REPORT

Q4 2023 Insurance Personal Lines Trends and Perspectives

TransUnion

Consumers Face a Tightening Housing Market and a Changing Landscape of Digital Risk

The personal lines insurance industry continues to face profitability challenges, driven by loss cost inflation outpacing premium increases and an increasing number of catastrophic weather events. But some bright spots have begun to emerge: Federal Reserve data[1] shows that loss cost inflation is moderating; in some cases, key loss cost drivers are even declining. On the premium side of the equation, rate increases continue to earn in as premium trends continue catching up with loss cost trends.

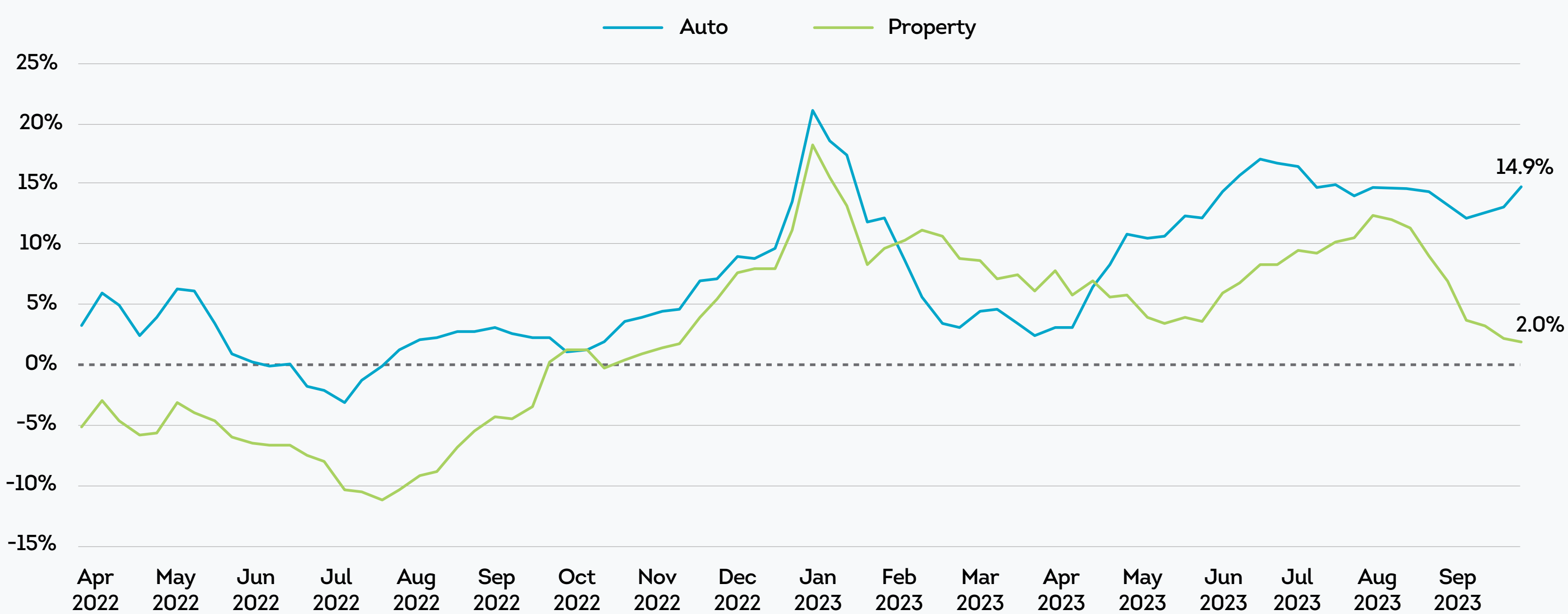
In the shorter term, carriers are doing what they can to improve profitability in areas they control, including reducing marketing spend, suspending distribution, toughening underwriting measures, requiring more in-depth inspections of insured properties, and encouraging or requiring multiline policies.

[1] Economic Research, Federal Reserve Bank of St. Louis. https://fred.stlouisfed.org/.

Property shopping is still up – but auto shopping spikes even higher

Figure 1 illustrates the overall change in the number of insurance shoppers for both auto and property lines. Note that both are still elevated year-over-year; however, property is slowing down, while auto insurance shopping remains high.

Figure 1. Year-over-year percent change in number of insurance shoppers by line of business



Note: YoY Percent change is calculated on a weekly basis using three-week moving average over 18-month rolling period

Source: TransUnion internal data.

