

# Trends and Insights: Illinois

## Insurance Proposals Risk Worsening Affordability, Availability

Increased legislative involvement in regulating homeowners' insurance pricing and rates – as recently called for by some officials in Illinois – would hurt insurance affordability in the state, rather than helping consumers as intended.

Rising premiums are a national issue. They reflect a combination of costly climate-related weather events, demographic trends, and rising material and labor costs for repairing and replacing damaged or destroyed property. Average insured catastrophe losses have been on the rise for decades, fueled in part by natural disasters and population shifts into high-risk areas. More recently, these and other losses to which the property/casualty insurance industry is vulnerable were exacerbated by inflation related to the pandemic and Russia's invasion of Ukraine. Recent changes in U.S. economic and tariff policies have since put further upward pressure on costs.

These increasing costs – if not addressed – would likely erode the [policyholder surplus](#) insurers are required to keep on hand to pay claims.

To avoid this, many insurers have filed with state regulators for rate increases – requests that often meet with resistance from consumer advocacy groups and legislators. Illinois would not be the first state to try to ease consumers' pain by constraining insurers' ability to accurately set coverage prices to reflect increasing levels of risk and costs.

Such efforts, while perhaps politically popular, create marketplace challenges by confusing one symptom (higher premiums) with the disease's underlying cause (increasing losses and rising costs to repair and replace damaged property). Rather than target insurers

with misguided legislation, states would be wiser to work with the industry to focus on improving property owners' risk profiles by investing in mitigation and resilience.

## Better than U.S. average

The [Insurance Research Council](#) (IRC) – like Triple-I, an affiliate of [The Institutes](#) – has developed an affordability index that gauges insurance affordability based on a ratio of the average insurance expenditures to median household income. A higher index indicates less affordable insurance.

As shown in the chart below, Illinois' homeowners' insurance is more affordable than in most of the nation and not very much worse than the most affordable state, Utah. For comparison, Louisiana – the least affordable state for homeowners' insurance – has an index well above the other three and has been becoming even less affordable since 2020.

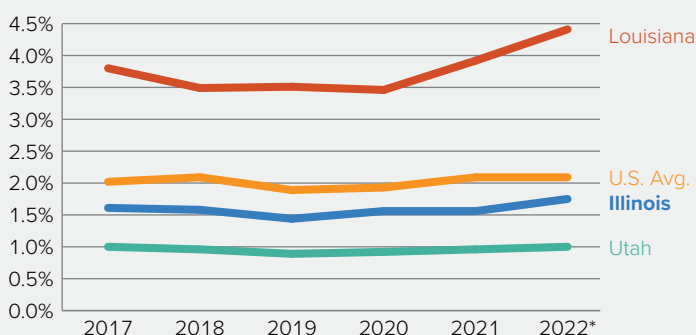
Similar trends are visible with respect to personal auto insurance affordability when the United States, Illinois, and Louisiana (the least affordable state for auto insurance) are compared with the most affordable, Hawaii.

These affordability trends are driven in part by costs and in part by state and national trends in household income.

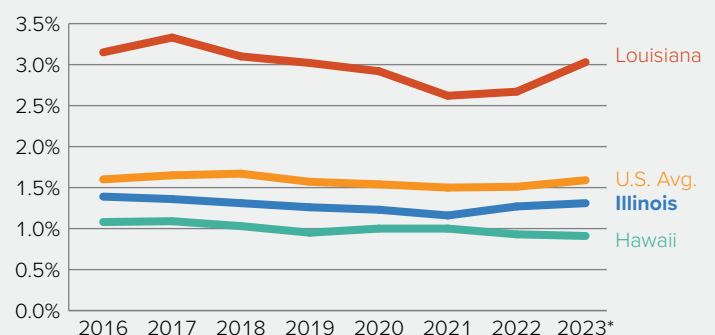
## Perils drive premiums

Like any business, insurers must generate a reasonable profit to remain solvent. No insurer makes money by turning down business. In a competitive market, excessive rates cause consumers to shop around for better prices. If rates are too low, claims eventually will reduce the amount of surplus available to pay future claims.

