Measuring and Assessing (Homeowner) Insurance Affordability

NAIC 2024 SUMMER NATIONAL MEETING

WEDNESDAY, AUGUST 14 | 1:00 PM – 2:30 PM (CT)

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High Cost of Insurance Recent "News Clips"

"*Even if you can afford to buy a home these days, Americans must ask themselves if they can afford to insure it*."

"*Majority of Americans say car insurance is becoming unaffordable*"

"*Why is Health Insurance so Expensive?*".

Questions to Address During Event

1) *What are the cost trends in insurance premiums?*

2) *What is driving these insurance costs trends?*

3) *Given cost trends, how does one measure and determine whether insurance is affordable versus unaffordable?*

4) *Facing affordability challenges, what options do consumers have at their disposal and are they deploying them?*

Emphasis on the Homeowner (HO) Insurance Market

Data Background – Trends in the Cost of (Homeowner) Insurance

**Data is referenced from various sources and associated timeframes as noted*

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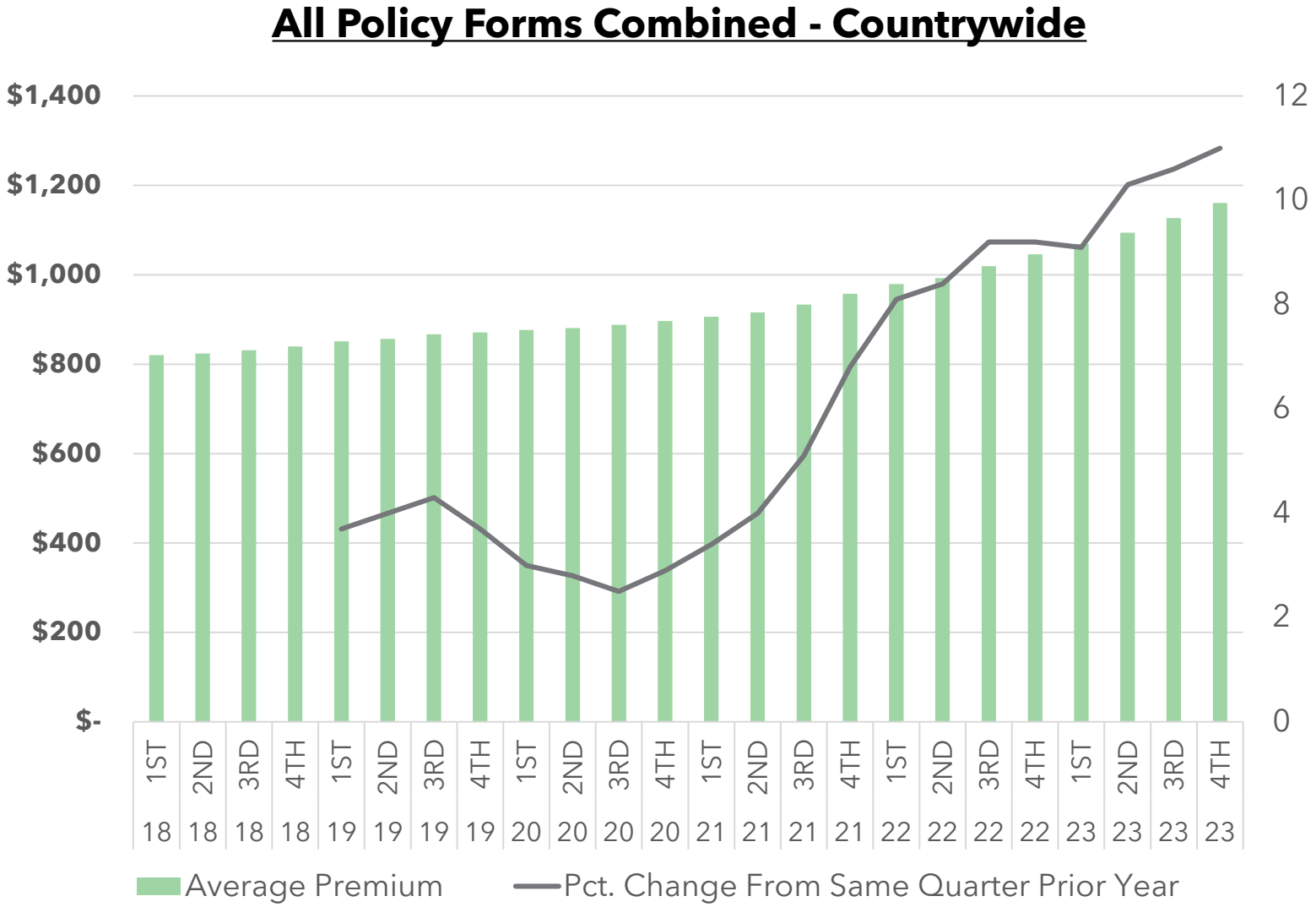
On average, how much have homeowner insurance costs changed during the period of 2018 to 2023?

- -10% to 0%
- 0% to 10%
- 11% to 20%
- 21% to 30%
- 31% to 40%
- > 40%

Average HO Market Premium – recent data

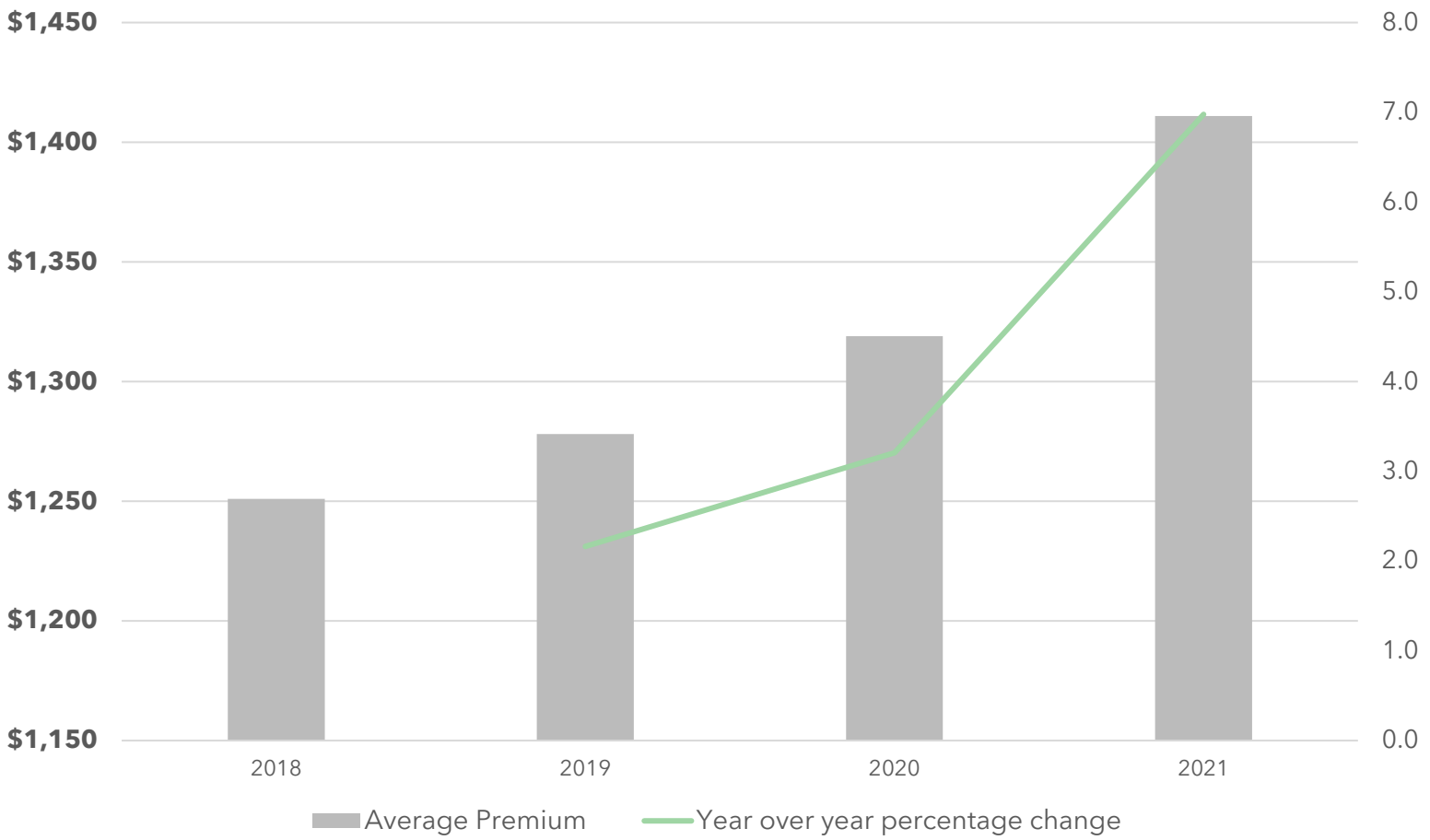


For all policy forms, from Q4 2018 to Q4 2023 HO premiums increased by 38 percent on average across the country*

Source: CIPR Calculations using Fast Track Data - $16 billion in premium & 13.7 million EHY by Q4 2023
**** Data not adjusted for general inflation***

Average HO Market Premium – HO specific data

Dwelling Fire and Homeowners Owner-Occupied Policy Forms - Countrywide

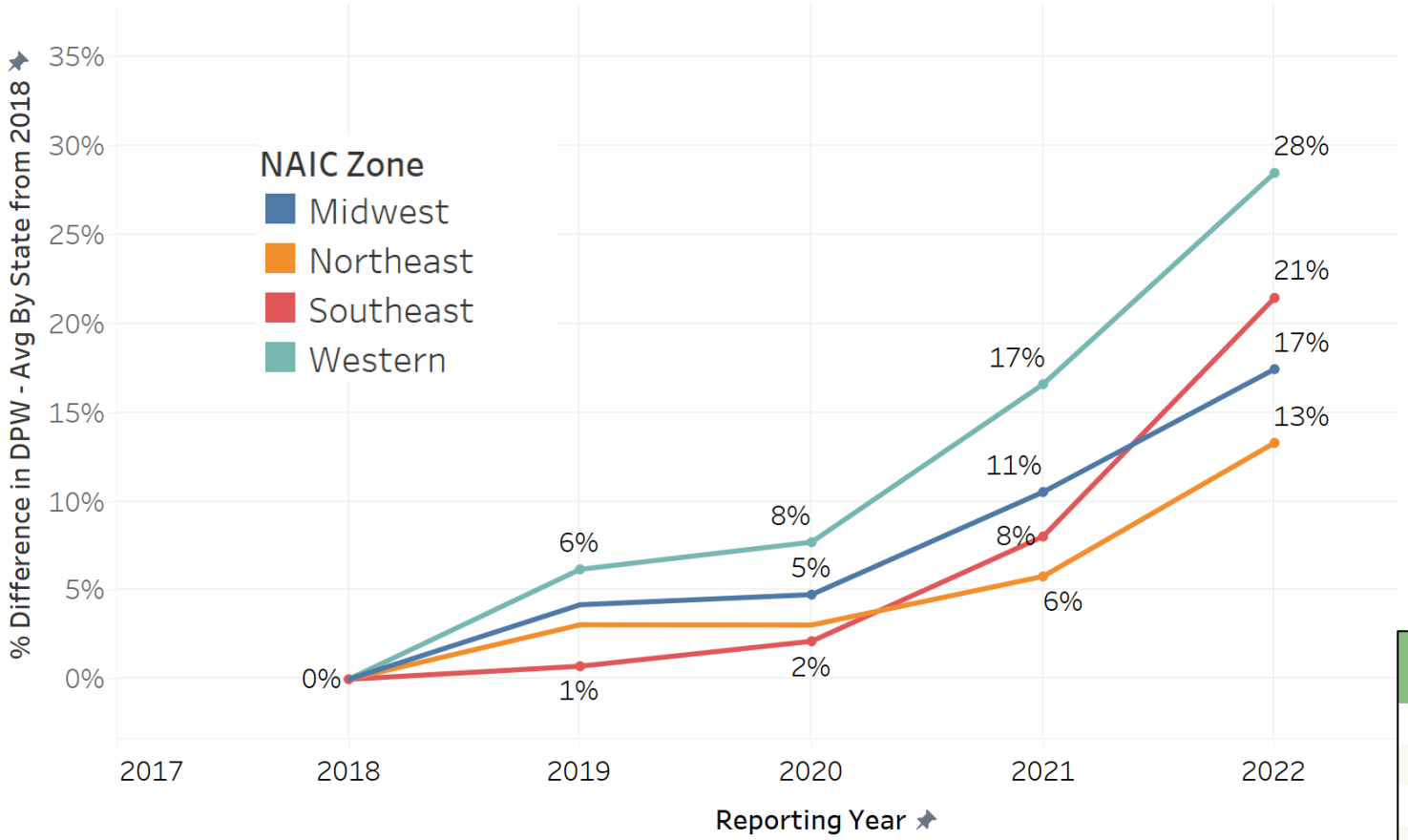


For DF and HO Owner-Occupied policy forms, from 2018 to 2021 HO premiums increased by 13 percent on average across the country*

Source: NAIC Dwelling & Homeowners report - $92 billion in premium & 65 million EHY in 2021
**** Data not adjusted for general inflation***

Average HO Market Premium – geographic specific data

All Policy Forms Combined – by NAIC Zone



For all policy forms, from 2018 to 2022 HO premiums increased in NAIC zones by anywhere from 13 to 28 percent on average*

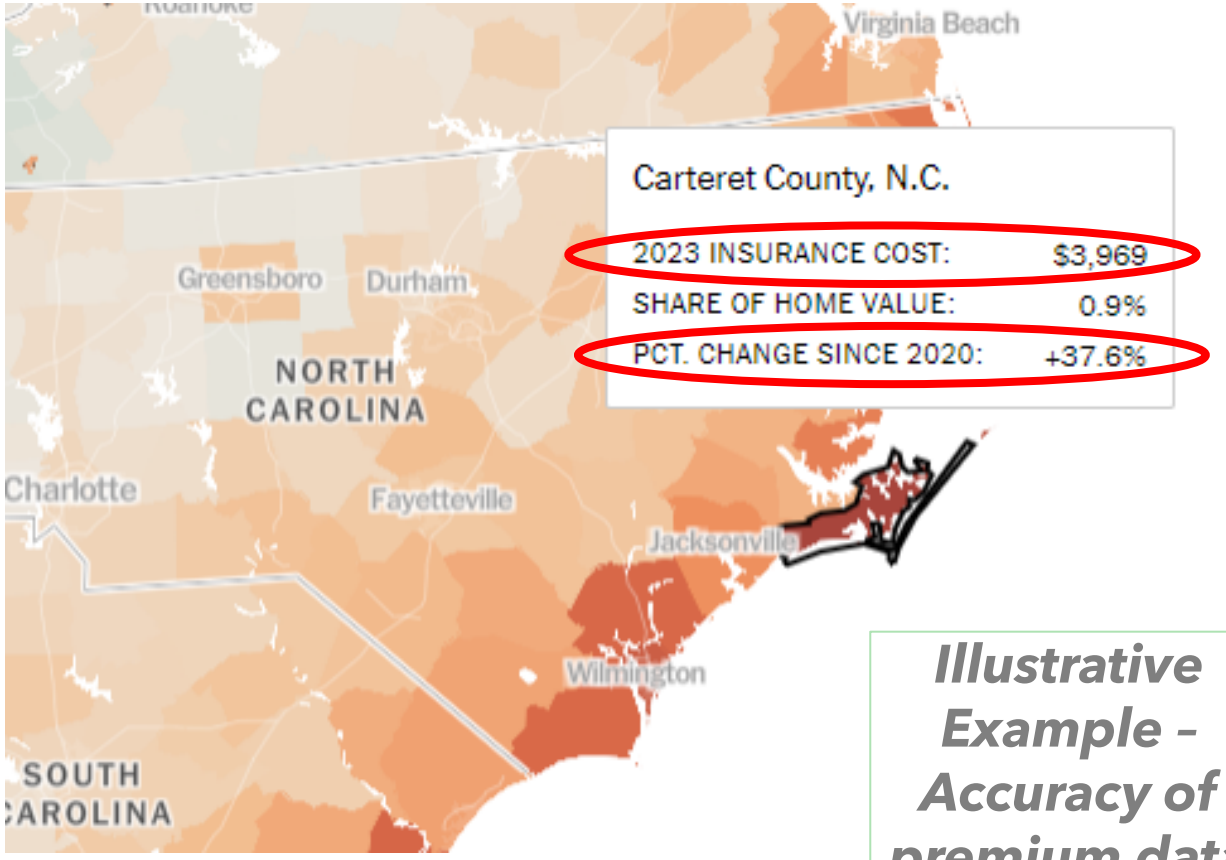
Average DPW by Year

	Reporting Year				
NAIC Zone	2018	2019	2020	2021	2022
Midwest	$974	$1,014	$1,020	$1,076	$1,144
Northeast	$969	$999	$999	$1,026	$1,098
Southeast	$1,187	$1,195	$1,212	$1,282	$1,441
Western	$917	$974	$988	$1,069	$1,179

Source: NAIC Market Database - $127 billion in premium & 103 million policies in-force in 2022
**** Data not adjusted for general inflation***

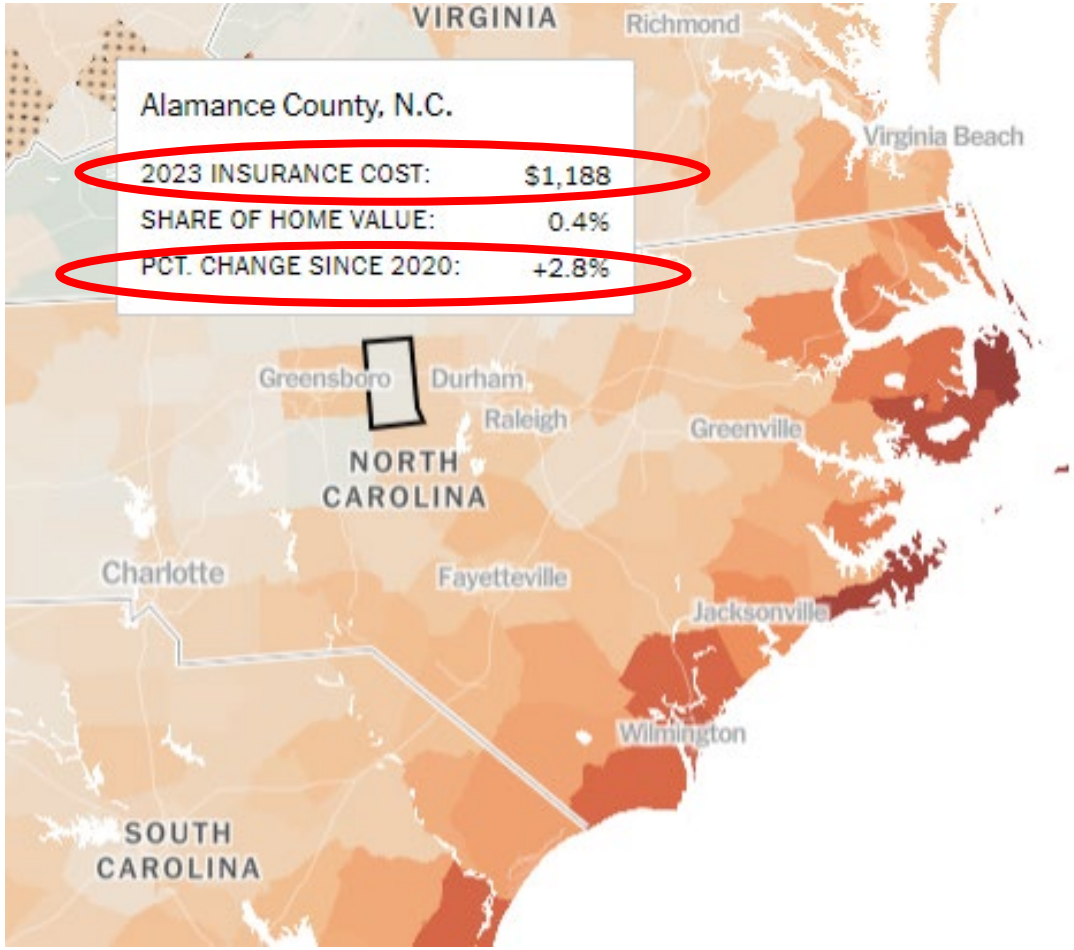
Average HO Market Premium – geographic specific data (county)

