LexisNexis® Insurance Demand Meter

A quick look at auto insurance shopping trends

ISSUE #9

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Overview

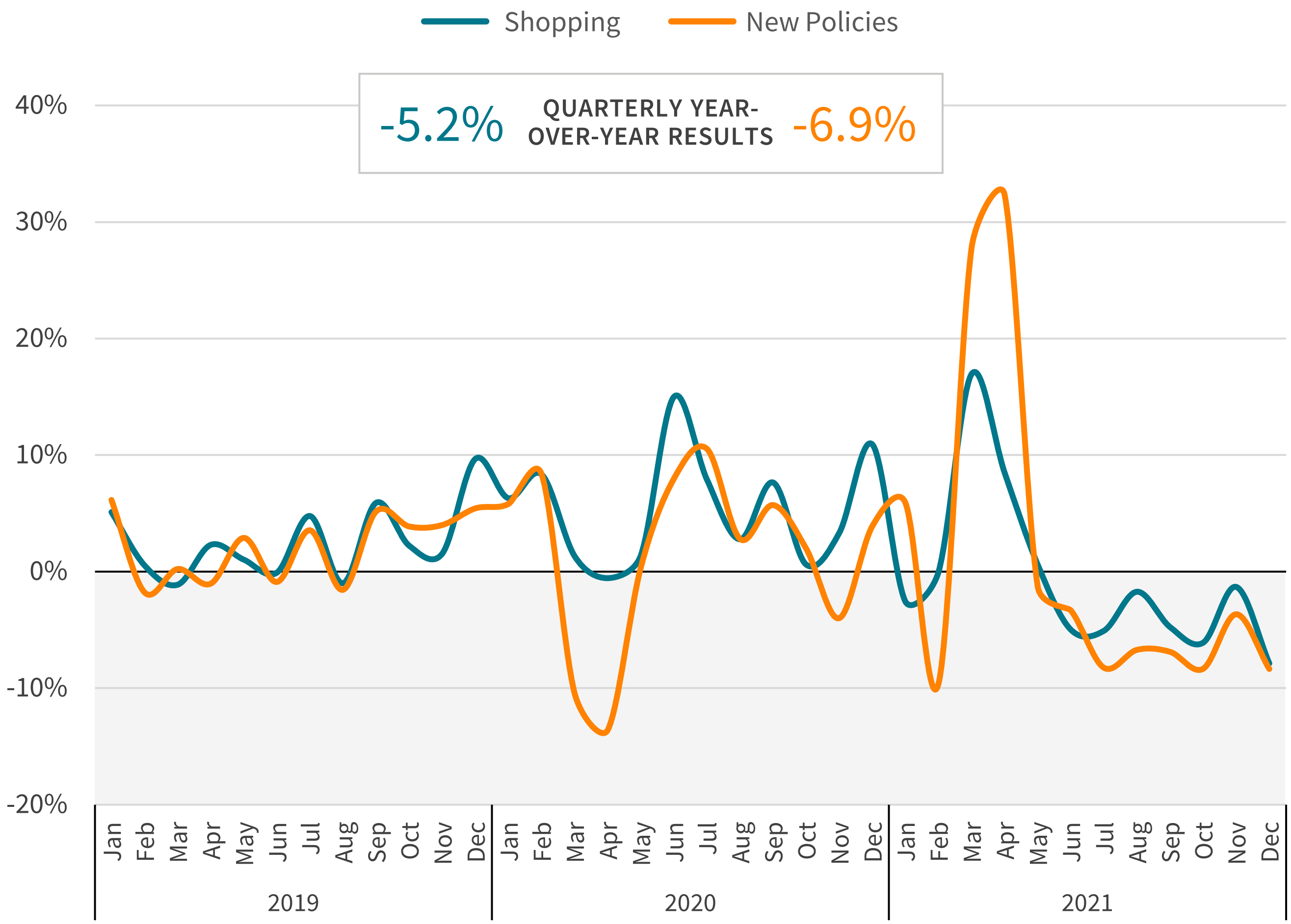
In 2021, U.S. auto insurance shopping and new policy growth numbers continued to be influenced by the coronavirus pandemic, marking the second consecutive year of volatile shopping and new business patterns. We saw continued shifts in seasonal shopping trends, including delayed timing of the first quarter bump that normally corresponds with tax returns. We also observed a return to more traditional demographic patterns, driven by a resurgence of shoppers ages 16-45, who overtook gains made in 2020 by the 66+ age group. We additionally noted evolving trends in distribution models, with the exclusive agent channel maintaining quoting volumes over the second half of the year while the other channels declined.

