

**Report of the Texas Department of Insurance  
to the Senate Business & Commerce Committee  
January 10, 2012**

**AUTOMOBILE INSURANCE IN TEXAS**

**Introduction**

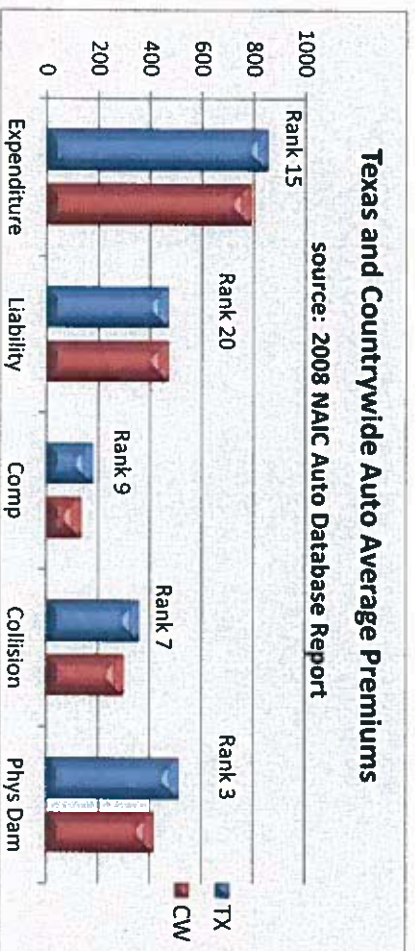
According to the 2008 Auto Insurance Database Report published by the National Association of Insurance Commissioners (NAIC) published in 2010 (the latest report available), Texas ranked 15<sup>th</sup> in the US for average automobile insurance expenditure.<sup>1</sup> The average expenditure in Texas in 2008 was \$854, 8% more than the national average of \$789.

**Liability Premium**

Liability coverage is mandatory in most states and consists of both *Bodily Injury* (injuries to a person) and *Property Damage* (damage to a third party vehicle). The average premium for liability coverage in Texas ranked 20<sup>th</sup> in the US. While liability coverage is mandatory in most states, the minimum required limits of coverage varies by state. Normalizing the average liability premiums to an average per \$1,000 of coverage, Texas ranked 18<sup>th</sup>.<sup>2</sup>

**Physical Damage Premium**

Physical damage is an optional coverage which includes *Comprehensive* coverage for fire, theft, vandalism, weather- and animal-related damage, and *Collision* coverage for damage to the insured's vehicle caused by collision with another vehicle or a fixed object. Texas ranked 3<sup>rd</sup> for average physical damage coverage premiums. Texas joins Washington, DC and Louisiana as the only states in the country that rank among the ten highest average premiums for BOTH of these coverages.



<sup>1</sup> Average expenditure includes premiums for both liability coverage for damage to others due to the fault of the insured) and physical damage (first party coverage for damage to the insured's vehicle).

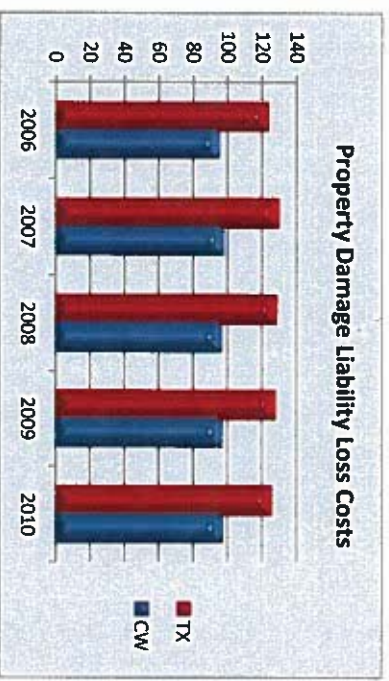
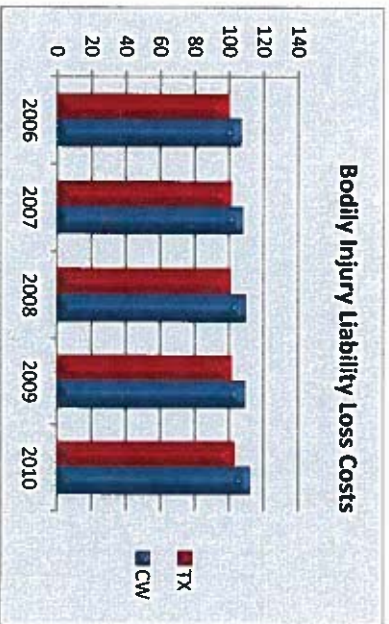
<sup>2</sup> After these data were collected in 2008, Texas increased the minimum required liability limits to \$25,000 per person/\$50,000 per occurrence for *Bodily Injury*, and \$25,000 for *Property Damage*. These limits were increased again in 2011 to \$30,000/\$60,000/\$25,000.

