

Personal Lines: How we got here and is it forever broken?

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In Class Work – You have 2 Index Cards

- Save one for later
- On the other:

Write down your answer to this client question:

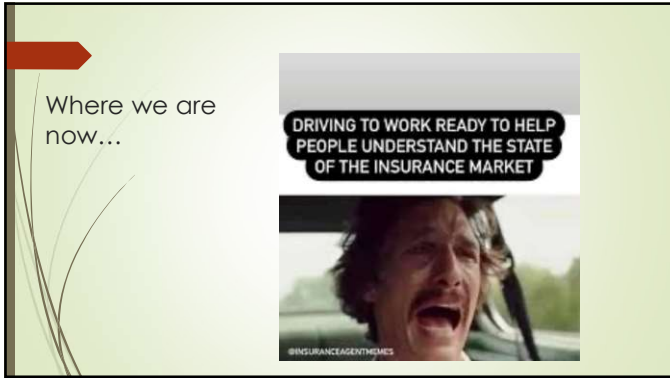
My rate for home and auto insurance went up and can you find me a better price please?

2

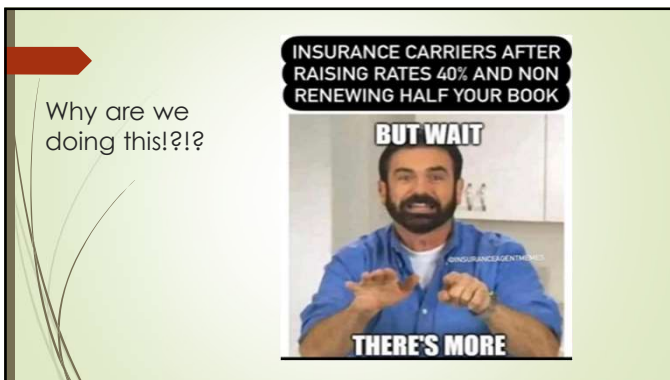
Today's Agenda

- Where it began
 - The History of Deductibles
 - Covid/Premium Returns/Soft Market
 - Frequency vs. Severity in auto and home
 - Winter Storm Elliot
- In the thick of it...
 - Coverage A Reviews
 - Mass Underwriting/Appetite Changes
 - Avoiding Adverse Selection
 - Terms and Conditions
- What now?
 - Applying The New Norm of Deductibles vs. Schedules
 - Protecting Future Insurability
 - Cost Sharing vs. Self-Insurance
 - The E & O Quandary for Agents

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The story of deductibles

- Who had a \$0 deductible
- Who had a \$250 deductible

Prices for Housing, 2004-2022

According to the U.S. Bureau of Labor Statistics, prices in 2023 versus 2004 (a \$68,928.61 difference in value)

Price Inflation for Housing since 1967
Consumer Price Index, U.S. Bureau of Labor Statistics

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Where it all began...Covid?

The Nicole Broch Timeline

- March 24, 2020 – My world explodes while Illinois issues a Shelter-in-Place
- Destroy the closing-in walls and renovate
- Sell for a major profit

Industry Timeline Overlay

- Premiums are low – new business rates make “shopping” a budgetary decision
- Premium return considerations are made by carriers, countrywide
- Home - Frequency is flat but severity is down
- Auto – Severity is down but frequency is flat/up
- Shortages in materials, supplies, parts

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Industry Assumptions of Frequency Vs Severity

Frequency Severity Method
[fē-kwān]-sē-sā-'ver-ə-tē-me-thad]

An actuarial method for determining the expected number of claims an insurer will receive during a time period and the average claim's cost.

Investopedia

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Unpopular opinion or just one gal's take?

What exactly is Rebating?

Search results for "is returning insurance premiums rebating?". The snippet states: "Premium rebating is a term used in the insurance industry to describe the process of returning a portion of an insurance premium to the policyholder with the desire to induce an insurance sale. Rebating can be done in various ways, including cash back, discounts on future premiums, or refunds. However, rebating is illegal in the majority of states." Below the snippet are links for "Learn more:" including "What is Rebating in Insurance? | Policy Admin..." and "rebating - IRMI".

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Covid, yes, but what else?

