

WSJ Print Edition

image



Repair work begins on a Utica, Ind., home damaged in a tornado in April. MATT STONE/ USA TODAY/ REUTERS

Why Insurance Bills Won't Come Down

The factors making cars and homes more expensive to insure are difficult to tackle—especially at once

Inflation is rarely a simple thing to address, but rising insurance premiums for people's homes or vehicles might be especially tricky.

Both major-party U.S. presidential candidates have recently talked about these costs for consumers. Former President Donald Trump vowed to cut increases in auto insurance in half. Vice President Kamala Harris, during the presidential debate, talked about the impact of extreme weather events on the price and availability of home insurance.

There is already a lot of regulation of consumer insurance rates by state agencies, and some rising rates have recently shown signs of slowing. Helping to actually get prices down might require addressing some of the underlying causes of premium rises. And while voters might not like higher insurance rates, they won't necessarily love some of the antidotes, either.

Surprisingly, the simplest thing to address might be general inflation. Already, as consumer-price inflation has eased, so has pressure on some of the costs of covering an auto claim, notably motorvehicle repair and maintenance. And as claim costs come down, competition can come in. Auto insurers battle for market share and might look to take advantage of easing loss trends by undercutting rivals on price to attract policy shoppers.

More than a fifth of personal auto-insurance rate filings effective in the third quarter are for negative average rate changes, according to Swiss Re Institute analysis of state filings. *

Economists at the institute this month lowered their forecast for overall property-casualty premium growth across personal and commercial lines in 2025 to 4%, from a prior expectation of 5%. They also increased their 2024 growth estimate to 9.5%, from 8% previously. *

But while prices of auto parts or lumber for a new house can go up or down, they aren't the only input. Auto insurers have pointed to multiple factors such as changes in accident frequency and severity. And in general, insurers for houses, autos and businesses also have to consider what is broadly referred to as "exposure." Higher exposure can be driven by much bigger trends such as economic growth, population shifts and increases in the values of what is being insured. *

A major factor in the U.S., particularly for home insurance, has been patterns in population growth. Faster growth has come in parts of the country more susceptible not just to hurricanes, but also to a range of so-called secondary perils such as floods, tornadoes, hail storms and wildfires in the U.S. South and West, according to a July report on homeowners insurance by AM Best. *

The report also noted that shrinking average household size means that a growing population can result in relatively larger rises in real property development and, in turn, insured values. The ratings agency wrote that "one of the major contributors to the rise in insured losses is population migration into areas where weather-related events are occurring more frequently."

Changes in what is built can add to exposure, too. Newer building materials may be costlier to repair. Hailstones landing on solar panels can also add to a disaster's costs. According to Patrick Hauser, head of energy property in North America for Swiss Re Corporate Solutions, growth in utility-scale solar sites in hail-prone states like Texas over the past 10 years means "the industry is starting to see losses that would not have happened with the same amount of hail in the past."

Insurers for years have been tracking increases in claims costs that aren't readily explainable by price inflation or economic-exposure growth, including for lines such as casualty insurance that cover people rather than property. Insurers often talk about "social inflation" and link it to things like customers making more frequent claims, more frequent litigation of them and bigger jury awards.

Verisk Analytics recently said its latest models estimate the global insured average annual loss from natural catastrophes at \$151 billion. That is based on current trends for catastrophe events and what impacts losses from those events. The figure is what Verisk, which provides models and data to insurers, says insurers should be prepared for on average annually. It increased by almost twice as much in dollars as it did the prior year. *

Climate change plays a role, too, and its effects can compound over time, Verisk said. But its effects year-by-year might not be as significant as other factors in the near term. +

Verisk estimated that about 1 percentage point of the 7% average annual growth in its model estimate for average annual insured losses from 2012 to 2024 was related to identifiable factors linked to climate change, such as the frequency or intensity of events.

Being adequately prepared for longer-term changes to risk also could continue to push up what it costs for insurers to buy their own insurance. Pricing for so-called reinsurance—which is often intended to cover the most extreme events—has risen sharply over the past couple years, and coverage terms have tightened. This reset was sparked in part by higher interest rates leading to a reduction in capital supplied to the sector.

* But even as profitability for reinsurers has jumped, and as interest rates come down, providers aren't expected to start giving dramatic concessions, having struggled in the past to keep up with rising loss costs.

Any number of economic measures might help take some of the pressure off insurance rates, including fighting price inflation, addressing climate change and ways to mitigate its effects, and lowering interest rates. The trouble is that big changes might require doing all of them, and more.

—Telis Demos

Copyright (c)2024 Dow Jones & Company, Inc. All Rights Reserved. 9/28/2024
Powered by TECNAVIA

The following is a digital replica of content from the print newspaper and is intended for the personal use of our members. For commercial reproduction or distribution of Dow Jones printed content, contact: Dow Jones Reprints & Licensing at (800) 843-0008 or visit djreprints.com.

Saturday, 09/28/2024 Page .B011

Copyright (c)2024 Dow Jones & Company, Inc. All Rights Reserved. 9/28/2024

