

2018 REPORT

LexisNexis® Home Trends Report

Your source for the leading economic home insurance trends by peril, across time and geography.

OCTOBER 2018

Welcome

The 2018 LexisNexis® Home Trends Report is part of a series of ongoing reports that are issued by LexisNexis Risk Solutions.

This year's report provides an updated view of by-peril trends in the US home insurance industry, which can help carriers make more informed business decisions. In addition to insights on loss cost, frequency and severity, the report includes details on seasonality, distribution of catastrophe claims and geographic trends. This report is based on the vast majority of industry data.

This report highlights the dramatic effect that catastrophe claims can have on certain perils and states. For example, an intense hurricane season resulted in 60% of Wind claims being catastrophe-related—primarily in Texas and Florida, which were affected by Hurricanes Harvey and Irma, respectively. A similar spike in catastrophe Water–Weather claims was observed, again focused in Texas and Florida. On the west coast, California accounted for 30% of Fire loss costs in 2017 (up from 10% in 2016), with a sharp increase in both severity and proportion of catastrophe claims.

With access to a broader dataset, you can assess your book of business in the context of

the market—which supports a more robust foundation to validate previous strategies, benchmark performance and find new market opportunities. It also enables you to better understand how by-peril trends are changing over time. These deeper insights into peril-related trends can help you assess and price risks more accurately and find opportunities to better meet customer needs with innovative products and services.

Highlights from Accident Year 2017

- All Peril loss costs increased significantly; compared with 2016, loss costs jumped by 19 percentage points.
- Catastrophe losses made up nearly 35% of All Peril claims in 2017—an increase of 5 percentage points from 2016.
- Hurricane Harvey, Hurricane Irma and California wildfires made 2017 an expensive year for catastrophe claims.
- Texas and Florida were especially hard-hit by hurricanes, making 2017 the worst year since 2012 for wind damage claims.
- Severity for Fire claims grew by 20% across the country and in California, jumped by more than 70%.

About the data

All data in this report is sourced from internal LexisNexis Risk Solutions proprietary data sources and is based on property exposures and losses for the period ranging from 2012 through 2017. Between 69 and 85 million houses are represented over this time period, totaling 504 million house years over six years. Additionally, the data is based on a sample from across all fifty states and Washington, D.C. Claims are evaluated based on the date of loss.



How to read the charts

The following terminology explanations will help you understand the information presented in the charts and graphs that appear throughout this report. “Loss cost” means the dollars lost, on average, per exposure (house year). “Frequency” is the rate of claims, on average, per exposure. “Severity” refers to the dollars lost, on average, per claim paid. “Relativities” are the proportion of a figure relative to the overall average for the specific metric.

Loss cost trend is the average loss cost relativity, year-over-year, across all states. Loss cost seasonality is the average loss cost relativity, month-to-month, across all years and states. Catastrophe distribution is the proportion of catastrophe and non-catastrophe claims across all months and states within a particular year. Most impacted and least impacted states are ranked on the average loss cost across all months and years within a particular state.

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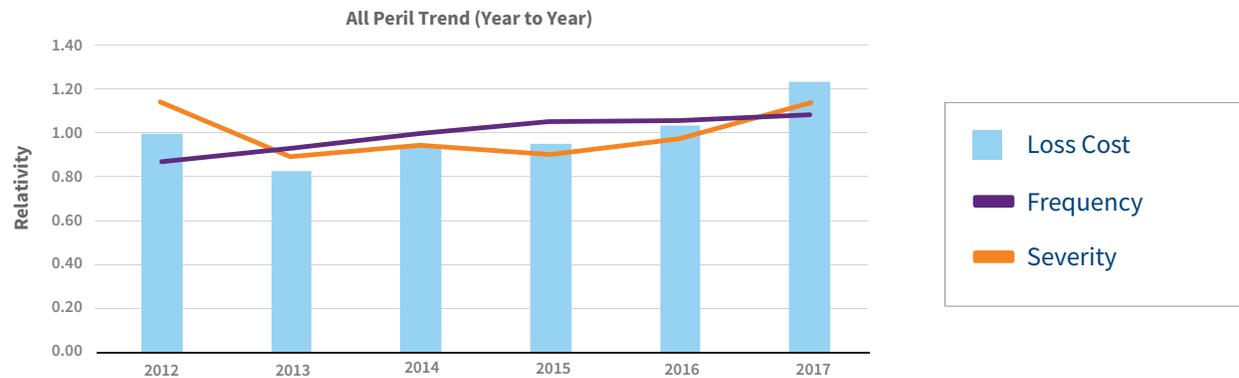


Overall Trends – All Peril

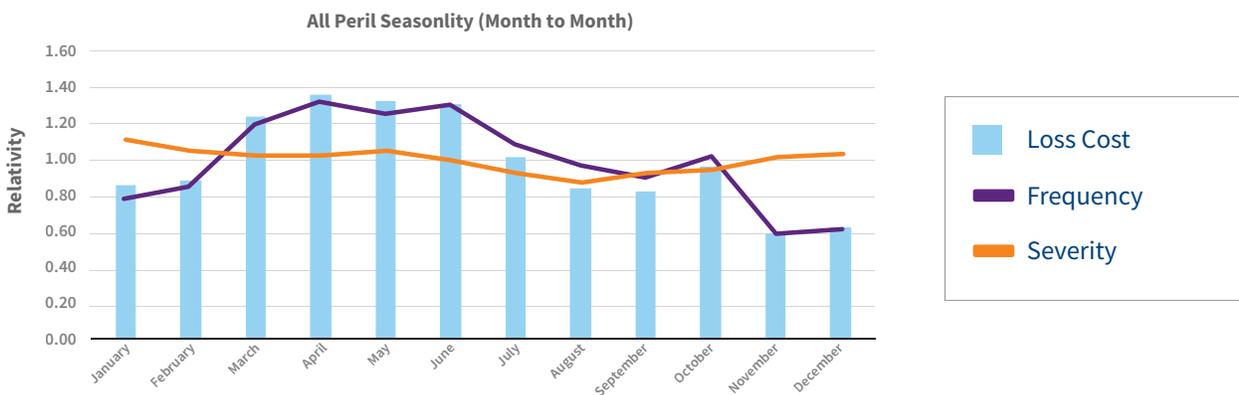
- All Peril loss cost increased by 19 percentage points over 2016 levels.
- Catastrophes accounted for nearly 35% of all losses.

In 2017, All Peril loss cost increased compared with 2016 levels. In a year characterized by a particularly ferocious hurricane season, the increase in catastrophe losses was evident—in fact, 2017 was one of the worst years in recent history for catastrophe losses.

