LexisNexis® Insurance Demand Meter

A quick look at auto insurance shopping trends

ISSUE #10

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LexisNexis Insurance Demand Meter – Trends from Q1 2022

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Overview

For the third consecutive quarter, the U.S. auto insurance industry has experienced negative year-over-year growth patterns for both shopping and new policies. This also marks the first time since 2010 that we have seen a three-quarter downtick in the shopping rate, represented by the percent of policies shopped in the previous 12 months.

There are several headwinds in the market that are influencing this trend:

- A drastic pull back in carrier marketing spend[1]
- A continuation of new and used vehicle shortages
- Early dispersal of half the annual child tax credits

We are also comparing Q1 2022 volumes to the first quarter of 2021, when shopping was boosted by the third and final round of stimulus checks from the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

KEY TAKEAWAY

Multiple factors impacted the shopping and new policy growth patterns in the first quarter of 2022:

- ▼ Insurance carrier advertising spend down in Q1 2022
- ▼ Q1 new vehicle sales were estimated at 16% below 2021[2]
- ▼ Tax refund triggered shopping volumes lagging behind pre-pandemic volumes
- ▲ Significant carrier rate increases continue from Q4 2021 into Q1 2022

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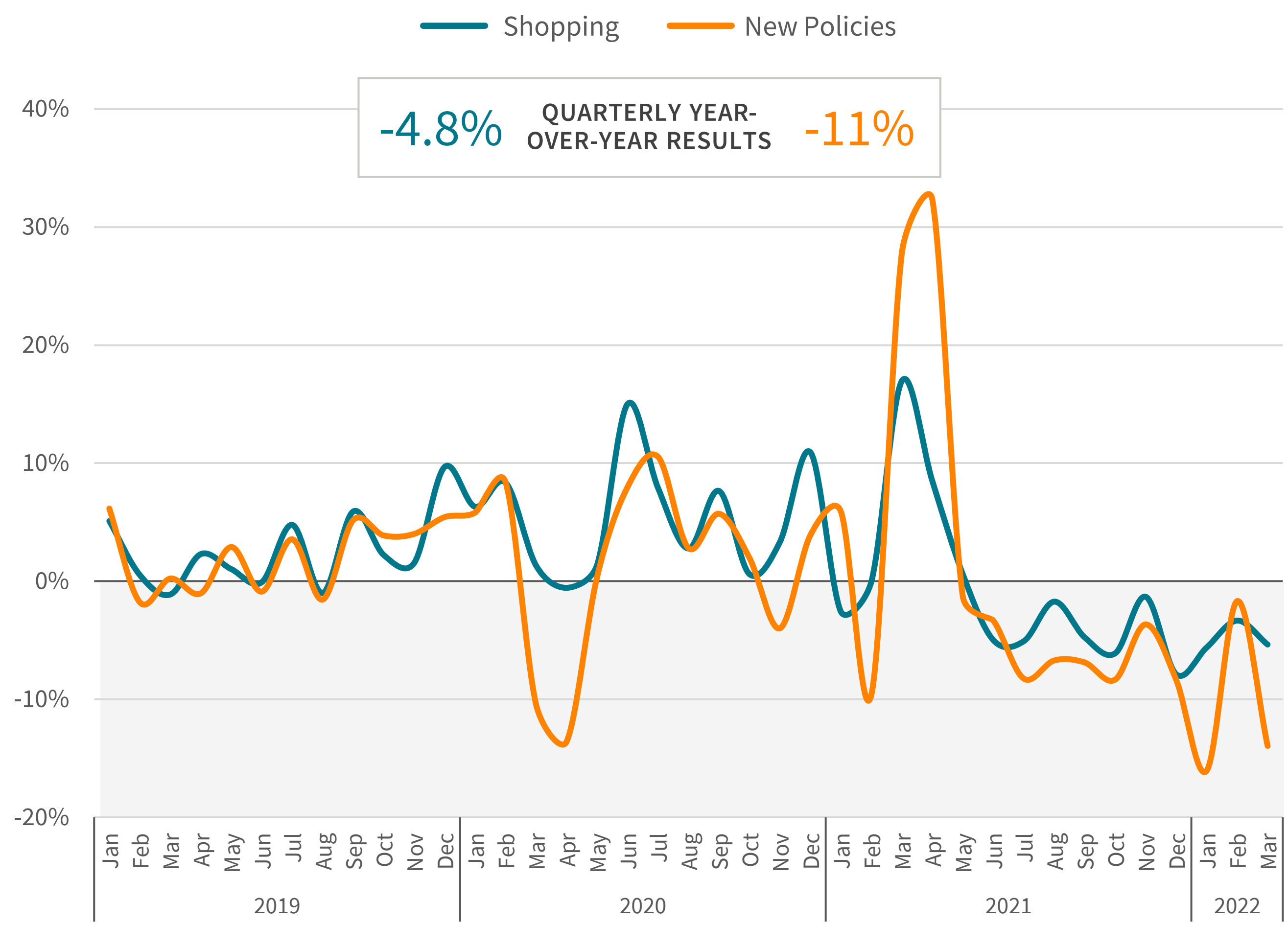
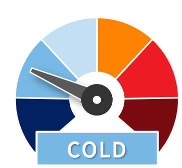
MONTHLY YEAR-OVER-YEAR CHANGE IN SHOPPING AND NEW POLICIES



