LexisNexis® Insurance Demand Meter

A quick look at auto insurance shopping trends

ISSUE #13

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Overview

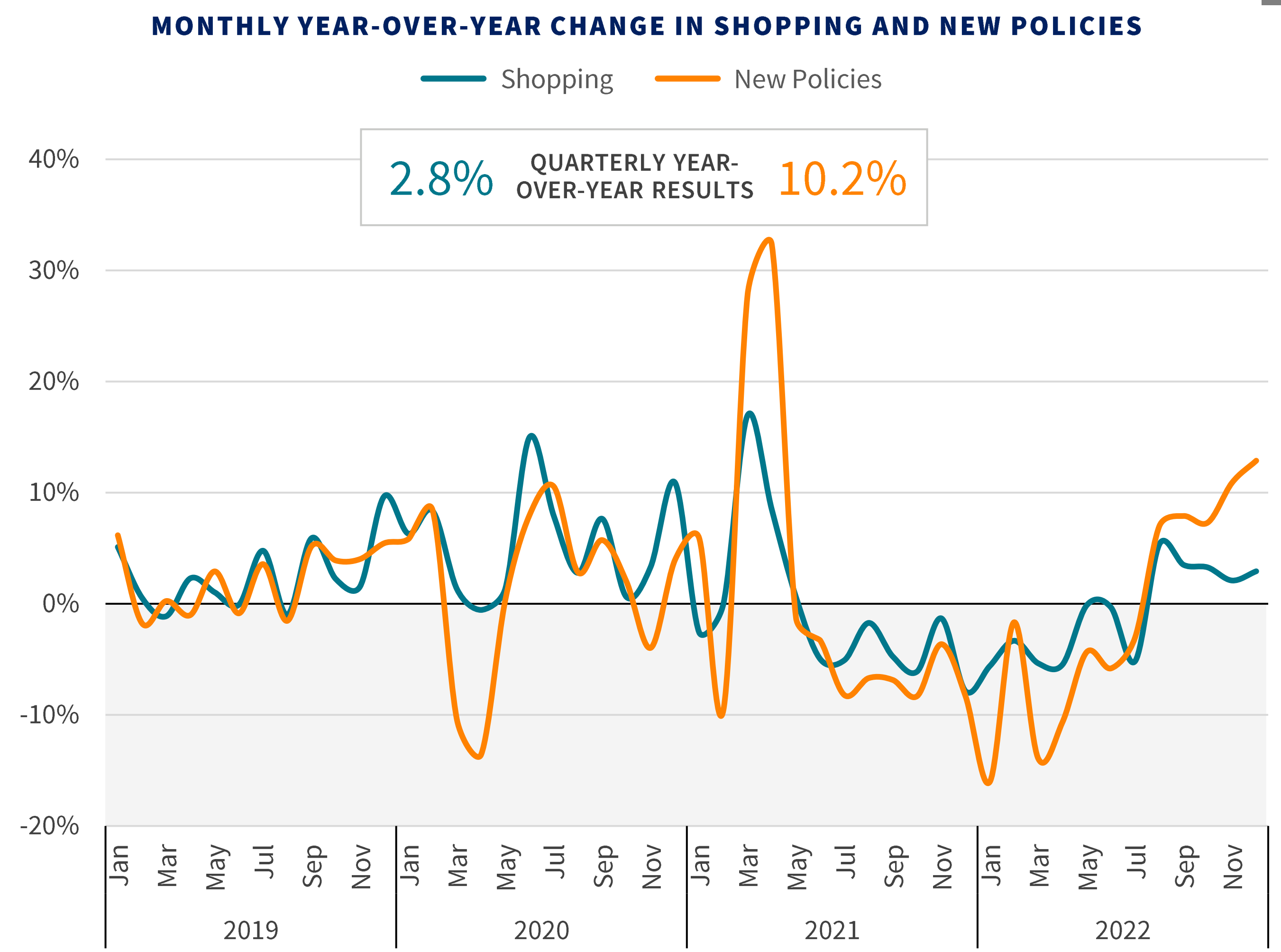
2022 was a tale of contrasts for U.S. auto insurance shopping and new policy growth. Lagging vehicle sales and profitability issues that led to large cuts in carrier marketing spend combined with the challenge of hurdling early 2021 volumes resulted in Q1 and Q2 2022 "Cold" and "Cool" temperature gauge readings on the Demand Meter. That changed in the latter half of the year as carriers implemented widespread rate increases, triggering more people to shop and ultimately switch their policies, and propelling the Demand Meter to register as "Hot" for shopping and "Nuclear" for new policy growth in the fourth quarter. In fact, Q4 new business volumes (Chart A) achieved double digit growth (+10%) for the first time in any quarter since we began publishing the Demand Meter*.