All Peril Trend



All Peril Seasonality

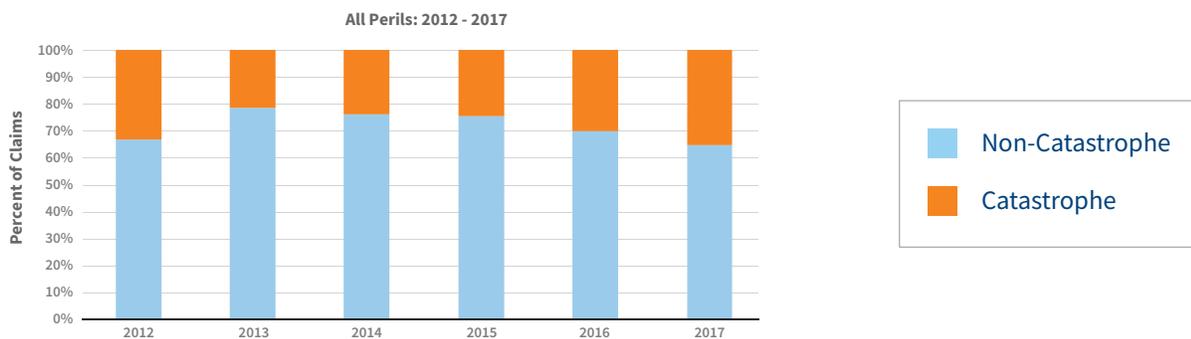


Overall Trends – All Peril

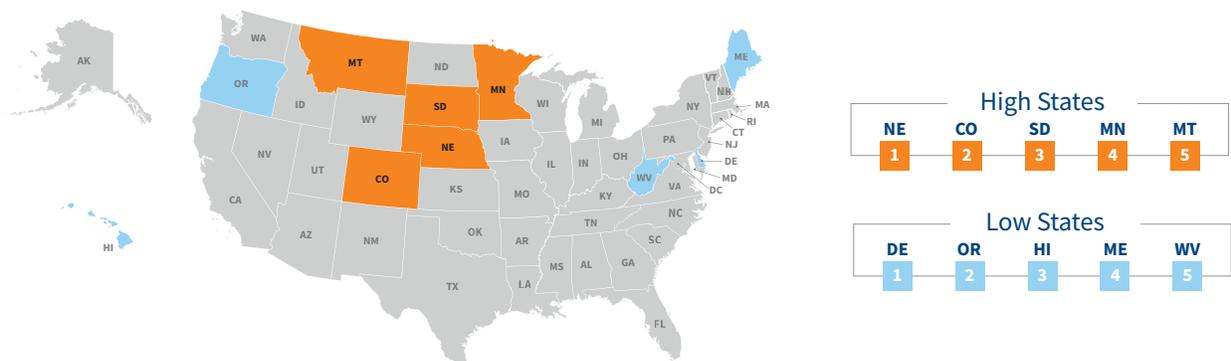
- Catastrophe claims were more expensive in 2017, as severity jumped by 10 percentage points.
- Nearly 41% of catastrophe claims came from Texas and Florida.

Not only were there more catastrophe losses in 2017, but they were also more expensive. In the wake of Hurricanes Harvey and Irma, Texas and Florida were the top-ranking states for catastrophe claims.

All Peril - Catastrophe Claim Distribution



All Peril Location



Harvey and Irma, but not Maria

Because the LexisNexis Home Trends Report is based on a sample of claims data from across all fifty states and Washington, D.C., it excludes US territories and islands. Consequently, the analysis does not include Hurricane Maria, which is considered one of the deadliest hurricanes in US history¹.

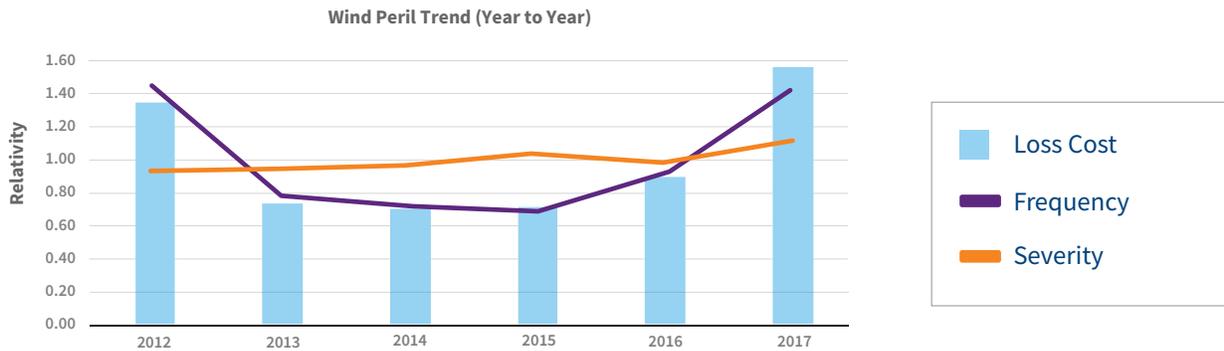


Wind

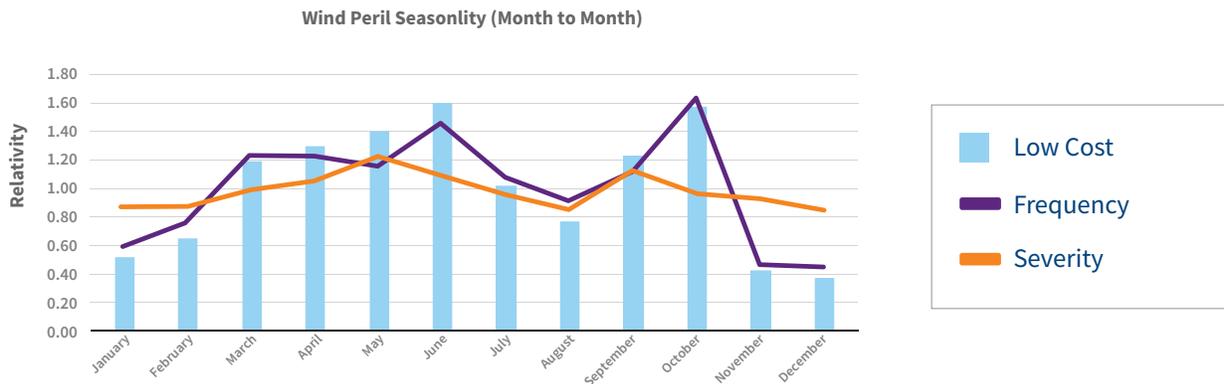
- Compared to 2016, the frequency and severity of Wind loss costs increased significantly.
- There was a sharp increase in Wind loss cost, making 2017 the worst year since 2012 for wind damage claims.

On the heels of 2016’s Hurricane Matthew, 2017 saw two major hurricanes—Hurricane Harvey and Irma—that contributed to a sharp increase in Wind loss cost. Previously, Wind loss cost peaked in spring with tornado season. However, recent years’ hurricane activity has evened out the seasonality of this peril.

Wind Peril Trend



Wind Peril Seasonality

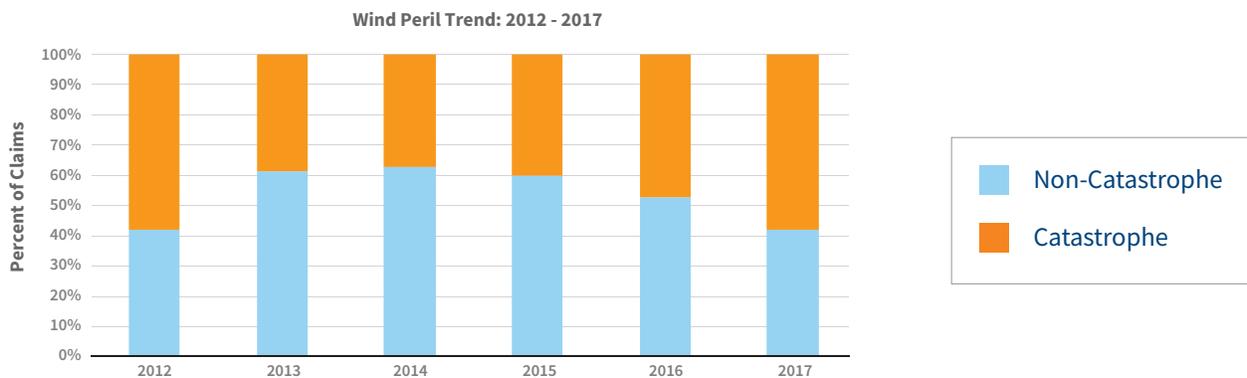


Wind

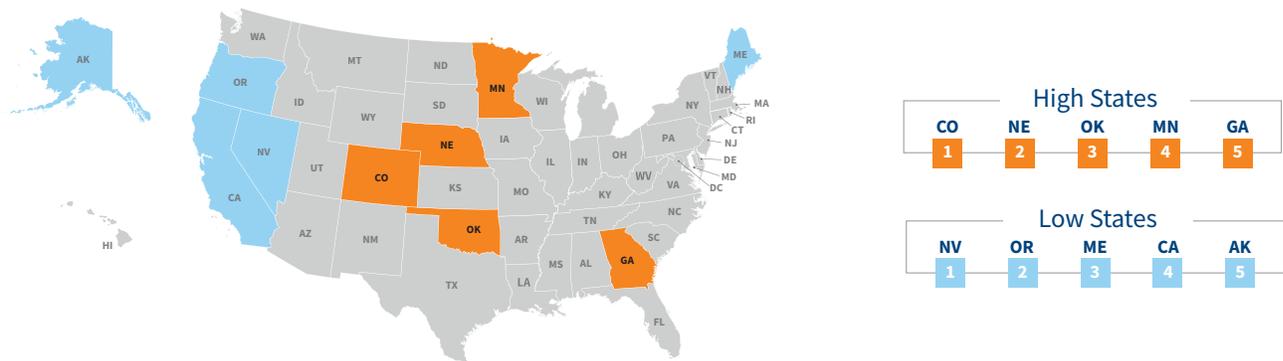
- In 2017, nearly 60% of Wind claims were due to catastrophe claims.
- Florida, Texas and Georgia accounted for nearly 55% of catastrophe Wind claims.

