LexisNexis® Insurance Demand Meter

A quick look at auto insurance shopping trends

ISSUE #17

LexisNexis® RISK SOLUTIONS

Working Together *for a* Safer, Smarter Tomorrow™

LexisNexis Insurance Demand Meter – Trends from Q4 2023

Overview

Bucking traditional Q4 lulls in activity, and the notion that consumers are resigned to higher rates, U.S. auto insurance shopping and new policies posted not only positive year-over-year growth but record volumes for the final quarter of the year. Both registered as 'Hot' on the LexisNexis® Insurance Demand Meter.

Driven by a combination of continued rate increases for many and the growth aspirations of carriers with improved combined ratios, consumer shopping rebounded from a relatively sluggish Q3 to post growth in each month of the quarter. Year-over-year shopper growth climbed in Q4 from -1.2% to 4.7%. This was the strongest Q4 growth since 2020. In addition, an impressive 41% of insured households shopped for insurance at least once last year.

New policy growth also experienced a jump in the final quarter, rising from 3.9% to 7.0%. Growth in new policies continued to outpace shopper growth for the sixth consecutive quarter. This means that when consumers shop, more of them are purchasing.

After a year of record claim severities that fueled profitability challenges and rate increases, some insurers are back on the road to profitability and looking to capitalize on their improved financial position by capturing additional market share.

41% of insured households shopped at least once in 2023.

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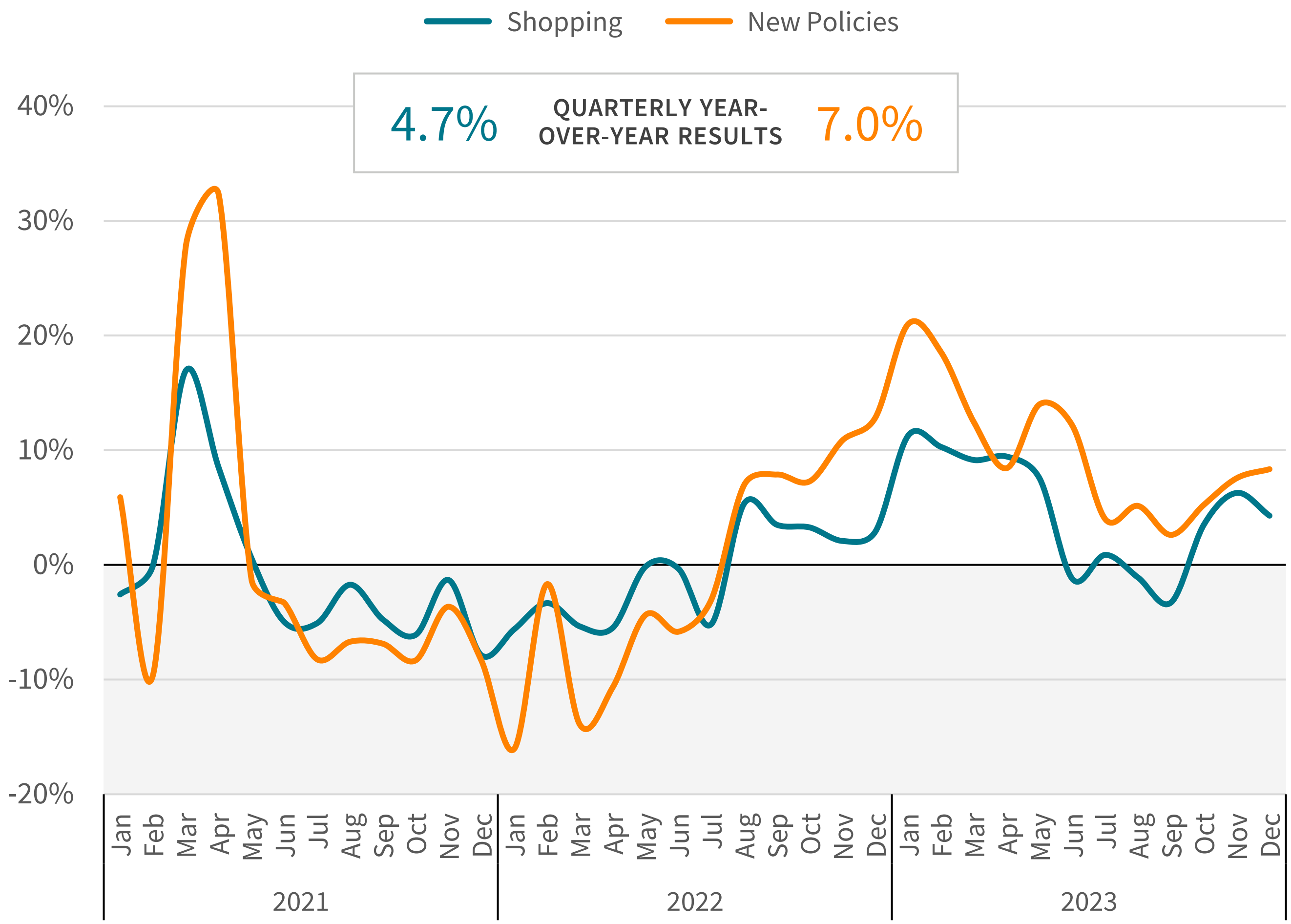
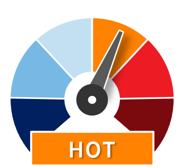
MONTHLY YEAR-OVER-YEAR CHANGE IN SHOPPING AND NEW POLICIES

