LexisNexis® RISK SOLUTIONS | Insurance

MAY 2021

LexisNexis® Auto Insurance Trends Report 2021

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Headline 2020: **COVID-19 changed everything**

In June of 2020, we presented you with the first in our series of annual reports examining ongoing trends across the full spectrum of U.S. auto insurance. This year's report is a bit similar but also very different. Why? The undisputable headline from 2020 for the auto insurance industry was the coronavirus pandemic. COVID-19 changed everything.

Almost no segment of society was spared from the pandemic's far-reaching and substantial impact. The U.S. auto insurance industry was no exception. COVID-19, and the shutdowns in particular, had a significant influence over many components of the auto insurance policy ecosystem—including shopping, claims and driving behavior patterns.

It's an open-ended question as to whether the trends we saw under these unique circumstances will continue, return to something more like the pre-COVID-19 state or evolve to something completely different. What we do know is that the phrase "be ready for anything" is still a good mantra.

The information that follows looks closely at the pandemic's impact on the industry in 2020, reviews trends we're seeing in the first quarter of 2021 and discusses how you can be better prepared for future unplanned events and major market disruptions.

COVID-19 changed consumer behavior in many ways

The impact of COVID-19 **on consumer behavior trends**

Shopping

COVID-19 turned consumer auto insurance shopping into a rollercoaster (Figure 1). As various states began to issue shutdown orders, shopping dropped, then rebounded when the first round of stimulus checks under the Coronavirus Aid Relief and Economic Security (CARES) Act hit consumers' bank accounts. Once cities and states got their footing and began to gradually reopen, shopping continued an upward trend, but dropped again during periods of civil and social unrest mid-summer and massive severe weather events that occurred in the third quarter.

Monthly Year-Over-Year Change in Insurance Shopping and New Policies

4.7%

Quarterly Year-Over-Year Growth for Shopping and New Policy Volume

0.6%

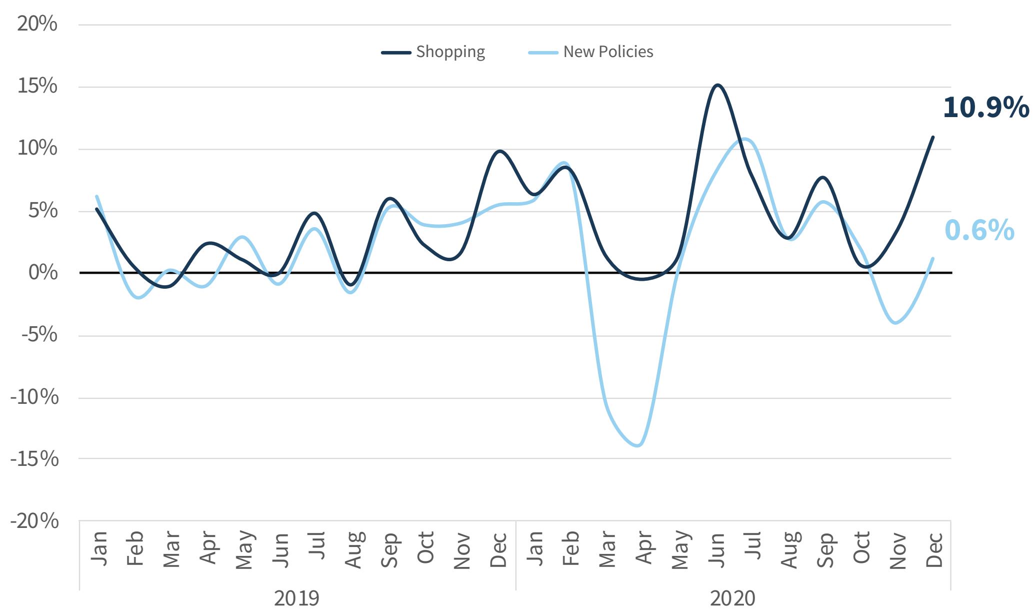


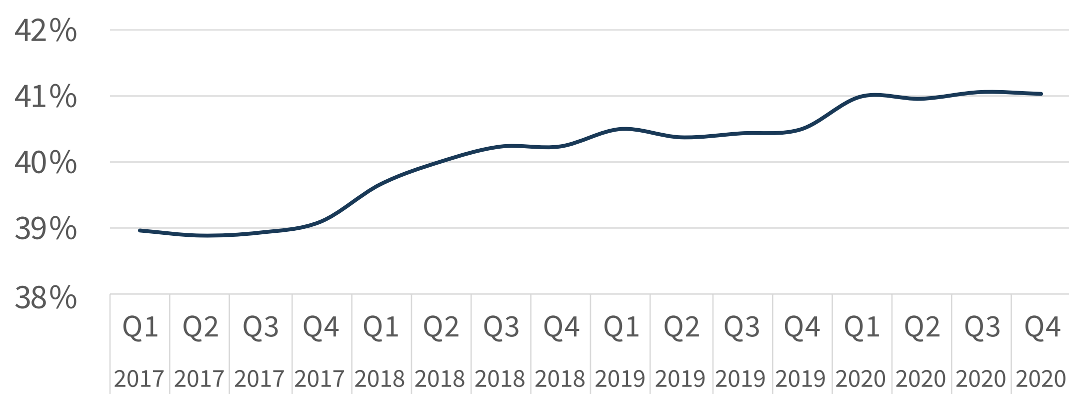
Figure 1. Consumer auto insurance shopping varied dramatically throughout 2020.

Despite these ups and downs, 2020 shopping volumes closed out the year 5.3% higher than in 2019 (which was itself at an all-time high), with an annual year-end shop rate of 41% (meaning 41% of the policies in force on January 1 owned by policyholders who have shopped their insurance at least once in the prior 12 months)—consistent with each quarter of 2020 (Figure 2).[1]

The year-end 2020 shopping rate was a half point higher than 2019 closing and the highest ever exhibited in our data. New policies were up 1.4% over 2019 volumes, with activity picking up in the uninsured market—which is typically composed of new drivers. This uptick could be attributable to greater ease in visiting Department of Motor Vehicle (DMV) offices to acquire drivers licenses as shutdowns lifted. More money in consumers' pockets from end-of-year stimulus checks and the anticipation of more checks coming in the new year likely boosted shopping as well. For more in-depth insights and a quarterly look at U.S. auto insurance shopping, read the Insurance Demand Meter.

Shopping Rate Over Time

(percent of policies shopped in past 12 months)



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

Figure 2. Shopping volume ended the year at an all-time high, just like in 2019.

Credit-based insurance scores tend to be very stable over time, and that's exactly what we saw through July 2020

Credit-based Insurance Scores

Economic fallout from the pandemic had the potential to wreak havoc on credit—with massive, sudden and protracted unemployment, delays in people receiving unemployment compensation, and simply the factor of the unknown. Whether and how this financial upheaval might impact credit-based insurance scores was, understandably, top-of-mind for carriers.

Credit-based insurance scores tend to be very stable over time, and that's exactly what we saw through July 2020 (Figure 3). In fact, on the aggregate, these insurance scores remained very stable despite the fact that credit use and personal debt, which is data with the potential to impact credit-based insurance scoring models because they are indicative of future claims loss, were down from 2019 levels.

Average Attract™ Scores (Credit-Based Insurance Scores)

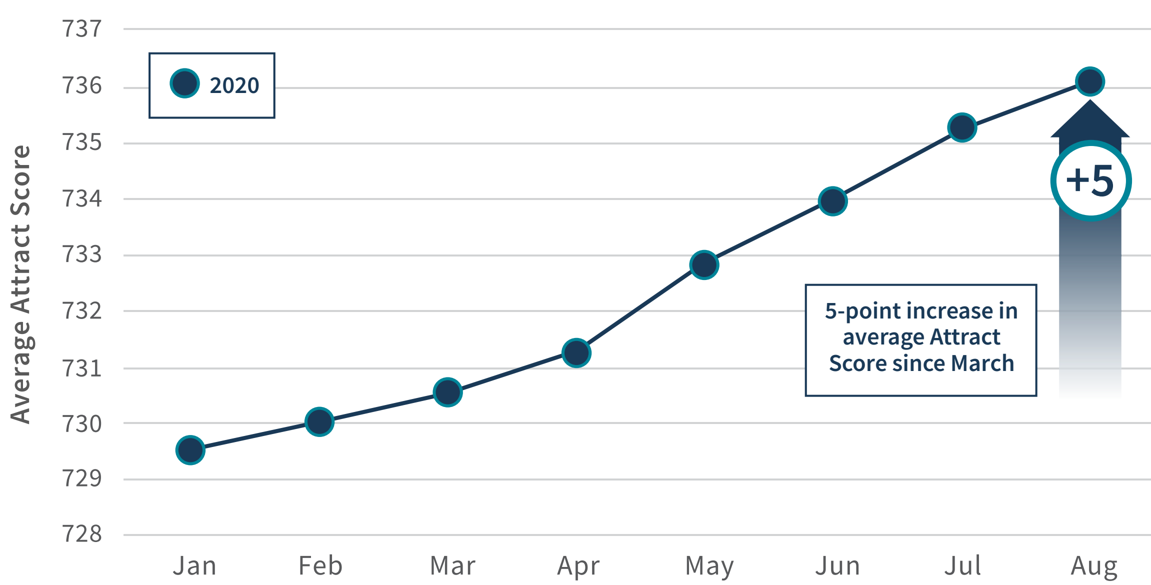


Figure 3. Scoring models have remained stable during this economic crisis.

Credit utilization at the time of this analysis was down by 9% (Figure 4)—and when this is down, our credit-based insurance scores tend to go up (with all else being equal) based on actuarial principles related to the likelihood of future insurance losses.

