

SPECIAL REPORT

## LexisNexis® Home Trends Report – 2016

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

OCTOBER 2016



## Welcome

The 2016 LexisNexis® Home Trends Report is the first edition in a series of ongoing reports that will be issued by LexisNexis Risk Solutions.

The intent of this inaugural report is to identify key emerging home insurance industry trends within a specific set of peril-related categories, and provide insights about these trends that carriers can use to guide business decisions. As an example, benchmarking performance against by-peril trends could reveal pricing opportunities as well as provide validation for prior initiatives. You will also find additional data-driven information pertaining to factors that may influence the key trends in this report.

Subsequent editions of the LexisNexis Home Trends Report will provide a refreshed view of by-peril trends based on the latest data, as well as address a deeper assessment of market conditions—creating a more detailed historical view of how insurance industry dynamics are evolving over time.

We know carriers are increasingly challenged to manage their book of business so as to reduce risk and price as precisely as possible. Deeper insights into peril-related trends can help you better assess your properties and achieve that precision pricing while mitigating risk and protecting against losses.

## Highlights

- Almost without exception, overall loss cost for all perils either declined or remained steady. Overall homeowners claims frequency continued to trend downward as well.
- Catastrophic losses have generally remained stable, with a couple of notable exceptions.
- Wind frequency is down precipitously since 2011.
- Fire frequency continues to drop while severity appears to have leveled off after several years of increases.

## About the data

All data in this report is sourced from internal LexisNexis proprietary data sources and is based on single and multi-family property exposures and losses for the period ranging from 2010 through 2015. Between 69 and 85 million houses are represented over this time period, totaling 470 million house years over six years. Additionally, the data is based on a sample from across all fifty states and Washington DC. Claims data included in this report only represents paid claims, which 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 are spread 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 across all months within a particular year. Loss cost seasonality is the average loss cost relativity across all years and states. Catastrophe distribution is the proportion of catastrophic and non-catastrophic 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

Loss Cost, Seasonality, Catastrophic Distribution, Geography



Overall All Peril loss cost declined by 30% from 2010 to 2015



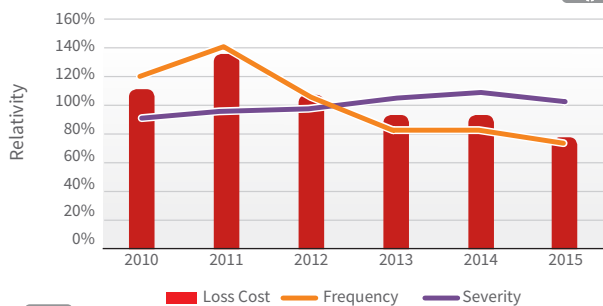
All Peril seasonal frequency spiked in the spring and fall by: 46% and 8% respectively

Although there is a spike in loss cost in 2011, in aggregate, loss cost per claim across peril categories has declined over the past several years—despite the fact that there has been a very slight rise in claim severity. This rise is due to the effect of inflation through cost of labor and materials.

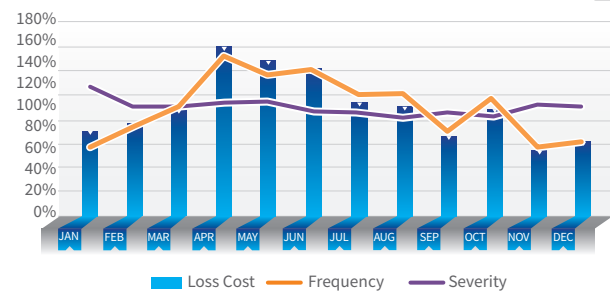
The decline in loss cost is due in part to a marked reduction in claim frequency as well as fewer catastrophic events.

Seasonal claims frequency has tended to spike in spring, trend downward over the summer, then spike slightly in the fall, while severity remains relatively steady throughout the year.

All Peril Trend (Year to Year)



All Peril Seasonality (Month to Month)



Catastrophic claim costs declined from 2010 to 2015

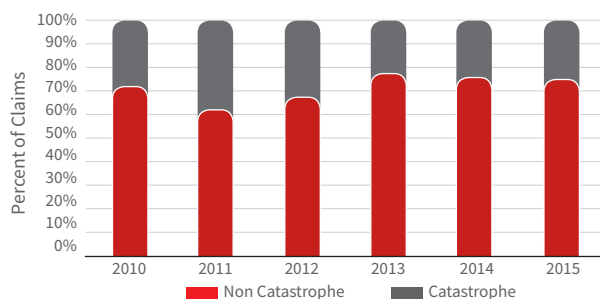


All Peril state loss cost is highest in the Midwest

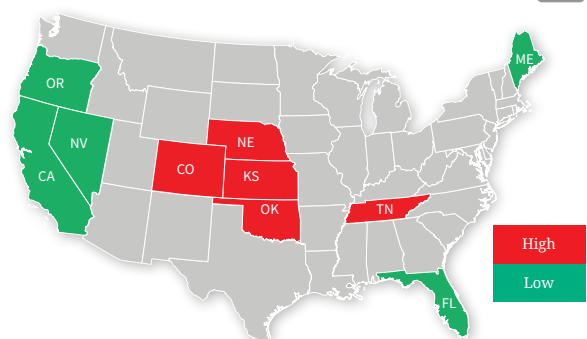
While we just experienced our first major storm of the 2016 hurricane season, the years prior have been relatively uneventful. Catastrophic claims declined slightly, representing 27% of claims in 2010, down to 24% in 2015. The catastrophic rate improved slightly in 2012 and 2013; it has remained stable thereafter.