Compared to 2016, catastrophe Wind claims increased by 11 percentage points. Hurricanes were a primary driver of loss cost, with 20% of Wind claims coming from Florida, and 13% from Texas. Notably, the proportion of catastrophe Wind claims was nearly 60% or equivalent to what they were in 2012 when Superstorm Sandy hit.

Wind Peril - Catastrophe Claim Distribution



Wind Peril Location



The most expensive hurricane season in US history

With a price tag of more than \$200 billion in property damage, the 2017 Atlantic hurricane season will go down in history as the most expensive in US history². Hurricane Harvey ranks second (\$125 billion) and Irma fifth (\$50 billion) on the top five list of costliest US hurricanes³. Both names have been retired due to the extent of the destruction⁴.

(Hurricane Maria also resulted in significant damage and lives lost, but is not included in the geographic scope of this report. See sidebar on page 4 for more details.)

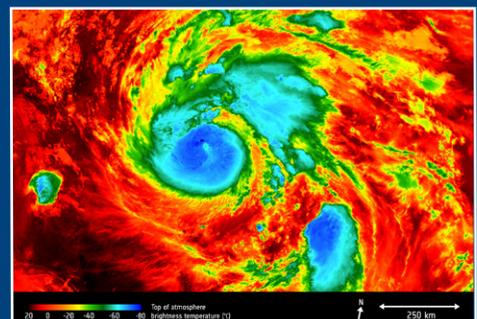


Image source: Creative Commons - http://www.esa.int/spaceinimages/Images/2017/08/Hurricane_Harvey

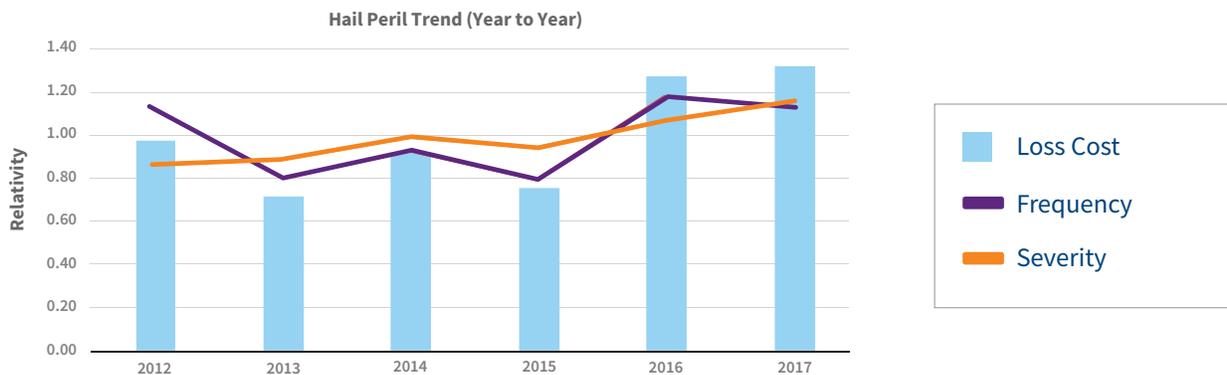
Image source: Wisconsin Department of Natural Resources - <https://www.flickr.com/photos/widnr/>

Hail

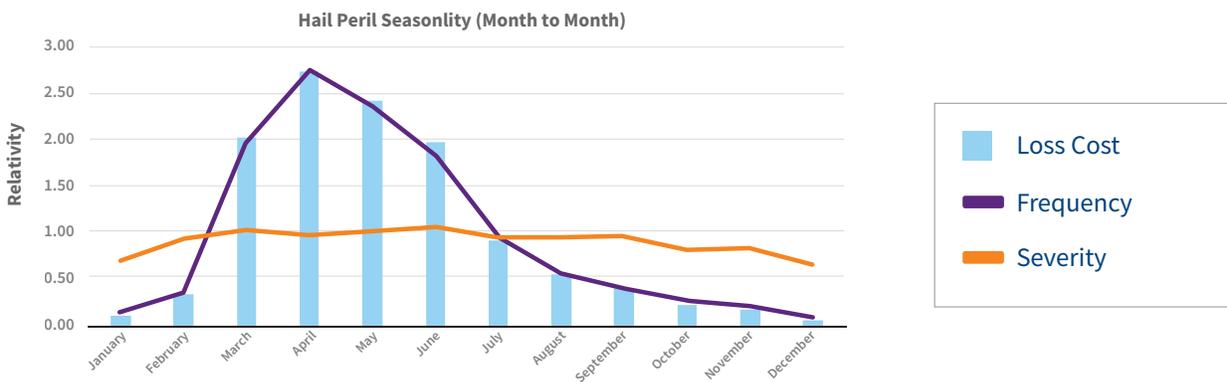
- From 2016 to 2017, Hail loss cost increased slightly, primarily driven by an uptick in claim severity.
- There was a slight decrease in the frequency of Hail claims.

In 2017, Hail loss costs and severity increased slightly. However, Hail frequency decreased, particularly when compared to 2016, which was one of the worst years on record for hail damage claims.

Hail Peril Trend



Hail Peril Seasonality

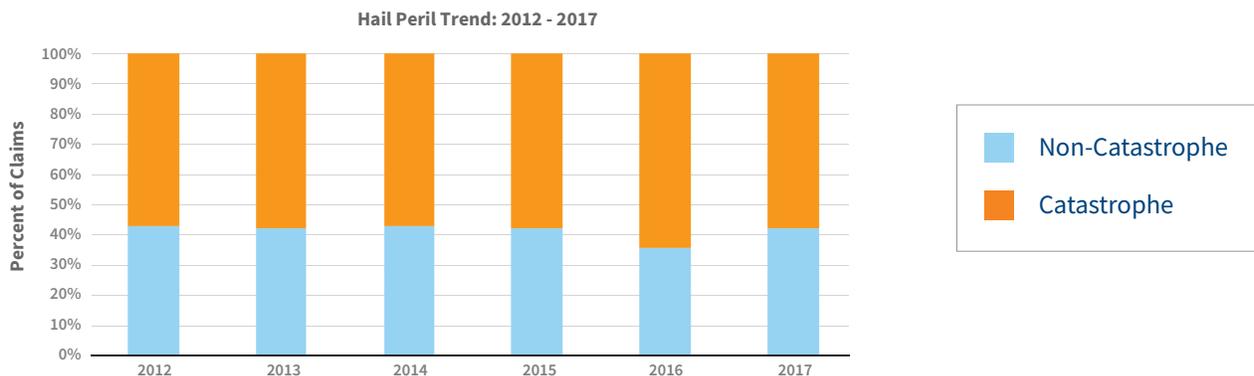


Hail

- After a spike in 2016, catastrophe Hail claims returned to the baseline levels observed since 2012.
- Texas accounted for nearly 25% of Hail claims in 2017, which is a significant improvement from 2016.

In 2017, Texas accounted for nearly 25% of catastrophe Hail claims—which, while significant, is an improvement over 2016 during which the state was blasted by severe hail storms. Interestingly, the rankings for the top five states for loss cost are unchanged, despite this year’s report dropping 2011 and adding 2017 data.

