Insurance Research Council

Trends in Homeowners Insurance Claims

National Tornado Summit
February 24, 2015
David Corum

Trends in Homeowners Insurance Claims

• National Trends
  • Claim costs are rising much faster than inflation
  • Claim frequency is falling (or at least not increasing)
• State Trends
  • It depends on the state
  • Volatility is high, especially …
    • Catastrophe-related claims
    • Claim frequency
      • In particular states

Data & Methods

• Fast Track Monitoring System
• 1997-2013 (17 years)
• All policy forms combined

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

Source: Fast Track Monitoring System

annualized growth rate = 5.0%
volatility index = 21%

Homeowners Claim Frequency & Severity
All Policy Forms Combined, Countrywide

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

Source: Fast Track Monitoring System
...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

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**Annualized Growth 1997-2013**

<table>
<thead>
<tr>
<th>Component</th>
<th>1997</th>
<th>1999</th>
<th>2001</th>
<th>2003</th>
<th>2005</th>
<th>2007</th>
<th>2009</th>
<th>2011</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>HO claim frequency</td>
<td>-2.6%</td>
<td>7.8%</td>
<td>5.0%</td>
<td>2.4%</td>
<td>7.1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HO claim severity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CPI-U</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepared asphalt and tar roofing and siding</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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**Total Homeowners Claim Payments by Catastrophe Component**

Source: Fast Track Monitoring System

- **Noncatastrophe claims**
- **Catastrophe claims**

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**Frequency & Severity of Non Catastrophe-Related Claims**

- **Annualized rate = 8.0%**
- **Volatility index = 2%**

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**Frequency & Severity of Catastrophe-Related Claims**

- **Annualized rate = 7.0%**
- **Volatility index = 20%**

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**Change in Homeowners Claim Severity & Frequency by Catastrophe Component**

*Annualized Rates, 1997-2013*

- **Claim Severity**
  - Cat: 7%
  - Non Cat: 8%
- **Claim Frequency**
  - Cat: 1.3%
  - Non Cat: -4.6%
Volatility Index Values
Claim Severity & Frequency by Catastrophe Component
1997-2013

<table>
<thead>
<tr>
<th></th>
<th>Cat</th>
<th>Non Cat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cat</td>
<td>20%</td>
<td>95%</td>
</tr>
<tr>
<td>Non Cat</td>
<td>2%</td>
<td>25%</td>
</tr>
</tbody>
</table>

National Trends – Summary

- Claim costs are rising much faster than inflation
- Claim severity is primary cost driver
- Claim frequency has been falling
- Volatility is significant and primarily frequency- and catastrophe-driven

State Trends

- Absolute costs
- Cost growth
- Volatility
- Role of catastrophes

Homeowners Claim Payments per Insured Home in 2013
All Policy Forms Combined

<table>
<thead>
<tr>
<th>State</th>
<th>Claim Payments</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>
<td></td>
</tr>
<tr>
<td>Louisiana</td>
<td></td>
</tr>
<tr>
<td>Texas</td>
<td></td>
</tr>
<tr>
<td>Illinois</td>
<td></td>
</tr>
<tr>
<td>Florida</td>
<td></td>
</tr>
<tr>
<td>Pennsylvania</td>
<td></td>
</tr>
<tr>
<td>Virginia</td>
<td></td>
</tr>
<tr>
<td>Maine</td>
<td></td>
</tr>
<tr>
<td>Delaware</td>
<td></td>
</tr>
<tr>
<td>Hawaii</td>
<td></td>
</tr>
<tr>
<td>Utah</td>
<td></td>
</tr>
<tr>
<td>Oregon</td>
<td>$218</td>
</tr>
</tbody>
</table>

Source: Fast Track Monitoring System

Homeowners Claim Payments per Insured Home
Annualized Growth Rates, 1997-2013

<table>
<thead>
<tr>
<th>State</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nevada</td>
<td>0.5%</td>
</tr>
<tr>
<td>California</td>
<td>1.8%</td>
</tr>
<tr>
<td>Montana</td>
<td>2.9%</td>
</tr>
<tr>
<td>Oregon</td>
<td>5.0%</td>
</tr>
<tr>
<td>Utah</td>
<td>8.5%</td>
</tr>
<tr>
<td>Nevada</td>
<td>9.7%</td>
</tr>
<tr>
<td>Tennessee</td>
<td>12.6%</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>12.7%</td>
</tr>
</tbody>
</table>

Percentage of Total Claim Payments
Attributed to Catastrophes, 2009-2013

Catastrophe Losses
- 10%, 20%, 30%, 40%, 50%
Volatility Index Values
Average Claim Payment per Insured Home, 1997-2013

Average Claim Payments per Insured Home
All Policy Forms Combined
Oklahoma

Average Claim Payments per Insured Home
All Policy Forms Combined
Colorado

Average Claim Payments per Insured Home
All Policy Forms Combined
Missouri

Average Claim Payments per Insured Home
All Policy Forms Combined
Texas

Average Claim Payments per Insured Home
All Policy Forms Combined
Mississippi

Source: Fast Track Monitoring System; National Climatic Data Center.
State Trends – Summary

• Claim costs vary tremendously across states
• …and over time within states
• Claim severity is going up everywhere
• Extreme volatility obscures understanding

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