Ranking states on the basis of loss cost indicates that over the six years analyzed, the most impacted six states comprise a large portion of Tornado Alley—which would be more aptly named “Hail Alley” based on dollars lost per house.

Catastrophe Claim Distribution  
All Perils - 2010 - 2015



Impact by Geography - All Perils - 2010 through 2015







## Wind



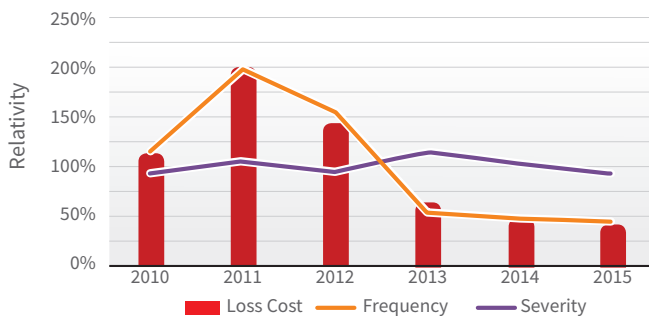
**Overall Wind loss cost declined by a dramatic 53% from 2010 to 2015**



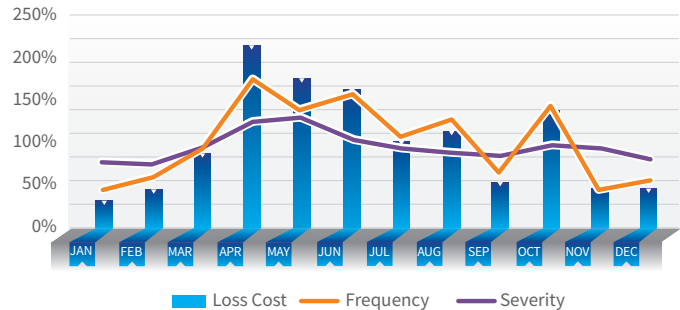
**Wind seasonal frequency spiked as much as 73% in the spring and summer**

Consistent with the overall loss cost, but somewhat more dramatically, Wind loss cost declined during the period. While claims severity remained relatively stable, claims frequency experienced a significant and steady overall drop beginning in 2011. All perils in aggregate tend to spike in the spring and fall months, and Wind is no exception. Wind is a driving factor for the increased frequency in homeowner claims during these two seasons and often results in roof damage.

**Wind Loss Trend**



**All Peril Seasonality (Month to Month)**



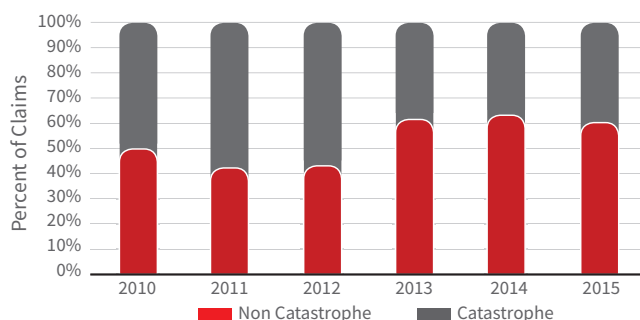
**Catastrophic events have declined from 2010 to 2015**



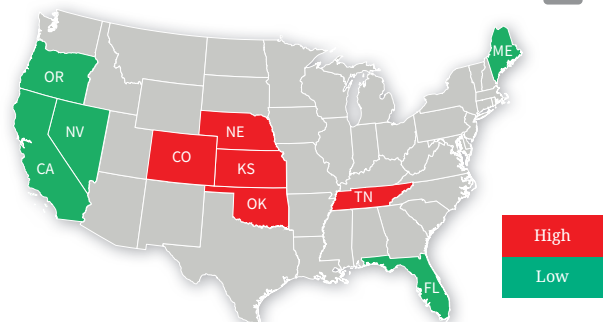
**The majority of claim costs were generated in the Midwest**

Contributing factors to the loss cost decline include a 20% reduction in catastrophic claims beginning in 2013 as well as a steadily improving (relative to other perils) non-catastrophic Wind claim rate. Additionally, efforts to increase deductibles and the introduction of Actual Cash Value Roof Endorsements in some areas appear to be having a positive effect.

