LexisNexis® Insurance Demand Meter

A quick look at auto insurance shopping trends

ISSUE #15

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LexisNexis Insurance Demand Meter – Trends from Q2 2023

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Overview

Although U.S. auto insurance shopping and new business growth came in strong for the quarter at Hot and Sizzling respectively, the industry is still grappling with profitability challenges. Claims severity remains a primary contributing factor to the current hard market. Material damage claims levels have slowed slightly but are still notably increasing year-over-year. Injury severities have continued to rise, registering six straight quarters of more than 5% growth.

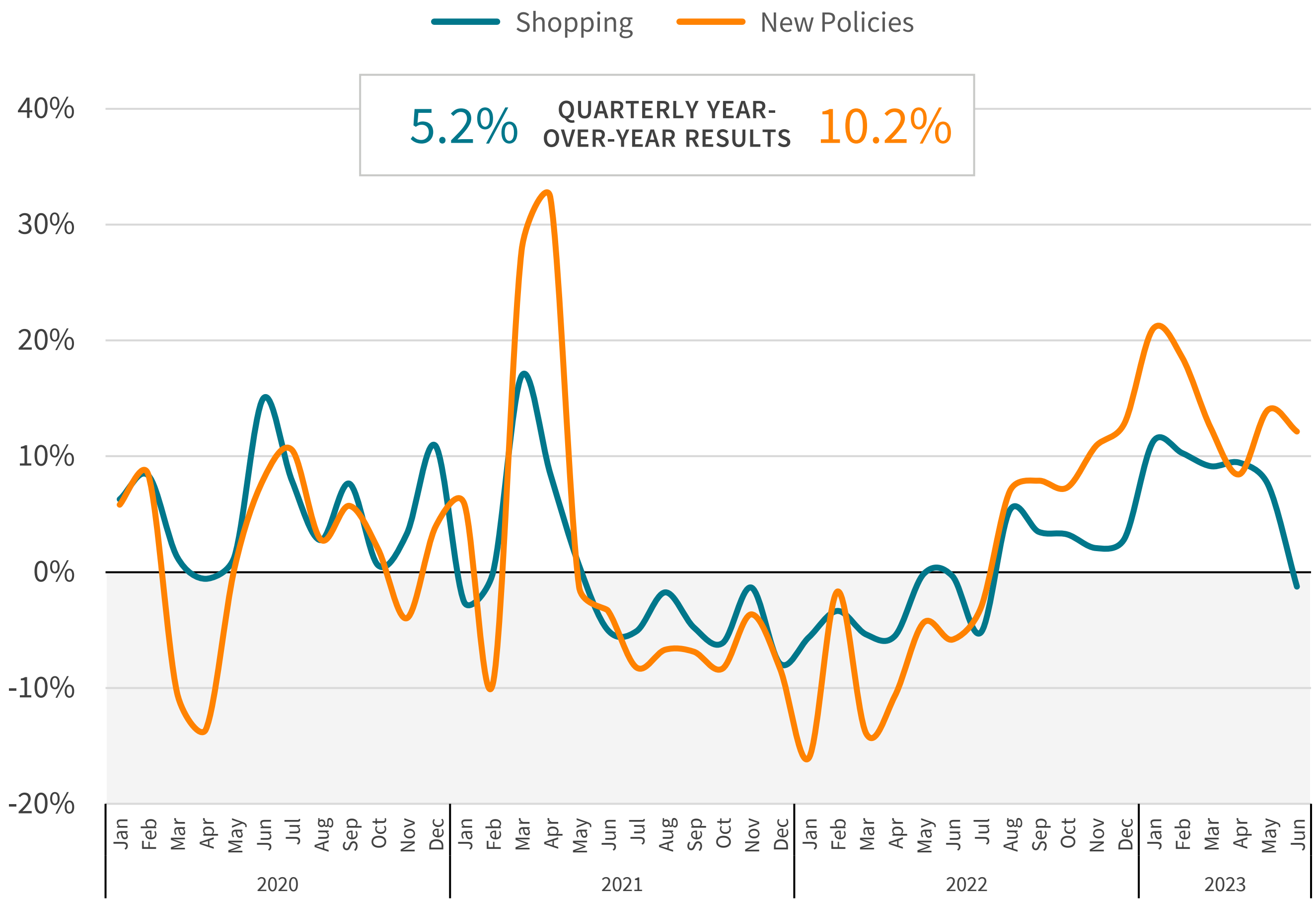
The industry is largely taking a reactive stance to these trends. Recent headlines have highlighted large insurers pulling out of higher-risk markets, and many insurers are reducing marketing spend again to gear up for another round of rate increases. Collectively, this significantly dampened consumers' appetite to shop over the course of the second quarter, as shopping fell below 2022 volumes for the first time at the end of June (Chart B).

