

## How are your auto and homeowners insurance costs calculated?

Insurance companies set prices to match the cost of future claims. To do this, insurance companies look at your personal risk factors (the type of car you drive or where you live). But they also look at how much they spend on all claims.

### Insurance companies determine premiums and rates by looking at you

Insurance companies use many factors to calculate what they charge a customer. Each company's premium formula is different.

For home insurance, common factors include:

- Your home's age.
- Your home's roof age and material.
- Where you live.
- The cost to replace your house.
- Your claim history.
- Your credit score.

For auto insurance, common factors include:

- Your driving record and claims history.
- Where you live and how much you drive.
- Your age, gender, and marital status.
- Your occupation.
- The cost to replace the car you drive.
- Your credit score.

If some of these factors changed since your last renewal, it could raise or lower your premium. This includes characteristics that change over time, such as how much your home or auto is worth. You may see such changes in a policy's premium from one renewal to the next.

TDI doesn't have information about your policy or what elements caused your premium to change. Your company should be able to tell you why it raised your premium.

### But it's not just you

Insurance companies also consider factors that affect the cost for all claims, which is spread across customers.

#### Other factors that insurance companies look at include:

- **Inflation** can affect the cost of new and used vehicles, car parts, and repairs. It can also increase the cost of building materials and construction labor. Supply chain disruptions can affect the flow of construction materials and car parts from around the world.
- **Riskier driving** results in more severe and costly accidents. As companies pay more claims (and higher vehicle repair and replacement costs), they're more likely to raise rates to make up for those costs.
- **Weather events** in Texas include freezes, hurricanes, hailstorms, tornadoes, wildfires, major thunderstorms, and more. The frequency and size of these events add to claim costs.

#### What's the difference between a premium and a rate?

**Premium** – The amount you pay to an insurance company for an insurance policy.

**Rate** – The cost of insurance per exposure unit (\$1,000 of home coverage or one year of auto coverage).

Example – A gallon of gas costs \$3.50. I pay \$49 to fill up my car's 14-gallon gas tank. The premium is \$49. It's the rate (\$3.50) times the unit (14 gallons).

- **Reinsurance** is a form of insurance for insurance companies. Companies buy reinsurance to spread their risk and be financially stable if a major disaster occurs. Higher reinsurance rates affect what insurance companies charge their customers.

## TDI's role

TDI doesn't set insurance rates or premiums.

Insurance companies can change their rates and premium formulas by sending them to TDI. This is called a "rate filing." Companies can use the new rates the same day they send them to TDI or can choose a later effective date.

Texas law doesn't generally limit how often a company can file new rates, but companies are required to provide an analysis that supports the rate changes they file. TDI's actuaries review this analysis and will ask for more information if it's needed to evaluate whether the rate changes are supported and follow state law.

In the last year, TDI resolved issues in company rate filings that saved consumers \$57 million.

## State law requires that rates:

- Be adequate.
- Not be excessive.
- Be based on sound actuarial principles.
- Be reasonably related to all costs.
- Not be based on the insured's race, creed, color, ethnicity, or national origin.

## Ask about discounts and shop around

If your auto or home insurance bill is rising, ask your company to explain the increase and ask if you're getting all available discounts.

You might need to shop for a better deal. You can start your search at [HelpInsure.com](http://HelpInsure.com) to get sample estimates. Then call the companies you're interested in to get price quotes. Also consider calling an independent insurance agent. They can help make sure you're comparing the same type and amount of coverage.

## Resources

- Lower your car insurance rates: Tips for saving money ([www.tdi.texas.gov/consumer/lower-your-car-insurance-rates-tips-for-saving-money.html](http://www.tdi.texas.gov/consumer/lower-your-car-insurance-rates-tips-for-saving-money.html))
- Lower your home insurance costs: Tips for saving money ([www.tdi.texas.gov/consumer/lower-your-home-insurance-costs-tips-for-saving-money.html](http://www.tdi.texas.gov/consumer/lower-your-home-insurance-costs-tips-for-saving-money.html))
- Property and Casualty Rate Reviews ([www.tdi.texas.gov/reports/pc/property-casualty-rate-review-report.html](http://www.tdi.texas.gov/reports/pc/property-casualty-rate-review-report.html))

## Videos

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