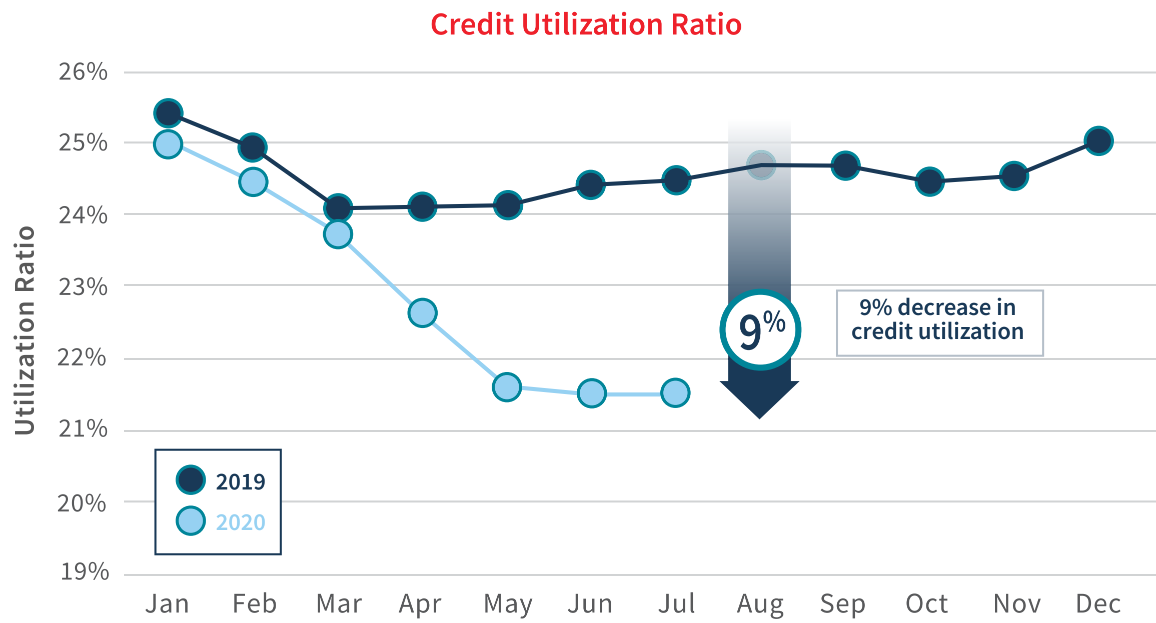


Figure 4. Consumer debt is trending at lower-than-normal levels, without the usual fluctuation.

While there was a slight uptick in average LexisNexis® Attract scores between March and August of 2020, this trend was not atypical. Data from 2018 and 2019 show scores increased an average of two points for the same time period in each of those years. There was little variance in scoring performance across the country, even as unemployment rates varied from region to region (Figure 5).

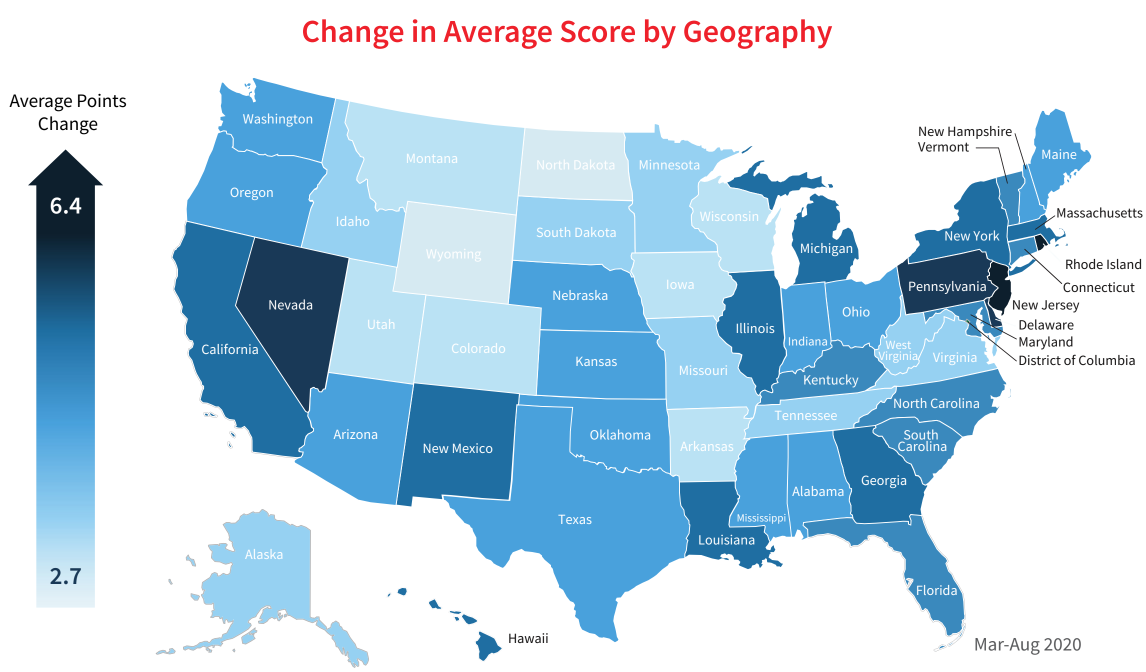
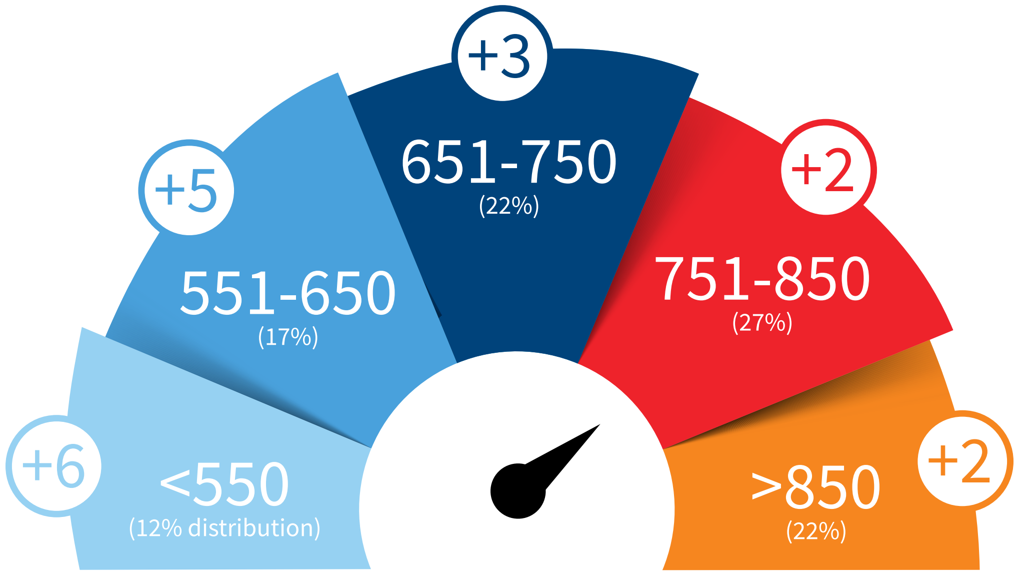


Figure 5. No single state experienced a decline in average score since March. The magnitude varies across the country and it's a tight range, with a minimum change of about 2.5 points to a maximum change of nearly 6.5 points. Even states with higher than average unemployment saw an increase in average score (e.g. Nevada).

As devastating as the pandemic has been in so many ways, its impact has yielded an average of a three-point boost in credit-based insurance scores across all bands, year-over-year. This is good news for both consumers and carriers (Figure 6).

Change in Credit-Based Insurance Scores by Score Band



3 Point Average Increase (year-over-year) in Attract Score

Figure 6. Despite the disruptions from the pandemic, scoring models remained relatively stable across all bands.

Make better use of credit information to boost underwriting efficiency

Consumer credit information continues to be a valuable resource for underwriting insurance risk. LexisNexis® Attract™ scores can help you conveniently and effectively classify insureds and applicants according to risk of future loss, which can lead to more efficient underwriting.

Endorsements

In March of 2020, driver endorsements (the addition of new drivers to a policy) dropped significantly from 2019 rates (Figure 7). This decline continued for the next two months, bottoming out at -45% in May. By June, the gap had closed by about half and endorsements ended the year at -18%.

Given that the most common scenario for endorsements is adding newly licensed drivers, we surmise the initial dramatic decline was attributable in large part to DMV closures during the shutdowns, which prevented new drivers from obtaining licenses.