Those elevated auto shopping rates are in large part driven by record premium increases. The Insurance Information Institute forecasted auto insurance premium growth of 10.4% in 2023 — that's up 5% over the previous year.[2]

However, other factors may be adding to this spike as well. Profitability actions taken by carriers, including suspended distribution channels and new business underwriting restrictions, could prompt consumers to expand the number of insurers they shop with.

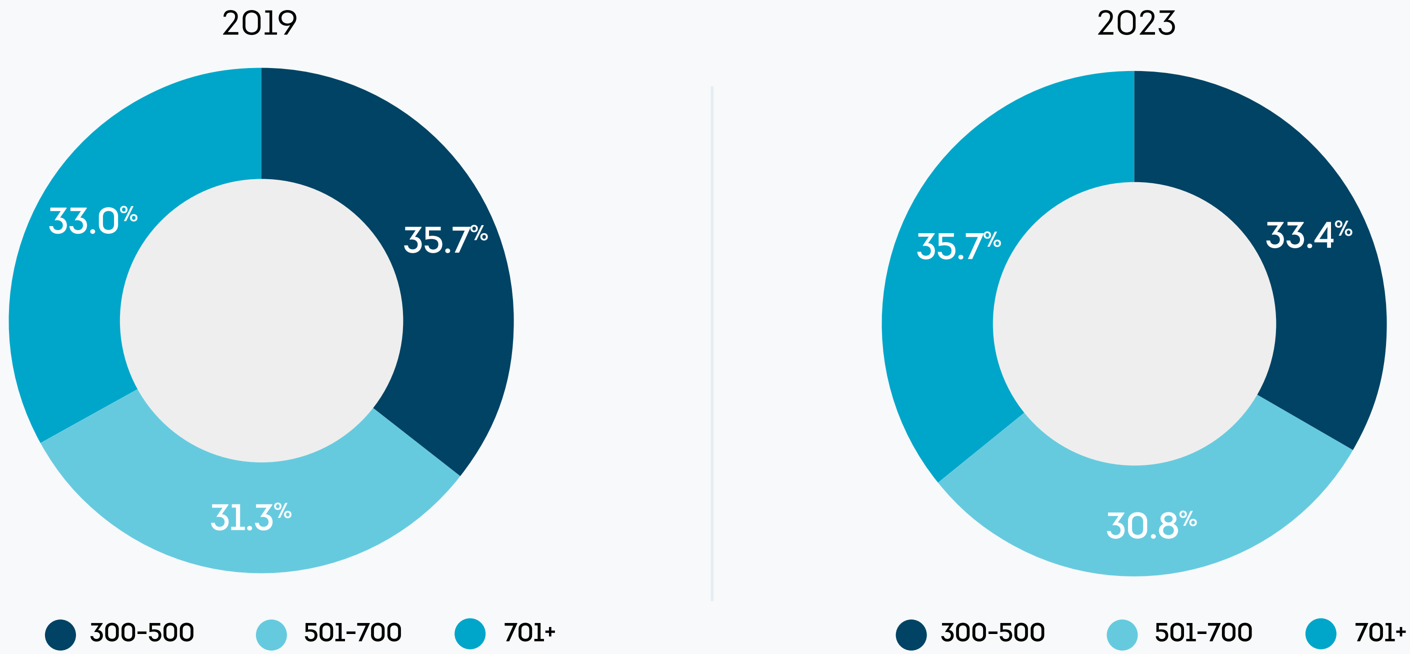
And then there's the simple fact that more people are buying new cars — an act that has a large impact on who shops for auto insurance and when. According to J.D. Power, the US new automobile market remains resilient, with the outlook for sales in 2023 increased to 7% over 2022.[3] With production and supply disruptions fading, and return-to-office putting more mileage on existing cars, consumers who had refrained from buying a new vehicle in the last few years are starting to shop again.

Diving more deeply into the auto market in Figure 2, we can see a change in the distribution of credit-based insurance score (CBIS) segments for the shopping population. People with higher CBIS (which indicate lower risk) make up a larger percentage of shoppers in 2023 than those with lower scores — the opposite of 2019, when lower CBIS (higher risk) made up the larger distribution of shoppers. This trend, which emerged in early 2020 and has accelerated since, represents a turnaround from recent history.

[2] "Insurance Economics and Underwriting Projections: A Forward View." Insurance Information Institute and Milliman. August 3, 2023. https://www.iii.org/press-release/inflation-high-cat-losses-to-lead-to-2023-underwriting-loss-for-pc-industry-but-recession-likely-avoided-this-year-new-triple-i-milliman-report-shows-080323.