Here are some fast facts about Elliott:

- 18 people d Nebraska: 3
- At one poin storm, the 1
- More than 1 Christmas.
- More than t were simult
- Elk Park, Mc (degrees) an
- The freezing: 1
- 39 inches: T
- 151 mph: T1 Mount Washington Observatory in New Hampshire.

Snowfall Analysis: December 20 - December 24

3- Oklahoma; 1- points during the nergy demands. ando before any of which (minus 74 da. recorded at the

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Independent

Why did your insurance rate go up?

Here are the challenges facing the insurance industry today that are causing increased costs:

- 1. Housing material and labor costs have increased**
Lumber and other construction materials have spiked in price, making the costs to repair and build homes more expensive. It also seen an increase in the cost of skilled labor and the construction of about 200,000 skilled trade workers¹. These factors have likely increased insurance costs.
- 2. The chip shortage**
A crucial component of cars built today, fewer available chips means cars, and as the cost of cars rise, so does the cost to repair if an issue occurs.
- 3. Auto repair and labor costs have increased**
With the chip shortage, more people are keeping their old cars or needing more repairs. The increased demand for car parts and labor, leading to inflated car part costs. Auto repair shops are facing staffing shortages and increased labor costs which are also driving up repair costs.

What Are Some Key Factors Driving Up Home Insurance Rates?

Extreme Weather Events and Catastrophes
Hurricanes, floods, droughts, wildfires and other severe weather events have become more frequent, destructive and costly. In 2021 alone, the United States sustained 20 weather events with losses exceeding \$1 billion each². As weather-related damages go up, so does the cost of insurance overall. Insurers typically adjust rates on a state-by-state basis based on actual and anticipated weather-related losses.

Rising Material Costs
Another key consideration when pricing homeowners coverage is the cost to repair or rebuild a home in the event of a loss. These costs have risen significantly during the pandemic because of:

- A general increase in demand for home renovations.
- A general increase in demand for new construction.
- Supply chain disruptions in the United States and around the world.

 These factors combined have led to limited supplies and inflated prices for most building materials. Consider this sampling of price increases as of October 2021:

- Material goods for new residential construction are up 18.6% over the past year.³
- Lumber and wood products are up 8.2%.³
- Asphalt roofing materials are up 16.3% over last year.⁴
- As building costs go up, so does the cost to repair or replace homes damaged by covered losses.

Job Openings in Skilled Labor
New home and renovation projects may be surging, but the construction industry is facing a skilled labor challenge. The sector had 368,000 job openings as of August 2021,⁵ more than twice the projected number of annual openings.⁶

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Phew, at least that disaster is over!

Auto Insurance Costs Soar by 20% in the US
By Michael Sasso | January 12, 2024

Insurance Journal
129,502 followers

According to Munich Re, natural catastrophes in 2023 caused global economic losses of US\$250 billion, with insurers and reinsurers paying \$95 billion of that amount. The losses of \$95 billion are close to the five-year average of \$105 billion but lower than the 2022 price tag of \$125 billion.
<https://lnkd.in/dm78pdhm>

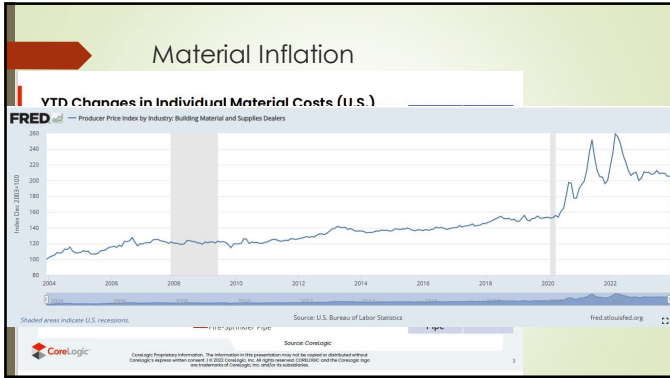
Insured Price Tag for Natural Disasters Was \$95B in 2023 With Economic Cost of \$250B

