



Homeowners Insurance -- Ratemaking Principles, and Rate Regulation

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Norman Niami, FCAS, MAAA, Affiliate IFoA



Agenda

- **Background**
- **Issue**
- **Risk-Based Pricing is Critical**
- **Actuarial Principles and Standards of Practice**



Background



Homeowners Insurance Market

- “Given three consecutive years of net underwriting losses in the U.S. homeowners insurance segment owing to elevated natural catastrophes that have continued in the first half of **2023**, combined with other ongoing market challenges, **AM Best has revised its outlook on the segment to negative from stable.**”
- “AM Best is revising its market segment outlook for the U.S. homeowners’ insurance segment to stable from negative, citing moderating premium growth and enhanced catastrophe risk management practices amid improved property reinsurance market dynamics.” (**December 1, 2025**)



NAIC - Report on Profitability by Line by State in 2023

Comparison of Rates of Return on Net Worth

(In Percent)

Year	(1)	(2)
	NAIC Property/Casualty Insurance	Fortune Magazine All Industry
2014	6.6	14.3
2015	6.6	12.7
2016	4.8	13.1
2017	3.2	13.9
2018	7.3	15.4
2019	7.2	15.3
2020	6.4	10.3
2021	6.1	20.0
2022	4.7	17.1
2023	7.3	17.4
2014 - 2023 Averages	6.0	14.9

(1) Returns are calculated using mean and net worth.

(2) Returns are calculated using year-end net worth.

2023 Profitability Report Countrywide - Direct Underwriting Profit As a Percent of Direct Premiums Earned

Line Of Business	(1) 2014	(2) 2015	(3) 2016	(4) 2017	(5) 2018	(6) 2019	(7) 2020	(8) 2021	(9) 2022	(10) 2023	(11) AVG
Homeowners Multiple Peril	14.4	13.7	11.2	(12.2)	(9.5)	5.7	(3.3)	(5.4)	(6.2)	(3.7)	0.5



Homeowners Insurance Market

- Profitability has been far below cost of capital:
 - 40 years return net worth (equity) = 1.9%
 - 20 years = 3.7%
 - Most recent 10 years = 3.4% (through 2025)



Issue



Rates Do Not Cross Subsidize Losses Among States

- An insurer that would try to pass on losses from one state to another, would face competitive disadvantage from other insurers.
- Insurance is one of the most regulated industries and one of the most competitive industries in the U.S.



2025 HO Combined Ratios

- If insurers used cross subsidies, range of experience among states would probably be a lot narrower than it is:

- **2025** combined ratios (best result in most recent 5 years)

Countrywide	86.9%
Median	76.5%

Smallest	39.9%
Largest	203.2%
Standard Deviation	24.5%

- **2022** combined ratios (worst result in most recent 5 years)

Countrywide	105.9%
Median	96.6%

Smallest	66.3%
Largest	195.0%
Standard Deviation	26.6%



Risk-Based Pricing is Critical



APCIA--“PRICE REGULATION AND ITS EFFECTS ON INSURANCE MARKETS: Analysis and Case Studies”*

- Risk-based pricing is key for a viable, functioning and stable market. Artificial distortions of risk measures create wrong signals.
- Delicate balance of protecting consumers from excessive prices and maintaining a healthy, competitive insurance market.
- Strict price regulation often may lead to unintended negative consequences: significant growth in residual markets; firms leaving markets when price regulation became too restrictive; cross-subsidization between low-risk and high-risk consumers.

*: <https://api2.apci.org/attachment/downloadnsfile?id=11269&area=s>



APCIA: “PRICE REGULATION AND ITS EFFECTS ON INSURANCE MARKETS”

- Case studies: Florida and California Property; New Jersey, Massachusetts, South Carolina, and California Auto.
- Indicated and implemented rate increases are lower for prior approval states, but the difference is just over 1%. The difference between indicated and implemented rate increases is higher for use and file states, suggesting that competitive or strategic concerns matter when deciding on rates to file.

States' Regulatory Statistics (Average), 2023							
Line	Days to Approval	Std Dev Days	Pages in Filing	N Filings	% Indicated	% Implemented	Difference
Personal Auto (Prior Approval)	64	55	1459	211	15.136	9.119	7.957
Personal Auto (Use and File)*	45	42	372	95	21.397	10.386	13.997
Commercial Auto (Prior Approval)	34	33	205	343	11.812	5.646	13.168
Commercial Auto (Use and File)*	30	20	165	60	11.612	5.471	13.262

**Insurers still must file. The difference is that they need no approval prior to using the rates. SPGMI, Insurance Product Filings for the Calendar Year 2023.*



U.S. Government Accountability Office

- Report to the Ranking Member Senate Committee on Banking, Housing, and Urban Affairs:
 - HOMEOWNERS INSURANCE – February 2026

Premiums Generally Tracked Inflation but Rose More in Disaster-Prone Areas

“A critical risk-management tool for insurers is risk-based pricing, which enables them to align premiums collected to the underlying risks.”



Actuarial Principles and Standards of Practice



Rates Cannot Include Cross Subsidies between States

- CAS Statement of Principles Regarding Property and Casualty Insurance Ratemaking:
 - Principle 1: A rate is an estimate of the expected value of future costs.
 - Principle 2: A rate provides for all costs associated with the transfer of risk.
 - Principle 3: A rate provides for the costs associated with an individual risk transfer.
 - Principle 4: **A rate is reasonable and not excessive, inadequate, or unfairly discriminatory if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer.**



Rates Cannot Include Cross Subsidies between States

- ASB ACTUARIAL STANDARD OF PRACTICE NO. 53 -- Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Retention:
 - 3.1 Future Cost Estimate -- The actuary should determine the **elements that are appropriate** to include in the future cost estimate.
 - 3.8 Use of Historical Data -- The actuary should determine the extent to which historical data (premium, exposure, loss, and loss adjustment) are available and **appropriate for estimating future costs.**



Rates Cannot Include Cross Subsidies between States

- 4.2 Disclosures -- The actuary should also include the following in an actuarial communication, if and when applicable:
 - d. if the actuary estimates future costs for a coverage or exposure when the **historical data are unavailable, limited, or not fully representative, the actuary should disclose the data used and any appropriate adjustments made to the data**



Rates Cannot Include Cross Subsidies between States

- Beyond professional principles and standards of practice binding on actuaries, and regulators review of analysis and rates, some states also specifically limit or disallow use of experience from other jurisdictions:

Section 2303 of **New York Law states** -- Rates shall not be excessive, inadequate, unfairly discriminatory, destructive of competition or detrimental to the solvency of insurers. In determining whether rates comply with the foregoing standards, the superintendent shall include all income earned by such insurer and any insurer controlling or controlled by such insurer or under common control by or with such insurer on all its investments of any kind and wherever located. **The superintendent shall further determine whether any component of such rates represent an effort on the part of the insurer to recover losses incurred in another state due to any referendum, law or regulation** which requires a general reduction in rates for the kinds of insurance described in section two thousand three hundred two of this article. **Such a finding shall be deemed unfairly discriminatory for the purposes of this article.**



Thank You