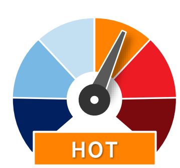


SHOPPING CHANGE — Q4 2023



The quarterly year-over-year shopping growth rate was 4.7% for Q4 2023 (up from -1.2% last quarter).

NEW POLICY CHANGE — Q4 2023



The quarterly year-over-year growth for new policies was 7.0% for Q4 2023 (up from +3.9% last quarter).

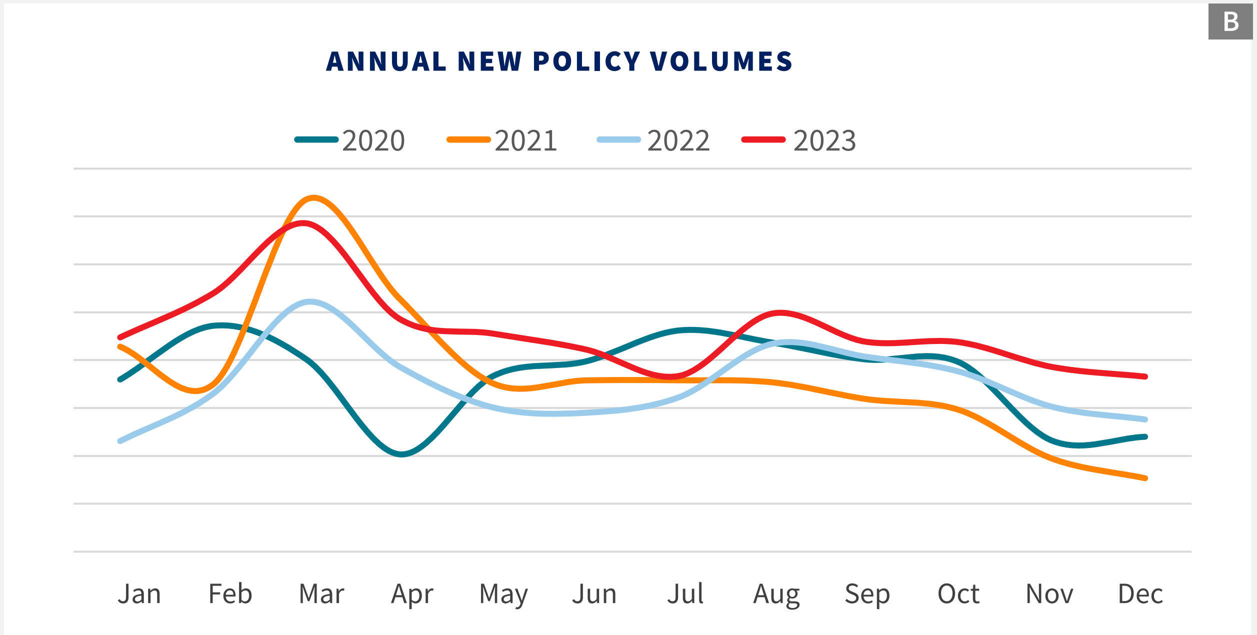
Retention rates suffer as consumers seek new policies in response to rate hikes