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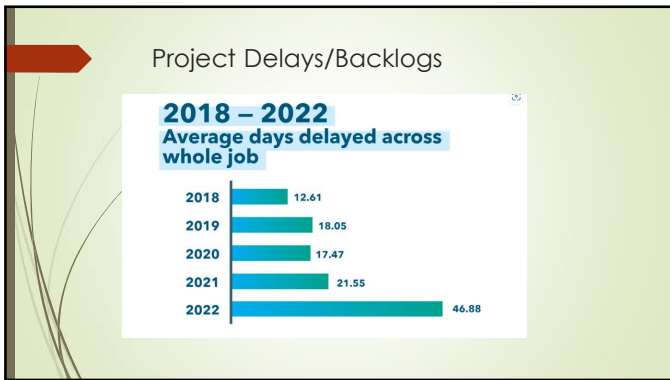
Hyperinflation in Homeowners

- ▶ Materials
- ▶ Delays
- ▶ Workforce shortages
- ▶ Supply Chain Disruption

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Workforce Shortages

Number of Trade Laborers in the United States

OCCUPATION TITLE	NUMBER OF WORKERS IN 2018	NUMBER OF WORKERS IN 2019	NUMBER OF WORKERS IN 2020
Construction Laborers	1,001,476	1,000,000	975,333
Plumbers, Pipefitters and Steamfitters	408,070	402,870	401,440
Carpenters	25,000	25,000	23,000
Drywall and Ceiling Tile Installers	101,000	102,800	90,700
Coverers	78,700	79,170	69,000
Construction Trades Workers	4,487,440	4,457,440	4,430,070
Painters, Construction and Maintenance	238,420	232,700	215,880

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Reflecting a Weakening Housing Market, Builder Confidence Declined Every Month in 2022

Is it getting better?

High mortgage rates, elevated construction costs running well above the inflation rate and flagging consumer demand due to deteriorating affordability conditions have dragged builder sentiment down every month in 2022.

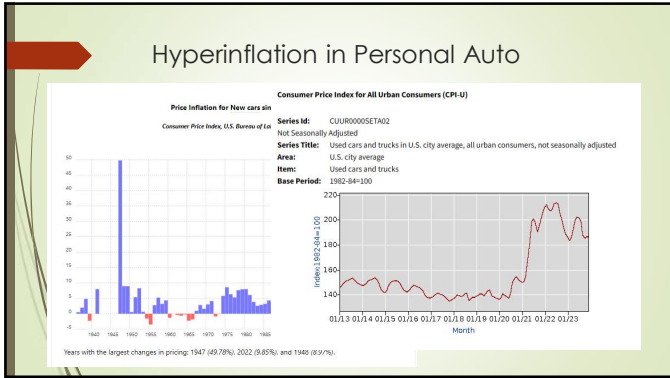
Builder confidence in the market for newly built single-family homes posted its 12th straight monthly decline in December, dropping two points to 31, according to the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI) released today. This is the lowest confidence reading since mid-2012, with the exception of the onset of the pandemic in the spring of 2020.

"In this high inflation, high mortgage rate environment, builders are struggling to keep housing affordable for home buyers," said NAHB Chairman Jerry Konter, a home builder and developer from Savannah, Ga. "Our latest survey shows 62% of builders are using incentives to bolster sales, including providing mortgage rate buy-downs, paying points for buyers and offering price reductions. But with construction costs up more than 30% since inflation began to take off at the beginning of the year, there is little room for builders to cut prices. Only 35% of builders reduced homes prices in December, edging down from 36% in November. The average price reduction was 8%, up from 5% or 6% earlier in the year."

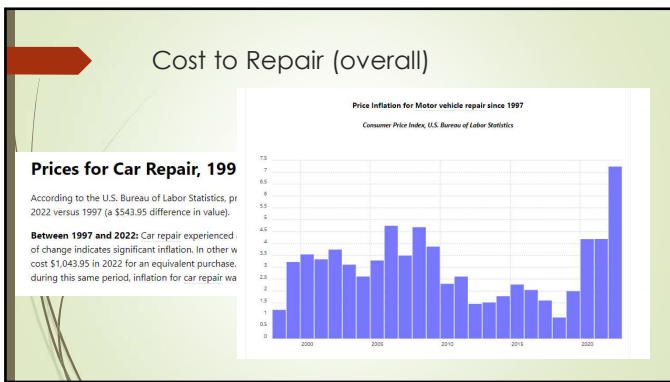
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- ### Hyperinflation in Personal Auto
- ▀ Cost of new cars
 - ▀ Cost of used cars
 - ▀ Inventory scarcity
 - ▀ Cost of repair and parts
 - ▀ Rental Cars