SHOPPING CHANGE — Q1 2022

The quarterly year-over-year shopping growth rate was -4.8% for Q1 2022 (up from -5.2% last quarter).

NEW POLICY CHANGE — Q1 2022

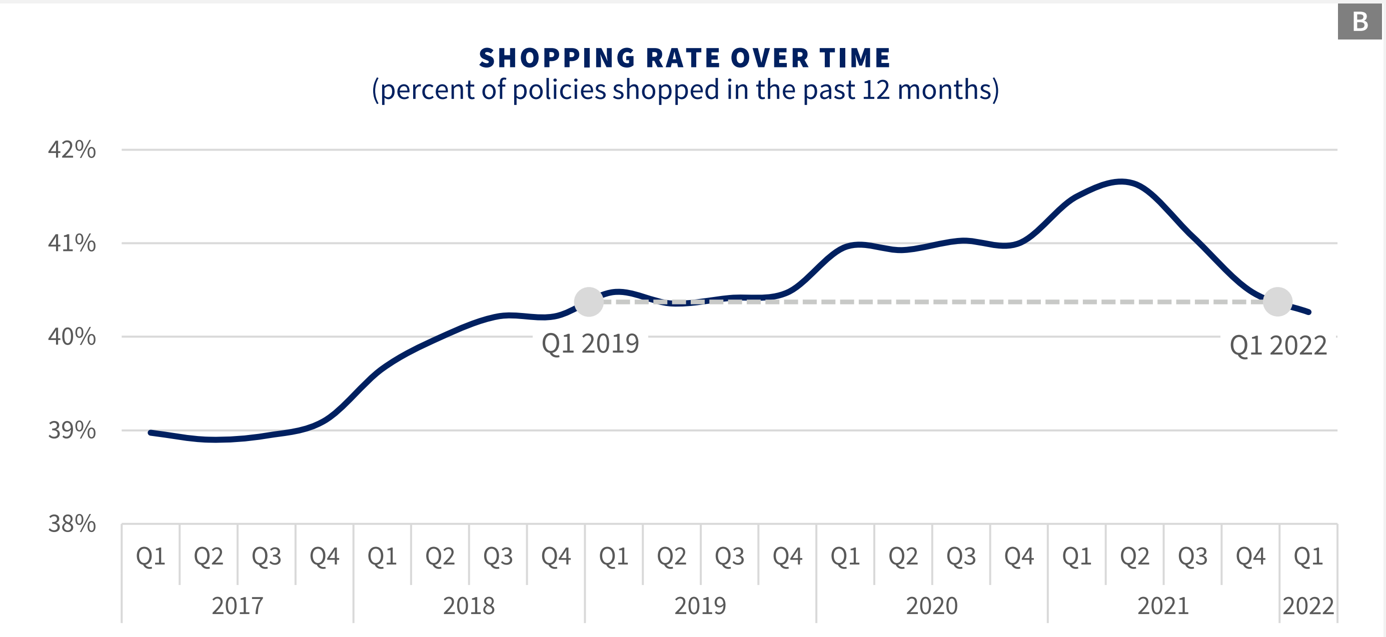


The quarterly year-over-year growth for new policies was -11% for Q1 2022 (down from -6.9% last quarter).

Return to pre-pandemic shopping patterns?

While the overall volume of shoppers was down 4.8% compared to 2021, Q1 2021 can be considered an anomaly when it comes to shopping patterns. One year ago, we were still seeing impacts from the CARES Act, including increased unemployment benefits and the third round of stimulus checks. Compared to the two prior years, Q1 2022 followed the more traditional seasonal patterns (see Chart B) that we have seen in our data until the 2020 COVID shutdowns disrupted that paradigm (see Chart C, on following page).