**Wind Catastrophe Distribution**



**Impact by Geography - Wind - 2010 through 2015**



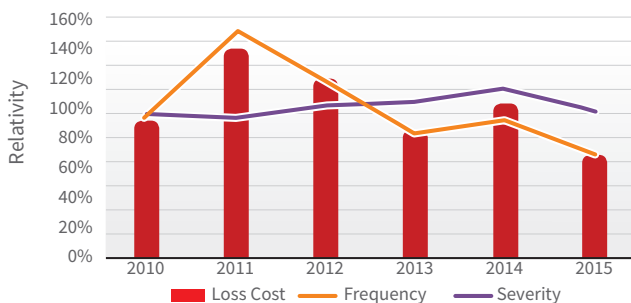
## Hail

 Overall loss cost declined by 26% from 2010 to 2015

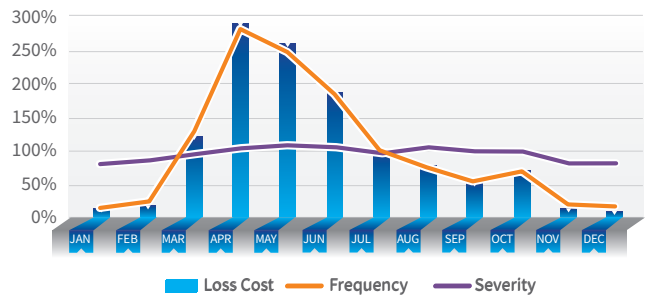
 Hail seasonal frequency spiked by as much as 59% in the spring and summer

Overall Hail loss cost declined in aggregate, beginning in 2011. While there appears to be a mild spike in claims severity in 2014, this lift is most likely due to the fact that the more severe claims have a slightly longer tail. Our expectation is that as these claims are paid, severity levels will increase. Hail loss cost spiked from April through June due to dramatically increased claims frequency. Hail is the second primary factor for driving overall loss cost during these months.

Hail Loss Trend



Hail Loss Cost Seasonality

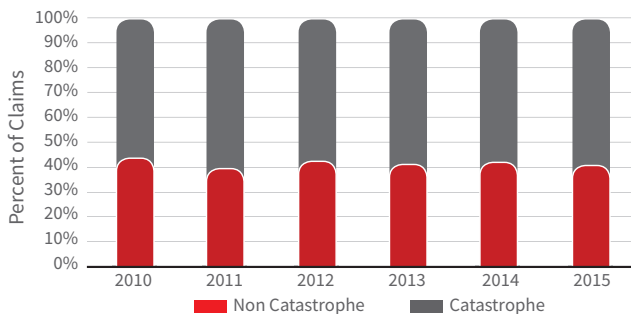


 Catastrophic claims have remained consistent, but are high for the Hail peril

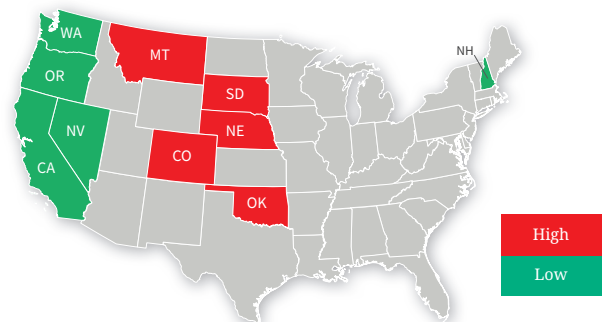
 State lost cost is highest along Tornado Alley

Catastrophic claim rates are consistent with the overall declining trend. Beginning in 2012, the non-catastrophic Hail claim rate steadily improved overall, relative to other perils. April through June are also the worst time for wind storms in the Midwest.

Hail Catastrophe Distribution



Impact by Geography - Hail - 2010 through 2015





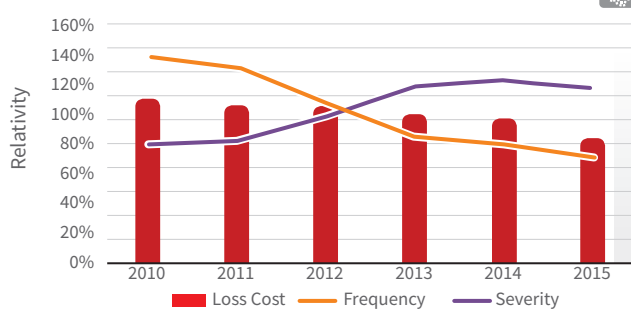
## Fire

**Loss cost maintained a steady decline despite shifts in frequency and severity**

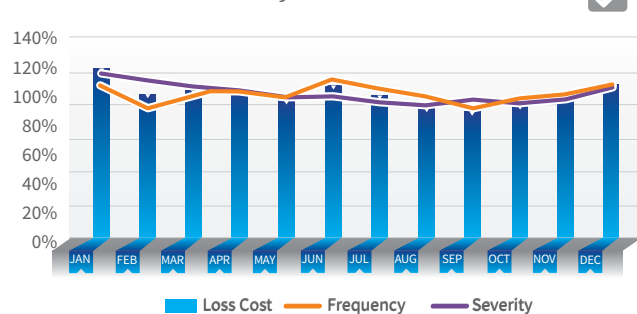
**Overall seasonal loss cost tends to be fairly level, though lightning-related fires spike in summer**

While overall Fire loss cost has declined, the decline has been more subtle for this peril versus some of the other perils. There has been a significant reduction in Fire frequency; claim severity has risen to compensate for frequency's effect on overall loss cost. The drastic reduction in claim frequency is most likely due to improvements in fire prevention and detection technology. Seasonality for the fire peril is best separated into the two primary causes of loss: fire and lightning. After splitting these causes up, we see that fire is slightly convex, with peaks in the winter months, while lightning is predominately a summer peril. Seasonal Fire loss cost trends are contrary to popular industry belief, which assumes Fire frequency is highest during the winter months—when people use items such as space heaters. Interestingly, loss cost is relatively consistent throughout the year, driven by a reverse dynamic between severity and frequency.