Relatively High Risk



Illustrative Example – Accuracy of premium data TBD

Relatively Low Risk



Source: https://www.nytimes.com/interactive/2024/07/08/climate/home-insurance-cost-county.html

Average HO Market Premium – geographic specific data (ZIP code)

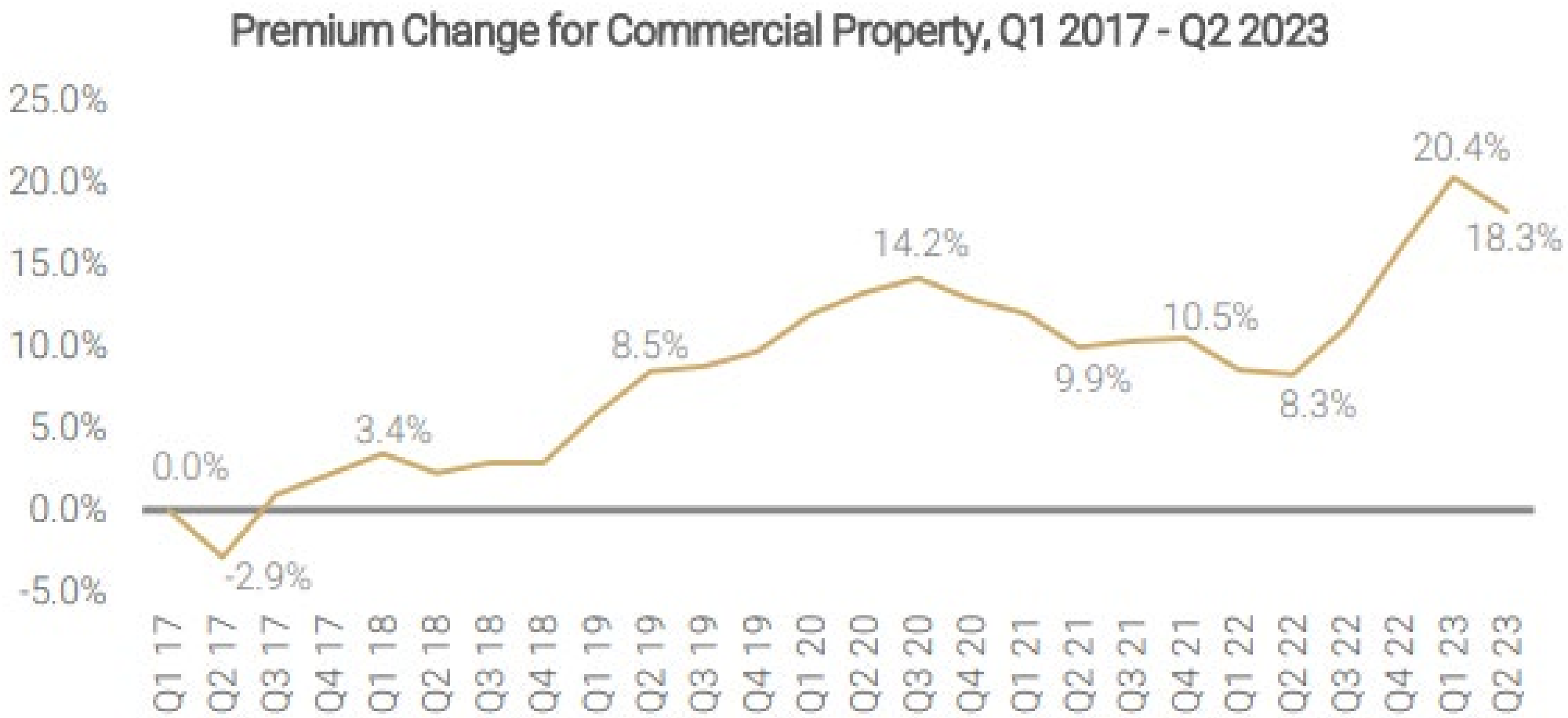
High Severe Convective Storm Risk ZIPs

Region	Current Average Premium across 5 High Risk ZIPs
Southeast ('VA', 'WV', 'NC', 'SC', 'GA', 'FL', 'AL', 'MS', 'LA', 'AR', 'TN', 'KY')	**$3,482**
Tornado Alley ('TX', 'OK', 'KS', 'NE')	**$6,061**
Midwest ('ND', 'SD', 'MN', 'WI', 'IA', 'MO', 'IL', 'IN', 'OH', 'MI')	**$2,851**
West ('MT', 'WY', 'CO', 'NM', 'AZ', 'UT', 'ID', 'WA', 'OR', 'CA', 'NV', 'HI')	**$4,886**

Illustrative Example – Accuracy of premium data TBD

Source: https://www.nerdwallet.com/article/insurance/estimate-home-insurance

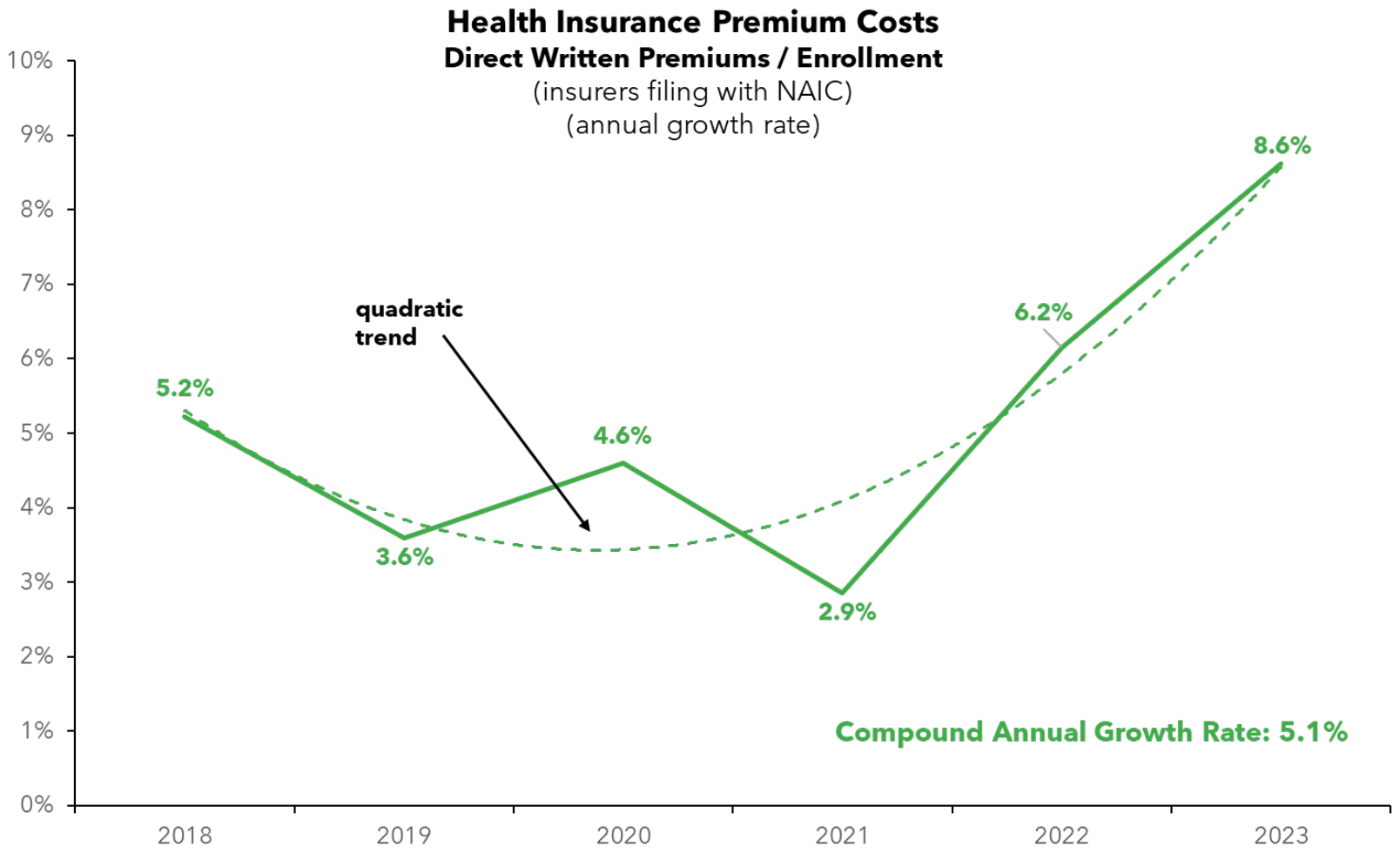
Average Commercial Property Market Premium Changes



Source: https://www.ciab.com/download/38548/?tmstv=1692214688

Commercial Multi-Peril is a $62 billion premium market in 2023. It is unclear from the Council Commercial Property / Casualty Market Index source what percentage of the market their survey data comprises or if data has been adjusted for inflation.

Annual Growth in Health Insurance Premiums, 2018 - 2023



Source: NAIC, 2023 Annual Health Insurance Industry Analysis Report

Health Insurance **Direct Written premiums per Enrollee** has increased at a compound annual rate of 5.1% per year since 2018.

Since 2021, growth in premiums by this measure has accelerated.

Key Takeaways

- *Dependent upon timeframe and data source* – **since 2018 HO insurance premium costs have increased anywhere from at least 13 percent up to 38 percent on average from a countrywide and/or regional perspective (*not adjusted for inflation*)**
  - ➢Cost increases accelerate in 2021

- Available data indicates that **HO insurance costs vary relatively significantly by geography and by risk** as compared to broader averages
  - ➢Highlights critical role of PCMI

- Illustrated cost trend increases in the HO market are **comparable to increases in other insurance lines of business**

Rising Insurance Costs in Further Context

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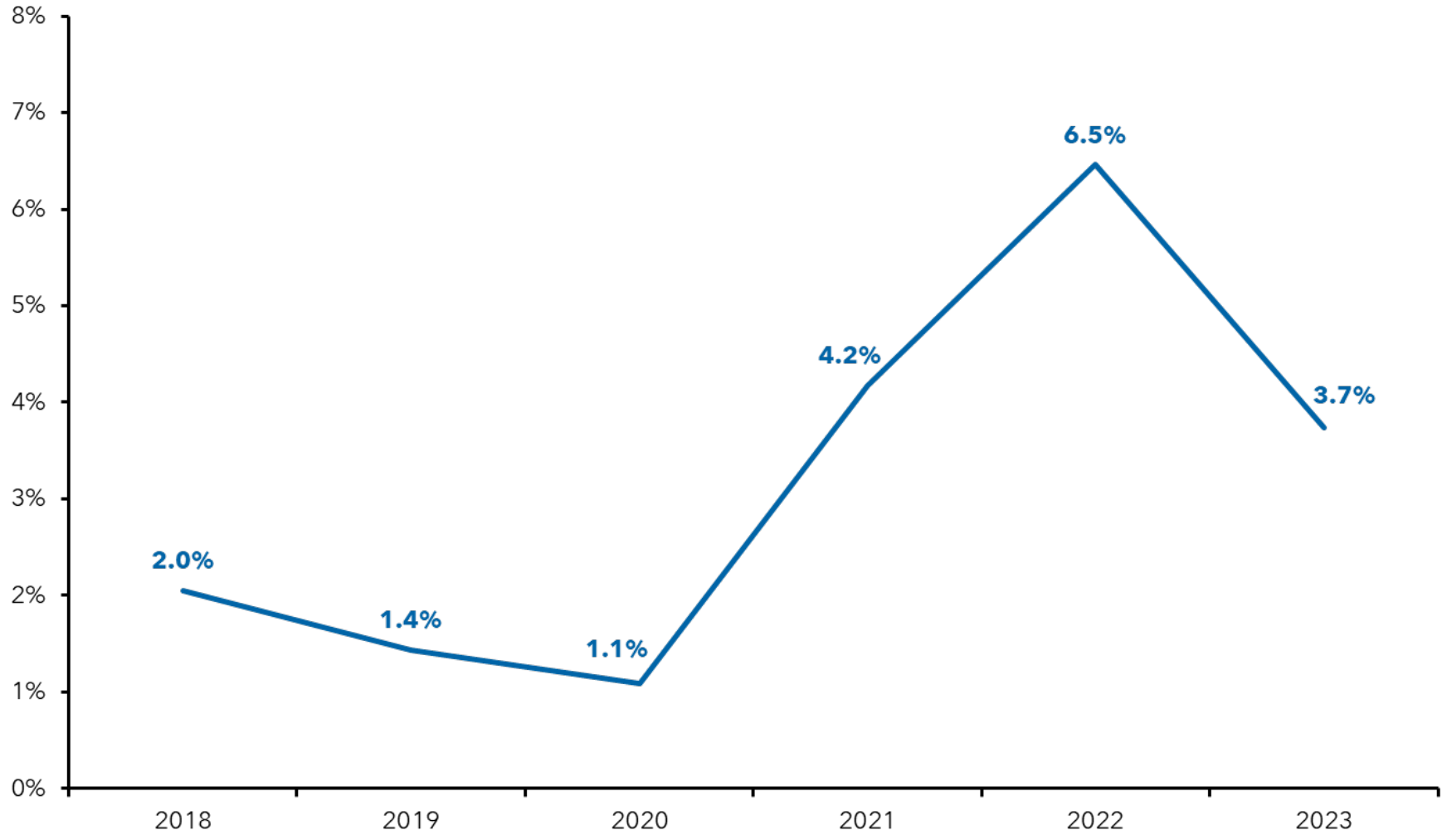
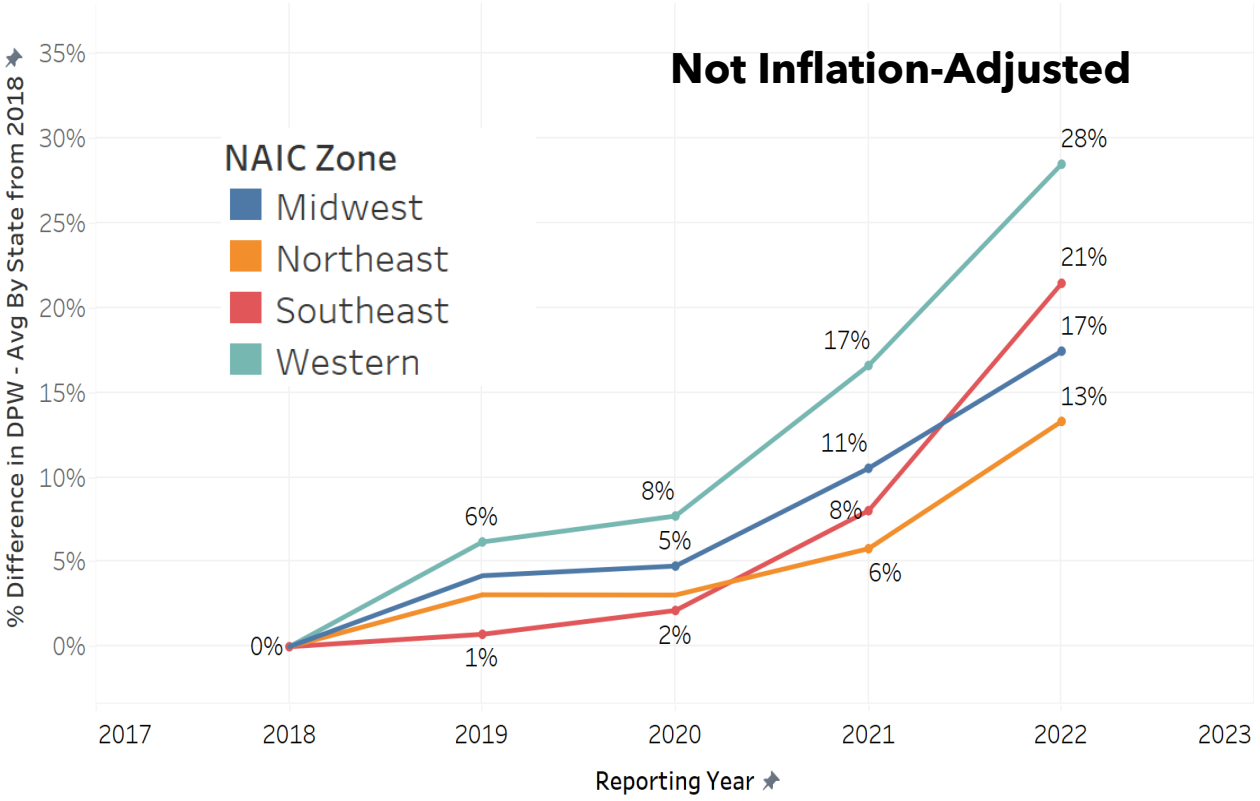
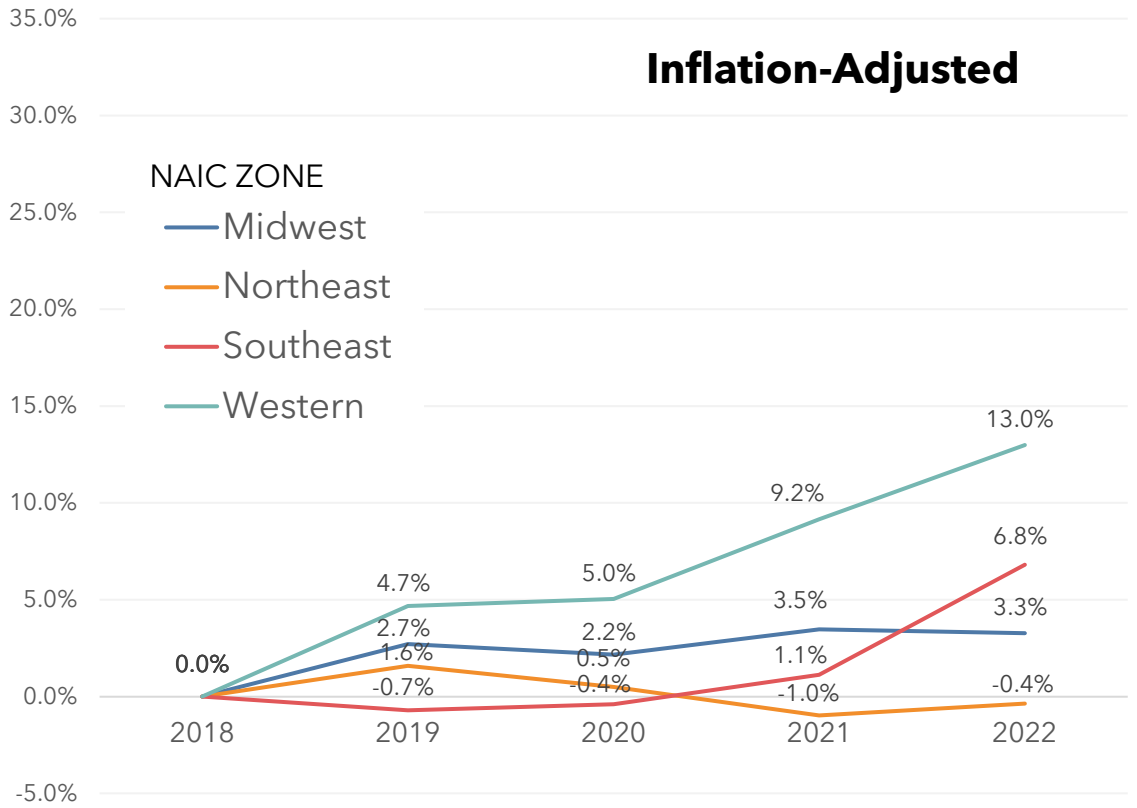
Annual Inflation Rate, 2018 – 2023