[3] "US Automotive Forecast for August 2023." J.D. Power. August 24, 2023. https://www.jdpower.com/sites/default/files/file/2023-08/2023100%20August%20Forecast.pdf.

Figure 2. Mix of total auto shopping population by credit-based insurance score segment



Data Source: TransUnion internal data. Three months of 2019 (July 2019—September 2019) and the three most current months of 2023 (July 2023—September 2023)

What's driving this phenomenon? Keep in mind that the individual populations in these different segments are not static. During the height of the COVID-19 lockdowns, many individuals paid down debt and improved their credit-based scores, thanks to a combination of lower expenditure and government pandemic support. Thus, some of this shopping is being conducted by the same people who are now in a different CBIS segment.

Another potential factor is that recent rate increases are largely driven by base rate changes, impacting all customer segments. Some insurers had been shoring up profitability by targeting riskier and mispriced customer segments; now that lower-risk customers are getting hit with hikes, they're more likely to shop for a better rate.

Some households squeezed by inflation and rising premiums are responding by foregoing insurance altogether. According to TransUnion's Q3 2023 insurance consumer survey, the number of consumers who have let their auto insurance coverage lapse remains consistent at 15%. This could have the effect of lowering the shopping conducted by the higher-risk group.[4]

[4] The TransUnion Q3-2023 Online Survey was conducted Aug. 22 to Sept. 5, 2023, among 1,500 US respondents 18+ years old, screened for ownership of auto, home and/or renters insurance, and who have shared or sole insurance decision-making responsibilities. TransUnion partnered with third-party research provider Dynata.

Millennials face a housing crunch

Homeowners shopping also remains positive on a year-over-year basis, though not as elevated as auto shopping. Shopping had dropped in 2022 as interest rates rose, driving down both sales of existing homes and refinancing events that often lead consumers to look for new homeowners insurance. Those conditions haven't changed since — in fact, if anything they've accelerated, with homeowners increasingly reluctant to give up the low interest rates on their current loans by selling and more of the home sales market is in new construction.[5]

That said, other factors are causing homeowners insurance shopping to creep up again. One is increased premium costs: According to a report by Policygenius, home insurance prices were up 21% in May 2023 over the previous year,[6] so homeowners are more likely to be hunting for better deals. Another factor that may be causing ripples across segments is increased carrier focus on multiline bundling. By encouraging or requiring customers to buy multiple insurance types together, carriers are driving auto insurance shoppers to consider homeowners insurance at the same time, even if they are otherwise satisfied with their policy.

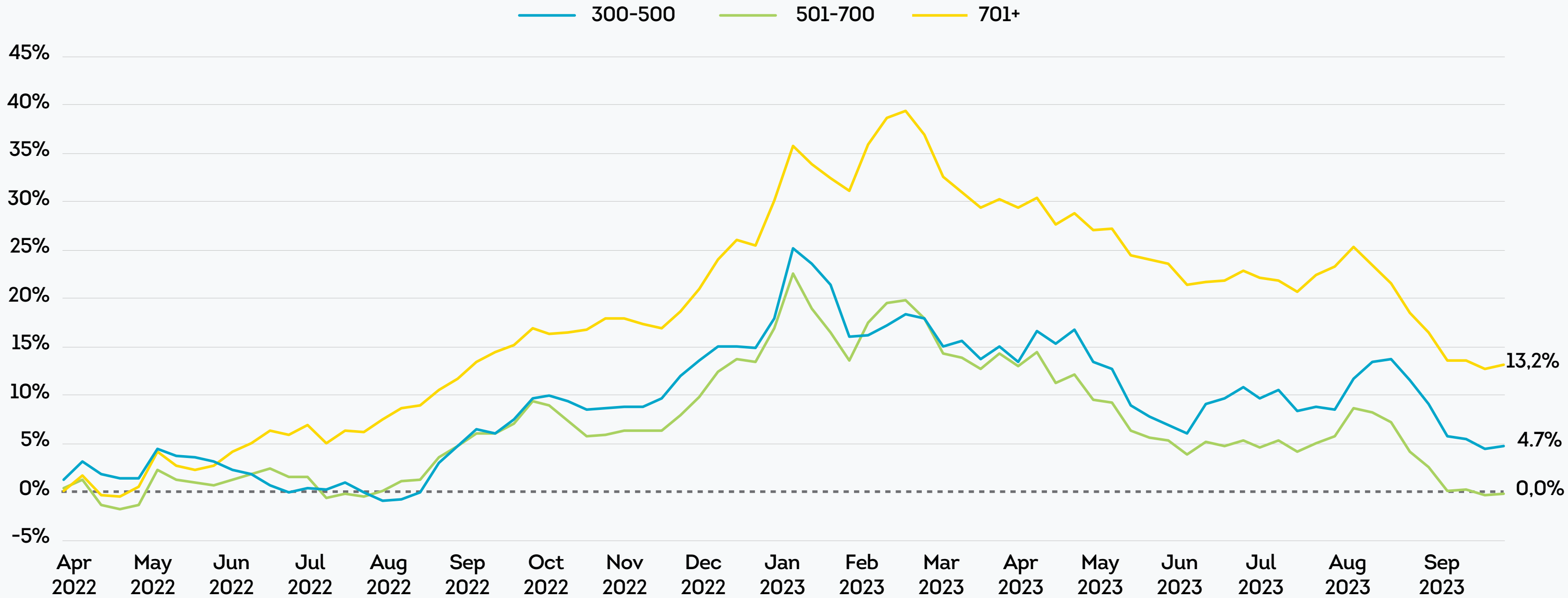
The segment-level views have remained consistent since the beginning of the year:

- Customers with 701+ CBIS (lower risk) shopped at the highest rates, see Figure 3.
- Gen Z and Millennials continue to be the most active shoppers. Millennials in particular are in their prime homebuying years.
- By region, the West is the most positive.

[5] "Homeowners Don't Want to Sell, So the Market for Brand-New Homes Is Booming." Wall Street Journal. July 19, 2023. https://www.wsj.com/articles/new-home-sales-boom-builders-6c736630.

[6] "Policygenius Finds Average Home Insurance Prices Up 21%." Insurance Journal. September 14, 2023. https://www.insurancejournal.com/news/national/2023/09/14/740355.htm.

Figure 3. Year-over-year change in number of shoppers for homeowner insurance by credit-based insurance scores

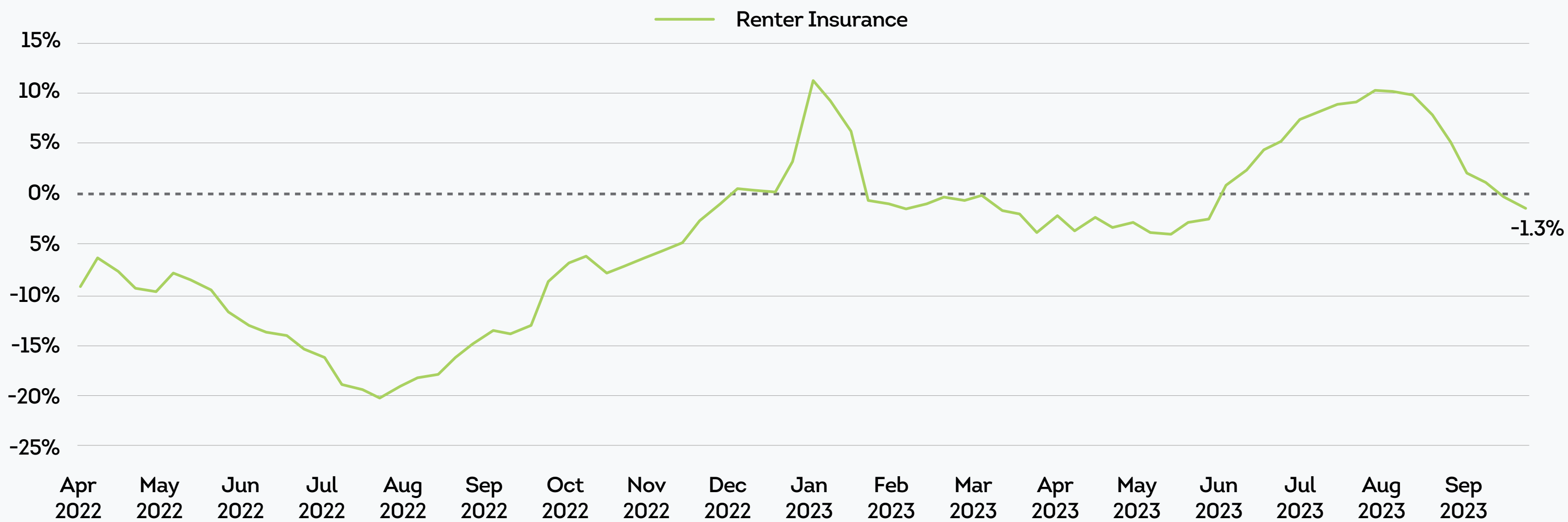


Source: TransUnion Internal data. Note: YoY Percent change is calculated on a weekly basis using three-week moving average over 18-month rolling period.

