

2019 REPORT

LexisNexis® Home Trends Report

Your source for the leading economic home insurance trends by peril, for severity, frequency and location.

OCTOBER 2019



Welcome

The 2019 LexisNexis® Home Trends Report is part of a series of ongoing reports that are issued by LexisNexis® Risk Solutions.

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

This year's report reinforces one of the key findings of last year's report—that catastrophe claims can have a dramatic effect on specific perils and states. Severe wildfires, hurricanes and hailstorms hit certain states harder than others. This year, more than half (56%) of catastrophe claims came from just four states: California, Colorado, Florida and North Carolina.

Given the increasing severity and unpredictability of weather-related patterns and their impact on catastrophe claims, it is critical for carriers to have peril-related trend information on hand.

By having access to a broader, more comprehensive dataset, you can assess your book of business in the context of the market. This can enable you to support 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 2018

- All Peril loss cost continues to soar, and increased by 2% over 2017 levels.
- For the third year in a row, the proportion of catastrophe claims was above 30%.
- Extreme weather, such as Hurricane Florence, Hurricane Michael and California wildfires, contributed to a 17% increase in All Peril severity.
- Wind loss cost dropped in 2018, primarily driven by decreasing frequency; however, severity continues its steep increase since 2016.
- Fire loss cost increased by 51%, with catastrophe Fire claims accounting for nearly 40% of Fire losses—the highest in a decade.
- More than half (56%) of catastrophe claims came from California, Colorado, Florida, and North Carolina. These states previously accounted for 36% and 17% of catastrophe claims in 2017 and 2016, respectively.

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 2013 through 2018. Between 69 and 85 million houses are represented over this time period, totaling more than 500 million house years over the past six years. Additionally, the data is based on a sample from all 50 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 average amount paid for insured losses 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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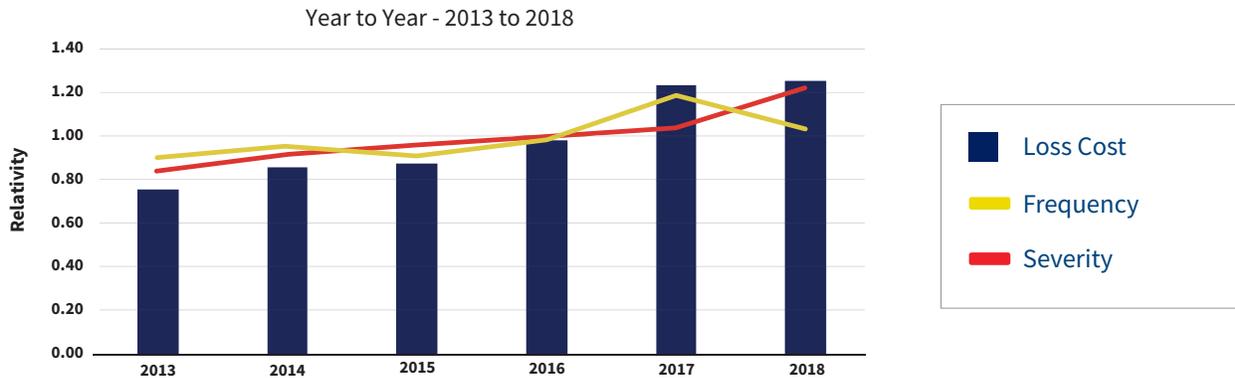
Image source: California National Guard - flickr.com/photos/canguard/44162019920/in/album-72157697958898470

Overall Trends – All Peril

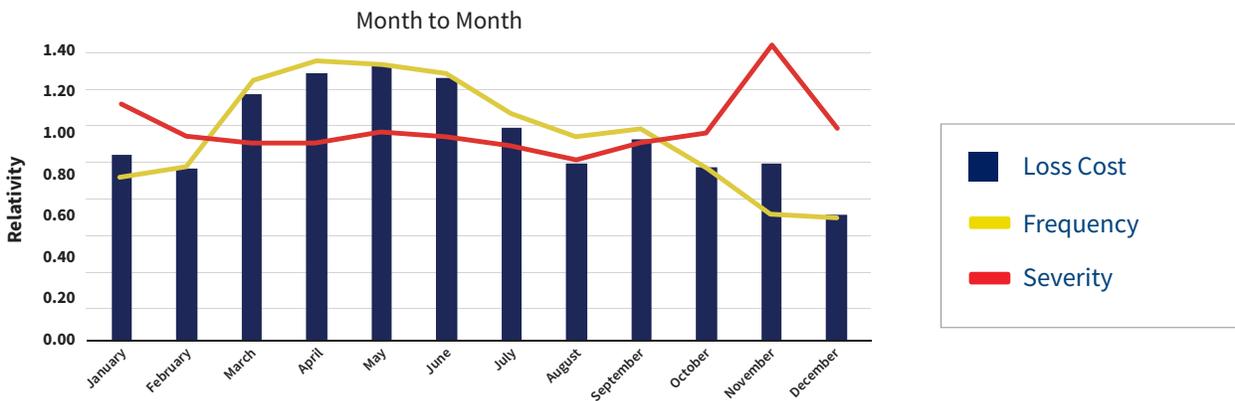
- All Peril loss cost increased by 2% compared to 2017; while frequency decreased, claim severity increased by 17%.
- While catastrophe claim counts decreased from 2017 to 2018, severity increased—largely driven by hurricanes and wildfires.

Many in the industry hoped the 2017 spike in loss cost was a singular event. However, All Peril loss cost for 2018 was similarly high, due to another ferocious California wildfire season, as well as Hurricanes Michael and Florence. Notably, the severity of this year’s hurricane season is reflected in a spike in November’s claim severity.

All Peril Trend



All Peril Seasonality



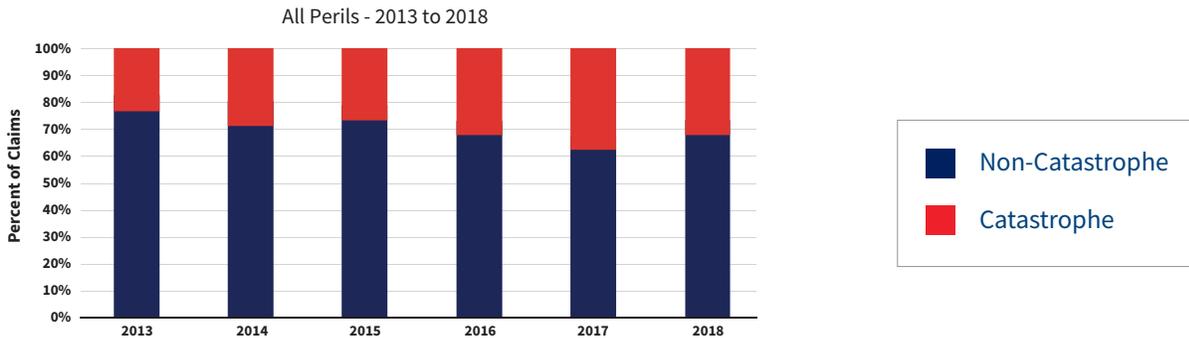
Overall Trends – All Peril

- Catastrophe claim counts decreased; however, loss cost increased from 2017 levels.
- In 2018, for the third consecutive year, catastrophe claims accounted for more than 30% of All Peril claims.

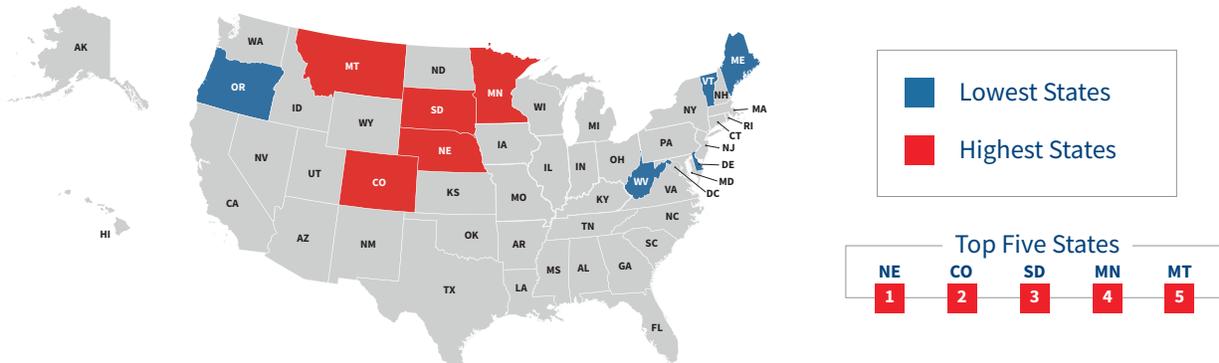
LexisNexis internal analysis shows that in 2018, claim severity for catastrophe claims increased by more than 40%, primarily due to hurricanes and wildfires. In particular, claim severity was 42% higher than average in November, with California wildfires contributing to more than 70% of that month’s total loss amount.

