GHP Investment Advisors, Inc.

Personal Wealth Management

GHP Global Markets

INVESTMENT INSIGHT

Premiums on the Rise: A Temporary Spike or the New Normal?

By Barbara Terrazas CFP®, Wealth Advisor

Americans are frequently confronted with polarizing issues and growing divisions. However, one concern that unites many is the sharp rise in insurance premiums—particularly homeowners' insurance. Over the past few years, these premiums have climbed at a startling rate. Is this trend a permanent shift, or are we simply experiencing a phase in the industry's natural cycle? In this newsletter, we'll explore the cyclical nature of the insurance industry, examine the impact of inflation and regulation, and offer a forward-looking perspective for both insurers and policyholders.

Insurance Regulation & Current Trends

According to the Consumer Federation of America (CFA), homeowners' insurance premiums rose at twice the pace of overall inflation between 2021 and 2024. Since 2023 alone, they have risen an average of 24% nationwide. Nearly every part of the country has felt the impact, with premiums increasing in 95% of U.S. ZIP codes in the past 4 years. In roughly one-third of those areas, the price hike exceeded 30%.

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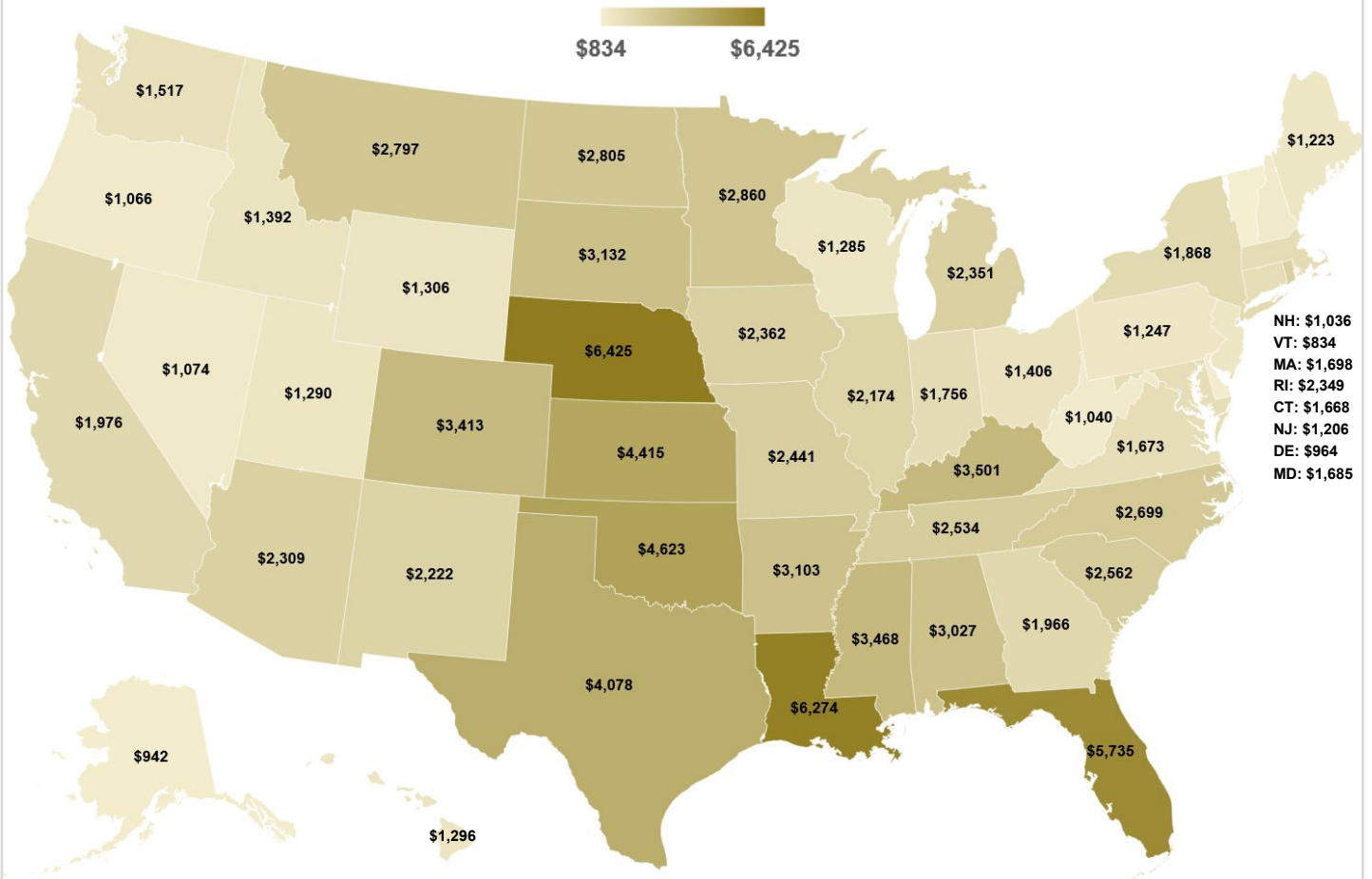
Understanding why premiums vary so widely requires looking at how they're regulated. Homeowner's insurance is regulated at the state level, rather than the federal level, by individual state insurance departments. While not legally mandated for all homeowners, it is required by mortgage lenders. State regulators must agree and approve any increases in premiums by insurance carriers, and those changes could take years to implement. Because of the regulation at the state level, the rate of change for premiums varies greatly from state to state.

