AUTO INSURANCE REPORT

The Authority on Insuring Personal and Commercial Vehicles

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INSIDE

NICB: Catalytic Converter Thefts Pollute the Market

More than 64,000 catalytic converters were stolen last year, with most of them in **California**, according to **National Insurance Crime Bureau** (NICB) data.

Insurance claims for stolen catalytic converters spiked 288% from 16,660 in 2020 to 64,701 in 2022. More than 37% of the claims were from **California**, while **Texas** accounted for about 24%.

Metal recyclers pay $50 to $250 for the mandatory air-pollution control devices, which contain valuable rare earth metals. One removed from a hybrid vehicle can fetch up to $800, according to NICB. Depending on the vehicle, it can cost $1,000 to $3,500 to replace a stolen catalytic converter.

Many states have passed laws to deter thefts by making it harder to sell stolen devices. AIR

Advertising, Rather the Lack of It, Saves Big Insurers From Disaster

Many large auto insurers, faced with rising claims costs they could not control nor predict, decided to stop spending money to attract customers they could not properly price. The result for many was a reduction in costs that helped alleviate at least some of the profit woes.

Taking advantage of the void left by the giants, dozens of smaller insurers boosted their 2022 advertising. The amounts were small and don't change the market environment, but at least someone was trying to lure customers.

2022 was arguably the worst year in the 126-year history of personal auto insurance, with an incurred loss ratio of 80.2%. The solution? Pull two emergency levers. The first is rate increases, which were among the highest annual totals ever requested. (AIR 2/20/23) **Root**, for example, recently received a 62.4% rise in **California**. But not all rate requests were approved, at least not quickly. Even when rate hikes are approved, it takes time for an increase to flow

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Twisters, Inflation, Rate Hikes Tarnish Sweet Alabama Market

When **Alabama** Gov. **Kay Ivey** appointed him as the state's insurance commissioner, **Mark Fowler** had spent close to a decade under the tutelage of his predecessor, **Jim Ridling**, who led the **Alabama Department of Insurance** from 2008 until his retirement last summer.

While he was building his insurance chops, Fowler – who came to the department with a background in government affairs – also had a side gig: for five years, he was the deejay for a live gospel music online radio show on Saturday mornings.

The mission of the program on Glory Bound Radio was to "glorify God through our love for gospel music."

For someone bound to eventually oversee regulation of insurance in a catastrophe-prone state like Alabama, that kind of experience can't hurt.

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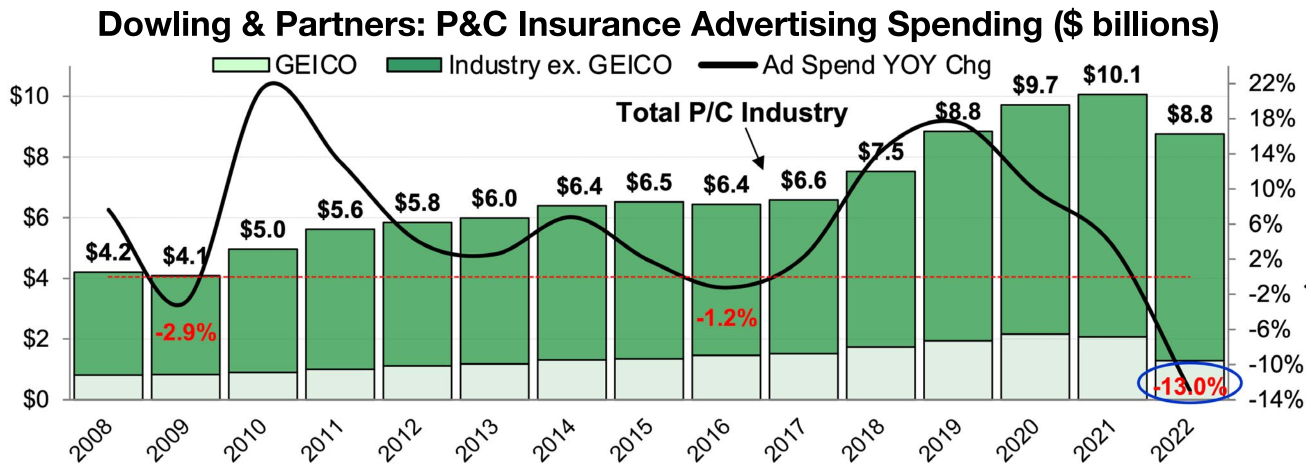

Source: S&P Global Market Intelligence, Dowling & Partners Analysis

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through a book of business.

The second lever is to cut expenses, and the industry did so by chopping advertising investments by 13% to $8.76 billion, according to **Dowling & Partners Securities**.

Most of the ad spending is for personal auto, and most of the reduction came from a giant pullback by **Geico**. Remove Geico from the industry spending total, and amount spent on advertising goes down by a more modest 6.4%.

And guess what? The reduction in spending is working out better than anyone could have anticipated. For starters, thanks to the rate increases, customers have continued to shop even without encouragement from advertising. (AIR 3/6/23) So insurers are seeing a steady stream of potential new customers if they want them. But with carriers taking more care in underwriting, most customers are frustrated to find that it makes more sense to stay put, at least for now.

