Caveats Regarding the Use of Average Premium Data for Comparisons

The purpose of this document is to urge caution to those that might wish to compare average premium data across states.

Average premium is an imperfect measure of the relative "price" of insurance due to wide variations in hazards, economic conditions and real estate values from state to state. Even when comparing identical policy forms and amounts of insurance, premiums for homeowners coverage can differ dramatically across the country. The cost of a policy is determined by the amount of insurance purchased (generally based on the value of the insured property), the types of property covered, the types of perils covered, and the specific limits and deductibles a policyholder chooses.

Homeowners owner-occupied policies represent a "package" of coverages for buildings, contents and liability. The data shown in the table are for an HO-3 package policy for single family up to four family dwellings. The HO-3 contract provides "all-risks"[1] coverage on buildings, broad named-peril coverage on personal property; most common package written. It is the most commonly purchased homeowners policy.

Many factors impact the cost of home insurance, resulting in large differences in average premiums throughout the United States. In general, real estate values and construction costs tend to be higher in areas of greater population density. Since the amount of home insurance needed is based on the value of the home, premiums are often higher in more heavily populated places. Vacation and retirement areas, as well as areas experiencing rapid economic growth, also tend to have relatively higher real estate values. Some states experienced a high incidence of mold claims that caused claims costs to rise.

Construction costs vary based on the type of residence, availability of building materials and factors such as local climate and building regulations. Higher expected repair costs for value added designs to reduce damages to the structure from earthquakes or hurricanes will impact the price of insurance.

Degree of exposure to catastrophe affects the cost of insurance. Brush and forest fires, tornadoes, high winds, hail, freezing rain, snow storms, hurricanes, earthquakes and even terrorist attacks are all types of catastrophes that can occur in the United States. Every place in the world has an exposure to some type of catastrophe, but some areas are more prone to certain types. Brush and forest fires are more common in the West. Hurricane exposure is greater in areas near the Gulf of Mexico and the Atlantic Ocean. Exposure to tornado damage is greatest in the central and southwestern United States, even though tornadoes can and do occur in nearly every state. Earthquake exposure also exists throughout the country since seismic faults are located in all regions.[2] Most recently there have been major catastrophic earthquakes in the West, and there are predictions that even greater earthquakes may occur in the not too distant future in the New Madrid area in the Midwest. Terrorist attacks also, are not specific to any geographic area, but have typically occurred in larger urban areas.

We urge caution in drawing conclusions using average premiums as a basis for comparison.

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[1] Insures against risks of direct loss except losses **specifically** stated in the policy as exempt from coverage.
[2] Although earthquake coverage is commonly endorsed onto a homeowners insurance policy, premiums for earthquake coverage are not included in the data.