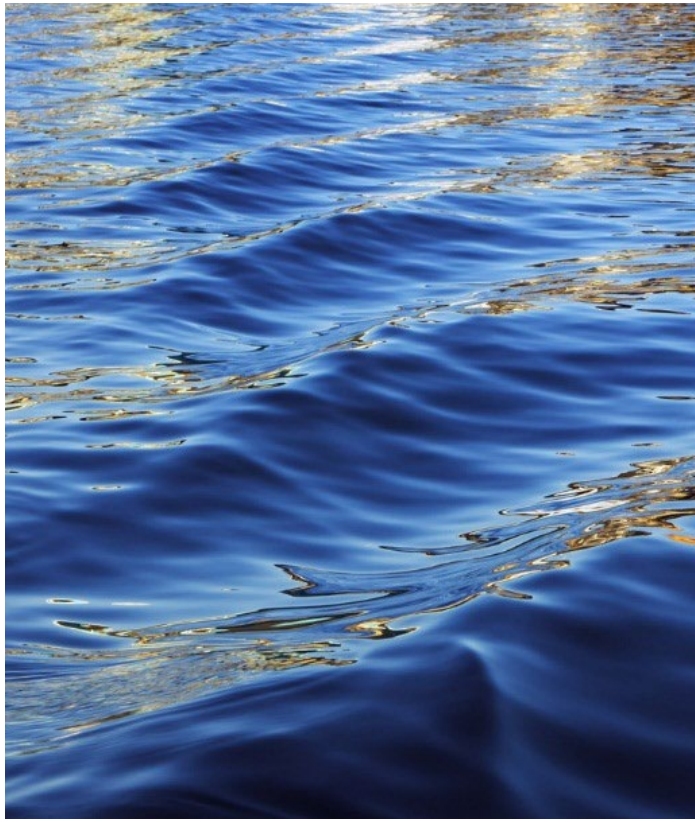
2024 Insurance Market Update



Senate Business, Financial Services, Gaming & Trade Committee

Kenton Brine, President
NW Insurance Council
December 12, 2024





About NW Insurance Council and Insurance Trade Associations



- **NWIC mission**: We are a non-profit, insurer-supported organization that works to inform media, consumers & public policymakers about home, auto & business insurance in Washington, Oregon & Idaho.
- We work with our in-state and national trade association partners, the **Washington Insurers, APCIA and NAMIC**. Information in this presentation comes from those organizations as well as the **Insurance Information Institute** and other sources. We also work with producer organizations **IIABW** and **PIA**.
- Insurance company members of the three P&C trades underwrite the majority of home, auto, liability and business insurance policies in force in Washington state today.

Insurance Basics – P&C insurance and the "Big Three."

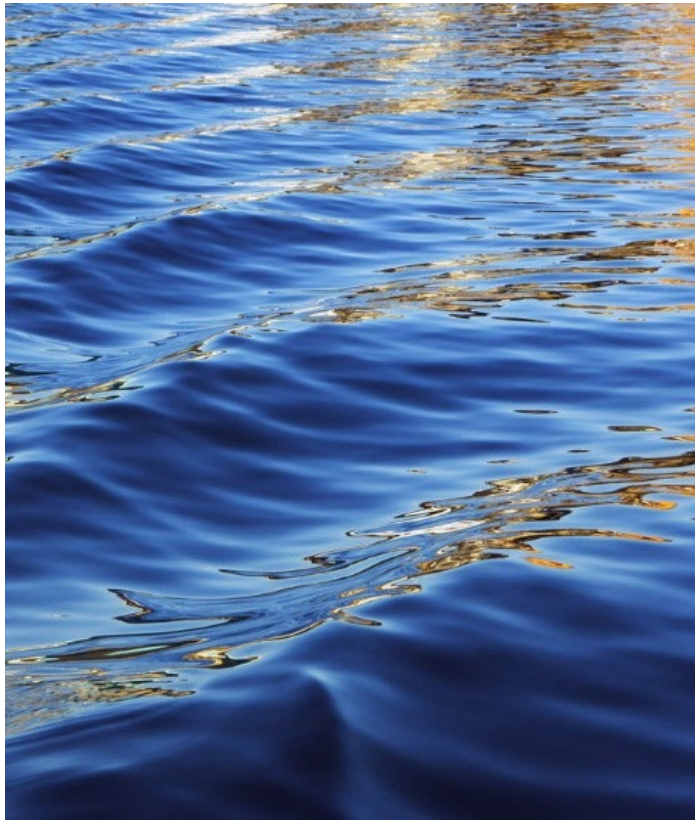
- **P&C Insurance:**
  - The practice of predicting risk, pooling similar risks together, charging a premium that aligns with similarly-situated risks in the pool. Relying on sufficient premium to pay current and future claims.
  - Lines include homeowners, condo owners, renters, personal, professional and business liability, personal and commercial auto, umbrella coverage and more.