Hail Peril - Catastrophe Claim Distribution



Hail Peril Location

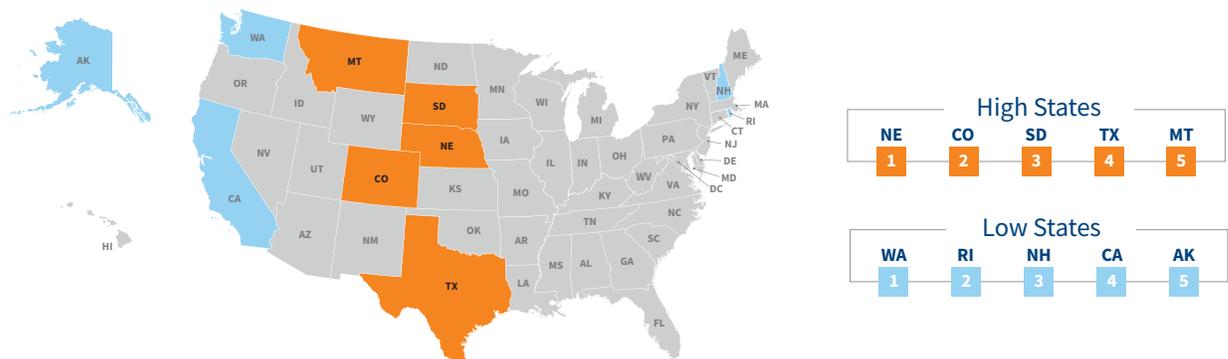


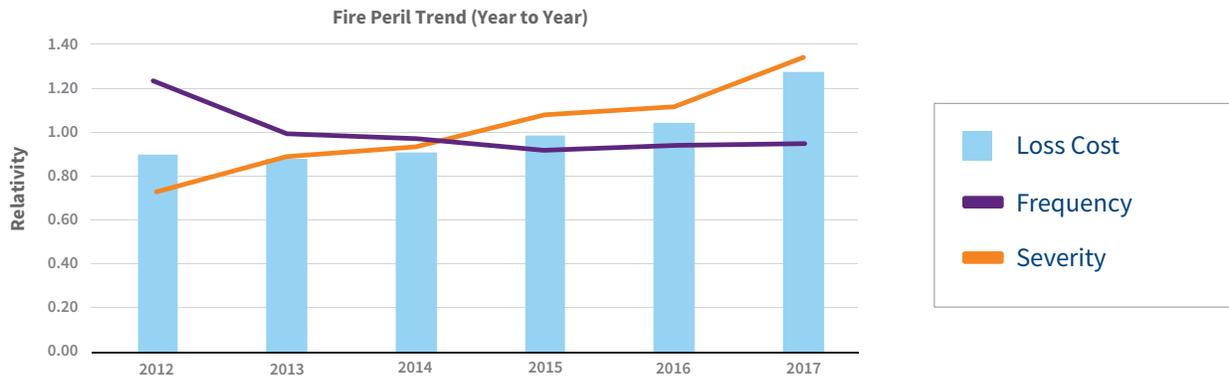
Image source: California National Guard - <https://www.flickr.com/photos/canguard/albums/72157696759808012>

Fire

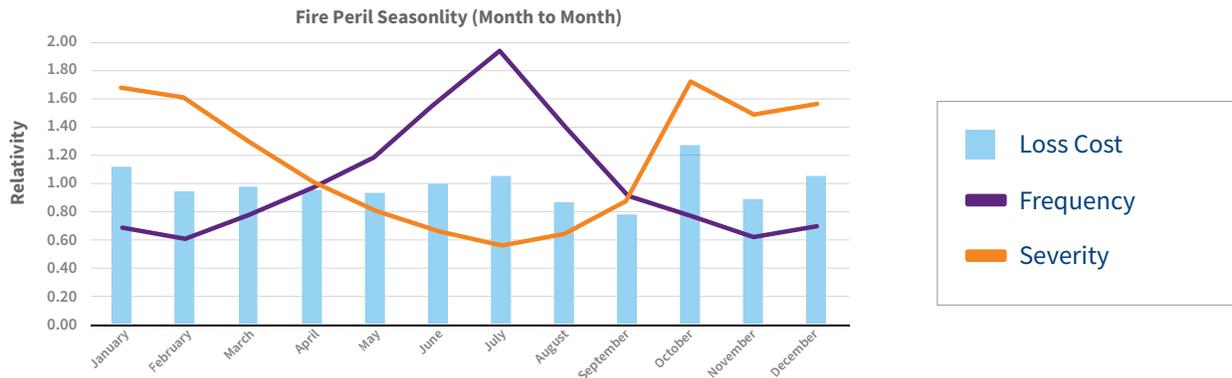
- Loss cost for Fire claims increased sharply in 2017 due to a continued increase in claim severity.
- Country-wide claim severity increased by nearly 20% and in California, by more than 70%.

The combined Fire peril includes both Fire and Lightning. Continuing a trend observed since 2013, loss cost increased in 2017, with an increase of nearly 22 percentage points as compared to 2016 levels. While frequency has remained relatively stable in recent years, severity has continued to increase across the country, particularly in California. Notably, California’s October wildfires were so destructive that there is a corresponding severity peak on the Fire seasonality chart.

Fire Peril Trend



Fire Peril Seasonality

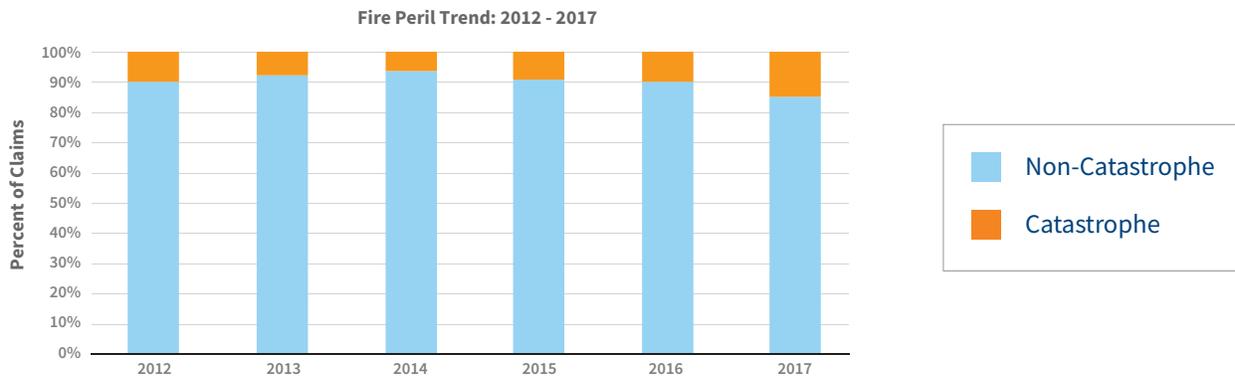


Fire

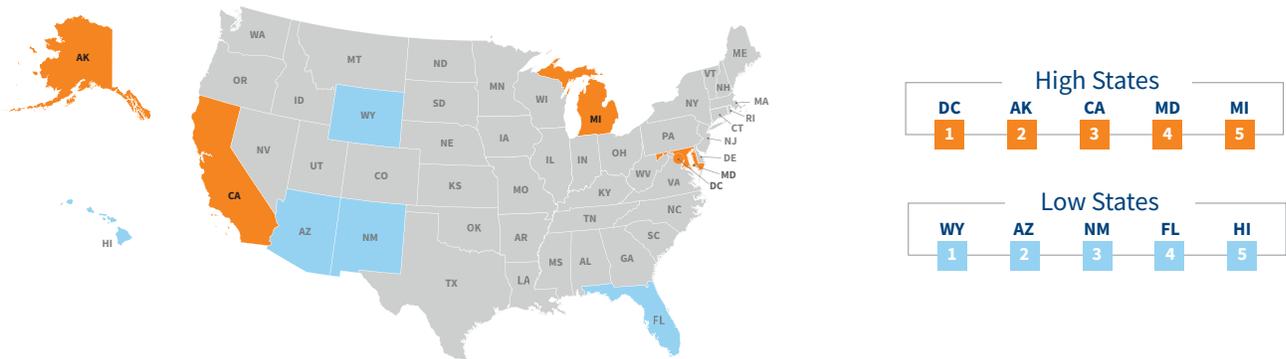
- In 2017, California wildfires resulted in a record number of Fire claims.
- More than 70% of Fire claims in California were due to catastrophe.

While California is no stranger to wildfires, the summer of 2017 was particularly severe. Typically, California accounts for about 10% of Fire loss costs; in 2017, the proportion was nearly 30%. Furthermore, more than 70% of Fire claims in the state were due to catastrophe, and severity also increased by 70%. The jump in severity was partly due to the many catastrophe claims that resulted in a total loss, as well as the prevalence of higher-value homes in Napa and Sonoma Counties.

