

SMARTMONEY

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Insurance Premiums Are on the Rise as Home Prices Fall

Already plagued by stubbornly low home prices, homeowners soon may be facing another blow: rising insurance premiums.

By CHAD TERHUNE And ANNAMARIA ANDRIOTIS

After five years of relatively stable premiums, some of the country's biggest insurers have raised rates or say they plan to. Premiums vary by state, but last year, State Farm Mutual Automobile Insurance Co. says it increased homeowners rates 7.3% on average and, this year, has raised them in 18 states, including a few by more than 7%. By contrast, it cut rates in just two states.

In Florida, upscale insurer PURE Risk Management raised premiums 11% this year. Fireman's Fund Insurance Co., a subsidiary of Allianz (ALV.XE: , ,) SE, says it has started to raise premiums in some areas. For some Pennsylvania homeowners, premiums shot up 33% last year.

For homeowners, the increases may seem counter-intuitive. Why are they paying more to protect a house that may have lost significant value? Insurers say premiums are partly based on rebuilding costs, not on a home's appraised market value. When energy and building-material costs rise, insurers sometimes raise premiums, said Mike LaRocco, chief executive of Fireman's Fund Insurance. Even with the recent decline in commodities prices, gasoline is up 37% in the past year, copper is up about 20% and plywood is up around 8%.

There may be more premium increases on the way, experts say, given the rising toll of natural disasters, including recent tornadoes and extreme weather in the U.S. and the earthquake and tsunami in Japan in March.

New risk models also are causing insurers to reassess rates, said PURE President and CEO Ross Buchmueller. A new hurricane model used widely across the industry forecasts a higher "wind risk," even for homes far from the coasts, driving premiums higher.

Federal flood-insurance prices may rise as Congress looks to erase the remaining \$18 billion deficit from Hurricane Katrina. One congressional proposal would raise the limit on annual premium increases to 20% from 10% and make it harder for the most flood-prone properties to get coverage. The average flood premium is about \$600 annually; rates go to nearly \$6,000 for the highest-risk coastal properties, the National Flood Insurance Program says.

All this may be a shock to homeowners, who have gotten used to premiums kept stable by the absence of big storms and costly disasters since Hurricane Katrina caused insured losses of more than \$45 billion

in 2005. The recession and decline in home construction also sapped demand for insurance, according to industry researcher Insurance Information Institute. The average annual premium for homeowners' insurance fell 3.8% to \$791 in 2008 from 2007, Institute figures show. It estimates the average premium rose to \$807 last year.

There may be little home owners can do, beyond the usual shopping around. Jack Powers, an independent agent at Gulfshore Insurance in Naples, Fla., says some of his customers face rate increases of 20% or more. Still, he advises many of them to swallow the increases. The alternatives, he says, are smaller, unrated insurers that may not withstand a storm financially.

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