Trends and Insights:
Personal Auto Insurance Rates

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Drivers of Premium Rates Turning in the Right Direction

Several metrics that influence auto insurance premium rates are starting to improve, but it will take time for these improvements to be reflected in flattening premium rates.

Direct premiums written (DPW) and insurers' underwriting profitability as measured by the combined ratio (definition at right) improved dramatically in 2023. Auto insurers' 2023 net combined ratio of 104.9 is 7.3 points better than it was in 2022. Additionally, 2023 net written premium growth of 14.3 percent is the highest in over 15 years and 6 points higher than the next-highest, reflecting rate increases to offset inflation-related loss costs.

These are great gains, but they come on top of results in 2022 that were the worst in recent years. In 2020, the industry provided $14 million in rebates and discounts to policyholders in anticipation of lower losses related to reduced miles driven during the COVID-19 pandemic lockdown. While insurers' personal auto loss ratios fell briefly and sharply in 2020, they quickly deteriorated as a result of riskier driving behavior.

The number of drivers on the road has returned to pre-pandemic levels – but the driving behavior that led to the high losses has not improved. More accidents with severe injuries and fatalities have driven up claims and losses in terms of both vehicle damage and liability, while attracting greater attorney involvement and legal system abuse.

Compounding this has been historically high inflation, which puts upward pressure on the material and labor costs.

Key Numbers

- **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.
- **Direct Premium Growth:** Growth of an insurance line during a given period.
- **Underlying Growth:** The rate of growth that can be maintained without inflationary pressures.
- **Replacement Costs:** How much insurance pays to replace a damaged piece of property with a new one.

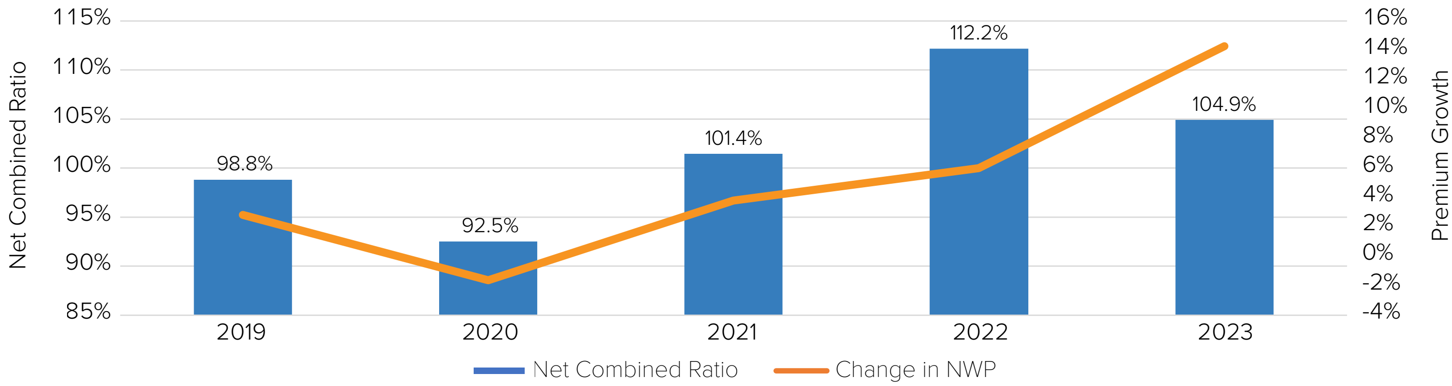
In 2023, new vehicle sales experienced their best year since 2019 – a development that benefited auto insurers' DPW, as more cars sold means more cars insured. The consumer price index (CPI), a frequently used measure for inflation, has stabilized and prices of new and used vehicles have declined sharply.

But high interest rates continue to limit sales, and when and by how much the U.S. Federal Reserve will reduce rates remains an open question. And even if insurance rates were to fall and spur more car buying, the negative trends in riskier driver behavior would still be a factor in premium pricing – in an environment with even more vehicles on the road.