**Fire Loss Trend**



**Fire Loss Cost Seasonality**

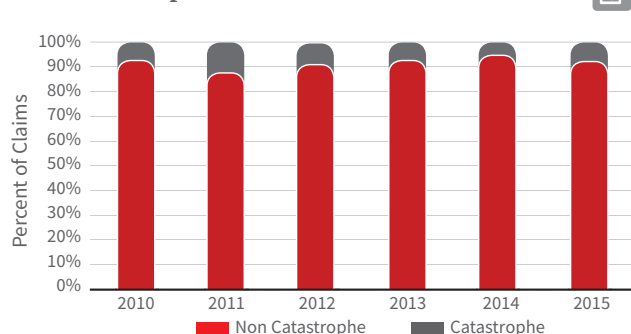


**Catastrophies represent only a small proportion of claims**

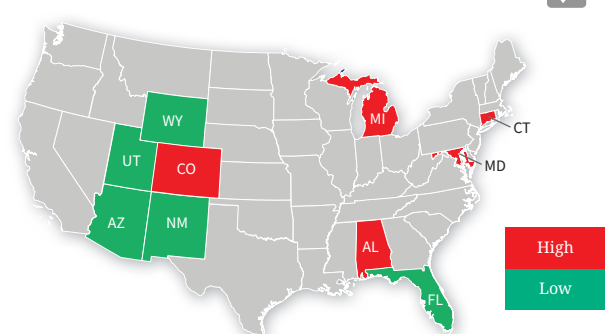
**State loss cost appears to be influenced by natural barriers**

Catastrophic rates have been consistent with the overall trend, while non-catastrophic Fire claim rates steadily improved across all years, both overall and relative to other perils.

**Fire Catastrophe Distribution**



**Impact by Geography - Fire - 2010 through 2015**





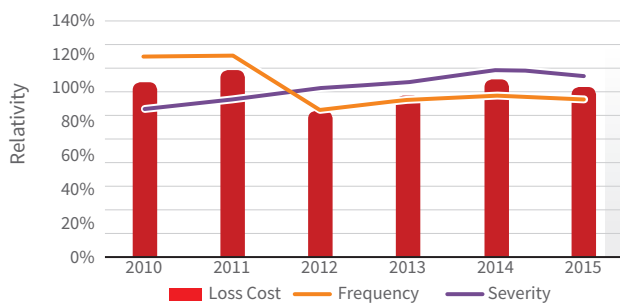


## Non-weather-related Water

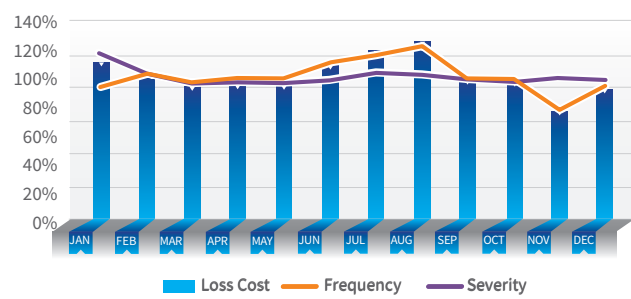
- Loss cost remained steady**
- Claim frequency increased by 24% during the summer, but overall, does not appear to be highly seasonal**

Loss cost for Non-weather-related Water has remained relatively steady, with a dip in 2012, due primarily to reduced claims frequency and a sharp decline in catastrophic claims. However, claim rates beyond 2013 were disproportionately high, relative to other perils. Seasonal loss cost trends appear to be relatively stable throughout the year, with a small spike during the summer months.

Non-weather-related Water Loss Trend



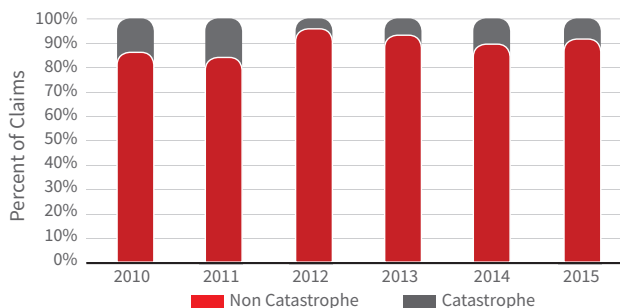
Non-weather-related Water Loss Cost Seasonality



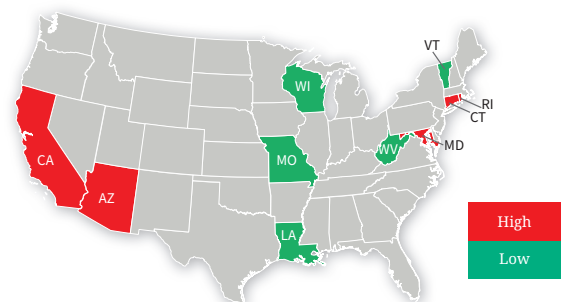
- Catastrophies represent only a small portion of claims**
- State loss cost is highest in coastal states**

The non-catastrophic claim rate improved sharply in 2012 overall, then stabilized.