### Loss Costs<sup>3</sup>

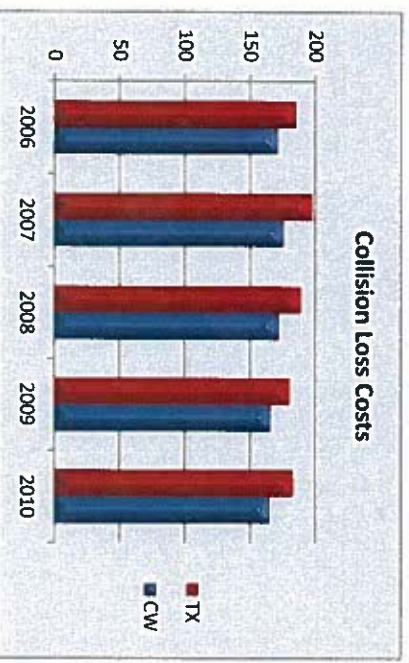
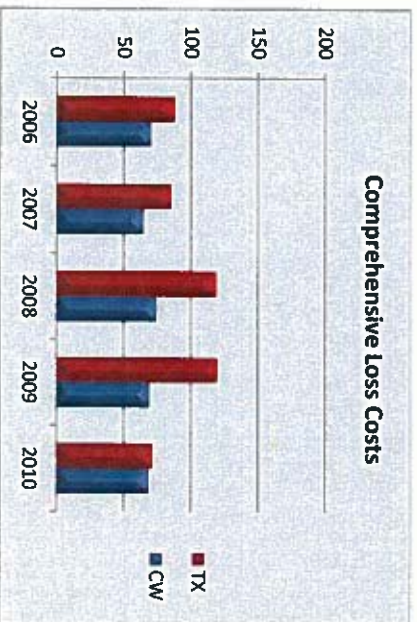
Insurance losses are influenced by the number of claims as well as the size of claims. Frequency (the number of claims per 100 cars) measures the volume of claim activity. Severity (the average dollar amount per claim payment) measures loss size. Frequency and Severity can be combined to form overall Loss Costs (the average loss payment per car). Loss Costs include claims payments only and do not include company administrative expenses.

Frequency, Severity and Loss Costs are each monitored to compare insurance losses between states, a national average, or over time.

Texas loss costs are lower than the national average for *Bodily Injury liability*, although frequency is slightly above average. *Property Damage liability* loss costs are 30% higher than the national average, due almost entirely to elevated claims frequency in each of the last five years.

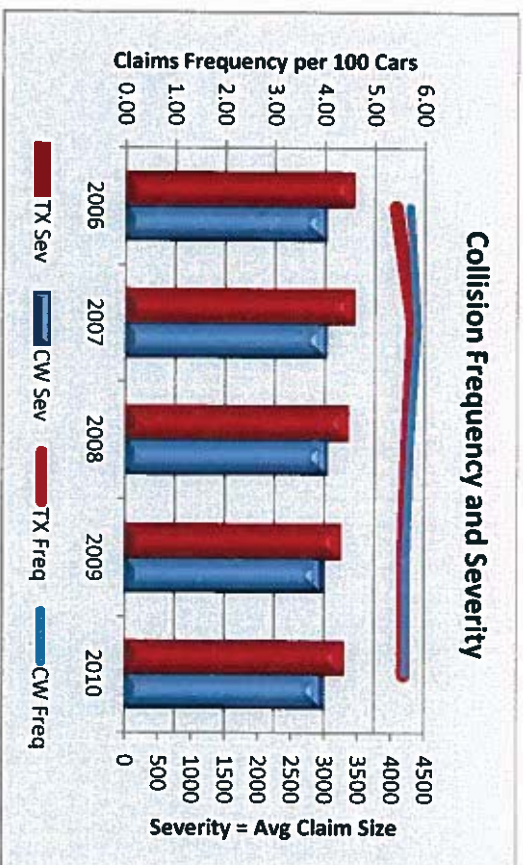


Texas loss costs for *Comprehensive coverage* have exceeded the national average by more than 25% in four of the last five years. *Collision coverage* loss costs in Texas are consistently 8% to 10% above the national average.

