



Personal Auto Insurance

Market Outlook 2024

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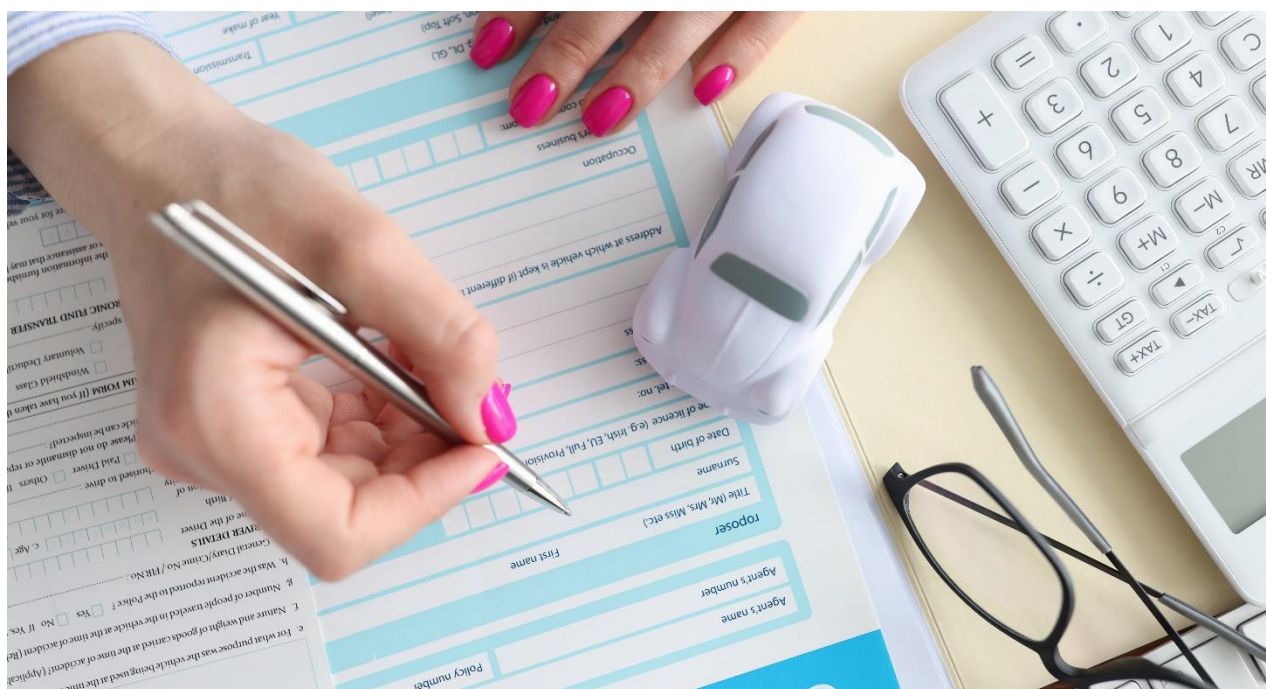
Table of Contents

- Introduction: An Evolving Personal Insurance Landscape..... 3**
- 2023 Auto Insurance Industry Retrospective 4**
 - Poor Rate Adequacy..... 4
 - More Car Insurance Claims 4
 - Unabated Inflation Woes 4
 - Increased Reinsurance Costs 5
- 2023 Summation5**
- 2024 Predictions for the Auto Insurance Market..... 6**
 - Recent Trends and Their Impact.....6**
 - Inflation Impacting Costs 6
 - Rising Medical and Repair Costs 6
 - Complex Repairs and Technology 6
 - Increased Litigation Payouts..... 6
 - Uninsured Drivers 6
 - State Legislation May Help Control Insurance Costs 6
 - Usage-based Insurance 7
 - Why Auto Insurance Premiums Rise..... 7
 - Looking Forward 7
- Insurance Buying Tips 8**
- Conclusion 10**

Introduction: An Evolving Personal Insurance Landscape

As we move into 2024, the auto insurance market presents a challenging consumer environment. Understanding and managing auto insurance costs are crucial in this evolving auto industry landscape.

The market is expected to remain challenging in 2024 and perhaps beyond. Many car owners are searching for effective ways to reduce their insurance expenses without compromising the quality of their coverage. Knowledge and adaptability are essential, whether it's grappling with rate fluctuations, regulatory changes or the impact of external economic factors. Working with an experienced insurance agent who understands your unique circumstances is crucial. Your agent can provide valuable assistance by offering personalized advice and market insights to help you make decisions based on your auto insurance needs and budget.



In this Market Outlook, we explore the challenges faced by auto insurers during 2023 and explain how those problems may result in higher premiums for drivers in 2024. We discuss potential changes in the 2024 auto insurance market, examining the trends, challenges and opportunities most likely to define it. We also showcase how working with an insurance broker can help you save on premiums and access discounts and special programs.