Non-weather-related Water Catastrophe Distribution



Impact by Geography - Non-weather-related Water - 2010 through 2015

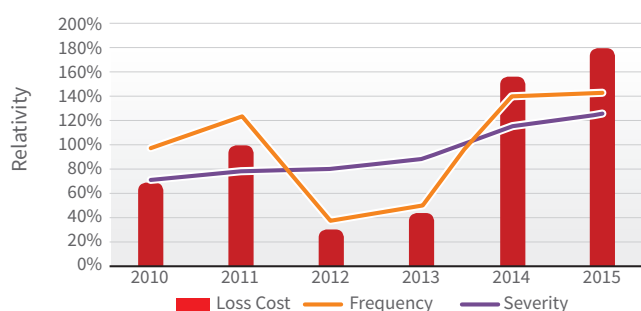


## Weather-related Water

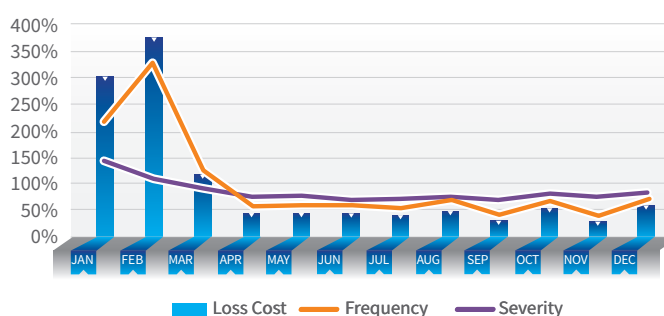
-  **Loss cost increased by a dramatic 156% from 2010 to 2015**
-  **This peril is highly seasonal and is dominated by winter weather**



Weather-related Water loss cost has spiked in recent years, following a significant drop in frequency between 2012 and 2013. Loss cost for Weather-related Water claims spiked dramatically in the early parts of the year, primarily due to dramatically increased claim rates.

Weather-related Water Loss Trend



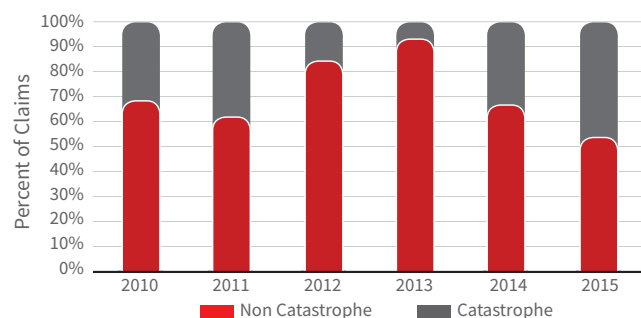
Weather-related Water Loss Cost Seasonality



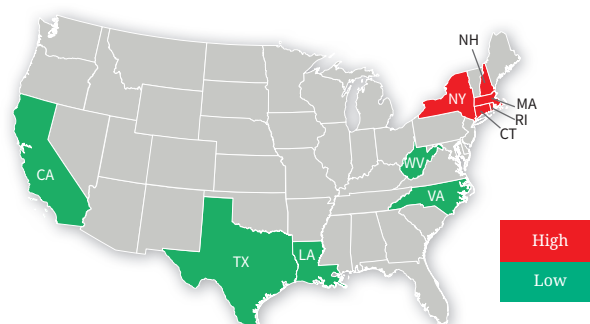
-  **Catastrophic losses have shown extreme variability**
-  **Winter weather resulted in dramatic losses, particularly in the Northeast**

Catastrophic claims have ranged from 5% to almost 50% of all Weather-related Water losses, playing a key role in loss cost variance. Non-catastrophic Weather-related Water claim rates experienced a good year in 2012, but were highly unfavorable in 2014 and 2015—both overall and relative to other perils. This is primarily due to inclement winter weather. In 2014, the country as a whole suffered more than usual from winter weather. The Northeast, primarily the New England areas around Massachusetts and Connecticut, were rocked by winter weather in 2015. In looking at the year-to-year loss cost trends, we've learned that this peril was very expensive in 2014 and 2015, most likely due to winter storms in the Northeast.

Weather-related Water Catastrophe Distribution



Impact by Geography - Weather-related Water 2010 through 2015



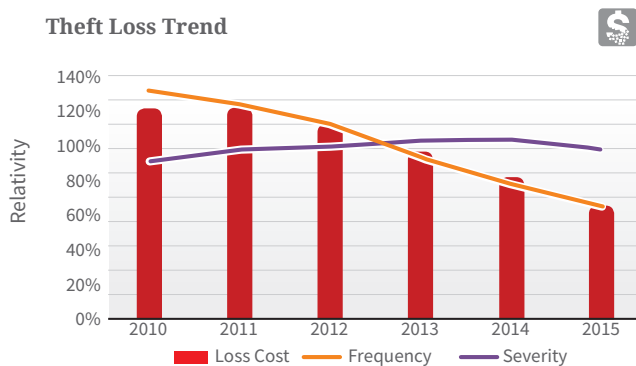


## Theft

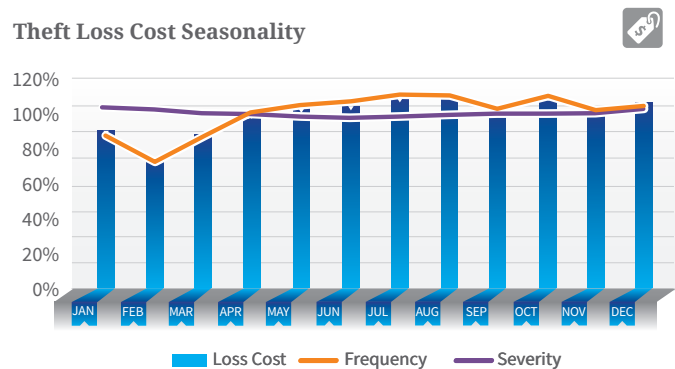
- Loss cost steadily declined by more than 50% from 2010 to 2015
- Overall seasonal loss cost remained relatively stable

