American Property Casualty Insurance Association

House Economic Matters Committee

HB1159 Insurance - Property and Casualty Insurance - Minimum Acceptable Loss Ratio and Premium

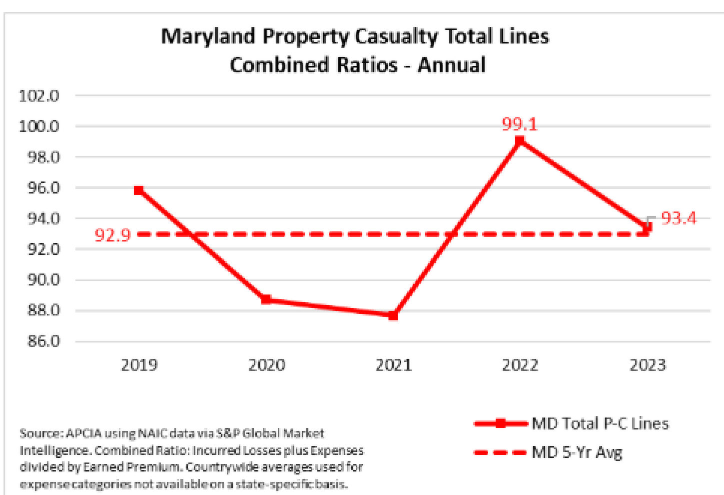
February 26, 2025

Letter of Opposition

The American Property Casualty Insurance Association (APCIA) is a national trade organization whose members write approximately 71.4% of the total property casualty insurance written in Maryland. APCIA appreciates the opportunity to provide written testimony in opposition to HB 1159.

This bill would apply a minimum loss ratio of 85 percent to all property casualty lines and require refunds if that minimum is not met. We know of no other state that has such a requirement in place for property and casualty insurance. It is more commonly seen in health insurance regulation which is vastly different from property casualty in terms of the wide variety of coverages, as well as the expenses associated with underwriting and claiming expenses. Another sharp contrast is that property and casualty coverages involve liability claims being made against a policyholder by a third party, a very different dynamic than health insurance claims. This bill makes no provision for those expenses.

On average, property and casualty losses and expenses in Maryland were $0.93 per dollar premium collected for the 2019-2023 five-year period.



Attached to our written testimony are exhibits with additional information on the Property and Casualty insurance market as well as the Auto and Homeownes market in Maryland. If this bill were in effect over those 5 years, it is very unlikely that an insurer could be profitable unless it ceased any kind of defense or claims adjustment expenditure.

In short, this would be a disaster for industry. For these reasons, APCIA urges the Committee to provide an unfavorable report on House Bill 1159.

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Property & Casualty Insurance Affordability and Availability: Basic Principles

The following is intended to provide a high-level overview of insurance market pressures and the resulting impact on property and casualty rates and rising premiums.

Insurance premiums have recently been climbing, which can impact the affordability of insurance coverage for some consumers. The following provides a brief outline of some of the basic concepts of insurance, how it works, and why costs are rising.

What is insurance: It's a financial protection tool that allows consumers to transfer the risk of a loss that they might not otherwise be able to afford. This type of loss could include the cost to repair or rebuild a home or business or replace a vehicle that is damaged or destroyed in an auto accident. Because the basic premise of insurance is the spreading of risk, simply put, the cost of insurance is the cost of claims spread across a significant number of insureds – and those costs are on the rise.

How does insurance work: The insurance premium paid is the amount of money charged by an insurance company in exchange for the financial protection provided to the policyholder by their policy. The rates that are used to develop the premium are based on the frequency and cost of claims across all insureds that have a similar risk of loss, as well as on the individual and risk insured by a specific insurance policy. Each state, including Maryland, closely regulates rates to ensure that costs included, and the resulting premiums charged, are appropriate.

The underlying cost of the losses drives the rates charged: To ensure insurance companies have adequate financial reserves to pay claims, over time an insurance company may need to adjust rates to reflect the current cost of claims. Generally, when insurers pay more in claims than they receive in premiums, this can threaten the financial health of an insurer, including potential insolvency in the event of a significant loss, such as a natural disaster.

