

Large Language Models Examine Rising U.S. Homeowners Rates



In addition to severe weather, other factors impacting U.S. homeowners rates included regulation, reinsurance, the lack of affordable housing, high mortgage rates and carrier exits, according to the artificial intelligence models.

Best's Review asked three artificial intelligence-based, large language model programs: Homeowners rates are rising in many U.S. states. What are the forces driving that increase and what might slow or speed the rise? The following are excerpts from the responses.

ChatGPT-4o

Homeowners insurance rates are rising across many U.S. states due to a convergence of economic, environmental, and regulatory forces.

Forces Driving the Increase

Climate-Related Catastrophes: Wildfires, hurricanes, floods, and hailstorms are becoming more frequent and severe, leading to higher claims and prompting insurers to raise rates or exit high-risk markets.

Reinsurance Costs: Reinsurers, who provide backup coverage for insurers, have significantly raised prices due to their own exposure to catastrophic losses—costs that are passed down to policyholders.

Litigation and Fraud: In states like Florida, litigation abuse and inflated claims have driven up insurer losses, prompting widespread rate increases.

Grok 3

Forces Driving the Increase

Market Dynamics: Limited housing supply and surging home prices (e.g., median home price up 14% year-over-year in 2021) increase the value insurers must cover, necessitating higher premiums.

Factors That Might Slow the Rise

Improved Climate Risk Mitigation:

Homeowner Actions: Installing protective devices (e.g., storm shutters, fire-resistant materials) or retrofitting homes to withstand extreme weather can reduce claim risks, potentially lowering premiums.

Factors That Might Speed the Rise

Carrier Exits: More insurers exiting high-risk states could reduce competition, leading to steeper rate hikes. For example, American Family Insurance raised rates by up to 30.1% in Missouri in 2024.

Mortgage Rates: Higher mortgage rates (e.g., 7.22% in November 2023) reduce homeowner mobility, keeping inventory low and home prices high, which increases insured values and premiums.

Perplexity AI

Factors Driving the Increase

Increase in Severe Weather and Natural Disasters Climate change is causing more frequent and severe weather events, which lead to greater property losses and higher insurance payouts. The average number of billion-dollar disasters in the U.S. has surged, with 20.4 such events annually in recent years, up from 8.5 per year between 1980 and 2023.

Shifting Population Patterns More Americans are moving to areas with higher climate risk, such as the Southeast and Southwest, increasing exposure and potential claims in those regions. Urbanization and rising property values also contribute to higher premiums, as the cost to repair or replace homes increases.

Insurer Profitability and Financial Stress For years, premiums have not kept pace with rising claims and costs, putting insurers under financial pressure. In 2023, insurers paid out more in claims and expenses than they took in from premiums. This financial stress is leading insurers to raise rates and, in some cases, reduce coverage or exit high-risk markets.

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—Staff Reports