

Commissioner's Column

February 2017

Louisiana Property & Casualty Insurance Markets Update

I'm pleased to report that, by and large, the property and casualty markets are trending positively. At the end of 2016, the overall market overall lines of business (private passenger and commercial auto, homeowners, commercial multi-peril and workers' compensation) saw a rate increase of 3.5 percent. Despite some curve balls thrown by mother nature, we've been able to successfully strengthen our homeowners market – adding 22 new insurers in the eleven years since Hurricanes Katrina and Rita.

While consumer choice is on the rise, insurer profitability in Louisiana has been below the national average. The Louisiana homeowner insurance industry's return on net worth (RNW) between 2005-2014 (-20.1 percent) is the lowest in the nation with the exception of Mississippi (-26.8 percent) – both of which are far lower than the 10-year average RNW for the homeowners' insurance market nationally (+7.6 percent) according to the Insurance Information Institute. Needless to say, that reflects our state's hurricane experience to include Gustav, Isaac and Ike in addition to Katrina and Rita.

Additionally, we don't have to think too far back to understand why insurer profitability in the state is low. The state has been hit with multiple severe rain events that have caused property damage and loss of life. The most recent event just this month was a series of tornadoes that caused widespread damage in southeast Louisiana. This follows the flooding last August which caused billions of dollars of damage to homes and businesses across South Louisiana. We estimate that comprehensive auto claims for private passenger and commercial auto related to the August flood top 65,000 claims totaling \$690 million in statewide insured losses. That's on top of the major flooding we experienced in March of 2016 in 36 parishes – and in several parishes in northern Louisiana in spring 2015. Just for the August flood, the NFIP has paid about \$2.3 billion resulting from 30,000 claims. That makes it the fourth largest NFIP payout following Hurricane Katrina, Superstorm Sandy and Hurricane Ike.

As flood events grow in frequency and severity across the country, it stands to reason that flood insurance, whether through the National Flood Insurance Program (NFIP), surplus lines or admitted private insurers, will be a vital part of our future planning. With the NFIP due to expire on September 30, we are working with Congress to support long-term reauthorization of the program to avoid short-term extensions, while also making changes that encourage more growth in the private market.

While many in our state have been hard hit by weather events, the market and rates for homeowners insurance has stabilized. For 2016, the market impact of statewide rate changes was 1.0 percent, which represents the lowest average statewide increase in more than ten years. In 2015, the market impact of approved changes for homeowners was 1.2 percent.

In the private passenger auto market, rates were up 8.9 percent statewide in 2016 while commercial auto rates increased 2.7 percent. Auto rates continue to be driven by loss experience and recent national studies point to increased miles traveled as well as distracted driving as factors in the rise in insurance costs. According to the National Highway Traffic Safety Administration (NHTSA), traffic deaths in the first half of 2016 were up 10.4 percent over first half of 2015. And in 2015, traffic deaths rose by 7.2 percent which was the largest increase in 50 years (the largest percentage increase previously was 8.1 percent in 1966.)

And, as with the homeowners market, according to the Insurance Information Institute, Louisiana ranks near the bottom nationally for RNW of private passenger auto insurers, with a 2.2 percent return on net worth. The state only outperforms Michigan (-2.9 percent) as the least profitable state for auto insurers between 2005 and 2014. The national average RNW is 6.2 percent while Hawaii (18.7 percent) is the most profitable for auto and home insurers.

The most significant rate change in 2016 was in the workers' compensation market and for the fourth year in a row, rates are on the decline. A statewide decrease of 9.8 percent takes effect May 1, following the previous drop of 2.7 percent last May. Increased competition in our workers' comp market means companies today are paying nearly 34 percent less for the same coverage as they were 10 years ago – and 50 percent less than they were 20 years ago. There are several reasons for the ongoing decreases including a more competitive market. The amount of companies writing workers' comp insurance in Louisiana has increased by 29 companies, or 15 percent, since 2007. Improvements in the rate of workplace injuries and the severity of injuries has also led to the decrease.

You can find more information about the state of our markets and activities of the LDI in our [Agency Snapshot](#) which summarizes our Annual Report. I appreciate the opportunity to continue to work with you in serving the citizens of this great state and to strengthen our markets for a strong and bright future.