KEY TAKEAWAY

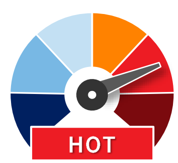
Q4 2022 new business volumes achieved **double-digit growth** for the first time ever since we have published this report.*

*Excludes data from COVID era, 2020-2021

A

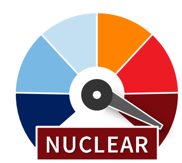


SHOPPING CHANGE — Q4 2022



The quarterly year-over-year shopping growth rate was +2.8% for Q4 2022 (up from +1.2% last quarter).

NEW POLICY CHANGE — Q4 2022



The quarterly year-over-year growth for new policies was +10.2% for Q4 2022 (up from +3.9% last quarter).

Highest auto rate increases in years encourage consumer shopping activity

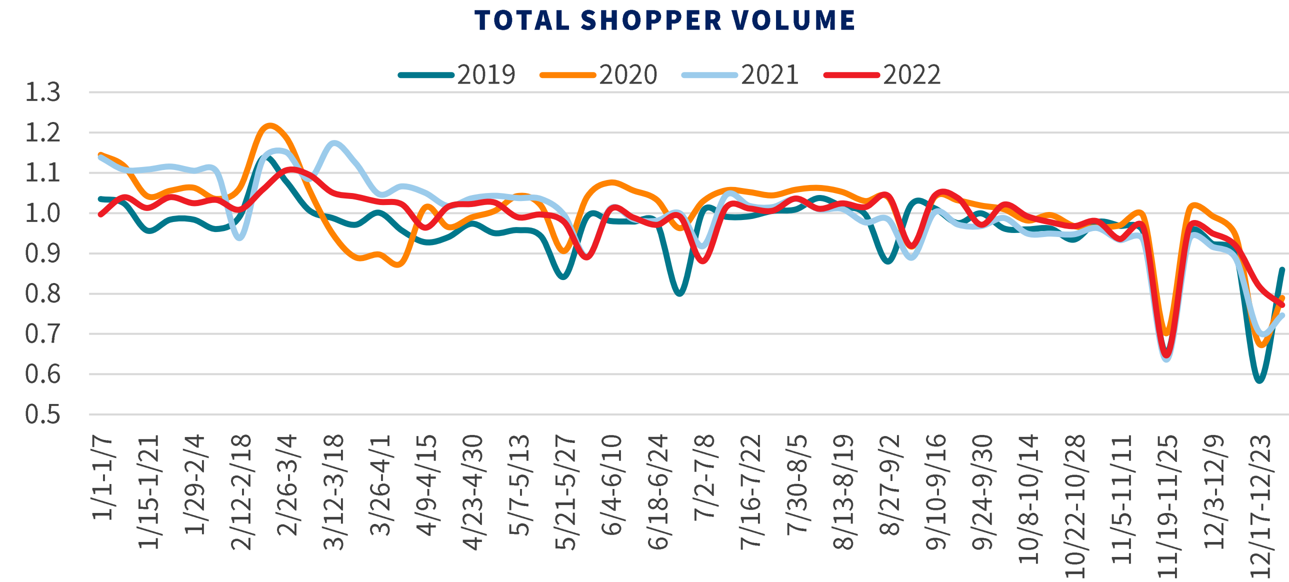
Shopping volumes in the fourth quarter were consistently about 3% higher than 2021 volumes (Chart B) and tracked very closely to the 2020 volumes. Continuing the trend from earlier in 2022, year-over-year shopping growth was particularly strong in the independent agent channels and among middle-aged (36-45-year-old) shoppers. In a departure from earlier periods, the growth rates for shoppers with existing policies grew faster than for uninsured shoppers. This isn't surprising given the fact that 62.5 million policy holders are slated to see rate increases[1] when they receive their renewal notices.

Auto carriers have implemented rate increases since late-2021 in response to increased claims costs, and Chart C shows the estimated cumulative impact on the market of those approved and implemented rate increases. Per the chart, the overall rate level has been increasing dramatically after dipping slightly in late 2020 and early 2021 in response to modified driving patterns caused by the pandemic. In fact, rates increased by more than 9% on average in 2022 – twice as much as we have seen in recent calendar years. We expect that figure to increase in the coming months as more and more increases are filed.