Fire Peril - Catastrophe Claim Distribution



Fire Peril Location



California wildfires: Costly and deadly

The 2017 California wildfire season is generally regarded as one of the state’s worst⁵, both in terms of destruction and cost. The Thomas Fire—the largest in California history—took nearly two months to completely contain⁶, and October fires in wine country resulted in \$9.4 billion in insurance claims⁷.



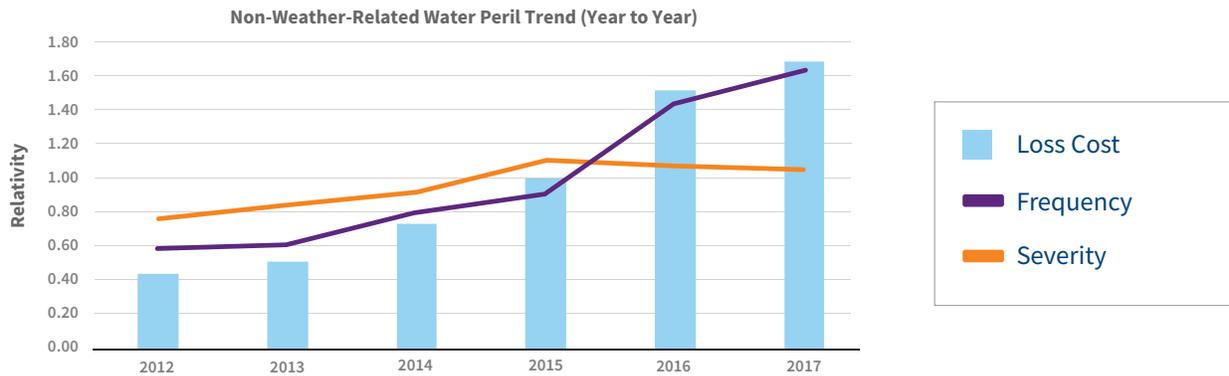
Image source: California National Guard - <https://www.flickr.com/photos/caguard/43862464192/in/album-72157696759808002/>

Non-weather Related Water

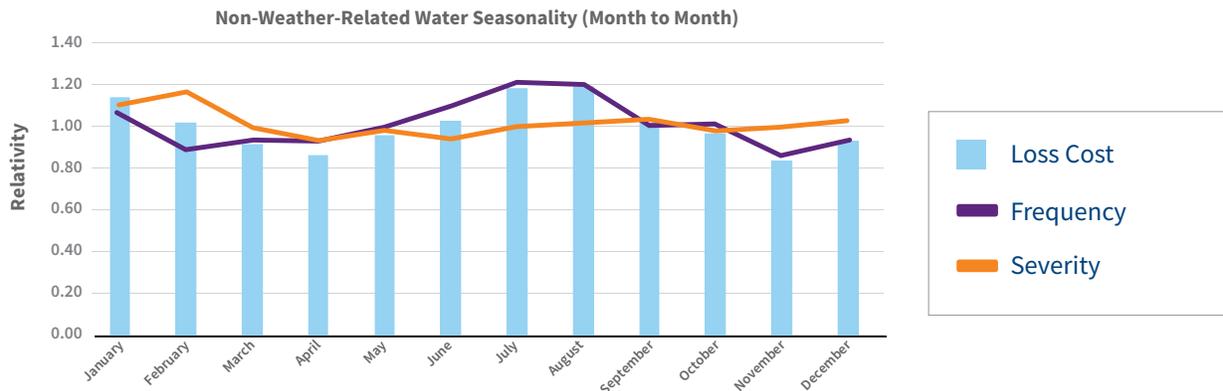
- The industry has seen a consistent—and rather steep—increase in loss cost for non-weather related water claims.
- Claim severity has remained relatively stable; however, the frequency of claims increased by 19 percentage points from 2016 levels.

This peril encapsulates claims related to water damage from accidental water discharge, such as pipe leaks and appliance leakage. Similar to Theft and Liability, this peril is not expected to be affected by catastrophe events.

Non-Weather Related Water Peril Trend



Non-Weather Related Water Seasonality

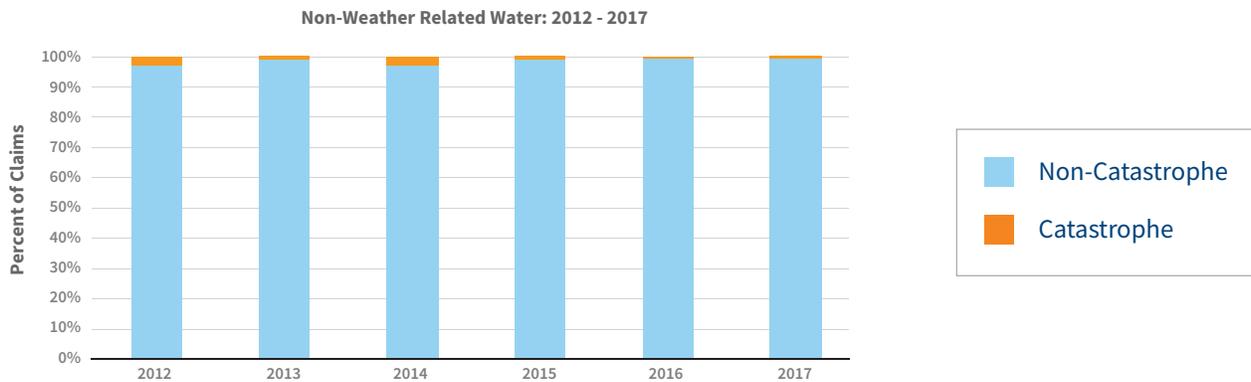


Non-weather related Water

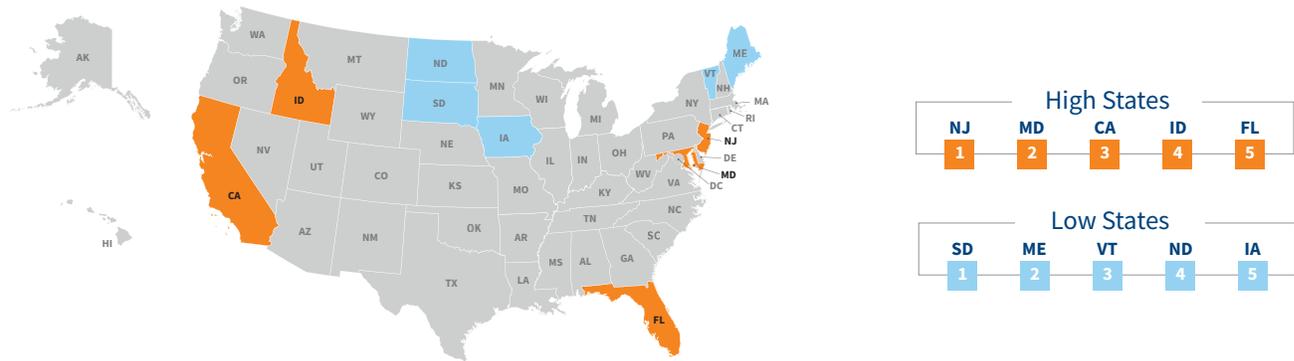
- New Jersey and Maryland are the top states in terms of highest loss cost for this peril.
- Claim severity is particularly high in Florida.

Florida is one of the top five states for Water–Non-Weather loss cost and its claim severity is among the highest in the nation. One explanation may be the prevalence of Assignment of Benefits (AOB) in Florida, which gives a third party the authority to file a claim, make repair decisions and collect insurance payments without the involvement of the homeowner. Notably, AOB has led to increased levels of insurance fraud in Florida⁸.

Non-Weather Related Water - Catastrophe Claim Distribution



Non-Weather Related Water Peril Location



New for 2018: Remapping Water peril claims

This year's report includes slight changes to the way that Non-Weather Related and Weather Related Water claims have been mapped. Internal LexisNexis Risk Solutions analysis shows that the new mapping will enable more accurate claims allocation for these perils. This modification will also contribute to more accurate estimates of loss cost, frequency and severity metrics for water damage claims.