Collectively, California, Colorado, Florida and North Carolina were responsible for 56% of the nation’s catastrophe claims. These states accounted for 36% and 17% of the catastrophe claims in 2017 and 2016, respectively. Finally, Colorado and Nebraska ranked highest in loss cost over the six-year period from 2013 to 2018, with Colorado ranking highest in 2018.

All Peril - Catastrophe Claim Distribution



All Peril Location



The Escalating Costs of Weather and Climate Disasters

With a price tag of \$91 billion, 2018 was the fourth most expensive year since 1980 for weather and climate disasters in the United States. The National Centers for Environmental Information (NCEI) reports that since 1980, the United States has experienced 246 weather events for which the costs reached or exceeded \$1 billion.¹ Combined, the total cost of these events exceeds \$1.5 trillion.

Image source: California Coast Guard - <https://www.flickr.com/photos/caguard/43421194395/in/album-72157700401970304/>

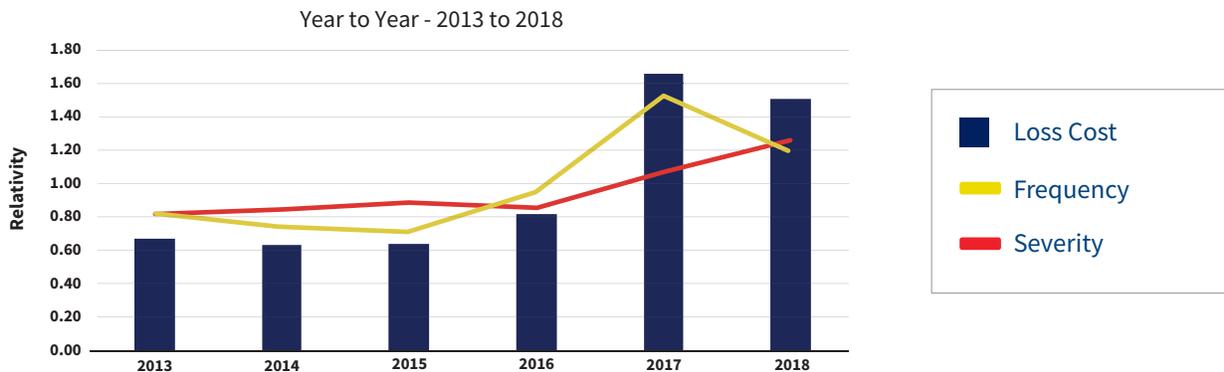
Wind

- Wind loss cost fell from 2017 levels, but is still significantly higher than levels observed between 2013 and 2016.
- In terms of Wind severity, 2018 was the worst year of the six-year period (2013–2018) covered by this report.

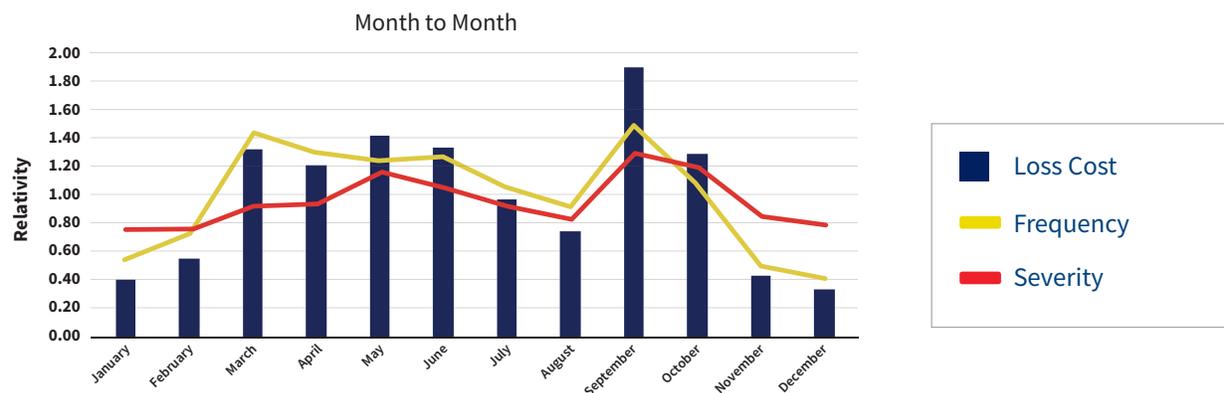
In 2018, Wind loss cost dropped by 9%, primarily driven by decreasing frequency; however, severity continued its steep increase from 2016.

Loss cost peaked in September and October, driven by hurricane activity in North Carolina and Florida. As highlighted in our [Insurance Insights blog](#), Hurricane Florence resulted in September 2018 being 17 times more costly than a typical September in North Carolina. In addition, Hurricane Michael drove year-over-year averaged losses for October 2018 that were nearly 13 times greater than in October 2017.

Wind Peril Trend



Wind Peril Seasonality

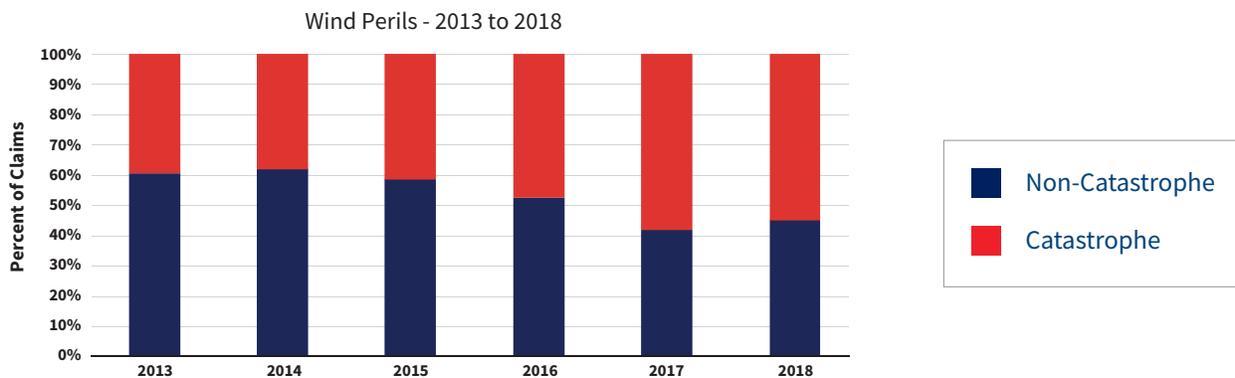


Wind

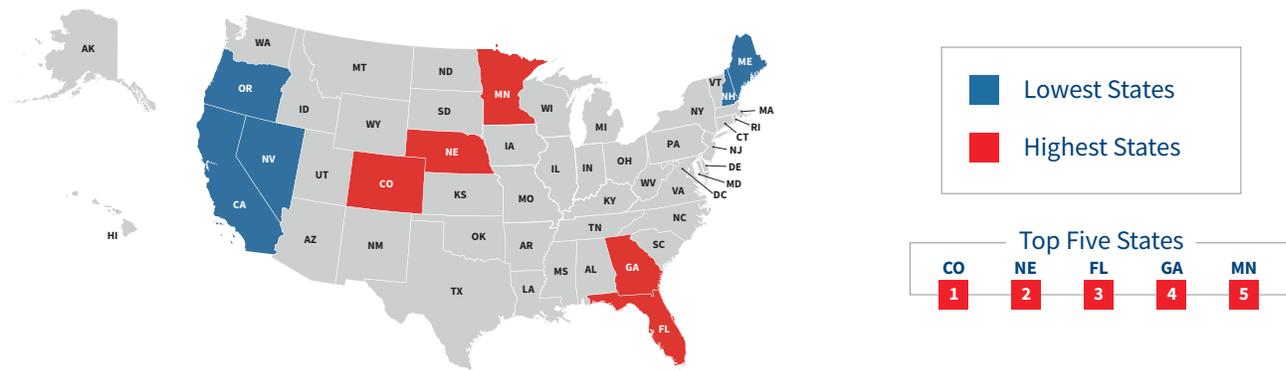
- The proportion of catastrophe Wind claims dropped 3 percentage points, from 58% in 2017 to 55% in 2018.
- Claim severity in 2018 was 15% higher than in 2017.