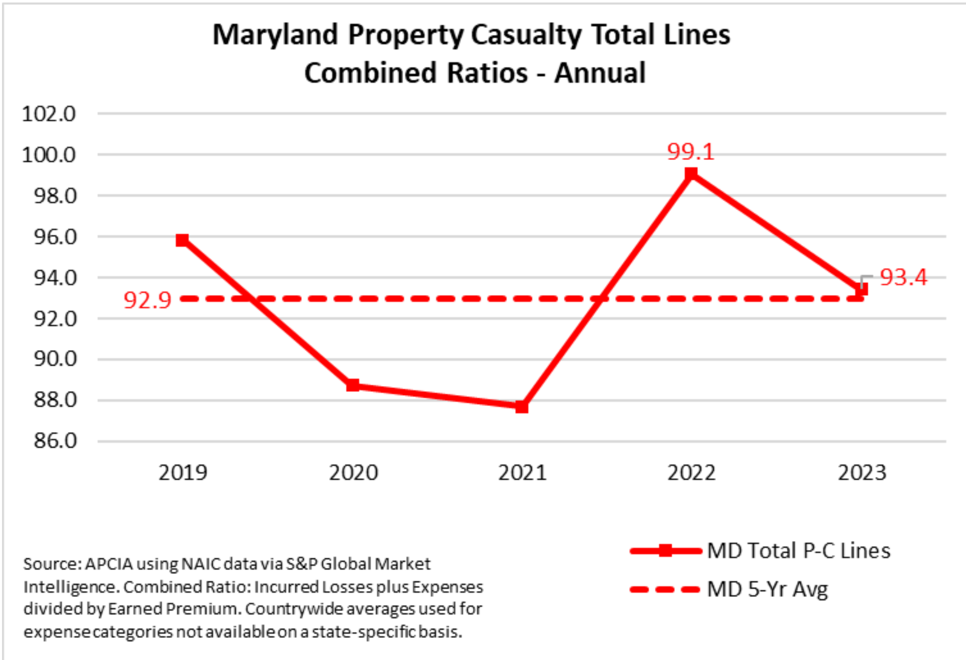
The top 3 factors impacting insurance rates today:

1. Record inflation (reached a 40 year high in 2022, and medical, material, and labor costs remain elevated);
2. Increasing property values at risk as people live and work in more expensive homes and buildings in hazard-prone areas; and
3. More dangerous driving habits that emerged following the pandemic – undoing years of improvement -- and more complex vehicle technology that results in more costly repairs.

Thus, with losses ballooning and available capital to pay losses shrinking, insurers may be raising rates, or in some cases making the difficult decision to scale back coverages in high-risk areas, to make sure they are able to fulfill their commitments to their policyholders.

The numbers tell the story: Following is Maryland-specific information, reflecting all types of property casualty insurance:

- On average, losses and expenses in Maryland were $0.93 per dollar of P&C industry premium collected for the 2019-2023 five-year period, with recent costs in Maryland averaging higher.



A December 2024 article from A.M. Best, an insurance financial rating organization, revised its outlook for the U.S. personal lines segment to Stable from Negative, in line with a corresponding change in the personal auto outlook to Stable from Negative. The article explained the March 2024 Negative outlook for homeowners reflects the negative impact of inflation on loss costs driving a higher level of loss experience, elevated severe weather activity, and adjustments to reinsurance pricing and programs.

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Overview of Homeowners Market Pressures