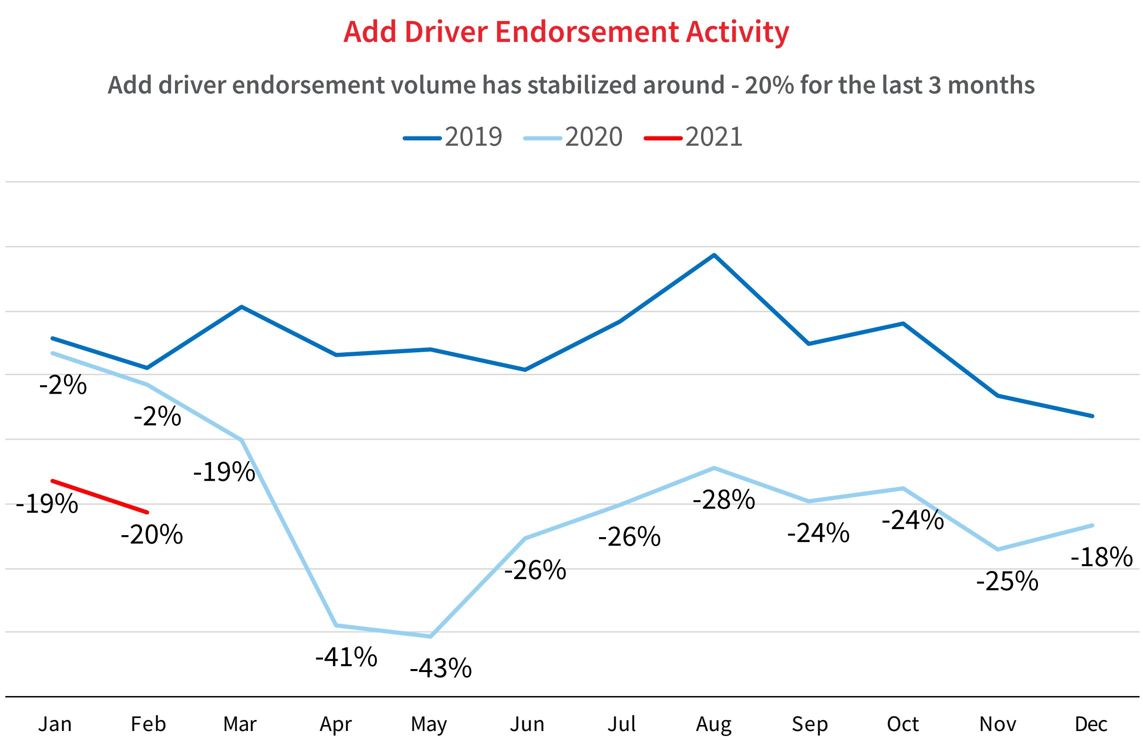
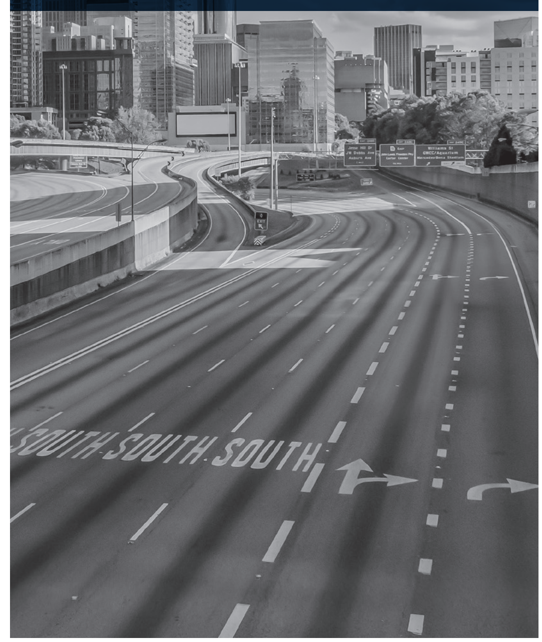


Figure 7. Endorsement activity dropped dramatically in the first part of 2020.

The most common scenario is adding a newly licensed driver—but with DMV offices closed, no new licenses were issued.

After multiple months without improvement, volumes improved to -18% in December.

By late-March and early-April 2020, the traditional "rush hour" had all but disappeared



Driving Behavior

Much like consumer auto insurance shopping, miles driven was a rollercoaster in 2020. Mileage dipped significantly immediately after the stay-at-home orders were issued, beginning in mid-March (Figure 8). By late March and into early April, the traditional "rush hour" had all but disappeared and driving dipped to the lowest we've seen since we've been tracking.

Once orders began to lift near the end of Q2, drivers eagerly took to the roads again. However, miles driven stagnated in Q3 and Q4. It's possible this leveling out was attributable to ongoing new driving behavior patterns, such as the continuation of working remotely for those who could and consumers becoming accustomed to the convenience of ordering online rather than leaving home to shop or dine out.

Miles driven dropped again slightly near the end of the year, likely due to a reduction in holiday-related travel as people were cautioned not to get together to celebrate. Normalized mileage hovered between 83% and 88% of 2019 levels for the second half of the 2020 calendar year.

2019 vs. 2020 Normalized Mileage

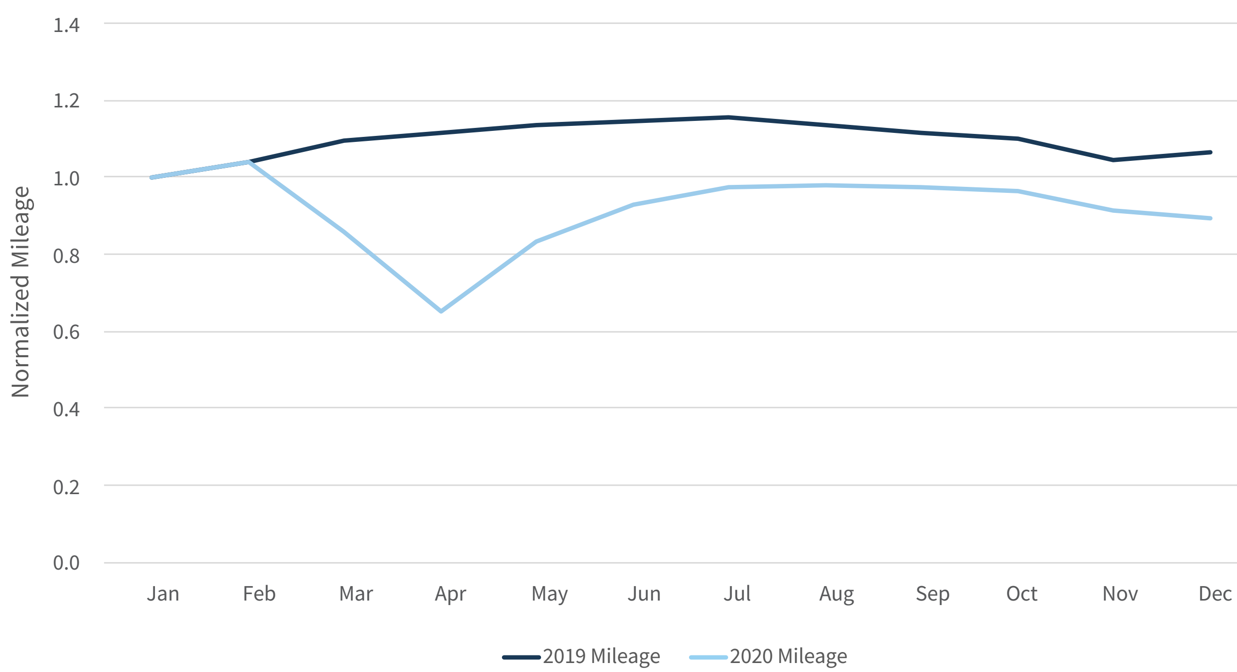


Figure 8. Miles driven dropped significantly in the spring compared to 2019 levels and never fully recovered.

These patterns are important to examine closely, as shifts in how people work and live their lives can have long term impacts on their driving behavior—which affects many auto insurance-related factors, such as shopping and claims. For example, one of the most notable data points from 2020 is that although fewer miles were driven, risky behaviors such as high-speed driving and hard braking increased above 2019 baselines and pre-pandemic expectations. This trend began in mid-March, when shutdowns in the United States initially went into effect (Figures 9A and 9B).

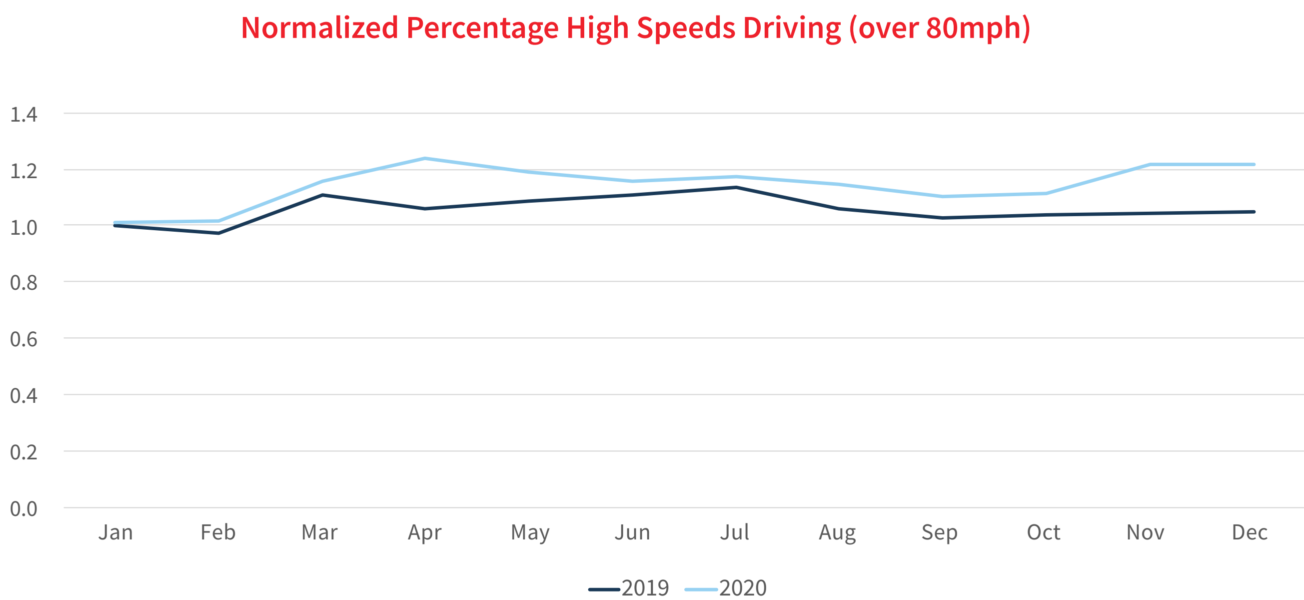


Figure 9A. Figures 9A and 9B illustrate that less safe driving behaviors increased during 2020.