KEY TAKEAWAY

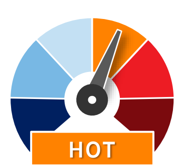
Due to lingering profitability challenges, insurers are **pulling out of higher-risk markets** and preparing for rate increases.

A

MONTHLY YEAR-OVER-YEAR CHANGE IN SHOPPING AND NEW POLICIES



SHOPPING CHANGE — Q2 2023



The quarterly year-over-year shopping growth rate was +5.2% for Q2 2023 (down from +10.2% last quarter).

NEW POLICY CHANGE — Q2 2023

The quarterly year-over-year growth for new policies was +10.2% for Q2 2023 (down from +17.0% last quarter).

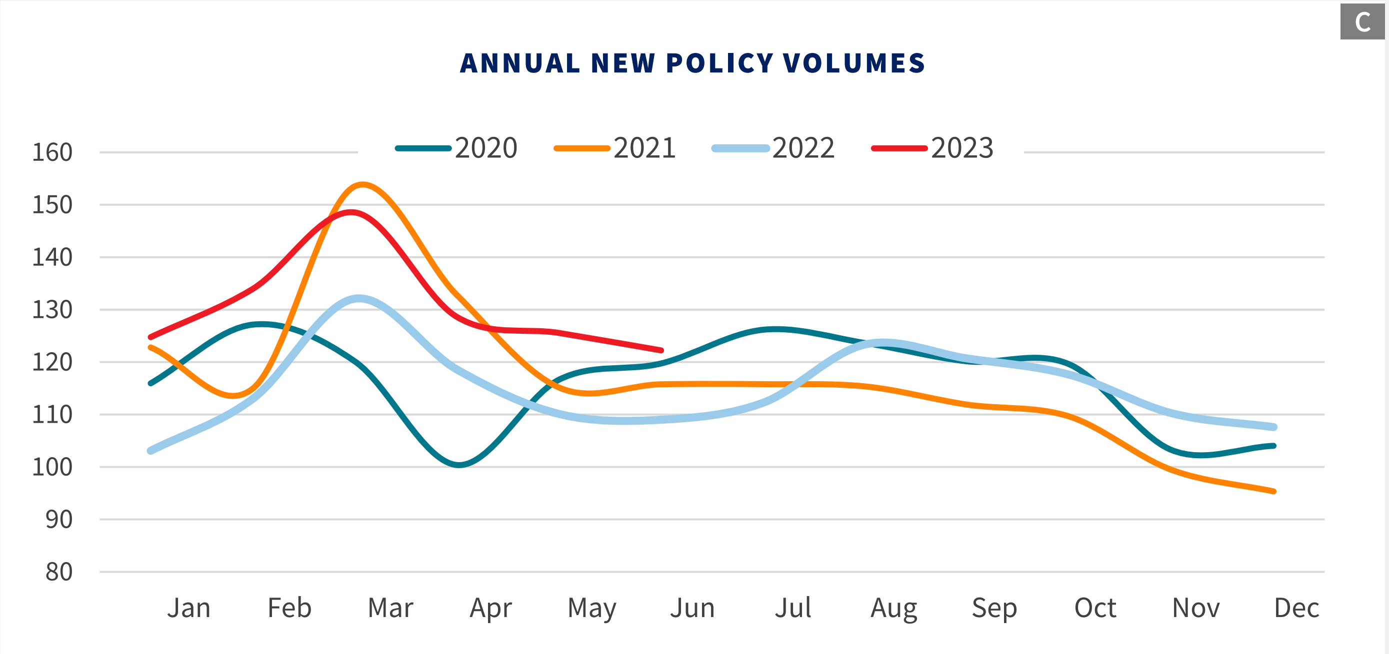
LexisNexis Insurance Demand Meter – Trends from Q2 2023

Year-over-year consumer shopping volumes **fell below 2022 volumes** for the first time late in Q2.

Consumers finding lower premiums

Although shopping volumes were down (Chart B), new business was strong throughout the quarter as those consumers that were shopping found opportunities to save on their auto insurance policies. Much of the new policy growth is a direct result of consumers benefiting from insurance carriers' conservative approach to the hard market. As many insurers pulled back and invoked more selective underwriting practices, motivated shoppers switched their policies in record numbers in May and June (Chart C).

Additionally, the rate at which previously uninsured consumers were purchasing coverage (i.e., entering the market) continued to be 3% higher year-over-year — a trend that began in Q2 2022. This more than offset the modest increase in those consumers who left the market after shopping, which rose to 3.5% from 3.0% over the last year and slowed over the past two quarters.



Rising insurance costs are helping to cause policy consolidation

In response to the current inflationary environment and drastically rising costs of insurance, the total growth of U.S. auto policies-in-force is below historical averages. Although the growth of overall active policies is down, new business volumes have continued to grow as consumers are switching insurers to save money. The lack of overall policy growth doesn't necessarily mean rapid growth in the volume of drivers leaving the market or driving uninsured. In fact, our data shows that the number of insured drivers in the market is growing at only a slightly lower pace than historical averages. The discrepancy can be linked to household consolidation, meaning that although overall policy growth is slow, the number of drivers per policy is growing. For example, adult children may be moving back onto a policy with their parents or relatives to save money.

