



# Know Your Insurance

Courtesy of BHC Insurance

## How Insurers Calculate Premiums

In the world of insurance, it's essential to understand key terms in order to navigate and make informed decisions about policies. One of these terms is **insurance premium**, which is the amount a policyholder must pay in exchange for coverage. Depending on the type of policy, an insurance premium must be paid monthly, twice a year or annually. Each policy type will have a different premium amount based on the coverage and policyholder. It's essential to understand how premiums are calculated so you can secure the best deal without sacrificing coverage.

Insurers use various factors to determine premiums based on the policyholder's perceived risk level; this process is called **underwriting**. For example, younger drivers will typically have higher premiums because they are more likely to get in an accident due to inexperience. The cost of premiums is based on the insurer's criteria, the type of insurance and the policyholder, which means rates can vary significantly from person to person.

### Auto Insurance

Each insurance provider has specific standards used to determine the amount of risk a driver may have. The following are some of the most common factors that influence auto insurance premiums:

- **Age**—Younger drivers typically experience higher rates due to their lack of driving experience and increased statistical likelihood of getting into an accident.
- **Driving record**—People with driving violations will typically have a higher premium because they are perceived to be riskier to insure.
- **Credit history**—Those with higher credit scores may benefit from lower premiums because they are seen as less risky to insure.
- **Location**—Insurers may consider where you live and drive as a potential risk factor. For example, you may have higher premiums if you park on the street in a high-crime neighborhood.
- **Vehicle type**—Vehicle characteristics, such as the safety features, make, model and cost of repair, can impact premiums. Vehicles perceived as dangerous, expensive to fix or unsafe may result in higher premiums.

### Homeowners Insurance

The following are some of the most common factors that influence homeowners insurance premiums:

- **Location**—If your home is in an area at a higher risk for severe weather or crime, it will typically have higher premiums.
- **Rebuilding costs**—The more expensive it is to rebuild or repair your home, the more expensive coverage typically will be.
- **Claims history**—Your insurance company will assess any claims you've made within a specific period, including at a previous residence. The types of claims and frequency may impact premiums.
- **Home's age and features**—Older homes typically cost more to insure because they may have features that are harder and more expensive to replace. Additionally, older homes may be more vulnerable to potential issues.

### Why Premiums Change Over Time Even Without Submitting Claims

Irrespective of individual circumstances, insurance premiums can fluctuate based on external factors you cannot control, such as market trends. When claims increase in frequency or severity, a chain reaction reverberates throughout the industry. For example, when severe weather causes widespread damage, an insurer may need to pay for many claims simultaneously. If there are several large storms in a season, that can quickly impact an insurance company's solvency. Insurers often adjust their pricing strategies to offset increased losses and maintain financial stability. This might involve raising premiums across the board or implementing targeted rate hikes for specific policyholders or coverage areas.

Inflation can also impact premiums. Due to inflation, the cost of goods and services tends to rise over time, including the cost of labor and materials to repair a car or rebuild a house. As these costs increase, insurance companies may raise premiums to combat these higher costs.

### How to Lower Insurance Premiums

Although many factors can cause your premium to increase over, the following strategies may help manage costs:

- Comparing multiple policies and quotes from multiple providers
- Bundling policies
- Maintaining a clean driving record
- Paying your entire annual or six-month premium at once
- Receiving documents online (i.e., paperless)
- Mitigating risks (e.g., install security cameras, perform regular maintenance, take proper precautions before storms)

### We're Here to Help

Contact us for help understanding insurance premium calculations, including what you can do to cut costs without compromising coverage.

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