

Commissioner's Column

February 2016

Louisiana Property & Casualty Insurance Markets Update

The property and casualty markets in Louisiana saw positive developments in 2015 with continued stability and as well as signs of growth. Last year we witnessed a noticeable increase in competition in this sector with overall rate increases at 2.5 percent for all lines of business (private passenger and commercial auto, homeowners, commercial multi-peril and workers' compensation).

We continue to work to strengthen competition and have aggressively recruited new companies to our state. By implementing a combination of strategies to rebuild Louisiana's property insurance market, we now have 22 new insurance groups actively writing homeowner policies in our state who were not here prior to the hurricanes of 2005. The homeowners market experienced double digit average rate increases after the 2005 hurricane season but the market has now stabilized, with the average statewide rate change in 2015 at .4 percent. That represents the lowest average statewide rate increase in more than ten years. In 2014, the overall rate increase for homeowners was 2.8 percent. In line with this trend, Louisiana Citizens Property Insurance Corporation, which is required by law to have rates higher than the private market, recently submitted a personal lines rate filing that will result in an average statewide rate cut of -2.4 percent.

For policyholders concerned with rising premiums, it is important to note that insurers' profitability in our homeowners market has not been attractive due to the massive losses resulting from Hurricanes Katrina and Rita. According to the Insurance Information Institute, the Louisiana homeowner insurance industry's return on net worth (RNW) between 2004-2013 (-19.6 percent) is the lowest in the nation with the exception of Mississippi (-25.8 percent) – both of which are far lower than the 10-year average RNW for the homeowners' insurance market nationally (+6.6 percent).

Like homeowners insurers, companies writing auto insurance in Louisiana also face the challenge of profitability. Louisiana ranks near the bottom nationally for the RNW of private passenger auto insurers, with a 3.3 percent return on net worth. That figure places Louisiana only above Michigan which was the least profitable state for auto insurers between 2004-2013.

Louisiana has long been known for having some of the nation's highest auto insurance rates, but recent data from the National Association of Insurance Commissioners (NAIC) shows Louisiana is moving in the right direction. According to the NAIC, Louisiana ranks third nationally with an average premium of \$1308 in 2013. New Jersey continues to rank number one in the nation, followed by Washington, D.C. This is significant because we have seen our ranking for the cost of insurance improve despite our minimum coverage requirements

increasing in 2010 from 10/20/10 to 15/30/25 (i.e. \$15,000 of bodily injury coverage per person/\$30,000 of bodily injury coverage per accident/\$25,000 of property damage coverage).

Other national reports have shown an improvement in our rankings as well. The Insurance Information Institute shows that between 2008 and 2013, Louisiana's ranking for highest auto insurance rates dropped from second highest in the nation to fourth. Insure.com shows similar improvement with Louisiana dropping from most expensive in the nation in 2010 to fourth in 2014.

Though our auto markets remain competitive, starting in 2012 Louisiana's private passenger market saw some hardening of prices, similar to what many other states observed after many years of stable rates that increased less than 1.5 percent per year. Private passenger auto rates in 2015 were up 5.7 percent statewide while commercial auto rates increased 3.2 percent.

The combination of dropping gas prices and increased distracted driving are significant factors driving up auto insurance premiums. With more people hitting the roads and increasingly distracted by cell phones and other electronic devices, Louisiana and other states are seeing an increase in accidents. At least one major insurer has said the higher frequency rates of accidents will continue to push premiums higher – but that in the long-run as automobiles become more sophisticated, accident rates may eventually decline.

2015 was marked by continuing positive news in the workers compensation market. Rates, as measured by loss costs filed by the National Council on Compensation Insurance (NCCI), have declined dramatically over the last 20 years. I recently approved a rate request from the NCCI to lower workers compensation rates by 2.7 percent beginning May 1, 2016. The decrease follows a drop of 2.4 percent in 2014 and is the result of fewer and less severe workplace injuries. Louisiana rates have declined by 38 percent since 2006 – and by 51 percent since 1996.

We are also seeing more companies writing workers compensation insurance in Louisiana, an indicator of a competitive market. In 2007, there were 197 companies writing workers compensation – today there are 235 companies - that's an increase of 38 new companies, or 19 percent over that period..

While property and casualty insurance rates remain stable overall and new companies continue to enter the market, there remains a lot of work to be done. I look forward to continuing to work with you to strengthen our markets for the benefits of policyholders and our overall Louisiana economy.