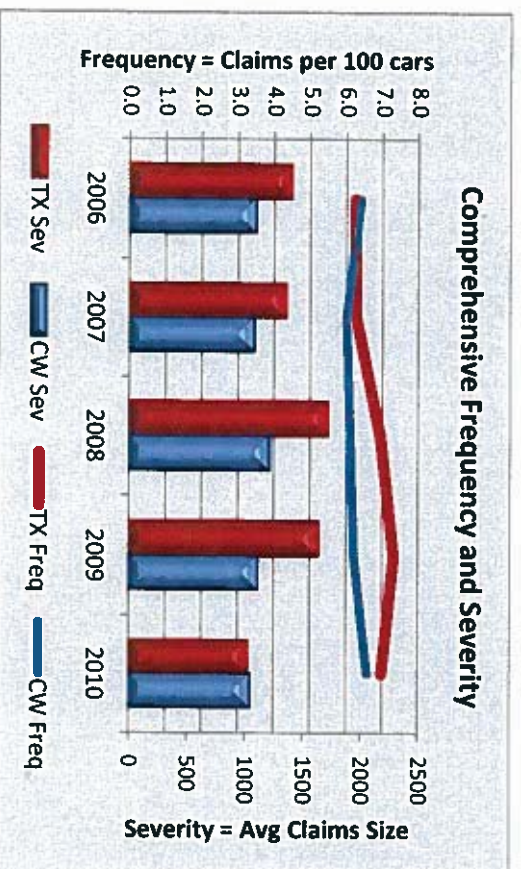


<sup>3</sup> Loss cost comparisons for this report were compiled using Fast Track Monitoring Service, an industry reference published jointly by various statistical agencies. Fast Track captures approximately 65% of the Texas automobile insurance market, but does not include TALPA or county mutual data.

Texas's high loss costs for both of these coverages is primarily attributable to the higher cost to repair or replace vehicles.<sup>4</sup>

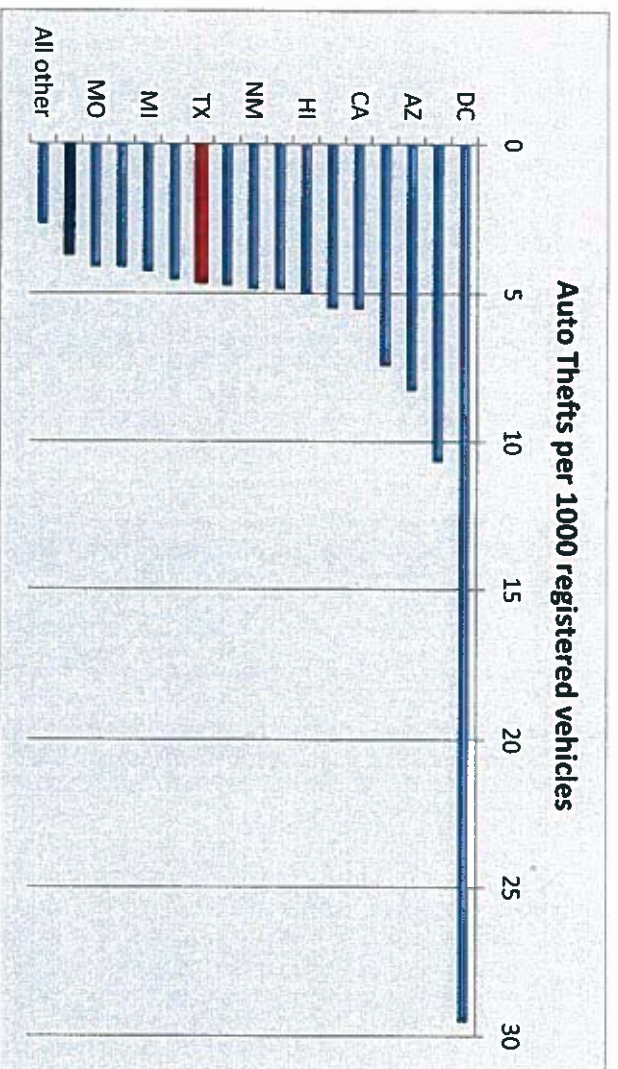


Severity for *Comprehensive* coverage in Texas, in particular, has averaged 29% higher than the national average for the last 5 years.