- **The "big three" elements of providing/servicing P&C insurance policies:**
  - **Underwriting**: Deciding who to write insurance for/what will be covered.
  - **Rating**: What the policy will cost.
  - **Claims**: taking care of the policyholder/rebuilding/replacing the covered loss.



Property Insurance: Challenges and Changes

An overview of the Property Insurance Market in 2024



Challenges for property owners & drivers in WA: **Availability** of coverage, **affordability** of premiums.

Issues affecting property insurance availability:

- ✓ Changes in underwriting standards and insurer concerns about increasing risk exposure – driven by claims payouts across the nation associated with climate/weather events.
- ✓ Dramatic increases in the cost to repair/replace structures.

Impacts:

- ✓ Non-renewal of property policies and difficulty finding property insurance for homes or businesses in some areas of the state.
- ✓ Combining multiple policies from different insurers, seeking coverage in the surplus lines market, or accessing the Washington FAIR Plan.

Issues affecting property and auto insurance affordability:

- ✓ **Home/Auto:** Higher cost to repair/replace structures and vehicles – materials, parts, labor. Increasing cost to treat injuries to people.
- ✓ **Auto**: Increases in auto theft and catalytic converter theft from 2020-2023. Complexity and cost to repair today's vehicles.

Impacts:

- ✓ **Homeowner insurance** premium increases have averaged 22-36 percent in Washington over the past year. **Average cost of HO coverage in WA 2024: $1,434/yr ($871 below national average).**
- ✓ **Auto insurance** premium increases have averaged 26% in WA in 2024 (Bankrate.com). **Average cost for full auto coverage in WA is $1,724/yr ($734 below national average).**

Property insurance premiums were stable for many years, thanks to market growth and competition.

- From 2012-2021, premiums for Homeowners and Renters insurance mostly kept pace with the US inflation rate.

Average Premiums for Homeowners and Renters Insurance, 2012-2021

Year	Homeowners (2)	Percent change	Renters (3)	Percent change
2012	1,034	5.6%	187	(4)
2013	1,096	6.0	188	0.5%
2014	1,132	3.3	190	1.1
2015	1,173	3.6	188	-1.1
2016	1,192	1.6	185	-1.6
2017	1,211	1.6	180	-2.7
2018	1,249	3.1	179	-0.6
2019	1,272	1.8	174	-2.8
2020	1,311	3.1	173	-0.6
2021	1,411	7.6	170	-1.7

Source: Insurance Information Institute

"**Big Picture**" underwriting and the rising cost of weather/climate disasters.

- **Losses Due to Weather/Climate disasters in the United States:**
  Hurricanes, Tornados, Wildfires, Convective Storms (snow, rain, wind)

  - 1980's: 33 events (3.3 avg/yr), average losses: $22b/yr.
  - 1990's: 57 events, (5.7 avg/yr, average losses: $33b/yr
  - 2000's: 67 events (6.7/avg/yr), average losses: $61 b/yr
  - 2010's: 131 events (13.1 events avg/yr), average losses: $99b/yr
- Last five years (2018-23): Average **20 events** per year, average losses: $123b/yr.
- 2023 alone: 28 events, $95 billion in losses.
- **2024: Hurricanes Helene and Milton: $44 billion in insured losses so far.**
- **WA Rates/Premiums are not impacted by losses in other states, but risk tolerance may affect underwriting guidelines.**

Property Insurance Underwriting today: "Parcel level" vs. "Big Picture."