Meeting renters' changing needs

Renters insurance is a segment of increasing interest to carriers, especially as younger consumers are finding themselves blocked out of homeownership. Despite some spikes in shopping activity, rental shopping has been flat across 2023, as shown in Figure 4.

Figure 4. Year-over-year change in number of shoppers for rental insurance



Source: TransUnion internal data. Note: YoY percent change is calculated on a weekly basis using a three-week moving average over an 18-month rolling period.

The year-over-year increase visible in Figure 4 is the echo of a drop in shopping that began in June 2022, at the height of double-digit rent increases[7] that hit many areas. With rents near an all-time high, it's no surprise that insurance shopping is suppressed. That's especially true given that rental insurance isn't a requirement for most renters the way that homeowners insurance is for those holding mortgages.

Gen Z and Millennials, who make up the largest pool of renters, have different preferred communications style: According to TransUnion's Q1 and Q3 2023 insurance consumer survey, renters would rather manage their insurance policy via email, whereas homeowners and auto insurance customers prefer the phone.[4]

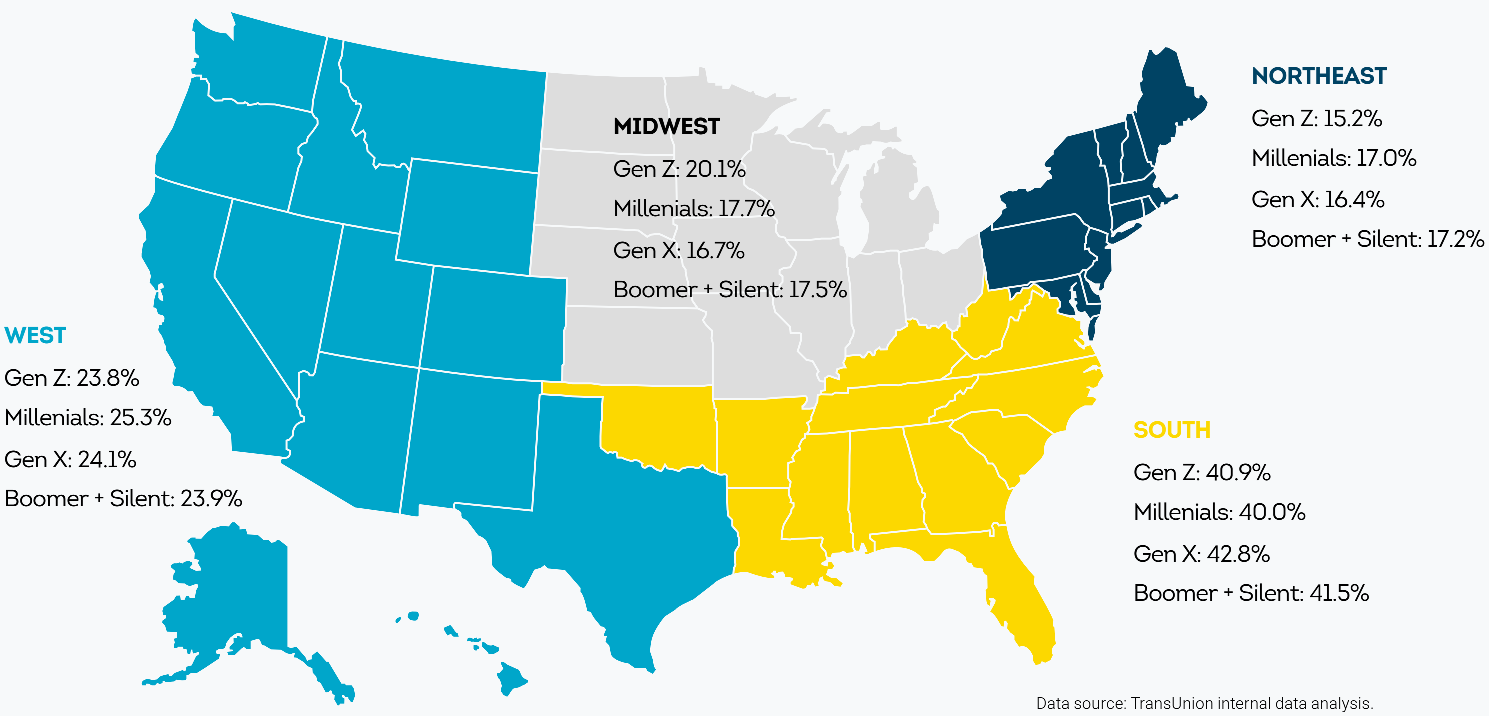
[7] "Steady As She Goes: Rent Growth in June Was Perfectly Average (June 2023 Rent Report)." Zillow. July 10, 2023. https://www.zillow.com/research/june-2023-rent-report-32840.