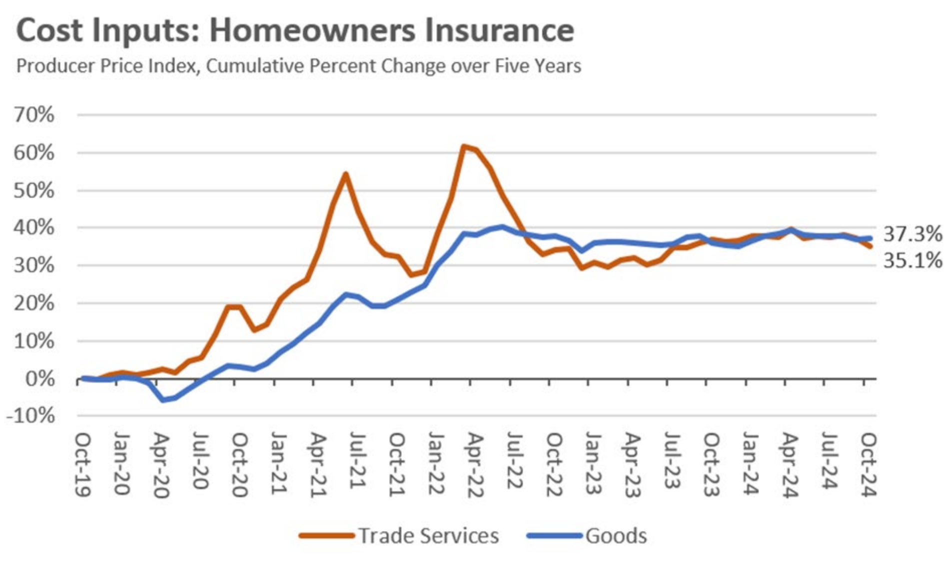
Reasons for the Increase in Homeowners Insurance Premiums

There are several factors that are increasing the challenges that homeowners face regarding the affordability and availability of insurance. The top factors include the forty-year record inflation the country is experiencing, and the significant increase in costly natural disasters. Consider the following:

- Insurers incurred a record $381 billion in natural catastrophe losses between 2020 through 2023 – the highest ever four-year total for U.S. insurers, according to Aon.
- In 2024, U.S. insurers accrued $84 billion in insured natural catastrophe losses, according to Munich Re. This includes $25 billion in insured losses from Hurricane Milton, the costliest insured event globally for the year, while severe storms in the U.S. accounted for $41 billion in insured losses, the second costliest year after 2023 for the peril (i.e., thunderstorms that may produce hail or tornados).

Key Cost Drivers

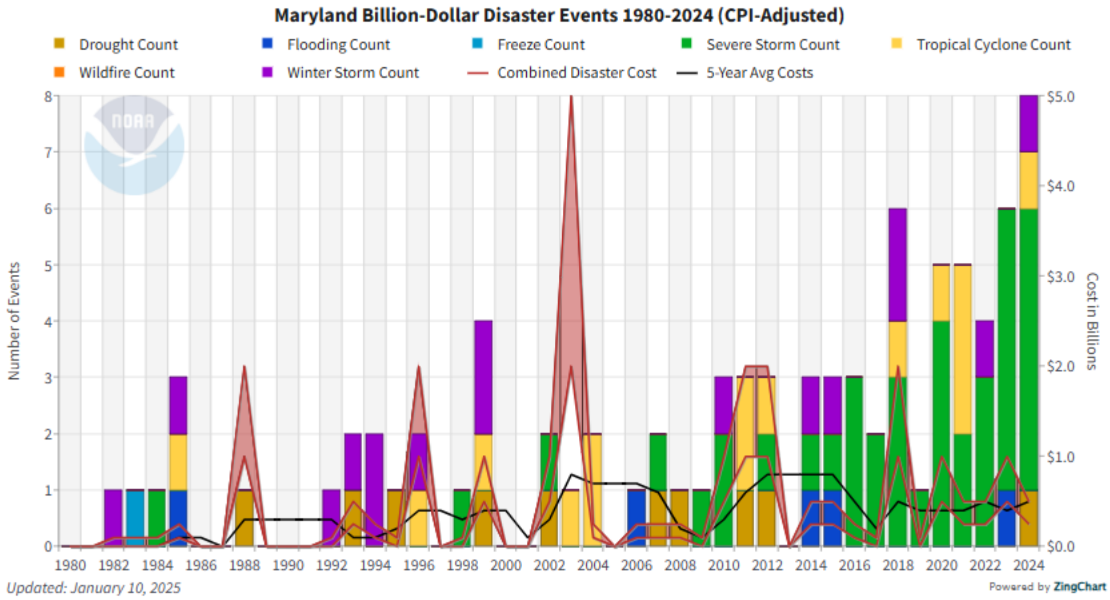
Inflation has put significant pressure on insurance rates. Since the COVID-19 pandemic, inflation rates for property reconstruction have climbed higher than the broader consumer price index (CPI), which dramatically increased rebuilding and repair costs. And despite recent reductions in home building and repair costs, cumulative price increases for construction services in the last five years have risen 35.1 percent, and prices for construction goods rose 37.3 percent over the same period. Principle drivers of cost inflation for home insurers have far outpaced the growth in home insurance premiums over the past five years.