With a return in 2021 to more normal driving patterns, there was a corresponding uptick in claims frequency coupled with abnormal increases in claims severity, which prompted rate increases in a number of U.S. states at an accelerating pace over the course of the year. In addition, the auto insurance industry saw a significant reduction of year-over-year direct mail activity starting in Q3 that further declined in the fourth quarter, as carriers appear to be waiting to get their rates back in order before they resume marketing spend.

In our previous edition, we discussed ongoing supply chain issues and shared data showing the record numbers of shoppers leaving the market. These trends continued through the fourth quarter, influencing the negative shopper and new policy growth rates. This quarter, we look more closely at the impact of declining vehicle sales on insurance shopping, and also explore state shopping volume trends.

A

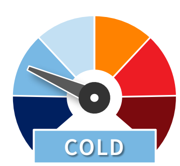
MONTHLY YEAR-OVER-YEAR CHANGE IN SHOPPING AND NEW POLICIES



SHOPPING CHANGE — Q4 2021

The quarterly year-over-year shopping growth rate was -5.2% for Q4 2021 (compared to -3.9% last quarter).

NEW POLICY CHANGE — Q4 2021



The quarterly year-over-year growth for new policies was -6.9% for Q4 2021 (compared to -7.3% last quarter).

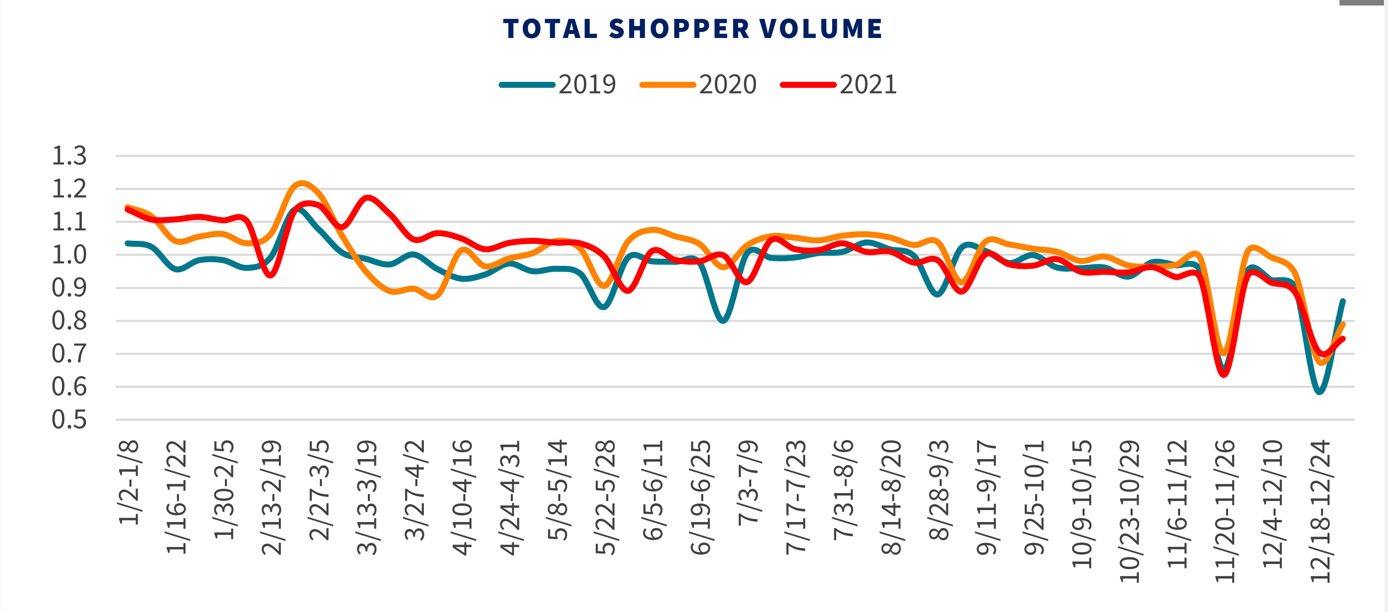
Shopping Volumes Tracking to 2019 Volumes

