

HO costs expected to rise 8% in 2004

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Rapidly rising construction costs prices, home remodeling and increasingly expensive natural disasters are expected to push the cost of homeowners insurance up by 8 percent in 2004, according to a report by the Insurance Information Institute.

The projected increase represents a modest change from the estimated 7 percent increase in 2003, noted the I.I.I. The average cost for home insurance nationwide for 2004 is projected to be \$615, or an increase of \$46 for the average homeowner over this year.

"Part of the increase reflects choices more homeowners are making," said Robert Hartwig, senior vice president and economist for the I.I.I.

"People are taking advantage of record low interest rates and are moving into new homes or making additions to their existing homes in near record numbers. These upgrades and additions are pushing up insurance costs. However, reflecting the value of homeowners insurance, the cost of protecting the most important financial asset that American families have is less than one-half of one percent of the market value of the average existing home in the U.S. People expect their premium rates to stay the same, but they don't realize they have more house to insure."

Rapidly rising home prices are a prime factor in rising homeowners insurance costs. Since 1995, the median price of an existing home has risen by nearly \$60,000. New home prices are rising at a significant pace. The boom in mortgage refinancing is also contributing to higher insurance costs as homeowners use their savings to tap into home equity lines of credit to build additions, remodel and update their homes, adding to their value.

According to a research report issued in February by Harvard's Joint Center for Housing Studies, home improvement "has become the great national pastime."

Approximately 41 million homeowners have added to or improved their homes between 2001 and 2002. In 2001, the most recent year for which annual figures were available, an estimated \$214 billion was spent on home improvements, maintenance and repairs (including by owners of rental properties).

"The stock market bust has created a home sale boom in recent years," added Hartwig. "Because of historically low interest rates, more of us are either adding on to existing homes or buying larger homes."

According to the I.I.I., between 1990 and 2002, home insurers paid out, on average, \$1.167 in losses and expenses for every \$1 they earned in premiums. In 2002 alone, home insurers paid out \$4.735 billion more in losses and expenses than they received in premiums. In 2001, home insurers lost \$7.43 billion, the second worst year on record.

Hartwig also cited the high costs of natural disasters and the risks associated with mold.

"Homeowners insurance rates in many parts of the country continue to rise because of the extraordinary costs associated with paying these claims," said Hartwig. "In fact, virtually every part of the country is either at risk of or has experienced a billion dollar disasters." □