

# Insurers Struggling to Keep Pace with the Highest Inflation in 40 Years

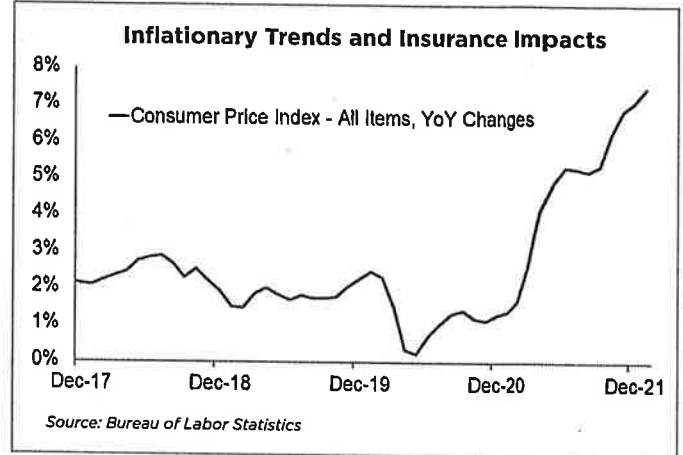
Attachment 6, Michael Kane, S 1269 March 3, 2022

Rapid increases in inflation over the last year have spiked auto and homeowners insurance losses and combined ratios. Insurance claims inflation has been rising even faster than the underlying consumer price index, far outpacing increases in premiums.

APCIA has released two reports summarizing recent insurance inflation trends that insurers are struggling to keep up with. Some of the top inflation trends and financial impacts pressuring the industry are summarized below.

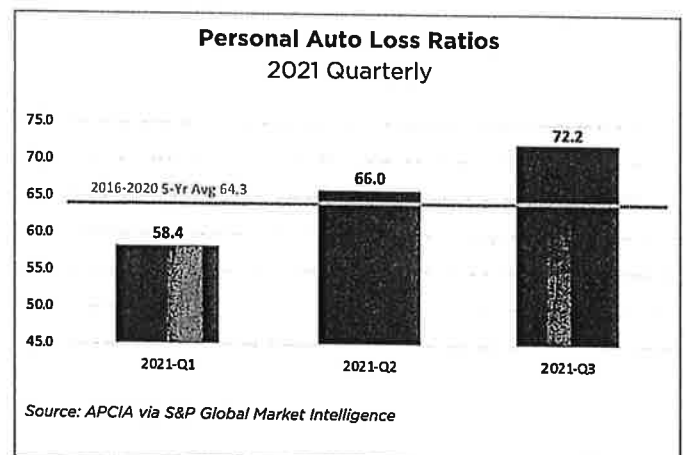
In January of this year, the consumer price index jumped 7.5%<sup>1</sup> from a year earlier, the fastest 12-month pace since the early 1980s. Insurance claims inflation has risen even faster, causing significant underwriting losses:

- Private U.S. property/casualty insurers faced an \$11.3 billion net underwriting loss in third quarter 2021<sup>2</sup>.
- Insurance incurred losses and loss adjustment expenses increased by 17.8% in the third quarter of last year compared to the third quarter 2020<sup>3</sup>.
- Private passenger auto liability and homeowners multi-peril direct losses each spiked 13.9% in the third quarter of 2021 over the previous year, with homeowners insurance direct losses increasing 40.3% over the last two years.<sup>4</sup>
- Insurers' direct written premium for auto and homeowners only increased 3.1% and 8.4% respectively, far below the rate of escalating losses.
- As a result, insurers' combined ratio skyrocketed to 104.5 in the third quarter of 2021, and net income after taxes plunged by 57% compared to third quarter 2020<sup>5</sup>.
- Insurers' average return on net worth over the past 10 years has been less than 43% of the all-industry average<sup>6</sup>, with the gap significantly widening over the long term.



## AUTO INSURANCE

- Miles driven in four of the last five months are within 1% of 2019 pre-COVID levels<sup>7</sup> and auto claim frequency, after a temporary dip during COVID, is on the rise.
- Private passenger automobile bodily injury severity (average paid loss per claim) has increased 20% since 2019.<sup>8</sup>
- Private passenger automobile loss ratios spiked from 55.6% year-end 2020 to 72.2% in the first three quarters of 2021, reaching the highest level compared to year-end loss ratios since 2010.



<sup>1</sup> <https://www.bls.gov/news.release/ppi.nr0.htm>.

<sup>2</sup> Property Casualty Financial Operating Results at 3Q 2021. APCIA and ISO, most recent available data.

<sup>3</sup> Ibid.

