



Date: February 19, 2015

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Insurance Research Council Report Documents Substantial Growth in Homeowners Insurance Claim Costs

MALVERN, Pa.— The cost of homeowners insurance claims has been increasing at twice the rate of inflation despite significant declines in recent years, according to a new report from the Insurance Research Council (IRC). The average claim payment per insured home* countrywide rose from \$229 in 1997 to \$625 in 2011, before falling to \$442 in 2013. Even with the recent decline, average claim payments per insured home have increased at an average annualized rate of 5.0 percent since 1997. During the same period, inflation average approximately 2.4 percent.

In the study, *Trends in Homeowners Insurance Claims, 2015 Edition*, the IRC examined the frequency of claims and the average cost (severity) of claims paid by homeowners insurance companies. All of the increase in average costs per insured home was due to growth in average claim severity, which increased at an annualized rate of 7.8 percent over the 17-year study period—more than three times the rate of inflation. The rise in claim severity more than offset a 2.6 percent annualized decrease in claim frequency documented in the report.

Volatility is a major characteristic of homeowners insurance claim trends explored in the report. Claim frequency trends were found to be significantly more volatile than claim severity trends, especially for experience identified by insurance companies as being related to catastrophe events. The report also documents and compares the volatility of homeowners claim trends within and across states.

“This report has significant implications for everyone involved with homeowners insurance,” said Elizabeth Sprinkel, senior vice president of the IRC. “Insurance companies face significant challenges in responding effectively to rapid growth in claim severity and in managing the extreme volatility of claim trends everywhere. In addition, consumers will find it increasingly important to consider steps to control their personal exposure to risk and to mitigate the damages and costs associated with severe weather events.”

For the study, the IRC analyzed data from the Fast Track Monitoring Service, representing approximately 50 percent of the homeowners insurance market countrywide. For more detailed information on the study’s methodology and findings, contact David Corum at (484) 831-9046 or by e-mail at irc@TheInstitutes.org. Visit the IRC’s website at www.insurance-research.org for more information about the report.

* Insured home means insured house, apartment, or condominium.

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