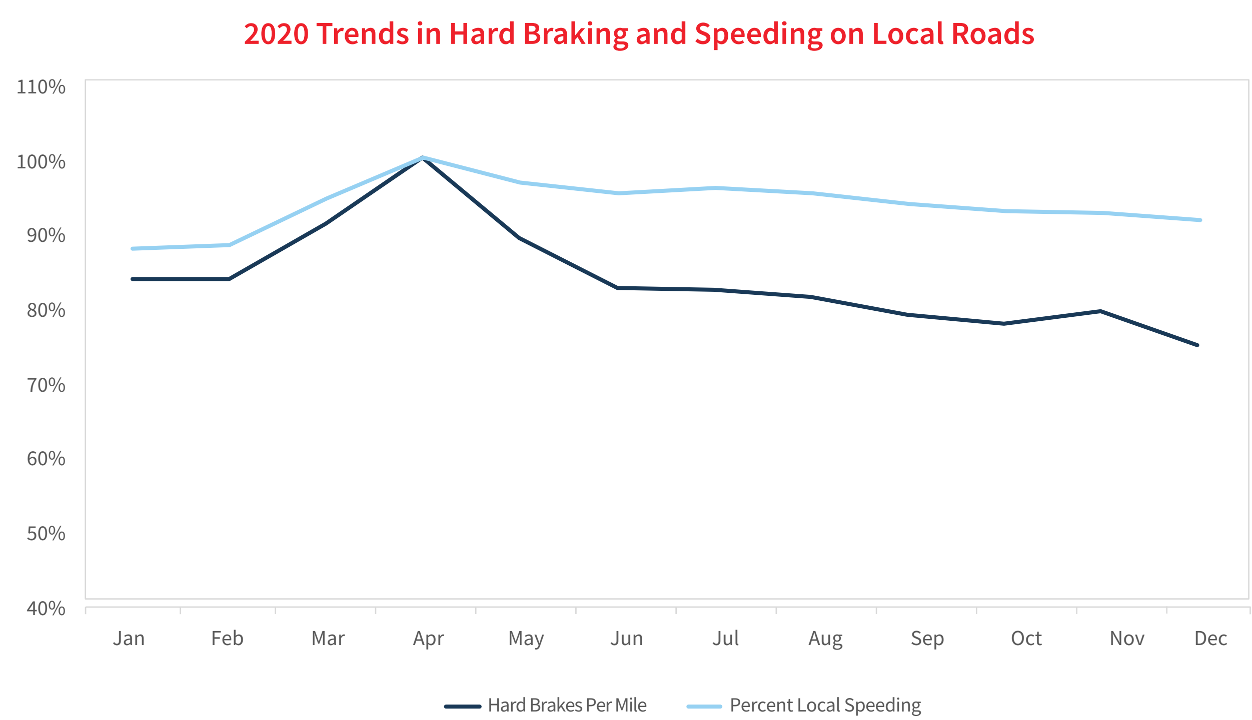


Figure 9B. In Figure 9B, we normalized data to the peak change in pandemic behavior that occurred in the first two weeks of April.

In fact, from mid-March 2020 forward, high-speed driving averaged 10% higher than during the same period in 2019. This above-baseline increase remained throughout most of the rest of the year, returning to normal levels only toward the end of the year.

Speculations about these driving behavior changes infer that less populated roadways lead to higher speeds and subsequent hard braking. Conversely, while speeding was up, hard accelerations slightly decreased on average throughout 2020 compared to 2019 rates, again most likely due to less traffic overall on the roadways.

In last year's report we explained that consumers are increasingly willing to share their driving data in return for better insurance policy pricing. And they want that data available instantly, rather than having to wait for a monitoring period. Changes in driving behavior have accelerated an interest in telematics and usage-based insurance (UBI) programs that can be applied as early as point of quote. The more insights you have into the information that's below the surface of these trends, the better you'll be able to make decisions around risk and ratings.

However, obtaining the telematics data is only half of the equation. You must know how to gather and use that data. We've developed a new telematics-based scoring model that helps you do just that.

Rate more precisely with a telematics-based scoring model

The new LexisNexis® Drive Metrics scoring model leverages driving behavior data collected through our LexisNexis® Telematics Exchange. Carriers can access the scoring model through LexisNexis® Telematics OnDemand to obtain a score and hundreds of associated attributes that can be added directly into your workflow as early as point of quote. Using telematics data may allow more accurate rating of insureds. As the driving experience continues to become more personalized, a rating plan that includes more accurate and timely driving behavior insights from telematics data can help you create more personalized insurance coverage and pricing at the individual level. Learn more in our eBook on telematics-based driving score models.

Violations

Violations began to dramatically trend downwards in March and April 2020, prime shutdown time, then spiked in May, aligning with miles driven. Still, overall violation levels for the year were below 2019 levels (Figure 10A and 10B).

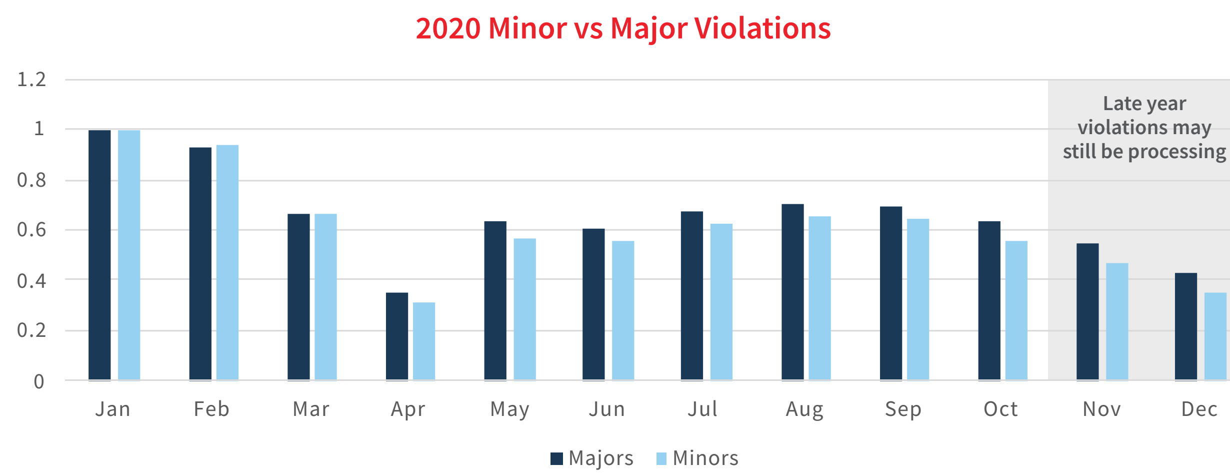


Figure 10A. Major violations trended slightly above minor violations throughout the year.

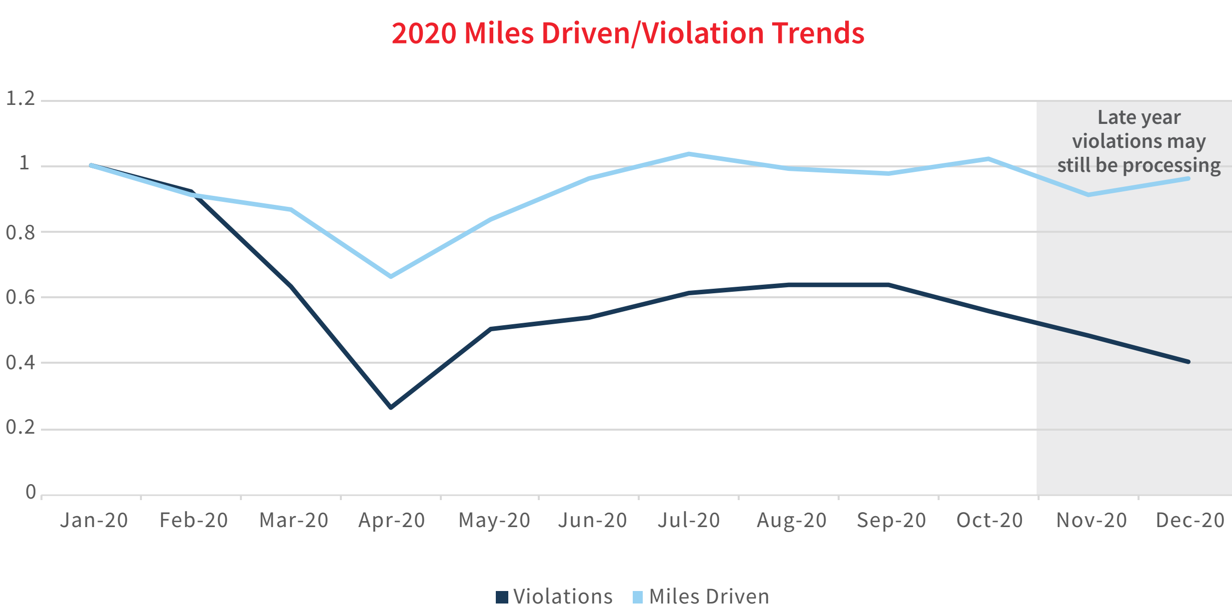


Figure 10B. While overall violations were down in 2020, their trajectory was erratic and conformed to miles driven.

Even though there were fewer drivers on the road and fewer overall violations, major violations were up, with major speeding taking the lead for most of the year (Figure 11).