The map below highlights the average annual home insurance premiums by state in 2025. The three most expensive states, Nebraska, Louisiana and Florida, share one thing in common: exposure to extreme weather that drives up financial risk for insurers. States like Utah stand out for another reason. While premiums remain below the national average of $2,470, Census Bureau data shows the state experienced the largest increase between 2021 and 2024, climbing 59%. State regulators attribute this surge to more homes being built in wildfire-prone areas and to an insurance market that had long been underpriced, finally catching up with inflation.

Map 1

Average Annual Insurance Premiums by State - 2025



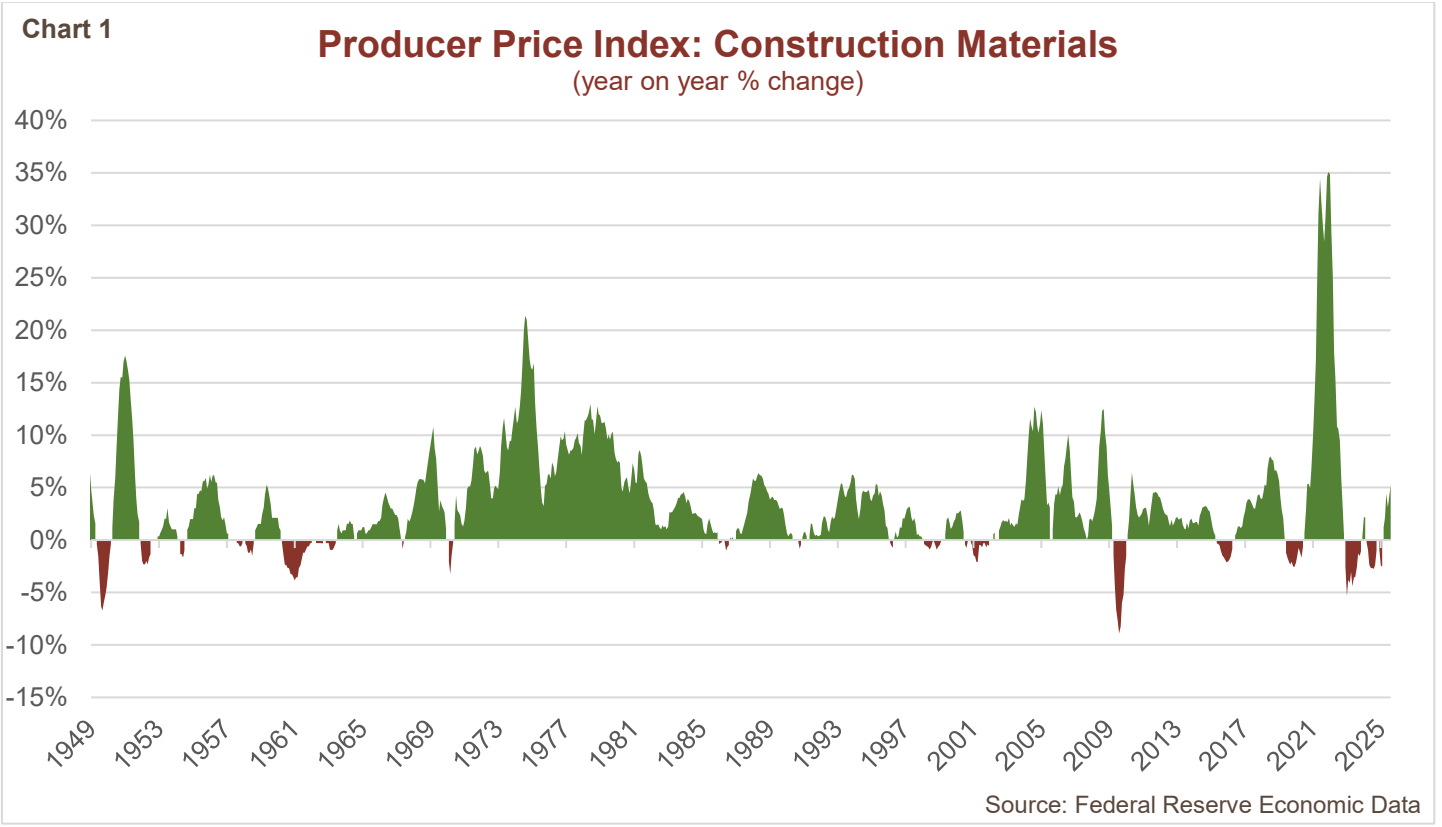
Source: Bankrate

Role of Natural Disasters and Inflation

It is difficult to ignore the recent severe weather events and the impact of climate risk for insurance carriers and homeowners. Insurers are responding to greater risk (and greater losses) for those events. Geographic risk variation such as coastal areas, wildfire-prone zones, and places with flood risk furthers the case for premium increases in those areas. The gap between “lower risk” and “high risk” areas is widening with 82% increases in zip codes experiencing climate-related perils compared to 20% in the lowest climate-risk zip codes.

Additionally, the role of inflation is also an important component to the cause of rising premiums. Post Covid, construction material prices spiked dramatically (see Chart 1) causing an increase in the cost of rebuilding. Insurance carriers generally lag current inflation rates and eventually catch up through premium increases. In other words, premium increases today could be attributable to market conditions from several years prior. With the rise of climate related losses and the catch-up period following an expansionary inflationary cycle, the collective increase in homeowner’s insurance premiums seems inevitable.

Chart 1



Source: Federal Reserve Economic Data

Cyclicality of Insurance-The Underwriting Cycle Clock

Insurance markets move in cycles, swinging between **soft markets** and **hard markets**. A soft market is marked by falling premiums, broad coverage, and insurers competing aggressively for market share. In contrast, a hard market is defined by rising premiums, stricter underwriting standards, and limited availability of coverage. This shift usually follows periods of large losses or poor investment returns.

With increasing rebuilding costs and the higher frequency of natural disasters driving premiums up, there is little doubt we are currently in a hard market. The open question is whether this represents a lasting structural change in the industry or simply another turn in the traditional insurance cycle.

The Arch Underwriting Clock (Figure 1), introduced in 1985, was created to illustrate the cyclical nature of insurance markets. At its core, the insurance industry operates as a business aimed at generating profit, rather than aligning directly with the interests of the insured. During a pronounced "hard" market, high premiums, strict underwriting standards, and limited coverage make insurance both costly and difficult to maintain.