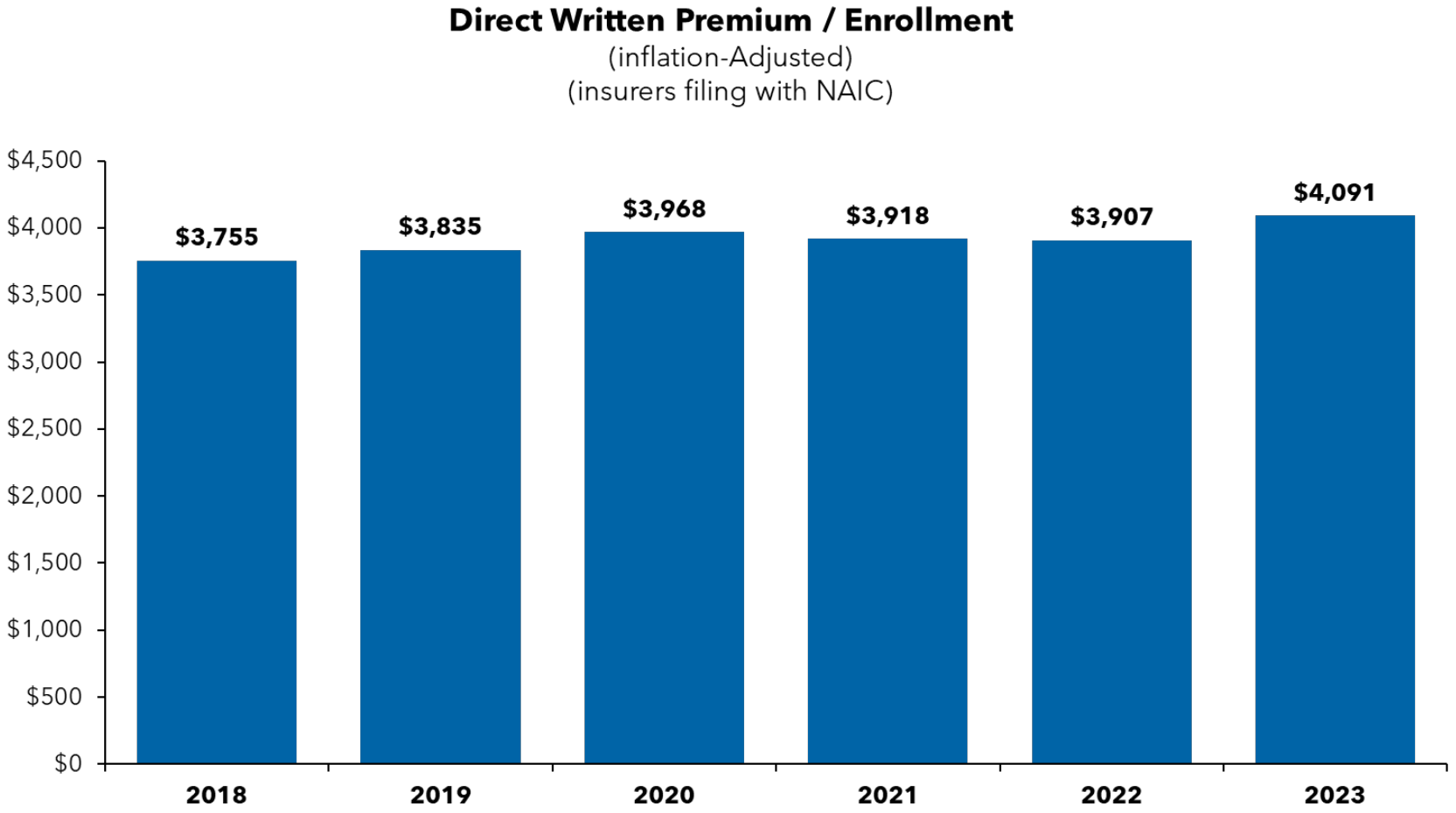
Source: U.S. Bureau of Economic Analysis

Insurance Premium data in Real Terms (in 2023 dollars)





Inflation-Adjusted Health Insurance Premiums, 2018 - 2022



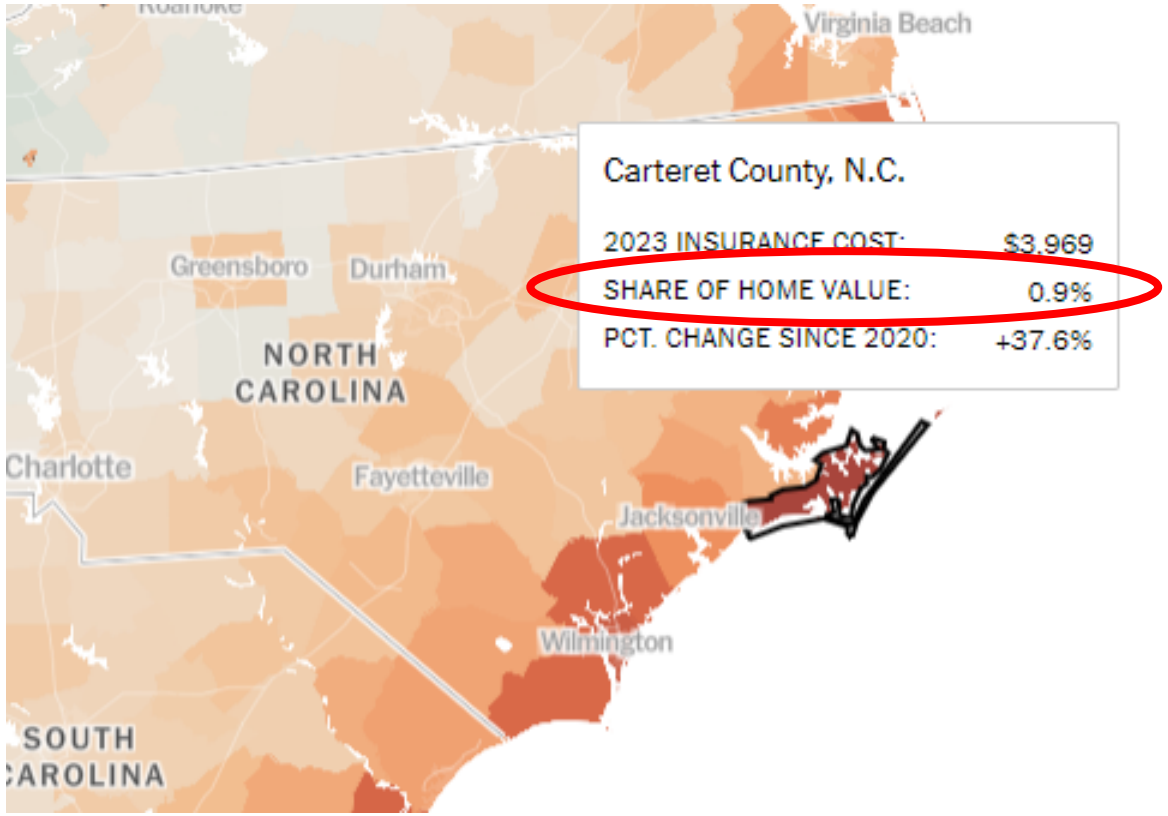
Source: NAIC, 2023 Annual Health Insurance Industry Analysis Report

Controlling for inflation, growth in health insurance premiums has been more restrained.

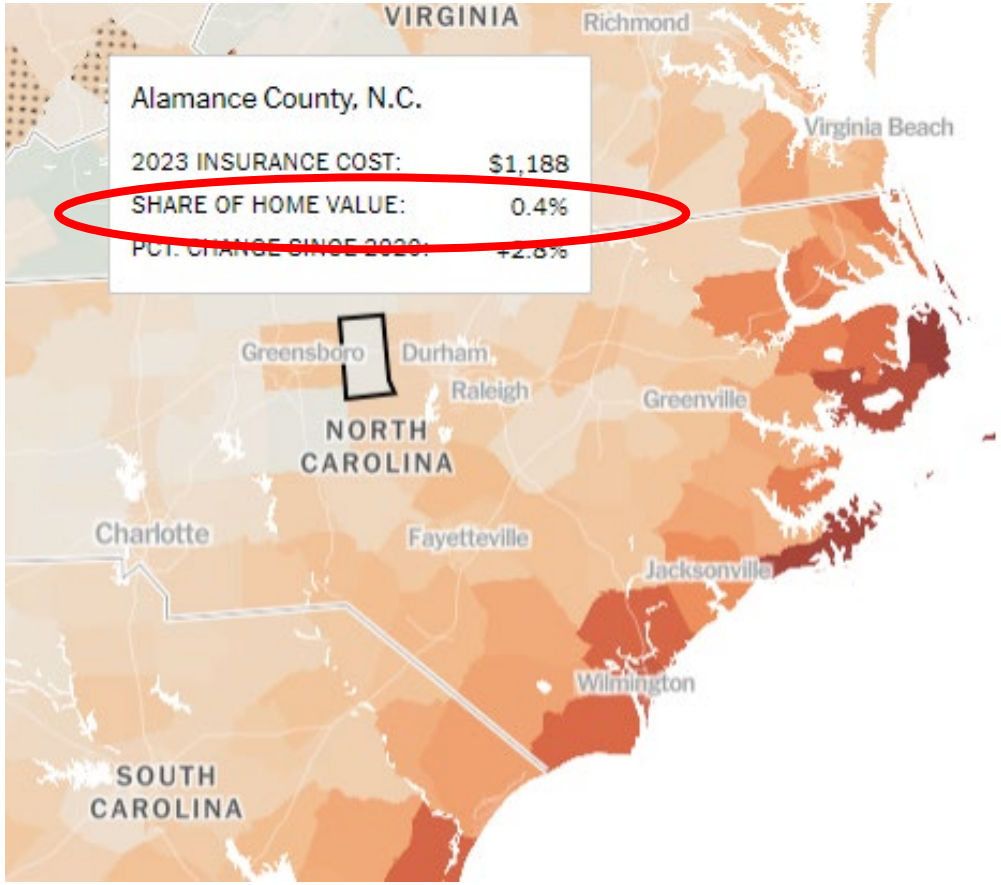
Compound Annual Growth Rate = 1.0%
(vs. 5.1% with no adjustment)

Average HO Market Premium – geographic specific data

Relatively High Risk

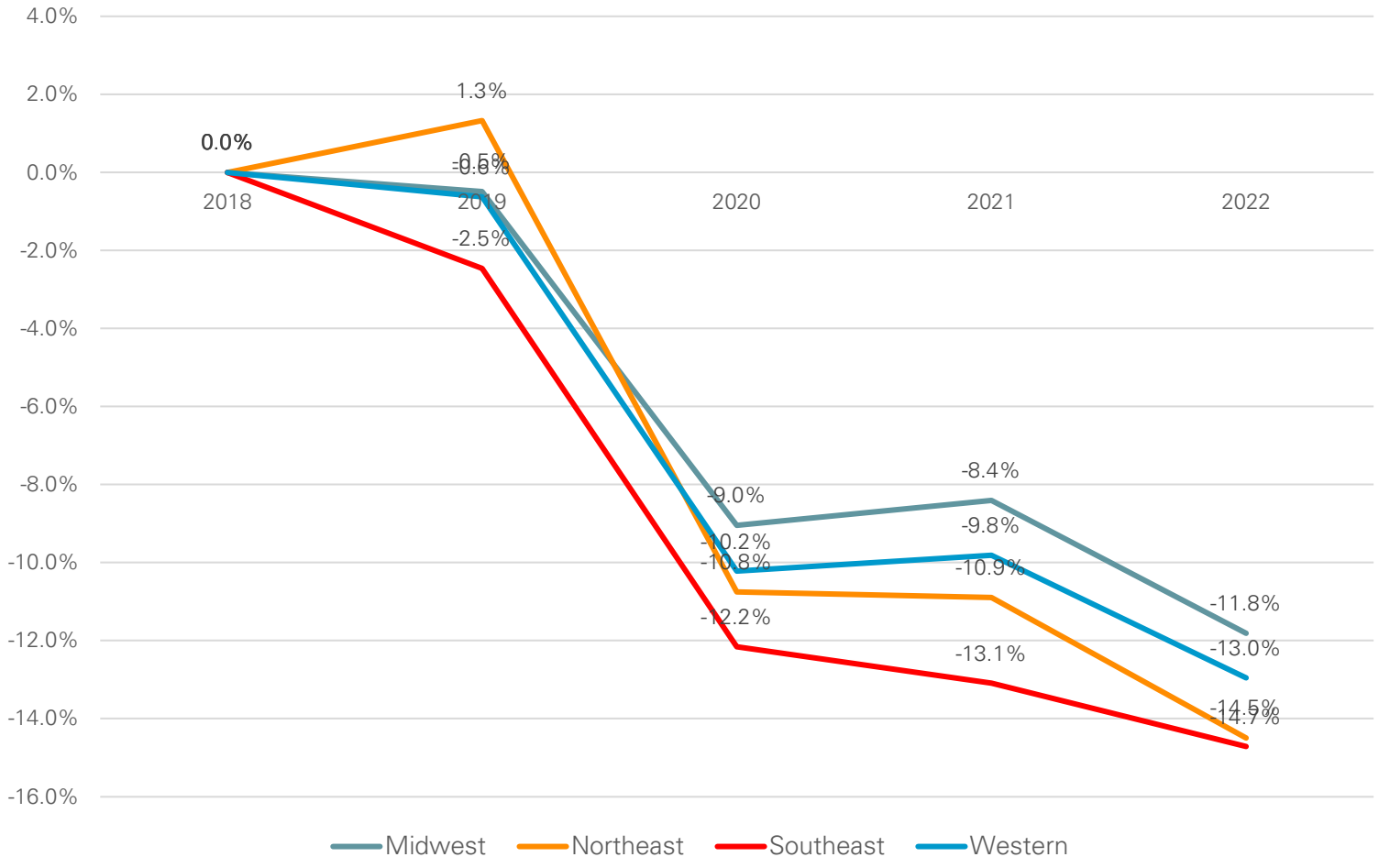


Relatively Low Risk



Source: https://www.nytimes.com/interactive/2024/07/08/climate/home-insurance-cost-county.html

Percentage changes from 2018 in **Average Effective HO insurance rate** = annual premium per $1000 of home value



Average effective HO insurance rates have decreased from 2018 to 2022 as median Home Values have increased more rapidly than average premiums during this timeframe – 39 percent vs. 19.7 percent respectively

Source: CIPR Calculations using NAIC Market Database - $127 billion in premium & 103 million policies in-force in 2022

* Median house values from the 1-year American Community Survey for 2018, 2019, 2021, and 2022 with 2020 data estimated by multiplying the 2019 data by the change in the state housing price index (HPI) from 2019 to 2020

**Average effective HO insurance rates decreasing from 2018 to 2022 are consistent with data from Freddie Mac published in March 2024 - https://www.freddiemac.com/research/forecast/20240320-us-economy-remains-robust. Our results are decreasing more significantly likely due to all HO policies types included in the numerator.

Rising Insurance Cost Trends and Affordability

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Some Key Considerations

- **Insurance rate regulation** => rates should be adequate (to prevent insolvency), not excessive (to prevent potential abuse of market power), and statistically related to losses (to ensure fairness and prevent unfair discrimination) [Grace, Leverty, and Powell, 2019]

- Costs of insurance = price
  - **Price = Willingness-to-pay ≠ Ability-to-pay**

- Affordability may not be showing up in cost data – e.g., possible that some policyholders have reduced coverage (or made other insurance policy trade-offs) in the face of higher premiums

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Should insurance rate regulation focus on the *affordability* of insurance?

- Yes
- No
- Not sure

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How would you measure affordability of homeowners insurance? (select all that apply)

- Premium percentage increases over time from specified baseline
- Premiums as a share of insured value
- Premiums as a share of home value
- Perception of the value/quality of the policy – price satisfaction
- Policyholder feedback (e.g., consumer complaints) – customer satisfaction
- Premiums as a share of income

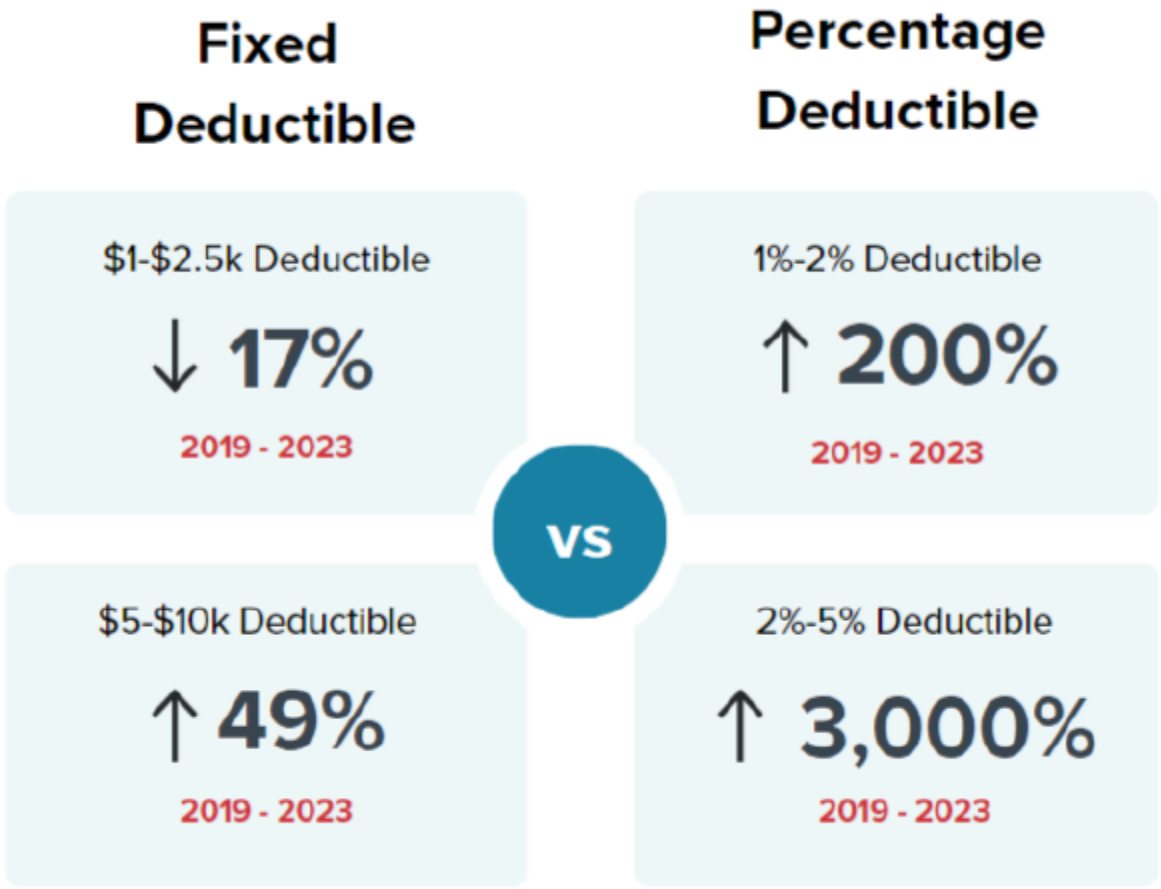
Health Insurance Premiums as Percentage of Income, by Income Group, 2018 - 2023

Health insurance has become less affordable over time, especially for those with incomes above 200% of the federal poverty line.