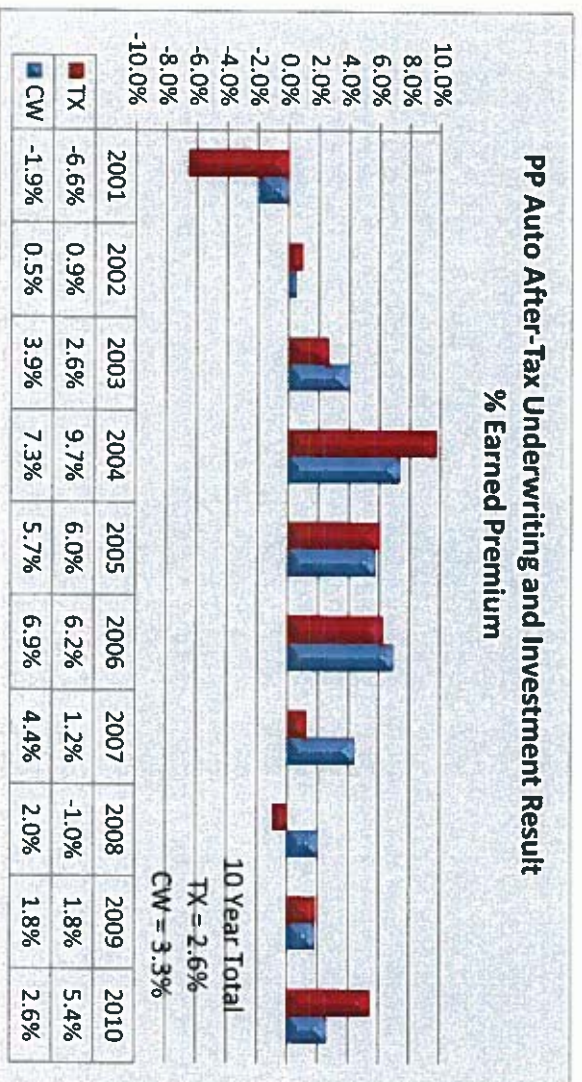


<sup>4</sup> A better understanding of the reasons for these higher costs could include newer vehicles, higher value vehicles, etc., but will require analysis of other data sources, such as motor vehicle registrations.

Additionally, Texas ranks 11<sup>th</sup> in the nation for auto thefts, with 4.62 thefts per one thousand registered vehicles, 23% higher than the national average.



### Industry Results

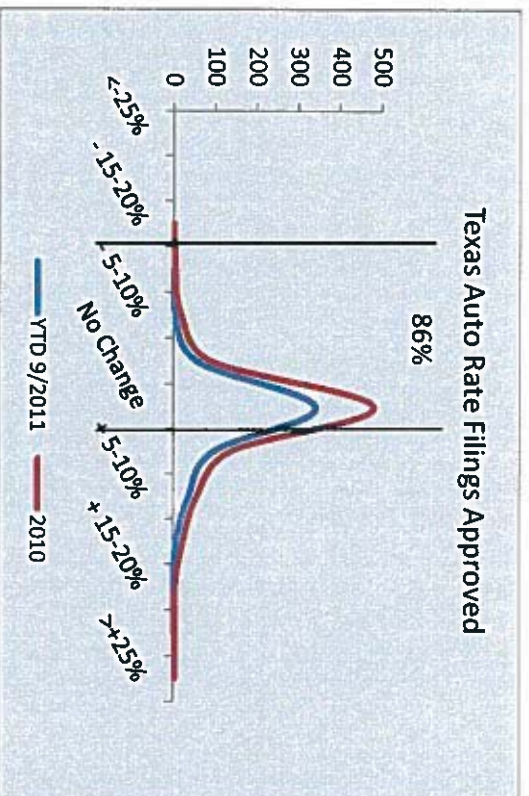


Texas Insurers have averaged +2.6% return on revenue over the last 10 years, after federal taxes and including investment income. The national average is slightly higher at 3.3%. Results have varied from year to year within a range of plus or minus 10%.

## Conclusion

Texas has a very competitive automobile insurance market, as evidenced by its very small residual market. The Texas Automobile Insurance Plan Association (TAIPA), has a market share of 0.1% compared with 0.6% nationally.<sup>5</sup>

Additionally, rates are slowly trending down, even as mandatory minimum liability limits have increased. 70% of rate changes in 2010 and through 9/30/11 were decreases or no net change. Another 16% were increases of 5% or less.



Higher than average premiums appear to be largely a result of higher loss costs for damage to vehicles as opposed to injuries to people. Contrary to conventional wisdom, Texas is an urban state. Only California has more people living in metropolitan areas than Texas. 83% of Texans live in a metropolitan area and Texas is the only state in the nation to have two of the country's ten largest metropolitan areas.<sup>6</sup> Urban areas tend to have higher loss costs because of density, congestion, commuting, theft and fraud.

<sup>5</sup> The national average is actually much higher, but reporting anomalies in Maryland and North Carolina under-represent the substantial residual markets in those states.

<sup>6</sup> 2000 US Census