

Trends and Insights: Personal Auto Insurance Rates

Nearly all the largest U.S. personal auto insurers reported poor financial results in the second quarter of 2022, according to an S&P Global Market Intelligence analysis. Several issues contributed to this trend and are putting upward pressure on policyholder premium rates as insurers' loss ratios grow.

The factors driving negative auto insurer economic performance include:

- Rising insurer losses due to increasing accident frequency and severity;
- More fatalities and injuries on the road, leading to increased attorney involvement in claims;
- Continuing supply-chain issues, leading to rising costs for autos, auto replacement parts, and labor; and
- More costly auto repairs due to safer, more technologically sophisticated vehicles.

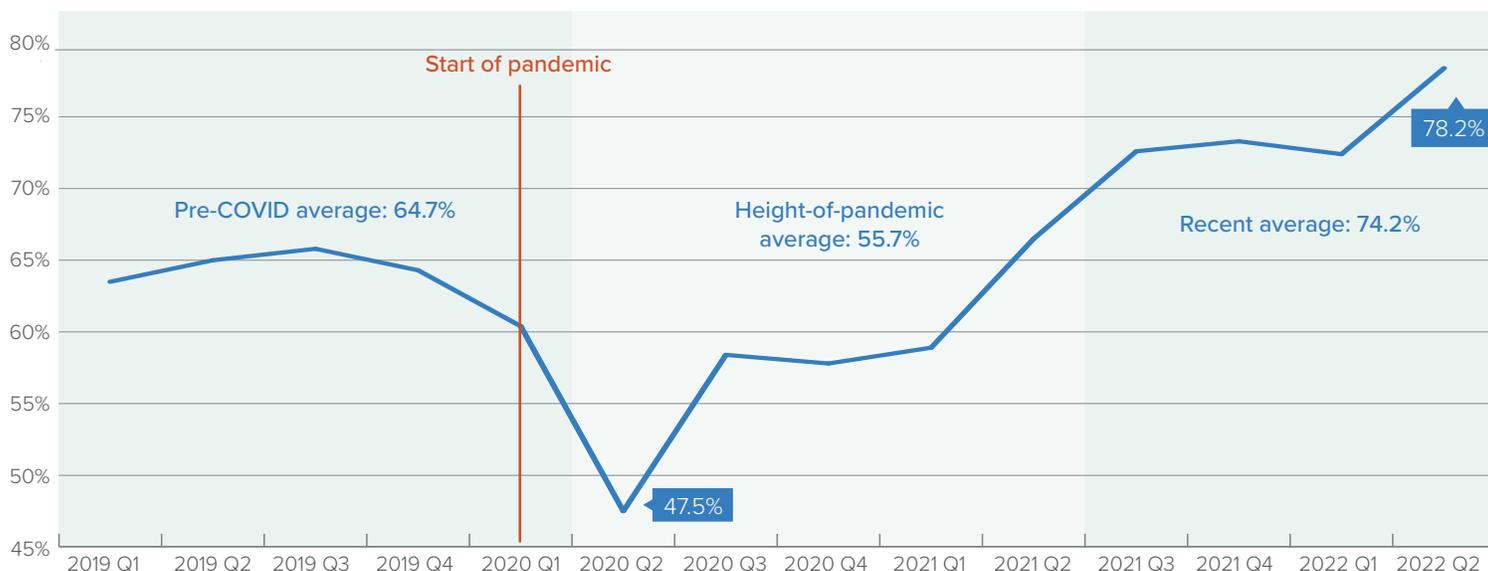
“The second quarter marked a fourth consecutive period during which the physical damage coverages exhibited upward pressure on losses due to factors such as elevated used-vehicle values, higher repair costs, and increased comprehensive claims from catalytic converter thefts,” [S&P reports](#). These and other factors contributed to a combined ratio for personal auto in excess of 105.