Income Relative to Poverty Line	2018	2019	2020	2021	2022	2023
< 200%	5.1%	5.2%	5.3%	5.2%	5.4%	5.4%
200% - 400%	4.4%	4.6%	4.5%	5.1%	6.2%	6.3%
> 400%	3.6%	3.7%	3.8%	3.5%	4.7%	4.8%

Notes: Survey data (individuals under 65 years and their households); Data are consumer portion of premium / income.
Source: Peterson-KFF Health System Tracker
Data Source: Medical Expenditure Panel Survey

HO Deductible Choices, 2019 - 2023



Source: https://www.rate.com/insurance/resources/how-to-navigate-the-home-insurance-market-in-2024/ - market survey of 50,000 home insurance policies in 2023, sourced from customers across all 50 states and insured with over 70 insurance carriers

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Insurance Research,
University of Alabama

Panelists Reference Slides

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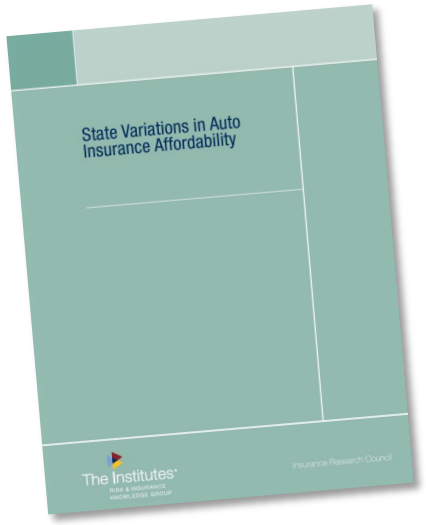
IRC's Affordability Research



RESEARCH BRIEF
September 28, 2021

Insurance Research Council
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Auto Insurance Affordability:
Countrywide Trends and State Comparisons

The affordability of auto insurance is an important public policy issue, given the requirements in nearly all states for drivers to maintain minimum coverage. While some current affordability conversations focus on differing opinions about how insurance costs should be distributed and shared, underlying costs ultimately drive overall affordability. Examining the cost drivers in different states can reveal opportunities for improving affordability for all consumers.

Underlying costs ultimately drive overall affordability.

IRC has developed a measure of auto insurance affordability, the affordability index, which is the ratio of average auto insurance expenditures to median household income. It measures the proportion of household income used to pay for auto insurance; a higher index indicates less affordable insurance. Data for median household income are from the U.S. Census Bureau. Data on average auto insurance expenditures are published by the National Association of Insurance Commissioners (NAIC).[1] While some studies of affordability estimate insurance costs by gathering rating quotes for minimum coverage, the NAIC measure provides an estimate of what consumers actually spend per insured vehicle. As such, the data reflect differences between states in terms of coverage requirements, policy selections, tort laws, and other factors.[2]

The goal of calculating an affordability index is not to establish a particular threshold at which auto insurance becomes affordable or unaffordable. Such a threshold would be subjective, as different parties can reasonably disagree about what would constitute affordable insurance. Rather, the index is a tool to measure and compare auto insurance affordability over time and across jurisdictions.

[1] National Association of Insurance Commissioners, *Auto Insurance Database Report 2017/2018*, March 2021, (https://content.naic.org/sites/default/files/publication-aut-pb-auto-insurance-database.pdf).
[2] Federal Insurance Office calculates a similar affordability index, based on estimated premiums for liability coverages meeting each state's financial responsibility laws. See *Study on the Affordability of Personal Automobile Insurance*, January 2017, (https://www.treasury.gov/initiatives/fio/reports-and-notices/documents/fina%20auto%20affordability%20study_web.pdf).

- IRC objectives in studying affordability:
  - Develop a method to define and measure affordability
  - Describe affordability over time and across states
  - Examine key cost drivers of personal insurance
- How to measure the cost of insurance?
  - Which product? Which price?
  - We rely on NAIC average expenditure data
- The IRC's measure of insurance affordability:
  - Calculated as the ratio of average auto insurance expenditures to median household income
  - Higher ratio = less affordable insurance
  - Does not establish a specific threshold at which insurance becomes unaffordable

Cost Drivers Are the Key to Insurance Affordability

- What factors make insurance expensive in each state?
- Which factors can be influenced by public policy?

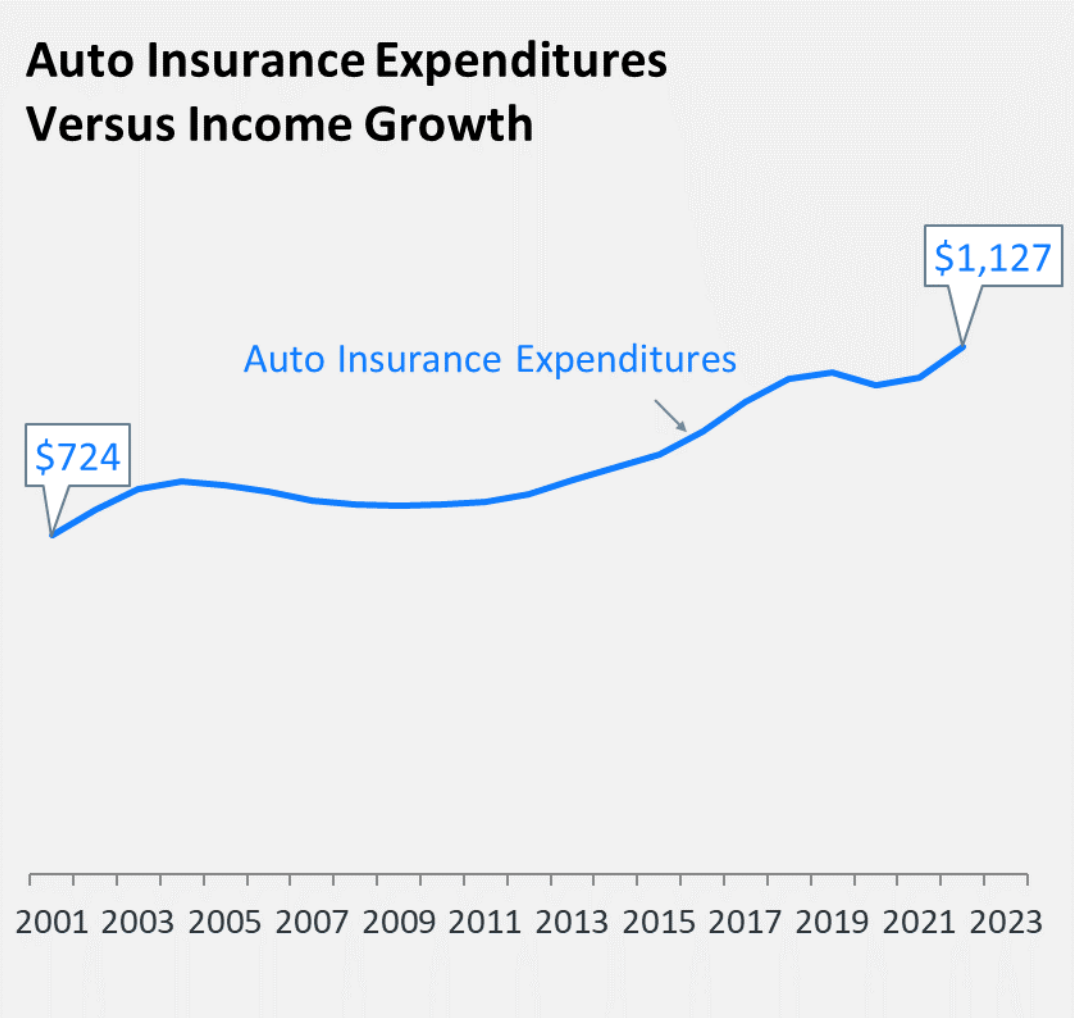
Key Auto Cost Drivers:

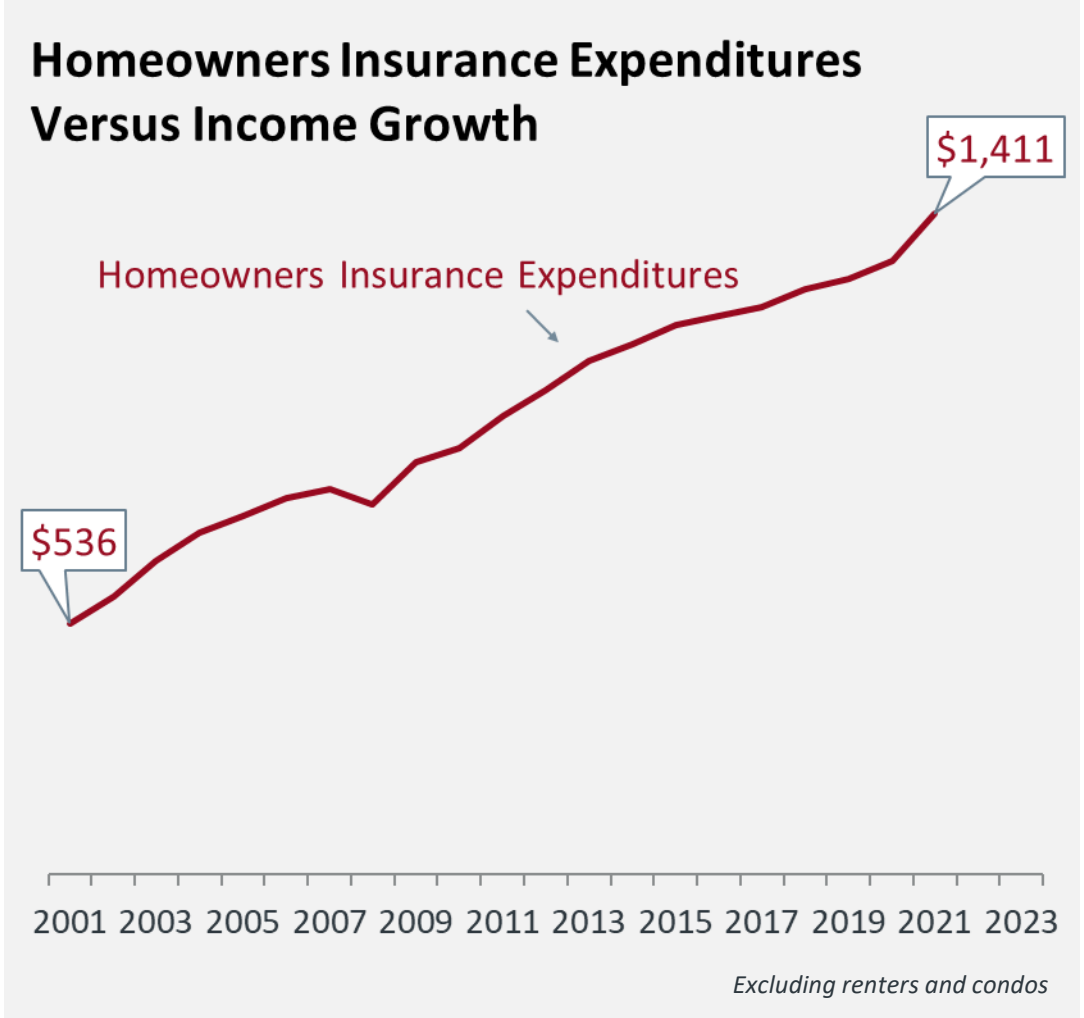
- Accident frequency
- Repair costs
- Relative injury claim frequency
- Injury claim severity
- Expense costs
- Litigation
- Uninsured and underinsured motorists

Key Homeowners Cost Drivers:

- Natural risk exposure
- Claim frequency and severity
- Catastrophe vs non-catastrophe
- Expense costs
- Litigation

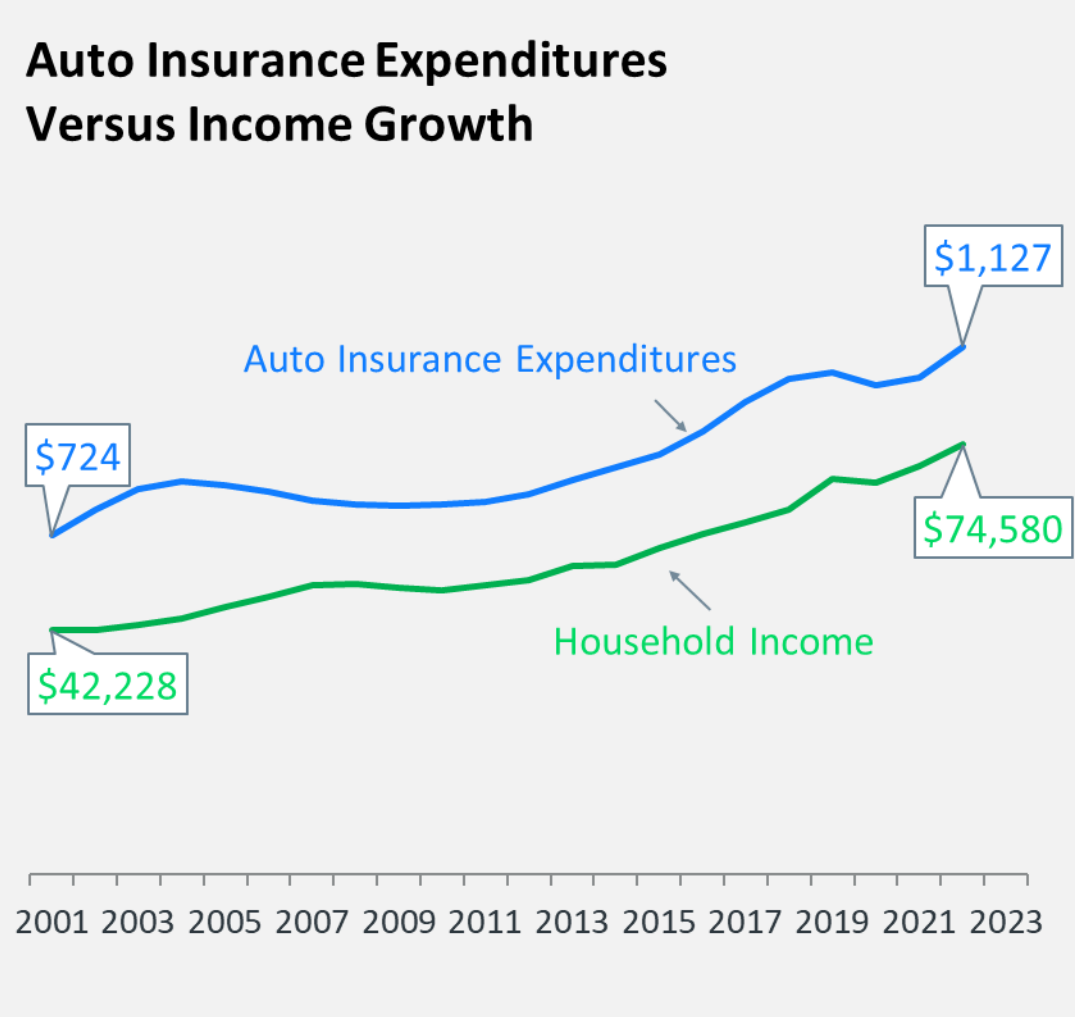
Insurance Expenditures Compared to Income

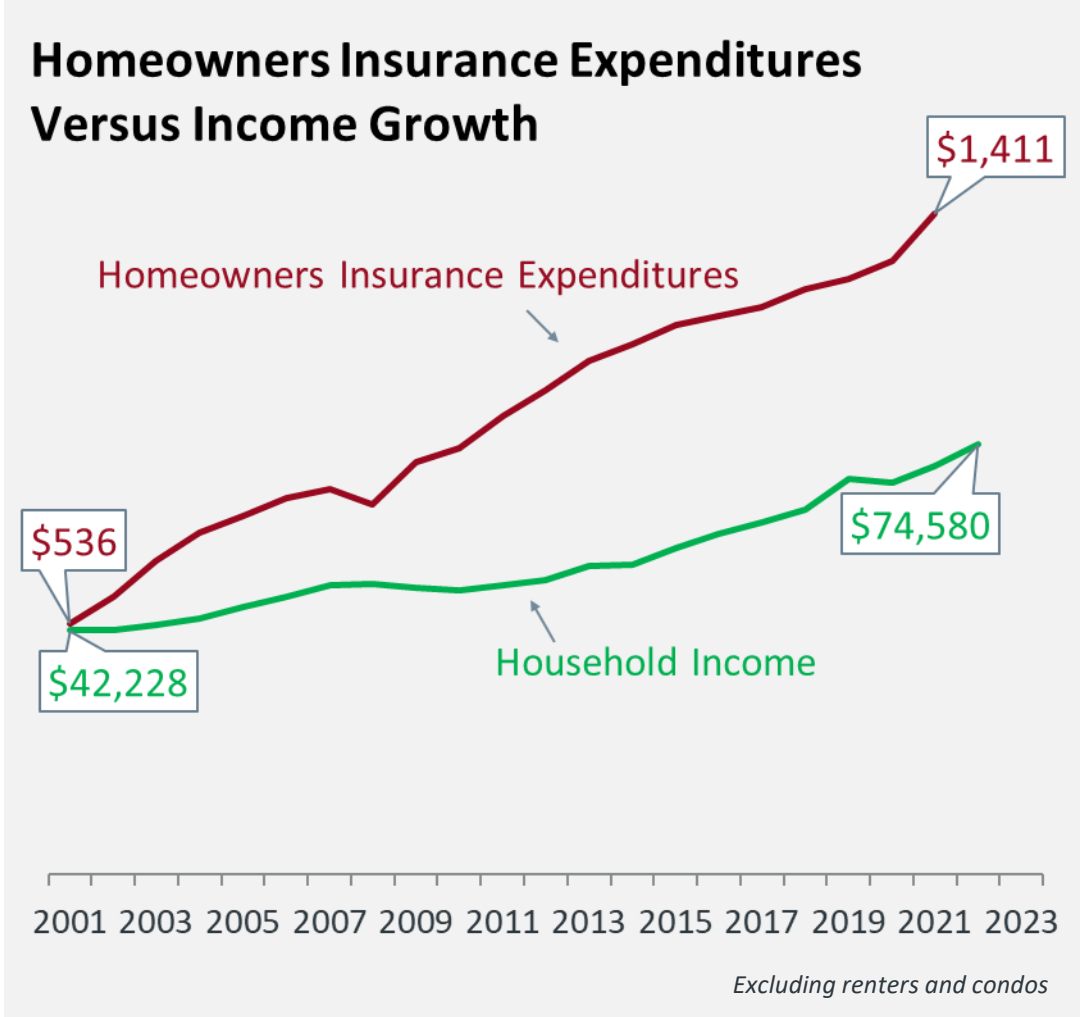




Sources: NAIC's Auto Database Report;
NAIC's Dwelling Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condo/Cooperative Unit Owner's Insurance Report;
U.S. Census Bureau

