

# Trends and Insights: Personal Auto Insurance Rates

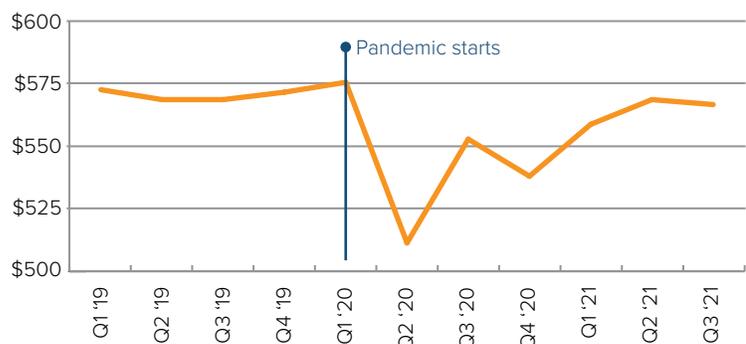
Personal auto insurance premium rates have [returned to pre-pandemic levels](#), but several issues may continue to put upward pressure on rates.

At the beginning of the COVID-19 pandemic, auto insurers – anticipating fewer accidents amid the economic lockdown – gave back approximately \$14 billion to policyholders in the form of cash refunds and account credits.

But while miles driven declined and accident frequency initially dropped, frequency and severity quickly started increasing again. Traffic [fatalities also increased](#), after decades of steady declines.

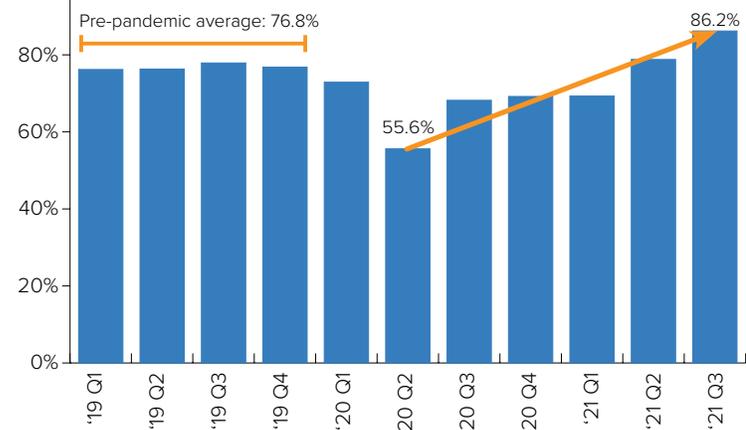
While insurers' personal auto loss ratios fell briefly and sharply in 2020, they have since climbed steadily to exceed pre-pandemic levels. With more drivers on the road and replacement parts costs continuing to climb, this loss trend is expected to continue.

**Motor vehicle insurance premiums, all urban consumers, seasonally adjusted**



U.S. Bureau of Labor Statistics

**Personal Auto Insurance Loss Ratios Up 30% During Pandemic\***



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**Takeaways:**

- Rates have returned to pre-pandemic levels after \$14 billion was returned to policyholders in anticipation of fewer accidents.
- Accident frequency and severity are rising quickly. These factors - combined with rising fatalities and replacement parts inflation - have driven insurers' auto loss ratios above pre-pandemic levels.
- Before the pandemic, rates closely tracked insurers' loss experience. That correlation was disrupted, and changes in losses so far have been more volatile than changes in pricing.

## Premiums and losses

To remain viable, insurers have to set premiums at levels appropriate to the risks they cover. Auto premium rates reflect a range of factors related to vehicle, policyholder, location, and vehicle use and how these factors contribute to the insurer's loss experience.

In a world of perfect information, changes in rates would correlate perfectly with changes in loss experience. As the chart below illustrates, until the start of the pandemic these two metrics for the overall industry tracked quite closely. The pandemic-related disruptions of 2020 led to volatility for both metrics, and losses have been more volatile than pricing – which, as noted above, has returned to pre-pandemic levels.