Key Numbers

- 👉 **Loss Ratio:** Percentage of each premium dollar an insurer spends on claims.
- 👉 **Combined ratio:** Measure of underwriting profitability. Calculated by dividing claim-related losses and expenses by earned premium; dividing operating expenses by written premium; and adding the two ratios. A combined ratio under 100 indicates a profit, and one above 100 indicates a loss.
- 👉 **Consumer Price Index (CPI):** Broad measure of economic inflation reflected in prices of consumer goods.
- 👉 **Auto replacement cost inflation:** Component of CPI that reflects the cost of replacement parts and labor, as well as new and used car prices.

In addition to rising loss ratios for personal auto physical damage, the liability side of the business experienced marked deterioration. Among the top five auto insurance writers, private auto liability direct incurred loss ratios topped 80 percent in the second quarter, S&P says.

Personal Auto Insurance Loss Ratios Before & During the Pandemic



Source: S&P Global Market Intelligence

“This may reflect increased litigation as courts re-open with the waning of the COVID-19 pandemic,” says Dale Porfilio, chief insurance officer for Triple-I. “More lawsuits — combined with increased accident frequency and severity, fatalities, and replacement costs — indicate the need for higher personal auto insurance premium rates.”

Rates and costs

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.

At the start of the 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. 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 returning to the road in 2022, this loss trend is expected to continue.

The severity of the post-pandemic riskiness of U.S. highways is illustrated by the fact that traffic deaths – after decades of decline – have increased in the past several years due to more drivers speeding, driving under the influence, or not wearing seat belts during the pandemic. In 2021, U.S. traffic fatalities [reached a 16-year high](#), with nearly 43,000 deaths.

“When everyday life came to a halt in March 2020, risky behaviors skyrocketed and traffic fatalities spiked,” said National Highway Traffic Safety Administration (NHTSA) administrator Steven Cliff. “We’d hoped these trends were limited to 2020, but, sadly, they aren’t.”

In the first quarter of 2022, NHTSA estimates, [9,560 people died in motor vehicle crashes](#), up 7 percent from the same period in 2021, making it the deadliest first quarter since 2002. As attorney involvement tends to be more prevalent in claims cases involving bodily injury and fatalities, the NHTSA numbers are important for understanding upward pressure on auto insurance rates.

Inflation’s impact

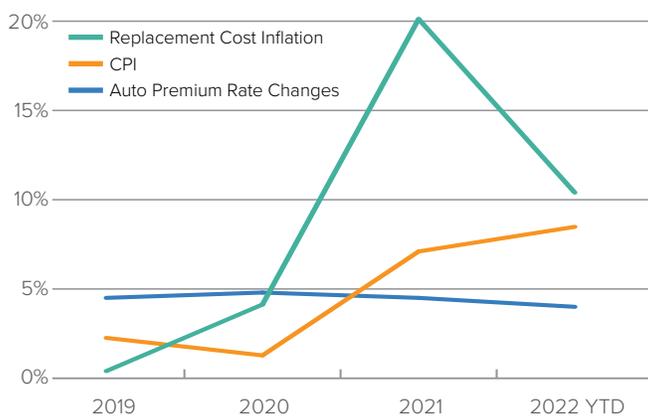
It’s instructive to look at how changes in personal auto insurance premiums compare with economic inflation metrics like the consumer price index (CPI) and replacement costs. As shown in the chart on the left below, growth in personal auto insurance premiums has remained relatively flat, despite significant increases in the growth rate of both CPI and replacement costs.

Much of the growth in replacement costs has been driven by sharp increases in prices of used vehicles. As the chart on the right shows, used-vehicle price growth has moderated in 2022 but remains well above growth in new-vehicle and parts-and-equipment prices and pre-pandemic norms.

These pressures, combined with accident and fatality trends, are likely to keep upward pressure on rates.

Comparing Auto Premium Rate Trend with CPI and Replacement-Parts Inflation

Premium Rate Increase Stable, Despite Replacement Cost Spike



Source: Triple-I Underwriting Report.

Replacement cost breakout applies annual growth rates to a \$100 base to illustrate overall growth in new and used vehicles and parts.

Used Vehicle Prices Drive Replacement Cost Inflation