Shopping volumes in the first quarter of 2022 were +4.1% higher than 2019 despite a slower-than-typical start and muted volume increase associated with tax returns but 1.7% lower than the very strong 2020 volumes.



Shopping rate is calculated by the percent of policies in force on Jan. 1st that had at least one driver shop in previous year.

Higher claims severity takes toll on marketing spend

As discussed in previous editions, new vehicle sales continue to negatively impact shopping volumes. Reports show a 16%[3] dip in new car sales last quarter, which suppressed shopping volumes by as much as 5% year over year in Q1. But the lack of inventory has also caused dramatic increases in used vehicle prices, which in turn has increased claim severities, particularly for total losses.

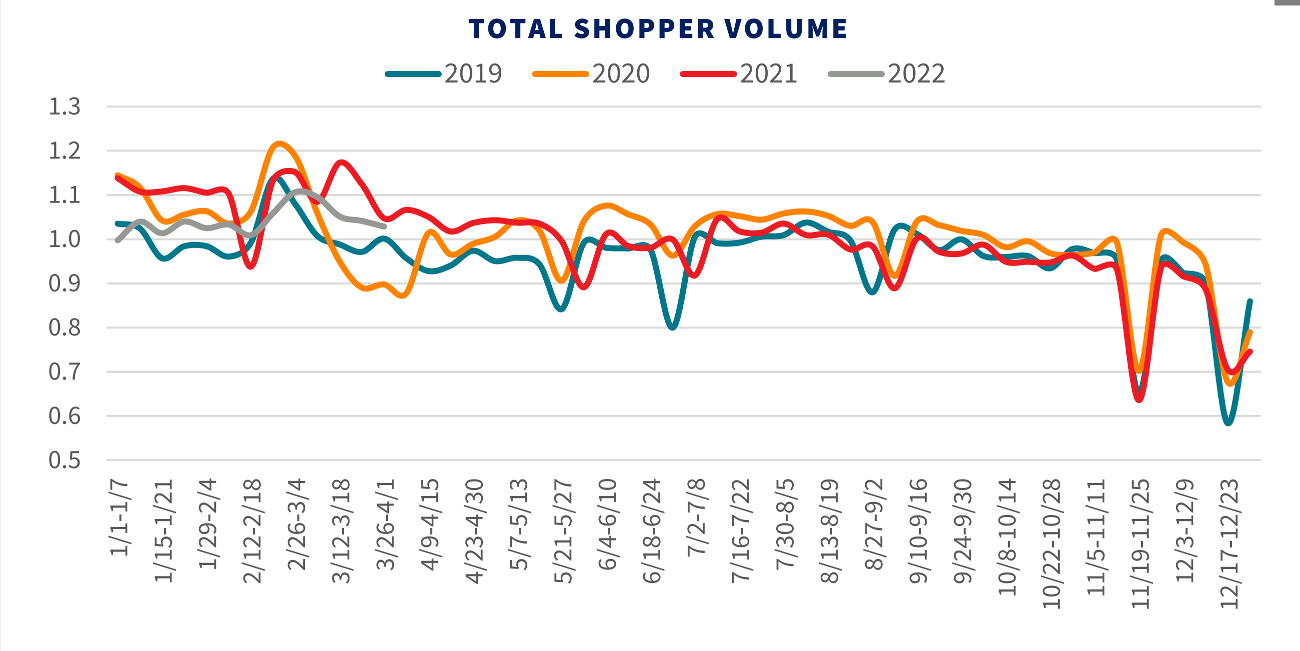
Additionally, labor shortages for both claims adjusters and auto repair shops as well as repair part shortages have exacerbated the rising severities to the point where most carriers are no longer profitable. As a means of cutting costs to address profitability in the short term, many carriers scaled back their marketing budgets last quarter. Our analysis suggests that shopping volumes are down 3% or more from reduced spend on direct mail marketing alone[3].

Shopping volumes are down YOY **3% or more** — likely from reduced spend on direct mail marketing

The reduction in marketing spend has had the biggest impact on the direct channel (Chart D), which depends almost exclusively on corporate marketing efforts to generate shoppers. The agent-based channels, in contrast, have fared better in terms of shopper volumes as the agencies continue to bring consumers in the door.

The reduction in ad spending is expected to persist until carriers achieve profitability via rate increases that cover the higher loss costs, and there has certainly been a lot of rate activity in the market. Consumers see these rate increases at their term renewals, which tend to trigger shopping activity and buoy the shopping volumes.