Producer Price Index: Inputs to Single Family Residential Construction, Trade Services ("Labor"); Goods. Source: Bureau of Labor Statistics. Monthly data as of November 18, 2024.

Maryland-Specific Cost Considerations

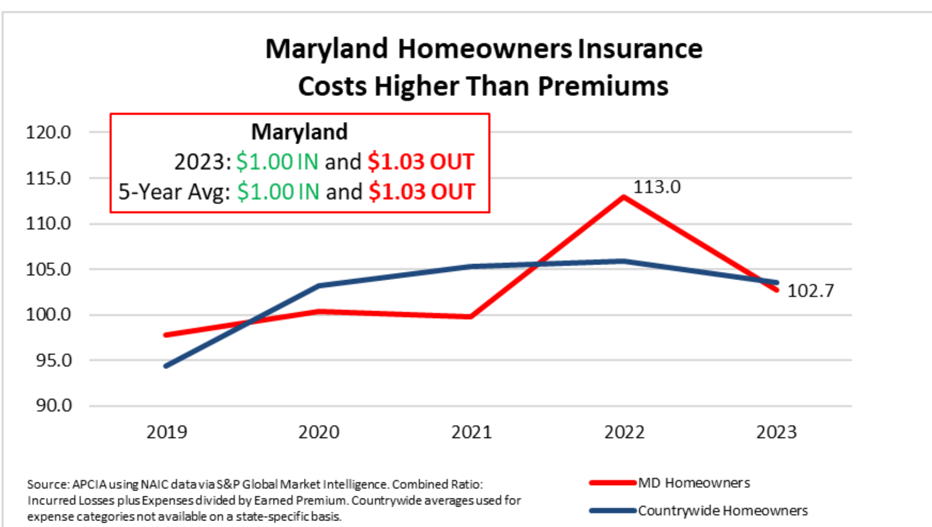
Maryland is experiencing meaningful increases in the number and severity of natural disasters. The following chart shows the significant increase in the number of severe weather events in Maryland beginning in the mid-2010's.



Source: https://www.ncei.noaa.gov/access/billions/state-summary/MD

In addition to the rising costs related to natural disasters, another driver of increased insurance costs can be attributed to rapid population growth in areas that have either traditionally been or are becoming catastrophe prone. As more homes are being built, and these homes are increasingly expensive to rebuild, due to inflation and other factors, the impact of increased costs of insurance are being felt by consumers.

Recent loss trends and rising costs in Maryland have resulted in significantly higher losses than premiums collected. Over the last five years (2019-2023) the chart below shows that Maryland insurers' losses and expenses averaged $1.03 for every $1 in premium collected, and this follows an extremely poor result in 2018 which averaged $1.27 out for every $1 of premium.



With losses ballooning and available capital to pay losses contracting, insurers have to make tough decisions regarding what coverage they will offer in order to ensure they are able to fulfill their commitments to their policyholders.

Additionally, a March 2024 article from A.M. Best, an insurance financial rating organization, indicates a "negative outlook" for homeowners insurance.

Reduce Risk to Improve Affordability

To improve insurance affordability and availability, we must all work together to reduce losses. More homes and communities across Maryland can and should be strengthened to be more resilient. The Insurance Institute for Business & Home Safety (IBHS) has developed scientifically proven standards that enable homes and businesses to withstand increasingly severe storms, including specific upgrades that exceed current building codes. Strengthened building codes are critical to improving resilience against natural perils.

To help reduce insurance premiums, consumers may also consider selecting higher deductibles, which allows consumers to increase or decrease their portion of the risk in order to best fit their needs and budget.