The proportion of Wind catastrophe claims dropped in 2018. However, a decrease in frequency was accompanied by a sharp spike in claim severity.

Wind Peril - Catastrophe Claim Distribution



Wind Peril Location



Where Hurricanes Hit Can Determine the Level of Loss

Several factors can drive Wind loss cost upward, year-over-year, even though there may be fewer events. For example, coastal areas are desirable places to live—and have higher hurricane risk. As populations increase in these areas, catastrophic winds can cause more widespread damage. In addition, escalating real estate prices in these areas drive up the costs of reconstruction.



Image source: Creative Commons - https://en.wikipedia.org/wiki/2019_Atlantic_hurricane_season#/media/File:Barry_2019-07-13_1600Z.jpg

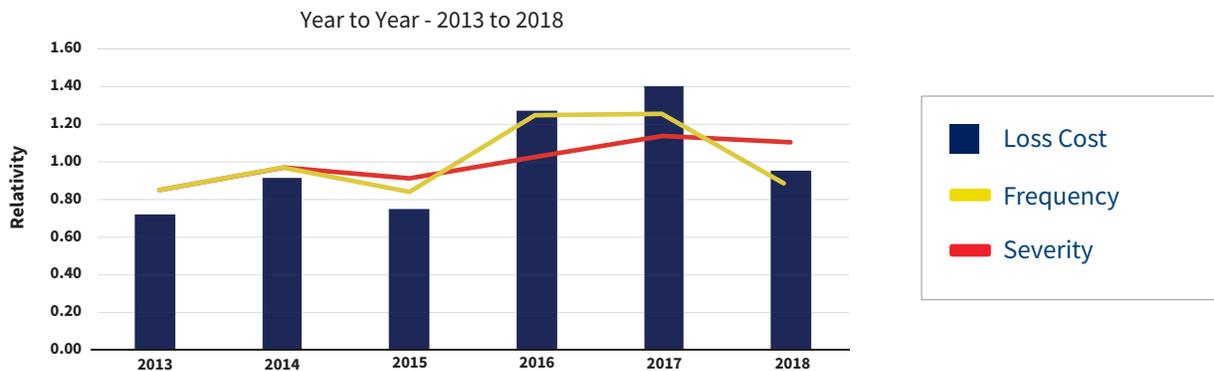


Hail

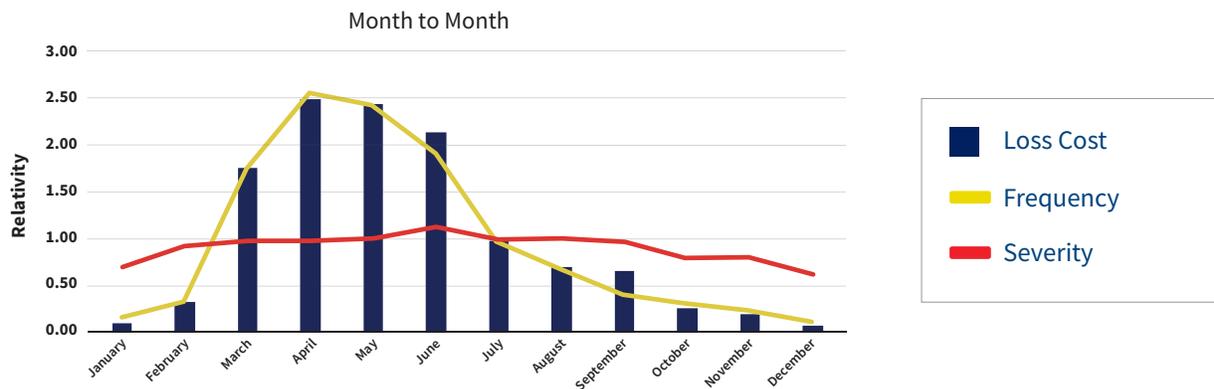
- Hail loss cost decreased by 33% from 2017 to 2018.
- Severity remained at approximately the same level as 2017.

A significant drop in Hail frequency led to a sharp decrease in loss cost for this peril. April and May are the worst months for Hail, and accounted for nearly 42% of claims over the six-year period covered by this report.

Hail Peril Trend



Hail Peril Seasonality



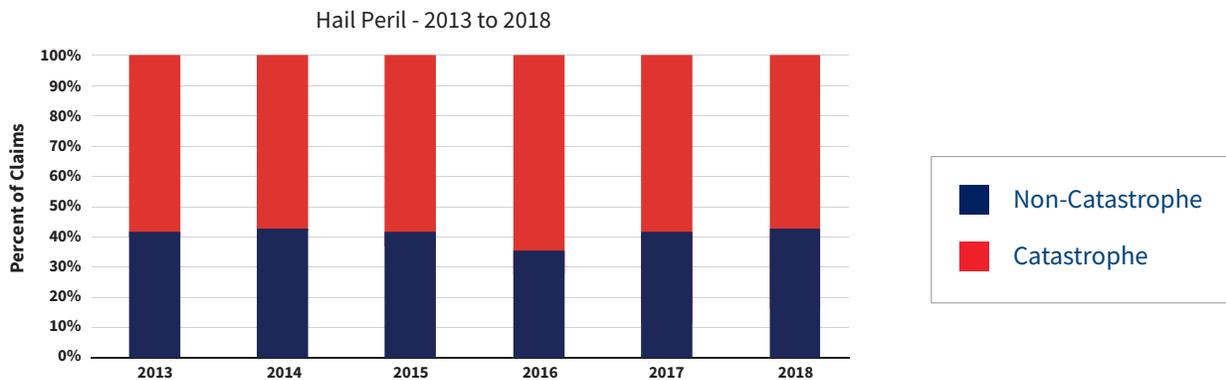


Hail

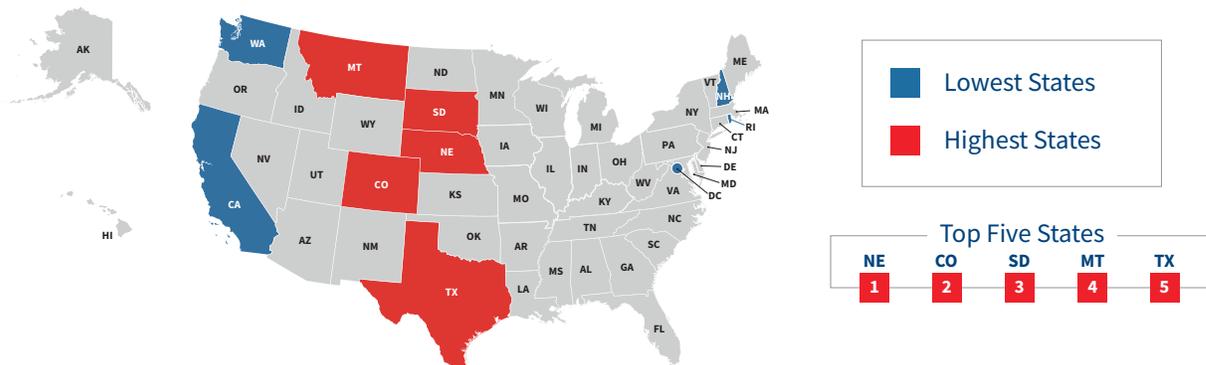
- The proportion of Hail catastrophe claims remained steady.
- Severity for Hail claims in Texas decreased by 12% in 2018.

Overall, Texas continued to top the nation for Hail claims, representing 29% of claim volume. Colorado ranked second, with nearly 17% of claims.