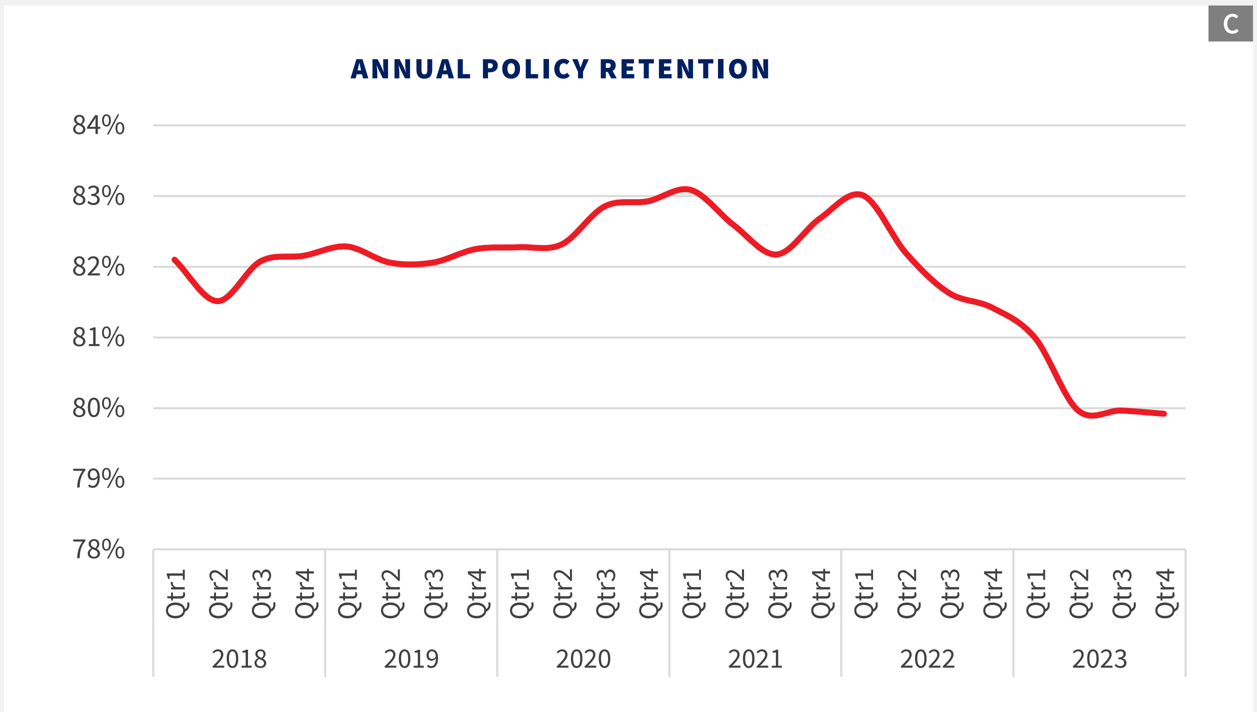
When we look at 2023 overall, shopping and new business volumes exploded in the first months of the year as rate increases began to take shape. However, when Q1 claims results clocked in higher than expected and inflated vehicle repair cost and negative reserve development chipped away at profitability gains, insurers ratcheted back acquisition efforts over the summer. This tamped down shopping, resulting in negative growth in Q3, but the dip would be short-lived.

