

Commissioner's Column

February 2018

Louisiana Property & Casualty Insurance Markets in 2017 and Beyond

The beginning of the year is always a time of reflection and review of how things have changed in the previous year. While it's been nearly a decade since Louisiana had a major hurricane make landfall on our coast (Hurricane Gustav in 2008), we shouldn't let this good fortune blind us to the fact that it's not *if* Louisiana will endure a major hurricane, but *when*. In fact, according to the National Oceanic and Atmospheric Administration (NOAA), there were 16 weather disaster events with losses exceeding \$1 billion each across the U.S. including wildfires in California and Hurricanes Harvey, Irma and Maria. The cumulative damage of all 16 events is estimated to top \$300 billion, more than the previous 2005 record of \$214 billion (CPI-adjusted) due to the impacts of Hurricanes Katrina, Rita, Dennis and Wilma that year.

The North American continent, including the Caribbean and Central America, received the lion's share of destruction from natural disasters last year, with 83 percent of overall losses and 93 percent of insured losses worldwide. Now that the costliest hurricane season on record is behind us, the insurance industry is taking stock of the future. In its January 2018 Market Outlook, reinsurance broker Aon Benfield estimates 2017 insured losses to the private sector and government-sponsored programs will approach \$130 billion. However, they estimate that less than a third of those losses fell to the private reinsurance market which remains well capitalized. While some U.S. property-catastrophe reinsurance policies rose 10 to 20 percent during January renewals, global catastrophe rates for 2018 are about 5 percent higher compared to last year.

Here in Louisiana, our homeowners and commercial property markets remain stable. At the end of 2017, the market impact of homeowners rate increases statewide was 1.6 percent. That follows 2016 and 2015 when the market impact of approved changes was 0.8 percent and 0.4 percent respectively. For commercial multi-peril, the market impact of rate changes was +1.1 percent following a 0.1 increase in 2016.

In the auto sector, the market impact of commercial auto rates in 2017 was +5.6 percent. For private passenger auto, the market impact of rate changes was +8.8 percent in 2017. These rate increases can be attributed to the usual issues of accidents caused by distracted driving, more miles logged by drivers and the higher cost of replacing sophisticated parts in vehicles as is being seen across the nation exacerbated by our excessive claims to litigation rate. However, one interesting trend we've seen is among teens and young adults who are delaying getting a driver's license. In the South, which has seen the steepest declines in the country, the share of high school seniors with a driver's license fell from nearly 90 percent in 1996 to 70 percent in 2015 according to the University of Michigan's Monitoring the Future survey. Among 20-24-year olds nationally, the number of those without a license dropped from 92 percent in 1983 to

75 percent in 2014. This phenomenon can be attributed to economic issues as well as new rules imposed on young drivers and the availability of ride-sharing services. It comes with upsides however, in the form of decreased fatal crashes by drivers aged 16 to 19, historically some of the most dangerous drivers on the road according to the Insurance Institute for Highway Safety.

Like the private passenger market, Louisiana's workers' compensation market mirrors national trends. Nationally, employers purchasing this coverage are continuing to see the slight rate increases or flat renewals they have experienced for the last several years. Here in Louisiana, a rate increase of 0.4 percent submitted by the National Council on Compensation Insurance (NCCI) will take effect in May 2018. As of last year, we had about 230 companies writing coverage in Louisiana, a rise of 17 percent over 2007. This increased competition means companies today are paying nearly 30 percent less for the same coverage as they were 10 years ago – and 50 percent less than they were 20 years ago.

While we are proud of our successes, we continue to face challenges in one of the areas that is so critical to the citizens and economy of our state – flood insurance. I will continue to push for long-term authorization of the National Flood Insurance Program as well as for ways to expand the private flood market. There is much work to be done in this area and I look forward to working with our congressional delegation to keep this vital coverage available for Louisiana property owners.