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New York Press Office: Loretta Worters, 917-208-8842, lorettaw@iii.org

IRC: Natural Disasters, Rising Repair Costs Making U.S. Home Insurance Less Affordable

REVISED DRAFT, Tuesday, November 14, 2023, 8 a.m., ET, MALVERN, Pa.—The growing frequency and severity of natural disasters, combined with rising home repair costs and other economic factors, have contributed to less affordable homeowners insurance, according to a newly-released Insurance Research Council (IRC) Research Brief.

The IRC, an affiliate of The Institutes, measures affordability with the ratio of average homeowners insurance expenditures to median household income. In 2020, the most recent year for which data are available, this ratio was 1.93 percent. In other words, U.S. households spent an average of 1.93 percent of their income on homeowners insurance.

Homeowners insurance was most affordable in Utah, where households spent 0.92 percent of their annual income on homeowners insurance in 2020. Other states with low expenditure-to-income ratios in that year included Oregon, Wisconsin, Washington and New Hampshire. The least affordable states in 2020 included Louisiana (3.84 percent), Florida, Oklahoma, Mississippi, and Alabama, in that order.

Ultimately, homeowners affordability is determined by cost drivers, which can vary from state to state. These cost drviers include the number of claims paid, the average claim payment, weather and other natural hazard risks, and other perils which a home insurance policy covers, such as losses due to theft and vandalism. Additional cost pressures come from the amount insurers spend to process, investigate, and litigate claims, as well as the percent of homeowners claims with litigation.

Trends in these cost drivers have led to less affordable homeowners insurance countrywide, as average premiums have grown faster than personal income over the past two decades. The expenditure share of income averaged 1.54 percent in the 2000s and then rose to an average of 1.99 percent in the 2010s. This measure dropped slightly in 2019 and 2020, but the data that is currently available does not address the more recent increases in insurance costs. In some states, deteriorating affordability has been accompanied by crises in availability, as some insurers have responded to these challenges by either reducing their exposure or withdrawing from specific markets entirely.

"By examining what's driving up the cost of claims, insurers and policymakers can identify opportunities for improving both the affordability and availability of homeowners insurance nationwide," said Dale Porfilio, president, IRC. "At the same time, insurers must be able to price their policies to reflect the risks they're assuming."

The IRC's analysis looks at the affordability of homeowners insurance for the overall population and does not address the issue of affordability for specific demographic or geographic risk profiles. These data also exclude flood and earthquake insurance, which are not part of standard homeowners policies. The average premium can vary significantly, depending on several factors including a home's location, its insured value (e.g., what it would cost to rebuild the home in its current location, in the event of a total loss), coverage options, and the insurer.