As rate increases slow and profits return – Geico, for example, reported a surprisingly positive first quarter, thanks to its efforts to slash advertising and boost prices – customers will calm down and stop shopping so aggressively. That calm will come along just in time for insurers to start advertising once again.

As necessitated by its position as a direct writer – with few agents in the field to generate business – Geico has long been the biggest advertiser. So it is remarkable and significant that Geico slashed its 2022 advertising budget 38% to $1.28 billion from $2.07 billion in 2021, and far below the record $2.16 billion of 2020.

Why the turnabout? As smart as Geico had been in advertising for the past two decades, the company misread the impact the pandemic would have on auto insurance claims. In 2020, Geico resisted offering the refund plan adopted by so many insurers that saw claims fall. Instead, it offered a 15% credit on renewal. (AIR 4/13/20) At the same time, flush with cash, the company aggressively advertised to attract customers sitting at home and staying off the road.

This proved to be a costly error. Insurers that offered refunds were able to keep rates at pre-pandemic levels, so that when claims costs quickly rebounded, they had premium to match risk. Geico was renewing at lower prices at the very moment the company needed higher prices. And big advertising brought the company plenty of new customers at rates that proved to be too low. That is a prescription for trouble.

In a sense, Geico was operating in the blind. Because the company had failed to launch a usage-based insurance product (UBI), it lacked the immediate and detailed driving data that provided essential insights to big telematics players

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Dowling Analysis of Largest Insurance Company Advertisers

