



NCOIL Spring Meeting General Session

**Affordability and Availability Crises
in the Auto & Home Insurance Markets:**

How Did We Get Here and How Do We Fix It?

Robert Gordon

Senior Vice President, Policy, Research & International

April 13, 2024



Auto & HO Insurance Markets Deteriorating

The Palm Beach Post

Florida's property insurance is in crisis.

Florida should end "Citizen's Insurance" as a company of last resort and establish competition for existing and new insurance companies coming into the state.

Scott Schneider Palm Beach Post
Published 5:25 a.m. ET March 13, 2024 | Updated 10:53 a.m. ET March 14, 2024

They say, the more complex the problem, the simpler it is to solve. Florida's homeowner insurance crisis has become a nightmare for many of them out of the state. Home insurance premiums continue to rise, and competition in the market.



Southeast Louisiana has an insurance crisis

"It does take time for that to happen — which is why it's all the more important that we hit the regular legislative session and hard with these legislative changes."

San Francisco Chronicle

OPINION // EDITORIALS

California's insurance market is a ticking time bomb.

No one wants to have to pay more, but maintaining the status quo of the state's home insurance market in the face of climate change is even costlier.

By Chronicle Editorial Board



Newsweek

California's Insurance Crisis Is Spiraling Out of Control

Published Mar 01, 2024 at 8:11 AM EST

The ongoing [home insurance crisis in California](#) is about to deepen as yet another company has announced its withdrawal from the state over profitability concerns.

American National, a private insurer headquartered in Texas, has informed the California Department of Insurance that it will stop offering homeowner insurance policies by this fall and will begin sending nonrenewal notices to customers as early as August, *Insurance Business* reported.

Brandon V

Published: 12
Updated: 1:1

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CAL MATTERS

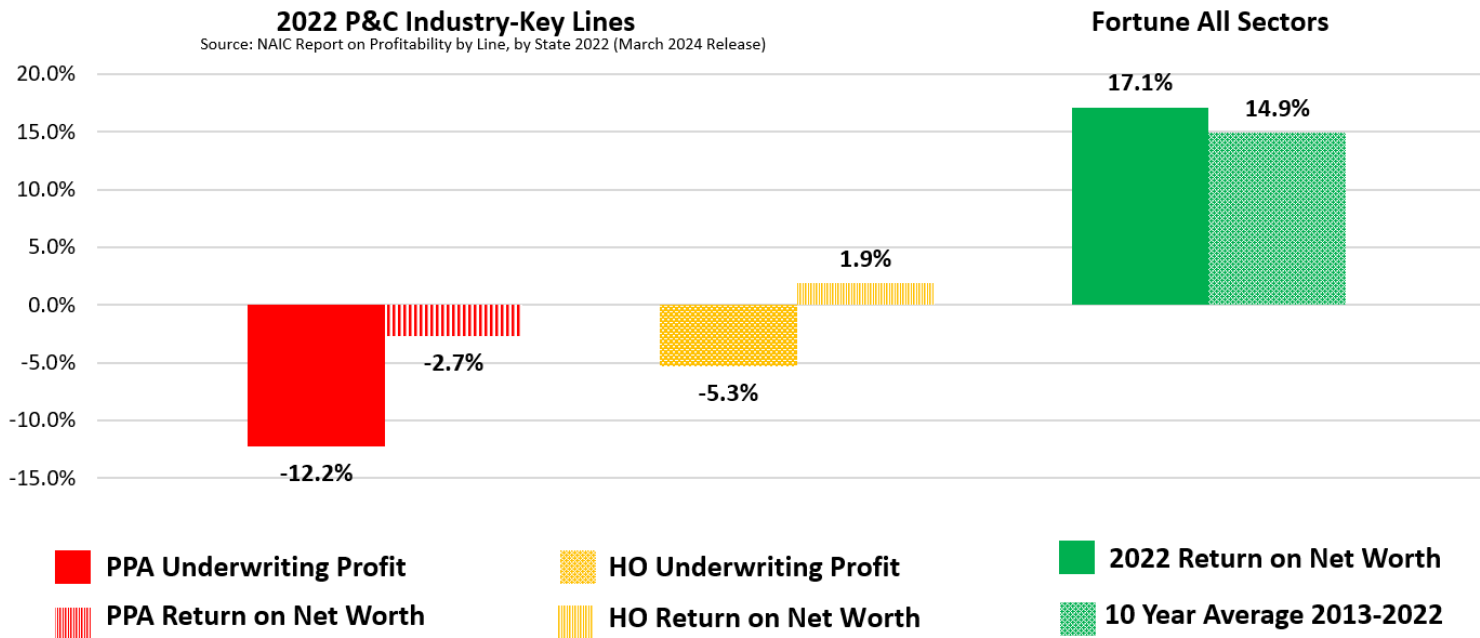
California insurance market 'in chaos'

BY LEVI SUMAGAYSAY
MARCH 25, 2024 UPDATED MARCH 27, 2024

With more California homeowners just discovering their insurance policies are getting canceled — and hundreds of thousands of others stuck with a pricey option of last resort — state Insurance Commissioner Ricardo Lara's efforts to fix the home insurance market can't come quickly enough.



