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Personal Auto Insurance

Market Outlook 2025

Provided by HGI Solutions

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Introduction

The current landscape of personal lines insurance, particularly in the property and casualty (P&C) sector, is facing formidable challenges. The industry has been in a hard market cycle for several years, with factors such as frequent and severe weather events, rising repair costs, car part scarcity, excessive litigation, application fraud and regulatory constraints all contributing to a more expensive environment for auto insurance policyholders.

The ongoing pressures in the sector, which operates on thin margins and highly price-sensitive customer demand, are forcing insurers to adapt quickly. In response, many have turned to automation and data-driven efficiencies to help keep costs down while managing the rising costs of doing business.

Even before the COVID-19 pandemic, auto insurers grappled with the gap between premium increases and rising costs, particularly for vehicle prices and maintenance. The pandemic exacerbated these challenges, with supply chain disruptions and a shortage of new and used vehicles driving costs even higher. This resulted in a wave of cost-cutting measures by insurers, including pulling out of certain markets and significantly tightening underwriting criteria. Carriers are still regaining their footing.

However, as the industry recovers, insurers have begun to adjust premiums and re-enter the market, benefiting from the regulatory changes that have allowed higher pricing to match growing expenses. This shift signals a turning point, with insurers now in a stronger position to rebuild profitability while navigating the evolving dynamics of a rapidly changing industry in 2025 and beyond.

In this Market Outlook, we explore challenges faced by the auto insurance industry during 2024 and discuss how specific problems may sustain a hard market throughout 2025, with the hope that rate increases will plateau during the next few years. We also showcase how working with an experienced local agent can help you save on auto insurance premiums without sacrificing essential coverage.



2024 Auto Insurance Industry Retrospective

The auto insurance market faced a combination of challenges that triggered higher premiums for consumers throughout 2024. While insurers have taken steps to address these issues, the financial strain felt by policyholders is expected to linger. Below are a few factors that contributed to the hard auto insurance market in 2024:



High repair bills—Vehicle repair costs have surged significantly since the COVID-19 pandemic, driven by the growing sophistication of contemporary vehicles and inflationary pressures. As a result, policyholders faced higher insurance premiums as companies transferred these additional costs to consumers.



Bad drivers—The rise in accidents and insurance claims could be partially attributed to reckless driving, distracted driving and driving under the influence of alcohol and legalized recreational drugs. Consequently, insurance premiums have increased for all policyholders, not just those involved in accidents. Even safe drivers have experienced higher premiums due to the overall surge in claims.



Regulatory constraints on rate increases—In certain states, regulatory limitations kept insurers from implementing the rate hikes necessary to offset rising costs. This issue was worsened by the artificial suppression of rate increases during the pandemic and the resulting backlog of rate approval filings with state insurance departments. Although this might appear advantageous for policyholders in the short term, it can prompt insurers to withdraw from these markets, diminishing competition and the availability of coverage. Consequently, some policyholders have struggled to get appropriate auto insurance coverage because fewer companies offer policies in those states.



Fraudulent auto claims—There has been a rise in fraudulent auto claims in recent years. Unfortunately, insurance companies often find it more cost-effective to make smaller payouts rather than incur expensive legal fees and court costs. This fraud impacts everyone, as insurers pass these costs onto policyholders.



Social inflation—When it comes to insurance, social inflation refers to claims costs outpacing economic inflation. One contributing factor has been the trend of more significant jury awards after auto incidents, driven by factors such as distrust of insurance companies and the perception of “deep pockets.” In recent years, claim payments and settlements have surged dramatically.

Ongoing Market Factors

Increasing Application Fraud Strains Insurers

Unlike fraudulent claims, application fraud occurs at the start of the auto insurance process. Applicants may misrepresent or omit crucial details to lower their quotes or secure coverage. The increase in online applications and the demand for quick quotes have made it easier for applicants to provide false information.

A study by Verisk, in collaboration with the Coalition Against Insurance Fraud, indicates that younger generations are more likely to see insurance as a source of easy money rather than fair compensation for a loss. For example, 47% of those surveyed indicated that a high policy deductible was a moderately to very acceptable reason to commit insurance fraud.

One major challenge for insurers is accessing timely and sufficient data to detect fraud. Technological advancements in fraud detection provide insurers with more data faster, and they use it to predict fraudulent activity. Strong identity verification methods, such as document scanning, facial recognition, SMS codes and biometric checks, make application fraud more difficult. Device fingerprinting, which identifies unique device characteristics, also helps prevent multiple fraudulent applications from the same device.



More Consumers Shop for Lower Rates

The personal auto insurance market has been quite active recently. After a slowdown in the middle of the year, the third quarter of 2024 experienced a significant surge in shopping for auto and property insurance, with both categories seeing year-over-year increases of 16% or more.