- **"Parcel level" underwriting**
  - **Information critical to sound insurance underwriting and financial stability.**
  - **Companies compete in the market with unique and proprietary underwriting guidelines.**
    - History and risks of the insured structures – including structure and building material age.
    - Likelihood of claims from policyholders (claims history).
    - Repair/replacement costs in the area of the insured property.
      - Crime statistics.
      - Flood/fire history.
      - Availability of materials and labor to make repairs.
      - Flood/Hazard Maps and/or Risk Scores provided by vendors.
        - Wildfire risk assessment includes building materials used, fuel load on and near the insured property, access/egress, distance from and condition of fire services, defensible space/home hardening, etc.
  - **"Big Picture" – insurers responding to changes in risk:**
    - Robust competition vs. market consolidation.
    - Nationwide increases in severity of claims and cost of repairs are impacting insurers' underwriting approach.
    - Access to and cost of Reinsurance (insurance for insurance companies).

Challenges for **insurance companies**: inflation, claims and repair costs, natural disasters, reinsurance.

Claims costs: rebuilding, disasters, labor, litigation/social inflation

- Costs for residential construction materials rose nearly 27 percent in 2021 – roofing materials alone rose 15 percent. Those costs continue to rise, but slower: 14 percent is the prediction for 2024.
- "Social inflation" – costs related to lawsuits, particularly "nuclear verdicts" over $10 million – increased more than 27 percent in the last decade.
- Natural disasters – wildfires, hurricanes, "convective storms" (warm, moist air rising from the earth creating wind, rain, tornadoes or hail): 18 natural disasters, $165 billion in losses.

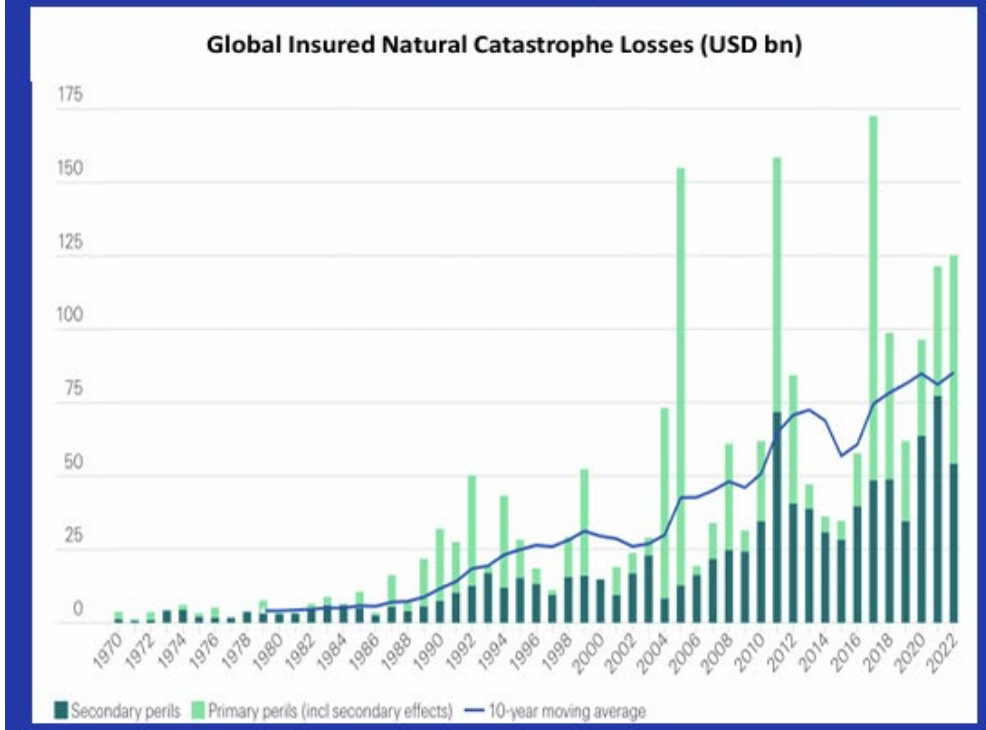
Reinsurance: "Insurance for Insurance Companies"