NAIC “Profitability” Report for 2022: Personal Lines vs Fortune (All Business Sectors)

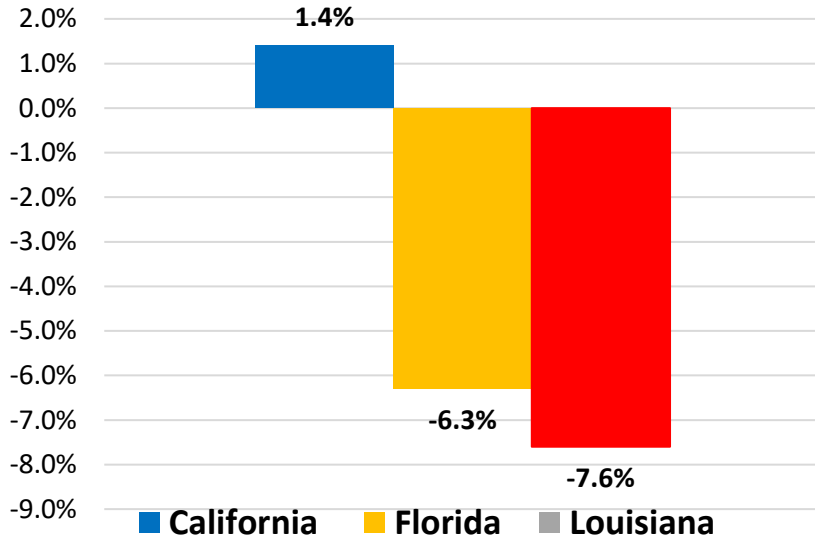




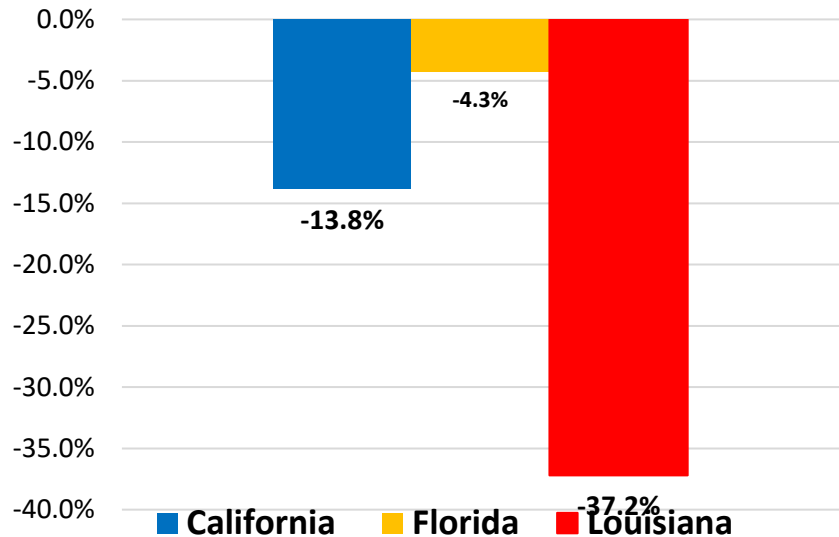
NAIC Report – State Market Deterioration

Ten-Year Average Underwriting Profit (2013-2022)

Private Passenger Auto



Homeowners





AM Best Downgrades Personal Lines Insurance – Both HO & Auto (March 2024)

Personal lines insurance outlook = **Negative** (*first ever*)



- Underwriting losses: 2022-2024_(est.) = **-\$40/48/21 billion**
- “underwriting profitability... over the near term appears highly unlikely”

Auto insurance outlook = **Negative**



- Worst 3-year stretch of losses in recent memory
- Causes: Inflation, supply chain disruption, record driving, worse driving, technology costs, legal system abuse

