

## 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 for homeowners policies across states.

Average premium is an imperfect measure of the relative “price” of insurance due to wide variations in 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 homeowners 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.

Premium data for 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”<sup>1</sup> coverage on buildings, broad named-peril coverage on personal property; most common package written. It is the most commonly purchased homeowners policy.

Data for all states, except Texas and California, were provided by the American Association of Insurance Services, ISO Data, Inc., the National Independent Statistical Service and the Property and Casualty Insurance Association of America. Texas data were obtained from the Texas Department of Insurance. The Texas Department develops its own home insurance policy forms that are similar, but not identical, to homeowner policy forms used countrywide. Because of the differences in the promulgated policy forms, Texas data should not be directly compared with any other state. California data were provided by the California Department of Insurance. California began collecting homeowners data in 1998 starting with the 1996 data year. State Farm Mutual Insurance Company, the largest home insurance writer in the state of Illinois, provided its own premium and exposure data for that state, since it does not report its Illinois business to a statistical agent. Without the cooperation and assistance of these providers production of this information would not be possible.

Many factors impact the cost of home insurance. These factors result in wide 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 densities. Homes in these areas are generally more expensive than in some less densely populated locations. Since the amount of home insurance needed is based on the value of the home, premiums for homeowners insurance are often higher in more heavily populated places. Vacation and retirement areas also have relatively higher real estate values where there is an influx of money from outside the community and areas of rapid economic development. Some states experienced a high incidence of mold claims that caused homeowners claims costs to rise.

Construction costs vary based on the type of residence being built, availability of building materials and factors driven by 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 to homeowners. Brush and forest fires, tornadoes, high winds, hail, freezing rain, snow storms, hurricanes, earthquakes, riots and now 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 and Pacific Oceans. 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.<sup>2</sup> Most recently there have been major catastrophic earthquakes in the West, yet there are predictions that even greater earthquakes will occur in the New Madrid area in the Midwest. Riots and terrorist attacks also, are not specific to any geographic area, but have typically occurred in larger urban areas.

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<sup>1</sup> Insures against risks of direct loss except losses **specifically** stated in the policy as exempt from coverage.

<sup>2</sup> Although earthquake coverage is commonly endorsed onto a homeowners insurance policy, premiums for earthquake coverage are not included in the data.

## **Caveats Regarding the Use of Average Premium Data for Comparisons**

Florida data should be viewed with a degree of caution as Florida results are not directly comparable to those of other states. Florida data excludes policies written by Citizen's Property Insurance Corporation, the state's insurer of last resort. This means that not only is the total policy count and premium paid underreported as Citizen's rates are established by statute to be the highest in the market, but results also underestimate the cost of homeowners insurance in Florida in the private market. In addition to writing as a residual market, Citizens also writes wind-only insurance contracts in designated coastal areas. The policyholder is still required to obtain a homeowner's policy for all other perils; these are provided by the private market. The reported market data does not distinguish between policies including wind versus policies excluding wind. Therefore the policy count and premium amount may significantly underestimate the cost of comprehensive homeowners insurance in large segments of the Florida market.

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