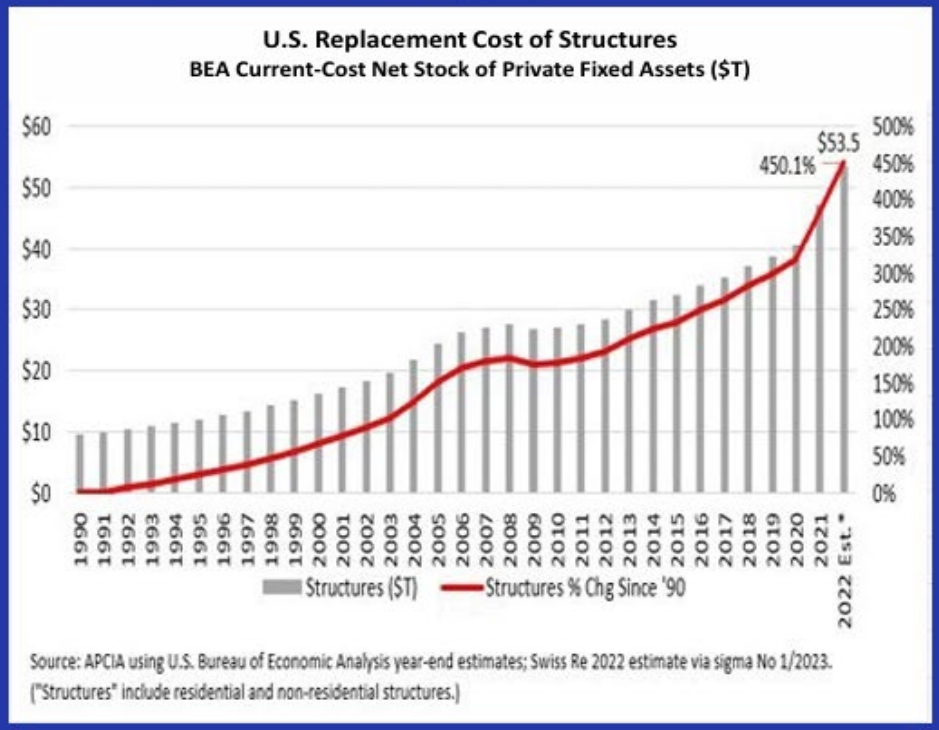
- Reinsurance is "insurance for insurers." Once an insurer has paid out a certain amount to policyholders for a single catastrophic event, the reinsurer steps in to cover the insurer's claims costs.
- U.S. property catastrophe reinsurance rate increases ranged from 20 – 50 percent in 2023 – the highest average increases in 17 years. But the reinsurance market is now stabilizing, with more reinsurers entering/reentering markets, increasing access to coverage and more competitive pricing.

At the same time catastrophe losses are increasing, so are rebuilding/replacement costs.

American Property Casualty Insurance Association

Increasing Cat Losses / Rebuilding Costs





Source: APCIA 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.)

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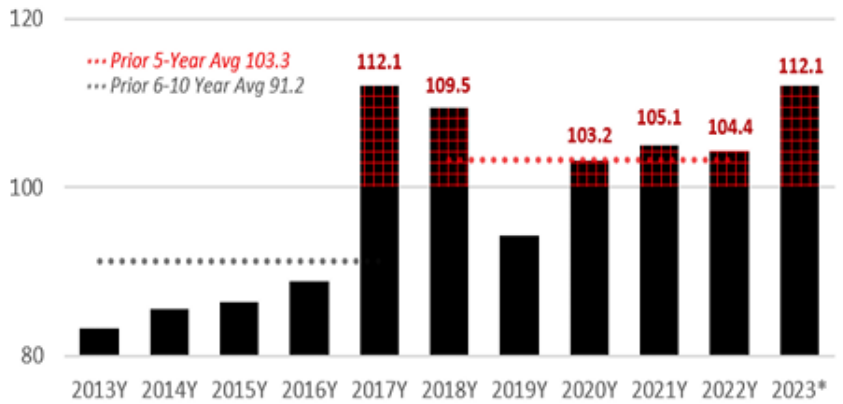
Unsustainable: Insurers paid out $1.12 in property claims for every $1 earned in premium in 2023.