Consumers' physical and digital worlds have evolved

The pandemic and the widespread world of work-from-home that arose from it has had major impacts on how Americans live, and the insurance industry is still aligning with those changes. Many people, freed from the need to commute to an office, have relocated for better climates and lower costs of living.

Migration in 2023 has dipped a bit from 2022, but is still much elevated over pre-pandemic, with Florida, Texas and North Carolina seeing a big influx and California, New York and Illinois seeing outflows, according to TransUnion data, as shown in Figure 5.

Figure 5. US migration Q1-Q3 2022 by generation and region



Data source: TransUnion internal data analysis.

The largest percentage of movers are heading to the southern coastal states, which coincides with greater opportunities for homeownership and lower cost of living. However, these states are also more prone to natural disasters.

Remote work is only one transformation resulting from the new digital world. Today, many every-day life tasks have transformed into digital experiences, such as online grocery shopping. With an increase in connected device utilization — an average of 21 devices per every household that has internet service[8] — individuals are more exposed to digital fraud.

According to TransUnion's Consumer Pulse Study, there was a 61% increase in suspected digital fraud volume within the insurance industry in the first half of 2023 compared to the first half of 2019.[9] While today's technology is oftentimes highly secure for corporate computers and various software, it leaves the door wide open for attackers to scam individuals as it's easier than hacking software systems or devices.

According to PurpleSec, 98% of cyberattacks leverage social engineering.[10] Social engineering tricks consumers into sharing personal information and can be easily done by prompting a victim to click a malicious link or website.

Currently, identity theft coverage is built into the typical homeowners insurance policy — a 15-year-old coverage. This type of endorsement, however, is no longer sufficient for the type of fraud individuals are exposed to. Many insurers are exploring broader types of personal cyber coverages that will protect the individual from different types of fraud and cyber risks, like social engineering scams, ransomware attacks and even cyber bullying events.

A cyber tool that shields individuals from malicious online threats, via text or email, would be a powerful add-on value to personal cyber coverage — one that can complement existing restorative coverages, such as identity theft. It would be in the forefront — by helping prevent the attack before it even happens. For many insurers, this could be a differentiator that builds trust with existing and new policyholders.

[8] "Deloitte's Connected Consumer Survey 2023." Deloitte. 2023. https://www2.deloitte.com/us/en/insights/industry/telecommunications/connectivity-mobile-trends-survey.html.

[9] Omnichannel Fraud in H1 2023. TransUnion. Aug. 23, 2023. https://www.transunion.com/infographics/omnichannel-fraud-H1-2023.

[10] "How to Prevent Cyber Attacks and Threats." PurpleSec. October 16, 2022. https://purplesec.us/resources/prevent-cyber-attacks.

Looking ahead

Here's what we expect to see as 2023 wraps up:

Rate increases to continue across auto and homeowners, although the magnitude of increase may slow somewhat. The pace of shopping may subside as the variance in prices between carriers narrows. Increasing new vehicle sales will continue to positively impact auto shopping rates.

High mortgage interest rates will continue to be a challenge for younger consumers who don't own homes. For some, their first home purchase will likely be a townhome or condo. Others may need to delay a home purchase.

While inflation has slowed, prices remain high and consumers' debt load has increased: As of Q2 2023, there was an increase in consumer borrowing, a result of increased prices. Unsecured personal loans saw a YoY change of 21%, while charges to bank cards increased by 17.4%.[11] The higher debt obligations continue to impact consumer's ability to pay for other goods and services, including insurance.

[11] "Gen Z Coming of Age in Credit Markets." TransUnion. August 10, 2023. https://newsroom.transunion.com/q2-2023-ciir.

For deeper insights into the data that can help you navigate shifts in the insurance industry, contact your TransUnion representative.