Our analysis suggests household consolidation could have accounted for as many as

2.4 million fewer policies

in the market over the second quarter.

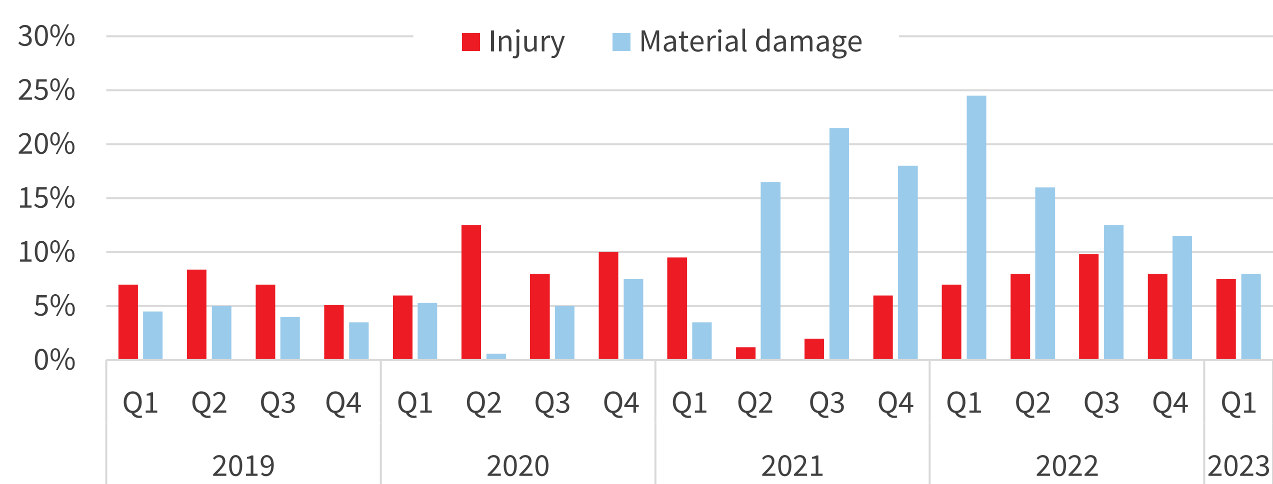
Severity trends are contributing to profitability challenges

Claim frequencies, which account for the average rate at which a consumer files an insurance claim, are still below pre-pandemic levels due to recent driving patterns largely tied to hybrid working conditions. But the early accident year numbers from the second quarter suggest that frequencies are increasing year-over-year as more companies require the return to corporate offices, even if not for five days a week.

The reduction in claim frequencies has been more than offset by increases in claim severities (Chart D), or average payout per claim. In 2022, more than a quarter (27%) of all collision events were total losses. For claims requiring a repair, labor and parts shortages continue to plague the industry, resulting in increased costs for both. This also causes higher rental car costs from longer repair times. In fact, the latest numbers show that vehicle repair costs for Q1 2023 were up 8.2% over Q1 2022, even though Q1 2022 had grown a whopping 24.4% over Q1 2021.

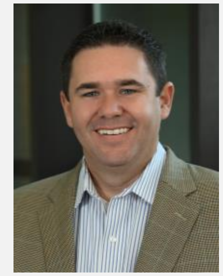
D

YEAR-OVER-YEAR CHANGE IN CLAIM SEVERITIES



Looking Ahead

While the overall growth rate of claims severities is slowing, they are still historically high and that means we will likely continue to see insurers react with rate increases, reductions in marketing efforts and/or additional underwriting restrictions for some time. We are also seeing more and more companies update their hybrid and work-from-home policies to include more in-office days, which will likely result in more vehicle miles traveled and higher claim frequencies that will exacerbate insurer profitability concerns. This may drive rates up even further and entice more consumers to shop. But how high can rates go before consumers begin exiting the market even faster?



Adam Pichon

Senior Vice President and General Manager of Auto Insurance and Claims at LexisNexis Risk Solutions

"Rate increases have prompted consumers to seek — and find — auto insurance bargains, driving the new policy growth trends in recent quarters. *Rates on the property insurance side are following suit, which may give consumers another reason to shop their policies. How shopping performs in the third quarter should give us a window into what 2024 may hold."*

The LexisNexis Insurance Demand Meter is a quarterly analysis of shopping volume and frequency, new business volume and related data points. LexisNexis Risk Solutions offers this unique market-wide perspective of consumer shopping and switching behavior based on its analysis of billions of consumer shopping transactions since 2009, representing ~90% of the universe of shopping activity.

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