Insurance Expenditures Compared to Income





Sources: NAIC's Auto Database Report;
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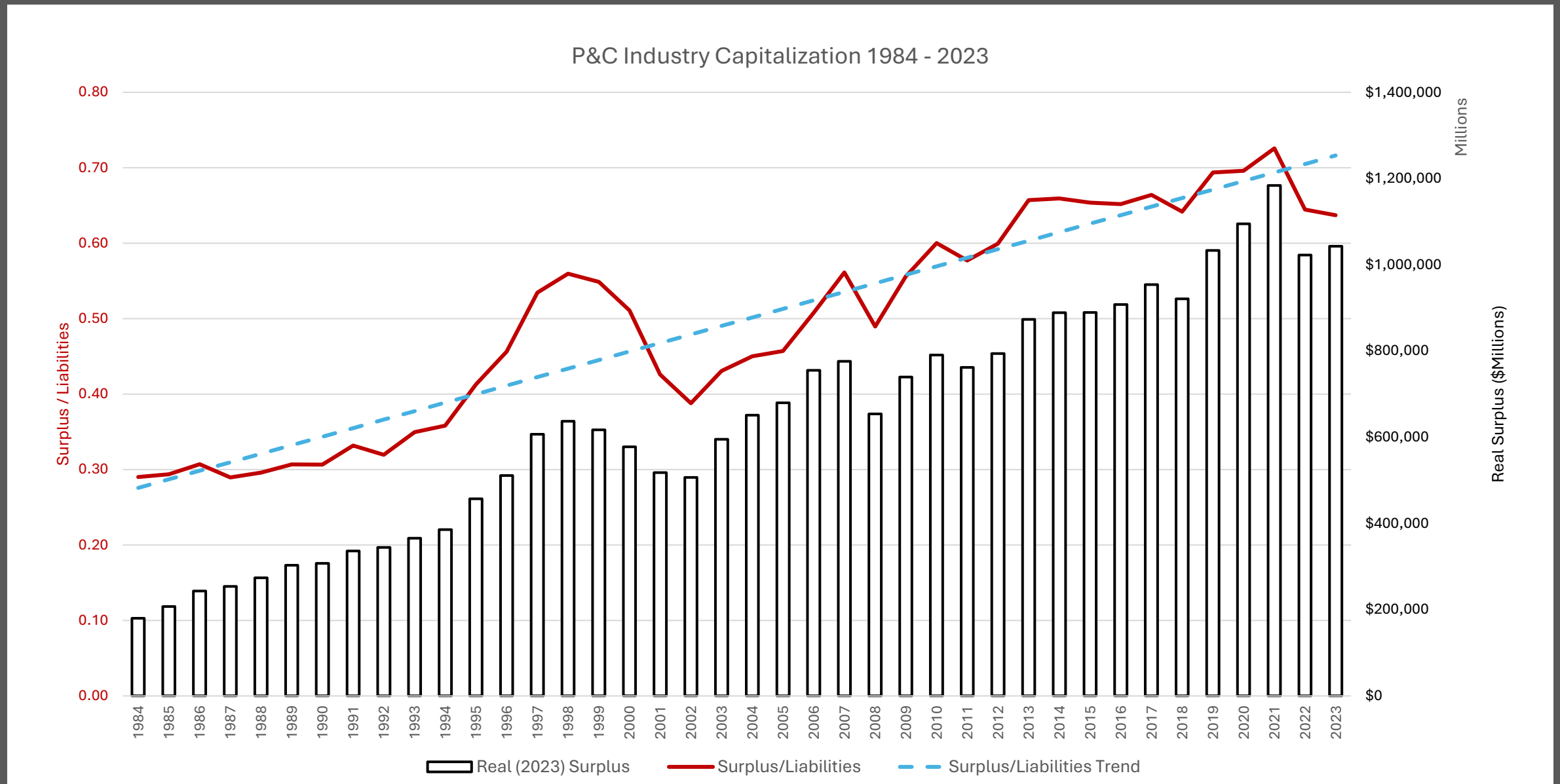
P&C Industry Capitalization 1984 - 2023
Surplus / Liabilities
0.80
0.70
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0.50
0.40
0.30
0.20
0.10
0.00
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$400,000
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Real Surplus ($Millions)
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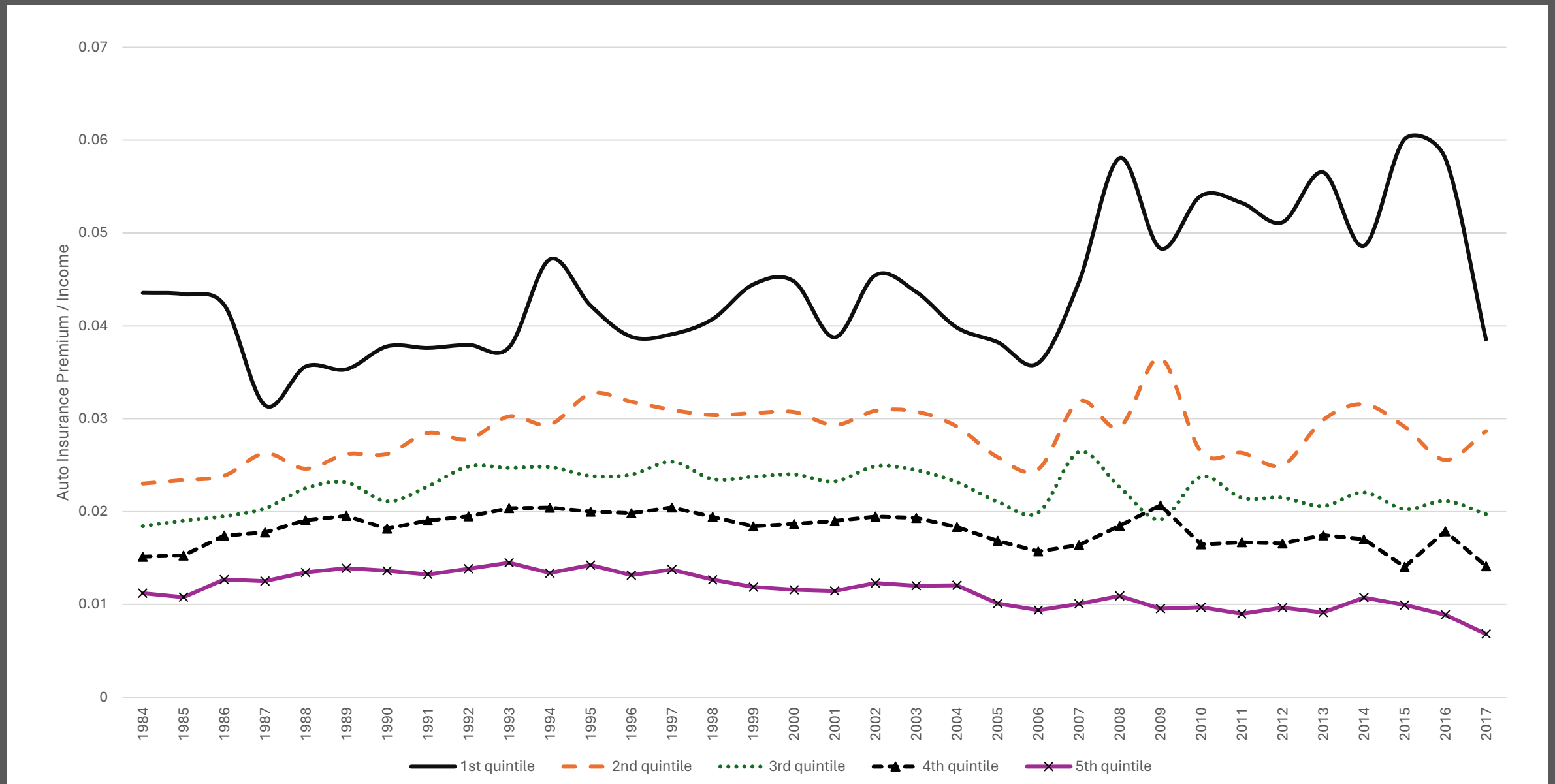
Real (2023) Surplus
Surplus/Liabilities
Surplus/Liabilities Trend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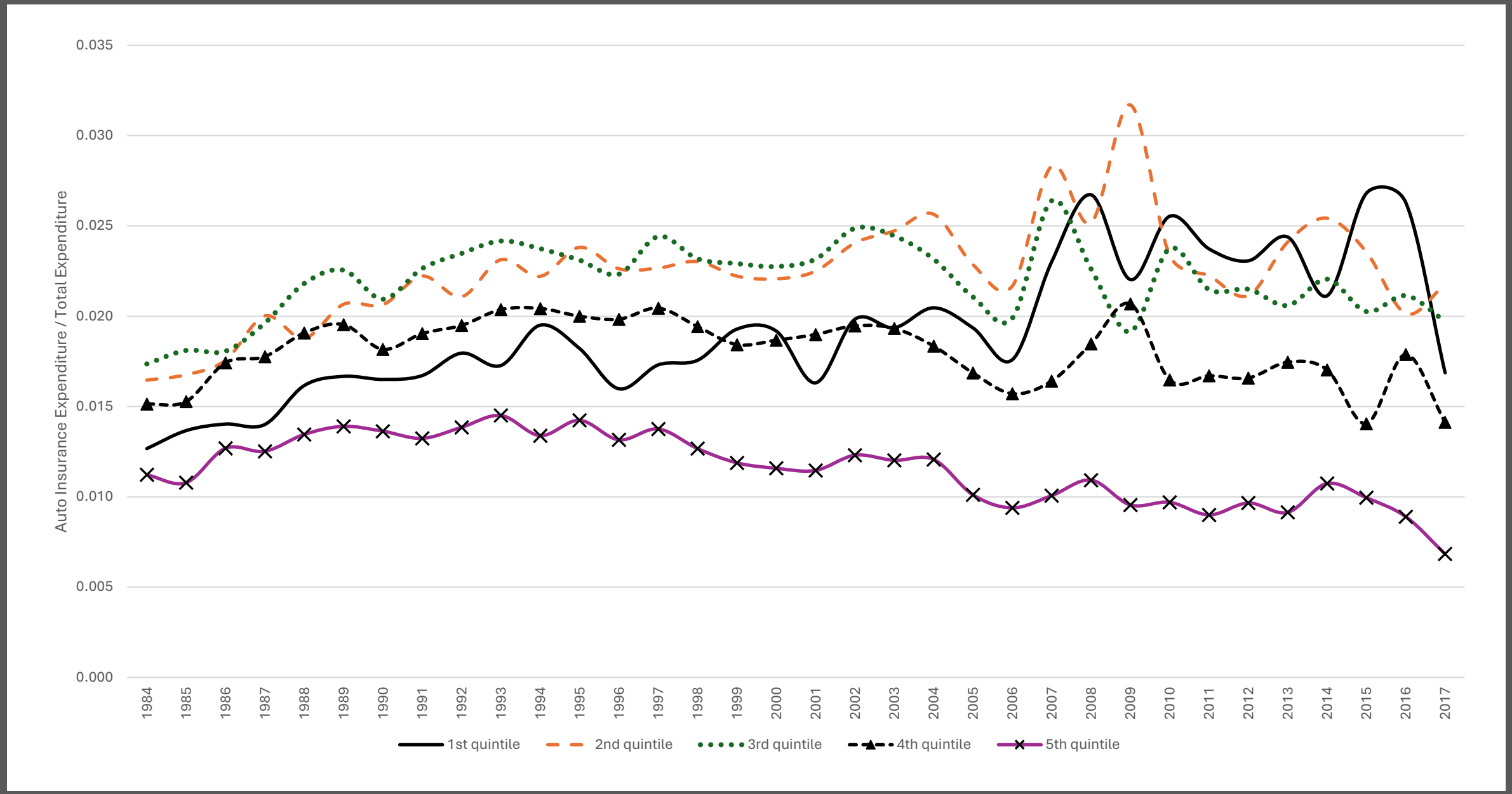
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Auto Insurance Expenditure / Total Expenditure
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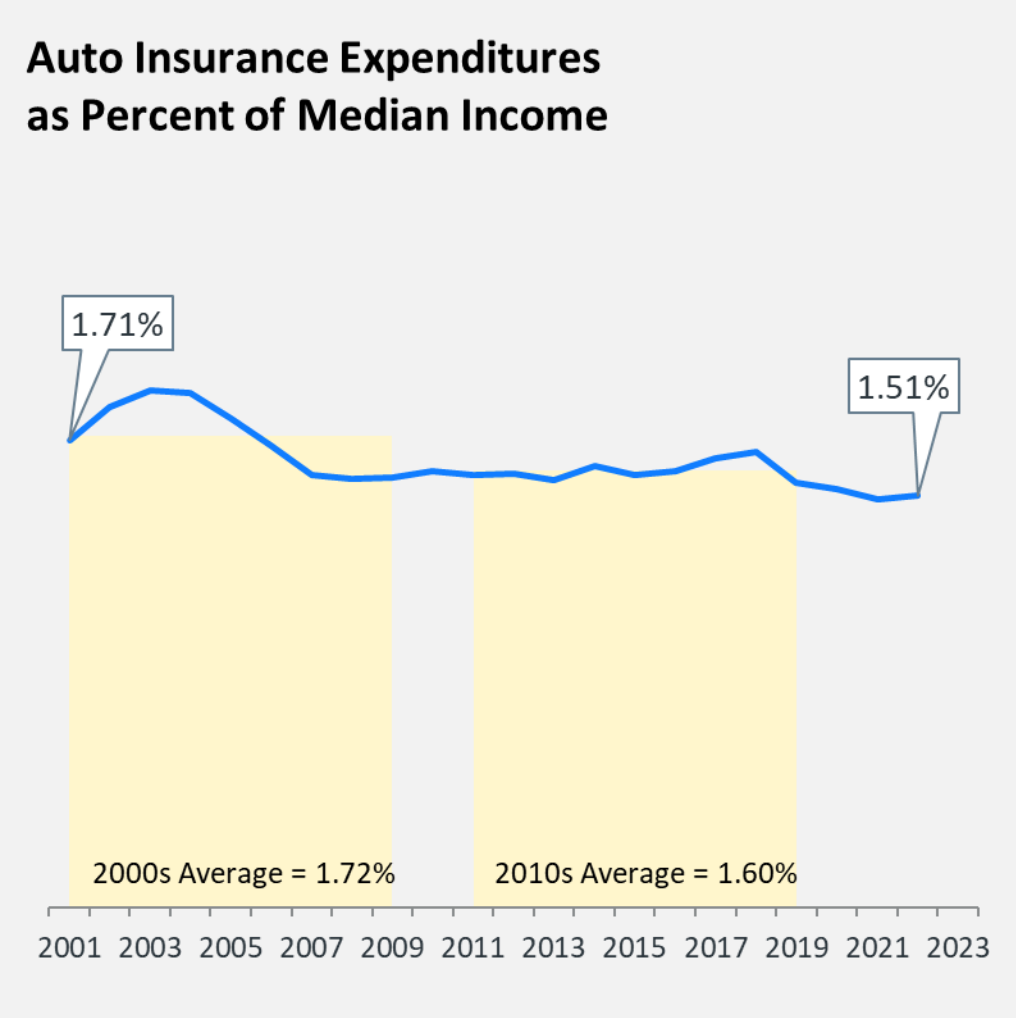
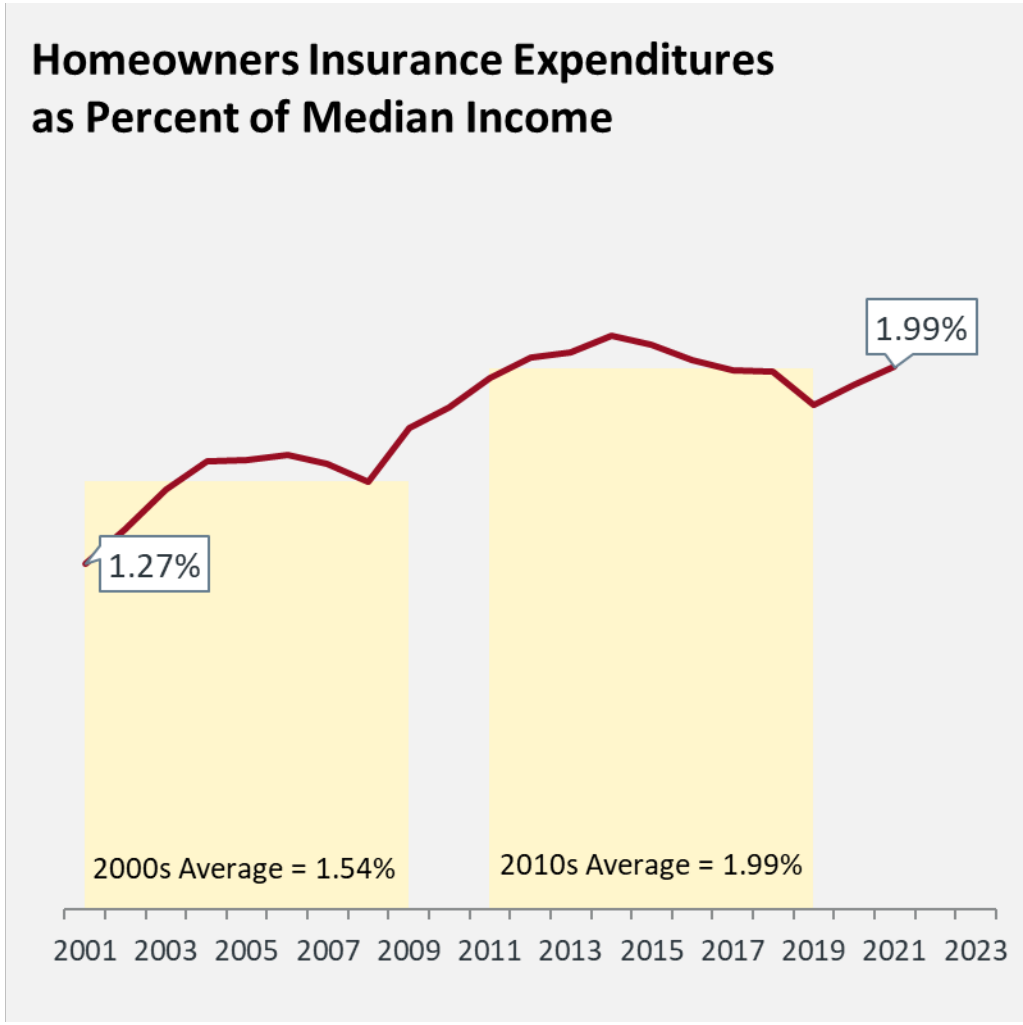
2nd quintile
3rd quintile
4th quintile
5th quintile