For more information

- Factors Influencing Insurance Availability and Affordability for Consumers (December 2023): Link
- Ways to reduce premiums (April 2022): Link

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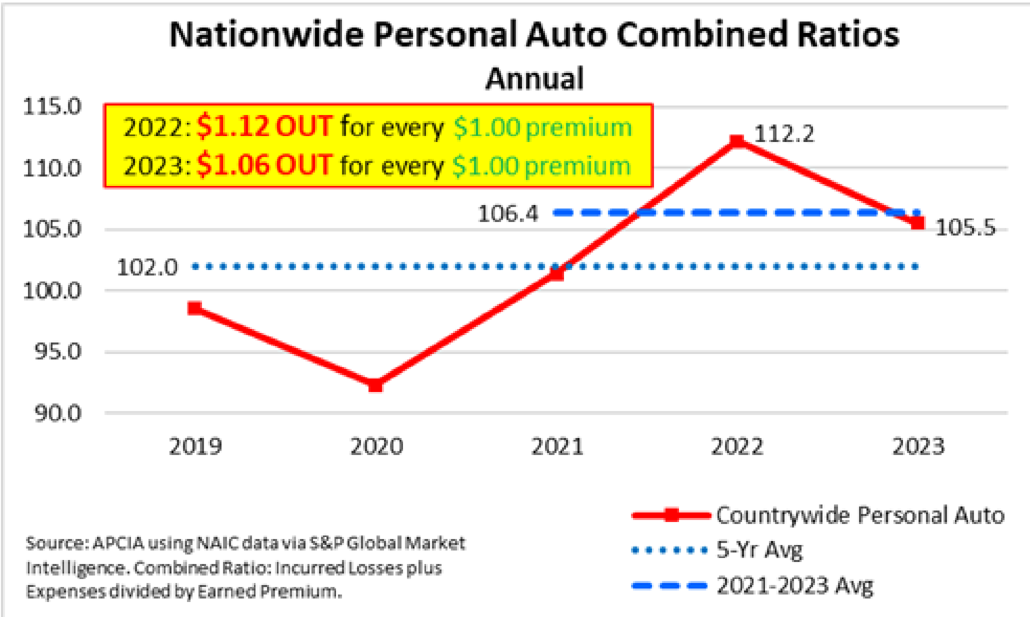
Overview of Personal Auto Market Pressures

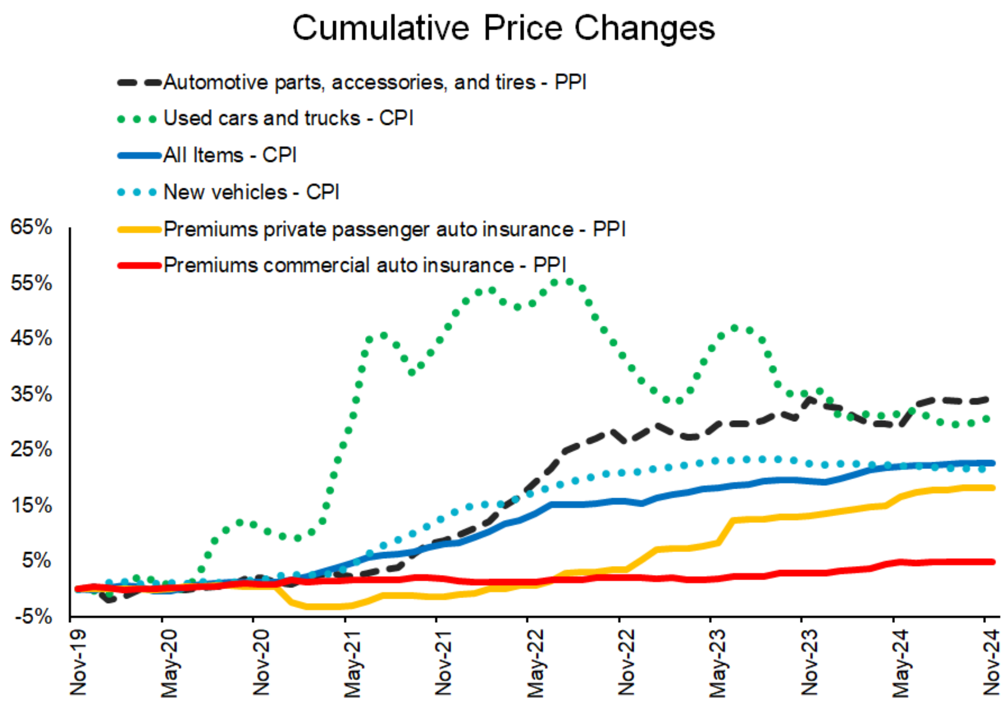
Across the country, personal auto insurance premiums are on the rise for the simple reason that the cost of the things that auto insurance pays for has been rising faster than premiums. Despite the pandemic-related decrease in claim costs in 2020, the 3-year 2021-2023 insurer average cost for claims and expenses ($1.06 for every $1.00 in premium) was above the 2019 pre-pandemic level. In 2022, auto claim losses and expenses spiked to more than $1.12 for every $1 in premium and remained high at $1.06 in 2023.