Hail Peril - Catastrophe Claim Distribution



Hail Peril Location



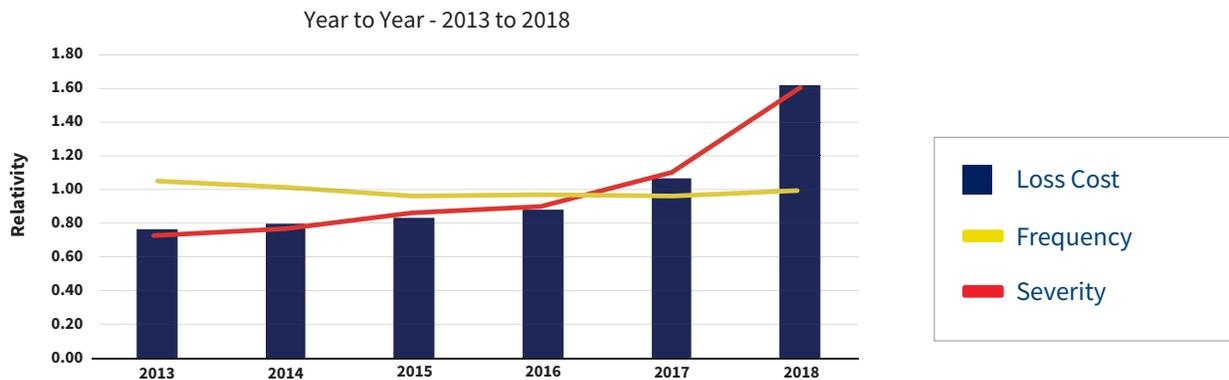


Fire

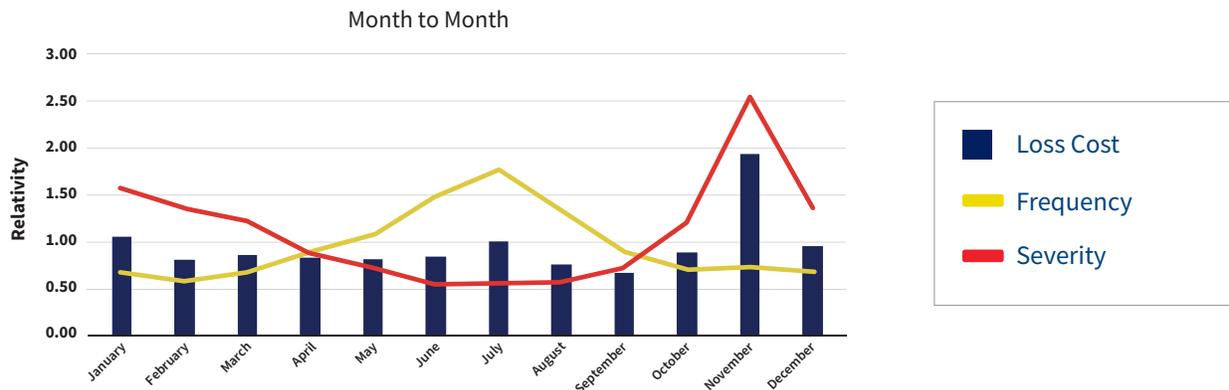
- Fire loss cost increased by 51% compared with 2017.
- Severity increased by 46% while frequency remained stable.

While 2017 was regarded as one of California’s worst years for wildfires, 2018 proved to be even more deadly and destructive. A spike in Fire loss cost, primarily driven by catastrophe claims, may have been due to the number of structures that were total losses, as well as the real-estate values of homes in the affected areas.

Fire Peril Trend



Fire Peril Seasonality



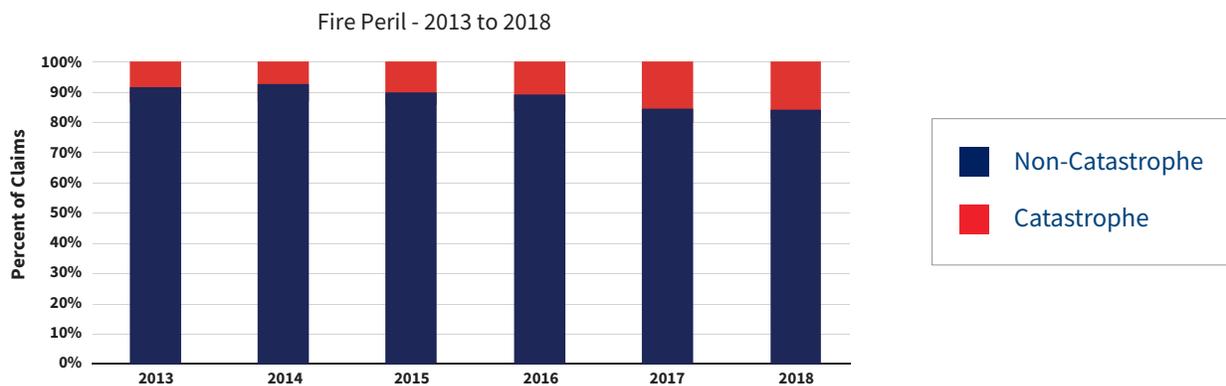
Fire

- Catastrophe Fire losses were four times higher in 2018 than 2017.
- California accounted for more than 95% of catastrophe Fire losses in 2018.

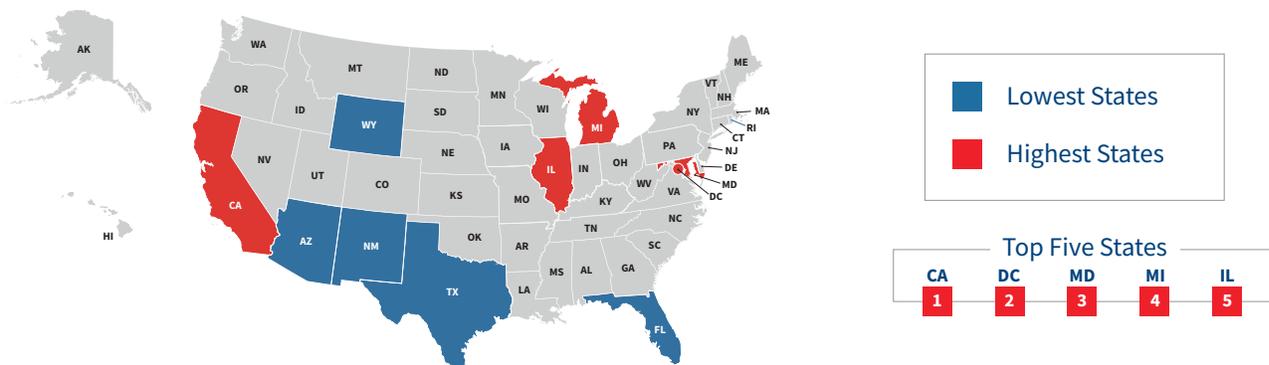
Catastrophe claims accounted for nearly 40% of Fire losses in 2018—the highest in 10 years and a significant jump from the previous high of 15% in 2017.

Wildfires in California in 2018 were some of the most expensive on record. Significant contributors were the Creek Fire (January), Mendocino Complex and Carr Fires (July/August) and Camp Fire (November). Camp Fire was one of the deadliest and most destructive fires in California history.² More than 18,000 structures were damaged or destroyed,³ and claim severity was the highest in a decade—more than twice the claim severity for 2017’s Tubbs, Nuns and Atlas fire events combined.⁴

Fire Peril - Catastrophe Claim Distribution



Fire Peril Location



Devastation in Paradise

The city of Paradise, California, was almost entirely destroyed by the Camp Fire. Total projected economic costs have been estimated at \$15 billion—exceeding the record set in 2017 and setting a new record for insured losses from wildfire. Another dubious record was set in 2018, for the largest area burned: 82 million acres.⁵



Image source: Creative Commons - [https://en.wikipedia.org/wiki/Camp_Fire_\(2018\)#/media/File:Camp_Fire_oli_2018312_Landsat.jpg](https://en.wikipedia.org/wiki/Camp_Fire_(2018)#/media/File:Camp_Fire_oli_2018312_Landsat.jpg)

