

WHAT'S HAPPENING WITH AUTO RATES IN TEXAS?

Over 180 insurance companies provide different options and prices for auto insurance in Texas.

Over 20 million personal vehicles are insured in Texas.

Texas is 2nd in the country for Direct Written Premium (auto liability and collision/comp combined), behind California and ahead of Florida.

Auto insurance premiums are impacted by multiple factors - driver behavior, type and location of the vehicle, and the amount and types of coverage selected, among others.

Texas law requires insurance companies to charge rates that are fair, reasonable, and adequate for the risks they cover, and prohibits rates from being excessive, inadequate, and unfairly discriminatory. Texas insurers file any premium rate changes with the Texas Department of Insurance (TDI) for review.



Generally, premiums must be sufficient to pay losses, loss adjustment expenses, and other expenses such as commissions and taxes. An insurer's rate filing to TDI provides actuarial support on how future losses and expenses are determined. Losses are usually the largest component of any rate. If losses are expected to decrease, rates generally decrease. If losses increase, rates generally increase in order to maintain adequate rates.

The terms **frequency** and **severity** are also commonly used in determining how much will be needed to pay for losses. Frequency refers to the number of claims or losses while severity refers to the amounts needed to pay losses.

Basic Coverages

- **Liability for Bodily Injury (BI):** This covers a driver's liability for bodily injury caused by the driver to a third party in an accident. An owner and operator are required by law to maintain this coverage.
- **Liability for Property Damages (PD):** This covers a driver's liability for property damage caused by the driver to a third party's vehicle in an accident. An owner and operator are required by law to maintain this coverage.
- **Uninsured/Underinsured Motorist Coverage (UI/UIM):** This covers an insured for bodily injury or property damage caused by an uninsured or underinsured driver. This coverage is optional.
- **Collision:** This is coverage for repairs of damage to an owner's vehicle if the vehicle is damaged in a collision. This is an optional coverage but may be required by auto lenders.
- **Comprehensive:** This is coverage for repairs or damages to an owner's vehicle if the vehicle is damaged by other causes such as hail, falling trees, theft, malicious mischief, etc. This is an optional coverage but may be required by auto lenders.

There are other optional coverages that are typically listed on the declarations page of an automobile policy. The premium that would be paid would be the total amount charged for each coverage and the limits selected.

An insurer's ability to respond to cost increases for repairs, parts, frequency of losses, and severity of losses, other than by raising rates, is constrained by regulatory requirements. As insurers experience greater losses for private passenger auto claims, some consumers may experience an increase in their auto premiums.



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Several trends are impacting the cost of repairing and replacing vehicles, which will factor into rates particularly for PD, Collision, Comprehensive, and UM Physical Damage coverages. Increases in these will affect the overall premium. Used vehicles and construction materials experienced the steepest rise in prices amongst key goods replaced or repaired by P&C insurers. According to Triple-I and Milliman, economic fundamentals are expected to improve throughout 2023, the positive impact will be insufficient to offset the negative underwriting trends, including adverse frequency and severity that are expected to continue into 2023.

Auto Parts Cost Inflation -

Following accidents, claim payouts are higher due in part to the higher cost of auto replacement parts. According to the Insurance Information Institute (III), **replacement cost parts have risen 13%** (year-over-year, 3Q 2021). However, III also found that auto premiums have not kept pace with inflation, particularly regarding auto replacement part costs.

Increasing Cost to Repair -

The Bureau of Labor Statistics Consumer Price Index (CPI) showed a **5.61% increase** in the CPI for motor vehicle body work in 2021.

Increasing Cost to Replace -

According to III and CPI information, new vehicles were up 5.9% and used vehicles up by 26.6%. Replacement cost for personal auto is increasing due to these higher prices for used and new cars, and car parts. III estimates an 11% increase in replacement cost in 2022.

Replacement cost is expected to increase by \$886 million in Texas, which marks the third largest increase behind California and Florida.

Increasing Rental Car Costs - Many auto insurance policies cover the cost of a rental vehicle during repair. At a time when repairs are taking longer due to supply chain and labor issues, rental car costs are also increasing. **According to J.D. Power, the daily rental rate increased over 58% in 2021.**



The cost of replacement parts has risen 13%.



The cost to repair a vehicle is up 5.6%.



New and used vehicle prices are up 5.9% and 26.6%, respectively.



Rental car rates are up 58%.



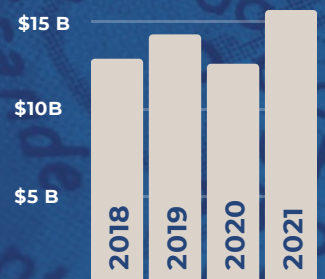
These factors have driven insurers' **auto losses** above pre-pandemic levels. The combined ratio, which is the percentage of each premium dollar an insurer spends on claims and expenses rose to nearly 100% in the personal auto insurance market nationwide in 2021. This means that U.S. auto insurers spent about \$1 on claims and expenses last year for every \$1 they collected in premiums. This reflected a trend of loss ratios up 30% during the pandemic.

