



# HOMEOWNER'S INSURANCE RATES IN TEXAS

According to an analysis done by the Insurance Information Institute (Triple-I), premium rates are up 12.2% on average nationwide from 2017 to 2021.

Since the pandemic, consumers have seen a rise in the cost of certain goods and services. For many Texans, the cost of their homeowners' insurance has not been immune to this trend.

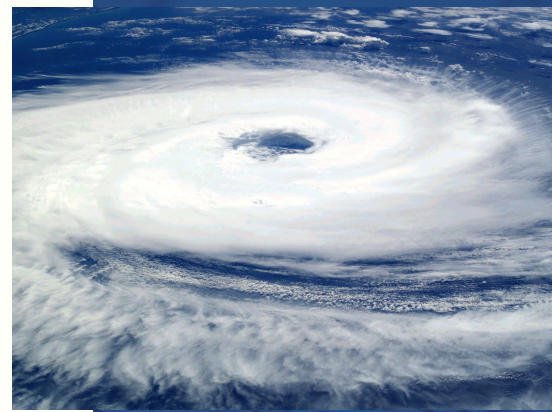
Both recent and long-term trends are affecting rates. A longer-term trend of rising catastrophe losses related to extreme weather is helping to drive up rates. More recently, much of the increase can be attributed to supply chain issues and labor shortages that are driving up the cost of home repairs and replacement.

## Catastrophic Losses on the Rise

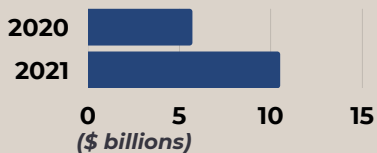
A key factor in the increase of rates is the growth in insured losses due to natural catastrophes. In a presentation given on January 28, 2022, Dr. Robert P. Hartwig, Clinical Associate Professor of Finance, Risk Management & Insurance at the University of South Carolina, showed that the average catastrophe insured loss per year for 1980-2020 was \$22.2 billion. In stark comparison, the insured catastrophe losses in the U.S. for 2021 totaled \$92 billion.

- **Hurricanes** - Hurricane Harvey ranks number four in the top ten costliest hurricanes in the U.S., with \$19 billion in insured losses.
- **Wildfires** - Texas ranked second in the top ten states for wildfires ranked by number of fires and by number of acres burned in 2021.
- **Tornadoes** - Texas had the greatest number of tornadoes in 2021.
- **Hail** - Texas was the number one state in major hail events for 2021.

In February 2021, Texas experienced an unprecedented event in the form of Winter Storm Uri, the worst winter storm in Texas history. Texas insurers will ultimately pay \$11.2 billion in insured losses related to the winter storm. Events such as these reinforce the need for and importance of a financially strong and responsive insurance market to help Texans recover and rebuild after small and large losses.



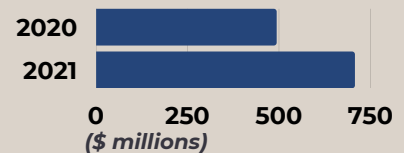
### Direct losses paid - homeowners' multi-peril



Direct losses paid in 2021 by homeowners' multi-peril insurers totaled \$10.5 billion, up from \$5.7 billion in 2020 — an 84% increase.

Residential fire and allied insures paid \$707 million in 2021, up from \$493 million in 2020 — a 43% increase.

### Direct losses paid - Residential fire and allied



## Increasing Home Repair and Rebuilding Costs

A Triple-I report indicates U.S. inflation was up 2.7% from the beginning of the year to March 2022, driven by rising prices for capital goods, construction materials and vehicles. Construction materials were 34.1% of the inflation key CPI components for 2021-2022. This ultimately results in increasing home repair and rebuilding costs.

Building materials and labor costs are being driven up by inflation, supply chain issues, and labor shortages.



# HOMEOWNER'S INSURANCE RATES IN TEXAS

**2022 estimated insurance replacement costs drivers for homeowners show an overall increase of 11.5%, with construction materials being a significant driver with a 25% increase.**

- The price of **construction materials** grew by 44.1% from 2020 to 2021.<sup>1</sup>
- There has been a 4.9% increase in building materials since the start of 2022. The price index of services to residential construction (including trade services, transportation, and warehousing) has climbed 13.3% since the start of 2022.<sup>2</sup>
- In 2021, **roofing prices increased by at least 4-6%** according to one of the major suppliers.



As of March 22, 2022, **Texas has the highest replacement cost increase** at approximately \$1.3 billion (year-over-year). By comparison Louisiana is second with \$875 million increase, followed by Florida with a \$664 million increase.

## How These Factors Affect Premiums

Insurers are required by law to maintain a policyholder surplus to ensure they are able to keep their agreement to pay future claims.

**The last two years have been record-breaking years for natural disasters.** Aon reported a total of \$343 billion in economic losses during 2021, with \$328 billion resulting from wind and climate related events —making 2021 the third-costliest year on record after adjusting for inflation.<sup>3</sup>

**According to the report, 71% of the global insured losses were recorded in the U.S.** Rising costs of building materials, appliances, and labor further contribute to the increase in losses.

An insurers' writing profitability is measured by a **"combined ratio"**, which is calculated by dividing the sum of claim related losses and expenses by earned premium.

**A combined ratio under 100% indicates a profit, while a ratio above 100% indicates a loss.** According to a Triple-I analysis of S&P Global data, only one year in the past five was profitable for insurers (which correlated with a sharp drop in home replacement cost inflation and lower catastrophe losses). An insurer, like any other business, needs to make a reasonable profit for sustainability. Without substantial rate increases, insurers might have to dip into that policyholder surplus. If that policyholder surplus falls below thresholds set by regulators, insurers must raise rates or risk going out of business.

## What Texas Homeowners Can Do

- **Check your coverage to avoid being underinsured.** Most homeowners want their homes back to the condition they were in before an event. Insurance replacement cost, which is the cost to rebuild the home as it was, often differs materially from a home's market value, which includes the value of the land and is highly influenced by supply and demand. Talk with your insurance company or agent to ensure you have enough insurance to cover the cost of rebuilding your home.
- **Shop around for the best rate and coverage options.** Texans benefit from a competitive private homeowners' market with 234 companies providing different options and prices. This means consumers can shop around and take advantage of lower rates, discounts, and ask about coverage options to lower premiums. **The Texas Department of Insurance, through [www.helpinsure.com](http://www.helpinsure.com), also offers a great resource for shopping around.** After answering a few questions, consumers can see the policies sold in their area, their rates, and coverage types to choose what is right for them.



1. U.S. Bureau of Labor Statistics from Federal Reserve Bank of St. Louis (FRED)  
 2. National Association of Home Builders  
 3. AON Report: 2021 Weather, Climate and Catastrophe Insight