Major Violations Compared to Miles Driven

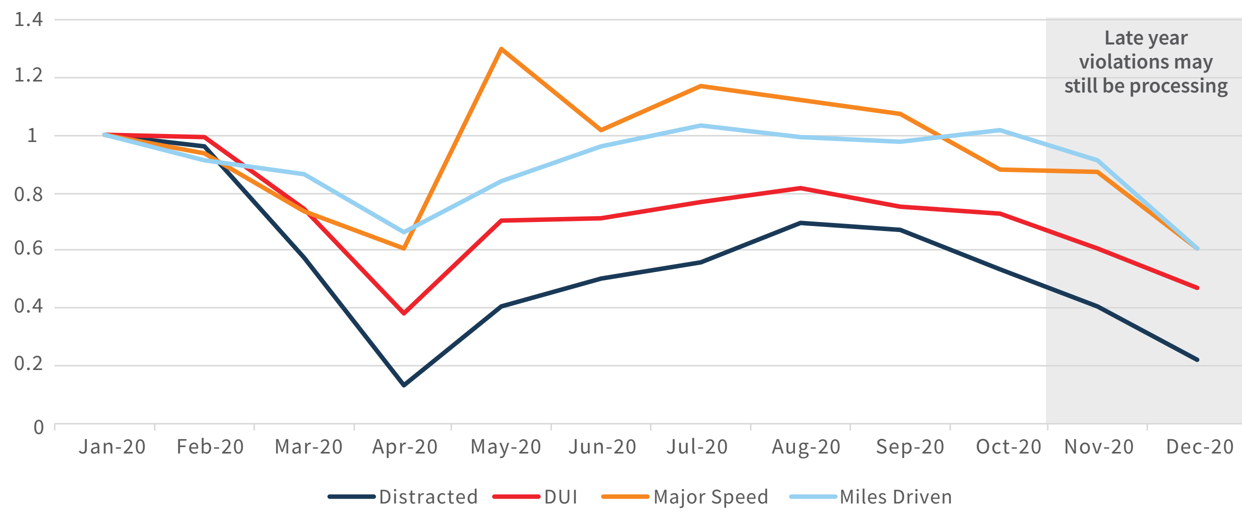


Figure 11. Excessive speeds topped the list for 2020 major violations.

Traffic fatalities were up, too. According to the National Highway Traffic Safety Administration (NHTSA) estimates, during the first nine months of 2020, miles traveled decreased by 14.5% compared to the same period in 2019 while fatality rates increased by 4.6%.[2] Fatalities took a significant jump in the third quarter, after many of the lockdowns ended, rising 13%—which represents the highest rate since 2005.

Fatalities took a significant jump in the third quarter, after many of the lockdowns ended, rising 13%

DUI Violations

Driving under the influence (DUI) violations have been trending down over the past several years. That trend has continued through 2020, despite a considerable and atypical spike in May, which precipitated a flow for the rest of the year that aligned with 2019 performance (Figure 12).

One potential explanation for the spike and general uptick may be people's emotional response to the pandemic (increased drinking) as well as less concern with the possibility of being cited, due to a shift in police presence during this timeframe.

2020 vs 2019 DUI Violations

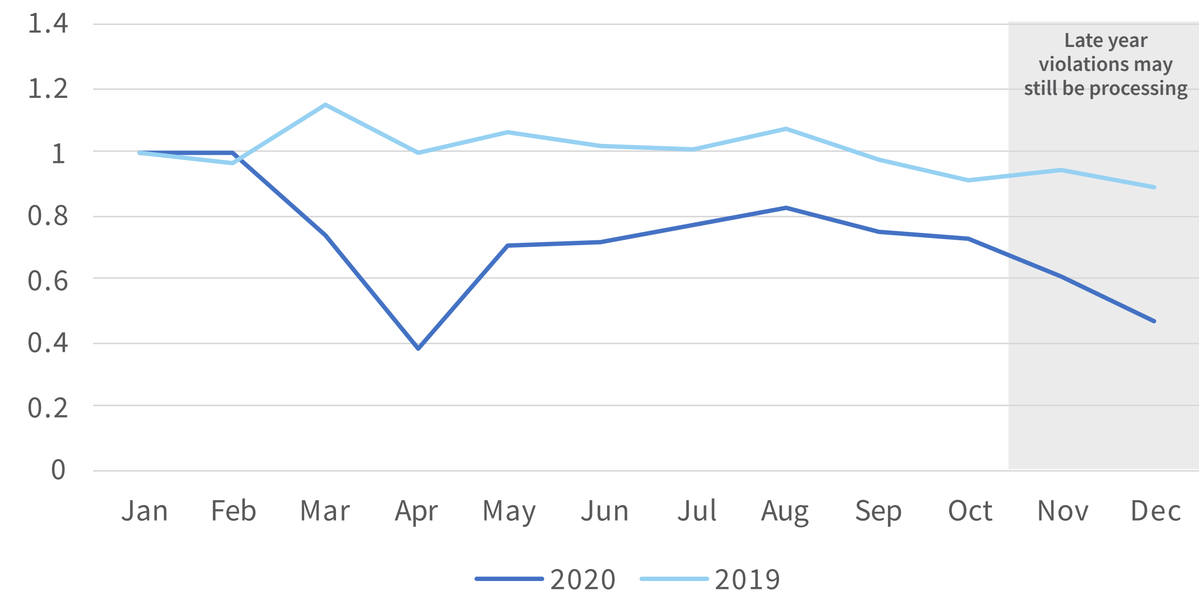
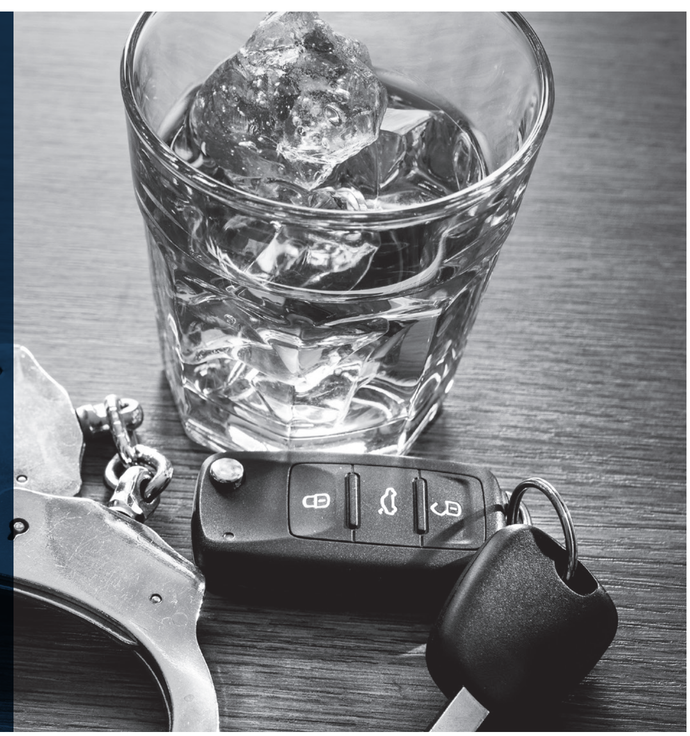


Figure 12. The shutdown disrupted typical DUI violation patterns.

The spike and general uptick may be people's emotional response to the pandemic (increased drinking) as well as less concern with the possibility of being cited



Generation Z was the only generation to have the volume of DUIs return to pre-pandemic levels

While alcohol consumption is reported to have increased during 2020, shutdowns kept many people out of bars and restaurants. This makes it somewhat difficult to interpret whether we are seeing a true shift in trend or simply reactive behavior due to the pandemic.

One notable shift is that Generation Z was the only generation to have the volume of DUIs return to and even exceed pre-shutdown levels during the summer and early fall of 2020. Perhaps this is one of the segments most dependent upon ride-sharing, and following the shutdowns were instead behind the wheel after drinking at a higher frequency. Traditionalists were second in trending upward toward their pre-pandemic volume of DUIs, returning to almost 90% of prior volumes by August. The higher decline in counts through late 2020 could be correlated to the average time it takes DUIs to proceed through the court system, compounded by 2020 court availability (Figure 13).

DUI Trends by Generations

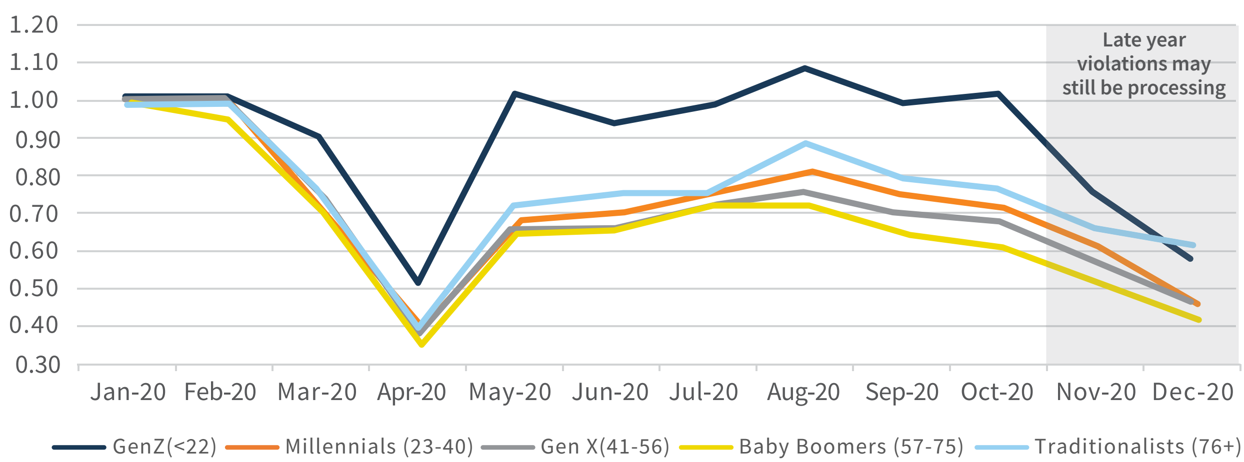


Figure 13. While all generations followed similar trajectories, Generation Z now leads the pack for DUIs.

According to a recent psychiatric study by the University of Arizona, young adults have been especially vulnerable to alcohol abuse during the pandemic.[3] These results comport with what we're seeing in DUI violations. This is an area to keep an eye on, especially given that these statistics point to an underlying change in the demographics when it comes to DUI violations, a factor carriers may want to consider during the underwriting process.

Distracted Driving Violations

As we explained in our 2019 Auto Trends Report, distracted driving has become a greater concern over time, as more drivers are using mobile devices on the road. Women remain more vulnerable to distracted driving than men, consistent with 2019 findings. Year-to-year levels have declined very slightly for both genders. Generation Z continues to lead in distracted driving incidents (Figure 14A and 14B).