After nearly two years of atypical market behavior, shopping volume trends were down in the fourth quarter versus 2020, but they did closely follow the traditional seasonal pattern and volumes exhibited in 2019 (Chart B). Some of this can be explained by the fact that the fourth quarter of 2020 was bolstered by the second round of federal stimulus checks in late-December. One of the most influential market conditions that impacted Q4 shopping volumes is the reduced number of households purchasing a vehicle — an event that drives consumers to both shop and, as we show in chart C, add vehicles to their current auto insurance.

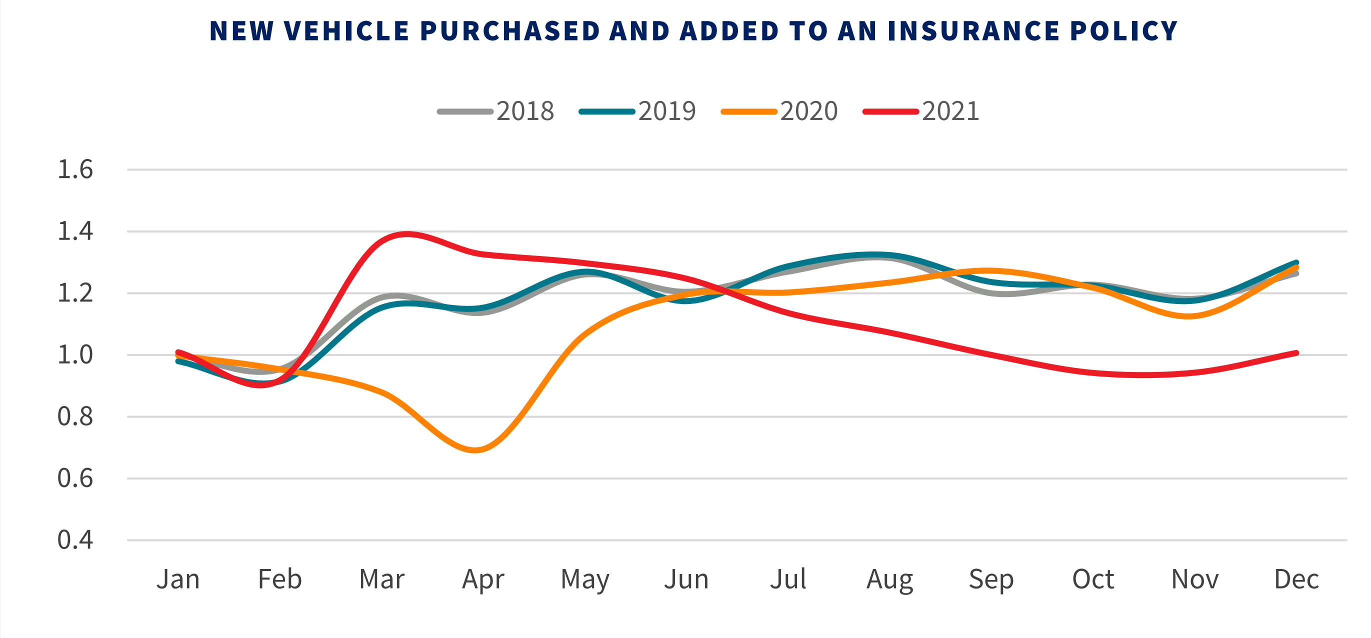
Impact of Vehicle Sales

In last quarter's Demand Meter, we discussed how the global semiconductor microchip shortage and pandemic-related production cuts are suppressing new vehicle inventory and sales. In this edition, we show how this manifests in the insurance market. Chart C shows the volumes of new vehicle purchases that were added to insurance policies by month for the last four years. The large increase in March and April 2021 was fueled by tax returns and the final round of stimulus checks, but new vehicle inventory shortages really began to impact the market beginning in July – with a notable decrease compared to the previous three years. The downward trend was evident throughout the remainder of the year, and experts predict[1] continued low inventory and higher prices.