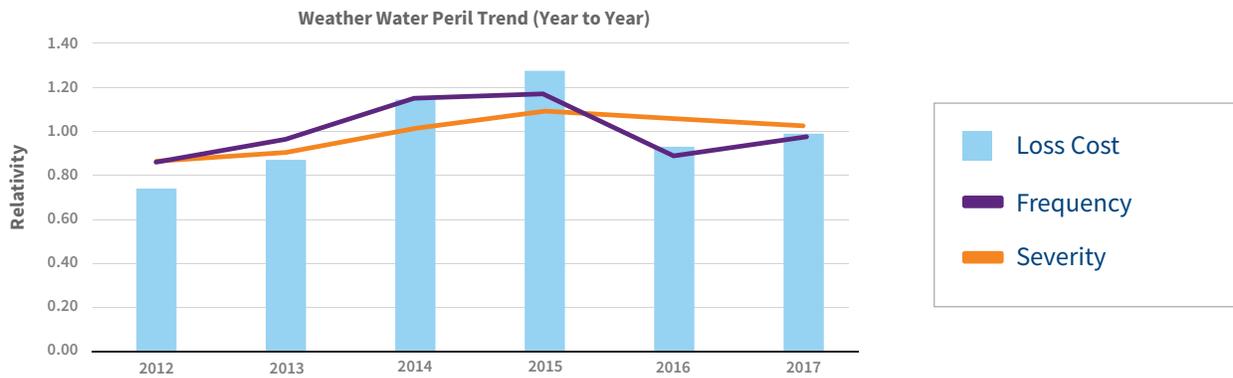


Weather Related Water

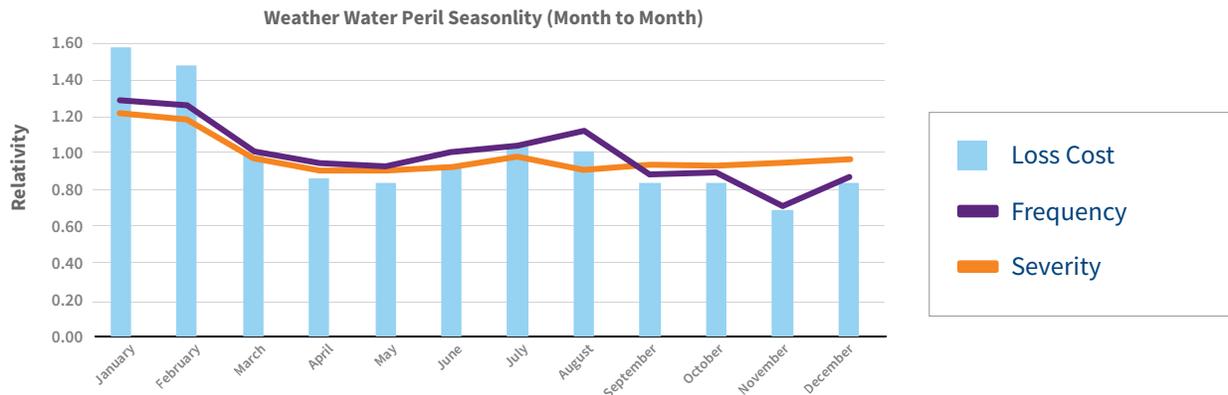
- In 2017, loss cost for this peril increased from 2016 levels, primarily driven by increasing severity.
- Remapping the Water-Weather and Water-Non-Weather perils has resulted in smoother seasonal behavior.

There was a 6 percentage point jump in loss cost for Water-Weather. While severity decreased slightly, frequency increased as a result of a particularly active hurricane season. In previous years' reports, there was a sharp winter spike corresponding with frozen pipes; remapping the Water perils has decreased the magnitude of this spike.

Weather Related Water Peril Trend



Weather Related Water Seasonality

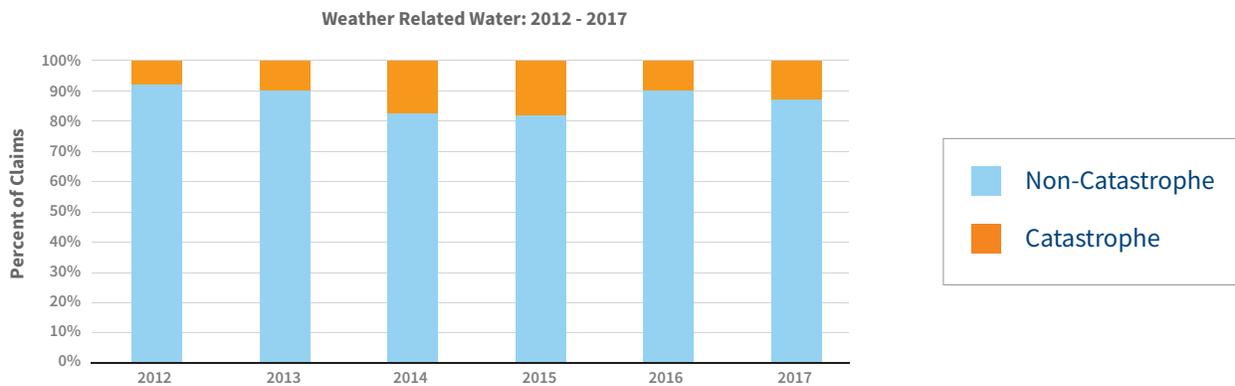


Weather Related Water

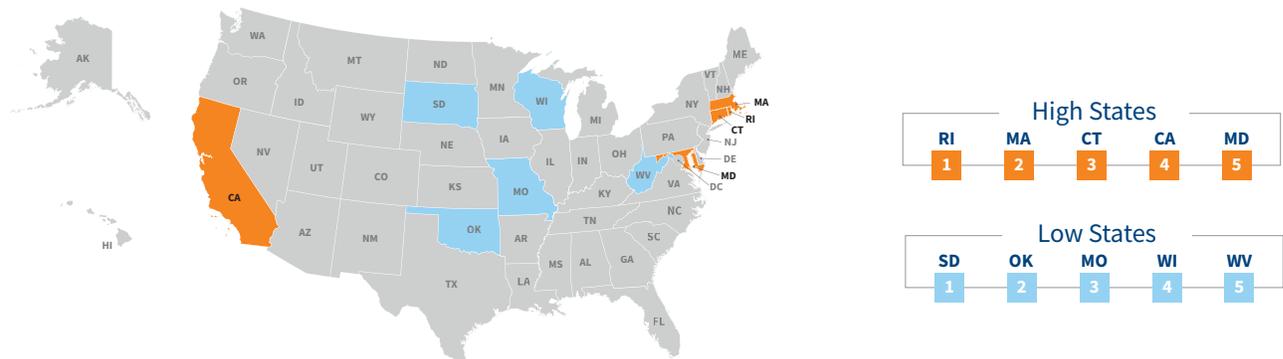
- There was a 4 percentage point jump in catastrophe Water-Weather claims as compared with 2016.
- In 2017, nearly 16% of catastrophe Water-Weather claims came from Texas and Florida.

In the wake of Hurricanes Harvey and Irma, loss cost and catastrophe claims increased for Water-Weather, particularly in Texas and Florida. Perhaps not surprisingly, there were a record number of water damage claims in Texas alone.

Weather Related Water - Catastrophe Claim Distribution



Weather Related Water Peril Location



Water, water, everywhere

In late August 2017, Hurricane Harvey unleashed 33 trillion gallons of water along the Gulf of Mexico⁹. The Houston area, in particular, received more rain in three days than half of the US had seen all year¹⁰.