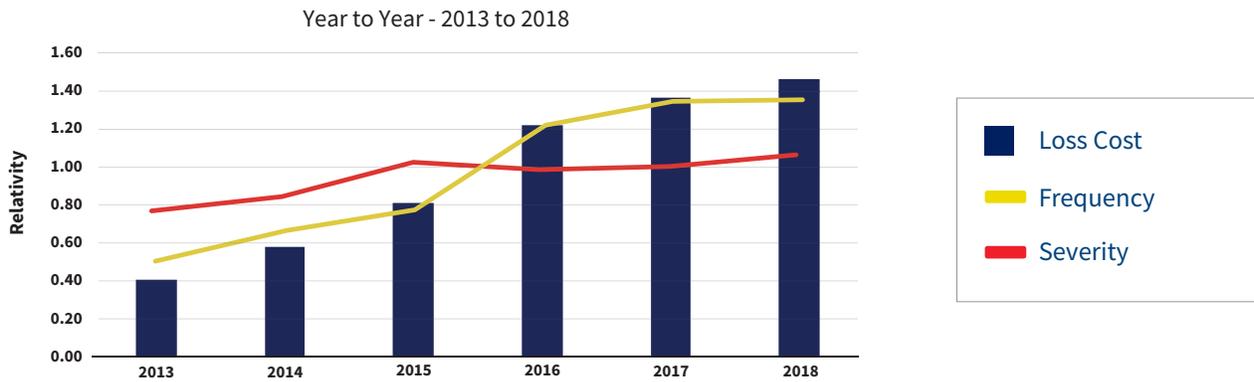


Non-Weather Related Water

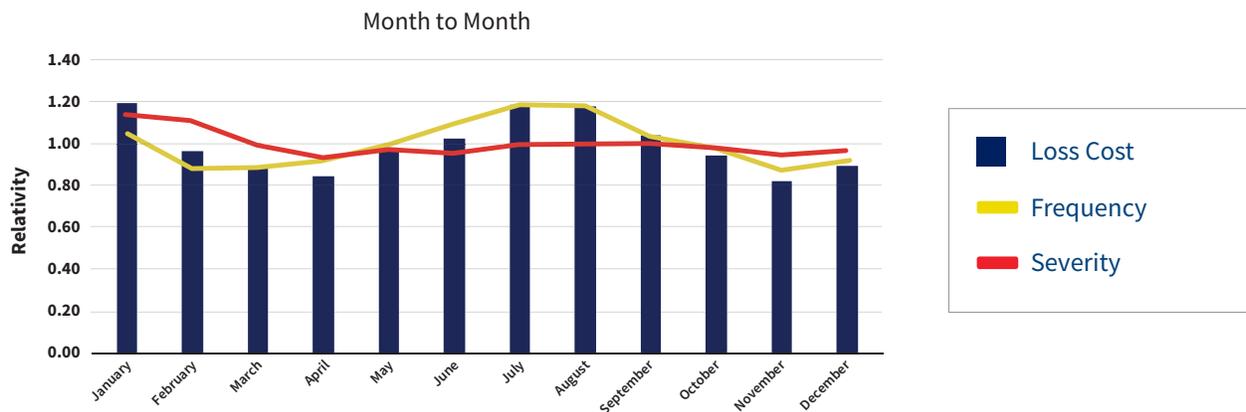
- Loss cost increased by 8%.
- Claim severity increased by 6% while claim frequency remained relatively stable.

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

Non-Weather Related Water Peril Trend



Non-Weather Related Water Seasonality

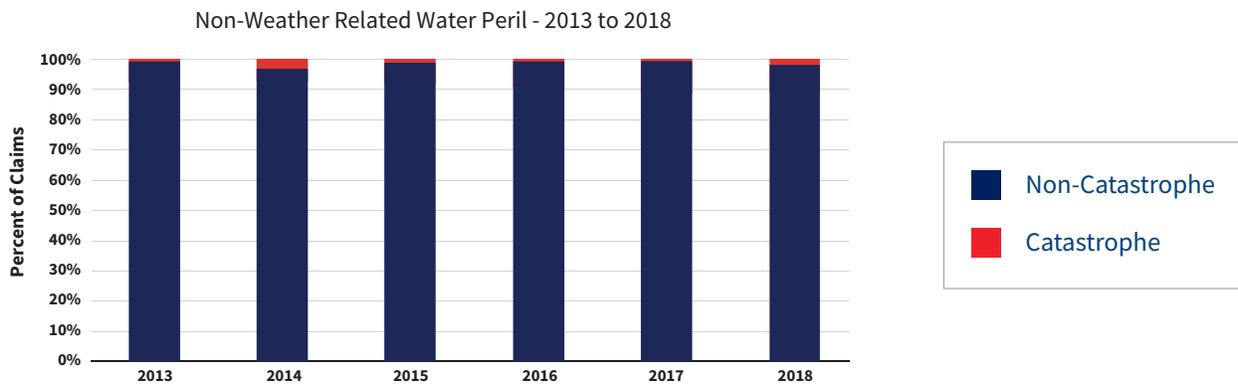


Non-Weather Related Water

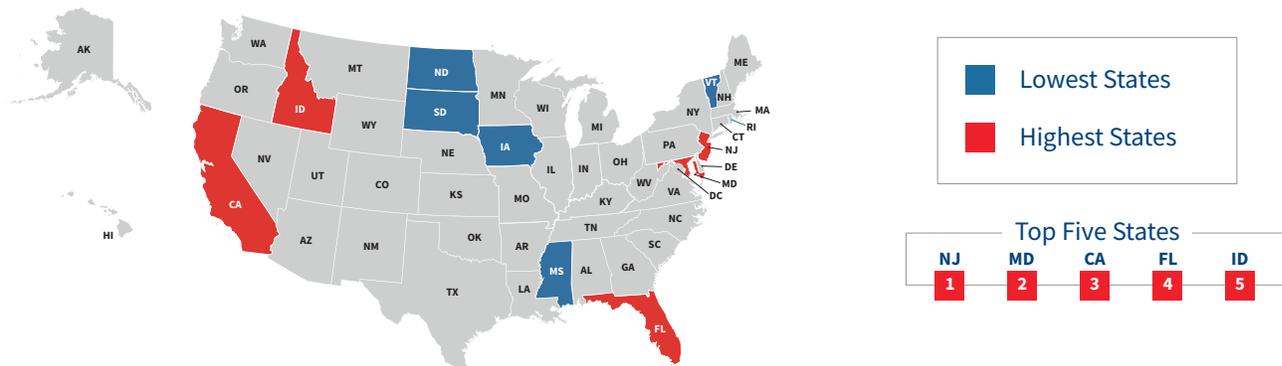
- Catastrophe claims accounted for 2% of this peril’s claims—a modest increase from 1% last year.

New Jersey and Maryland continued to remain the top two states in terms of loss cost. As noted last year, claim severity is particularly high in Florida, which ranked in the top five. Assignment of Benefits (AOB), which enables third parties to independently file claims, make repair decisions and collect insurance payments and is prevalent in Florida, may be one contributing factor to rising costs in the Sunshine State.⁶

Non-Weather Related Water - Catastrophe Claim Distribution



Non-Weather Related Water Peril Location



20%

Catastrophe claims accounted for 2% of the non-weather related water peril in 2018.



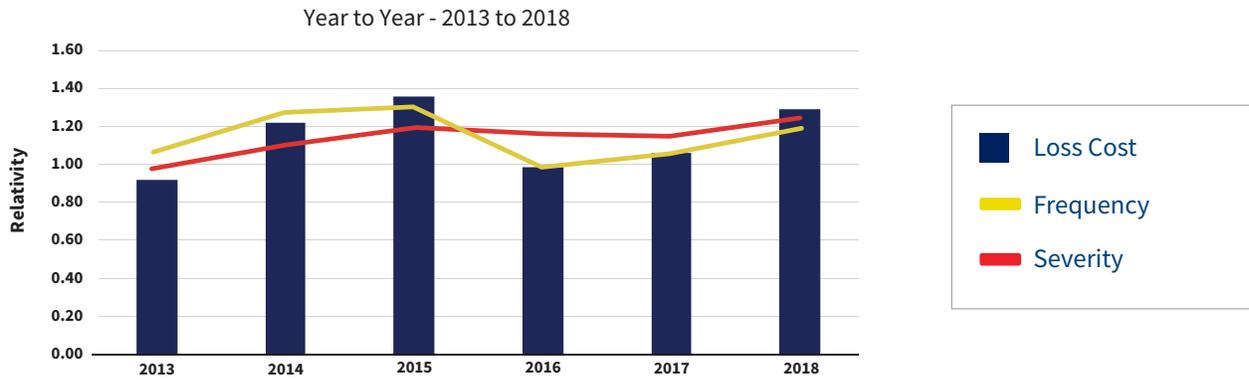
Image source: SC National Guard - <https://www.flickr.com/photos/scguard/44891646772/in/album-2157790205778631/>