IRC's Affordability Index





More Affordable

Less Affordable

IRC's Affordability Index – Projections Through 2023

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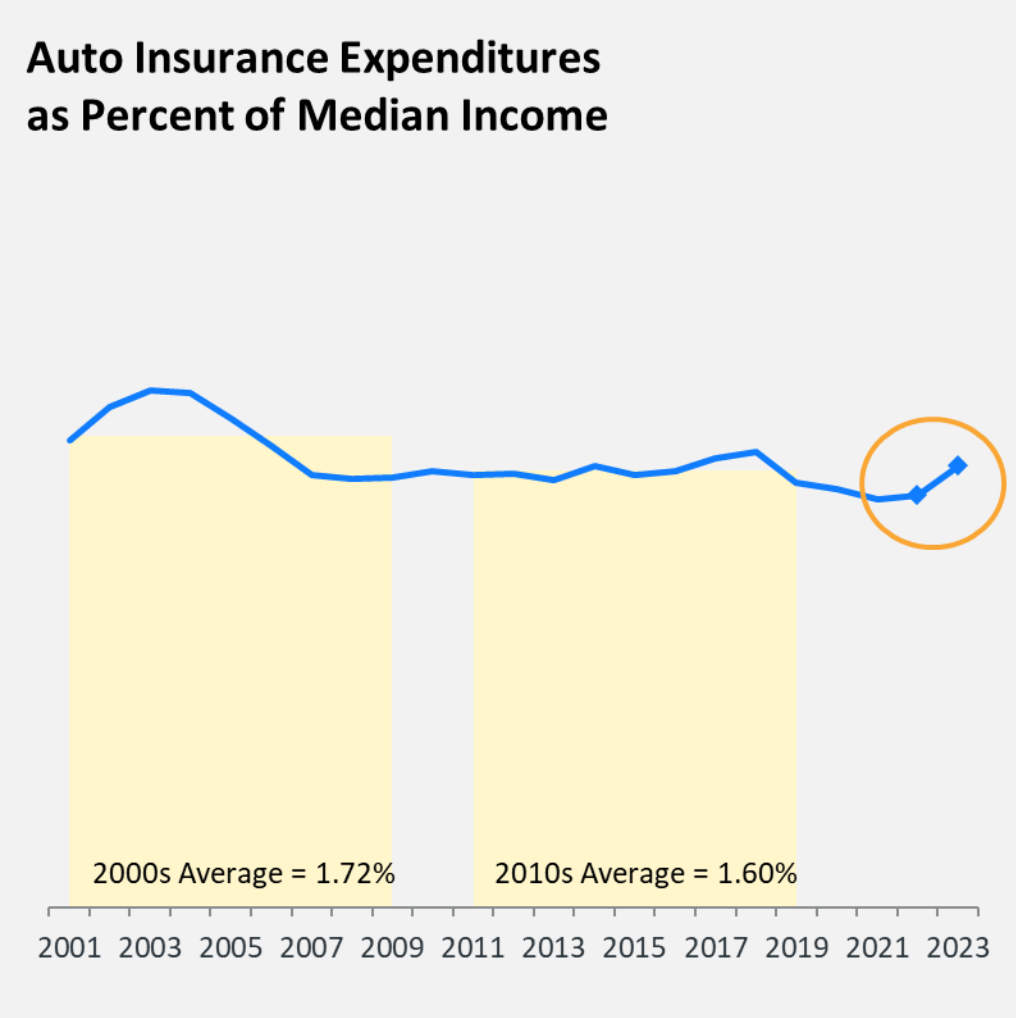
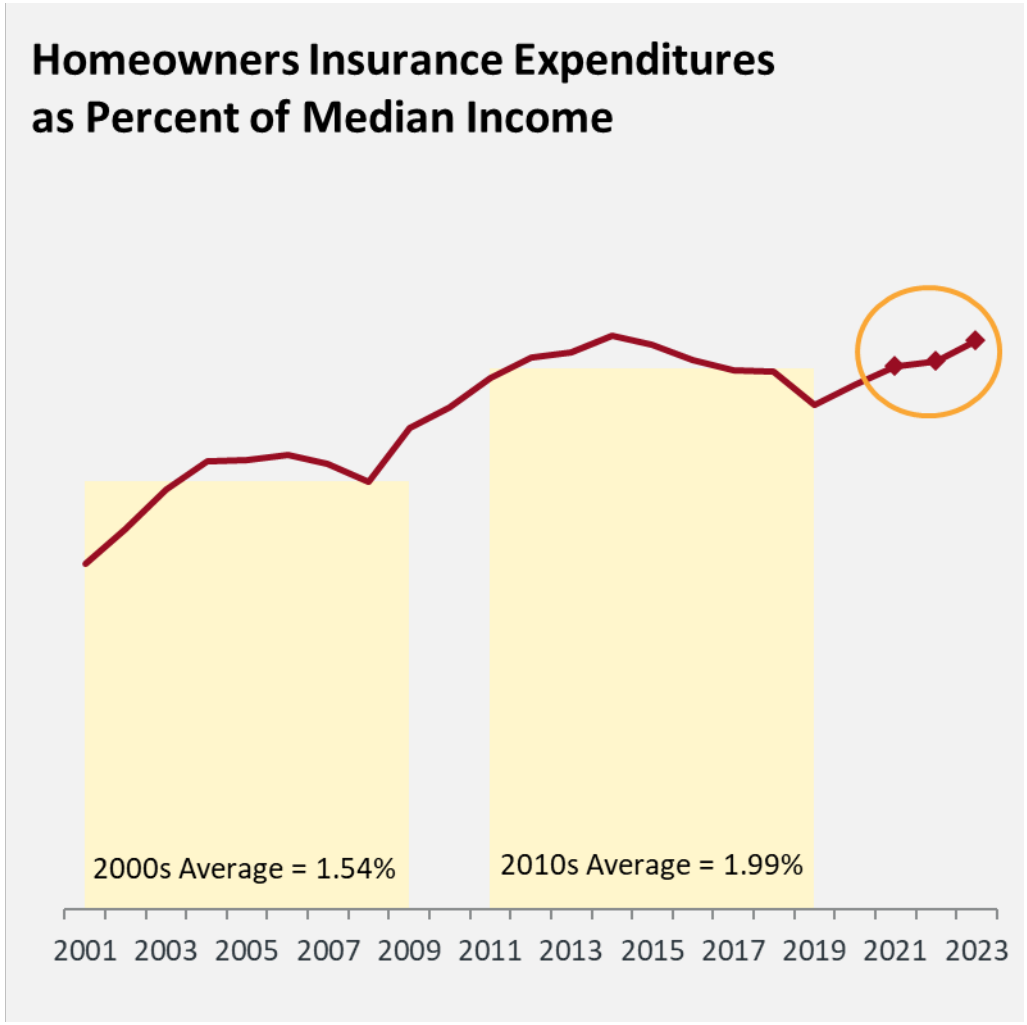




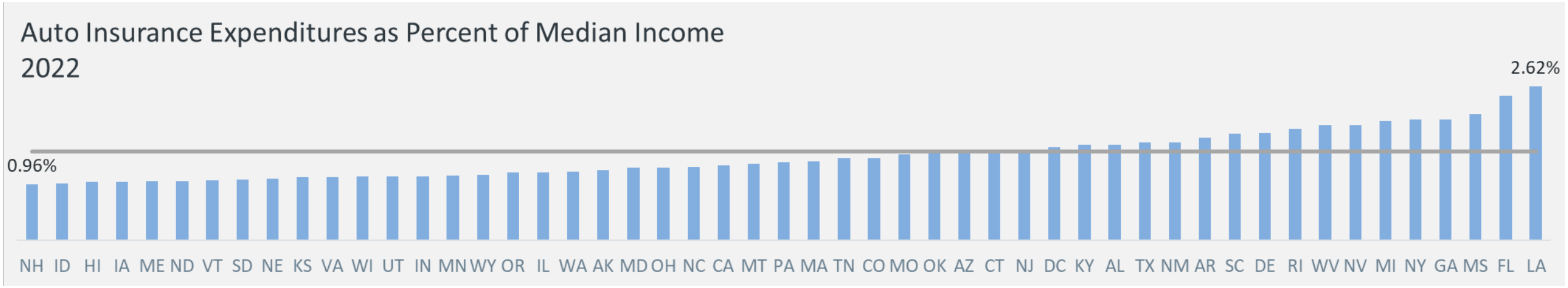
More Affordable

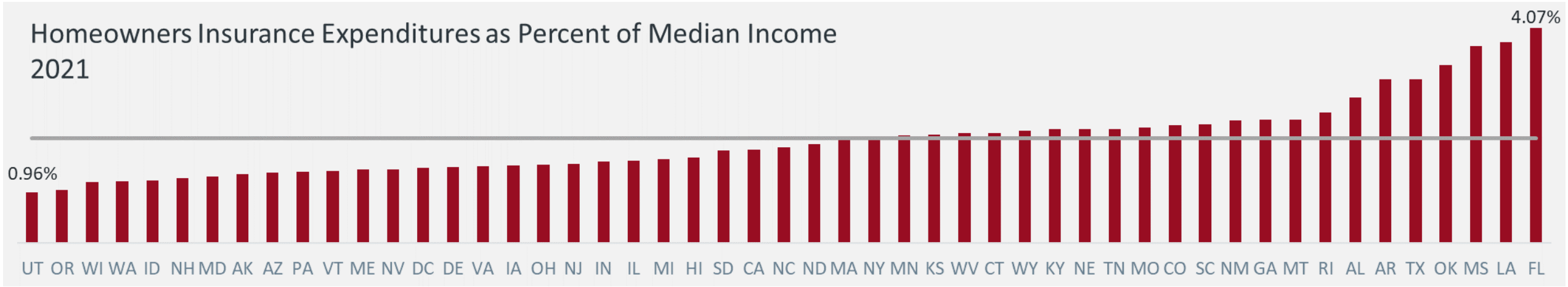
Less Affordable

40 *Based on projections from the Insurance Information Institute*

Wide Range of Insurance Affordability by State

Most Affordable ⟵ ⟶ Least Affordable





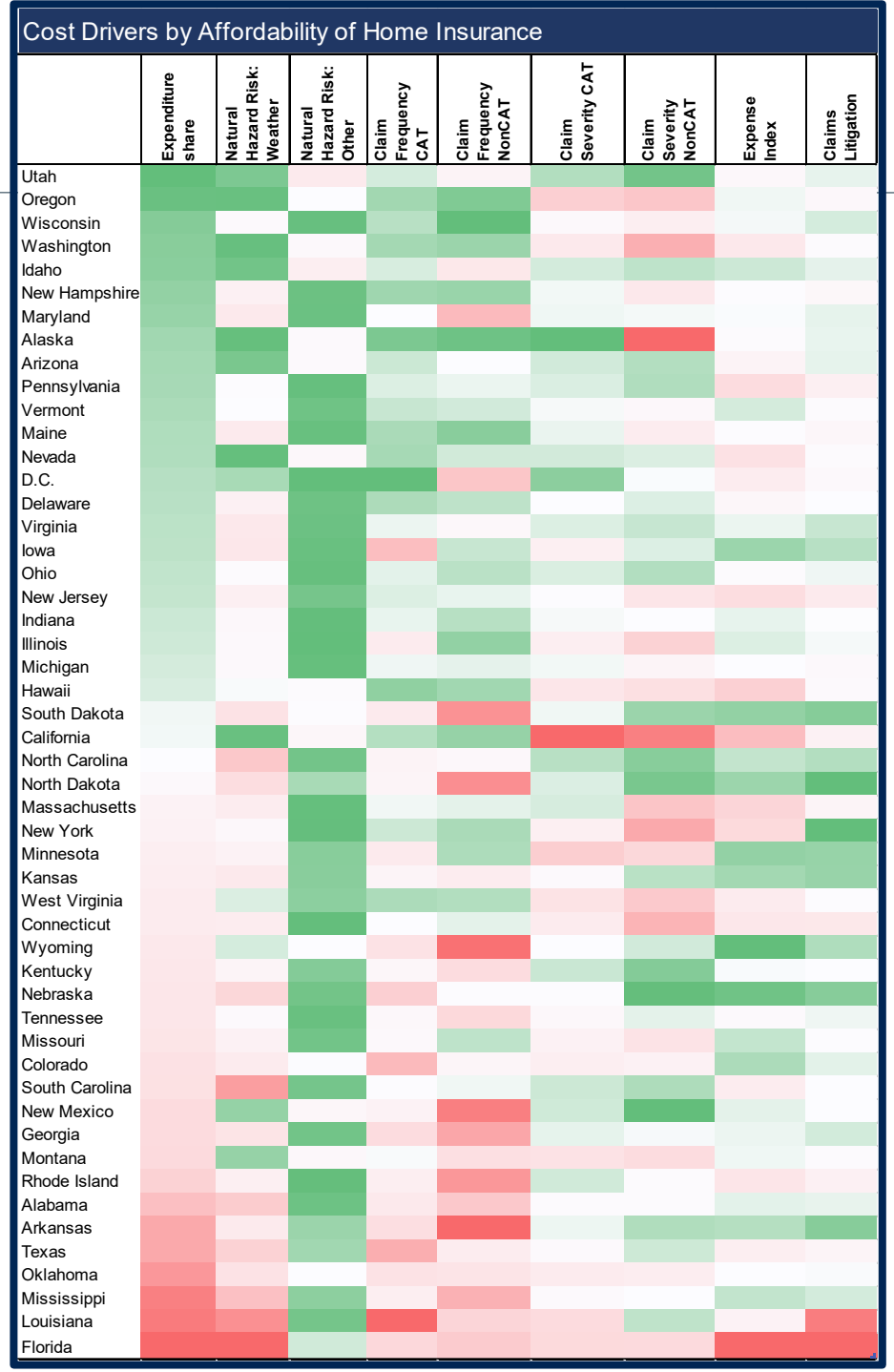
Homeowners Insurance Cost Drivers Matrix

Expenditure Share of Income

Key Homeowners Cost Drivers:

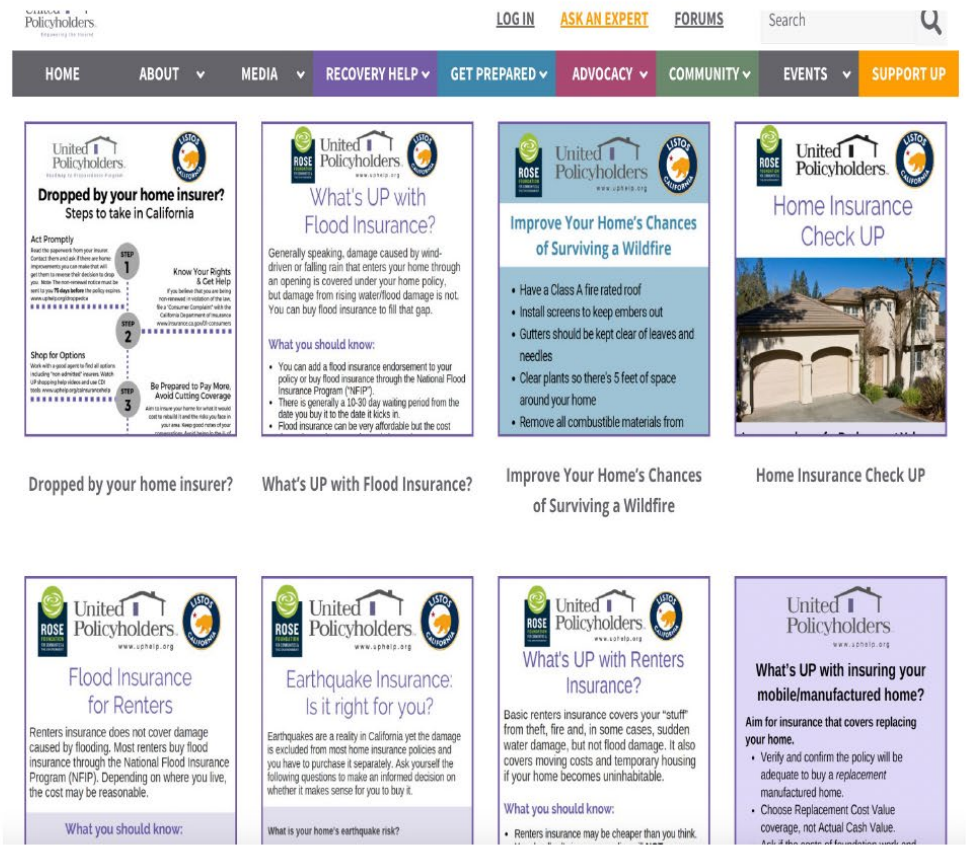
- Natural weather risk exposure
- Other natural risk exposure
- Claim frequency for catastrophe
- Claim frequency for non-catastrophe
- Claim severity for catastrophe
- Claim severity for non-catastrophe
- Expense costs
- Litigation

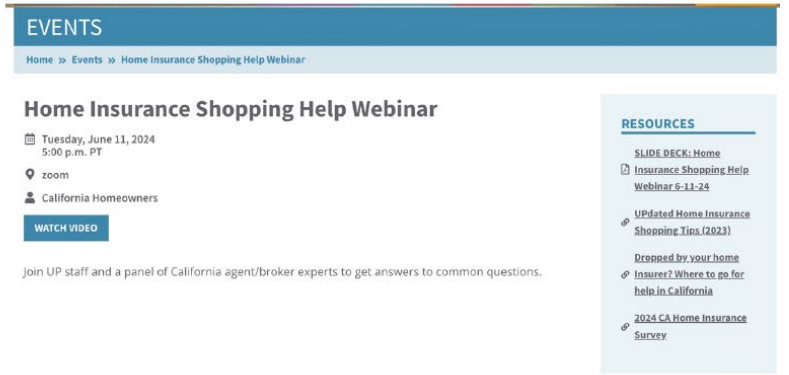
Red highlights show less favorable rankings and green highlights show more favorable rankings



UP is a 33 year old 501(c)(3) national insurance consumer non-profit

Our website, (www.uphelp.org) staff, programs, volunteers and guidance help over 500,000 people each year





Consumer surveys show fairly consistent patterns

Rate stability is a priority

Simplicity is a priority

Essential protection is a priority

Affordability is a priority but highly subjective

When you are choosing an insurance policy, what matters most to you? Please choose one option per pair of statements below (Q2)			
	% Selecting Response		
	Total Sample (n=1001)		
Getting the cheapest policy possible	35%	65%	Getting the most coverage possible
Only insuring against catastrophic risks	21%	79%	Insuring against all risks

Consumer perceptions

- *I really want to continue and hope to renew once I can afford it. It makes me very nervous not to have insurance but I have no funds to pay for it.*
- *Cannot do automatic payments. Too expensive.*
- *Everything in the state - taxes on everything, housing prices, food prices...is inflating to the point people need to cut expenses where they can.*
- *Who of middle class with income of under 100k has 70k laying around to cover the deductible. Maybe 1 in 50 people may have it.*
- *I'm on a fixed income and this policy is too costly for me.*
- *This year's earthquake insurance went up by almost $500! $500! Insane amount. This household only has 1 income, lost working hours, one person on disability and all expenses are way up. We just can't afford it. PLEASE DO SOMETHING AND HELP US, the homeowners.*

Source: CEA – POLICY CHANGE SURVEY RESULTS November 2021

Skepticism about insurer integrity factors in

- *Insurance prices are out of control and there are so many rules that mean that insurance companies don't have to pay out.*
- *My rate TRIPLED even though my area has never had a _____. The increase was completely unjustified.*
- *Even when we reduced it down to the bare minimum the premium was ridiculously high for the lack of coverage. Bait and switch tactic so canceled.*
- *They reeled us in with reasonable premium in the beginning then every year there after the premium just goes up and up substantially.*
- *Last earthquake, I had [insurer] and $69,000 damage, ins. paid $98 for food loss. I had to join a class action suit to get the rest.*
- *Doubts about whether CEA would pay claims (e.g., The policy doesn't guarantee anything. I am gambling with this plan...feels like throwing money away and when the worst happens I will be left with nothing. Better to save money in my own account and pay for losses myself!*

Consumers who haven't experienced a CAT loss

- Want more comprehensive coverage, but not at the expense of higher premiums.
- When faced with the reality of what more coverage costs, ~3 in 4 prefer to maintain current rates with basic coverage options
- 72% prefer to maintain with basic policy vs. a policy that offers access to a wide range of options/more complete coverage
- 74% prefer to maintain vs. insuring against unlikely mega CAT
- 70% prefer fairly steady rates across the board w/ less coverage options. Maintaining current premium is appealing because 1) it's simply what they can afford, and 2) consumers don't feel they need protection against an extremely destructive but extremely unlikely event, especially if it comes at a higher cost.