In Q4, with rate increases in-hand and loss reserves stabilized, insurers began turning on acquisition efforts in a growing number of states. Elevated rates and revitalized acquisition created prime market conditions for consumers to purchase in an already hot shopping market. They shopped their policies to contend with staggering increases in auto policy renewals and avoid increased premiums. Additionally, with the varying levels of rate taken by the industry, consumers witnessed disparity across insurance providers.

This triggered policy switching in notable numbers in the final quarter of the year, sparking activity in what's typically a quieter shopping period and bringing the year-over-year, annual new policy growth to **9.8%.**

Those dynamics helped fuel six straight quarters of positive new policy growth and brought the industry retention level, or the percentage of consumers who remain with their carrier for a year, down a whopping 3 percentage points since Q1 2022 (Chart C). With such a significant drop in a very short time, insurers may want to take heed of retention strategies, including more proactive and selective monitoring of their renewal book to identify and retain the most profitable policyholders. While retention will likely stabilize, the industry hasn't witnessed a drop this significant in recent years.





Direct distribution channel bounces back with increased marketing activity

Some insurers are utilizing market dynamics to their advantage. Nowhere is this more evident than in the explosive (+27%) growth we saw in the direct distribution channel in Q4 (Chart D). By igniting their lead acquisition engines, and in some cases revving up marketing spend, direct insurers single-handedly drove the Q4 growth, offsetting the mostly negative trends we saw in both Q3 and Q4 from the independent and exclusive agent channels.

This trend sits in stark contrast to direct channel performance in Q4 of 2022, where the reduction in marketing negatively impacted direct distribution volumes, and independent agents capitalized on the opportunity to cater to shoppers looking to evaluate policies from multiple carriers.

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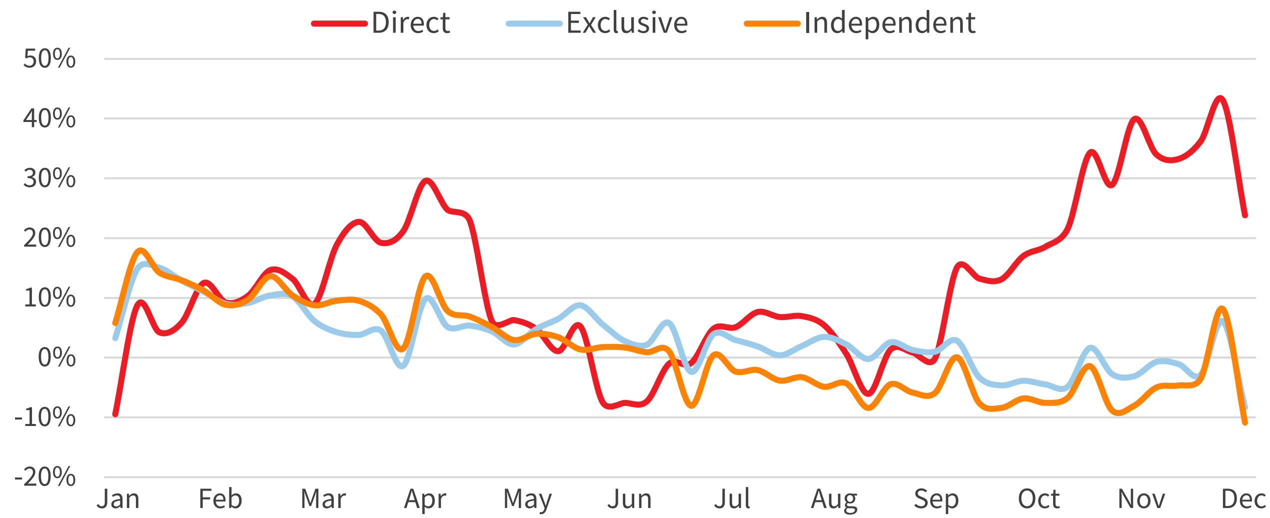
YEAR-OVER-YEAR GROWTH BY DISTRIBUTION CHANNEL



Regional trends: midwestern and western states drive Q4 shopping growth

It appears that the improvements in profitability have started in the West and Midwest as 12 of the 15 fastest growing states for U.S. consumer auto insurance shopping in Q4 are in these two regions. Examples of high-growth states include WV, IA, SD, UT, ND, NE, IN, OR, OH, WI, MO and WA.