Following a record high in auto policy shopping in the second quarter of 2024, there was a notable drop in July. However, shopping activity picked up again in August and September, with September reaching a new monthly high shopping rate of 13.8%, according to J.D. Power's third-quarter 2024 LIST Report.

The primary reason for insurance shopping is price, as rising premiums for auto and property insurance prompt more people to seek more affordable options. An August 2024 survey by TransUnion, which included 3,000 consumers, found that about 38% of shoppers had purchased or switched to new insurance within the previous six months. If they don't find better deals, many consumers opt to increase their deductible or enroll in a telematics program rather than simply switching to a new carrier.

Why Auto Insurance Rates Are Increasing

The cost of auto insurance in the United States has been climbing steadily since 2023. A recent Bankrate report indicates that the national average annual premium for full-coverage auto insurance surged by 26% in 2024, with no signs of slowing down. According to the Consumer Price Index (CPI), the cost of insuring a vehicle rose by 1.6% in December 2023, marking a 20% increase from the previous year and nearly 37% over the past two years, the steepest two-year increase since 1977. Still, auto insurance prices continued upward in 2024.

For additional context, the most significant two-year increases in U.S. motor vehicle insurance were 19% from June 2001 to June 2003 and 18% from February 2016 to February 2018. This historical perspective highlights that the current trends in the U.S. auto insurance market may be rare; however, insurers are not expected to halt price increases in 2025.

Rise in Loss Costs

A significant rise in loss costs pushed U.S. auto insurers into underwriting losses. To counter this, insurers implemented substantial repricing efforts. According to the April 2024 CPI, motor vehicle repair costs have slightly decreased but are still up 7.6% over the past year and 21% over two years.

Car Theft

According to the most recent data from the National Insurance Crime Bureau, California had the highest number of motor vehicle theft incidents in 2023, and Texas came in at second place. This trend represents a 10% increase in auto theft since 2022. Texas has some of the country's most expensive auto insurance rates, with a 25.5% increase in 2023.

Climate Risk

Climate risk has traditionally influenced how insurers determine rates for homeowners. However, the growing damage from weather-related events in recent years is now compelling car insurers to incorporate these factors into their rate calculations as well.

Between June 2023 and June 2024, the average annual cost of full-coverage auto insurance rose by 28% nationwide. In states most affected by climate change and extreme weather, rates surged by over 50% year-over-year. The National Oceanic and Atmospheric Administration predicts an increase in billion-dollar weather events as climate conditions evolve.

With tornadoes, hail and flooding becoming more frequent and severe in previously less-affected areas, these factors must be considered in pricing. As insurance rates climb, more drivers might opt out of full-coverage insurance—which includes protection against weather-related damages—to save money.

Electric Vehicle Ownership on the Rise

Electric vehicles (EVs) present distinct challenges in terms of repairability and parts availability, leading to higher insurance premiums, often surprising new EV owners. Claims adjusters and industry professionals face complexities that differentiate EV insurance costs from those of internal combustion engine (ICE) vehicles.

According to Kelley Blue Book, EVs accounted for a record 9% of all new car sales in September 2024. The last quarter saw an 11% increase in EV purchases compared to the same period the previous year, with 68.3% more EVs sold in September compared to the same month in 2023.

EVs Can Affect Property, Liability and Cyber Risk Coverage

The shift to electric vehicles may affect more than just auto insurance. Although EV battery fires are rare, they can significantly increase claim severity due to the flammability of surrounding materials. Even minor collisions can result in high costs due to the specialized engineering and repair challenges of EVs.

The core of every EV is its battery pack, a crucial yet costly component. Unlike ICE vehicle engines, which are seldom damaged in minor accidents, EV batteries are more vulnerable due to their placement. Repairing or replacing a damaged battery can often lead to total losses, as these batteries typically represent a large portion of the vehicle's value.

EVs also feature high-voltage systems requiring specialized training and safe handling equipment. Repairing EVs demands strict adherence to safety protocols, increasing both the time and expertise needed for repairs. Additionally, many EVs use lightweight materials like aluminum and composites to offset the weight of their batteries. While these materials enhance efficiency and range, they are more expensive and difficult to repair than traditional steel.

Despite these challenges, the gap in insurance costs between EVs and ICE vehicles is gradually closing. As the EV market evolves, continuous advancements in manufacturing, design and repairability are likely to narrow this gap further, aligning EV insurance rates more closely with those of conventional vehicles.



Predictions for the 2025 Auto Insurance Market

The rise in car insurance rates can be linked to various factors, including inflation, increased repair costs, changing weather patterns and higher accident rates. Below are auto insurance trends to monitor.