Homeowners insurance outlook = **Negative**

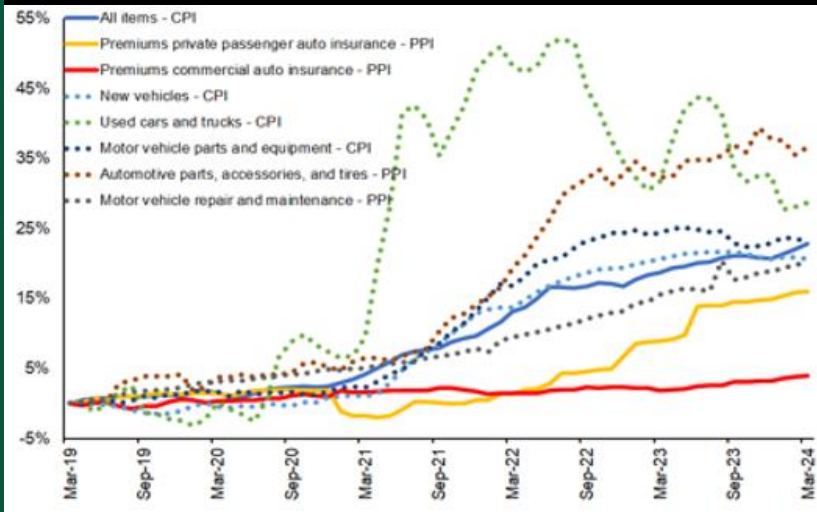


- 5 consecutive years of underwriting losses



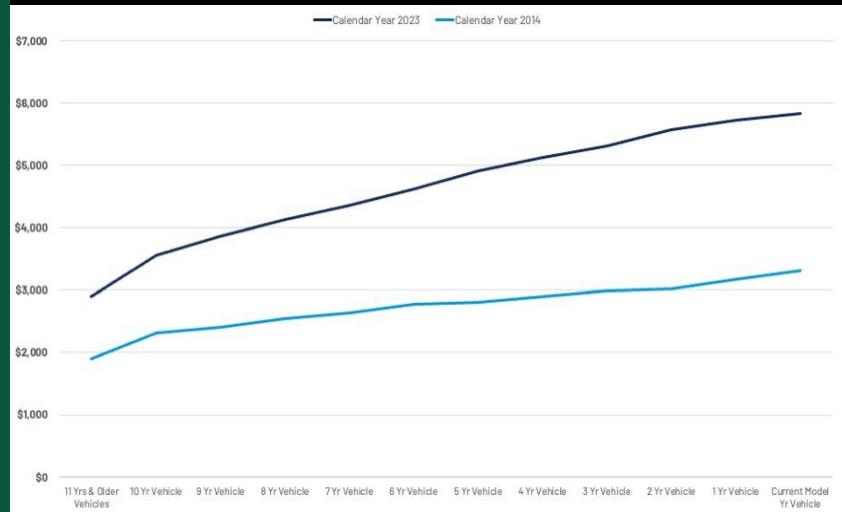
What is Causing Increased Auto Losses? Increasing Input Costs – Cars/Repairs

