Q&A: Rising Homeowner and Auto Premiums

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Q1. Why are premiums so high these days?

There are a few factors that go into this, but generally it is the frequency of claims and the severity of these claims that are driving rates up. Every year we experience record-breaking weather events — whether it’s the wildfires in the West, the hailstorms and tornadoes in the Midwest, or the storms along the Eastern Seaboard. Each event tends to be bigger than the last, causing catastrophic damage all over the country. 2020 was the most active hurricane season on record with 30 named storms and 2021 was the third most active season.* Five of the top six largest California wildfires occurred in 2020. And these trends don’t seem to be slowing down any time soon. As clients experience weather-related damage, the insurance companies are paying out claims. In 2020, the insurance industry spent $100B on weather disasters, with about $41B on hurricane-related damage alone. Claims are also becoming more expensive and complex as the cost of goods increases and the technology within homes and cars becomes more sophisticated.

Q2. Can you explain why the replacement value is increasing at this pace?

The coverage on a homeowner’s policy is based on the cost to rebuild or replace the home in the event of a total loss. It is not based on the market value. These two values are almost never aligned. Lately, we have seen the replacement cost soar much higher than the market value, which has to do with the construction costs. The increase in construction costs in 2021 in the US averaged about 7.2%, with many of the coastal states seeing a double-digit increase. We have all heard about the challenges the construction industry is facing — and the insurance industry is not immune to these...
challenges either. The cost of building materials such as plywood, board lumber, steel concrete, rebar, asphalt roofing and sheet rock have all been on the rise. The pandemic has caused a reduction in skilled labor and an increase in labor costs. Supply chain issues are causing shortages. With low interest rates over the last two years, there was an increase in homebuying and home improvements. The insurance industry needs to keep up with these trends in order to make sure that homes continue to be insured to value.

Q3. Are there other factors that may be causing homeowners policies to go up?

The P&C industry has seen record-breaking levels of catastrophic losses every year for the last several years. 2021 had the worst full-year catastrophe losses since 2017. In 2021, there were 20 separate billion-dollar weather and climate disasters that impacted the United States, including tornadoes, hailstorms, winter storms, heat waves and other severe weather events. There were 21 hurricanes with eight storms hitting the US coastline. Three of the top 20 largest California wildfires occurred in 2021. Flooding has also increased due to development, changing storm patterns and rising sea levels.

Non-weather water damage is still the leading cause of damage, making up 48% of all homeowners claims.

Q4. What can be done to potentially mitigate these increases?

We cannot control catastrophic events. However, we can guard against non-weather water damage. Water damage is the top source of property claims, and clients are two times as likely to suffer a second water loss if they already experienced one. Homeowners can install a water leak detection system, which shuts off the water supply when an unusual amount of flow is detected.

Some home insurance carriers have partnered with leak defense manufacturers to offer discounts on a water flow device. Once installed, most carriers will also offer discounts on your home insurance premium. It's important to install a flow-based device rather than a sensor-based system. Discounts differ by state and insurer.

It is also important to review your account to ensure you are maximizing savings and discounts available. Companion policy discounts (i.e., bundling your home with auto, valuables and umbrella) may be available. In some cases, increasing your umbrella liability or jewelry slightly may qualify the home for a discount, larger than the cost of the coverage increase.

Exploring deductible options is another way to optimize premiums. We feel it makes sense to increase the deductible when the premium credit for doing so offsets the increase in deductible within 3 – 5 years.

In addition to a credit for the water leak detection system noted above, there are other credits available for security or protection devices. The more common credits available are for monitored security alarms, backup generators, low temperature monitors, gas leak detectors, bank vaults for jewelry storage, gated community locations for homes, etc.

Q5. What about auto insurance?

Auto insurance is not immune to increases due to similar reasons as the home. The average cost of a car has increased 25% since 2019. Supply chain issues have also disrupted auto repairs or replacements. Lack of computer chips, plant shutdowns, and logistical problems such as shortage of cargo ships, shipping containers and qualified repair technicians, have all contributed to longer car repair times and rising expenses. Rental cars are also more expensive, in short supply and needed for longer durations while repairs are being made, which contributes to higher claim payouts.

In addition, the cost of repairs has increased due to the rise of electric cars and other technological advancements. There are 24 electric vehicle models now for sale in the US and EV production is no longer limited to specialty manufacturers. Repairs for EVs are more complex and require more specialized training and equipment to repair.

Complex repairs are not just limited to EVs, though — advanced technology has permeated all car types. In fact, all cars manufactured after 2018 are required to have a reverse backup camera. This means that a “fender bender” which used to be considered a relatively minor claim is now a much costlier repair. Advanced driver assistance systems, automatic emergency braking, connected mobile apps, cameras, vehicle tracking software, phone charging stations, blind spot monitors and more have become integral parts of a vehicle.

According to the National Highway Traffic Safety Administration, drivers have also been seemingly willing to take more risks
with driving, causing more accidents. The number of fatalities in the first half of 2021 was up 18.4% over 2020. This is the largest six-month increase ever recorded and the largest number since 2006. Negative driving trends were caused by extreme speeds, traveling without a seatbelt and distracted driving.

Q6. What can we expect in the near future with continued talk of inflation?

It is hard to predict the future, but we don’t think that the rates are going down any time soon. There has been a massive shift in the high-end insurance arena. Carriers are pulling out of states completely because they don’t see themselves being profitable. They are running out of capacity in certain areas of the country quickly. Coupled with the expected rise in inflation, this is only going to continue to drive insurance premiums up. It is going to be more important than ever before to make sure you have an insurance advisor that you trust and who has a deep understanding of the market.

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