C



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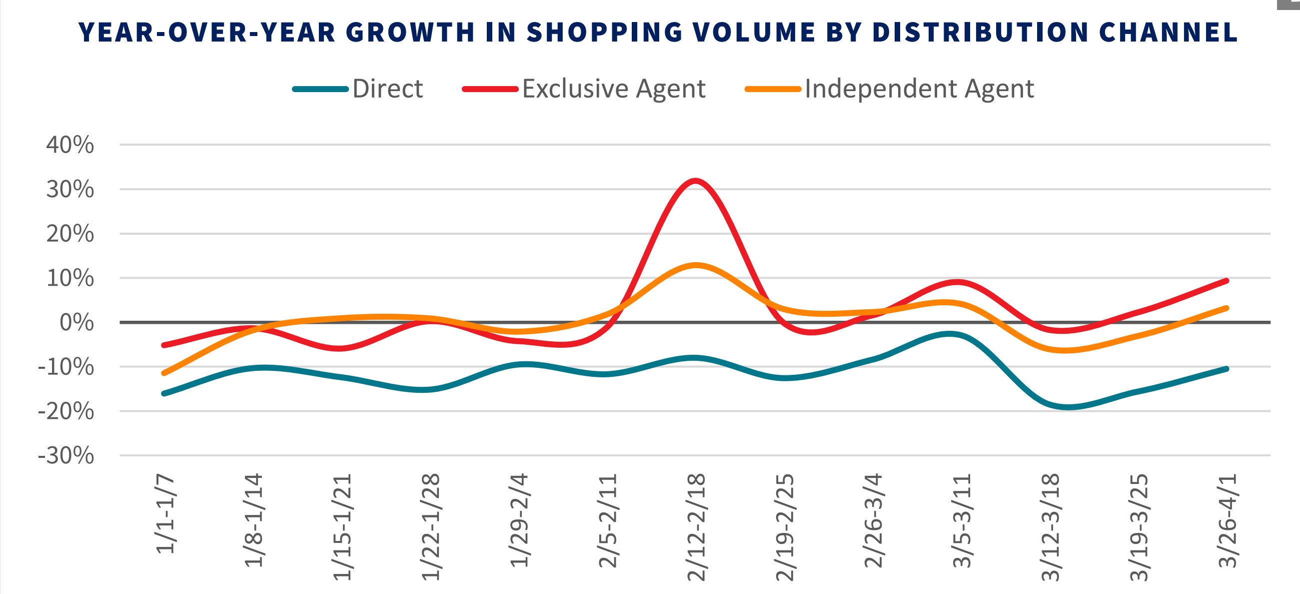
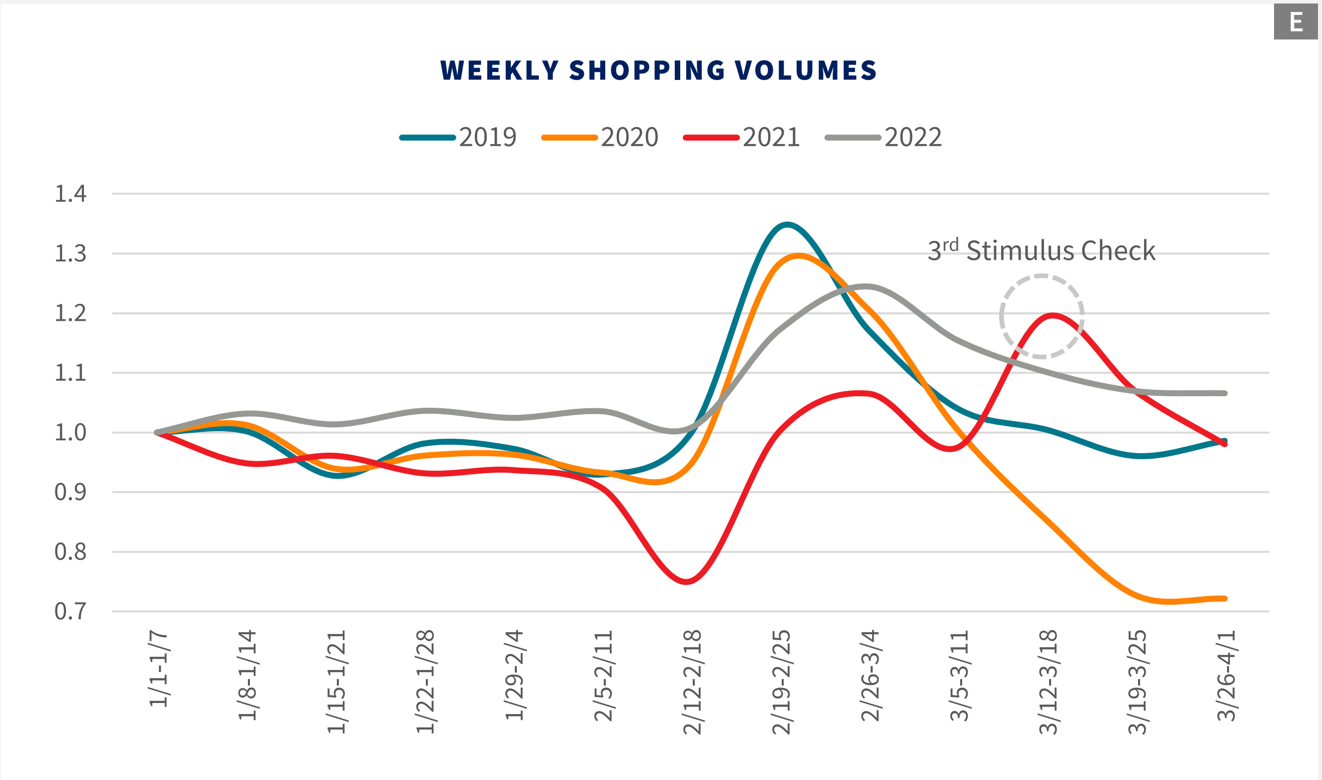