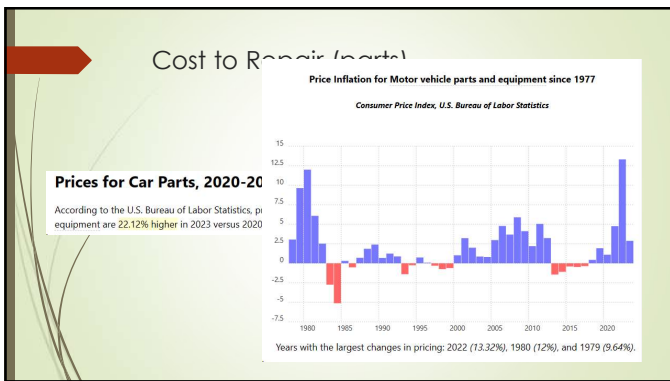
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Inventory (New)

Prices for Cars, 2020-2023 (

According to the U.S. Bureau of Labor Statistics, p
2023 versus 2020 (a \$4.26 difference in value).

Price Inflation for New cars since 1935
Consumer Price Index, U.S. Bureau of Labor Statistics
Inflation rate in 1947: 49.78%

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Inventory

Prices for Used Cars And Tr

According to the U.S. Bureau of Labor Statistics, p
higher in 2023 versus 2020 (a \$6.52 difference in

Price Inflation for Used cars and trucks since 1952
Consumer Price Index, U.S. Bureau of Labor Statistics
Years with the largest changes in pricing: 2021 (26.63%), 1981 (23.43%), and 1975 (19.52%)

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Workforce Shortages

The qualified technician shortage has been a growing industry problem for many years, as older generations of mechanics retire without sufficient interest among younger people to fill this job. Our industry has struggled to recruit new technicians and, in some cases, convince their parents that there is a rewarding and lucrative career alternative to pursuing a four year college degree. Maintenance and repair technicians keep the American fleet rolling and, in turn, directly impact nearly everyone in the auto care industry. Automotive technician employment in 2019 totaled more than 914,200 men and women at general repair shops, vehicle dealerships and gasoline service stations.

There are some indications that the more sophisticated nature of vehicles today, and the computer proficiency necessary to properly diagnose them, may begin to reverse these attitudes towards a career as a vehicle tech. The Bureau of Labor Statistics projects automotive technicians' employment to grow 6.1 percent annually through 2026. The increased number of vehicles in operation, reflecting continued growth in the number of multi-car families, will drive this growth.

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Rental Cars

Prices for Car And Truck Rent
 According to the U.S. Bureau of Labor Statistics, price higher in 2023 versus 2020 (a \$7.65 difference in value)

Price Inflation for Car and truck rental since 1997
 Consumer Price Index, U.S. Bureau of Labor Statistics

Year	Price Inflation (%)
2000	-2
2001	2
2002	-2
2003	3
2004	-1
2005	2
2006	1
2007	2
2008	-1
2009	7
2010	-1
2011	1
2012	1
2013	1
2014	1
2015	1
2016	1
2017	1
2018	1
2019	1
2020	48
2021	-1
2022	-1
2023	-1

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In the thick of it...

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Coverage A Reviews

- Carriers re-underwriting Coverage A
 - Is there enough coverage considering inflation?
 - Are we collecting enough premium for the exposure?

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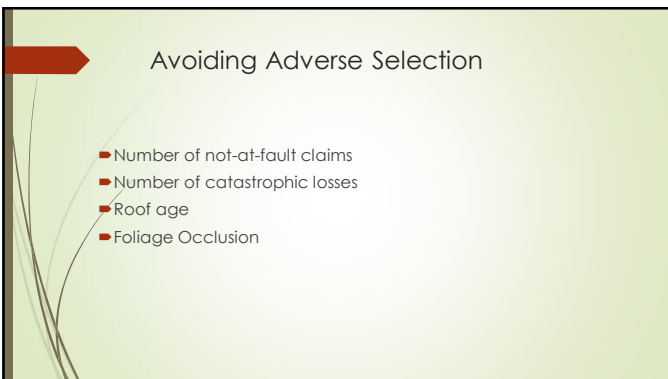