Cumulative Price Changes – Auto



Source: Bureau of Labor Statistics

Avg. Cost of Repairs by Vehicle age 2014-2023

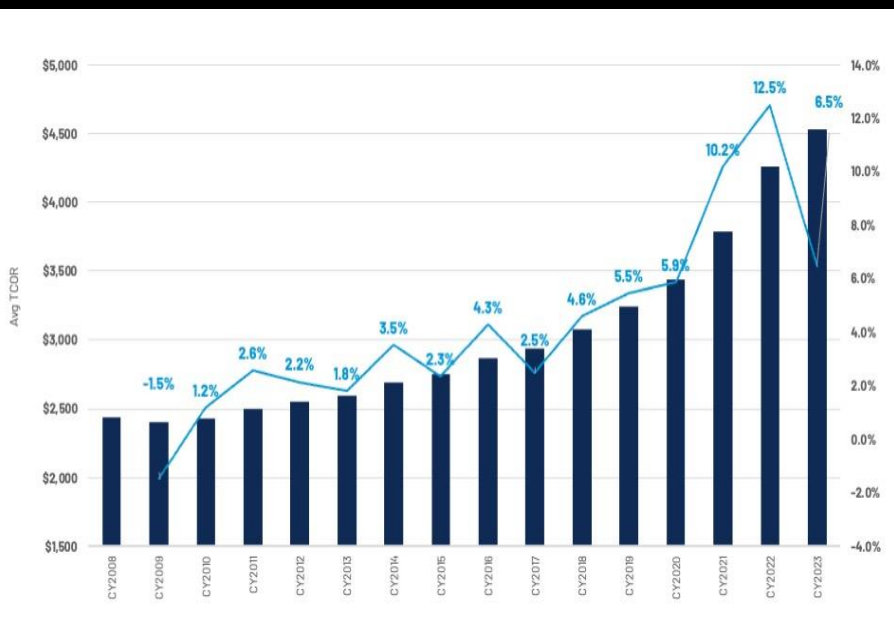


Source: CCC Intelligent Solutions

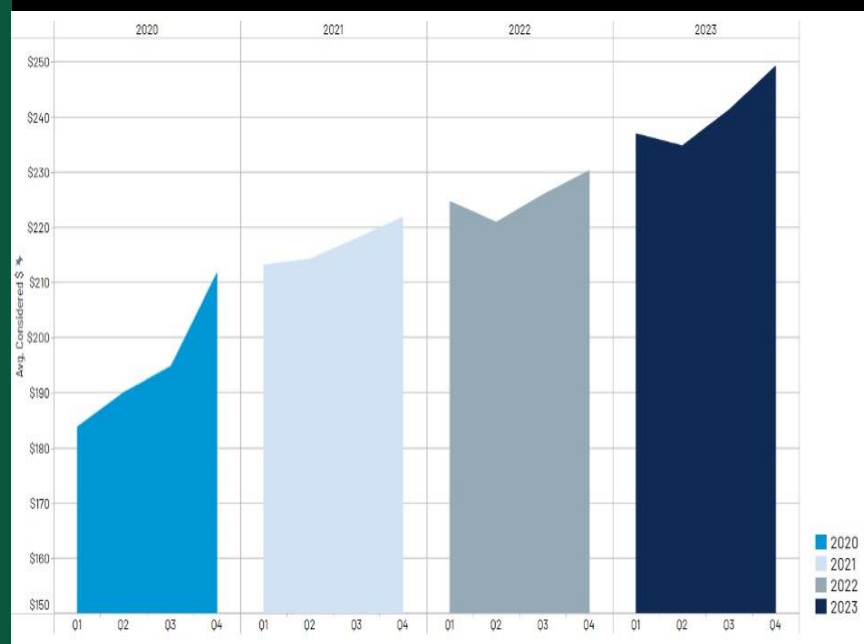


Increasing Costs of Repairing Cars/People

Average Total Cost of Repairs



Average Medical Bill \$ per Bill Line



Source: CCC Intelligent Solutions



What is Causing Increased HO Losses

It's not just the weather

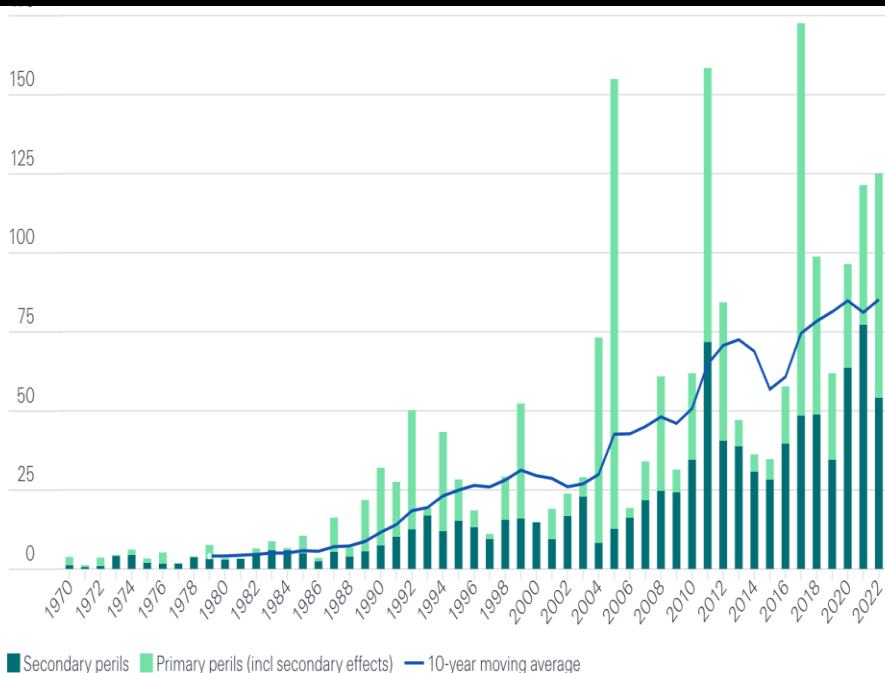
Verisk: The factors causing a doubling of average annual natural catastrophe losses over the last decade are (in order of importance):

1. A rise in exposure values and replacement costs, represented both by continued construction in high-hazard areas and by high levels of inflation that are driving up repair and rebuild costs
2. The natural variability that comes from selecting any five-year sample of natural catastrophe experience
3. The effects of climate change on different atmospheric perils
4. The impacts of man-made loss drivers, such as social inflation and legal and regulatory factors