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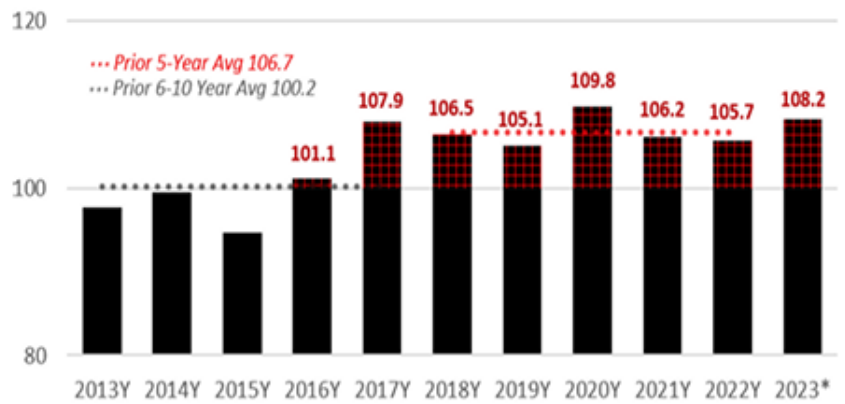
Elevated combined ratios in U.S. property lines

i.e. - for every dollar in premium collected, more than a dollar paid

Homeowners



Commercial multi-peril



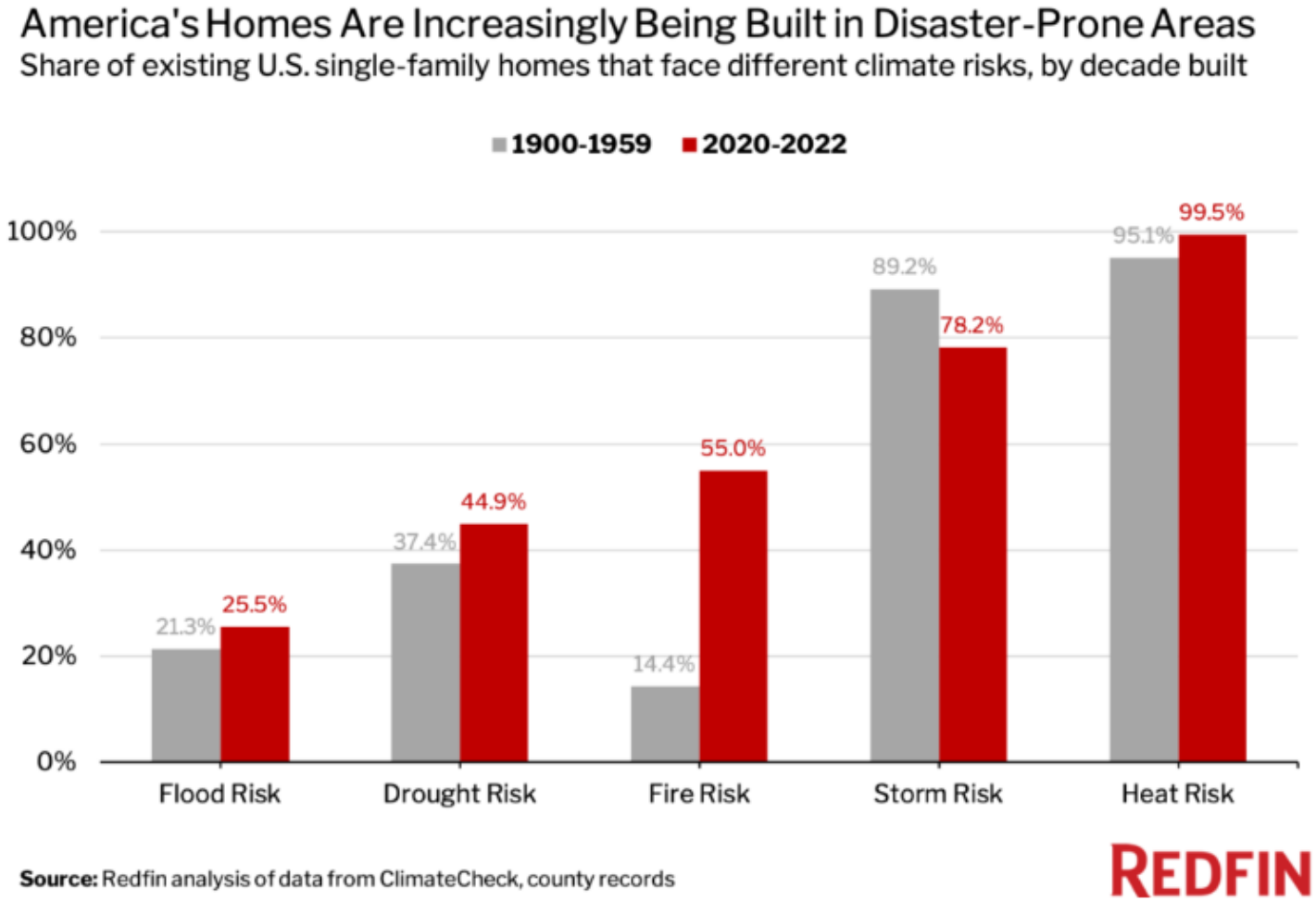
Source: APCIA using S&P Global (*S&P Year-End Projection, data compiled October 20, 2023)

Commercial multi-peril results include liability and non-liability lines of coverage.

