

Why are insurance costs climbing?



From wildfires and hail to rising real estate and inflation-fueled reconstruction prices, the cost of insurance is being driven higher by several forces.

Here are three key drivers behind rising premiums that help inform conversations.

The cost to buy or repair a home has risen—a lot.

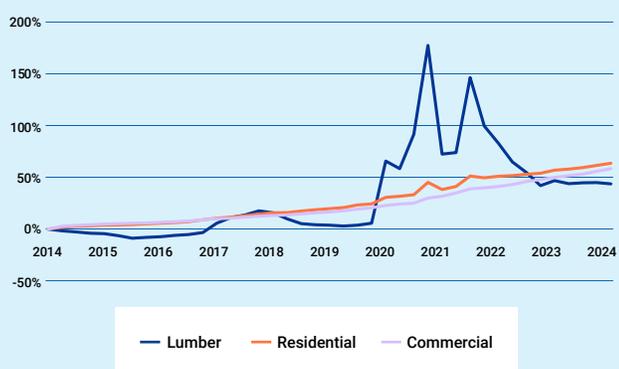
The median price for a new home has increased 41% since 2015, going from \$292,700 then to \$413,500 today (U.S. Census Bureau). And reconstruction costs grew twice as much from 2019 to 2024 than in the prior five years. This has driven up the cost of insurance claims. According to Verisk data comparing the five years from 2019 to 2024 to the prior five years:

- Residential reconstruction costs jumped 44%.
- Commercial reconstruction costs grew 42%.
- Lumber prices rose 38%, although they hit 178% at one point.
- The price of concrete jumped 44%.
- Labor costs spiked 38.5%.

Why it matters:

These rising costs have outpaced inflation and directly impact the cost for many insurers to adequately cover a property and pay out claims. In addition, outdated estimates can leave policyholders underinsured.

10 years of construction costs



More insured properties in riskier areas

There's a growing number of people and businesses in riskier areas.

- Areas at high risk for Severe Convective Storms (CO/KS/NE/OK/TX) have grown 2X faster over the last 10 years than the U.S. average. (U.S. Census Bureau)
- Areas at high risk for wildfire have grown by 25% since 2000. (U.S. Forest Service)
- Highest risk states such as Florida and Texas are projected to grow 3X the national average over the next 10 years. (Texas Demographic Center, Florida Office of Economic and Demographic Research, U.S. Census Bureau)
- Only 16 states have adopted and enforce the latest building codes. (IBHS)
- Only 51% of the U.S. population is in areas where both the commercial and residential building code enforcement classifications are above average, according to Verisk data.

Why it matters:

When more homes and businesses are concentrated in high-risk areas, insurance companies can face bigger potential losses.

More extreme weather and catastrophic events

Wildfires and severe storms are happening more often and in more places. According to Verisk data:

- Wind and thunderstorm catastrophe losses have more than doubled, when comparing 2015 to 2024 to the prior 10 years, which cost insurers \$277 billion.
- The number of houses destroyed by wildfires doubled from 1990 to 2020.
- It's not just the Great Plains: 40% of large hail damage occurred in unexpected areas.

Why it matters:

More frequent and severe weather often means more claims—and higher costs for everyone.

The costly impact of fraud and litigation

There are other drivers of insurance costs, including insurance fraud and litigation funding.

- Insurance Fraud is estimated to cost \$308 billion annually, or \$400 to \$700 per household. (Coalition Against Insurance Fraud)
- Investors are financing lawsuits in exchange for a portion of the settlement or judgement. This is called third-party litigation funding, and it's creating a costly lawsuit-for-profit environment.
- Costs and compensation paid in the U.S. tort system reached over \$529 billion in 2022, or over \$4,200 per U.S. household. (U.S. Chamber of Commerce)

The bottom line

Hurricanes, tropical storms, wildfires, and wind, winter and thunderstorm events have increased dramatically. The number of catastrophic events in the U.S. more than doubled and insured losses increased by more than 170% to \$615 billion, when comparing 2015 through 2024 to the prior 10-year period.

What does this all mean?

The combination of more frequent catastrophes, higher reconstruction costs, and population concentration has created a perfect storm that's driving up costs for everyone.



Want to learn more?

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