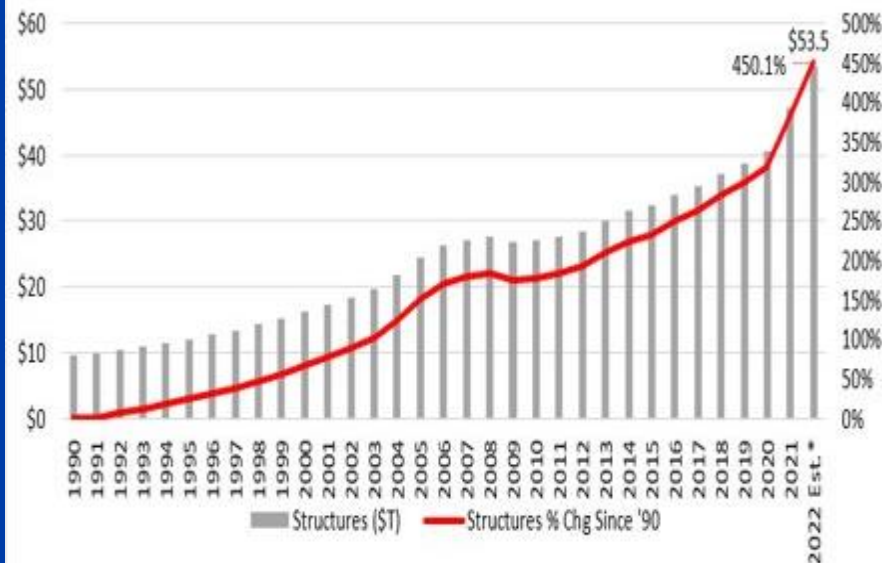


Increasing Cat Losses / Rebuilding Costs

Global Insured Natural Catastrophe Losses (USD bn)



U.S. Replacement Cost of Structures BEA Current-Cost Net Stock of Private Fixed Assets (\$T)

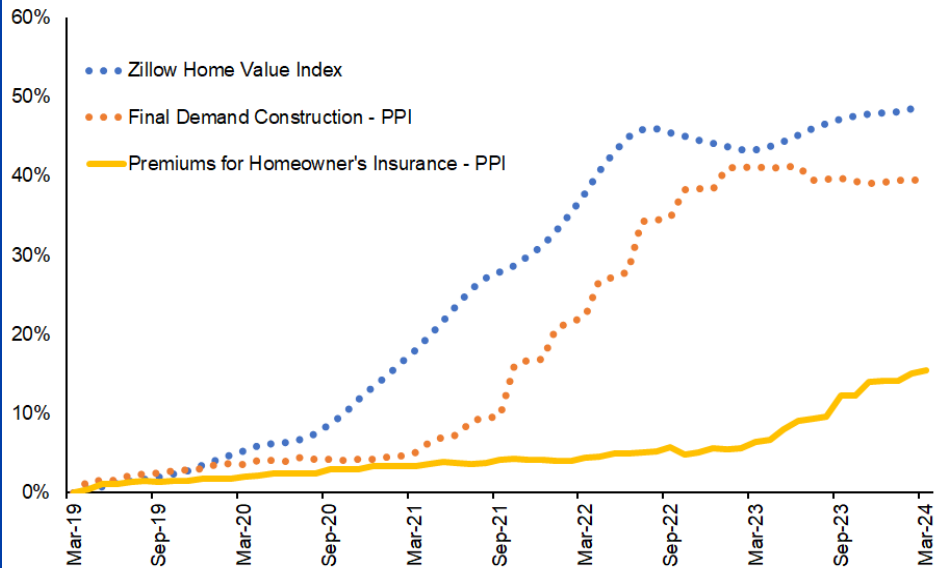


Source: APCI using U.S. Bureau of Economic Analysis year-end estimates; Swiss Re 2022 estimate via sigma No 1/2023. ("Structures" include residential and non-residential structures.)