Loss cost for Theft has consistently declined over time. We saw high points in 2010 and 2011 due to the recession, however, Theft has decreased as the economy has recovered. From a seasonality standpoint, loss cost has remained relatively stable throughout the year, with a slight dip in frequency in the early part of the year—possibly a post-holiday phenomenon.

Theft Loss Trend



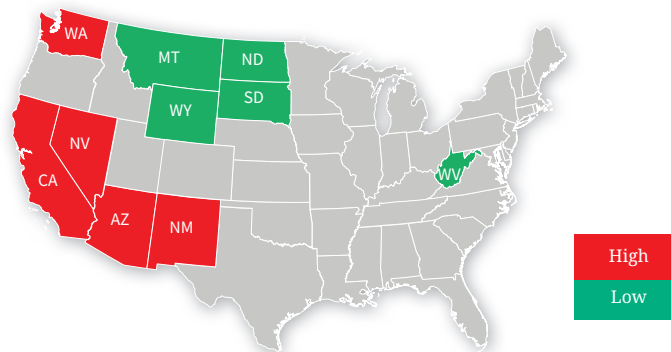
Theft Loss Cost Seasonality



- The West Coast has tended to be the most vulnerable to Theft

The highest Theft loss cost was experienced on the West Coast, extending into Arizona and New Mexico, while the lowest lost cost was in the northern states, extending from Montana to North Dakota.

Impact by Geography - Theft - 2010 through 2015





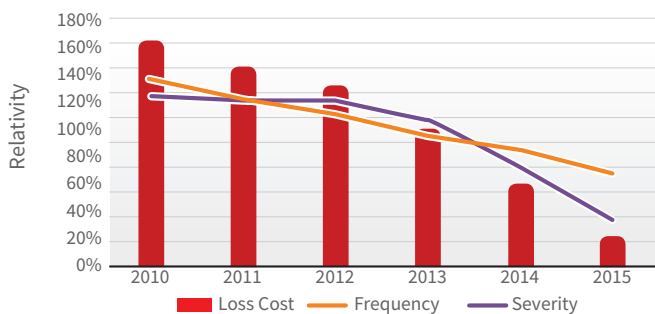


## Liability

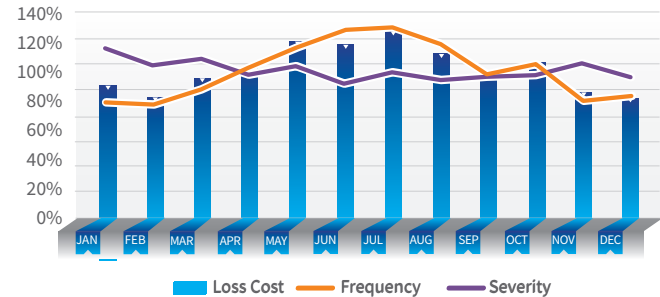
- Loss cost has declined more so in recent years
- Seasonal frequency increased in the summer by 30%

Liability loss cost has dropped rapidly in recent years. The corresponding drop in claims severity indicates that this drop is largely due to unpaid, high value claims, which will likely have a long lag until payment. Liability loss cost increased in the summer, due to a rise in claims frequency. The data could imply that summer-related activities carry a higher risk of injury and damage than activities at other times of the year.

Liability Loss Trend



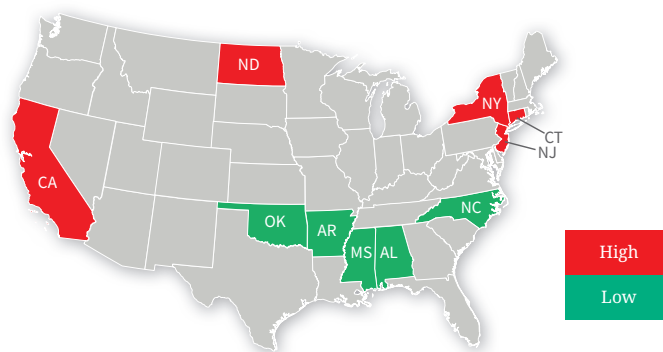
Liability Loss Cost Seasonality



- Liability loss cost is lowest among the southern states

The southern states were least vulnerable to Liability loss cost, while California, North Dakota, and some of the northeastern states were most vulnerable.

