

Most Expensive States To Insure A Home

Matt Woolsey, FORBES

Parts of coastal Texas and Mexico were treated to 15 inches of rain courtesy of Hurricane Dolly, a Category 2 storm that made landfall last month. Its 100 mile-per-hour winds made it the most powerful U.S. storm since Wilma, a Category 5 storm in 2005.

But compared with what's expected through the end of the year, Dolly looks like a light drizzle. Last week, the National Oceanic and Atmospheric Administration announced that it expected three to six major hurricanes of Category 3 strength or higher before the end of the year. This will no doubt have homeowners in the Gulf Coast states of Texas, Louisiana, Mississippi and Florida checking their insurance plans.

As it turns out, wind and flood coverage in a hurricane zone doesn't come cheap.

According to the National Association of Insurance Commissioners' most recent study of insurance premiums, drawn on 2005 data due to lags in state reporting, those four states rank among the nation's most expensive places to insure a home. Texans pay an average \$1,372 in premiums, with Louisianans shelling out \$1,144, and Mississippians and Floridians paying \$939 and \$929 a year.

Texas ranked as the state with most expensive insurance premiums, thanks to wind, rain, hail, tornados and hurricanes.

"Just about every type of peril is available here," says Texas Department of Insurance spokesman Ben Gonzalez. There is, however, one danger that no longer factors into the

state's high insurance premiums: mold.

Back in 2001 and 2002, that wasn't the case. "There was a media frenzy about toxic mold, and the folks writing homeowners insurance got hit hard. It drove up premiums quite a bit," says TDI spokesman Jerry Hagins.

Now, if they could only bring hail and hurricanes under control as easily.

Why So Pricey?

Multiple factors, not necessarily the threat of a single disaster, spike prices. Tornados and floods make headlines, but hail and wind cause more damage in an average year. The combination of all four factors has premiums sky-high in the plains states of Oklahoma and Kansas.

Building costs are another determinant. Insurance pays out at [replacement cost](#)—the amount it would take in labor and materials to rebuild the house. In [Washington, D.C.](#), labor, regulations and the cost of business drive up construction prices, according to the National Association of Homebuilders.

And it's homebuilders who in turn pass that on to homebuyers. This overhead is eventually reflected in the costs an insurance company would have to pay in repairs.

All Coverage Is Not Equal

Even though Florida seems ever battered by hurricanes, it ranked only sixth on the list. That's because of the way the state reports its insurance premiums. These figures do not include Citizens Property Insurance Corporation (CPIC), the state's "insurer of last resort," with 1.35 million policies on the books.

Most states have an insurer of last resort, but none of those entities has the biggest market share in its particular state. CPIC does. Its biggest client base is in Broward, Dade, Palm Beach and Monroe counties, four South Florida counties that take big hits from hurricanes.

Covering all those policies requires a huge rainy-day fund. CPIC spokesman John Kuczwanski says the company has access to \$20 billion in reserves, private reinsurance and bonds, and that it would take "more than a significant storm to deplete our reserves."

While that amount of cash could cover CPIC in the event of a major hurricane, it raises an important question about the market forces involved in state-managed insurance. The total amount of insured value on beachfront nationally is between \$7 trillion and \$8 trillion, based on Wharton professor Erwann Michel-Kerjan's research.

The risks posed by hurricanes are distributed though the entire system as a political and public policy issue. That means inland homeowners are paying higher premiums than necessary to subsidize their coastal counterparts.

"Insurance premiums should reflect the risk, and people agree with that in principle but not in practice," says Michel-Kerjan. "But it's also a public policy issue to take care of people who can't afford it."

Premiums can also be skewed by the unpredictability of large-scale disasters like hurricanes or tornados. Since it's difficult to predict how much damage a catastrophe will cause, disaster modeling tends to err on the side of caution.