Increasing Cost Inputs & Climate Risk

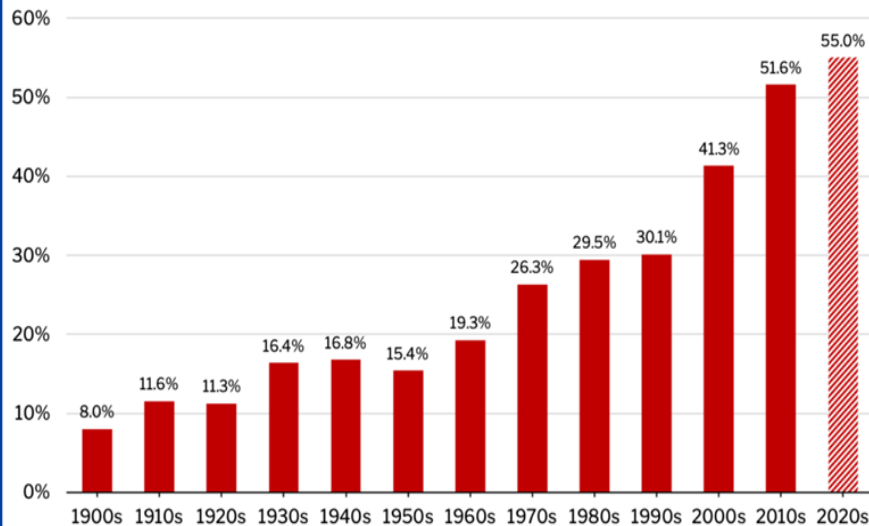
Cumulative Price Changes



Source: Bureau of Labor Statistics.

Fire Risk Plagues More Than Half of Recently Built Homes

Share of existing U.S. single-family homes that face fire risk, by decade built

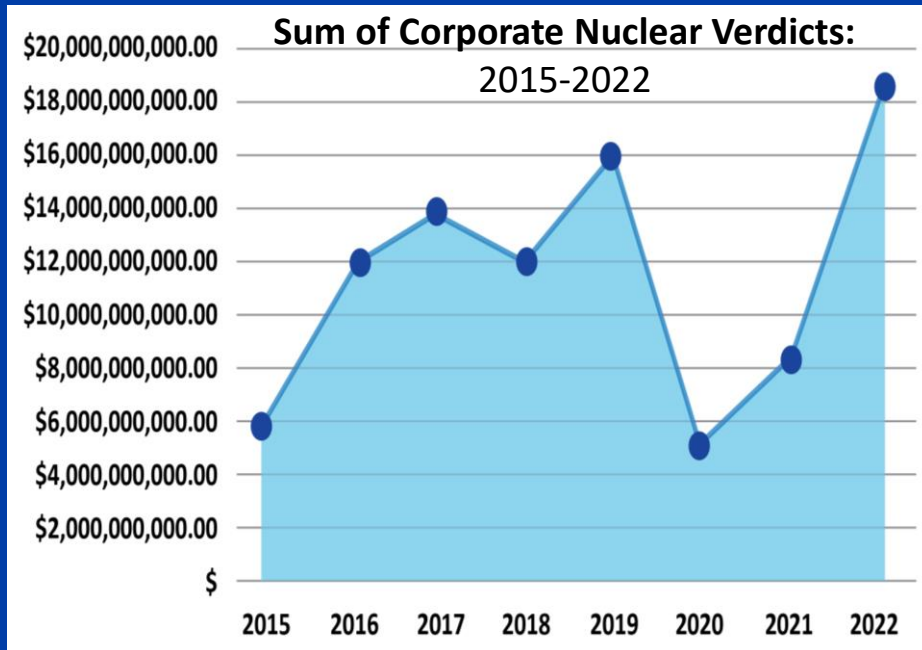


Source: Redfin analysis of data from ClimateCheck, county records





Increasing Legal System Abuse



Source: Marathon Strategies: "Corporate Verdicts Go Thermonuclear"



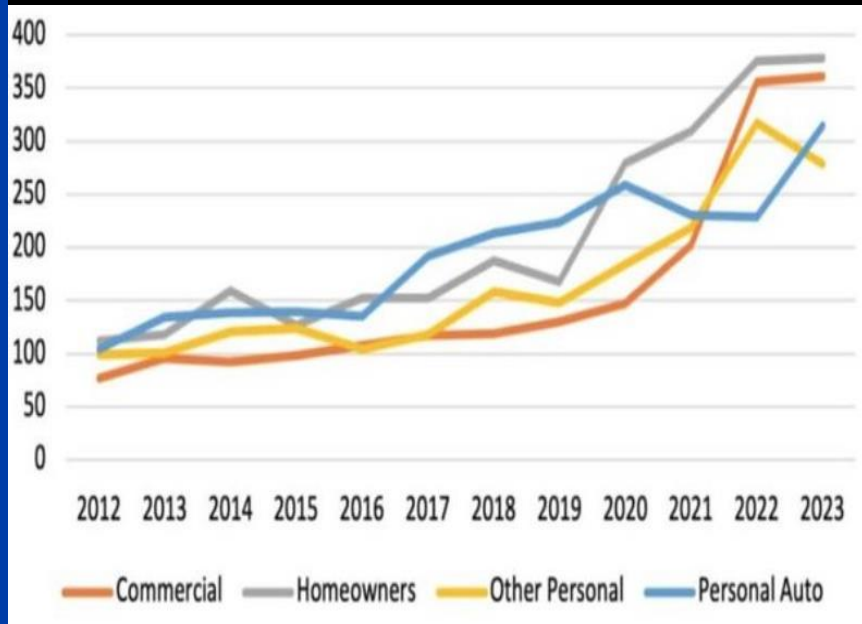
Source: 2023 Carlton Fields Class Action Survey