U U.S. personal auto loss ratios, which compare losses excluding expenses to premiums, spiked to 85 percent in the fourth quarter of 2022, reaching the highest quarterly loss ratio in more than 20 years. And the personal auto loss ratio for 2023 remained well above the 2016-2020 five-year average (75 for 2023 vs 65 avg.).

Key Cost Drivers- Countrywide

The overall rate of inflation continues to be between 2 and 4 percent year over year. As the chart below illustrates, key cost drivers for auto insurance rose much faster than auto insurance premiums over the last five years. For example, while personal auto insurance increased by 18.3 percent, on average, the cost of motor vehicle parts has increased by 22.9 percent, and the cost of motor vehicle repairs has risen by 23.4 percent. Used car values, which have increased by 31 percent over the last five years, also impact the cost of total loss claim settlements which are based on the value of the total loss. Higher vehicle values also allow vehicles that have incurred more damage to be repaired, driving repair costs higher.

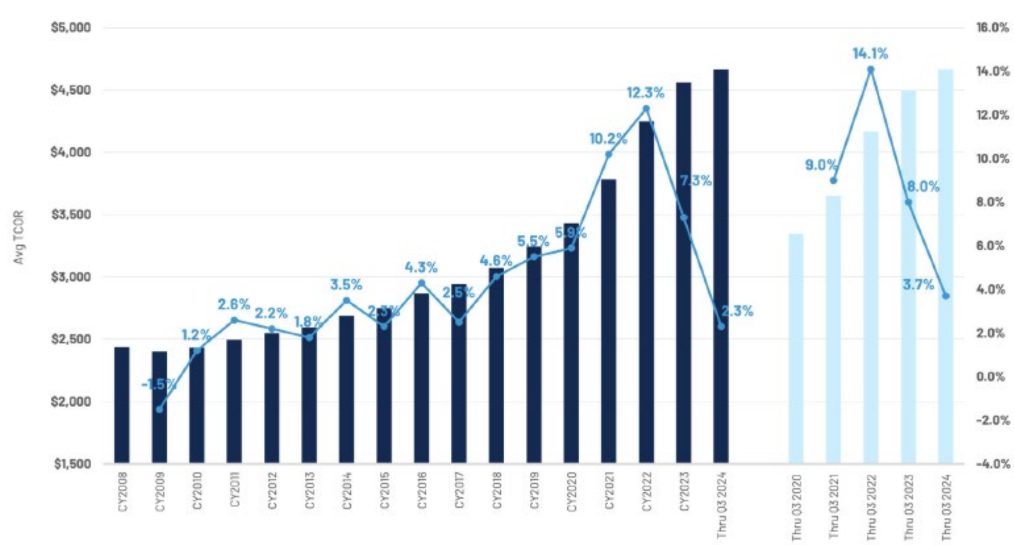


Source: Bureau of Labor Statistics.