Image source: SC National Guard - <https://www.flickr.com/photos/scguard/36789669052/>

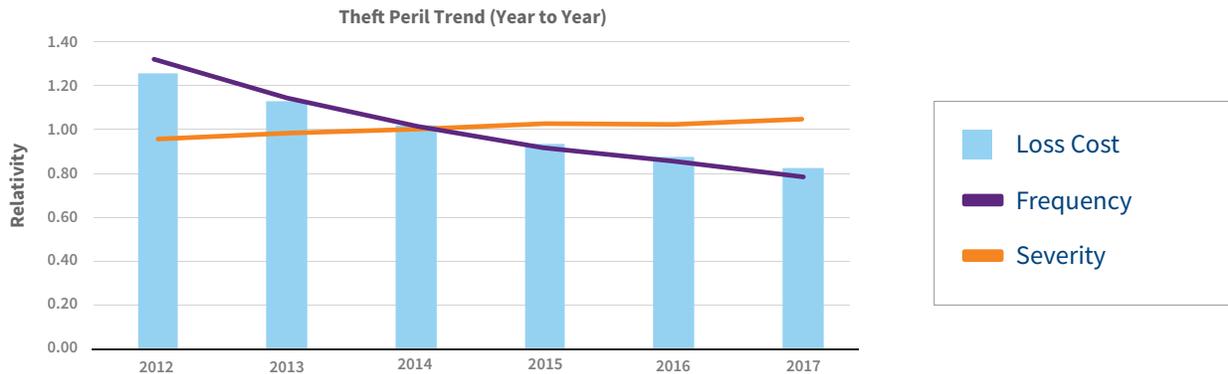


Theft

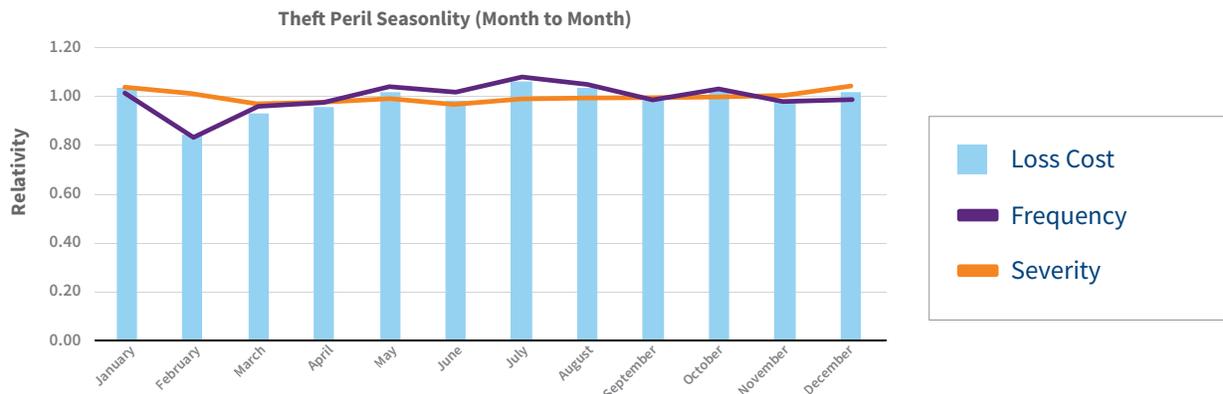
- A continued decrease in Theft loss cost is primarily driven by declining frequency.
- Advances in home security, from the greater availability of home alarm systems to connected home technology, may contribute to decreasing Theft frequency.
- Nevada and Washington, D.C., top the nation in terms of Theft loss cost.

Several factors may contribute to the continuing trend toward declining Theft loss cost. As mentioned last year, an improving economy and the increasing availability of affordable home alarm systems may be contributing factors. In addition, as connected home technology gains acceptance, it may also reduce the frequency of theft.

Theft Peril Trend



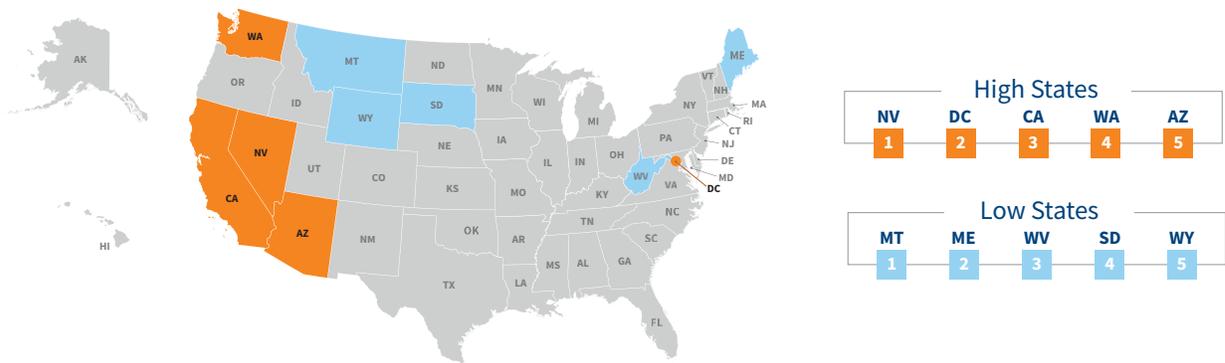
Theft Peril Seasonality



Theft

Since 2014, Nevada has had the highest Theft loss cost in the country, while Washington, D.C., has had the highest Theft frequency for seven straight years.

Theft Peril Location



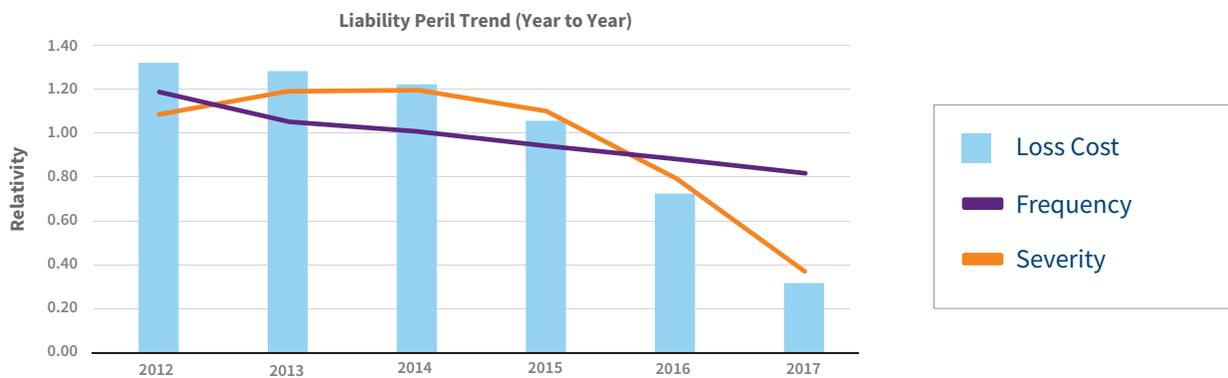
Advances in home security, from the greater availability of home alarm systems to connected home technology, may contribute to decreasing theft frequency.

Liability

- Liability loss cost and frequency continue to decline steadily.
- Liability claims tend to peak in the summer months.
- There has been no change in the top five states for Liability loss cost.

The industry continues to see a favorable trend with Liability loss cost and frequency declining steadily. The summer spike could be due to an increase in outdoor activity, such as the use of pools, hot tubs and trampolines.