'22 Ad Rank	'22 Personal Auto Rank	Group	Advertising ($, M) 2018	2019	2020	2021	2022	Year-over-Year Change 20/19	21/20	22/21	Ad Rank '20	'21	'22	Points on Stat Combined* 2020	2021	2022
1	2	Progressive	$1,287	$1,663	$1,953	$1,874	$1,731	17%	-4%	-8%	2	2	1	4.8%	4.0%	3.4%
		of which = Direct	$1,026	$1,344	$1,560	$1,533	$1,421	16%	-2%	-7%				10.2%	9.2%	7.7%
		of which = Agency	$186	$223	$289	$224	$190	29%	-23%	-15%	State Farm Adjusted = +4%			1.5%	1.0%	0.8%
		of which = Other	$75	$96	$105	$117	$120	9%	12%	3%				1.7%	1.5%	1.4%
2	3	Berkshire Hathaway	$1,770	$1,998	$2,262	$2,290	$1,541	13%	1%	-33%	1	1	2	4.0%	3.4%	2.3%
		of which =GEICO**	$1,730	$1,936	$2,164	$2,069	$1,281	12%	-4%	-38%				6.3%	5.5%	3.3%
3	1	State Farm***	$904	$1,209	$1,167	$1,068	$1,013	-3%	-8%	-5%	3	4	3	1.8%	1.5%	1.3%
4	4	Allstate****	$888	$940	$1,004	$1,297	$948	7%	29%	-27%	4	3	4	2.8%	3.4%	2.2%
		of which =Esurance	$163	$146	$75	NA	NA	-49%	NM	NM				7.1%	NM	NM
		of which =Nat'l General	$61	$72	$72	$3	$5	0%	-95%	62%				2.6%	-0.5%	3.3%
5	6	Liberty Mutual	$536	$641	$726	$840	$745	13%	16%	-11%	5	5	5	2.1%	2.3%	1.9%
6	5	**USAA Group**	$215	$364	$501	$283	$418	38%	-44%	48%	6	8	6	2.1%	1.2%	1.6%
7	9	American Family	$146	$187	$330	$376	$347	76%	14%	-8%	8	6	7	2.9%	3.0%	2.5%
8	7	Farmers (Including Met P&C)	$289	$366	$351	$346	$260	-4%	-2%	-25%	7	7	8	2.0%	2.2%	1.5%
9	23	**Amica Mutual**	$126	$150	$120	$167	$172	-20%	39%	3%	10	9	9	5.2%	7.5%	7.4%
10	10	Nationwide	$248	$218	$185	$166	$167	-15%	-10%	0%	9	10	10	1.0%	0.9%	0.9%
11	24	**NJ Manufacturers Group**	$18	$24	$42	$95	$136	73%	127%	43%	15	13	11	2.3%	4.9%	6.6%
12	11	**Auto Club Enterprises (SoCal)**	$86	$98	$101	$114	$111	2%	13%	-3%	12	11	12	2.3%	2.5%	2.2%
13	8	Travelers	$77	$84	$102	$109	$97	21%	7%	-11%	11	12	13	0.4%	0.4%	0.3%
14	18	**Hartford**	$57	$72	$72	$87	$77	0%	21%	-11%	13	14	14	0.6%	0.7%	0.6%
15	15	**CSAA Insurance Group**	$7	$13	$51	$51	$60	303%	0%	17%	14	15	15	1.3%	1.2%	1.2%
16	249	Allianz Insurance Group	$12	$8	$12	$29	$58	56%	130%	103%	33	20	16	0.5%	0.9%	1.4%
17	17	**Auto Club Michigan**	$21	$20	$28	$31	$40	37%	10%	30%	19	18	17	1.1%	1.2%	1.5%
18	25	Country Financial	$33	$32	$26	$26	$33	-17%	-3%	28%	20	21	18	1.0%	1.0%	1.2%
19	101	**Lemonade/Metromile**	$6	$15	$21	$29	$31	36%	41%	4%	23	19	19	36.3%	15.3%	11.4%
20	13	Erie Insurance Group	$26	$28	$28	$24	$29	-1%	-13%	21%	18	22	20	0.4%	0.3%	0.3%
21	249	Zurich NA	$22	$19	$17	$21	$28	-10%	24%	36%	28	26	21	0.4%	0.4%	0.4%
22	40	Tokio Marine Group	$19	$19	$15	$19	$26	-23%	32%	37%	31	29	22	0.2%	0.2%	0.3%
23	20	Sentry Ins Group	$12	$17	$18	$23	$24	10%	23%	5%	26	24	23	0.7%	0.8%	0.7%
24	14	Auto Owners	$20	$21	$20	$22	$23	-6%	10%	5%	24	25	24	0.2%	0.2%	0.2%
25	125	Fairfax Financial Group	$8	$8	$8	$11	$22	-2%	44%	91%	44	35	25	0.1%	0.1%	0.2%
26	31	Chubb Ltd	$28	$26	$23	$23	$20	-11%	-3%	-10%	21	23	26	0.1%	0.1%	0.1%
27	249	**FM Global Group**	$18	$19	$18	$9	$20	-3%	-51%	123%	27	41	27	0.4%	0.2%	0.4%
28	249	Jewelers Mutual Group	$11	$13	$15	$18	$18	11%	21%	3%	30	30	28	5.7%	6.1%	5.5%
29	26	Shelter Insurance Group	$18	$17	$19	$20	$17	11%	4%	-14%	25	28	29	1.0%	1.0%	0.8%
30	21	Plymouth Rock/Palisades	$13	$16	$16	$20	$17	4%	22%	-18%	29	27	30	1.1%	1.3%	1.0%
31	249	**Trupanion Group**	$4	$4	$7	$11	$14	77%	65%	20%	49	36	31	1.5%	1.8%	1.7%
32	27	**Alfa Insurance Group**	$10	$12	$11	$12	$12	-3%	5%	4%	34	34	32	0.8%	0.8%	0.7%
33	16	Mercury General*****	$41	$42	$38	$50	$12	-10%	32%	-76%	16	16	33	1.1%	1.3%	0.3%
34	30	American International Group	$26	$19	$22	$10	$12	11%	-55%	22%	22	37	34	0.2%	0.1%	0.1%
35	55	California Casualty	$5	$8	$8	$8	$11	7%	-2%	39%	39	43	35	2.1%	2.1%	2.8%
36	2078	AmTrust Group	$3	$5	$4	$6	$11	-22%	51%	95%	70	58	36	0.2%	0.2%	0.4%
37	141	**Elephant Insurance Co.**	$32	$36	$32	$33	$11	-12%	4%	-66%	17	17	37	52.1%	75.4%	37.1%
38	33	Tennessee Farmers	$8	$9	$8	$8	$11	-8%	-2%	35%	43	45	38	0.6%	0.5%	0.7%
39	193	AXA Insurance Group	$13	$12	$6	$5	$10	-53%	-16%	117%	57	66	39	0.2%	0.2%	0.2%
40	62	Acuity Mutual	$9	$9	$8	$8	$9	-3%	-6%	17%	41	46	40	0.5%	0.4%	0.4%
41	36	Kentucky Farm Bureau	$6	$8	$8	$9	$9	2%	11%	5%	46	42	41	0.7%	0.8%	0.8%
42	204	Assurant Inc Group	$12	$14	$14	$9	$9	-2%	-34%	0%	32	38	42	0.5%	0.3%	0.3%
43	58	West Bend Mutual	$6	$7	$6	$7	$8	-6%	17%	8%	53	47	43	0.5%	0.5%	0.5%
44	228	American Financial Group	$5	$5	$5	$7	$8	1%	29%	17%	61	50	44	0.1%	0.1%	0.1%
45	51	PEMCO Mutual	$3	$6	$6	$7	$8	4%	20%	10%	55	48	45	1.3%	1.4%	1.5%
46	32	Texas Farm Bureau	$8	$8	$7	$6	$8	-11%	-5%	17%	50	52	46	0.5%	0.5%	0.5%
47	38	Iowa Farm Bureau	$6	$7	$7	$7	$7	-3%	-8%	9%	48	51	47	0.5%	0.4%	0.4%
48	53	Indiana Farm Bureau	$5	$6	$6	$6	$7	-7%	8%	14%	56	54	48	0.9%	0.9%	1.0%
49	56	First Acceptance Ins Group	$2	$5	$3	$4	$7	-49%	41%	83%	83	72	49	1.3%	1.8%	2.5%
50	249	Citizens United Reciprocal	$3	$4	$3	$6	$7	-21%	95%	11%	79	53	50	11.0%	31.2%	24.8%
		TOP 20	$6,753	$8,132	$9,082	$9,301	$8,012	12%	2%	-14%				2.4%	2.3%	1.8%
		TOP 21-50	$377	$400	$378	$403	$406	-6%	7%	1%				0.4%	0.4%	0.3%
		All Other	$392	$313	$257	$356	$339	-18%	39%	-5%				0.1%	0.2%	0.2%
		P&C INDUSTRY	$7,522	$8,845	$9,717	$10,060	$8,757	10%	4%	-13%				1.5%	1.4%	1.1%