**Auto insurers' loss ratios versus premium rates**



Triple-I analysis of Bureau of Labor Statistics and S&P Global data

## Fatalities break a long-term trend

The recent rise in auto fatalities deviates from a four-decade downward trend, [according to the National Highway Traffic Safety Administration](#) (NHTSA). Those declines came even as the number of people driving and total miles driven increased. NHTSA attributes the improvements to factors like increased seatbelt use, reductions in impaired driving and safety enhancements in vehicles, such as air bags and electronic stability controls. In 2018, NHTSA says, drunk driving fatalities fell 4 percent and the number of deaths due to rollover crashes declined 10 percent.

## Personal auto insurance profitability

Any business needs to make a reasonable profit. Insurers' underwriting profitability is measured by a "combined ratio", which is calculated by dividing the sum of claim-related losses and all expenses by earned premium. A combined ratio under 100 percent indicates a profit. A ratio above 100 percent indicates a loss.

The chart on the top right shows that the auto insurance line – marginally profitable since 2018 – is inching toward back toward unprofitability as reckless-driving trends that emerged with the pandemic have continued, along with cost trends that predated COVID-19. Auto insurance profitability in 2020 – a year with dramatically reduced numbers of cars on the road – was at its highest level since 2006.

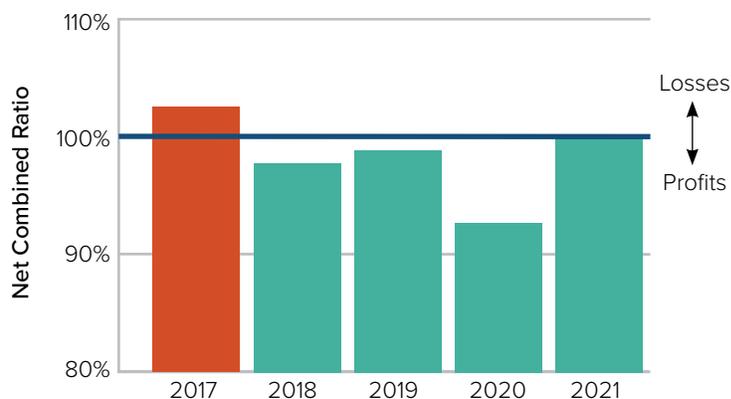
The chart on the bottom shows that changes in auto insurance premium rates have not kept pace with general inflation, as measured by the Consumer Price Index (CPI), and have been far outstripped by inflation for auto replacement part costs.

If the trends established before and during the pandemic continue, so will upward pressure on rates.

## Additional Resources

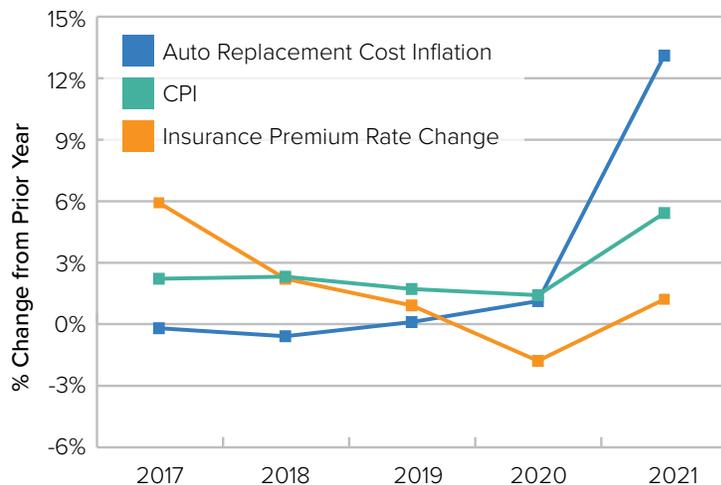
- [Acting to Curb Rising Auto Fatalities](#)
- [Infographic: What Determines the Cost of My Auto Insurance?](#)
- [Infographic: Insurance Rating Variables and Why They Matter](#)
- [Why Did My Auto Insurance Costs Go Up, Even When I Didn't File a Claim?](#)
- [8 Questions to Ask Before Buying Auto Insurance](#)

Auto insurance underwriting profitability nationwide



Sources: NAIC Statutory Financial Data through S&P Global Market Intelligence  
Analysis: Insurance Information Institute, Milliman.

Average premium rate increase versus inflation



Source: Triple-I analysis of S&P Global and FRED data