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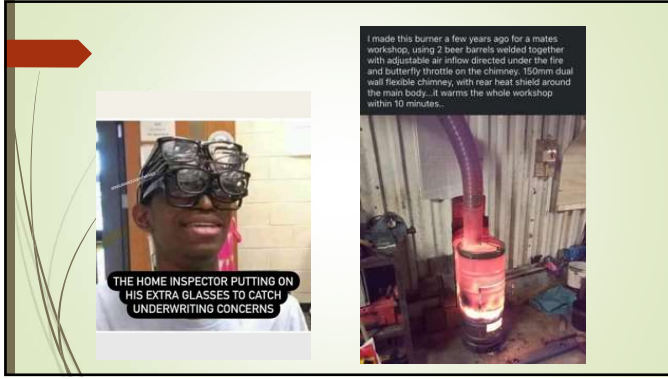
Mass Underwriting/
Appetite Changes

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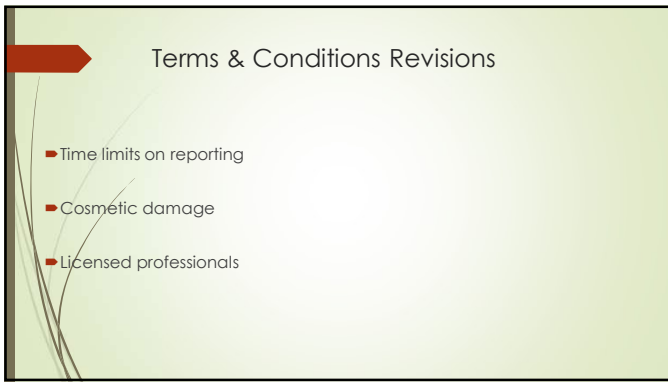


- Number of not-at-fault claims
- Number of catastrophic losses
- Roof age
- Foliage Occlusion

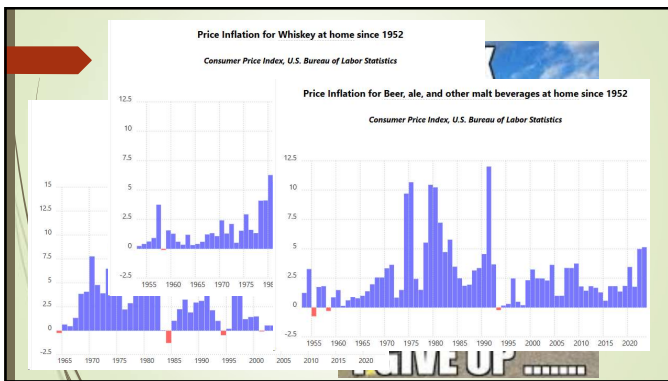
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What now?

It starts with us:

Accidents: Both at-fault and not-at-fault

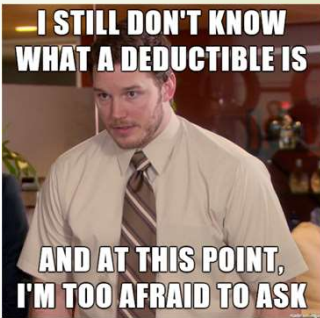
Just like with violations, at-fault accidents on your driving record often indicate you're at risk for more, and insurance companies will price you accordingly. You may ask, will my insurance go up if I file a claim for an accident that isn't my fault? In some cases, yes — even accidents you didn't cause can increase your rate in states that allow it, as insurers have data showing that some drivers have a propensity for not-at-fault accidents.

Comprehensive claims

Depending on your insurance company and your state, your rate may increase for damage-related incidents that were out of your control. Your rate may go up if you have comprehensive auto coverage and file a claim for incidents like car theft and vandalism, hitting a deer, fire, glass breakage (including a cracked windshield), hail/weather-related damage, and other acts of nature.

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Applying Deductibles & Schedules in the New Normal



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Applying Deductibles & Schedules in the New Normal

A client with a home value of \$600,000 and a 15-year-old roof... Estimated value to replace the roof \$25k:


Applying Deductibles:

The base ISO schedule = 55% or a payment of \$13,750 – and then still subtract whatever the all-peril deductible is

Applying Wind/Hail:

W/H Deductible of 1% = a payout of \$19,000
W/H deductible of 2% = a payout of \$13,000


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Protecting Future Insurability

- Insurance isn't a maintenance policy
- Neighbor-itis is not a covered peril
- Do I have a new business market for you after this claim?