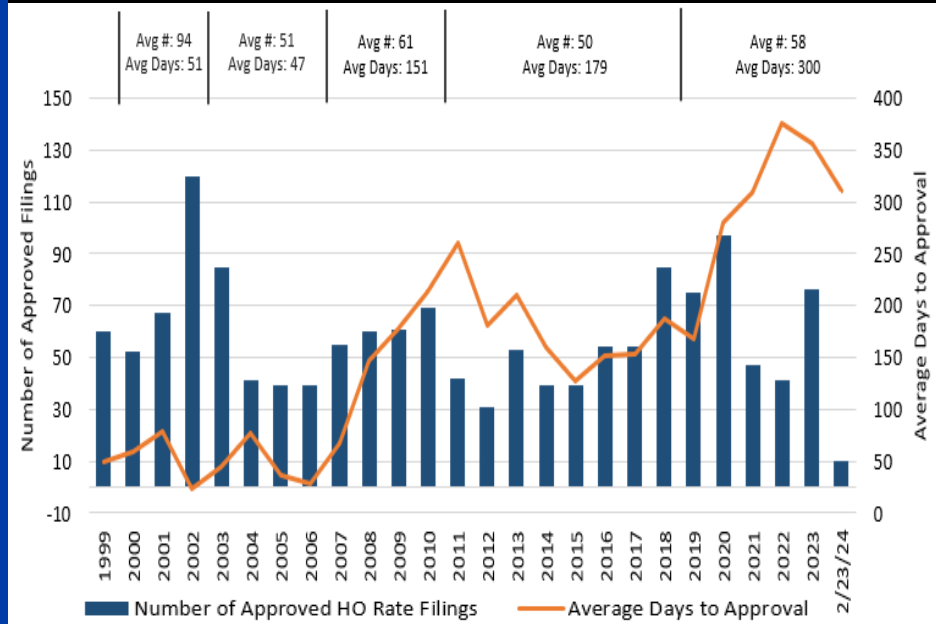
Overregulation Makes the Crisis Worse

Example: Extreme Regulatory Delays (CA)

CDI Rate Reviews Delays: Average days to approval for rate filings



Homeowners insurance rate filings approved in California



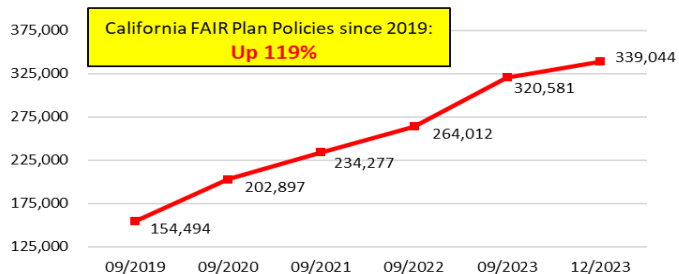
Source: Perr & Knight, compiled from filings available from S&P market Intelligence ([link](#))

Source: APCA via S&P Global Market Intelligence



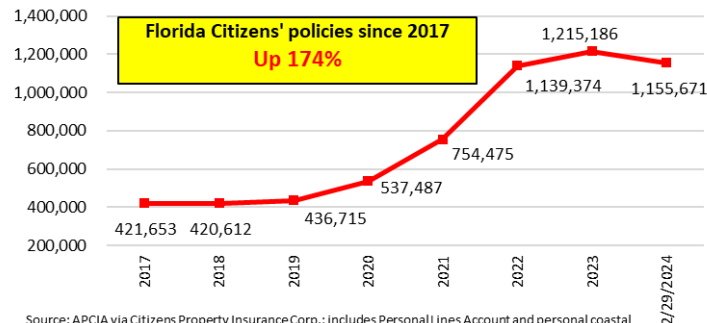
Government Subsidized Competition

California FAIR Plan Dwelling Policies in Force



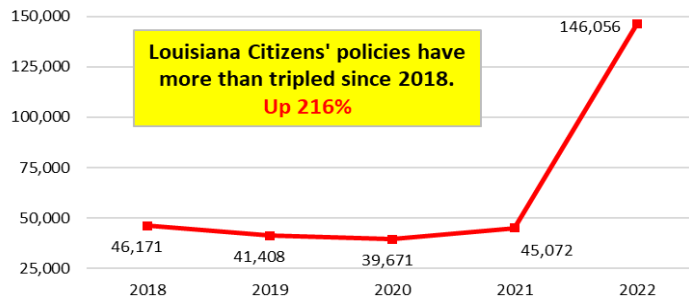
Source: APCIA via California FAIR Plan; excludes commercial policies; "09" dates reflect fiscal year ending September 30.