According to TDI data, **the 2021 loss ratio for private passenger auto in Texas was 65.17%, which is the largest loss ratio since 2017.** Direct losses paid by Texas private passenger auto insurers in 2021 totaled **\$15.6 billion**, an increase of 24.8% from 2020. Texas auto insurers also ended the year with a net underwriting loss of \$562.2 million.

What Texans Can Do if Their Auto Rates Increase

Texans benefit from a competitive private auto market with over 180 companies providing different options and prices. This means consumers can shop around and take advantage of lower rates, discounts, and ask about coverage options to lower premiums. The Texas Department of Insurance, through www.helpinsure.com, also offers a great resource for shopping around. After answering a few questions, consumers can see the policies sold in their area, their rates, and coverage types to choose what is right for them.

Direct losses paid, PPA

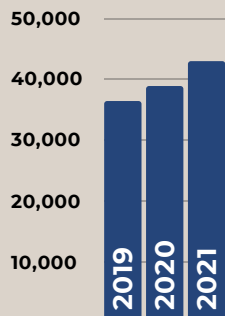
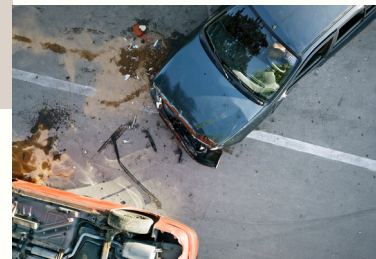
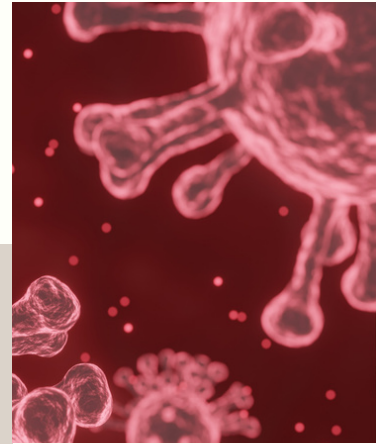


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FACTORS AFFECTING AUTO PREMIUMS

DRIVER BEHAVIOR AND COVID-19

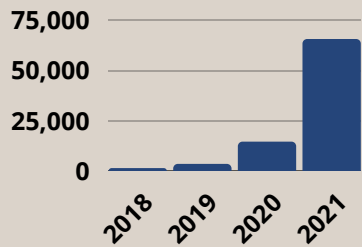
The **COVID-19 pandemic** impacted auto insurance rates in several ways. Insurers issued \$14 billion nationwide in refunds and account credits to their policyholders in 2020, including **\$1.4 billion to Texas policyholders**, according to a TDI report to the legislature.



According to the U.S. Department of Transportation, National Highway Traffic Safety Administration (NHTSA), there was an 11% decline of vehicle miles traveled (VMT) from 2019 to 2020. 2021, however, showed an increase in VMT of 11.2% over 2020. **Data shows that there were 42,915 people killed in motor vehicle crashes on U.S. roads in 2021 - a 10.5% increase in traffic fatalities** from 2020 - the largest number of fatalities since 2005 and the highest annual percentage increase in the recorded history of the data.

Texas also experienced a higher increase in traffic fatalities with a 7.54% increase from 2019 to 2020. Even more striking, 2021 had 4,573 fatalities on Texas roads, an **18% increase** from the year before.

Catalytic Converter Thefts



THEFT

Auto theft is increasing, and is another factor that impacts premium determination. The FBI reports that **\$7.4 billion** was lost to motor vehicle theft in 2020. **In 2020, Texas ranked second in car thefts nationally with over 93,000 cars stolen (a 48% increase from 2019).**

The National Insurance Crime Bureau (NICB) reports that **catalytic converter theft** is rising significantly. According to NICB, in 2018 there were 1,298 catalytic converter thefts reported, and **by 2021 this number had risen to an estimated 65,398 thefts.** Catalytic converters are costly to replace - usually ranging from \$1,000 to \$3,000. **In 2021, Texas ranked second in the nation in catalytic converter thefts.**

The Texas Legislature passed HB 4110 in 2021, which establishes additional requirements regarding the purchase of a catalytic converter for metal recycling entities and sellers, as well as increased penalties for buying stolen catalytic converters.

For questions or more information, please contact:

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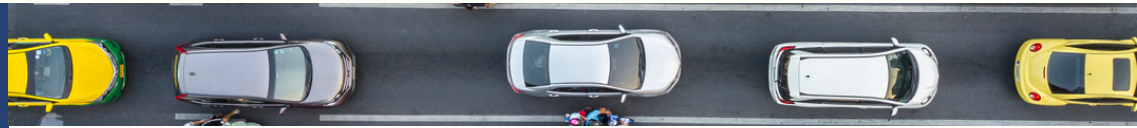
At the Association of Fire and Casualty Companies in Texas (AFACT):

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WHAT'S HAPPENING WITH AUTO RATES IN TEXAS?

Recent news reports and headlines have pointed to the rising cost of auto insurance rates.

We can get a better picture of what is occurring with auto rates, if we examine factors that affect premiums and trends and changes tied to these factors.