Source: S&P Global Market Intelligence, NAIC, company reports, Dowling and Partners Analysis. **Bold = Direct Writer.** **Advertising expenditures** are pulled from the statutory Underwriting and Investment Exhibit Part 3, Line 4 and consist of services of advertising agents, public relations counsel, space in publications, literature for advertising/promotional purposes, drawings in connection with advertising, printing/paper charges in bills covering advertising, media broadcasts, prospects/mailing lists and signs for agents, and souvenirs for general distribution.

* Advertising dollars as a percent of total statutory combined ratio, which uses net premium written. **Geico net premium written is adjusted for an internal loss portfolio transfer and share in 2014 and forward, which impact statutory financials. *** State Farm's advertising includes allowances for managers and agents, which is not included in the statutory advertising exhibit, thus we show an adjusted change. See adjacent story for more detail. **** Allstate acquired Esurance in 2011; National General and Safe Auto in 2021. Allstate data is pro forma for all periods. Esurance no longer disclosed.

****Mercury expenditures are GAAP from company's 10K as statutory advertising spending is understated.

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like **State Farm**, **Progressive** and **Allstate**.

It is no wonder, then, that in putting the brakes on advertising, and raising rates 13.6% in 2022, more than any of its large competitors, Geico stopped growing. Direct premium written rose only 1.6%, last year, far less than the 6.2% industry average. It has been decades since Geico grew more slowly than the industry. With that, Geico fell behind a still-growing and more profitable Progressive as both the second-largest auto insurer and the biggest insurance advertiser.

Though management cautions that all the work is not yet done, the strong first-quarter performance shows that pulling these two levers – higher prices and lower expenses – quickly stabilized Geico. An aggressive entry into UBI has also helped. How Geico will fare when it attempts to grow again is anyone's guess.

Progressive also reduced its advertising, down 8% to $1.73 billion in 2022, less than the industry's 13% decline but more than the non-Geico advertisers. And by accepting some of those shopping customers, Progressive's premium grew 8.6%, enough to pass Geico on the market share table.

As the year came to a close, Progressive leadership, perhaps feeling their oats from a successful 2022, told Wall Street analysts that they would remain selectively aggressive in advertising. One look at a deteriorating first quarter of 2023 had them reconsidering that position, and the company stopped buying leads online entirely. As the acknowledged master of smart buying of online leads, Progressive's actions proved to the industry that the troubles of 2022 are not behind them, and its action supported the cautious words of an improved, but still chastened, Geico.

Dowling uses data from **S&P Global Market Intelligence** and supplements it with its own research because some statutory advertising data is incomplete. (See notes accompanying the table on page 3.) It remains unclear how companies report sponsorships, naming rights and other

Actor Michael B. Jordan portrayed a creepy "Jake from State Farm" in a January skit on Saturday Night Live.

long-term advertising or brand expenses. While Dowling's numbers are the best available, they are not exact, sometimes understating spending.

Not included in the table on page 3 are "allowances to managers and agents," which is spending outside of agent commissions that includes general management expenses but also co-op advertising. At most insurers, these allowances are usually modest or nonexistent, but they matter a great deal when talking about State Farm, which not only spends big money on advertising directly, but also sends big money to its branded agents for them to spend on marketing.

According to Dowling, companies with the largest allowances in 2022 were State Farm ($1.55 billion, its highest ever), **Liberty Mutual** ($305 million), **Hartford** ($109 million), and **American Family** ($107 million).

State Farm was the quiet winner in the advertising battles. Although respected for its campaigns – the refreshed "Jake from State Farm" campaign even garnered a brilliant spoof on Saturday Night Live – State Farm's work is not considered as impactful as the Geico Gecko or Progressive's Flo. And yet, during the pandemic State Farm successfully completed a project in which it enjoyed its best growth in policy count in years, perhaps decades, by luring new custom-

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State Market Focus: ALABAMA

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Alabama had its second highest number of tornadoes on record in 2022, and this year started with a record 29 for January. The 98 tornadoes in 2022 was more than 1.5 times the 10-year average of 59.6 per year, according to the National Weather Service. Not two weeks into 2023, a severe weather outbreak produced multiple tornadoes, damaging straight-line winds and golf-ball size hail, some of it on the outskirts of Montgomery, the state capital.

While nobody in the Alabama Department of Insurance suffered a major loss, "just about every single person here at the department was either affected … or had a family member or friend that had damage of some sort," Fowler said. "In the Southeast, in particular, we joke sometimes that the Great Plains may be Tornado Alley, but this is the tornado superhighway."