<sup>4</sup> AM Best, Financial Review January 25, 2022 US Property/Casualty Premiums Up, Loss Ratio Deteriorates Through Q3 2021

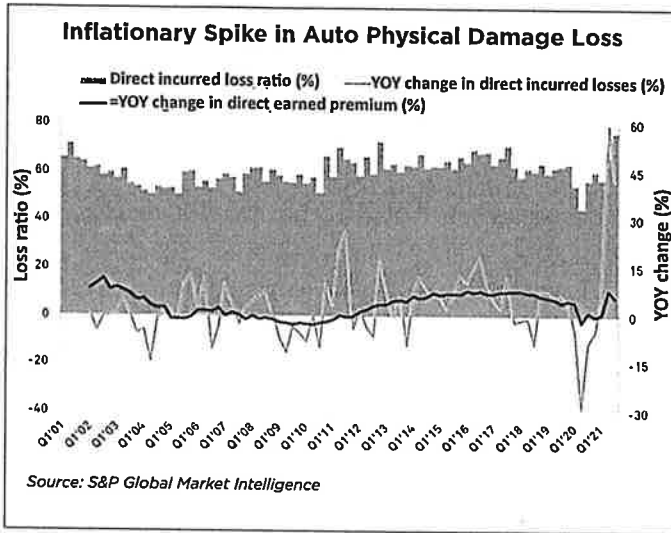
<sup>5</sup> Ibid.

<sup>6</sup> NAIC Report on Profitability by Line by State in 2020. 2021 edition; reflects the average of annual returns from 2011-2020 for the p-c industry and for the Fortune Magazine all-industry average.

<sup>7</sup> US Dept. of Transportation, Oct 2019 283 billion, Oct 2021 283 billion.

<sup>8</sup> APCIA using Fast Track Monitoring System, measures YE 2019 through the last 12 months ending September 2021, most current.

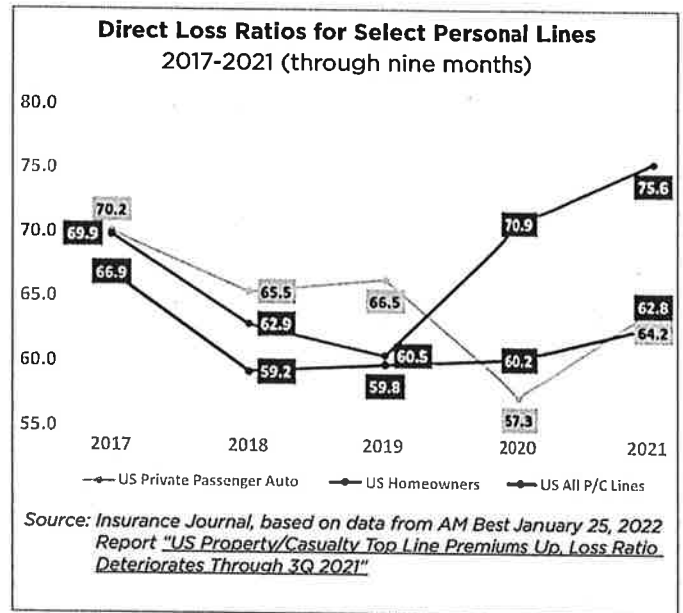
**AUTO INSURANCE continued**



- Auto insurance has been particularly impacted by increases in prices for new vehicles, which spiked 11.8% last year, the largest rise since 1975. Prices for used vehicles rose a record 37.3%, while Thanksgiving weekend rental car prices were up 75% from the same period in 2019.
- The 60% increase in auto physical damage losses in 2021 far exceeded the 30% drop in 2020.

**HOMEOWNERS INSURANCE**

- 2021 was the seventh year in a row the U.S. suffered at least 10 catastrophes causing over a billion dollars in insured losses.<sup>9</sup>
- Natural disaster losses from 2020-2021 in the U.S. were over \$176 billion, the highest ever two-year total.<sup>10</sup>
- Globally, 2021 was the fourth most extreme catastrophic loss year<sup>11</sup>, led by Hurricane Ida that was the 4th costliest global insured loss event since 1900<sup>12</sup>.
- U.S. incurred natural disaster losses in 2021 were more than double the 20-year average.<sup>13</sup>
- U.S. home and commercial property lines are each expected to exceed 109% combined ratio in 2021.<sup>14</sup>
- Record catastrophe losses from 2020-2021 occurred amid a boom in home construction, intensifying demand for construction materials and labor. From December 2019 through December 2021 the price of construction materials rose by 44.1%<sup>15</sup>, with some lumber prices in mid-2021 up 400%.



9 NOAA

10 Aon 2021 Weather, Climate and Catastrophe Insight

11 <https://www.reinsurancencene.ws/global-insured-losses-topped-100bn-again-in-2021-aon/>

12 Aon 2021 Weather, Climate and Catastrophe Insight

13 Aon 2021 Weather, Climate and Catastrophe Insight

14 Underwriting Projection: A Forward View (Nov 2021), Triple I and Milliman

15 U.S. Bureau of Labor Statistics from Federal Reserve Bank of St. Louis (FRED): <https://fred.stlouisfed.org/series/WPUS1012011>.