Efforts to Curb Rising Repair Costs

Repair costs have been increasing due to the advanced components in newer vehicles and labor shortages, which are extending repair times and raising expenses. Insurers may consider vertically integrating by employing their own repair technicians to manage complex claims more cost-effectively than third-party repair shops.

Automation of Low Severity Claims

Many high-frequency, low-severity claims, such as windshield replacements and roadside assistance, are ideal candidates for automation. Insurers already implementing digital claims solutions are achieving better outcomes on a large scale, lowering handling costs and enhancing customer satisfaction through faster resolutions and reduced prices. They are also decreasing loss severity by allowing adjusters to concentrate on more complex claims.

Innovative Coverage Options

Insurers are seeking growth by offering innovative coverages, such as pay-as-you-drive policies and straightforward products like warranties. These companies understand that new revenue streams and market strategies are essential for expansion. Insurers may continue reassessing their product portfolios to enhance diversification across different customer segments, locations and distribution channels.

Expanded Embedded Insurance Options

Embedded auto insurance integrates insurance options directly into the vehicle purchase process, changing the traditional approach of buying a car and insurance separately. This can simplify the buying experience for customers while benefiting dealerships by increasing customer retention and creating additional revenue streams. Recent advancements in digitization, real-time quoting and streamlined billing/payment processes have made embedded models more effective.

Increased Marketing Efforts Toward Customer Education

As insurers have stabilized finances and returned to profitability, some are increasing their marketing budgets, which had previously been reduced, and are investing more in advertising. Independent agents, who offer policies from multiple carriers, are establishing an online presence and are ready to work with customers to customize their offerings. At the same time, insurers are using their digital channels to sell policies and educate customers on risk management, handle customer service inquiries and manage claims.

Responsible Analytics and Automation

Auto insurers will likely continue to leverage advanced analytics to predict, underwrite and price risk. They continually explore new forms of analytics and automation, including proprietary solutions, in-house developments and innovations from insurtech companies. Insurers must implement protocols to govern analytics and automation-assisted operations and decisions, ensuring clarity and transparency in their models.

How Insurance Agents Can Help Drivers Combat Rising Auto Insurance Premiums

Amid anticipated 2025 auto insurance cost increases, drivers will look for ways to save money. Experienced insurance agents can help mitigate the financial strain of rising auto insurance premiums. It's more critical than ever to explore auto insurance options, compare rates and evaluate current coverage. The following are strategies to consider.

Explore Pay-as-you-go and Usage-based Insurance

Insurers typically determine personal rates based on multiple factors, including driving history and claims record, age, gender, marital status, location, driving frequency and credit score.

More insurance companies may begin to offer telematics-based or usage-based insurance to determine rates for drivers. These programs assess drivers' rates based on their driving behavior and mileage to evaluate risk levels. Insurers using telematics monitor these factors through tools like mobile apps, diagnostic port plug-in devices and Bluetooth beacons.

Pay-as-you-go insurance plans can also benefit those who drive less than 10,000 miles annually and could be a good fit for people who work remotely or have hybrid schedules. These programs offer the potential for lower rates if you drive safely, meaning good driving habits could lead to savings.

Compare Auto Insurance Rates

A local insurance agent can be an invaluable resource for drivers looking for the best rates. By leveraging their industry knowledge and relationships with insurers, agents can identify discounts and coverage options that might not be readily apparent to consumers.

Local agents can also help drivers understand the nuances of different policies, explaining the benefits and drawbacks of each option. This level of expertise can be particularly beneficial in a hard market.

Evaluate Current Auto Insurance Coverage

A local insurance agent can be an ally as drivers optimize their current auto insurance coverage. One key area they can assist with is determining whether full coverage is necessary for older vehicles. As cars age, their market value decreases, and it may no longer be cost-effective to maintain comprehensive and collision coverage. An agent can assess the vehicle's value and compare it to the cost of full coverage to help avoid over-insuring a car that wouldn't warrant extensive repairs after an accident.

An agent can help balance the policy's deductible with the vehicle's current worth. Higher deductibles can lower premiums, but they also mean more out-of-pocket expenses in the event of a claim.

Agents can assist in challenging default mileage assumptions that insurers may use to set rates. Many insurance companies base their premiums on average mileage estimates, which may not accurately reflect actual driving habits.

Conclusion

As we navigate the complexities of the 2025 auto insurance market, it is evident that rising insurance costs pose a significant challenge for consumers. Consumers must collaborate with local insurance agents to manage these increasing expenses effectively.

These professionals offer personalized guidance, helping to identify the most cost-effective policies and endorsements tailored to individual needs. By leveraging their expertise and local market knowledge, consumers can make informed decisions, ensuring they receive appropriate coverage at competitive rates, even as hard market conditions continue throughout the coming months.



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