1. "Auto insurance rates are increasing in 2022: Here's how to prepare," by Cate Deventer; edited by Amy Sims, Aug. 1, 2022. https://www.bankrate.com/insurance/car/rate-increases-in-2022/

2. Internal LexisNexis Risk Solutions analysis, ©2023, S&P Global Market Intelligence (and its affiliates, as applicable)

B



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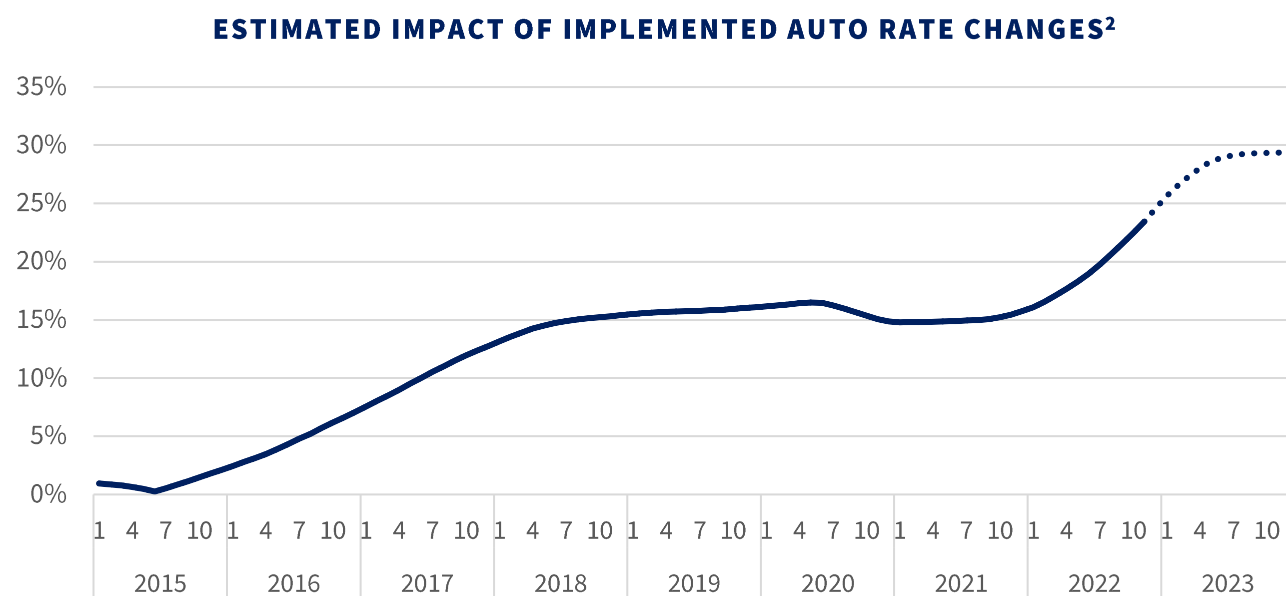
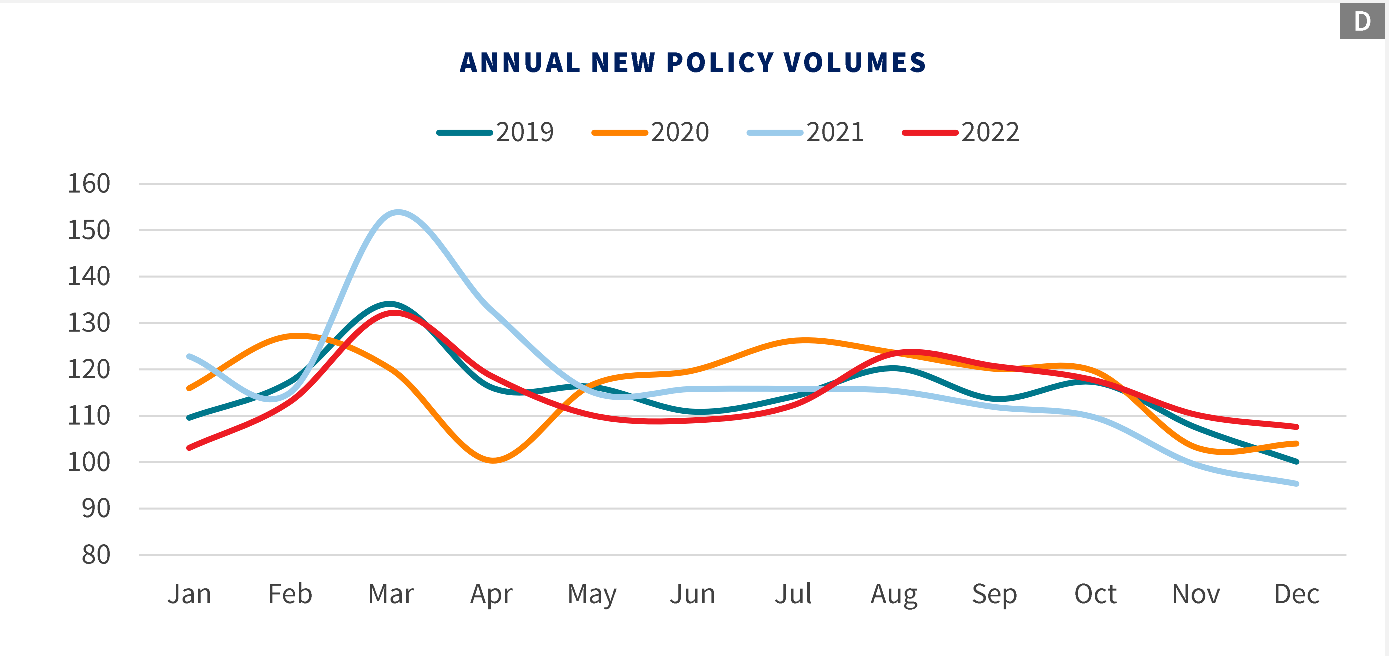


