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Report Documents Substantial Growth in Homeowners Insurance Claim Costs Fueled by Rapid Rise in Claim Severity and Recent Surge In Claim Frequency

MALVERN, Pa.—Sept. 25, 2012.— The cost of homeowners insurance claims has been rising rapidly because of the combined effects of rising claim severity and increases in claim frequency, an Insurance Research Council (IRC) study of homeowners insurance claim trends found. From 1997 to 2011, the average claim payment per insured home* countrywide rose 173 percent, from \$229 to \$626. In 2011 alone, homeowners insurance claim costs per insured home increased 27 percent. Over the entire study period, the annualized rate of increase was 7.4 percent.

In the study, *Trends in Homeowners Insurance Claims*, IRC examined separately claim trends for claims that were not related to catastrophic events and those that were related to catastrophic events. Trends in average claim severity (the average claim payment per paid claim) for both groups were similar in some respects. For both groups of claims, countrywide claim severity increased almost 200 percent and ended the 15-year period in 2011 with similar values—\$8,077 for noncatastrophe-related claims and \$7,553 for catastrophe-related claims. Significantly, however, the trend in catastrophe-related claim severity was much more volatile from year-to-year, with dramatic increases and decreases over the study period.

Trends in homeowners insurance claim frequency (the number of paid claims per 100 insured homes) were very different for the two groups of claims over the 15-year study period. The frequency of claims unrelated to catastrophic events fell substantially from 1997 to 2005 because of a variety of factors. Since 2005, however, noncatastrophe-related claim frequency has increased at an annualized rate of 2.9 percent. Catastrophe-related claim frequency, while much more volatile, remained fairly flat through much of the period.

The study also examined the relative importance of catastrophe-related claims as a factor in overall homeowners insurance claim trends and found that catastrophe-related claims played a significantly greater role in overall claim trends in the second half of the 15-year period. Catastrophe-related claims

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

accounted for 25 percent of overall claim costs countrywide from 1997 to 2003, on average, but 39 percent of overall claim costs from 2004 to 2011.

“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 increases in claim frequency, and in managing the volatility attributable to catastrophe-related claims. 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, IRC analyzed data from the Fast Track Monitoring System, 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. Copies of the study are available for \$300 for an electronic version, or \$400 for a printed copy. Visit IRC’s Web site at www.insurance-research.org for more information.

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NOTE TO EDITORS: The Insurance Research Council is a division of the American Institute For Chartered Property Casualty Underwriters (The Institutes). The Institutes are the leader in delivering proven knowledge solutions that drive powerful business results for the risk management and property-casualty insurance industry. Institute knowledge solutions include the CPCU designation program; associate designation programs in areas such as claims, risk management, underwriting, and reinsurance; introductory and foundation programs; online courses; research; custom solutions; assessment tools; and continuing education (CE) courses for licensed insurance professionals and adjusters through its CEU.com business unit. The IRC provides timely and reliable research to all parties involved in public policy issues affecting insurance companies and their customers. The IRC does not lobby or advocate legislative positions. It is supported by leading property-casualty insurance organizations.

Homeowners Insurance Claim Trends

Claim Frequency and Average Claim Severity, All Claims, All Policy Forms Combined, Countrywide

