Why Is the Personal Auto Market Deteriorating?

Inflation is driving up loss costs, carriers are increasing rates and underwriting guidelines are being tightened—all leading to a deteriorating auto insurance market.

BY OLIVIA OVERMAN [WWW.IAMAGAZINE.COM](http://www.iamagazine.com) (BIG I INDEPENDENT AGENT)

On Sept. 8, AM Best revised its market segment outlook for the U.S. personal auto insurance market from stable to negative. The outlook was based on a significant deterioration in carriers' results for the second quarter of 2022, which was driven by inflationary pressures and corresponding challenges in rate adequacy.

Personal auto is the largest line of insurance in the U.S., with direct written premiums totaling $261 billion as of March, according to the NAIC 2022 Market Share Report. And with over 228 million licensed drivers in the U.S., according to Statista, the increase in personal auto premiums has begun to ring alarm bells for consumers.

The reason for the increase in premiums? “Nearly all the largest U.S. personal auto insurers reported poor financial results in the second quarter of 2022," says Mark Friedlander, director, corporate communications, Insurance Information Institute (Triple-I). “Several issues contributed to this trend and are putting upward pressure on policyholder premium rates as insurers' loss ratios grow."

“The second quarter of 2022 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," Friedlander adds. “These and other factors have contributed to a combined ratio for personal auto, which is forecast to be in excess of 105 for year-end 2022—in sharp contrast to the personal auto sector posting a stellar 92.5 combined ratio in 2020, the industry's best underwriting result in at least 25 years."

Couple premium rate increases with the fact that the annual cost of vehicle ownership has now surpassed $10,000, driven by the rising cost of fuel, vehicle parts and maintenance, according to an August 2022 report from AAA, and many drivers are trying to understand what is occurring in the market and how they can cut costs.

“Inflation is driving up loss costs; we are seeing carriers increasing rates, tightening underwriting guidelines, and some book management is occurring whereby some carriers are limiting new agent appointments and reducing commissions," says Theresa Breunig-Silbernagel, head of personal lines and transformation, Main Street America Insurance. “We are seeing a hard market."

All this is in stark contrast to the market in 2020 and 2021 when many auto insurance carriers offered refunds or provided premium credits to personal auto consumers when drivers were forced to cut back on driving because of coronavirus pandemic restrictions.

“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," Friedlander says. “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 into 2023."

While the average yearly auto premium in 2019 was $1,400, in 2022, the average annual rate hit $1,648, a 17.7% increase, according to a recent report from Insurify. The report also predicts insureds could see an additional 12% increase in premiums, an average of $1,846 for coverage, in 2023.

Is there any light at the end of the tunnel for personal auto consumers?

“Inflation and economic pressures are increasing severity, the cost of repairs and replacement vehicles are much higher than what they have been historically, and repair times take longer and labor costs are up," Breunig-Silbernagel adds. “We don't anticipate a turnaround in the near future: Even when inflation does subside and rates begin to stabilize, they will not return to levels that we have seen even six months to a year ago."

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