While storms like these often damage vehicles, most of the impact from the recent tornadoes was to property, he added.

Give the frequency of tornadoes and the risk of hurricanes and storm surges on the coast, Alabama insurers are accustomed to an occasional deluge of claims for weather-damage vehicles. But challenges across the country with inflation, used car prices, parts and labor shortages and longer rentals have raised the cost of repairs, contributing to bigger loss ratios and higher rates.

Mark Fowler
Commissioner, Alabama Department of Insurance

The statewide incurred loss ratio for Alabama personal auto insurers was 72.8% in 2022, a big jump from 64.7% in 2021, but better than last year's 80.2% national average, according to preliminary data from **S&P Global Market Intelligence**.

Alabama auto insurers are filing for rate increases in the 10% to 20% range, which is higher

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Alabama
Auto Insurance Profit Margins
Ten-Year Summary, Percent of Direct Premiums Earned

Line of Business	2021 Total Profit	2020 Total Profit	2019 Total Profit	2018 Total Profit	2017 Total Profit	2016 Total Profit	2015 Total Profit	2014 Total Profit	2013 Total Profit	2012 Total Profit	Avg Total Profit
Personal Auto Liab	11.1	13.7	7.4	6.8	2.1	-4.6	-1.7	3.3	4.2	4.7	4.7
Personal Auto Phys	0.6	6.9	10.4	7.9	7.0	4.1	3.5	4.3	3.7	5.3	5.4
Personal Auto Total	6.4	10.7	8.8	7.2	4.3	-0.6	0.8	3.7	3.9	4.9	5.0
Comm. Auto Liab	9.6	1.9	-8.3	-3.3	-1.5	-1.6	1.7	-1.1	-3.7	2.7	-0.4
Comm. Auto Phys	10.2	11.1	7.4	4.2	1.0	5.2	4.2	6.1	3.3	4.7	5.7
Comm. Auto Total	9.7	4.3	-4.2	-1.1	-0.7	0.1	2.4	0.7	-1.9	3.2	1.3
Total All Lines*	8.8	-1.9	15.4	9.0	9.0	8.0	13.4	12.8	14.8	11.7	10.1

*Auto; Home, Farm & Commercial Multiperil; Fire; Allied; Inland Marine; Med Malpractice; Other Liability; Workers Comp; All Other

Note: Profit calculations are by *Auto Insurance Report* using data from the National Association of Insurance Commissioners. Calculations are estimates, some based on national averages.

State Market Focus: ALABAMA

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than they've been in recent years, said Fowler, whose office must give prior approval before insurers can use new rates.

The top 10 personal auto insurance groups in Alabama increased rates an average 6.3% in 2022 and 4.3% so far this year, according to S&P's RateWatch, which includes filings recorded through May 3. No. 2 **Alfa Insurance Group** received approval to increase rates a groupwide average 13.3% this year after raising rates 7.6% last year, according to RateWatch. No. 6 **USAA** increased rates an average 16.8% on renewals

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Alabama
Personal Auto Insurers

Groups Ranked by Total 2021 Direct Premium Written (000)