Read on to learn more.

2023 Auto Insurance Industry Retrospective

The personal auto insurance industry, tasked with providing coverage for your vehicle and protection against financial losses, experienced some notable challenges in 2023. These struggles produce higher insurance premiums for many drivers—including those who didn't submit a claim or have traffic offenses added to their driving records.

Below are some factors contributing to the hard personal auto insurance market in 2023.

Poor Rate Adequacy

Perhaps the most notable challenge for insurers in 2023 was maintaining rate adequacy. This is the balance between insurance premiums taken in and the costs incurred from claims payouts. While charging more for coverage can help insurers cover costs, raising rates in step with market changes can be difficult or impossible with regulatory restrictions in various states and the competitive nature of the insurance market.

To add further context to the market situation, 2022 was the worst year for personal auto insurance companies in recent history; in total, personal-lines auto insurers posted a \$33.1 billion underwriting loss that year, according to AM Best. This downward trend continued into the first half of 2023, severely impacting profitability for the rest of the year.

The specific factors that drove increased claims and their costs in 2023 are discussed in subsequent sections.

More Car Insurance Claims

After reduced driving during 2020, the years since have seen a return to pre-pandemic driving patterns. This shift has led to an increase in claims and accidents, putting pressure on insurance rates.

According to a recent AM Best report, the average claim in the personal auto segment jumped to \$11,102 in 2022, up from \$9,542 the previous year, resulting in an 11% increase. The costs of defending these claims and managing the process have risen by 29%.

Unabated Inflation Woes

Inflation was a significant driver of both claims and premium increases in 2023 as economic ripples continued from the COVID-19 pandemic. While inflation decreased from its 9% peak in 2022, expenses remained elevated for many goods and services. Consequently, the costs of new and used cars—along with health care expenses—went up, spurred further by continued supply chain disruptions and labor shortages. Similar factors contributed to higher replacement and repair costs. Since insurance may help cover many of these costs after an accident, price increases in the auto market—and the health care industry, to a lesser degree—can lead to higher car insurance premiums.

Increased Reinsurance Costs

Many insurers acquire and maintain their own insurance coverage to limit their financial risks through a process called reinsurance. Essentially, if an insurance company wants to write a policy but cannot feasibly cover all the potential claims costs, it may share some of that risk (i.e., cost) with a reinsurance company. This enables more insurers to take on a greater variety of clients—who may be susceptible to major claims—without risking insolvency.

The United States dealt with increased losses from catastrophic events in 2023, particularly from catastrophic weather conditions, leading to an uptick in comprehensive auto insurance claims and significant financial losses. Specifically, last year, there were 25 severe weather events with estimated costs ranging from \$1 billion to \$10.5 billion each, according to government data.

Amid record-setting weather-related losses, some reinsurance carriers issued double-digit rate increases in 2023. Ultimately, when an insurer has its own costs increased, it often must share the additional expenses among policyholders to maintain solvency.

2023 Summation

As discussed, 2023 was wrought with challenges. As the year closed, there were some promising signs of the personal auto insurance market potentially softening, but such progress won't likely be felt until after 2024, which is expected to remain hard.

One of the promising factors was, perhaps ironically, high interest rates. For example, as interest rates rise, insurers typically see better investment returns—investments that may be used to fund operations and pay for claims. This can help offset some of the higher costs they're facing.

Additionally, many insurers were pushing more aggressively for rate adequacy in 2023. This means ensuring that the premiums charged align with potential claims costs. Many states have rules regarding the increase of insurance premiums; often, increases over a certain threshold are subject to government approval. Such bureaucracy can slow the rate increase process, meaning insurers may be unable to charge an appropriate price for coverage.

This may seem like good news to consumers, but it can actually lead to more issues—namely, scarcity of insurance options and higher prices for more limited coverage. Insurance companies are legally required to remain solvent. If they risk losing profitability, they may limit the scope of their coverage or withdraw from an area entirely. Overall, this can leave many people without affordable insurance options.

Toward the end of the year, some regulatory hurdles appeared to be easing, which could help insurance companies better keep up with rising claims costs. However, any meaningful changes will likely be felt after 2024.

A complex mix of factors influenced the 2023 personal auto insurance market. As a consumer, understanding these factors can help you better navigate the market and make informed decisions about your auto insurance needs.

The following section builds off what we learned from 2023 and explores how those influences may shape auto insurance offerings in 2024.

2024 Predictions for the Auto Insurance Market

As we venture into 2024, the auto insurance market landscape is still grappling with factors from 2023 and earlier. This section discusses what auto insurance may look like for consumers in 2024. Understanding these influences is vital for consumers navigating the complexities of car insurance.

