



Southwestern Insurance Information Service

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FACT SHEET

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What's The Difference Between Insurance Rates and Insurance Premiums?

Consumers often confuse the terms insurance premiums and insurance rates because they are frequently used interchangeably even by the most sophisticated of insurance practitioners.

An insurance rate is the cost of a unit of insurance, usually per \$1,000 in coverage. A hypothetical example would be if a person owned a home valued at \$150,000 and the rate was \$8.00 per \$1,000 the rate would be \$1,200.

The definition of an insurance premium is the price of an insurance policy charged annually or semiannually. There may be a disparity between the rate and the premium simply because over time home values have increased significantly in Texas. Moreover, premiums may vary based on different coverages and deductibles. Homeowners in the state have not suffered declining property values as much as residents of other states.

The Independent Insurance Agents of Texas conducted an extensive study which revealed that the average rate for all properties in Texas in 2002 was \$8.65 per \$1,000. The rate continued to decline through 2008 when the average rate for all homeowners in the state was \$6.35 per \$1,000. The IIAT study went on to conclude that homeowners rates on a cost per \$1,000 of value have actually dropped more than 26 percent from 2002 through 2008.

Arguably, premiums may have increased in Texas for a variety of reasons. Aside from property value increases, the state is subject to some of the most severe weather in the country often costing billions of dollars during a given year.

The Texas Department of Insurance conducted their own study of average premium and average policy size as well as the average premium and average policy amount for selected Texas counties. They found

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that the cost of homeowners insurance in some parts of the state is among the lowest in the country. Following are the findings of TDI.

**Average Premium and Average Policy Size, 2003-2008*

| Year | Homeowners Average Statewide Premium* | Percent Change Over Prior Year | Homeowner Average Statewide Policy Size | Percent Change Over Prior Year |
|------|---------------------------------------|--------------------------------|-----------------------------------------|--------------------------------|
| 2003 | \$1,249 | N / A | \$151,400 | N / A |
| 2004 | \$1,244 | -0.4% | \$161,100 | 6.4% |
| 2005 | \$1,222 | -1.8% | \$169,000 | 4.9% |
| 2006 | \$1,215 | -0.6% | \$181,100 | 7.2% |
| 2007 | \$1,251 | 3.0% | \$196,400 | 8.3% |
| 2008 | \$1,272 | 1.7% | \$200,400 | 2.0% |

*It is important to note that the size and geographic diversity of Texas result in wide variations in homeowners premiums. In fact, the cost of homeowners insurance in some parts of the state is among the lowest in the country.

**Average Premium and Average Policy Amount for Selected Texas Counties*

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| County | 2004 Average Written Premium Per Policy | 2008 Average Written Premium Per Policy | 2008 Average Amount of Insurance Per Policy |
|-----------|-----------------------------------------|-----------------------------------------|---------------------------------------------|
| El Paso | \$516 | \$544 | \$146,400 |
| Bexar | \$1,019 | \$1,009 | \$178,100 |
| Travis | \$1,106 | \$1,086 | \$257,100 |
| Bowie | \$1,161 | \$1,181 | \$158,800 |
| Potter | \$1,308 | \$1,281 | \$145,900 |
| Dallas | \$1,496 | \$1,475 | \$227,000 |
| Harris | \$1,463 | \$1,541 | \$214,600 |
| Galveston | \$1,874 | \$2,367 | \$205,200 |

* Source: Texas Department of Insurance

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