



Apples to Oranges

Comparing Homeowners Costs Between States Can Be Difficult, Misleading

How does what Texans pay for homeowners insurance compare with the rest of the country? While it is understandable to want to know how Texas stacks up, comparisons can be difficult and deceptive. Even the National Association of Insurance Commissioners (NAIC), which puts out an annual report of data collected from across the country, warns (in a caveat page attached to the report) against using its much-cited report for direct comparisons of average premium data between states. In fact, the December 2009 NAIC report specifically states, ***Because of the differences in the promulgated policy forms, Texas data should not be directly compared with any other state.****

The report also acknowledges that its data is underreported for California and Florida as the report's data does not include premiums for earthquake coverage or policies written by Florida's insurer of last resort (the second largest writer of homeowners insurance in the state) in large segments of that state.

What determines the cost of homeowners insurance?

Factors that impact the cost of homeowners insurance – which can result in wide differences in average premiums across the country – include:

- Amount of insurance purchased (generally based on the value of the insured property)
- Types of property and perils covered
- Specific limits and deductibles chosen by the policyholder
- Real estate values and construction costs, which tend to be higher in areas of greater population
- Expected repair costs, which can be higher for structures designed to withstand earthquakes or hurricanes
- Degree of exposure to weather losses, including catastrophic events

Of these factors, weather is both the most important in terms of overall cost impact and least controllable.

Weather has huge impact on homeowners rates in Texas

Degree of exposure to catastrophe affects the cost of insurance to homeowners (NAIC Report)

In Texas, insurance companies continue to absorb some of the most severe weather losses in the country (including more than \$10 billion in catastrophic losses in 2008, five times more losses than any other state). In fact, a 2006 *USA Today* study of hazards by state deemed Texas the most dangerous state in the nation in terms of exposure to a variety of natural calamities. Texas is the only state with exposure to nine different types of natural disasters, the study found – floods, heat, lightning, hail, wildfire, hurricane, thunderstorm, tornado and ice.

The combination of severe risk, variety of risk and high population density in the path of calamity makes Texas a very high-risk environment for property and casualty insurance. In addition, temporary respites in violent weather do not mean that risk was not present or that historical weather patterns have changed.

Despite risk exposure and claims losses, Texas' homeowners rates are falling

The landmark 2003 insurance reforms passed by the Texas Legislature have stabilized or lowered homeowners premiums for most Texans even as home values have increased substantially. Homeowners insurance rates decreased by 26 percent between 2002 and 2008, according to Texas Department of Insurance statistics**. In addition, reforms have attracted 29 new property and casualty insurance companies to Texas and increased consumers' choice and availability of coverage. A competitive market serves the interests of consumers, insurers and the overall Texas economy that relies on available, affordable insurance for a healthy business climate.

*Source: December 2009 National Association of Insurance Commissioners (NAIC) Report (based on data from 2007). Caveats Regarding the Use of Average Premium Data for Comparisons” http://www.naic.org/documents/newsroom_homeowners_prem_comparisons.pdf

**2003-2007 data: National Association of Insurance Commissioners (NAIC) average homeowners premium reports