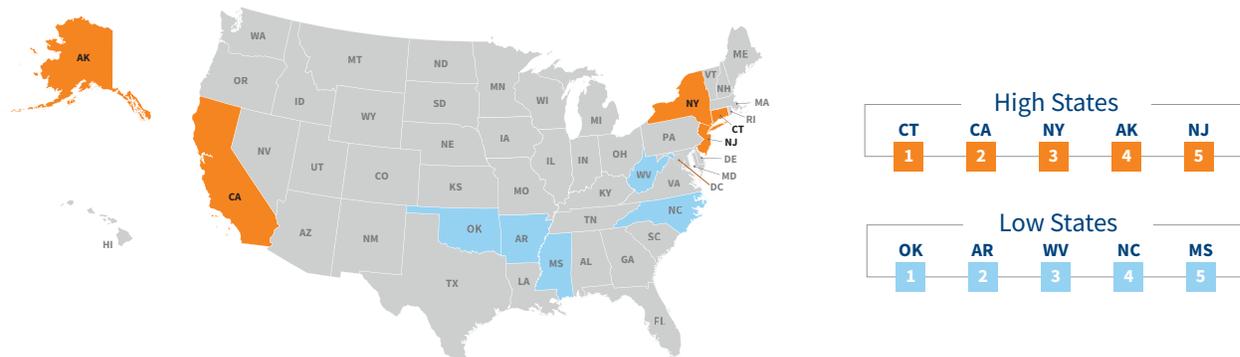
Liability Peril Trend



Liability Peril Seasonality



Liability Peril Location

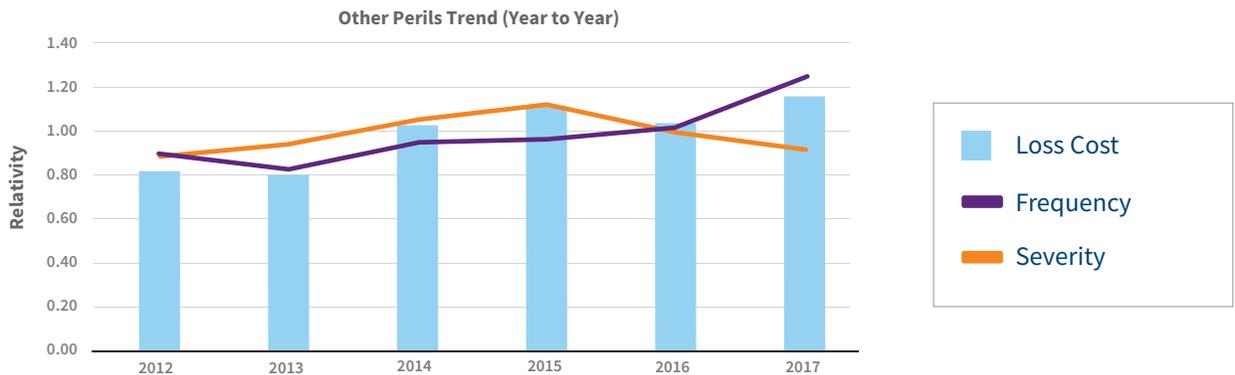


Other Perils

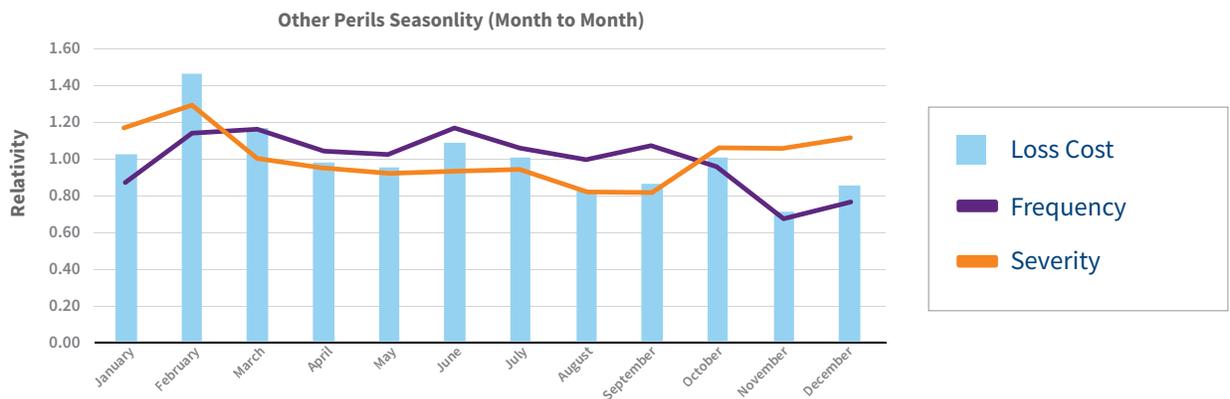
- Loss cost due to Other Perils increased slightly from 2016 levels.
- Perils in this category include physical damage not included elsewhere, extended coverage, damage to property of others, medical payments and more.

Unlike other perils, this category does not reflect an actual cause of loss that has bearing on pricing. Due to inconsistencies in how different carriers report Other Perils, it is difficult to draw further conclusions.

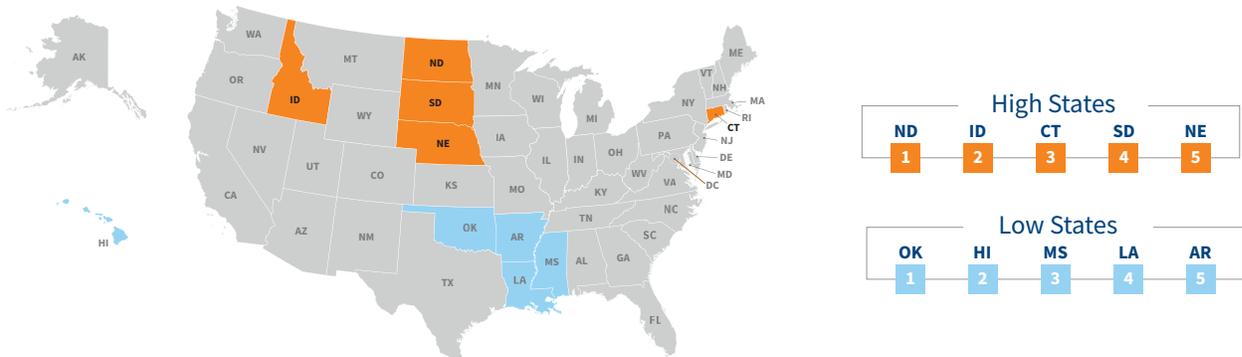
Other Perils Trend



Other Perils Seasonality



Other Perils Location



Conclusion

The 2018 LexisNexis Home Trends report highlights some of the challenges that home insurance carriers face in managing by-peril risk. In 2017, intense hurricanes and wildfires led to a sharp spike in catastrophe claims loss cost for Wind, Water–Weather and Fire perils—particularly in Texas, Florida and California.

Carriers that rely strictly on their own data may find it difficult to understand their true performance in the marketplace. On the other hand, by augmenting data with an industry-wide dataset, you can:

- Generate insights into by-peril history, seasonality and geography that enable you to better select and manage risk.
- Support more sophisticated pricing at point of quote and renewal.
- Benchmark your performance against the performance of the market.
- Identify underserved market segments or opportunities for pricing optimization.

As home insurance carriers continue to be tasked to meet loss-ratio objectives and growth targets, aggregated by-peril data can help you achieve a deeper understanding of the risk associated with a particular location. This, in turn, can help you differentiate your business and help avoid adverse selection as the use of industry-wide data becomes more common. In the long term, aggregated by-peril data can enable more accurate pricing, a healthier book of business and long-term profitability.

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George Hosfield is Senior Director, Home Insurance, at LexisNexis Risk Solutions. In this role, George manages all aspects of the Personal Lines Property Vertical, including overall strategy, profitable growth, new product development and partnerships. He is responsible for a number of industry-leading data solutions, including LexisNexis® Property Data Prefill and LexisNexis® Fire and Disaster Response Score.

George has been with LexisNexis for over 15 years, working in a variety of operational and strategic roles in both the Legal & Professional and Risk Solutions divisions. He holds a B.A. in English from the University of Virginia and an M.B.A. from the University of Richmond, Robins School of Business.



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Statistical Modeler
LexisNexis® Risk Solutions

Laura Evans is a Statistical Modeler at LexisNexis Risk Solutions. In her role, Laura produces industry analysis and model solutions for P&C insurance. Laura works primarily on predictive modeling for pricing and underwriting auto and property insurance.

Prior to joining LexisNexis, Laura worked as a financial lines pricing actuary at AIG and as a civil engineer at URS Corporation. Laura holds a B.S. in Civil Engineering from Georgia Tech. She also earned a M.S. in Actuarial Science and M.S. in Mathematical Risk Management from Georgia State University. She is currently a student of the Casualty Actuarial Society and is pursuing her Associateship in the Casualty Actuarial Society (ACAS) designation.

LexisNexis Risk Solutions for Home Insurance

LexisNexis Risk Solutions helps home insurance carriers optimize their book of business by leveraging advanced risk segmentation by peril, reducing expenses and identifying new areas for profitable business growth. With LexisNexis Risk Solutions for Home Insurance, you can expect to:

- Gain the ability to better segment risks at the peril level, yielding more accurate ratings of new and existing risks in your portfolio.
- Reduce and manage expenses while improving policyholder satisfaction with continuous monitoring, single-point-of-entry access and dynamic underwriting capabilities.
- Discover where your book of business presents higher levels of risk than desired, relative to your underwriting strategy, and gain the insight to make cost-effective business decisions.
- Reduce the time to quote and make it easier for consumers and agents to do business through all distribution channels.

For more information, call 800.458.9197, or email
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About LexisNexis Risk Solutions

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