Weather Related Water

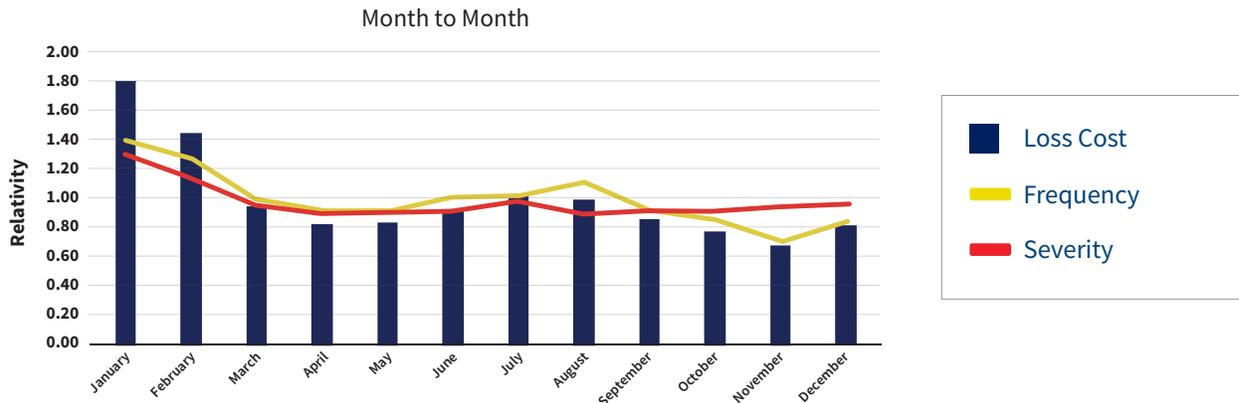
- Loss cost increased by 21% from 2017.
- Frequency increased by 13% and severity increased by 8%.

January and February continue to be the worst months for this peril. In general, January is the costliest month for Weather-Related Water claims, with loss cost typically 80% higher than the annual average.

Weather Related Water Peril Trend



Weather Related Water Seasonality

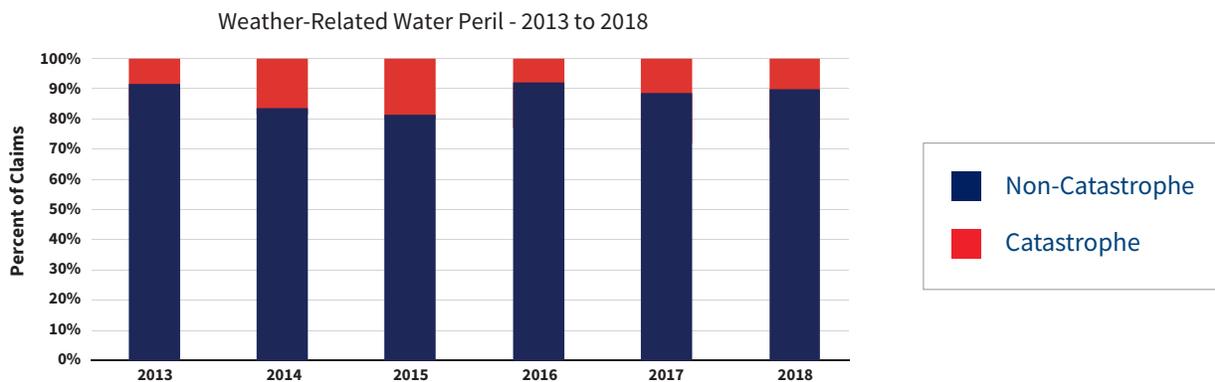


Weather Related Water

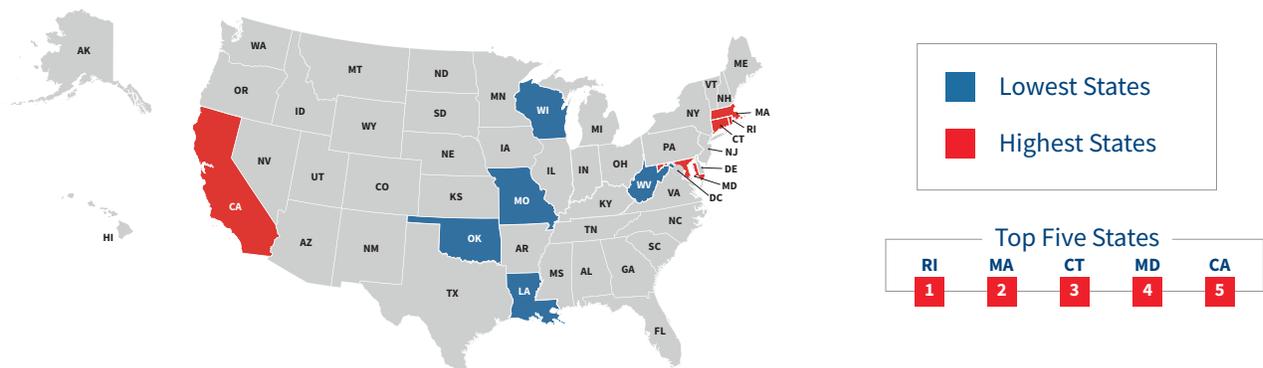
- Catastrophe and non-catastrophe distribution remain level with 2017.

The top five states in terms of loss cost remain the same as in 2017. However, Maryland had the highest loss cost in 2018, primarily due to record low temperatures in January. The first week of 2018, Baltimore experienced the coldest start to any year on record.⁷ The severity of freeze claims in January 2018 was 45% higher than the six-year average.

Weather Related Water - Catastrophe Claim Distribution



Weather Related Water Peril Location



Climate Change and Weather Events

According to the National Climate Assessment, climate change has been affecting weather events in the Midwest for several decades.⁸ Events like extreme flooding have the potential to disrupt multiple industries, including agriculture, forestry and transportation, as well as the health of the Great Lakes.



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



Theft

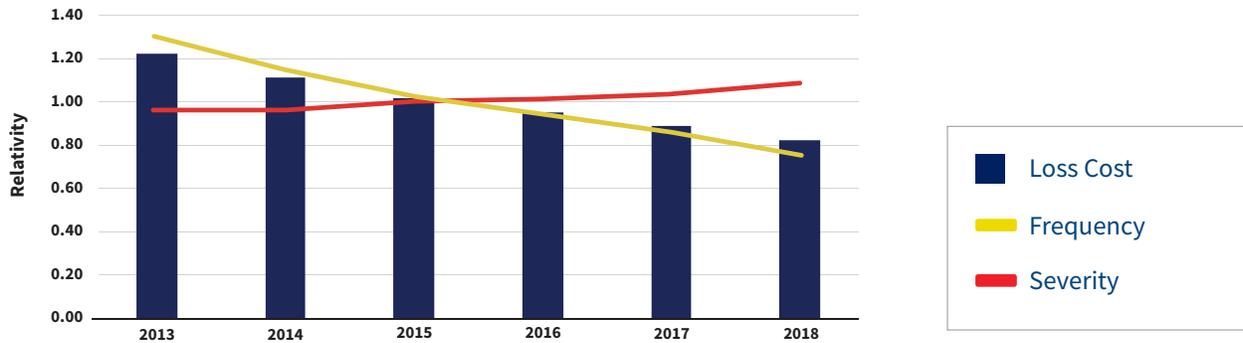
- Theft loss cost continued to steadily decline.
- Nevada and Washington D.C. again topped the nation in terms of loss cost.

The continued trend of declining Theft loss cost is driven by a consistent decline in frequency. However, when theft does occur, it results in expensive losses as suggested by increasing claim severity.