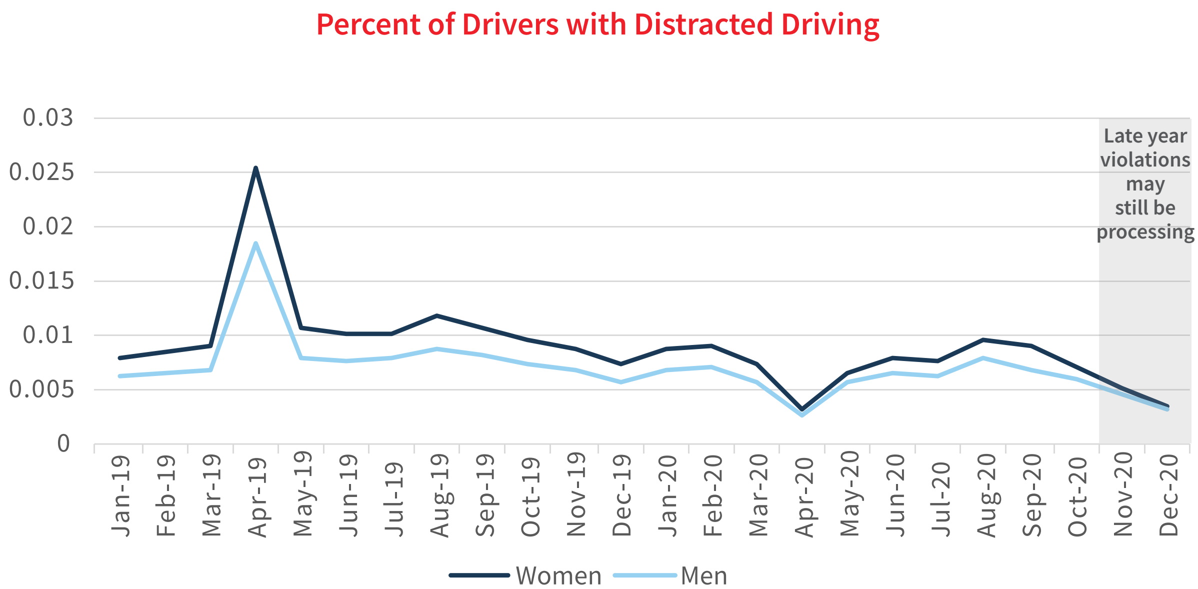


Figure 14A. In 2020, women remained slightly more vulnerable to distracted driving than men.

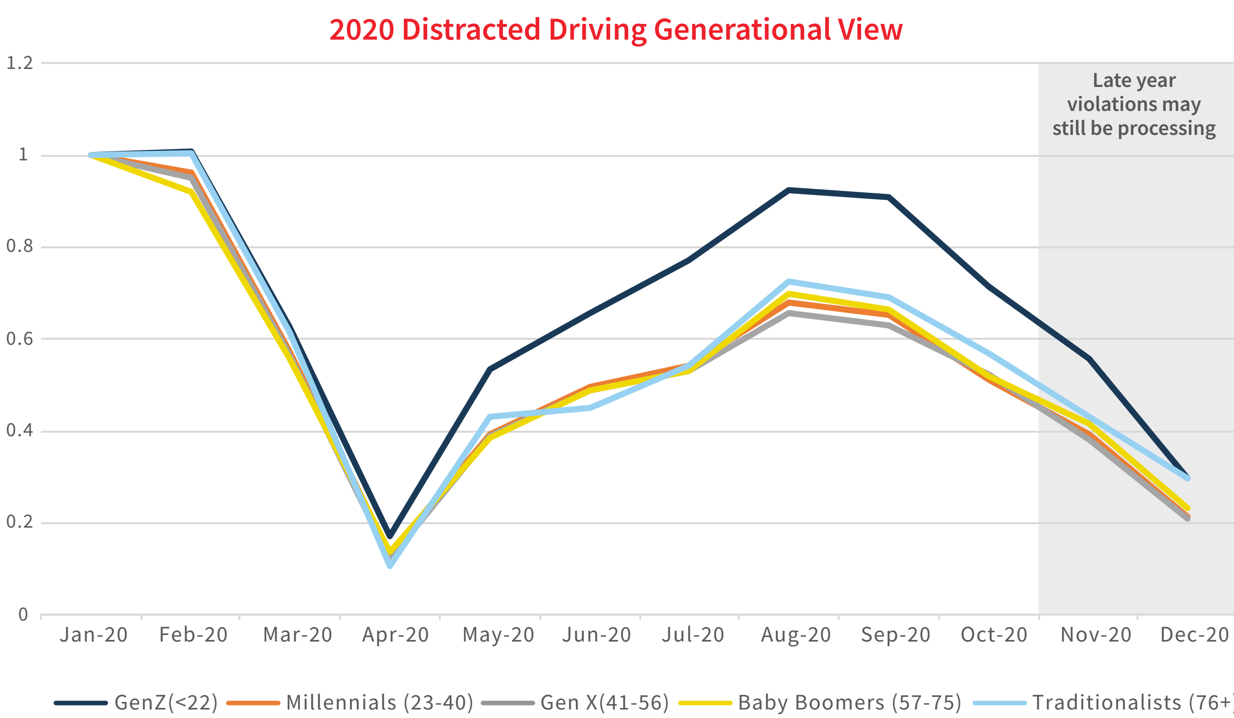


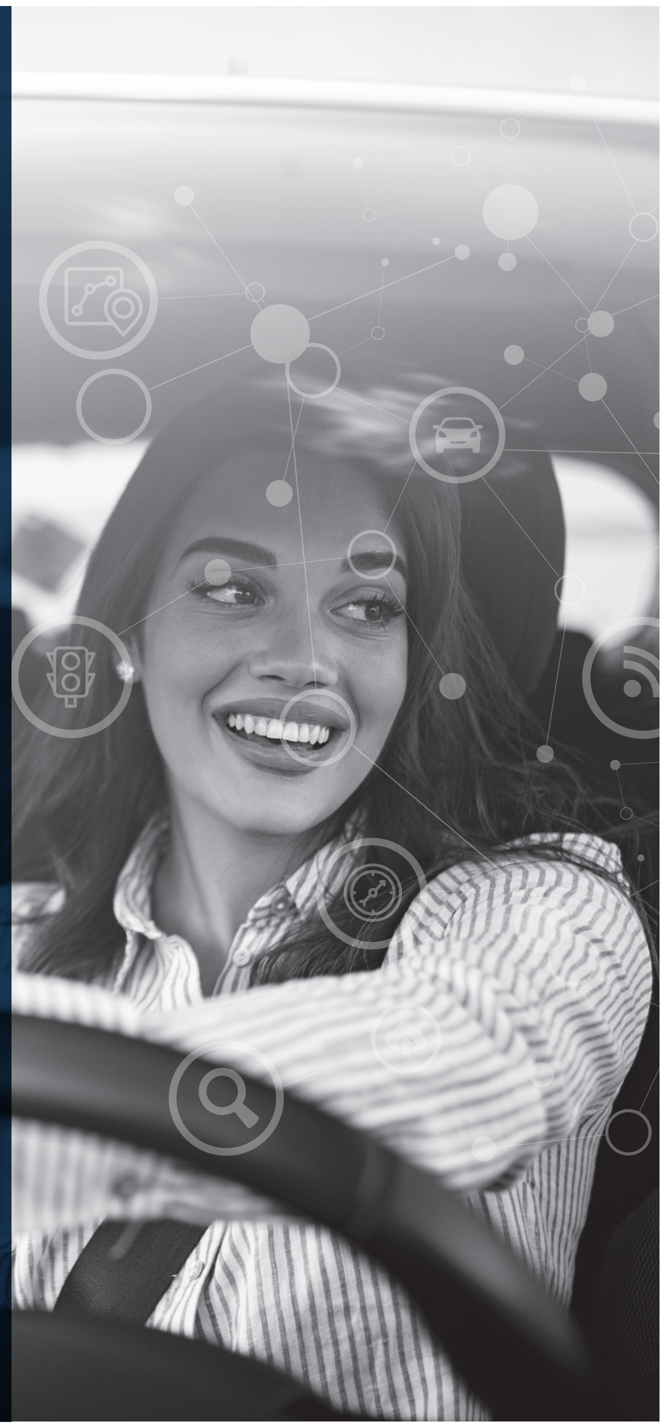
Figure 14B. Distracted driving has declined slightly from 2019 levels, and Generation Z still holds the lead.

Again, just like miles driven, this violation data must be looked at in context. The more insights you have into the information that's below the surface of these trends, the better you'll be able to make decisions around risk and ratings.

Telematics-based scoring models can help provide an excellent complementary data set for providing a more informative picture of risk. At the same time, telematics and UBI programs can help your insureds gain greater insights into their driving behavior.

Get a true picture of risk with telematics-based scoring models

Telematics-based scoring models can help give you a more informative picture of risk. By increasing your ability to more accurately rate your insureds, you may increase customer satisfaction. As the driving experience continues to become more personalized, a rating plan that includes more accurate and timely driving behavior insights from telematics data may help enable you to create more personalized insurance coverage and pricing at the individual level. Learn more in our whitepaper on telematics-based driving score models.



The impact of COVID-19 **on carrier practices**

Claims

There is no understating the total impact of the coronavirus pandemic on insurance carriers' operations, particularly in claims. Federal, state and local government leaders issued social distancing orders. Corporations sought to keep employees safe by encouraging work from home, dramatically impacting traffic volumes, driving behaviors, and standard claims intake and processing measures. As a result, carriers were forced to significantly ramp up their digital transformation initiatives to meet the demands of the "new normal."

Before the start of the pandemic, LexisNexis® Risk Solutions decided to publish monthly claims severity data on our Insurance Insights blog as a service to the industry. Little did we know the impact this decision would have in providing insights over the months to come, as consumer behavior rapidly changed in response to the pandemic and carriers accelerated virtual claims processing.