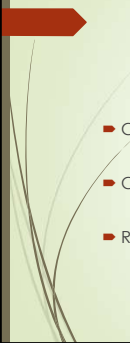
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Cost Sharing & Self-Insurance

- Auto vs home deductibles & payouts
- Combating "this is why I have insurance objections"
- E & O

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The E & O Quandary

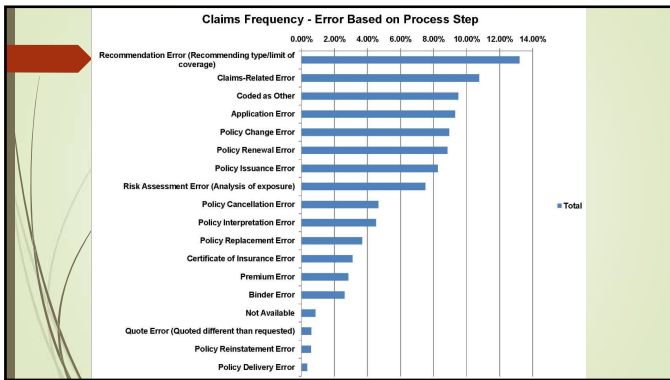
- Claim Filing
- Coverage Reductions
- Remarketing

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E & O Tips - Claim Handling

Regardless of instruction from the customer, report all claims to the carrier

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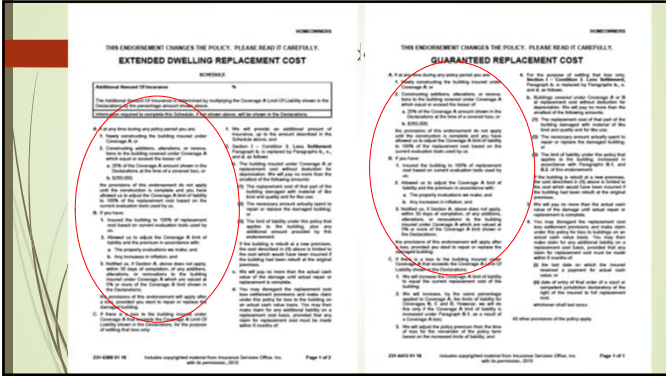


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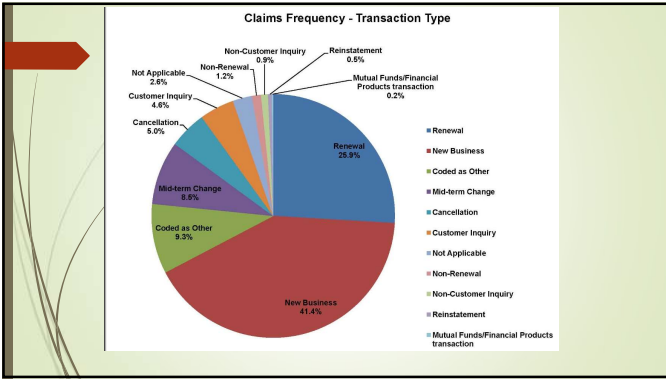
Reducing Coverages – Intentionally and Unintentionally

- Extended & Replacement Cost Homeowners Endorsements
- Homeowners Coverages with Separate Deductible Clauses
- Internal Limits
- Rental Car Limits
- Roadside Assistance

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Best Practices for Agents

- Involve the insured in the replacement cost evaluation
- Waivers for de-selected/declined coverages
- Exposure interviews
- Questionnaires/Reviews
- Is remarketing and rewriting a risk as new business a good practice?
- There is NEVER a good time to delete an umbrella

Renewal Reviews

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In Class Work – You have 2 Index Cards

- On the one you saved:

Write down your answer to this client question:


My rate for home and auto insurance went up and can you find me a better price please?

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Wrapping Up

- NOW is the time your insureds need you!
- Understand the new normal of personal lines create procedures to minimize E & O exposure

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Nicole Broch, CIC, CISR, PLCS
Insurance Education & Professional Development



Thank You!

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