Decreasing Theft frequency may be due to the growing affordability of home security alarms. By 2020, home security systems will account for an estimated \$47 billion of the total global security market.⁹ In addition, homes without security systems are 300% more likely to be broken into. The Electronic Security Association reports that 9 out of 10 burglars said they would not attack the home if they encountered an alarm or home security system.¹⁰

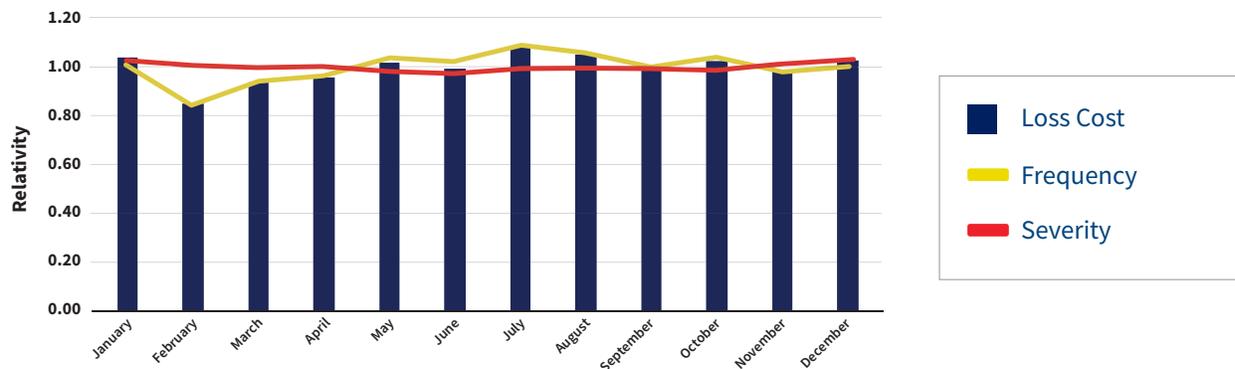
Theft Peril Trend

Year to Year - 2013 to 2018



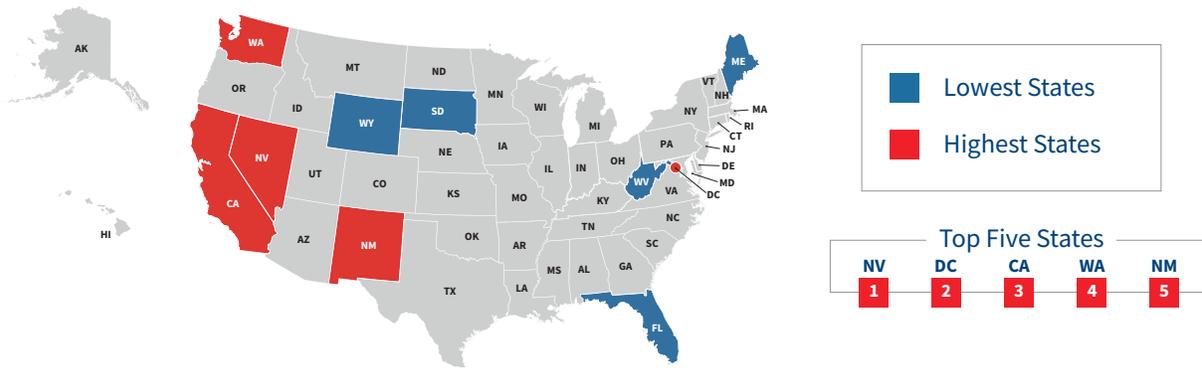
Theft Peril Seasonality

Month to Month



Theft

Theft Peril Location



Despite a drop of 12%, Nevada remained the state with highest Theft loss cost—for the fourth straight year. In addition, Washington D.C. continued its eight-year streak for the nation’s highest Theft frequency, despite a drop of 14% from 2017 to 2018. Elevated Theft frequency in Washington D.C. is partially due to the low number of exposures in the District; its claim counts are on par with states like Delaware and Montana.

Despite a drop of 12%, Nevada remained the state with the highest Theft loss – for the fourth straight year.

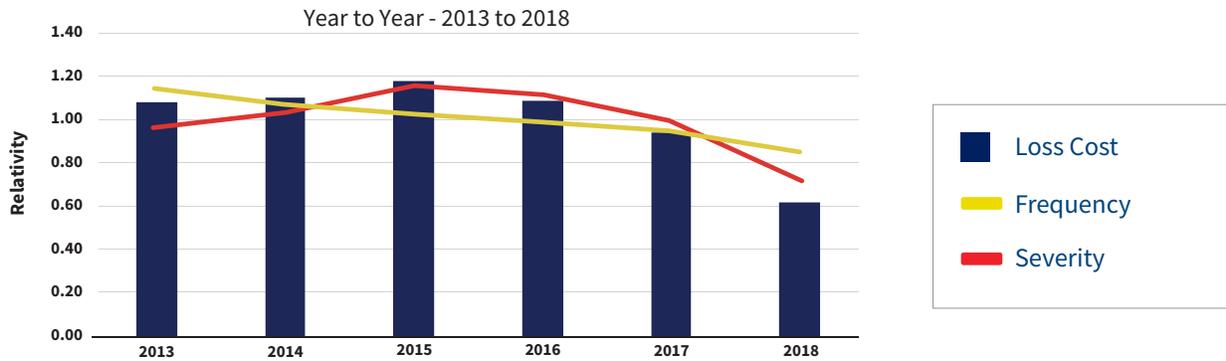
Liability

- Liability lost cost, frequency and severity continued to decline steadily.
- Frequency and severity continued the declining trend that began in 2015.

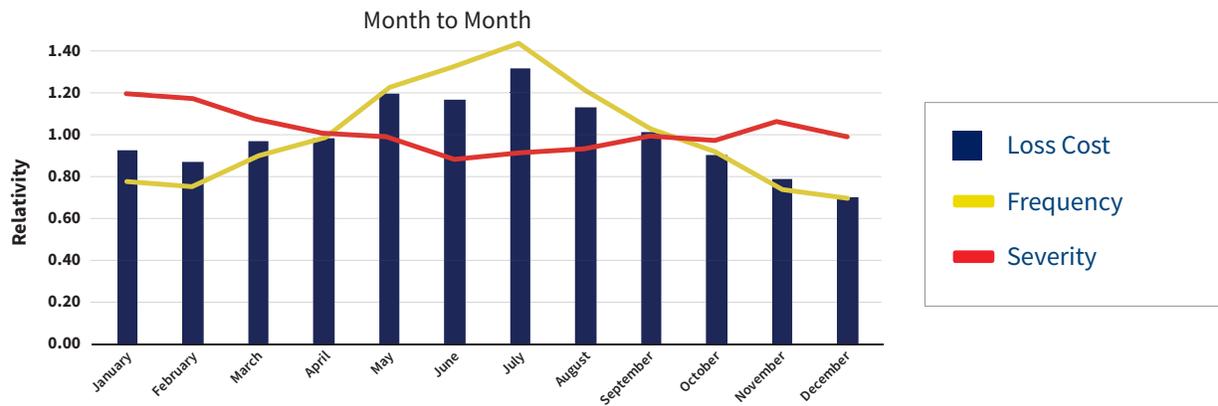
In general, the industry has seen a favorable trend for the Liability peril, as frequency and severity continue to decline. Macroeconomic events, such as GDP and employment levels, tend to have bearing on this peril.

The traditional spike in frequency during summer could be due to an increase in outdoor activity, such as the use of pools, hot tubs and trampolines. Connecticut and California continue to remain the top two states for loss cost.