"Catastrophe modeling is more of an art than a science," says Eric Nordman, director of research at the National Association of Insurance Commissioners. "Because of the uncertainty, if the models get within 10% either way, they think they've done a good job."

And even that 10% has been more difficult to gauge, as the effects of climate change may prove a game changer. Regardless of whether Americans believe humans are causing the earth to warm, the long-term effects of risk models that incorporate current warming trends in water temperature—which lead to more intense hurricanes—dramatically increase risk. That, in turn, will lead to higher premiums.

More money on insurance. Just what the Gulf Coast wanted to hear.

Continued on page 16



© AP Photo/The Daily News, Jennifer Reynolds

MOST EXPENSIVE STATES FOR PROPERTY INSURANCE

No. 1: Texas

Average Annual Premium: \$1,372

Name all the country's collective disasters, and you'll find them all in the Lone Star state, where insurers try to make a profit despite hurricanes, tornadoes, hail, wind storms and earthquakes. At an average premium rate of \$1,328, Texas tops our list. The good news for Texans is that rates are falling, thanks to 2003 regulations. What's more, the rest of the country is closing the gap.



No. 2: Louisiana

Average Annual Premium: \$1,144

Hurricane Katrina tragically illuminated the reasons behind Louisiana's high premiums. Much of New Orleans is below sea level, and as such is susceptible to powerful hurricanes. It also has a high proportion of poorly structured homes unable to withstand increasingly strong winds and rain.



No. 3: Oklahoma

Oklahoma, where the wind comes sweeping down the plain. Twisters, too. Both drive the state's bloated insurance costs, the fourth-highest in the country. The good news is that prices are stabilizing. The average premium increased by only \$5 from last year.



No. 4: District of Columbia

Average Annual Premium: \$963

Urban areas tend to have higher insurance rates than their country cousins because property values and costs associated with rebuilding are usually higher. Washington is nothing but city, and labor and business costs for repair add to pricing. Throw into the mix insurers' perception that the District is at risk for terrorism, and it's easy to understand the \$963 per year.



No. 5: Mississippi

Average Annual Premium: \$939

Even though Mississippi's per-capita income ranks near the bottom of the country's, insurers charge a lot to cover homes in this gulf state against flood waters, falling trees and wind damage. If that weren't enough, insurance experts say the state's homes are among the least structurally sound in the nation, which increases risk.



No. 6: Florida

Average Annual Premium: \$929

Insurance companies are fleeing the Sunshine State, making an already high-risk region more expensive by virtue of decreased competition. Fears of global warming, rising sea levels and more powerful hurricanes have Floridians paying more. As these numbers do not reflect the Citizens Property Insurance Corporation, the "insurer of last resort" in hurricane zones, the actual statewide figure would probably be the costliest in the nation.



No. 7: California

Average Annual Premium: \$895

Earthquake premiums are covered separately here, but a lot can still go wrong in this disaster-prone state. The coastal population has to deal with ocean storms and the desert dwellers have yearly brush fires, but nearly everyone has to worry about mudslides.



No. 8: Rhode Island

Average Annual Premium: \$849

For a small state, Rhode Island has a considerable length of coastline. And resort towns like Newport are filled with high-priced second homes. Premiums in these areas are high, since insurers are reluctant to take on beachfront property prone to wind damage and are fearful of the effects of global warming.



No. 9: Alabama

Average Annual Premium: \$847

All Gulf Coast states are susceptible to hurricanes. But here, building codes are more stringent than they are in Mississippi. What's more, Alabama, unlike Louisiana, doesn't have much property below sea level, which helps explain why its costs are lower. Still, the state's weather patterns feature thunderstorms, hail and tornadoes that can cause considerable damage to homes.



No. 10: Kansas

Average Annual Premium: \$836

When you find yourself living in a part of the country nicknamed "tornado alley," it isn't hard to imagine why insurance rates would be high. Think *The Wizard of Oz*.



POA Note: The information contained in this story was calculated prior to the 2008 hurricane season.