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More home-building in disaster zones can impact insurance underwriting/risk tolerance



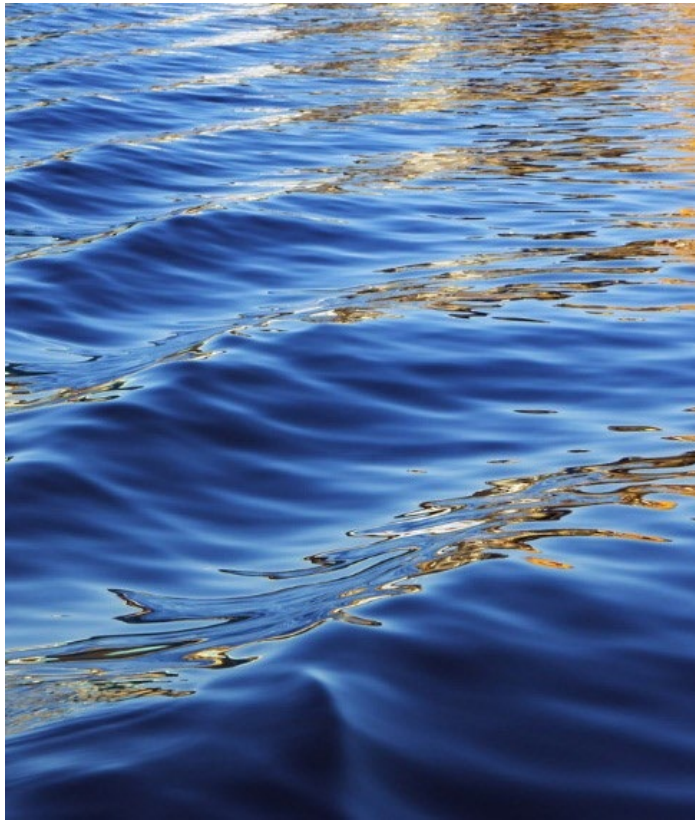
1900-1959:
14% of new homes built faced wildfire threat.

2020-2022:
55% of new homes built faced wildfire threat.