Impact by Geography - Liability - 2010 through 2015



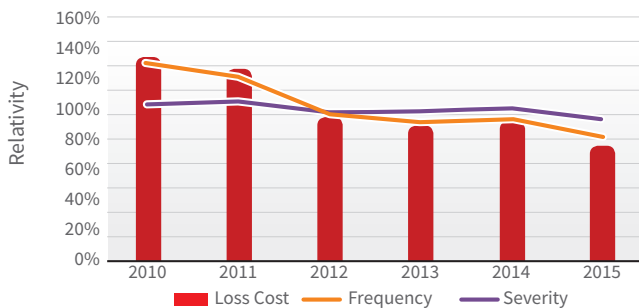


## Other Perils

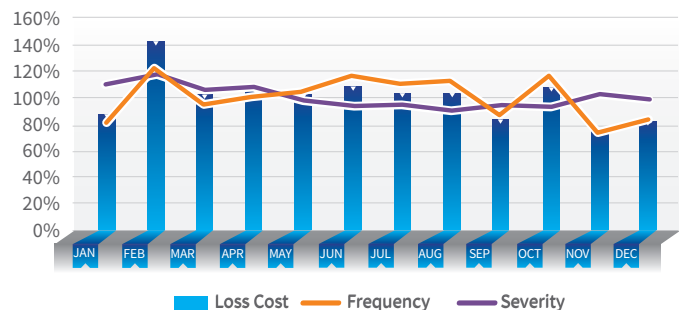
- Overall loss cost decreased by more than 40%
- Seasonal claim severity tends to remain level, with minor peaks in early spring and fall

Overall loss cost for Other Perils dropped significantly, accounted for mostly by a large drop in claims frequency between 2011 and 2012, after which frequency and severity rates remained fairly steady.

Other Perils Loss Trend



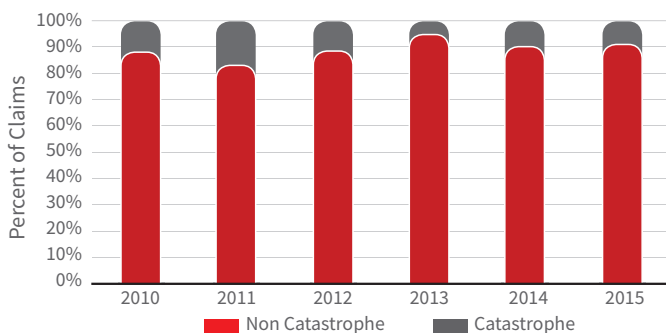
Other Perils Loss Cost Seasonality



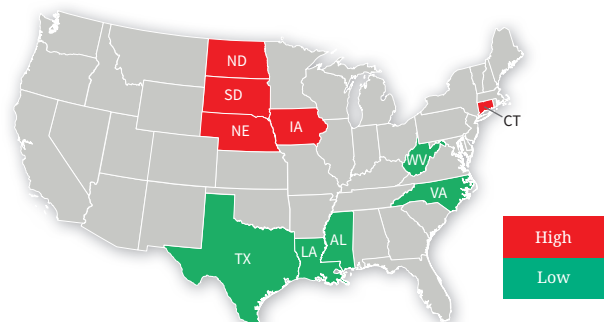
- Catastrophic claim rates have remained low, with minor fluctuations
- The northern and southern states have been the most impacted with loss cost high in the North and low in the South

Catastrophic claim rates have hovered at around 10%, with negative and positive fluctuations in 2011 and 2013, respectively. Non-catastrophic Other Perils claim rates have improved steadily overall but remained relatively constant with respect to other perils. Other Perils are aggregated on a geographic basis.