B



C



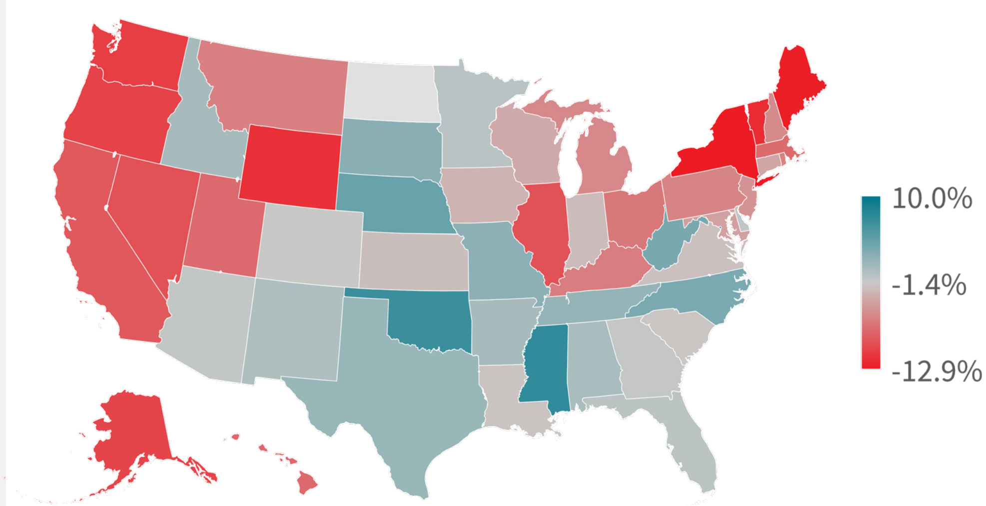
1. https://www.coxautoinc.com/news/cox-automotive-u-s-auto-sales-forecast-december-2021/

State Analysis

While shopping volumes were down 5.2% overall in Q4, the trends varied significantly by state. Chart D shows the Q4 shopping growth rates for the top 5 and bottom 5 growth states. Of note, Washington, D.C. saw 10% growth. While clearly a small market, it demonstrates the impact that premium rate increases have on consumer shopping rates. Conversely, we saw multiple states with double digit shopping volume decreases. Several of these states did not see the widespread rate increases that were implemented by carriers in other states last quarter.

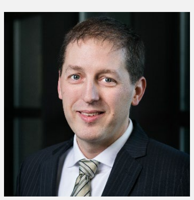
D

Q4 SHOPPING GROWTH RATE BY STATE



Washington, D.C.	10.0%
Mississippi	7.2%
Oklahoma	6.6%
Nebraska	4.1%
West Virginia	3.1%
Washington	-10.6%
Wyoming	-11.5%
Vermont	-11.8%
Maine	-12.7%
New York	-12.9%

"Labor shortages, increased vehicle prices and other inflationary pressures caused costs to surge in the second half of 2021. As a result, carriers turned their focus to profitability, including filing rate increases and trimming marketing spend. We expect state-level performance to vary based on how long it takes for carriers to return to profitability."



Chris Rice
Associate Vice President of Strategic Business Intelligence at LexisNexis Risk Solutions

Looking Ahead

Historically we have observed a cyclical pattern of increased shopping volumes specifically driven by the non-standard and uninsured markets. Each year in late February, there is a bump in activity associated with the issuance of the IRS tax refunds stemming from the earned income tax credit and child tax credits. In 2021, shopping was also influenced by the last round of stimulus check payments. However, as we look ahead to 2022, we anticipate that this seasonal uptick in shopping behavior will be impacted by four key variables:

1. Lack of stimulus checks issued this year
2. IRS announcements of expected delays of return processing
3. Fewer annual child tax credits will be distributed due to changes in the tax code
4. Timing of new car sales recovery

We could see some positive impact on shopping activity this year. The pace of rate filings (some with significant increases) will pick up considerably in the second half of 2022 as higher loss trends become evident industry-wide. Significant rate disruption like this has historically been a catalyst for high shopping volumes in the market.

Adam Pichon

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

"While shopping volumes tracking closely to 2019 over the past few months is a sign of shopping patterns 'returning to normal', the fact that they are not growing year over year is a departure from the past, and the ongoing chip shortages and changes in this year's tax returns will **result in continued volatility in year-over-year growth rates.**"

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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