Rising Homeowners Insurance Claim Costs Continue to Outpace Inflation, According to IRC Study

For Immediate Release
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NEW YORK, May 4, 2023– Over the past two decades, the average cost of claims per insured home in the United States has increased at a rate that has outpaced inflation. A combination of natural catastrophes, human-made disasters, increases in the cost of repair homes, and ongoing population migration into disaster-prone areas is driving the trend, according to a new study by the Insurance Research Council (IRC), a division of The Institutes.

Carriers also continue to grapple with the threat of insurance fraud and claim abuse that follow catastrophe and disaster events. These trends have significantly reduced profits and led a number of major insurers to shrink their capacity in some U.S. states or leave the homeowners market entirely, the report *Trends in Homeowners Insurance Claims 2001-2021* details.

Based on Fast Track Monitoring data, the report examines homeowners insurance claim frequency, severity, and loss cost trends over two decades. The report reviews countrywide trends for all claim types and policy forms combined; then by catastrophe- and non-catastrophe- related claims; and finally, by policy form. The report also examines the state-level data, including comparisons between each state and the overall U.S. results for claim frequency and severity.

Key findings:

- Countrywide average loss costs (average claim payment per insured home) increased throughout the past two decades and rose by 9 percent in 2021.
- Claim severity is increasing, while claim frequency is declining—in part because of widespread adoption of higher policyholder deductibles, including percentage deductibles for specified perils, and premium surcharge programs designed to reduce the number of lower-cost claims.
- Catastrophe losses are playing an increasing role because of natural disaster trends and the methods used to define and categorize catastrophe claims.
- Average loss costs for claims vary widely by state. States with the highest loss costs are Louisiana and Mississippi; states with the lowest are Hawaii and Maine.
- States with the highest claim frequency over the period include Louisiana, Mississippi, and Oklahoma. States with the highest severity include California, Alaska, and Florida.

“During the two decades of the study period, the U.S. homeowners market has experienced a surge in volatility, mainly driven by a barrage of natural catastrophes and human-made disasters such as hurricanes Katrina, Ike, Michael, Rita, Sandy and Wilma and California fires,” said Dale Porfilio, FCAS, MAAA, president of the IRC.

Porfilio, who is also Chief Insurance Officer of the Insurance Information Institute (Triple-I), noted that another challenge facing the homeowners insurance market is the continued threat of insurance fraud and claim abuse, especially in the frenzy of activity following widespread natural disasters. “Industry and government organizations have increased efforts to inform consumers about potential scams, to investigate and prosecute the perpetrators, and to enact legislative changes to make systems less vulnerable to abuse.”

About Insurance Research Council

The Insurance Research Council (IRC), affiliated with The Institutes, is an independent, nonprofit research organization supported by leading property and casualty insurance companies and associations. IRC provides timely and reliable research to all parties involved in public policy issues affecting insurance companies and their customers. IRC does not lobby or advocate legislative positions.

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