Pattern change for tax return shopping?

As we highlight every first quarter, there is a distinct cyclical increase in uninsured shopping volumes associated with the dispersal of tax refunds for consumers that qualify for the Earned Income Tax Credit (EITC)[4] and the Additional Child Tax Credit (Chart E)[5]. This year, like 2021, we observed the magnitude of this cyclical increase was below pre-pandemic levels. Not only did this contribute to the negative shopper volume growth, but it had an even bigger negative impact on new policy volumes, as these shoppers are more likely to purchase when they shop.

Our analysis of the published IRS data on the number and average amount of EITC returns found an approximate +3.5% increase in the number of these returns in 2021 over 2020 (~900,000) with a slight decrease in the average EITC Amount, from $2,450 to $2,350. This leads us to believe that the lower volumes observed during the 2021 and 2022 tax seasons are likely not driven by changes in the earned income tax credits.

The Additional Child Tax Credit allows families that owe the IRS less than their qualified child tax credit amount to receive the remaining balance of the credit as a refund.[6] Allowing the balance to be refundable was eliminated for 2018 to 2025 by the Tax Cuts and Jobs Act of 2017, but was reinstated by the American Rescue Plan for 2021 taxes. Half of the child tax credits were distributed monthly in the second half of 2021 except to those taxpayers that opted out. Because of this, the return amounts that were dispersed during Q1 2022 were likely not material enough to drive the typical increase in uninsured shopping volumes that we have seen in prior years.



The magnitude of the typical cyclical increase in shopping seen from tax returns was below pre-pandemic levels in Q1 2022.

Adam Pichon

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

"Suppressed shopping volumes have been the prevailing story line for the past several quarters, ***but there's potential for the plot to turn in upcoming quarters as we consider the current shifts in rate activity and the ongoing vehicle shortage."***

Looking Ahead

As we move into the next quarter, we are monitoring a few factors that have the potential to impact shopping growth. The pace of rate filings has been increasing, and we anticipate that to continue at least until the end of 2023 as carriers work to get back to rate adequacy. A return in rate accuracy, in turn, would help to encourage a rebound in marketing spend. To counterbalance these anticipated trends, the reduced inventories of new vehicles is projected to carry over into 2023. It remains to be seen how these combined influences will shape shopping growth.

1. https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/geico-progressive-break-trend-slash-advertising-expenditures-in-2021-69764365 and Q1 2022 Personal Lines Overview, Competiscan, ©2022. 2. www.coxautoinc.com/news/cox-automotive-march-forecast-slow-march-auto-sales-to-cap-weakest-q1-in-a-decade/; Cox Automotive March Forecast: Slow March Auto Sales to Cap Weakest Q1 in a Decade - Cox Automotive Inc. (coxautoinc.com) 3. Q1 2022 Personal Lines Overview, Competiscan, ©2022. 4. www.eitc.irs.gov/partner-toolkit/basic-marketing-communication-materials/eitc-fast-facts/eitc-fast-facts 5. www.irs.gov/credits-deductions/ individuals/earned-income-tax-credit/earned-income-tax-credit-statistics; 6. www.investopedia.com/terms/a/additional-child-tax-credit.asp