The increasing sophistication of the technology in today's vehicles also contributes to rising costs. Vehicles with advanced technology require more parts to be replaced, higher labor costs, and additional operations for scanning and calibration of systems, which means that repair costs overall have risen, with repair costs experiencing their largest year-over-year increases recorded by CCC Information Services, the largest provider of estimating tools to repair shops and insurers. Those more complex and expensive repairs are taking longer, and that shows up in higher rental vehicle costs. According to data from Enterprise Rent-A-Car, the average insurance rental has increased from just over 13 days in 2021 to nearly 16.3 days in 2024, after reaching a peak of 18.7 days in 2023.

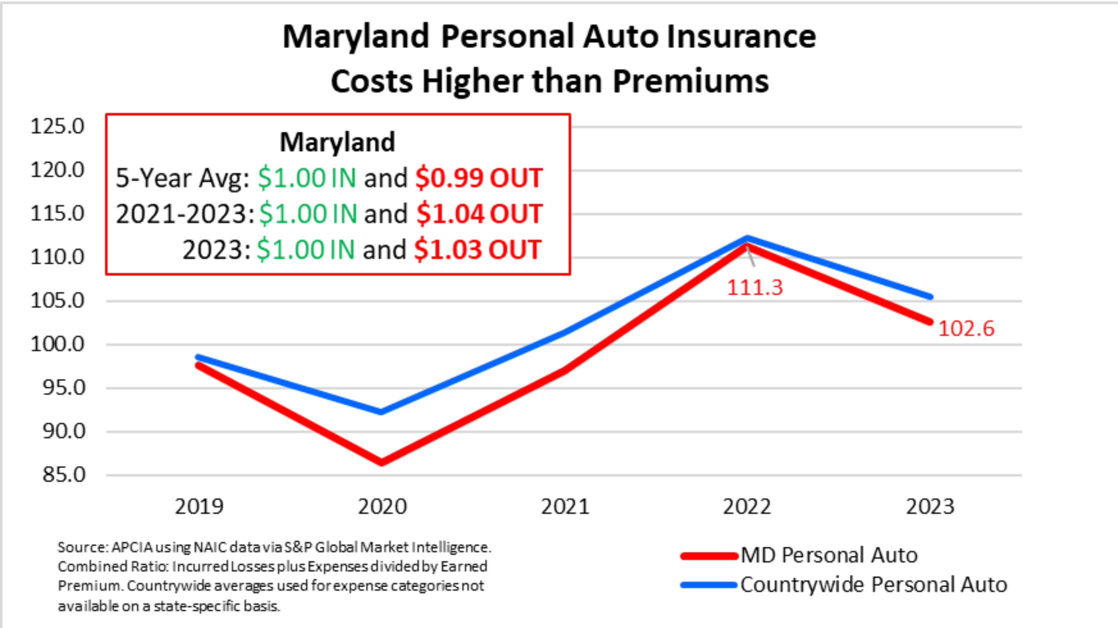
Vehicle Repair Figure 1: CCC National Industry, Average Total Cost of Repairs – All Loss Categories Repairable Appraisal Statistics

SOURCE: CCC INTELLIGENT SOLUTIONS INC.



Maryland-Specific Considerations

Maryland has not been immune to the countrywide trends, but the state has experienced slightly better than the countrywide average for the last five years. However, the national trend of skyrocketing claims costs and expenses brought Maryland just slightly less than the countrywide average the last two years, with claims costs and expenses of $1.11 and $1.03 per dollar of premium collected respectively in 2022 and 2023.



A Challenging Road Ahead

All indicators suggest elevated auto repair and replacement costs will stretch well into 2025 and potentially beyond. Medical inflation is also accelerating. Insurers continue to monitor the situation closely, though as frequency and severity continue to rise impacting injury and vehicle costs, insurers may be forced to pass these loss costs along to policyholders. Given the trends, insurers are strongly encouraging drivers to minimize their risk by avoiding risky driving behaviors that may result in a loss. Insurers are also advocating for better infrastructure, including reliable supply chains for critical auto parts and safer roads, which should result in fewer accidents and lower claims costs that help keep insurance premiums affordable for consumers.

Other APCIA Resources Available:

- Factors Influencing Insurance Availability and Affordability for Consumers (December 2023): Link
- Electric Vehicle Adoption and Impacts for the Insurance Industry (September 2023): Link
- Auto Insurance: The Uncertain Road Ahead (July 2023): Link

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