%	6.1%	0.8%
Retail Sales	2.7%	3.3%	16.9%	8.9%	2.3%
Replacement Costs	**1.5%**	**1.8%**	**11.2%**	**9.4%**	**2.5%**
Shelter	3.4%	2.5%	2.7%	5.9%	7.5%
Household Furnishings & Supplies	1.1%	1.3%	4.0%	9.7%	2.9%
Construction Materials	0.0%	1.5%	26.9%	12.6%	-2.9%

Source: Insurance data and analysis: Triple-I; U.S. economic data: BLS (as of as of 02/01/2024)



Sources: NAIC Statutory Financial Data through S&P Global Market Intelligence Analysis (as of 5/1/2024): Insurance Information Institute, Milliman.

policyholders over the course of a period of time. Together, these metrics can help assess the profitability of an insurance line and determine whether rate increases are necessary.

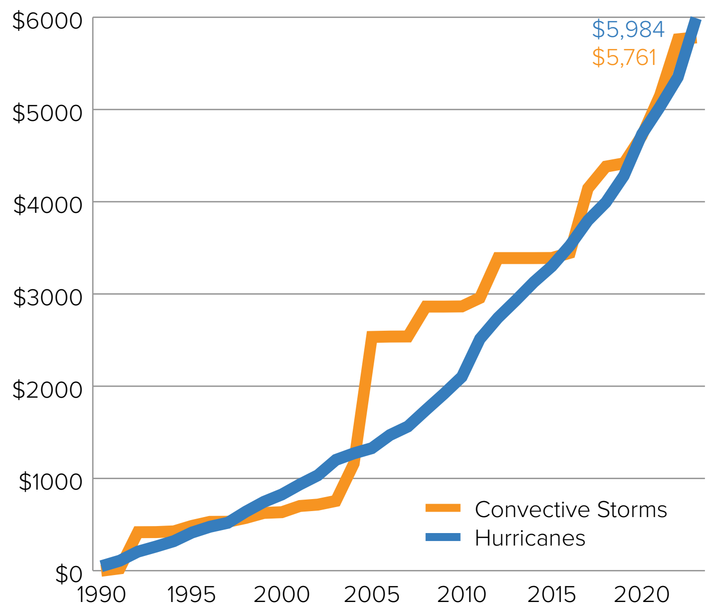
For homeowners insurance, the 2023 net combined ratio of 110.9 was the worst since 2011. However, the 2023 net written premium growth rate of 12 percent is the highest in over 15 years, reflecting rate increases to offset increased loss costs. Still, certain signs point to improved profitability in the near future.

In fact, in the fourth quarter of 2023, the direct incurred loss ratio of 42 percent was the lowest since 2015 and is 13 percent lower than the 10-year average. In the first-quarter of 2024, the direct incurred loss ratio continued to improve, standing at 56.8 percent.

Additionally, the prospect of the U.S. Federal Reserve lowering interest rates because of inflation moderation holds promise for restoring momentum in home sales and homeowners insurance growth.

Insured losses, however, have increased over the past 30 years, mostly due to a rise in the severity of hurricanes and convective storms. This preponderance of natural disasters has prompted insurers to find new ways to encourage homeowners to become more resilient to these dangers by investing in tools like weather-resistant roofing.

With such resilience investment, combined with a focus on combatting legal system abuse and the prospect of decreasing inflation costs, homeowners insurance lines are well-positioned to rebound.



AJG Insured Losses US inflated data in 2024 $ 1990 to 2024 US Mainland losses.

Learn more:

- IRC: Homeowners Insurance Affordability Worsens Nationally, Varies Widely by State
- Homeowners Insurance Costs Exceeded Inflation From 2000 to 2020
- Survey Suggests Few Homeowners Prepare for Weather-Related Risks

© Insurance Information Institute, June 2024