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Private auto loss ratios hit new 5-year highs in majority of states in 2016

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The U.S. property and casualty industry generated its highest level of private-passenger auto losses in at least the last five years in 34 states and the District of Columbia during 2016, highlighting the pervasiveness of the challenges created by elevated frequency and severity of claims.

The homeowners line generally produced a lower level of loss experience, though catastrophes served to pressure results in several states. Eleven states recorded their highest level of homeowners losses in at least the past five years during 2016, but nine states saw their strongest results through the same timespan in the business line.

The industry's total-filed direct incurred loss and defense and cost containment expense, or DCCE, ratio for the combination of the private-passenger auto physical damage, other private-passenger liability and private-passenger auto no-fault lines increased to a 15-year high of 74.4% in 2016 from 70.9% in 2015. The loss and DCCE ratio in the homeowners line also increased year over year to 54.1% in 2016 from 51.3% in 2015, but it remained well below the 60%-plus ratios that the industry experienced from 2008 through 2012.

The nature of insurance coverage for flood-related losses created a situation where Louisiana ranked as the most unprofitable state for private auto business and among the most profitable states for homeowners coverage in the same calendar year. The area around Baton Rouge, La., was hard hit by flooding in mid-August 2016 that caused what Swiss Re estimated to amount to economic losses of $10 billion, but only $3.10 billion of insured losses.

Louisiana's private auto direct loss and DCCE ratio spiked to an industry-worst (and worst-since Hurricane Katrina) 95.6% in 2016 from 75.1% in 2015, driven by soaring auto physical damage losses and, consistent with most of the rest of the country, the highest private auto liability losses since 2001. The homeowners business, in which policies generally exclude coverage for water-damage losses caused by floods, produced a direct loss and DCCE ratio of 39.2% in the state. While that marked an increase of 10.1 percentage points on a year-over-year basis, it was still low enough to rank fifth-best in the nation.

Severe spring hailstorms in San Antonio and north Texas contributed to that state's ranking as the fourth most unprofitable market for private auto and homeowners business, alike, in 2016. Swiss Re estimated that the insured losses associated with the two hailstorms totaled $4.68 billion.

The state's overall private auto direct loss and DCCE ratio increased to what serves as at least a 20-year high of 81.6% from 73.9% in 2015 as the private auto physical damage ratio surged to nearly 85% from 70.6%. The other private auto liability direct loss and DCCE ratio inched to at least a new 20-year high of 79.3% in 2016 from 77.1% in 2015.

The homeowners direct loss and DCCE ratio in Texas increased to a level of considerably less historical significance, but at 88.7% it marked an increase from 55.0% in 2015 and marked the state's highest such result since 2008. The ratio thrice exceeded 118% in the past 16 years.

San Antonio-based United Services Automobile Association specifically referenced the hailstorm in its home market in a discussion of its $169.2 million 2016 net underwriting loss in its annual statement. The company reported that the event, which took place during "a year of historic catastrophe losses and claims," impacted an area that includes a "significant concentration of policyholders. The company also cited "a number of external factors" impacting the auto insurance industry, overall, such as higher miles driven and rising vehicle repair costs for boosting the frequency and severity of claims.

The 2016 result marked only the second net underwriting loss for USAA, on a stand-alone basis, in the past 15 years, and Texas losses appeared to play a significant role in that outcome. The direct loss and DCCE ratio of USAA on a stand-alone basis in Texas spiked to 136.9% in 2016 from 65.9% in 2015 in the homeowners line and to 116.7% in private auto physical damage from 79.9%. While USAA's other private auto liability direct loss and DCCE ratio improved modestly on a year-over-year basis, it remained at an historically elevated level of 99.7%.

Michigan, Colorado and Nevada joined Louisiana and Texas as the five most unprofitable states for private auto business. In Michigan, direct private auto results tend to be inflated by the nature of the state's no-fault system that provides unlimited lifetime coverage for medical expenses that result from auto accidents. In the homeowners line, Montana, Nebraska, North Dakota, Texas and Colorado generated the highest direct loss and DCCE ratios.

Three New England states produced the lowest private auto direct loss and DCCE ratios in 2016: Vermont, Maine and New Hampshire. The region's homeowners results also compared favorably to most of the rest of the nation, with the homeowners direct loss and DCCE ratios in Maine, Massachusetts, Connecticut, Vermont and New Hampshire ranking among the eight-lowest recorded in 2016. The homeowners experience in Massachusetts was particularly noteworthy as the industry's 37.8% direct loss and DCCE ratio in that state marked an improvement from a worst-in-the-nation 111% in 2015.

Severe weather during the winter of 2015, highlighted by record snowfall in Boston and an onslaught of resulting ice-damming claims, drove the unusually high direct loss and DCCE ratio on an industrywide basis. Among Massachusetts' top 20 homeowners insurers as measured by 2016 direct premiums written at the group level, 13 generated direct loss and DCCE ratios of 100% or more in 2015 in the homeowners line in that