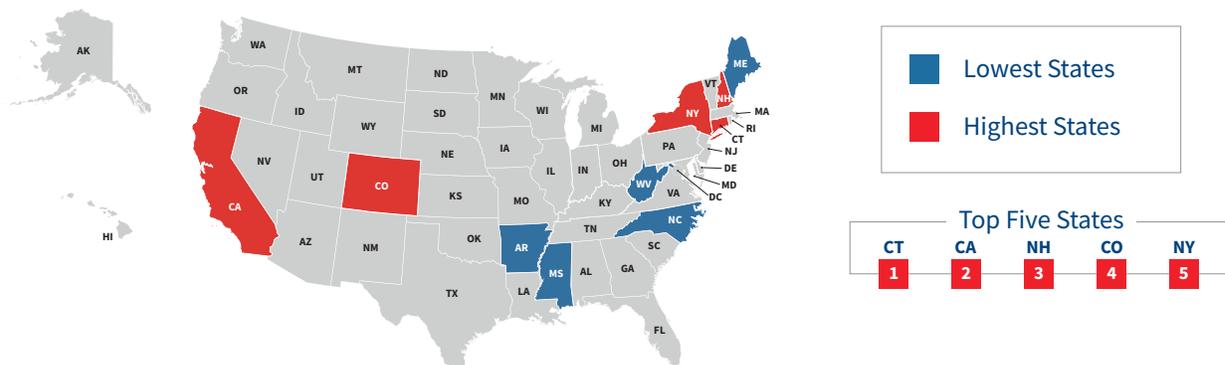
Liability Peril Trend



Liability Peril Seasonality



Liability Peril Location

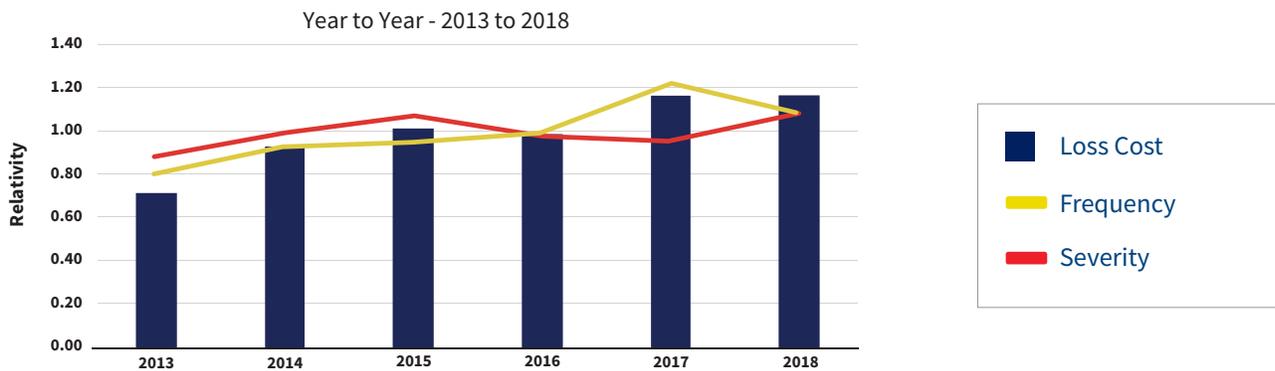


Other Perils

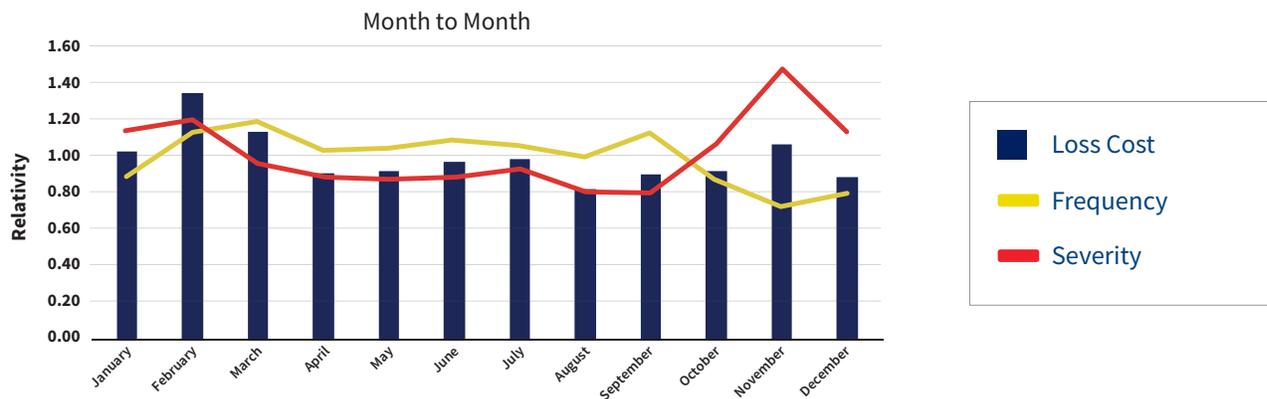
- Loss cost remains the same as in 2017, due to equivalent decrease in frequency and increase in severity.

Perils in this category include physical damage claims not included elsewhere, extended coverage, damage to property of others, medical payments and more. Due to inconsistencies in how different carriers report Other Perils, it is difficult to draw further conclusions. That said, this peril can be an indicator of regional or emerging trends.

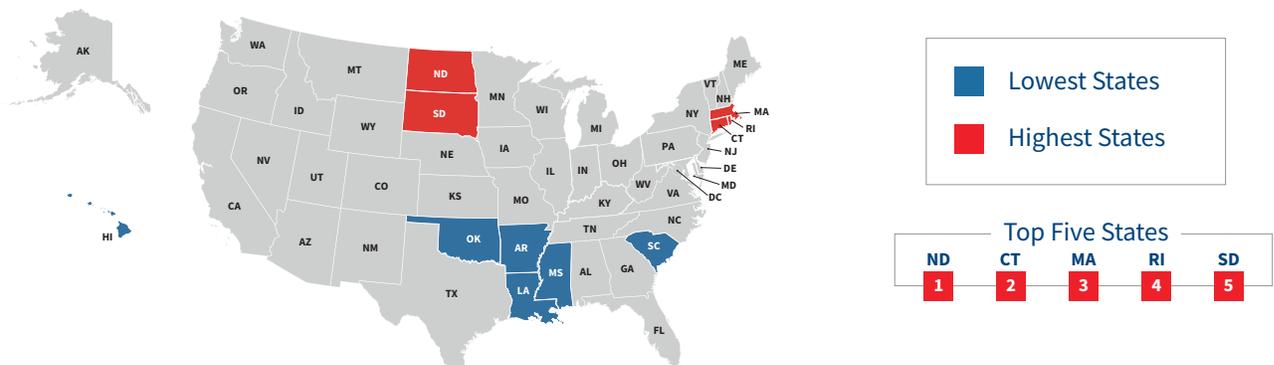
Other Perils Trend



Other Perils Seasonality



Other Perils Location



Conclusion

The 2019 LexisNexis Home Trends report highlights some of the challenges that home insurance carriers face in managing by-peril risk. For example, in 2018, hurricanes and wildfires again had a devastating impact on certain states—primarily driven by increasing severity, not frequency.

In addition, while this report provides a by-peril look at the 2018 accident year, carriers must also consider cross-peril interactions. For example, mudslides are more common after fire and rain, and the combination of weather can destabilize hillsides. Similarly, thefts can spike after natural disasters. Carriers should consider these events not as isolated incidents, but as related factors that can have a significant business impact.

Home values in catastrophe-exposed areas have risen dramatically over the last few decades. Additionally, many industry experts point to climate change as a precursor to continued escalation in catastrophe-driven claim activity. These experts stress the importance of engaging carriers in understanding potential impacts and developing resilience in the face of climate-related risks.¹¹

In short, it is imperative for carriers to understand by-peril and macro-level trends, and determine how such insights can support more precise and profitable pricing. Disciplined, informed underwriting and risk assessment is crucial to responding—and competing—in today's dynamic and volatile market.

Carriers that rely strictly on their own data may find it difficult to understand their true performance in the marketplace and the potential influence of by-peril trends. 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 provide a deeper understanding of the risk associated with a particular location. This, in turn, can help carriers differentiate their businesses and 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 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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Prince has more than six years of experience in Personal Auto and Commercial Specialty lines. He is an expert in insurance pricing and reserving. Prior to joining LexisNexis Risk Solutions, Prince held actuary positions at both GEICO and AIG. He is an Associate of the Casualty Actuarial Society and holds an M.S. in Statistics from University of Akron.

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.
- Provide a consultative experience that helps you foster longer-lasting, more engaged customer relationships.
- 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.
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About LexisNexis Risk Solutions

LexisNexis® Risk Solutions harnesses the power of data and advanced analytics to provide insights that help businesses and governmental entities reduce risk and improve decisions to benefit people around the globe. We provide data and technology solutions for a wide range of industries including insurance, financial services, healthcare and government. Headquartered in metro Atlanta, Georgia, we have offices throughout the world and are part of RELX (LSE: REL/NYSE: RELX), a global provider of information-based analytics and decision tools for professional and business customers. For more information, please visit www.risk.lexisnexis.com and www.relx.com.