Personal Auto (Change YoY%)	2023	2024	2025	2026
Underlying Growth	**10.2%**	**4.0%**	**4.7%**	**5.5%**
Auto and Light Truck Sales	12.9%	4.0%	5.0%	6.0%
Motor Vehicle Personal Expenditures	4.8%	4.0%	4.2%	4.5%
Replacement Costs	**-0.2%**	**-0.5%**	**1.8%**	**2.7%**
New Vehicles	3.7%	0.4%	2.0%	3.0%
Used Cars and Trucks	-7.1%	-1.4%	1.5%	2.5%
Motor Vehicle Parts and Equipment	2.9%	-0.5%	2.0%	2.5%

Source: Insurance data and analysis: Triple-I; U.S. economic data: FRED (as of as of 05/01/2024)

Net Combined Ratio and Change in NWP



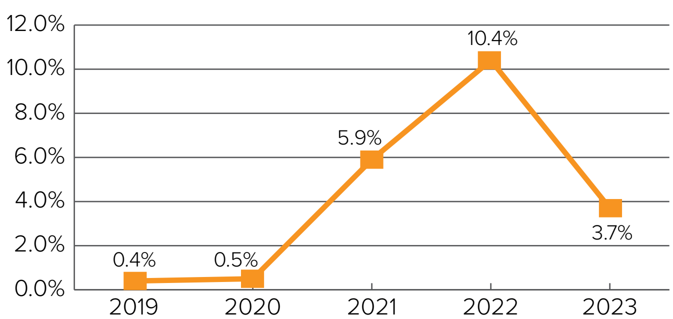
Source: NAIC/S&P (historical), Triple-I & Milliman (forecasts); as of

Telematics can help address driving behavior

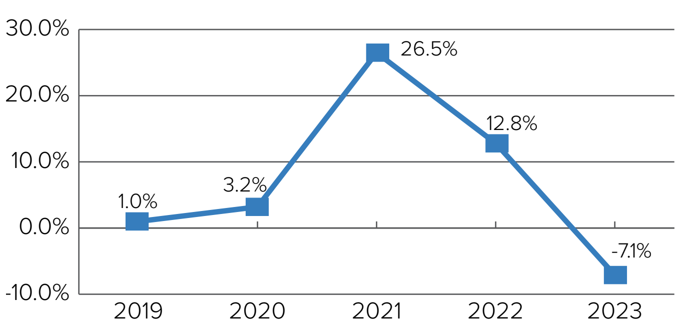
Distracted driving surged during the pandemic, leading to higher rates of accidents, injuries, and deaths. Research suggests that telematics can help address this and other contributors to unsafe driving. Telematics technologies allow insurers to analyze risk profiles and tailor rates based on individual driving habits.

By providing feedback that can influence driving behavior, it has been shown to lower risk and help reduce the cost of insurance. An Insurance Research Council survey found 45 percent of drivers said they made significant safety-related changes in how they drove after participating in a telematics program. Another 35 percent said they made small changes.

New Vehicles CPI YoY%



Used Cars and Trucks CPI YoY%



Policyholders also became more comfortable allowing their driving to be monitored in exchange for potentially lower insurance costs during the pandemic.

Consumer impact

It's important to remember that the current hard market wasn't created overnight, and it will take time for insurers' performance to improve further and drivers' rates to stabilize. Premium rates are not just affected by inflation. Other factors putting upward pressure on rates are:

- Rising accident frequency and severity;
- More fatalities and injuries, leading to increased attorney involvement in claims;
- Supply-chain issues and higher labor costs; and
- More costly auto repairs due to increased technological sophistication in vehicles.

Insurance is unique in that one-size-fits-all pricing would not be sustainable. If insurers had to come up with a single price for auto coverage that didn't consider vehicle type and use, lower-risk drivers would inevitably subsidize riskier ones.

Confusion around rates is understandable. Risk-based pricing and state-by-state regulation – along with economic conditions and other factors – complicate insurance pricing. The industry hires actuaries and data scientists and uses cutting-edge modeling technology to cut through the complexity and ensure that rates are accurate and fair.

Policyholders and policymakers need to understand how insurance pricing works – particularly the impact of driving behavior and the role of inflation and other considerations that are not driver specific – to inform rate setting. Reduction of risk and underlying cost factors will be key to any future rate reductions.