Florida Citizens - Personal Policies In Force



Source: APCIA via Citizens Property Insurance Corp.; includes Personal Lines Account and personal coastal multi-peril and wind-only.

Louisiana Citizens - Habitational Policies



Source: APCIA using PIPSO Reports; 1-4 unit dwellings; excludes commercial policies.



Insurance Availability Pressures

Property insurance demand and costs are increasing; capital is decreasing

DEMAND = INCREASING

- Higher Rebuilding Values
- Demographic growth/shifts
- Inflation
- Worsening weather
- Legal System Abuse



SUPPLY = DECREASING

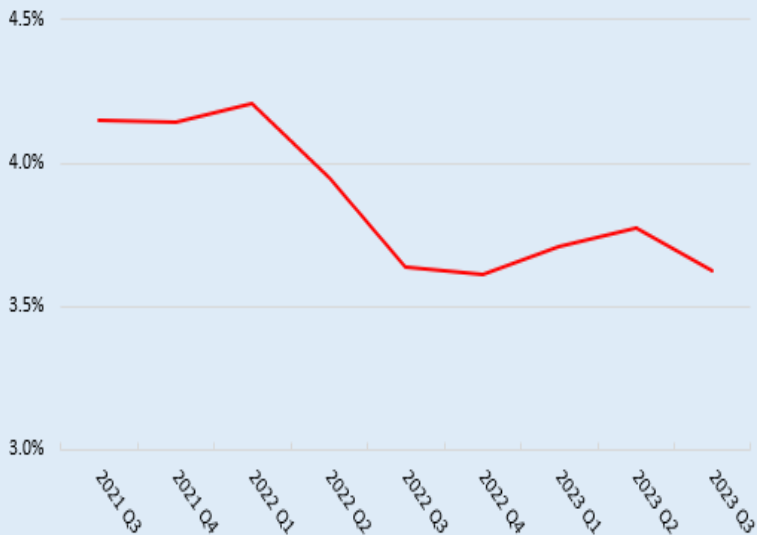
- Rate suppression/delays
(1 to 2-year lag time for rate filings, approvals, and rolling into new policies)
- Premiums falling behind losses
- Less surplus
- Lack of profitability + volatility = Deters new investment capital





Demand/Supply Mismatch = Unavailability

Capital & Surplus (Supply) vs. GDP (Demand)



Global reinsurance capital vs exposure growth: a mismatch that looks set to stay

Demand for coverage for natural disasters had risen on evidence of increased catastrophe activity, and because of higher insurable values of buildings and other fixed assets. At the same time, catastrophe claims pay outs have reduced the supply of re/insurance capital. Rising interest rates and lower financial asset values have also contributed to supply constraints. Risk appetite has further decreased due to poor property re/insurance underwriting results in recent years, and widely held perceptions that risk assessments are underestimating actual loss experience. This is leading to hesitation on the part of capital providers to commit new funds to re/insurance risks and replenish the industry capacity.

Global reinsurance capital vs exposure growth, 2018=100



Source: AM Best, Swiss Re Institute



Insurability Solutions – Mitigation and Resiliency

Insurers are leading efforts to make communities more resilient and to mitigate risks

- Working with federal & state policymakers
- Supporting resiliency & mitigation programs, such as infrastructure improvements and wildfire solutions
- Advocating for stronger building codes & land use policies
- Funding science-based research into risk mitigation
- Advocating for financial support to increase resilience for vulnerable populations





Mitigation Impact Potential

Benefit-To-Cost Ratios

	Overall	Riverine Flood	Hurricane Surge	Wind	EQ	Wildland-Urban Interface Fire
Retrofit vital infrastructure	4:1	8:1	N/A	7:1	3:1	N/A
Retrofit existing buildings	4:1	6:1	N/A	6:1	13:1	2:1
New builds meet codes	11:1	6:1	N/A	10:1	12:1	N/A
New builds exceed codes	4:1	5:1	7:1	5:1	4:1	4:1

Source: APCIA via National Institute of Building Sciences and Swiss Re; vital infrastructure includes utilities, roads, other.



Questions?

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