Figure 1

Source: Lockton

Outlook

The question remains whether we are in a hard insurance market with the expectation for the cycle to revert to a buyer's market with falling premium costs or if a new standard has been created and higher premiums are here to stay. The clock is not necessarily a one-size fits all approach, and it does not explicitly create the path for future trends. However, it does provide a framework for current market conditions with an eye towards cyclicality.

At GHP Investment Advisors, we do not underestimate the impact of rising insurance costs on clients. While the underlying causes and staying power of current variables can be debated and parsed, it is easy to recognize the considerable hit to clients' monthly housing outlays. Those residing in high climate risk areas will continue to see premium increases. Increasing deductibles can lower premiums for many, with homeowners taking on more out-of-pocket cost for smaller claims while maintaining coverage for catastrophic losses. At the same time, the insurance industry will continue to refine their models to create better predictability and ultimately lower insurance costs. While unavoidable and uncomfortable, the current cost of insurance is unlikely to reverse, but hopefully, the pace of double-digit premium increases will be a short-term phenomenon.

Market Summary

The GHPIA Equity Valuation Dashboard

Asset Class	Price/ Earnings 2025:Q3	P/E Benchmark	Over / Under Valuation	Price/ Book Value 2025:Q3	P/BV Benchmark	Over / Under Valuation	Price/ Cash Flow 2025:Q3	P/CF Benchmark	Over / Under Valuation
Large-cap growth stocks	31.7	27.0	17.4%	10.4	5.7	83.3%	31.3	17.5	78.9%
Large-cap value stocks	19.9	20.2	-1.7%	3.5	2.5	39.5%	18.6	13.1	41.8%
Mid-cap growth stocks	21.1	24.8	-14.7%	4.2	4.5	-5.8%	15.0	16.1	-6.7%
Mid-cap value stocks	15.6	19.1	-18.5%	1.8	2.2	-15.6%	9.5	12.4	-23.4%
Small-cap growth stocks	19.5	23.2	-15.8%	3.0	3.5	-13.8%	14.4	15.0	-4.1%
Small-cap value stocks	15.2	18.2	-16.7%	1.4	2.1	-33.3%	10.3	11.8	-13.0%

GHP Investment Advisors, Inc. Benchmarks are determined using any combination of valuation approaches deemed relevant by GHPIA, including Price to Earnings (P/E), Price to Cash Flow (P/CF), and Price to Book Value (P/BV), and other relevant analyses. Consideration is given to such factors as historical and projected financial growth for the company, profit stability, leverage, the quality of earnings, valuations of comparable companies, the size and scope of the company's operations, the strengths and weaknesses of the company industry information and assumptions, general economic and market conditions, and other factors deemed relevant. While Benchmarks are based on valuations and assumptions that GHPIA believes are reasonable under the circumstances, actual realized returns on such investments may differ materially and do not take into account any fees or expenses that may be associated with investing in those assets. There is no assurance that the investment objectives and strategies described herein will be achieved or successful. P/E, P/BV, and P/CF data are provided by FactSet.

Returns by Index

Index	2025:Q3	YTD
DJIA Total Return*	5.67%	10.47%
S&P 500 Total Return*	8.12%	14.83%
S&P 500/Growth*	9.63%	18.94%
S&P 500/Value*	5.69%	8.05%
S&P Midcap 400/Growth	5.38%	5.40%
S&P Midcap 400/Value	4.99%	3.70%
S&P Smallcap 600/Growth	6.38%	4.37%
S&P Smallcap 600/Value	11.10%	1.44%
MSCI EAFE	4.23%	22.34%

Source: FactSet as of 9/30/2025.
**Dividends reinvested.*

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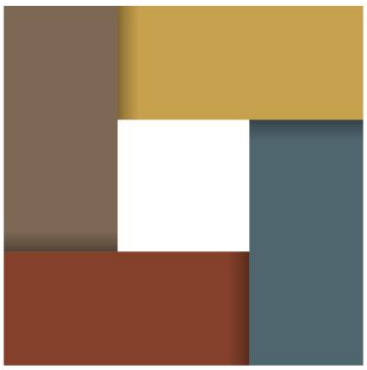

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