Source: CEA – POLICY CHANGE SURVEY RESULTS November 2021

Consumers who have experienced a CAT loss

Understand the pain of being underinsured

- Lobby for dwellings to be insured to value
- Lobby for 3 years of ALE/temporary rent
- Lobby for mandatory code upgrade coverage and extended RC

Consumers in regions where low availability is at a crisis level

- Are willing to pay more to keep insurance through a company they know
- Don’t trust insurers to be honest about the rates they truly need
- Are being inundated with expensive TV ads by insurers, the cost of which that make them wonder about the legitimacy of rate increases

Our challenge:
Maintain both essential coverage and affordability

Product design resources:

- Consumer surveys/decision-making research
- State Fair Plans/Citizens/NFIP policies
    - Capped max dwelling, contents limits
    - Limited or no ALE, capped contents
    - Options: RCV or ACV, code upgrade, extended coverage
- The Rutgers Center for Risk and Responsibility and United Policyholders' Essential Protections project https://epp.law.rutgers.edu/

United Policyholders
Empowering the Insured

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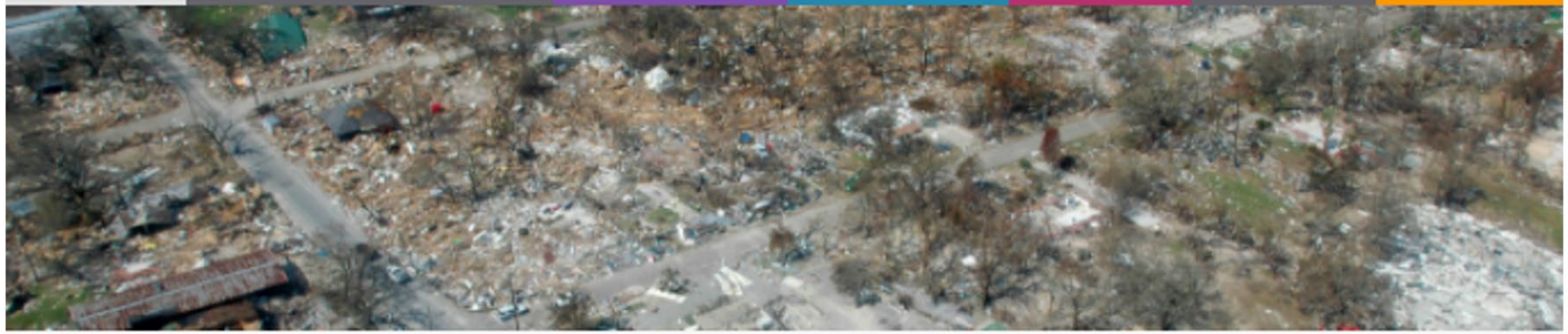

We've got your back when insurance matters

United Policyholders (UP) is a non-profit 501(c)(3) whose mission is to be a trustworthy and useful information resource and a respected voice for consumers of all types of insurance in all 50 states. We don't take money from insurance companies. We give you the straight scoop. Guide you on buying insurance and navigating claims. Fight for your rights.

info@uphelp.org | www.uphelp.org

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Other Reference Slides

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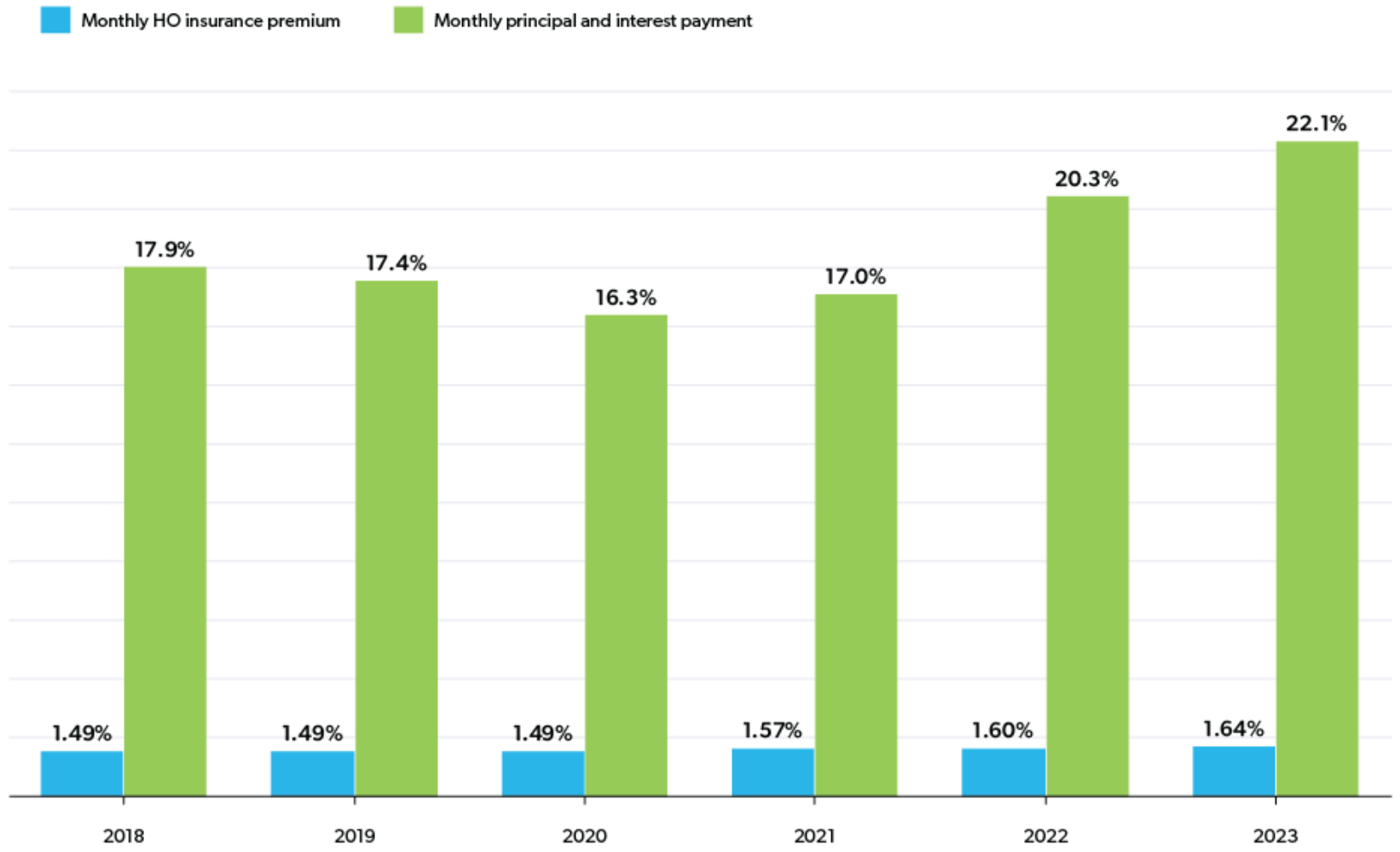
EXHIBIT 4

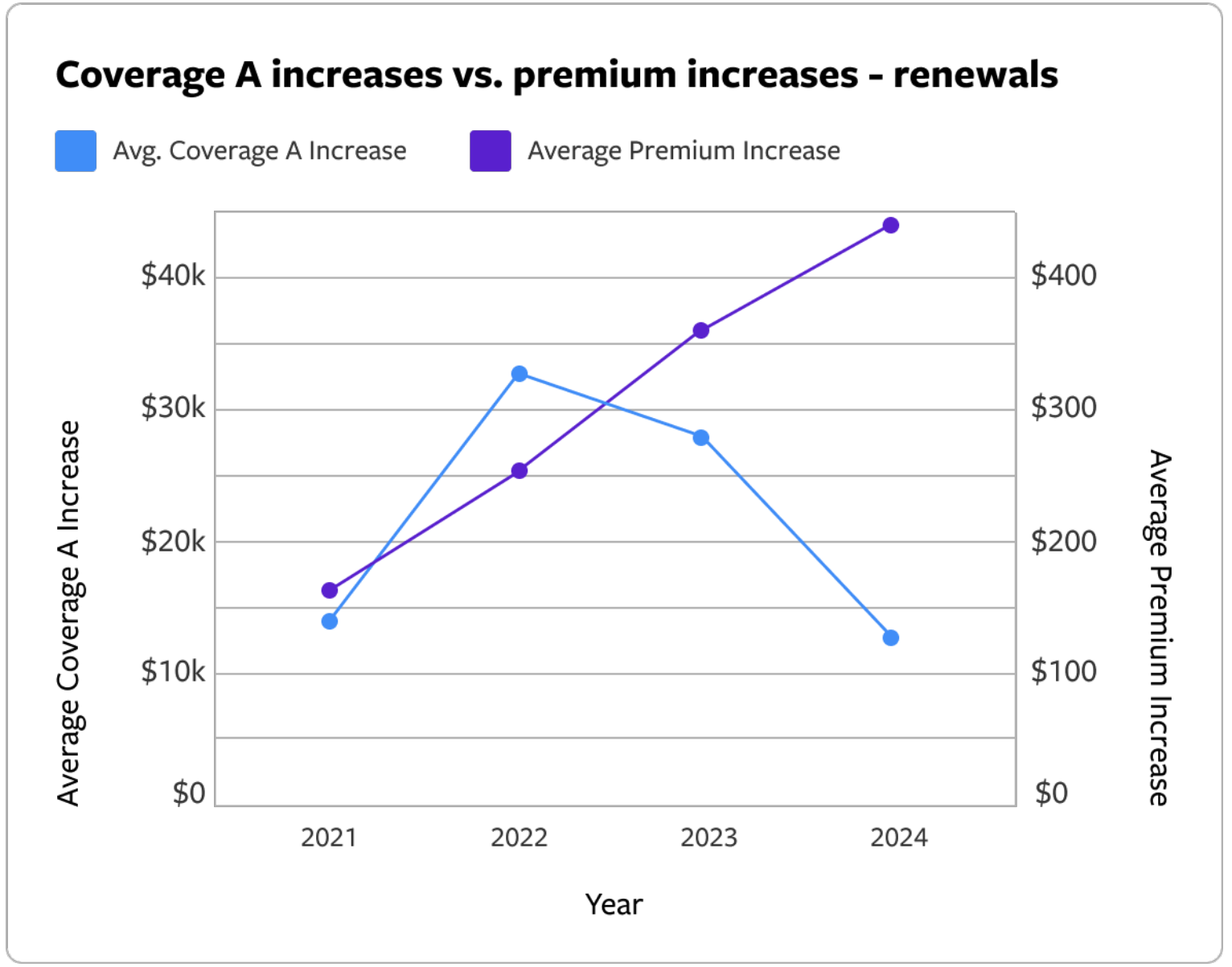
Average housing cost (% of monthly income), 2018-2023



Note: Single-family owner-occupied property with a fully amortizing 30-year fixed-rate purchase mortgage.

Source: Closing costs data where the mortgages were funded by Freddie Mac

https://www.freddiemac.com/research/forecast/20240320-us-economy-remains-robust



https://matic.com/blog/mid-year-home-insurance-trends-2024/

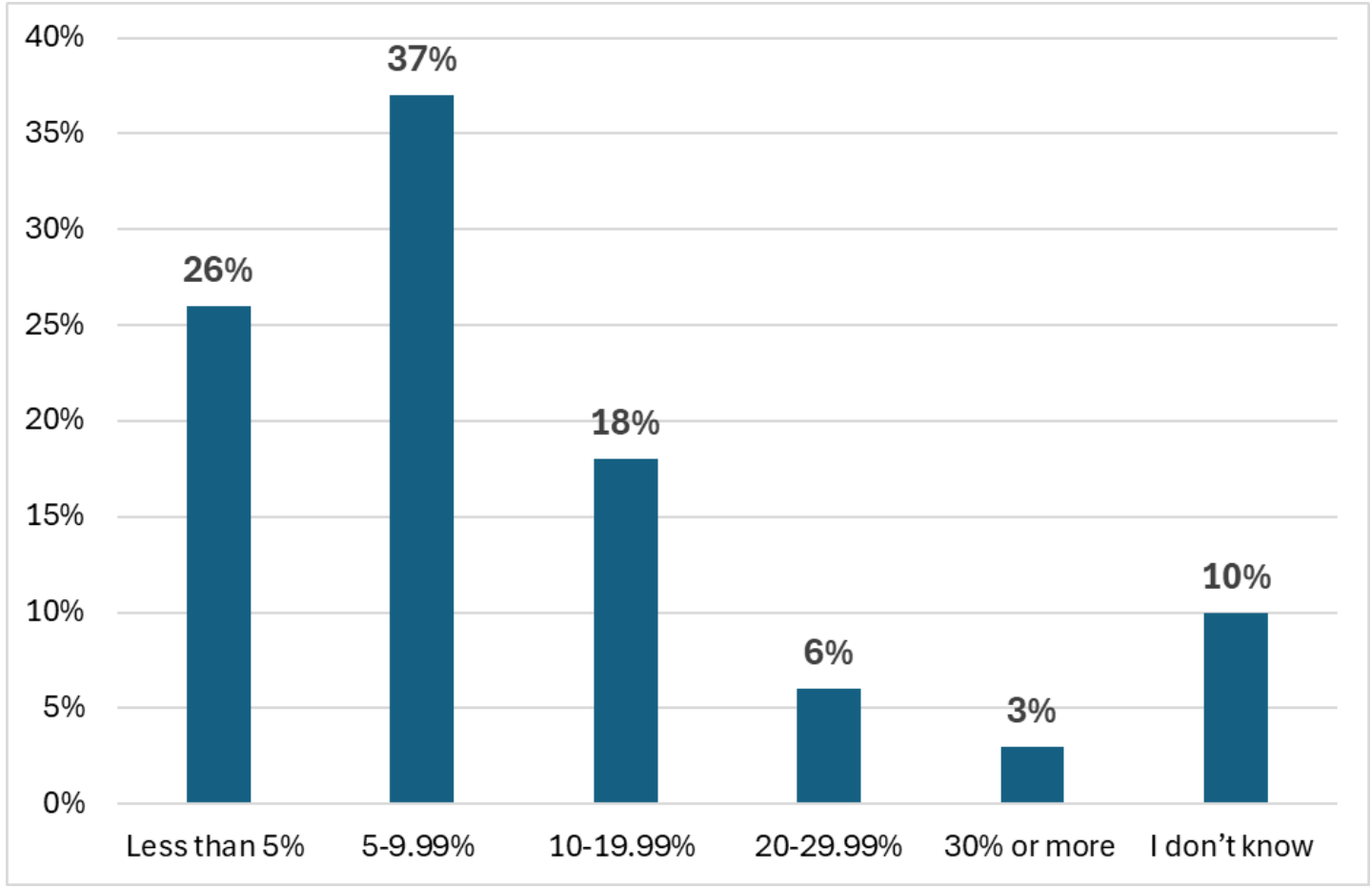
Deployment of Options for consumers facing unaffordable insurance premiums

Results of existing survey data

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

How much did your yearly policy premium increase with the last renewal?

(Value Penguin, 2024)



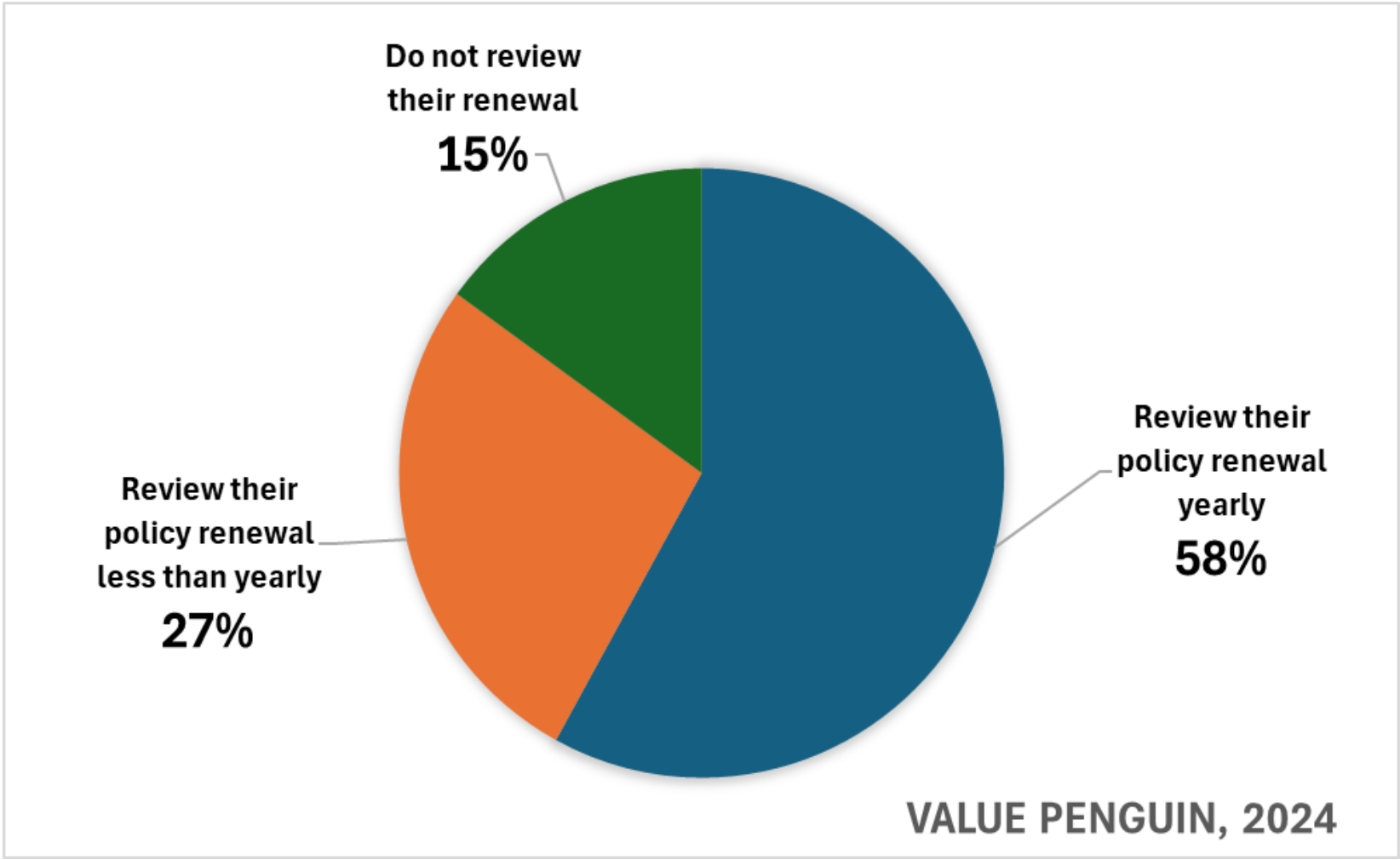
Standard tips:

- **Comparison shop based on coverage, not just price.**
- **Use shopping tools your state DOI offers**
- **Request a list of all discounts the insurer offers, ask for those you qualify for.**
- **Bundle your home, auto and/or umbrella policies with one insurance company.**
- **Insure your dwelling for replacement cost value.**
- **If feasible, buy gap filler products (including peril-specific policies flood and earthquake damage).**
- **Increase your deductible, avoid filing small claims.**

United Policyholders

Have you reviewed your insurance policy in the last year to see how much coverage you have?