Group Name	2021 Premium	Mkt share 2021	Loss Ratio 2021	2020 Premium	Mkt share 2020	Loss Ratio 2020	2019 Premium	Mkt share 2019	Loss Ratio 2019
State Farm Mutual	$887,956	22.7%	67.8%	$847,563	22.7%	53.2%	$848,368	23.0%	61.9%
Allstate Corp.	$584,296	14.9%	60.3%	$538,139	14.4%	51.7%	$516,339	14.0%	52.9%
Alfa Mutual Group	$511,424	13.1%	62.0%	$507,923	13.6%	53.6%	$501,549	13.6%	62.5%
Progressive Corp.	$452,677	11.6%	67.8%	$399,722	10.7%	55.8%	$345,091	9.4%	56.4%
Berkshire Hathaway/Geico	$427,668	10.9%	73.5%	$399,655	10.7%	72.1%	$414,662	11.2%	73.2%
USAA Insurance Group	$285,288	7.3%	70.0%	$289,421	7.8%	54.8%	$275,865	7.5%	72.0%
Liberty Mutual	$97,187	2.5%	57.5%	$85,761	2.3%	55.1%	$88,141	2.4%	63.5%
Farmers Insurance Group	$94,054	2.4%	54.2%	$102,893	2.8%	55.9%	$117,713	3.2%	56.2%
Travelers Companies Inc.	$85,762	2.2%	57.4%	$83,290	2.2%	52.3%	$82,966	2.3%	61.2%
Nationwide Mutual Group	$66,573	1.7%	62.2%	$68,122	1.8%	59.1%	$75,902	2.1%	47.1%
Country Financial	$61,727	1.6%	58.5%	$60,585	1.6%	60.8%	$60,030	1.6%	65.5%
Auto-Owners Insurance	$60,599	1.6%	55.2%	$61,794	1.7%	55.9%	$60,782	1.7%	67.1%
Safeway Insurance	$49,973	1.3%	66.2%	$53,817	1.4%	54.9%	$57,915	1.6%	56.3%
American Family Insurance Group	$35,293	0.9%	49.4%	$30,912	0.8%	51.9%	$26,446	0.7%	64.2%
First Acceptance Corp.	$35,094	0.9%	55.3%	$34,074	0.9%	49.5%	$34,140	0.9%	55.3%
Home State Insurance Group	$32,880	0.8%	60.5%	$26,410	0.7%	62.2%	$26,163	0.7%	49.6%
Auto Club Exchange Group (SoCal)	$27,065	0.7%	66.3%	$26,180	0.7%	59.3%	$29,121	0.8%	69.1%
Cincinnati Financial Corp.	$22,555	0.6%	51.9%	$24,089	0.7%	47.9%	$27,325	0.7%	69.0%
AssuranceAmerica	$21,834	0.6%	64.8%	$18,749	0.5%	70.5%	$19,050	0.5%	61.6%
Hartford Financial Services	$13,070	0.3%	50.3%	$13,415	0.4%	53.6%	$14,816	0.4%	54.2%
Sentry Insurance Mutual	$11,104	0.3%	52.5%	$11,164	0.3%	50.6%	$11,781	0.3%	50.8%
American National Insurance	$7,366	0.2%	50.5%	$7,716	0.2%	50.3%	$8,317	0.2%	51.6%
Loya Insurance	$6,560	0.2%	69.5%	$6,025	0.2%	59.4%	$5,272	0.1%	89.3%
Tokio Marine Group/PURE	$5,954	0.2%	51.2%	$5,637	0.2%	45.8%	$5,571	0.2%	55.8%
Chubb Ltd.	$3,812	0.1%	42.8%	$3,627	0.1%	24.9%	$3,511	0.1%	59.7%
Markel Corp.	$3,708	0.1%	26.1%	$2,494	0.1%	55.7%	$3,254	0.1%	55.1%
Horace Mann Educators Corp.	$2,758	0.1%	73.4%	$2,914	0.1%	53.1%	$3,278	0.1%	54.8%
Cimarron Insurance Co.	$1,961	0.1%	55.1%	$0	0.0%	na	$0	0.0%	na
Shelter Insurance	$1,748	0.0%	66.2%	$1,925	0.1%	82.6%	$1,994	0.1%	85.7%
Statewide Totals	$3,912,050		64.7%	$3,730,557		55.9%	$3,692,135		61.9%

Source: S&P Global Market Intelligence and the *Auto Insurance Report* database.
Loss ratio = incurred losses/direct premium earned and does not include dividends or loss adjustment expense.

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this month after a modest 3.5% increase last year. **Liberty Mutual** increased rates an average 8.6% last month after a groupwide average 15.8% hike last year, which included a 19.0% increase for its **Safeco** subsidiary.

Insurers in the past had sought to change the law to a more flexible "file and use" system, but were unable to convince lawmakers of its necessity. Fowler recalls an insurance executive telling him, "I don't actually need file-and-use in Alabama because they get us approved before we could put it into play anyway."

Fowler said the department prefers for companies to take smaller increases more frequently rather than less consistent big jumps.

"We would rather see, if you're going to have increases, to have a steady increase that's more manageable for the consumer and the company," he said. "We think that one of our jobs here is market stability, and that kind of regulatory approach promotes stability."

In 2020, Alabama drivers spent an average $918 on insurance, 25th highest in the country, according to the most recent data from the **National Association of Insurance Commissioners** (NAIC). Because Alabamans have among the nation's lowest incomes, many residents struggle to afford their auto insurance bills. On our PAIN Index, which compares premium to income as an indicator of affordability, Alabama ranked as the 13th least affordable market.

Like other low-income states, Alabama struggled for years with high rates of uninsured drivers – with estimates as high as 26% in 2007. For the past decade it has enhanced its homegrown insurance verification system to make it easier to catch scofflaws. While the **Insurance Research Council's** most recent report estimated that 19.5% of Alabama drivers were uninsured in 2019, higher than the 18.2% rate when

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Alabama Snapshot

Regulator: Insurance Commissioner Mark Fowler
Rate regulation: prior approval

Size of personal auto market: $3.91 billion (2021 DPW) Rank: 24th

Average policy expenditure: $918 (2020)
Rank: 25th
Auto Insurance Report PAIN Index rank: 13th (2020)
Property Insurance Report HURT Index rank: 7th (2020)

Auto registrations: 2.1 million (2021)
Truck registrations: 3.3 million (2021)

Vehicle miles traveled (VMT): 67.92 billion (2020)
Traffic fatalities: 1.38 per 100 million VMT; U.S.: 1.34 (2020)
Vehicle thefts: 222.0 per 100,000 residents; Region: 257.7 (2020)

Liability defense: pure contributory negligence

Minimum Insurance Requirements:
BI: $25,000/$50,000 • PD: $25,000

Safety Laws
All driver texting ban; ban on cell phones for young drivers
Graduated licensing law
Primary safety belt law
Motorcycle helmets required for all riders

Demographics
Population: 5.1 million (2022)
Change 2010-2020: 5.1%, U.S.: +7.4%
Median household income (avg. 2017-2021): $54,943; U.S.: $69,021
Population density: 99.2 per square mile; U.S.: 93.8 per square mile (2020)