As can be expected, the number of claims in 2020 decreased because people were driving less. There was a 19% decrease in the number of collision claims paid and closed. But that didn't lessen the impact of claims on the industry overall. Collision severity saw a 3.7% year-over-year increase in 2020. This growth was slower than the 6.6% rate seen in 2019 (Figure 15).

COVID-19 and resulting changes in consumer behavior were a disruptive force

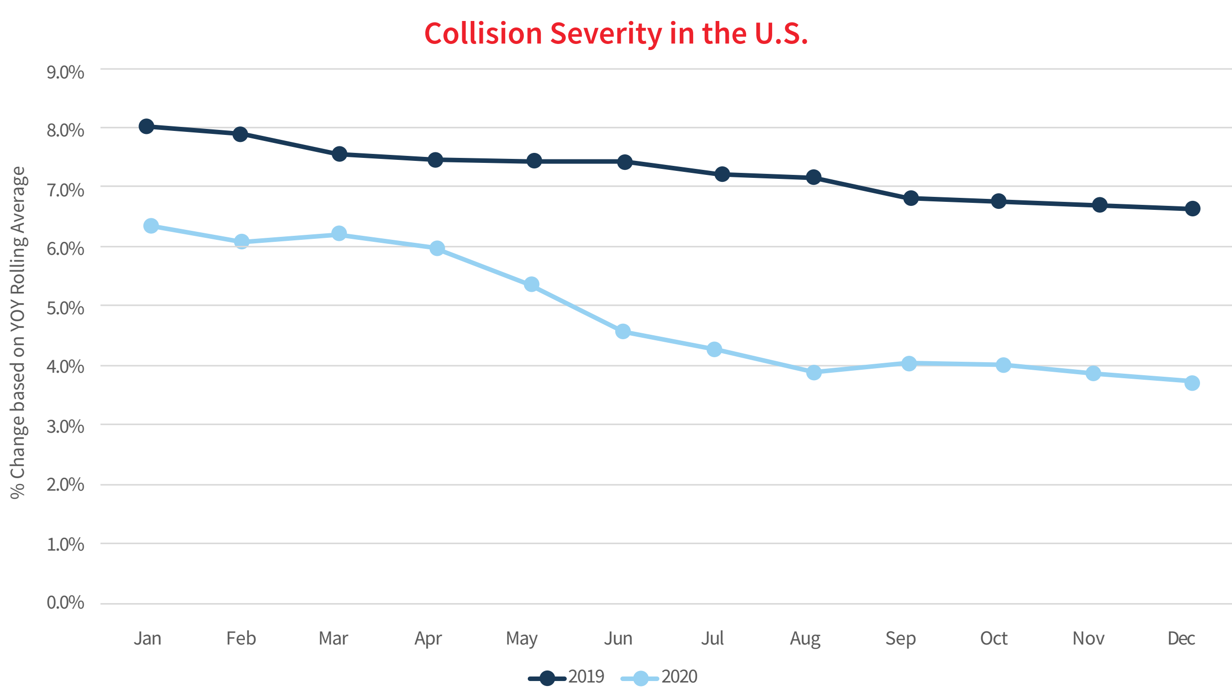


Figure 15. Although the number of collision claims was down, severity increased notably.

Carriers also saw an increase of 4.8% in property damage severity across the industry

Carriers also saw an increase of 4.8% in property damage severity across the industry, a growth rate slower than the 6.3% rate in 2019 (Figure 16). Additionally, the number of paid and closed property damage claims decreased by 25.2%.

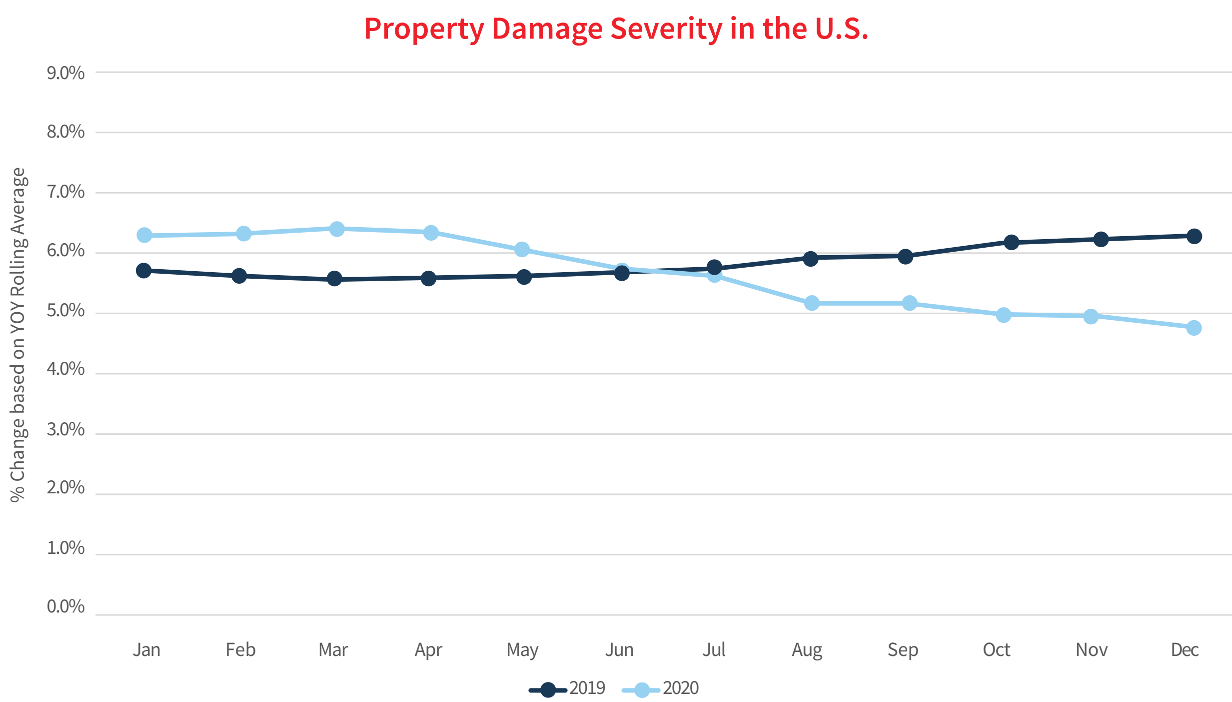


Figure 16. Property damage severity increased in 2020 while the number of claims dropped significantly.

One of the emerging trends we saw was the relationship between physical damage and bodily injury severity. Beginning in March 2020, bodily injury claims increased inversely to total paid and closed counts. By October 2020, insurance carriers were seeing a 12.7% increase in severity—a much faster growth rate than the 7.1% seen in 2019 (Figure 17). The number of bodily injury claims paid and closed also decreased by 15.3% in a year-over-year comparison between October 2019 and October 2020.

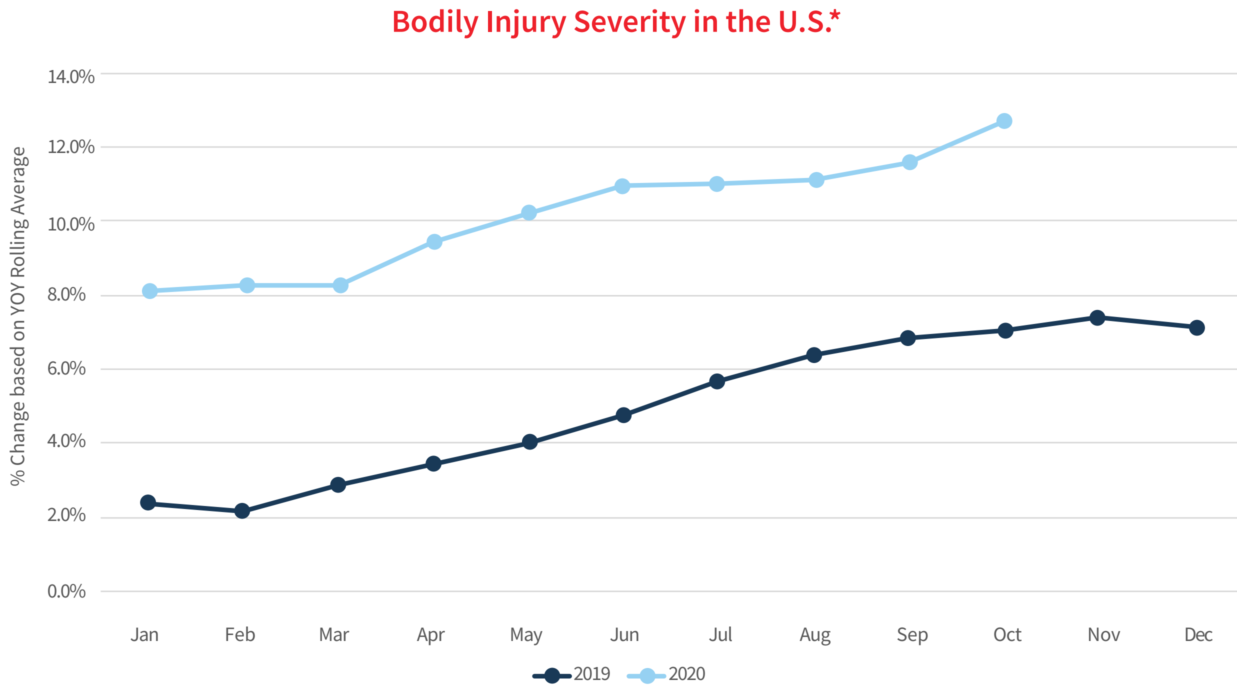


Figure 17. Bodily injury severity showed a similar pattern to property damage in 2020—fewer claims, but greater severity.

*Based on Bodily Injury paid and closed within 90 days.

