



Top 5 Reasons Calif. Homeowners Insurance Rates are Rising

December 6, 2002

Representatives from the Personal Insurance Federation of California (PIFC), the Association of California Insurance Companies (ACIC) and the American Insurance Association (AIA) recently announced the top five reasons California's homeowners insurance rates are rising.

The first to fall on the list is skyrocketing water damage claims, followed by increasing mold claims and litigation costs. Escalating home repair costs coupled with increased home values are boosting premiums, and the final culprit is fraud.

"California insurers paid nearly \$2 billion for household water damage claims between 1997 and 2001, Diane Colborn, vice president of the PIFC, said.

"The increase in water claims can be attributed to many things, including the fact that the average home in California once had only one bathroom, but today homes average two, three or more," Colborn continued. "Other factors may include additional changes in building designs, building codes and building materials.

Colborn explained that, according to the Insurance Information Institute, insurers are paying out \$1.18 in homeowners claims for every dollar collected in premiums.

Mold litigation costs are also a huge factor. Sam Sorich, president of the ACIC, said that insurers base rates on previous loss data, however, the recent explosion of costs to mitigate and litigate mold claims was not predicted, and therefore, never factored into rates. "This is why insurers have requested rate increases from the California Department of Insurance after providing water damage claims loss data," Sorich said.

Home values have also escalated over the past five years, with the average home price in California now at \$273,000, according to the California Realtors Association. "Insurance rates are impacted by the rapid rate of refinancing, higher building material costs and equity loans which have spurred higher demand and higher prices for qualified construction contractors," Sorich said.

"For nearly a decade, insurance premiums remained relatively flat while all costs associated with repairing homes increased significantly," Sorich continued. "If you look at average homeowners insurance premium paid in California from 1996 to 1999 (the latest data available), you will find that premiums have gone up \$77 over three years, or approximately \$25 per year."

Bill Gausewitz, assistant vice president of state affairs for AIA, noted the alarming rise in fraud investigations in California. He said that whenever there is a down economy, there is always a rise in fraudulent insurance claims. "California insurers spend millions each year aggressively investigating suspected fraudulent claims," Gausewitz said.

"According to the Consumer Federation of America, fraud is a \$100 billion a year

ADVERTISEMENT

it's coming!

**INSURANCE
JOURNAL**

BOOKSTORE



PUBLISHERS

**Contact us for
opportunities
to include your
insurance
related
books,
research
and
white papers
in the bookstore**

CLICK HERE

business and insurance fraud comprises nearly half of fraud losses annually," he said. California households spend an extra \$200 a year in premiums to pay for fraud.

"There is no quick fix for the current homeowners insurance market in California. Insurers have a duty to pay claims and must maintain a balanced book of business to remain solvent," Gausewitz added.

"We look forward to working with the legislature to come up with solid solutions that will keep the homeowners insurance market open, not paralyze the industry's ability to do business in the state."

URL: www.insurancejournal.com/news/newswire/west/2002/12/06/24805.htm

[Copyright Wells Publishing](#) | [Privacy Information](#)