Sources: S&P Global Market Intelligence; NAIC; U.S. Dept. of Transportation; NAMIC; U.S. Census; Insurance Institute for Highway Safety; FBI; Matthiesen, Wickert & Lehrer

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the verification system launched in 2013, some officials have estimated that the current rate is much lower. (AIR 1/17/22)

In addition to checking insurance to register a vehicle and at traffic stops, Alabama does regular checks of registrations against data uploaded by insurers. The program sends a driver a verification notice when liability insurance on the registered vehicle cannot be confirmed twice within a 21-day period, and without proof of insurance, the registration is suspended 30 days later. Legislation signed this month year makes an exception for military personnel temporarily stationed out of state. Instead of requiring them to have an Alabama policy, the state will accept a policy issued in the state where they are stationed as long as it meets Alabama's minimums.

The number of verification notices and suspensions declined 30% and the number of suspensions fell nearly 18% in 2022, according to

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Alabama Commercial Auto Insurers

Groups Ranked by Total 2021 Direct Premium Written (000)

Group Name	2021 Premium	Mkt share 2021	Loss Ratio 2021	2020 Premium	Mkt share 2020	Loss Ratio 2020	2019 Premium	Mkt share 2019	Loss Ratio 2019
Progressive Corp.	$140,905	18.1%	57.9%	$101,564	14.9%	54.7%	$83,604	13.4%	58.1%
Auto-Owners Insurance	$68,587	8.8%	50.1%	$63,570	9.3%	60.0%	$57,343	9.2%	61.4%
Travelers Companies Inc.	$50,629	6.5%	59.6%	$46,063	6.7%	81.8%	$40,504	6.5%	82.1%
Sentry Insurance Mutual	$35,049	4.5%	65.7%	$29,464	4.3%	91.6%	$24,869	4.0%	81.6%
Nationwide Mutual Group	$30,024	3.9%	54.4%	$29,869	4.4%	70.3%	$29,745	4.8%	64.6%
Zurich Insurance Group	$24,756	3.2%	60.7%	$25,276	3.7%	65.7%	$20,326	3.3%	63.5%
Cincinnati Financial Corp.	$22,303	2.9%	51.7%	$20,557	3.0%	42.2%	$19,194	3.1%	71.8%
Liberty Mutual	$21,170	2.7%	62.5%	$19,433	2.8%	68.6%	$19,846	3.2%	92.2%
W. R. Berkley Corp.	$19,243	2.5%	48.3%	$12,446	1.8%	44.5%	$8,644	1.4%	99.7%
Arch Capital Group Ltd.	$18,610	2.4%	123.8%	$7,669	1.1%	120.6%	$6,516	1.0%	243.0%
Berkshire Hathaway Inc.	$18,200	2.3%	93.2%	$21,539	3.2%	126.6%	$25,773	4.1%	67.8%
Old Republic International Corp.	$17,732	2.3%	72.6%	$17,055	2.5%	74.2%	$19,482	3.1%	107.6%
Great American Insurance	$16,136	2.1%	10.5%	$12,278	1.8%	41.0%	$11,198	1.8%	72.5%
Allstate Corp.	$15,753	2.0%	44.1%	$15,008	2.2%	29.6%	$14,501	2.3%	49.2%
State Farm Mutual	$15,533	2.0%	52.7%	$12,955	1.9%	51.7%	$12,529	2.0%	49.7%
FCCI Mutual Insurance Holding Co.	$14,484	1.9%	74.6%	$13,119	1.9%	43.0%	$12,658	2.0%	76.1%
Alfa Mutual Group	$13,642	1.8%	51.2%	$12,749	1.9%	69.1%	$12,009	1.9%	78.2%
Penn National Insurance	$12,293	1.6%	52.6%	$11,523	1.7%	47.4%	$10,160	1.6%	73.1%
Federated Insurance	$12,089	1.6%	64.1%	$10,789	1.6%	50.4%	$11,187	1.8%	53.1%
Tokio Marine	$10,558	1.4%	35.5%	$8,999	1.3%	55.6%	$7,892	1.3%	53.0%
Hartford Financial Services	$10,240	1.3%	107.7%	$10,403	1.5%	52.6%	$9,398	1.5%	44.3%
American International Group	$9,676	1.3%	76.1%	$21,805	3.2%	47.8%	$14,772	2.4%	177.6%
CNA Financial Corp.	$9,673	1.3%	63.8%	$8,117	1.2%	42.8%	$6,208	1.0%	31.2%
Fairfax Financial Holdings	$8,883	1.1%	93.3%	$9,259	1.4%	57.9%	$11,317	1.8%	64.2%
Statewide Totals	$776,270		60.8%	$683,685		65.5%	$624,814		74.6%

Source: S&P Global Market Intelligence and the *Auto Insurance Report* database.
Loss ratio = incurred losses/direct premium earned and does not include dividends or loss adjustment expense.

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the **Alabama Department of Revenue** annual report. That could be an indication that the system is finding fewer cars that are uninsured.