Other Perils Catastrophe Distribution



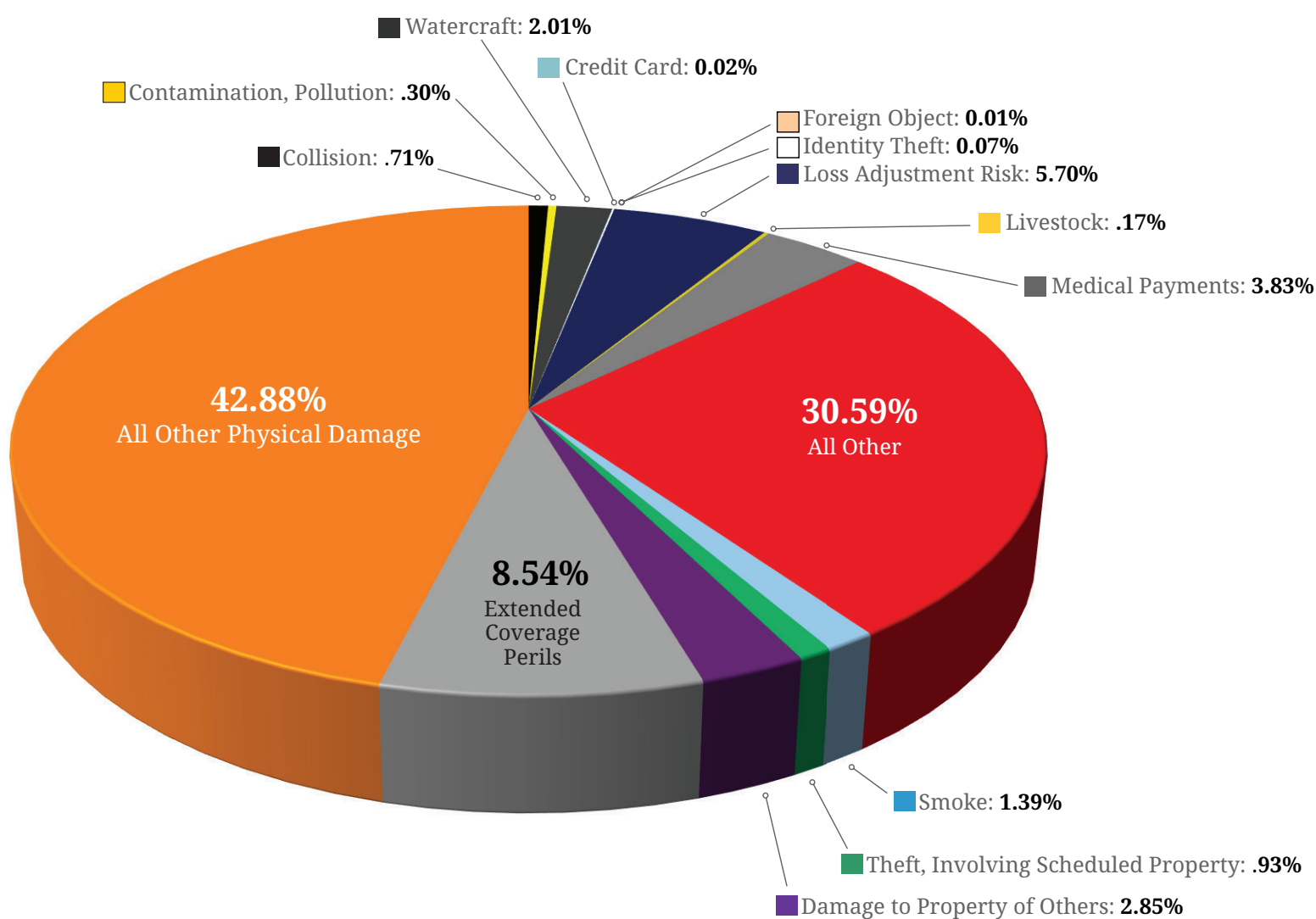
Impact by Geography - Other Perils 2010 through 2015





## Other Perils

Below is a detailed representation of all Other Perils, indicating All Other Physical Damage as the primary loss cost driver.





## Conclusion

Insight into industry-wide historical trend data is very important in the homeowners insurance sector. It helps you understand where you've been, and that knowledge can often help provide guidance and direction for the future.

Looking at historic trends on a by-peril basis and understanding their potential influencing factors can yield insights that help you benchmark and evaluate your underwriting and pricing decisions, leading to a more profitable book of business that reflects your organizational underwriting appetite. With by-peril data in hand, insurers have the ability to process specific addresses through the rating model and target good risks. These insights also allow you to develop more competitive pricing because you fully understand the impact of perils on a particular address. Implementing precise, risk-based pricing allows insurers to differentiate themselves and their product offerings in the marketplace.

In today's increasingly competitive homeowners market, realizing the dual goals of meeting or exceeding your loss ratio objectives while growing your homeowners book of business is still achievable. However, it is imperative that you continually keep an eye on your underwriting objectives and relentlessly pursue accuracy and precision in your homeowners pricing.

It has been said that "those who do not learn from history are doomed to repeat it." The same may be true for the homeowners insurance industry. Having a better understanding of the past will help us make better decisions in the future.

We invite you to read subsequent reports to gain additional insights into the peril-related trends that impact your business.



**Contributor:**

**George Hosfield - Senior Director, Home Insurance Solutions**  
LexisNexis® Risk Solutions

George Hosfield is Sr. Director, Home Insurance Solutions, 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 Home Inspection Index and LexisNexis Peril Factors.

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.



**Contributor:**

**Stewart Bobbitt - Senior Statistical Modeler, Insurance Analytics**  
LexisNexis® Risk Solutions

Stewart Bobbitt is Senior Statistical Modeler, at LexisNexis® Risk Solutions. In this role, Stewart produces industry analyses and custom model solutions for P&C personal and commercial lines. He is an expert in insurance predictive modeling for pricing and underwriting.

Stewart has 3 years of experience as a data analyst in life reinsurance and has been with LexisNexis for over 2 years working as a predictive modeler and data scientist in the Insurance Solutions business unit. He holds a B.S. in Mathematics and a Master of Applied Statistics from Louisiana State University and is currently a student of the Casualty Actuarial Society.

## LexisNexis Home Insurance Solutions

LexisNexis® 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 Home Insurance Solutions, 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  
[insurance.sales@lexisnexis.com](mailto:insurance.sales@lexisnexis.com)



### About LexisNexis Risk Solutions

LexisNexis Risk Solutions ([www.lexisnexis.com/risk](http://www.lexisnexis.com/risk)) is a leader in providing essential information that helps customers across all industries and government predict, assess and manage risk. Combining cutting-edge technology, unique data and advanced scoring analytics, we provide products and services that address evolving client needs in the risk sector while upholding the highest standards of security and privacy. LexisNexis Risk Solutions is part of Reed Elsevier, a leading publisher and information provider that serves customers in more than 100 countries with more than 30,000 employees worldwide.

Our insurance solutions assist insurers with automating and improving the performance of critical workflow processes to reduce expenses, improve service and position customers for growth.