Recent Trends and Their Impact

The past year has been a rollercoaster for the U.S. nonstandard auto insurance segment. Despite a net underwriting loss of \$333 million in the first half of 2023, there was a year-over-year improvement from a \$773 million loss in the first six months of 2022—the worst year in recent record, as noted previously. This change reflects a slight improvement in the industry’s financial health.

However, the rating agency AM Best highlights ongoing challenges, including rate inadequacy and continuing inflationary pressures leading to rising claim costs. The labor market issues affecting auto repairs and losses from natural disasters may continue to affect the industry significantly. The 2023 combined ratio, which measures profitability, showed only a marginal improvement.

The first half of 2023 saw a worsening auto liability loss ratio, although the physical damage loss ratio improved. Despite technological advancements and data tools aiming to address these issues, AM Best’s report indicates that distracted driving and poor habits contribute to these adverse results.

Looking ahead to 2024, experts predict that auto insurance rates, which have increased by 18.9% year-over-year according to the Bureau of Labor Statistics, will continue to be a primary focus. These rates are expected to remain high due to several factors.

Inflation Impacting Costs

Inflation remains a significant factor affecting auto insurance costs, influencing the price of vehicle repairs and medical care costs, both crucial components of auto insurance payouts.

Rising Medical and Repair Costs

The cost of property damage and bodily injury claims has surged in recent years. Medical inflation, in particular, has outpaced general inflation, leading to higher costs for bodily injury liability claims.

Complex Repairs and Technology

New vehicle technologies have made repairs more complex and expensive. For example, repairing a windshield in a late-model vehicle may involve intricate work related to collision-avoidance technologies.

Increased Litigation Payouts

Settlements for car insurance lawsuits have grown substantially, contributing to higher costs for insurers and consumers.

Uninsured Drivers

As rates rise, the number of uninsured drivers is also increasing. This trend puts additional pressure on insured drivers to carry uninsured motorist coverage, adding to their insurance costs.

State Legislation May Help Control Insurance Costs

Some states are taking steps to control rising insurance costs. For example, Georgia’s new law requires a 60-day review period for any car insurance rate increases. Colorado’s laws help ensure that insurance

companies' rate-setting algorithms do not unfairly discriminate against certain groups. Texas law requires insurance companies to charge fair, reasonable and adequate rates for the risks they cover. The Texas Department of Insurance has the authority to require refunds if an insurance company's rates are found to be too high.

Usage-based Insurance

The market for usage-based insurance is projected to grow from \$57.86 billion in 2023 to \$174.33 billion by 2030. Usage-based insurance (UBI) has many benefits, including faster recovery of stolen vehicles with help from location tracking and the use of telematics data to help facilitate a more efficient claims process and accident investigation.

UBI programs, which track driving behavior and driving distance to set rates, are seeing mixed responses. While some consumers are wary of privacy concerns, others see UBI as an opportunity for savings based on safe driving habits.

Why Auto Insurance Premiums Rise

It might feel unfair to face higher rates without personal fault, but this is an intrinsic part of auto insurance. Insurance companies must have enough funds to cover claims and stay profitable. If they experience higher-than-expected claims, they must make up for it in numerous ways, including rate hikes.

If the total amount insurance companies pay out in claims is more than they collect in premiums, they need to increase rates to stay financially healthy.

Looking Forward

The auto insurance sector is poised to improve in 2024, but a return to profitability may still be years away. Insurers face ongoing inflation, supply chain disruptions and increasing claim costs. Insurers must adapt rates to these changing trends.

In 2024, the auto insurance market will likely see continued rising rates with gradual improvements. Consumers should stay informed and explore all available options, such as UBI, to find the most cost-effective solutions.

Insurance Buying Tips

Insurers face challenges in ensuring adequate rates while navigating regulatory restrictions and competition. As a consumer, it's important to be knowledgeable about these factors and consider strategies for reducing expenses without sacrificing coverage quality.

Auto insurance is an ongoing and nonnegotiable expense for drivers. Here are some proven ways to help reduce these costs without compromising on necessary coverage.

Qualify for Insurance Discounts

Many insurance companies offer discounts you may not be aware of. For instance, bundling your car and property insurance can often lead to a lower premium. Paying your premiums upfront instead of monthly may also help reduce costs. Your agent can help identify discounts that may apply to your situation.

Embrace Safe Driving Programs

Numerous insurance companies reward safe driving. By joining these programs, your premium may align more closely with your actual driving habits. If you're a cautious driver who avoids rapid acceleration and hard braking, this could be an excellent way to reduce your rates. However, riskier driving habits might result in higher premiums.