Texas law requires insurance companies to charge rates that are fair, reasonable, and adequate for the risks they cover, and prohibits rates from being excessive, inadequate, and unfairly discriminatory. Texas insurers file any premium rate changes with the Texas Department of Insurance (TDI) for review.

Auto insurance premiums are determined by multiple factors, including:

- ▶ Driver behavior
- ▶ Type of vehicle
- ▶ Coverages selected
- ▶ Some insurance companies use credit information.

Texas rules regarding the use of consumer credit scores for insurance premiums are among the strongest in the country.

As insurers experience greater claims losses, some consumers may experience an increase in their auto rates.

An insurer's ability to respond to cost increases for repairs, parts, frequency of losses, and severity of losses, other than by raising rates, is constrained by regulatory requirements.

FACTORS AFFECTING AUTO PREMIUMS

The **COVID-19 pandemic** impacted auto insurance rates in several ways. Insurers issued \$14 billion nationwide in refunds and account credits to their policyholders in 2020, including **\$1.4 billion to Texas policyholders**, according to a TDI report to the legislature.

According to the U.S. Department of Transportation, National Highway Traffic Safety Administration (NHTSA), there was an 11% decline of vehicle miles traveled (VMT) from 2019 to 2020 - the largest decline in VMT since the 22% decline from 1942 to 1943.

However, there were 38,824 people killed in motor vehicle crashes on U.S. roads in 2020 - a 6.8% **increase in traffic fatalities** from 2019 - the largest number of fatalities since 2007.

Texas Department of Transportation (TxDOT) data shows that Texas experienced a higher increase in traffic fatalities with a 7.54% increase from 2019 to 2020. Even more striking, a March 2022 press release from TxDOT presented an 18.4% increase in motor vehicle fatalities in the first half of 2021.



Auto theft is increasing, and is another factor that impacts premium determination. The FBI reports that **\$7.4 billion** was lost to motor vehicle theft in 2020.

In 2020, Texas ranked second in car thefts nationally with over 93,000 cars stolen (a 48% increase from 2019).

The National Insurance Crime Bureau (NICB) reports that **catalytic converter theft** is rising significantly. According to NICB, in 2018 there were 1,298 catalytic converter thefts reported, but **by 2020 this number had risen to 14,433 thefts and a 1,215% increase between 2019 and 2022.** Catalytic converters are costly to replace - usually ranging from \$1,000 to \$3,000. **In 2021, Texas ranked second in the nation in catalytic converter thefts.**

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FACTORS AFFECTING AUTO PREMIUMS

Insurance claims and payouts to repair or replace vehicles result from accidents. The following trends are impacting the **cost of repairing and replacing vehicles**, which eventually factors into premiums.

Auto Parts Cost Inflation -

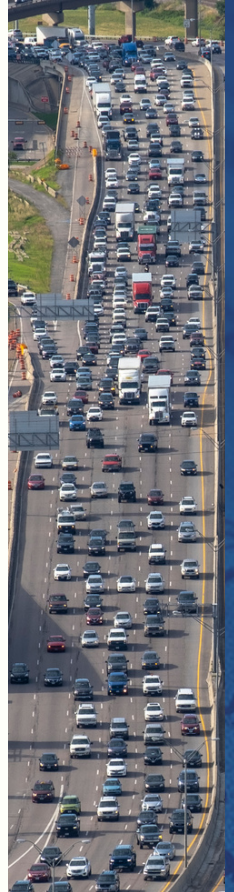
Pandemic-related supply chain and labor disruptions have exacerbated parts cost inflation. Following accidents, claim payouts are higher due in part to the higher cost of auto replacement parts. According to Triple-I, replacement cost parts of all **parts and equipment for personal auto rose 13.38%** in 2022 (as of Oct. 13, 2022).

Cost to Repair - The cost to repair vehicles has increased. The Bureau of Labor Statistics Consumer Price Index (CPI) showed a **12.5% increase** in the CPI for body work in 2022 and increased **42.4% since 2013**.

Cost to Replace - The price of new and used vehicles is also increasing. According to ILL and CPI information, **new vehicles were up 10.4%** and **used vehicles up by 12.7%**.

Replacement cost for personal auto is increasing due to these higher prices for used and new cars, and car parts. According to Triple-I, replacement cost for **personal auto have risen 10%** year over year (as of January 12, 2023). **Replacement cost is expected to increase by \$886 million in Texas**, which marks the third largest increase behind California and Florida.

Rental Car Costs - Many auto insurance policies cover the cost of a rental vehicle during repair. At a time when repairs are taking longer due to supply chain and labor issues, rental car costs are also increasing. According to J.D. Power, the daily rental rate increased over **58% in 2021** and **14% in 2022**.



These factors have driven insurers' **auto losses** above pre-pandemic levels. The combined ratio, which is the percentage of each premium dollar an insurer spends on claims and expenses rose to nearly 100% in the personal auto insurance market nationwide in 2021. This means that U.S. auto insurers spent about \$1 on claims and expenses last year for every \$1 they collected in premiums. This reflected a trend of loss ratios up 30% during the pandemic.

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