Trends in Homeowners Insurance Claims

Center for Insurance Policy & Research
October 7, 2014

- Homeowners claim trends countrywide
  - Average claim payment per insured home
  - Frequency
  - Severity
- The role of catastrophes
- Volatility
- Individual state trends and differences
- Data
Trends in Homeowners Insurance Claims

Average HO Claim Payment per Insured Home
All Claims, All Policy Forms Combined, Countrywide

Annualized Growth Rate = 5.0%
Volatility Index = 21%

1997 1999 2001 2003 2005 2007 2009 2011 2013
$229 $625 $442

Trends in Homeowners Insurance Claims

HO Claim Frequency & Severity
All Claims, All Policy Forms Combined, Countrywide

number of claims paid per 100 insured homes
average payment per paid claim

1997 1999 2001 2003 2005 2007 2009 2011 2013
8.6 5.0
$2,676 $8,787

claim severity  claim frequency
### Trends in Homeowners Insurance Claims

**Homeowners Claims**  
All Claims, All Policy Forms Combined, Countrywide

<table>
<thead>
<tr>
<th>Annualized Change 1997-2013</th>
<th>Volatility Index 1997-2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>Severity</td>
</tr>
<tr>
<td>-2.6%</td>
<td>7.8%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Severity</th>
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<tbody>
<tr>
<td>45%</td>
<td>5%</td>
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</table>

**Homeowners Claims**  
All Claims, All Policy Forms Combined, Countrywide

**Annualized Change 1997-2013**

- CPI: 2.4%
- HO claim payment per insured home: 5.0%
- HO claim severity: 7.8%
- Prepared asphalt and tar roofing and siding: 7.1%
...the prices for all asphalt products have risen significantly. The cokers installed by many refiners allow them to refine oil in ways that have changed the oil/asphalt dynamic forever... the use of cokers means there’s less flux left at the end of the oil refining process, resulting in higher costs to the shingle manufacturer.

...storm-related reroofing now represents a greater percentage of the roofing market. The unpredictable nature of extreme weather events makes it much harder for manufacturers to anticipate demand, often resulting in severe regional shortages of asphalt shingles.

Midwest Roofing Contractors Association
Trends in Homeowners Insurance Claims

**Annualized Change (1997-2013)**

- **Claim Frequency**
  - Cat: 1.3%
  - Non Cat: -4.6%

- **Claim Severity**
  - Cat: 7%
  - Non Cat: 8%

**Volatility Index (1997-2013)**

- **Claim Frequency**
  - Cat: 95%
  - Non Cat: 25%

- **Claim Severity**
  - Cat: 20%
  - Non Cat: 2%

**State Trends**

- Absolute costs
- Cost growth
- Role of catastrophes
- Volatility
Trends in Homeowners Insurance Claims

HO Claim Payment per Insured Home in 2013
All Claims, All Policy Forms Combined

<table>
<thead>
<tr>
<th>State</th>
<th>Claim Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oklahoma</td>
<td>$1,743</td>
</tr>
<tr>
<td>Mississippi</td>
<td></td>
</tr>
<tr>
<td>Nebraska</td>
<td></td>
</tr>
<tr>
<td>Colorado</td>
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<tr>
<td>Louisiana</td>
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<td>Texas</td>
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<td>Florida</td>
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<td>Pennsylvania</td>
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<tr>
<td>Virginia</td>
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<td>Maine</td>
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<tr>
<td>Delaware</td>
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<tr>
<td>Hawaii</td>
<td></td>
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<tr>
<td>Utah</td>
<td></td>
</tr>
<tr>
<td>Oregon</td>
<td>$218</td>
</tr>
</tbody>
</table>

Average Claim Payment per Insured Home, 2009-2013
Trends in Homeowners Insurance Claims

HO Claim Payment per Insured Home
Annualized Growth Rates, 1997-2013

Annualized Growth in Average Payment per Insured Home
1997-2013
Trends in Homeowners Insurance Claims

Average Claim Payment per Insured Home

Volatility Index = 94%
Volatility Index = 50%

Minnesota
Oregon

Trends in Homeowners Insurance Claims

Volatility of Average Claim Payment per Insured Home
1997-2013

Volatility Index
4 - 549
55 - 999
10 - 999
8 - 649
84
Trends in Homeowners Insurance Claims

Average Claim Payments per Insured Home
All Policy Forms Combined
Colorado

Fourmile Canyon wildfire and 2 other events
4 PCS-designated catastrophe events

1997 1999 2001 2003 2005 2007 2009 2011 2013
Noncatastrophe claims
Catastrophe claims

Trends in Homeowners Insurance Claims

Average Claim Payments per Insured Home
All Policy Forms Combined
Oklahoma

3 PCS-designated catastrophe events
10 PCS-designated catastrophe events

1997 1999 2001 2003 2005 2007 2009 2011 2013
Noncatastrophe-related
Catastrophe-related
Trends in Homeowners Insurance Claims

Average Claim Payments per Insured Home
All Policy Forms Combined
Mississippi

Hurricanes Cindy, Katrina, Rita, and 5 other PCS-designated catastrophe events

Average Claim Payment per Insured Home
All Policy Forms Combined
Florida

Hurricanes Charley, Frances, Jeanne and Ivan  Hurricanes Dennis, Katrina, Rita, Wilma and 1 other PCS-designated catastrophe event

Noncatastrophe-related  Catastrophe-related
Trends in Homeowners Insurance Claims

Average Claim Payment per Insured Home All Policy Forms Combined

Texas

- 7 PCS-designated catastrophe events
- Hurricanes Dolly, Ike and 9 other PCS-designated catastrophe events
- Bastrop wildfire

California

- 3 PCS-designated catastrophe events
Trends in Homeowners Insurance Claims

Percentage of Total Claim Payments Attributed to Catastrophes
2009-2013

- Overall countrywide trends
  - Loss costs trending up 5% annually
  - Decreasing, but volatile, claim frequency overall
  - Rapid increase in claim severity
- Volatility is primarily a function of the frequency of catastrophe-related claims
- Substantial differences across states
  - In a given year, loss costs can vary by a factor of 8
  - Modeled growth rates vary even more
  - Volatility due primarily, but not entirely, to catastrophe claims
- Limitations of linear trend
Trends in Homeowners Insurance Claims

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