Increase Your Deductible

Increasing your deductible can be smart if you're willing to pay more out of pocket in the event of a claim. This means you would shoulder a larger portion of the costs in case of an accident, but your regular premium payments would typically be lower. It balances immediate savings and potential future costs, so weigh this option carefully based on your financial situation and driving habits.

Reevaluate Your Coverage

It's wise to review your coverage periodically. Some policies may include more than the state-required minimums. If you're comfortable with it, consider reducing your liability limits or dropping optional coverages like comprehensive and collision, especially if your car is older and not financed or leased. Work with your agent to ensure you have enough coverage to protect yourself adequately.

Regularly Compare Rates

Insurance markets are competitive, and rates can vary significantly between providers. To ensure you're getting the best deal, regularly compare your current rate with quotes from other companies. Compare similar coverages, limits and deductibles to get an accurate picture.

Consider Usage-based Insurance

Usage-based insurance (UBI) tailors your premium based on your driving patterns. UBI could offer substantial savings if you drive infrequently or have safe driving habits. UBI assesses your driving behavior in real time and may offer discounts for cautious driving. It's worth noting, however, that not every driver will see lower rates with UBI; it depends on your driving style.

Take a Defensive Driving Course

Some insurers and states offer discounts for completing a defensive driving course. These courses not only potentially lower your insurance rates but also improve your driving skills, leading to safer driving and possibly fewer violations and claims in the future.

Choose a Car That's Cheaper to Insure

The make and model of your car significantly impact your insurance rates. Some vehicles are inherently cheaper to insure due to their safety record, the statistical likelihood that they'll be stolen or the cost of repairs. Next time you're in the market for a new car, talk with your agent to identify vehicles that are likely less expensive to insure.

Explore Pay-per-Mile Insurance Options

Consider pay-per-mile car insurance if you work from home or your job has always been remote, leading to minimal driving. This type of policy is more cost-effective for those who drive infrequently, such as only about 10 miles a week for errands.

Inform Your Insurer About Secured Parking

If you live in a big city with higher risks of damage or theft, securing a parking spot in a garage can positively impact your insurance rates. Let your insurance provider know if you've decided to use a paid parking garage for your vehicle. This could be considered a safer option for storing your car and might result in a lower premium due to reduced risk.

Boost Your Credit Score

Improving your credit score can significantly reduce your car insurance rates. Many drivers save on auto insurance by moving from a fair to a good credit tier. This adjustment may help decrease insurance costs in states where insurers can use credit ratings as part of their rate-setting algorithm.

Regularly Update Policy Details

Ensure all details on your car insurance policy are accurate and up to date. Small variations, such as your car's trim level and safety features, can influence insurance costs. For instance, different trim levels of the same model, like a Honda Civic, can vary in insurance costs by up to \$1,950 a year. Also, update your policy if there are changes in your situation, like building a carport or changing your parking arrangements, as these can lead to lower rates.

Keep Young Drivers on a Parent's Policy

For young drivers, being on their parents' insurance policy can cut costs significantly, sometimes by as much as 62%. Adding a teen to a family policy is usually cheaper than having them on a separate policy. However, expect higher rates if the young driver has a history of accidents or violations. Work with your agent to compare individual and family policy costs in such situations.

Utilize Membership Discounts

Many insurance companies offer discounts ranging from 2% to 10% for members of certain groups or employees in specific professions. For example, affiliations with professional organizations, alumni groups or employment in jobs such as teaching, nursing or emergency services may qualify you for discounts with insurers.

Change Your Payment Method

Rethink how you pay your insurance bill to save money. Choosing online payments, paperless billing and automatic payments can lead to discounts. Paying your annual premium in full, rather than monthly, can also result in savings. Depending on the insurer, these discounts can be as high as 10%, though they may be limited to your first policy term.



Conclusion

The auto insurance market will be challenging as we look to the end of 2024. This means staying vigilant and proactive in managing auto insurance costs for consumers. With the market likely remaining tough through 2024, it's more important than ever to find ways to cut costs without sacrificing the quality of coverage.

Navigating the auto insurance marketplace requires a keen understanding of the market and an ability to adapt to its changes. This is where the expertise of an experienced insurance agent becomes invaluable.

Your agent can offer personalized advice and insights into the specific dynamics of the auto insurance market, helping you identify the best cost savings strategies. They can assist in exploring discounts, adjusting coverage and understanding the nuances of rate changes. With their industry knowledge, brokers can also guide you through comparing rates from different insurers, ensuring that you get the best deal for your specific needs.

Understanding the external factors that impact the market is vital to making informed decisions about coverage. Insurance brokers can provide deep insights into the market to help you determine what coverage is best suited to your changing needs.

Remember that while rate increases might seem inconvenient, they are part of a more extensive system working to ensure that your auto insurance is there for you when you need it most. Knowledge and adaptability are key to successfully navigating the auto insurance market.

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