Thirty-nine states saw positive shopping growth in Q4, and 15 of those states experienced double digit growth, likely a result of both rate and marketing activity. In contrast, states like Texas which showed growth early in 2023, experienced a cooling off in Q4 as the rate activity slowed.

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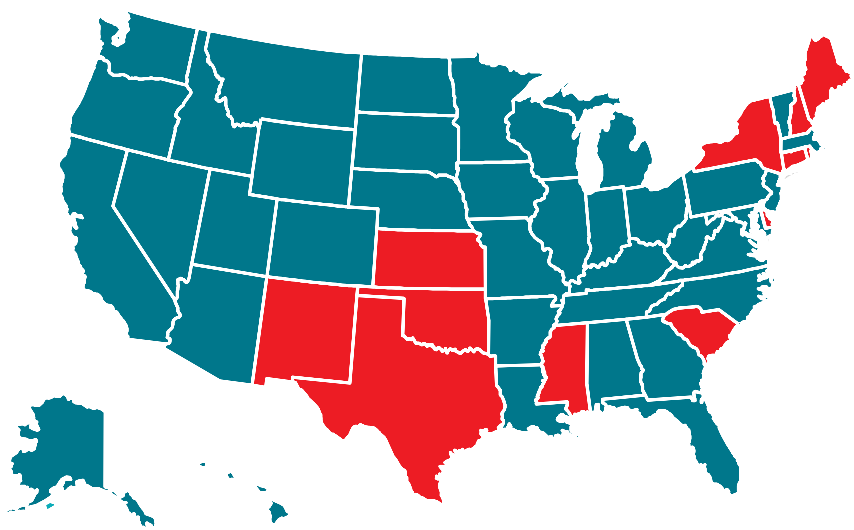
Q4 2023 YEAR-OVER-YEAR NEW POLICY GROWTH BY STATE*



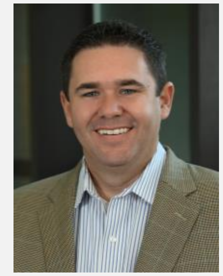
TOP GROWTH STATES	
Hawaii	67%
West Virginia	44%
Iowa	41%
South Dakota	29%
Utah	23%

LOW GROWTH STATES	
D.C.	-15%
Oklahoma and New York	-7%
Rhode Island	-6%
New Hampshire	-5%
Texas	-4%

For complete data, contact us.

Looking Ahead

As we move into 2024, we see market share up for grabs and an opportunity for insurers to capture it. As evidenced in the direct channel, major factors for consideration are marketing spend and increased rates triggering shopping activity. If we look at Texas, one of the first states where insurers were able to return to profitability, shopping has turned negative. If the first round of states sets the paradigm, insurers may need to adjust their strategies to find the “sweet spot” that balances acquisition appetite with rate adequacy to take advantage of the rate-driven shopping activity before it levels off. Time will tell how long these windows of opportunity remain open, but if states on the forefront of positive-turned-negative shopping growth are any indication, insurers have time, but not infinite time, to take advantage of current market conditions.



Adam Pichon

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

“As the industry sees rates spike and expands marketing to prime consumers for increased shopping, it will be key to observe activity on a state-by-state level. *When we look at Texas, a leading state for improved profitability, both the number and size of rate increases have dwindled. While we can’t predict the shopping trajectory for states still looking to achieve rate adequacy, we will watch closely to determine whether Texas can serve as a bellwether for the rest of the country.”*

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.

risk.lexisnexis.com/demandmeter