Motivated by higher renewal rates, more shoppers are purchasing

As the impact of some of the largest rate revisions began to take effect beginning in August, new policy volumes dramatically increased from below pre-pandemic levels to align with 2020 volumes (Chart D). November and December, with a smaller than usual seasonal decline, experienced the highest new policy volumes we have ever seen for either month. We attribute this shift to the fact that:

- While we have seen a significant increase in rate-taking across the country, not all carriers have implemented their rate revisions, so price-sensitive consumers are more likely than usual to find lower premiums when they shop, and
- Much of the growth was in the independent agent (IA) shopping channel, where purchase rates have historically been higher than the other distribution channels.

The rate at which shoppers switched or purchased new coverage was up across all demographics and mostly represented a return to pre-pandemic levels. However, there were higher than usual purchasing patterns among the 55+ age demographic, consumers with high Bodily Injury limits, and consumers with long tenure with their previous carriers – groups that are highly desired, albeit difficult to get to switch.



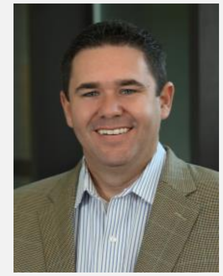
Coverage Levels

With inflation impacting every consumer, one might expect some consumers to lower their Bodily Injury and Property Damage limits and Comprehensive and Collision deductibles to save money on their auto insurance. Surprisingly, not only does our data show that was not the case for those who switched in Q4, but we found that consumers were more likely to increase their coverage than in any quarter during the previous three years. Of note, consumers with Bodily Injury individual limits of $100,000 and $200,000 were the most likely to increase their limits when they switched their coverage to a new carrier.

Looking Ahead

Historically, we see increased shopping activity in the first quarter associated with the Earned Income Tax Credit (EITC) Additional Child Tax Credit payouts, driving the annual peak in uninsured shopping that begins in mid-February. With the change in 2022 to advance payouts of the EITC, we expect a much more muted tax season increase. Despite this, shopping in the first and second quarters may be amplified as consumers look to lower expenses in the face of continued inflationary pressures and growing unemployment.[3]

We anticipate the rate activity trajectory shown in Chart C to keep rising as more and more auto carriers file rate increases in states where they have not yet adequately addressed profitability. This, in turn, could continue to encourage higher purchase rates into the first half of 2023, at a minimum.



Adam Pichon

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

*"As we closed out 2022, new policy growth reversed itself from the negative readings in the first quarter of last year. The volume of shoppers switching their policies has continued to trend up across the board, **but notably the lower-risk demographics that traditionally don't shop often are shopping more and are more likely to switch when they shop.** It will be interesting to keep an eye on this pattern, and in particular its potential impact on carrier marketing spend in the coming months."*

3. Federal Reserve Economic Data (FRED), Summary of Economic Projections, Jan. 2023: https://fred.stlouisfed.org/release/tables?rid=326&eid=783029&od=2023-01-01#