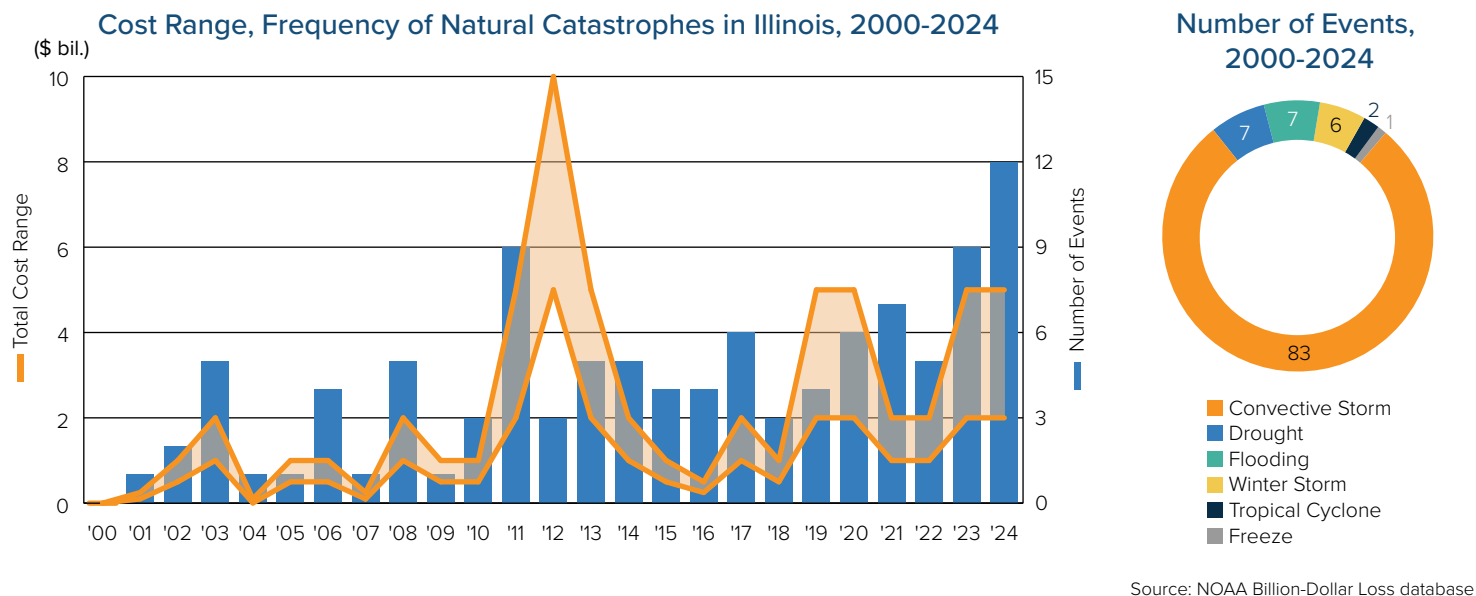
Homeowners' Insurance Affordability Compared



Personal Auto Insurance Affordability Compared



\*Most recent data available.  
Source: Insurance Research Council



Rising premiums are a consequence of evolving risks and rising costs to cover them. It is crucial that premium rates accurately reflect the risks insurers are assuming.

## Follow what's working

This would not be the first time Illinois leaders have [sought legislative solutions](#) to what are, in fact, market-driven problems. Proposed legislation targeting insurers would erode insurers' already thin profit margins, forcing them in some cases – as has been seen in [California](#), thanks to regulatory interpretation of Proposition 103 – to reduce their willingness to cover any but the safest risks in the state. California has taken serious steps to address the obstacles to underwriting insurance there, but it still faces calls for legislative “fixes”, despite California – like Illinois – enjoying rates that are more affordable than the national average.

[Florida is a good example](#) of a state in which addressing a root cause of higher costs – in their case, legal system abuse – has helped bring about lower insurance premiums. Several of the Sunshine State's top auto insurance groups announced plans to cut personal auto rates by a statewide average of 6.5 percent due to legislative reforms that addressed legal system abuse and assignment of benefits claim fraud.

State leaders credit the reforms with driving down both average rates and loss ratios, with Florida now reporting the lowest personal auto liability loss ratio in the country, the Florida Office of Insurance Regulation said. Improved underwriting results and reduced litigation are helping insurers lower premiums, while increased consumer shopping is boosting competition.

Illinois is no stranger to the type of litigation trends and legal system abuse Florida has seen. Illinois jurisdictions have been

## Insurance Industry Impact on Illinois

Illinois is home to two of the five largest U.S. property/casualty insurers and two of the five largest insurance brokerage firms. Here are just a few examples of how Illinois benefits economically from the insurance industry.

### In 2021:

- The industry contributed \$41.9 billion to Illinois gross domestic product (GDP);
- Investments in \$499 billion of bonds – including \$47 billion of municipal bonds – funded a wide array of public projects, such as schools, roads, bridges, and mass transit; and
- Direct insurance industry employment was 155,159, and indirect employment was over 560,000.

Source: Illinois State University, 2023

named in the American Tort Reform Association's [“Judicial Hellholes”](#) list every year since the report's inception. Between 2016 and 2020, spending on local TV trial lawyer ads in the state increased nearly 70 percent, ATRA reports.

Given the property/casualty insurance industry's outsized benefit to the state (see above), Illinois' leadership would do well to follow Florida's example by working with the insurance industry to address the root causes of their state's risk challenges. Triple-I welcomes the opportunity to collaborate with state policymakers to develop constructive approaches to risk mitigation and resilience that will benefit communities and consumers.