46% - Have not reviewed their policy in the last year (Policy Genius, 2023).

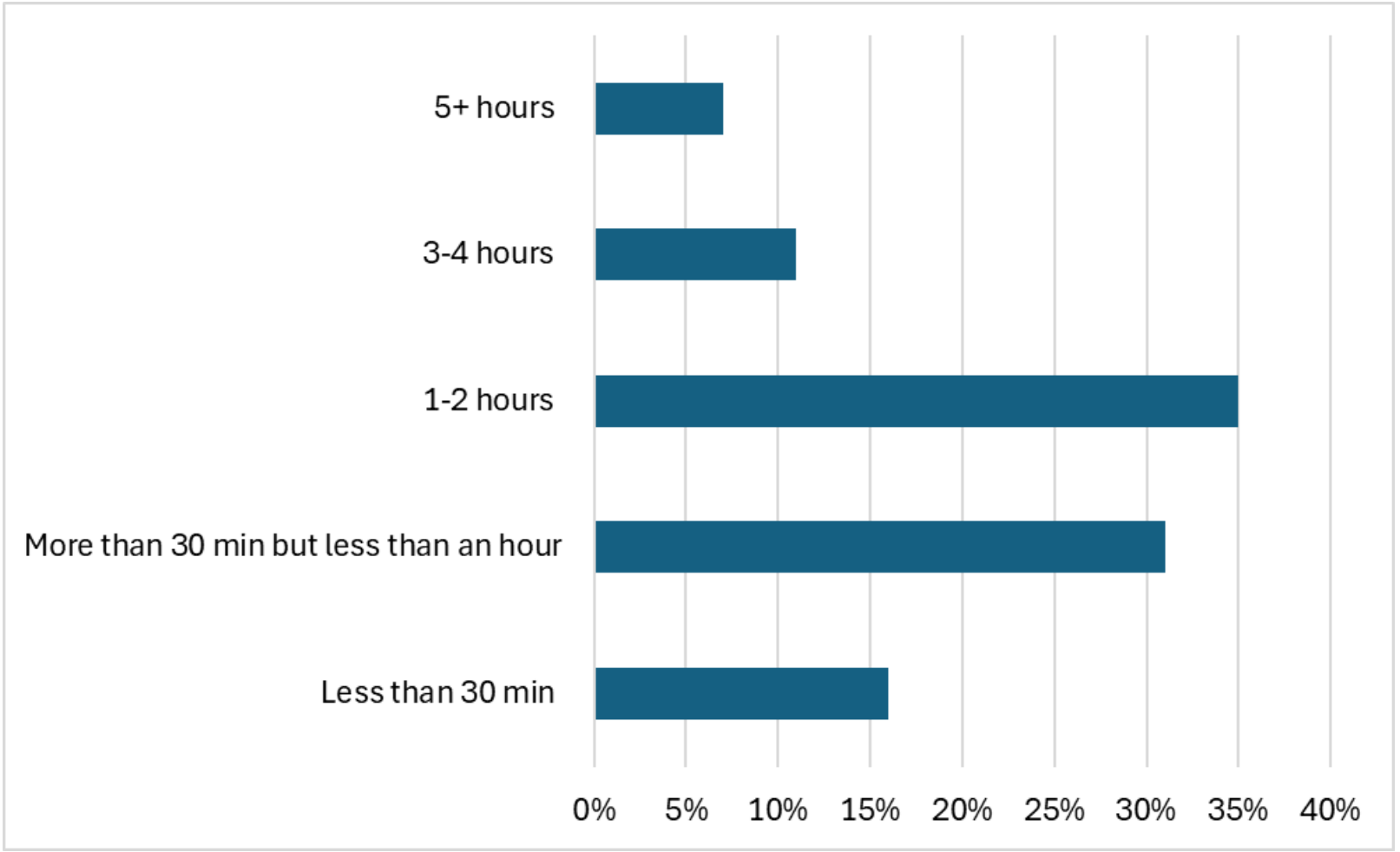


How often do you shop around for better rates on your insurance policy?

49% shopped around and compared quote from multiple providers more than once.
25% did once
26% never
(Value Penguin, 2021)

87% of policyholders have not updated or changed their current home insurance policy in at least a year (Value Penguin, 2024).

How long would you say you spent shopping around for a new homeowners insurance policy?



When you were going through the renewal process did you shop around to look for a better price for your homeowner's insurance?

54% - Shopped around to see if they are getting the best rate possible

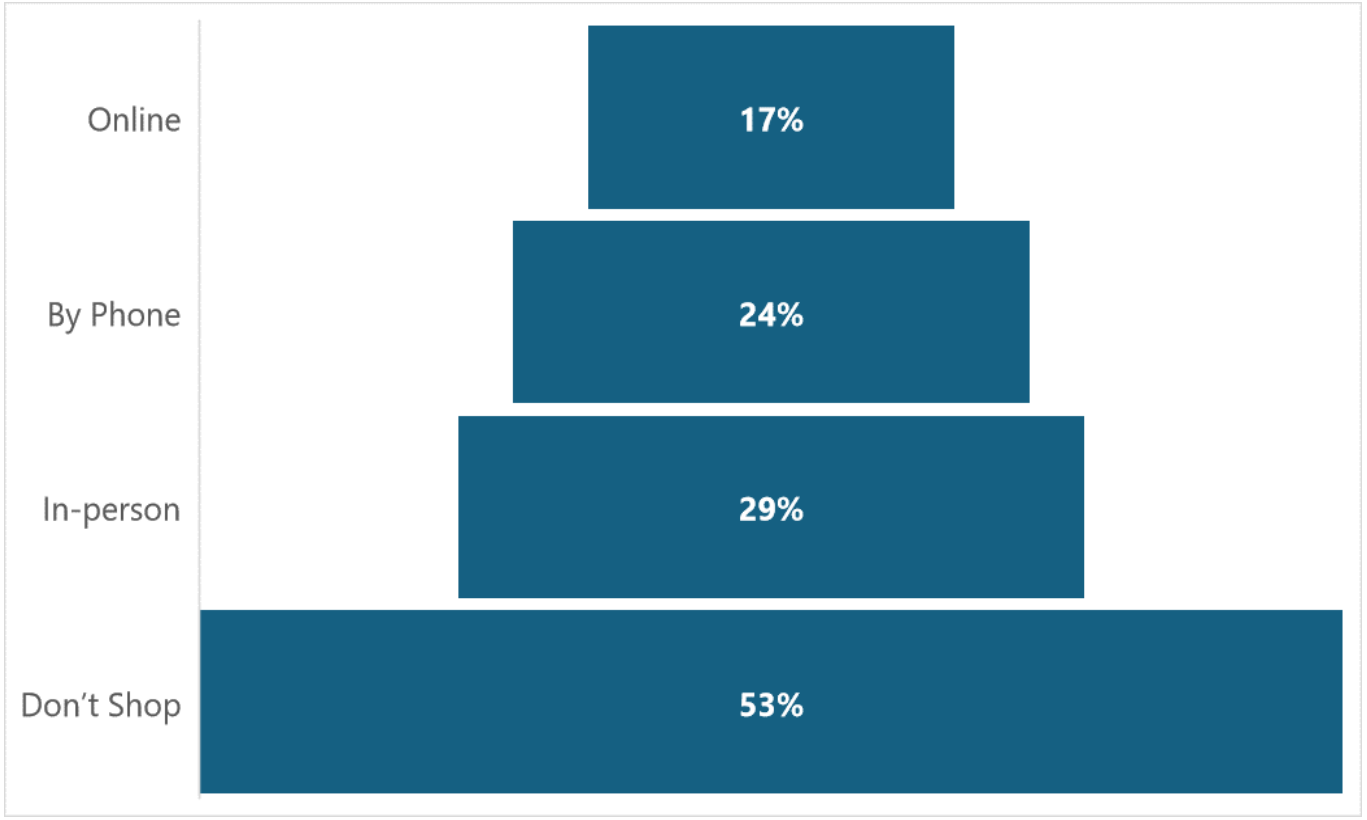
27% - Didn't want to go through the hassle

14% - Didn't have time

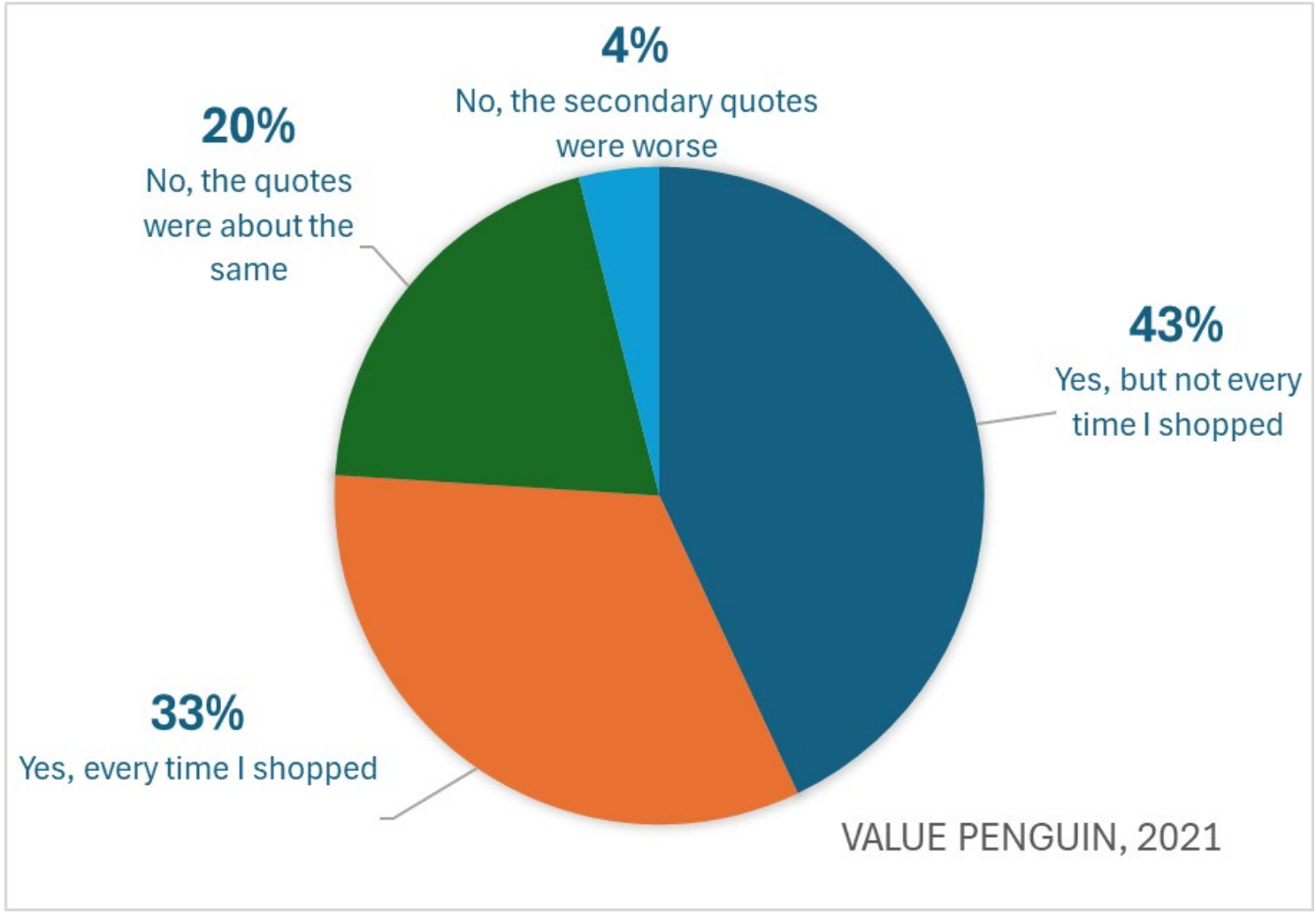
5% - Didn't know they could shop around

(Value Penguin, 2024)

What resources did you use when you shopped around for a better price on your homeowners' insurance? (III, 2016)



Did you save money shopping around for insurance?



On average those who have shopped around and switched have saved $474 annually.

52% - of policyholders have asked insurers for discounts with 36% successfully getting their premiums reduced.

(Value Penguin, 2024)

13% - Switched companies because they found a cheaper option.

(Policy Genius, 2023)

Do you bundle your homeowner's insurance with other insurance policies?

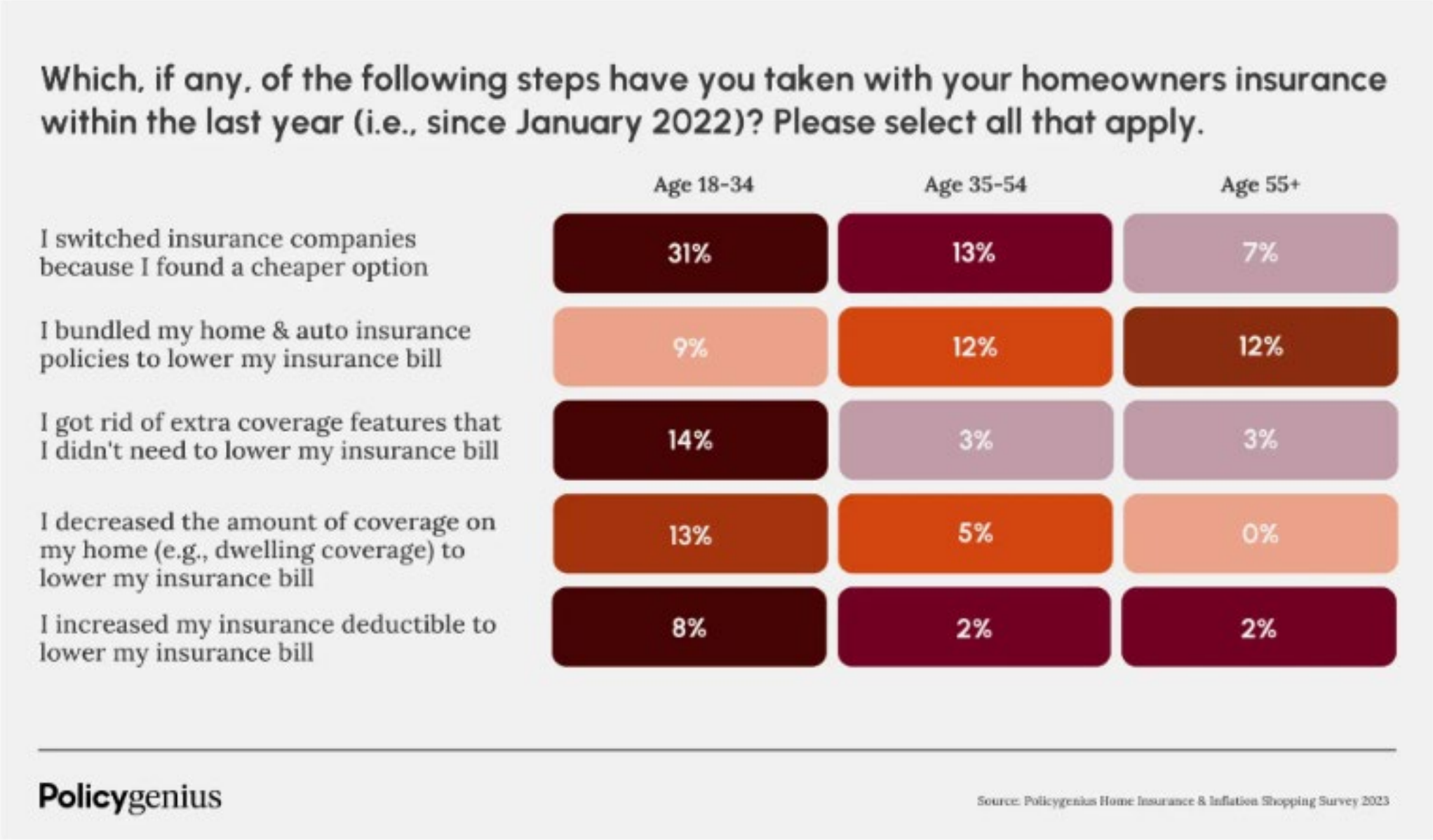
(Value Penguin, 2021)

55% Yes, some of my policies are bundled with the same insurer.

28% No, I haven't looked into it.
18% No, it is cheaper to use separate providers.

UPdated tips for current conditions:

- **Start shopping right away**
- **Get help from a professional agent or broker**
- **Reduce risk/mitigate**
- **Understand your deductible options**
- **Find out your risk score, correct errors**
- **Consider all types of insurer options**
- **Supplement as feasible**
- **Trim coverage**



https://www.policygenius.com/homeowners-insurance/how-much-does-homeowners-insurance-cost/

Data References in the Survey:

Policy Genius, 2020: Survey June 25 through July 3, 2020 – This was about homeowners insurance literacy

2,500 Americans ages 25 and over, a nationally representative sample

Policy Genius, 2023: The survey was carried out online from Jan. 19 through Jan. 23, 2023.

2,542 American adults (aged 18+), 1,264 of whom confirmed owning a home with homeowners' insurance policy.

The results have been weighted to represent all U.S. adults.

Value Penguin, 2021: Survey - All types of insurance not just homeowners

It was conducted March 18-24, 2021.

Online survey of 1,048 Americans

The survey was administered using a non-probability-based sample, and quotas were used to ensure the sample base represented the overall population.

Value Penguin, 2023: Survey

Over 2,000 U.S. consumers

72% of home insurance policyholders reported rate hikes in 2023, with 37% of them citing increases of 5% to 9.99%.

III, 2016: May 2016 live telephone interviews

1,006 adults (18 years and older), residing in the continental United States.

The data presented is proportionally representative of the U.S. adult population.

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