Auto insurance: Rising costs for insurers and consumers

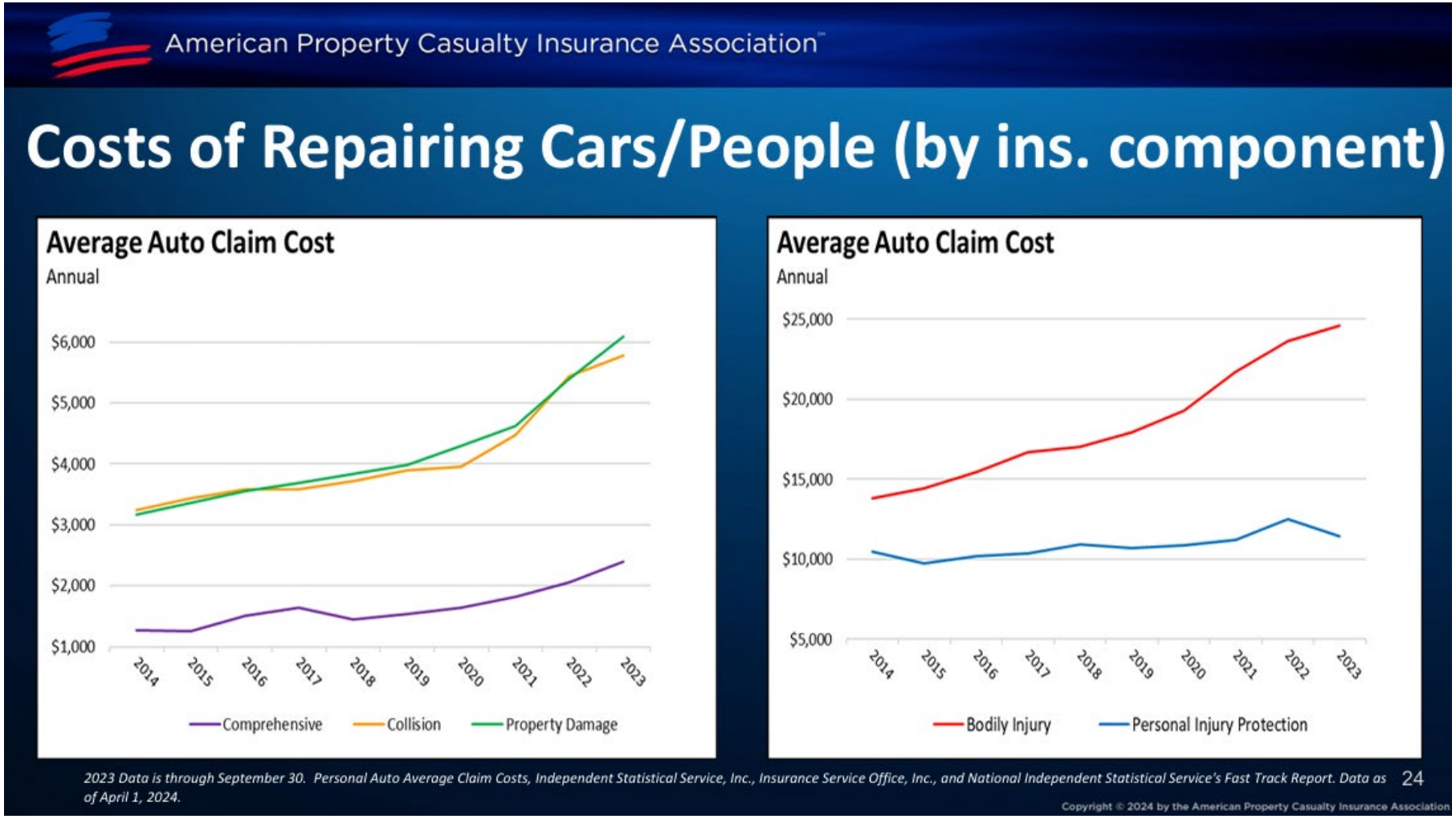
Auto insurance market overview 2024



Auto insurance premiums have risen dramatically since 2020. Here's why.

- **In 2023, auto insurers paid $1.06 in claims costs and expenses for every $1 collected in premiums.**
- **Key factors driving loss costs and increased premiums from 2019-24:**
  - Vehicle repair costs increased 22%.
  - Vehicle repair parts costs increased 24%.
  - Used car values increased 29%.
  - Vehicle thefts in WA increased 31% from 2021-22 – nearly 47,000 vehicles stolen – 3rd highest rate per capita in the US.
- **Driving behavior is worsening**
  - Drivers observed speeding increased 18% since 2020
  - Distracted driving – 800k crashes in the US annually – 23% increase since 2020.
  - WA: 810 traffic deaths in 2023 – highest number since 1990.

The cost to treat injuries and repair vehicles has increased dramatically over the past decade.



In it together: Insurers, consumers and policymakers can improve the property & auto insurance market

Property Insurance

Building codes and zoning can consider impact of changing climate and increased wildfire & storm risks.

Home builders and homeowners can include IBHS Wildfire Prepared Home standards in new and existing structures to improve resilience.

Lenders, realtors, builders and insurers can team with wildfire science experts and firefighting agencies to promote resilient communities.

Legislators can work with insurers to promote a stable, healthy, competitive insurance market that helps increase access to affordable home and renters' insurance.

Auto Insurance

Competitive rates rely on rate accuracy, access to tools that help closely align rates to risk.

Efforts to re-emphasize safe driving habits, from driver education to public awareness campaigns, to increased visibility of enforcement could help reduce speed-and/or-distraction related crashes.

Vehicle theft rates have begun to come down, and auto repair costs appear to be levelling off. Insurance rates tend to lag, but follow, loss cost trends.

Premium Increase Transparency: By OIC rule (6/01/24), insurers now must provide additional information to policyholders who want to know more about why their home or auto premium increased at renewal. Work on that requirement will continue in 2024.