Benchmark your business so you can make the best decisions

Carriers who can track their performance against the industry are more empowered to make the best decisions possible during tough times. Based on our access to millions of transactions through our powerful and comprehensive loss history contributory database solutions, we're able to help provide you with the ability to benchmark your performance against the industry on a weekly or monthly basis. These insights can become the fuel for better decisions.

Rate Filing Activity

Early in the year, with the uncertainty from the pandemic, the industry was in limbo regarding how to assess policyholders and determine appropriate rate levels—especially in light of the dramatic reduction in traffic on the roads during the initial shutdown.

But it wasn't long before the industry responded in full force with temporary premium assistance. Some carriers began issuing premium refunds during April and May. Refunds issued ranged from 5% to 25%, with 15% being the most common amount. Some carriers issued flat dollar rebates per vehicle or policy. Others focused only on liability premiums.

By Q3 and Q4, the impact of COVID-19 on driving behavior and other rating factors, such as credit, became clearer and the industry was able to respond more appropriately, resulting in an average rate decline of 2% per quarter (Figure 18). As to what the future for ratings will be, it's difficult to say in this moment. There is still volatility in the market.

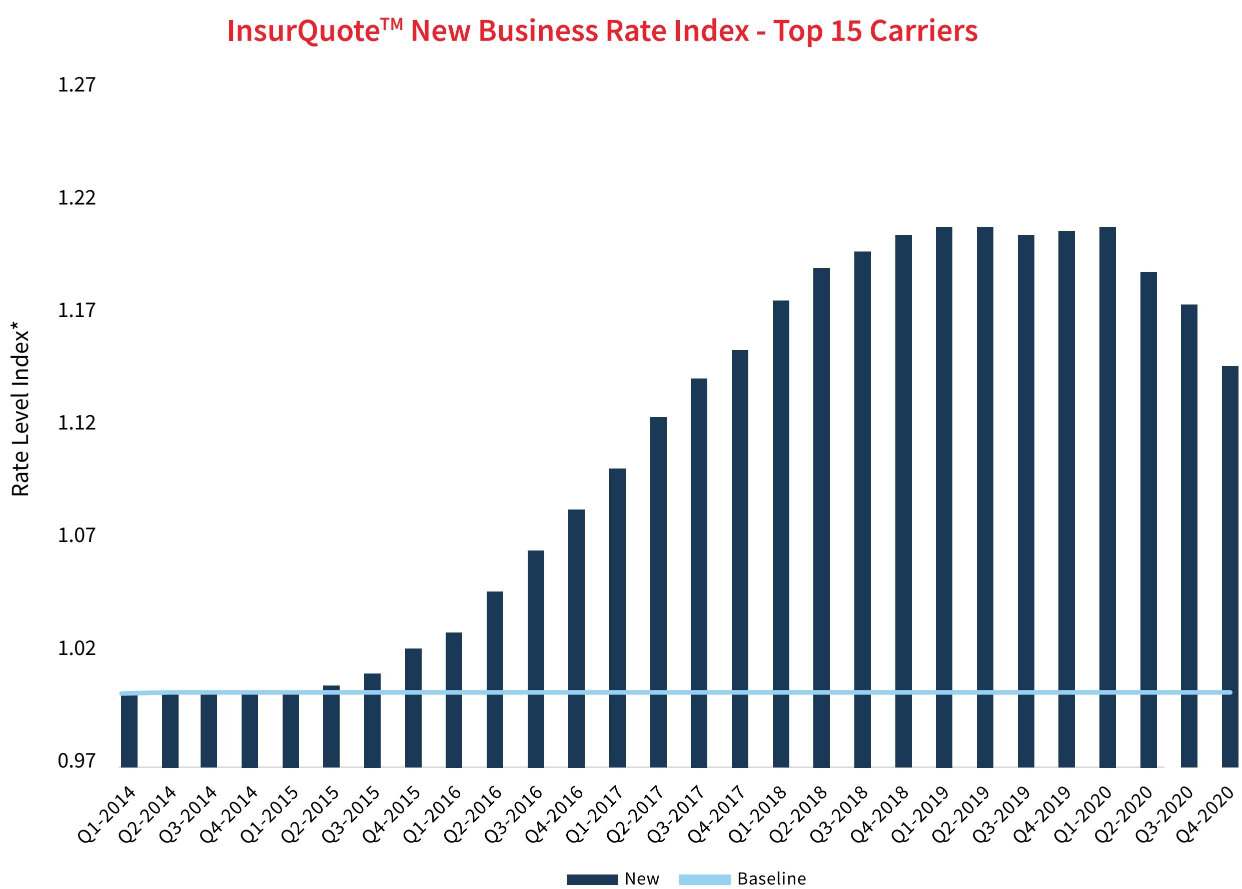


Figure 18. By the end of the year, rates declined in response to changes in driving behavior precipitated by the pandemic.

* The "InsurQuote New Business Rate Index - Top 15 Carriers" is developed by rating the same market basket of risks through the top 15 personal auto writers new business rate plans each quarter. The resulting premium totals are then indexed to the average 2014 premium. The results for individual carriers are not weighted by their market share—each company is treated the same regardless of size.

Sales and Renewals

A large percentage of policies renew in July, August and September because of car purchasing in January, February and March associated with bonuses and tax refunds. This behavior was disrupted by the significant early impacts from COVID-19.

First, the shutdowns caused a marked decrease in auto insurance shopping and an even larger drop in new policies written. Following positive results in the six months prior, in March of 2020, new policies written were down 10.4% year-over-year, and down 12.6% in April of 2020. Next, as cancellation moratoria were implemented, policies that would have normally been canceled for non-payment remained in force. A third disrupter was the stimulus checks, the first of which was distributed beginning in April 2020 and the second at the very end of December. Finally, the additional unemployment benefits provided by the federal CARES Act was supplemented by additional state-level benefits in some states. Like the cancellation moratoria, this initiative helped consumers who might have otherwise left the market remain in the market. Overall, the net result of this unusual activity was +0.5% point increase in overall market retention to 83%.

We also observed a slight shift in the volume of policies renewing each month away from March and April and toward May and June. However, this shift was not equal across the market. The trend was more pronounced in the non-standard market, particularly for new policies. For policies that were in-force on February 1, 2021, there were fewer policies that had terms beginning in October and November and more that had terms beginning in December and January (Figure 19). This shift in term-begin dates will likely persist into the future, as most consumer policy term-begin months do not shift over time.

Private Passenger Auto - Non-Standard

Year 1 Business

6-month Policy Term Begin Counts			
Month	**2/1/2019**	**2/1/2020**	**2/1/2021**
August	16.6%	16.9%	16.9%
September	17.3%	17.9%	17.8%
October	17.2%	17.5%	16.8% ↓
November	15.6%	15.9%	15.5% ↓
December	14.9%	15.0%	15.4% ↑
January	17.3%	16.0%	16.9% ↑

Figure 19. The pandemic led to shifts in policy start dates.

Into the new:
2021—Keeping the pulse on the market

The pandemic has taught the world to expect the unexpected. Things can change very quickly. We have several ways to keep you updated on activity in the market. By monitoring and examining rate impacts through our InsurQuote® product suite, you can stay abreast of the latest developments and adjust your practices to align with them. Also, by subscribing to the LexisNexis® Insurance Demand Meter, a free quarterly report in which we share and comment on the latest U.S. auto insurance shopping trends, you can get a holistic view of the industry and make decisions accordingly. Finally, our new LexisNexis® Insurance Market Insights solution will help you stay on top of industry developments on an ongoing basis as well as benchmark your own shopping and claims performance to the competition.

Adapting to disruption— **the readiness mantra and the data solution**

If we learned anything from the COVID-19 pandemic, it's that it's important to be ready for the unexpected. Even with the best laid plans, insurance carriers will need to be prepared for the next disruptive event, whatever that may be. Data is a readiness enabler.

More accurate and comprehensive data assets can help you get a clearer and more comprehensive view of the policy lifecycle and all the factors that influence it so you can better assess risk, handle claims more efficiently and provide the best service to your customers.

The more frequent access you have to up-to-date data, the better able you are to keep up with current and emerging trends, make more accurate predictions based on potential scenarios and benchmark your business to the competition—all of which can give you a competitive edge.

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LexisNexis® Risk Solutions

Adam Pichon serves as Vice President and General Manager of the U.S. Auto Vertical for LexisNexis® Risk Solutions. He is responsible for leading the U.S. Auto line of business, developing strategic alliances and driving the creation of new products, from concept generation to introduction to the market. Pichon has been with LexisNexis® Risk Solutions since 2014 and previously led the credit and analytics product teams, managing a variety of analytic products for multiple U.S. insurance markets, such as National Credit File, Attract™, InsurQuote™ solutions and LexisNexis® Risk Classifier. His insurance industry experience includes product management and predictive modeling roles at auto insurance carriers, as well as work on the vendor side developing and managing new solutions for the property and casualty insurance market. Pichon earned a master's in Economics, with an Econometrics focus, and a bachelor's in Commodities Marketing from the University of Illinois.

Notes:

1. LexisNexis Insurance Demand Meter.
2. Early Estimate of Motor Vehicle Traffic Fatalities for the First 9 Months (Jan-Sep) of 2020, December 2020, National Highway Traffic Safety Administration.
3. Alcohol Dependence During Covid-19 Lockdowns, University of Arizona College of Medicine, October 2020.

For more information, call 800.458.9197, or email insurance.sales@lexisnexisrisk.com

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About LexisNexis® Risk Solutions

LexisNexis® Risk Solutions harnesses the power of data and advanced analytics to provide insights that help businesses and governmental entities reduce risk and improve decisions to benefit people around the globe. We provide data and technology solutions for a wide range of industries including insurance, financial services, healthcare and government. Headquartered in metro Atlanta, Georgia, we have offices throughout the world and are part of RELX (LSE: REL/NYSE: RELX), a global provider of information-based analytics and decision tools for professional and business customers. For more information, please visit www.risk.lexisnexis.com and www.relx.com.