With a large proportion of low-income drivers, Alabama has always had a robust market of nonstandard insurers selling minimum-limits policies. Agents report that policies were staying on the books longer, as drivers realized that buying a policy and dropping it a month later just to have an insurance card would no longer suffice. (AIR 11/16/20)

Alabama requires drivers to carry at least $25,000 for bodily injury liability per person and $50,000 per accident, plus $25,000 for property damage liability. While insurers must offer uninsured/underinsured (UM/UIM) coverage, policyholders can reject it.

Sheila Travis
Chief Examiner
Alabama Department of Insurance

One of the challenges for insurers in Alabama is that drivers can stack UM/UIM coverage from two additional policies on top of the primary policy. This increases the cost of UM/UIM claims in a state where many people carry low limits.

Last year, Alabama state troopers investigated 31,990 traffic crashes, down 7.3% from 2021, according to the **Alabama Law Enforcement Agency**. The crashes resulted in 10,914 injuries, down 6.3% from 2021, and 586 deaths, a decline of 3.4%.

The continuing effort to ban the use of handheld cellphones continues to meet resistance in Alabama. The House postponed action on HB 8. During debate, lawmakers expressed concerns that it did not address other forms of distracted driving and fears that Black drivers might be targeted by police, according to a story on *AL.com*.

Larry Chapman Jr.
Deputy Commissioner
Alabama Department of Insurance

Lawmakers did take steps to rein in street racing and dangerous exhibition driving with passage of House Bill 29.

The legislation, which passed the House and Senate, toughens penalties for drag racing and dangerous stunts, like donuts. Someone who causes serious injury could be face jail time and lose their driving privileges.

Alabama's independent agents continue their so-far unsuccessful push for changes to the state's law providing premium tax credits based on real estate or employment. They argue that the way the law is written benefits Alfa and State Farm, which allows them to charge lower premiums than companies that use independent agents.

The most recent bill, HB 80, would have specified that the Alabama real property investment credit be allowed only for property that is occupied for a majority of the taxable year.

Over the last year, the Alabama Department of Insurance has bolstered its staff. In April 2022, Ridling promoted Sheila Travis to succeed longtime chief examiner **Richard Ford**, who retired in 2021. Fowler served as acting commissioner since Ridling retired, but in the months since Ivey appointed him as the permanent successor in January, he has made several key hires. In February, he hired Sanjeev Chaudhuri to be chief actuary for the department and **Larry Chapman Jr.** to be deputy commissioner. Both came from Alfa Insurance: Chaudhuri was chief life actuary, and Chapman was an agent. In March, the department announced it hired Heather Lowe as government affairs manager. AIR

ADVERTISING *Continued from Page 4*

ers with low rates and a lot of advertising. For the most part, the company did so while maintaining reasonable profitability. But now there's a problem: State Farm posted a staggeringly bad 94.9% personal auto incurred loss ratio in 2022.

At most insurers such a result would send heads rolling, but State Farm seems to have expected its long attack to someday come upon hard times, and it was already adjusting prices last year. While the price attack may have slowed, the advertising effort continued unabated.

In 2022, State Farm reduced the advertising spending reported in its statutory data by 5% to $1.01 billion. But Dowling estimates that State Farm's total ad spending actually rose 4% because it dramatically increased the amount it spends marketing through agents. State Farm reversed several years of personal auto market share declines in 2022, rising to 16.8% from a recent low of 16.0% in 2021.

Allstate had the second biggest reduction in spending among the top 20 advertisers, cutting 27% from its budget to $948 million in 2022. That reduction is not as big as it appears since 2021 represented record spending of $1.30 billion. The 2022 budget is more in line with the pre-pandemic budget of 2019.

Liberty Mutual remains a steady presence in the advertising world. Its 2022 budget of $745 million was 11% lower than its record spending of $840 million in 2021, but it was still the second-highest amount in company history.

USAA was unique among the big advertisers in its decision to substantially increase spending in 2022 by 48% to $418 million. USAA is accustomed to big swings in its marketing strategies: it reduced spending 44% in 2021 to $283 million after increasing it to a record $501 million in 2020. That was a 38% increase from $364 million in 2019, which itself was a 69% increase from $215 million in 2018. USAA's advertising agency must be dizzy trying to plot strategies for such dramatic swings. We suspect the company is struggling to find the sweet spot in attracting new customers at a time when its underwriting program is also having a hard time.

For the 10 years ended 2012, USAA's incurred loss ratio averaged 4.7 points higher than the industry average. With among the industry's lowest expense ratios, the company produced excellent profits relative to competitors.

But for the decade ended 2022, USAA's incurred loss ratio averaged 9.0 points more than the industry, and 10.9 points last year, leading to a money-losing 91.1% loss ratio last year. That is no longer a superior performance.

The biggest advertisers as a percentage of premium and combined ratio market directly to consumers. Progressive Direct spent 7.7 points on the statutory combined ratio. Geico spent 3.3 points, down from 6.3 points in 2020 in a clear indicator of how cutting ad spending benefitted the bottom line. **Amica** spent 7.4 points and **Lemonade/Metromile** 11.4 points on the combined ratio in 2022. AIR

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