

2020 REPORT

LexisNexis® Home Trends Report

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

OCTOBER 2020



Welcome

The 2020 LexisNexis® Home Trends Report is part of a series of ongoing reports 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 year's report provides some welcome good news—that catastrophe claims and loss cost were down in 2019. While severe wildfires, hurricanes, hailstorms and flooding did hit some states with devastating consequences, severity and frequency were lower across all perils than in the previous two years.

Given the 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 with market context. This provides 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 2019

- All Peril loss cost decreased by 13% compared to 2018.
- Unlike in the previous two years, the proportion of catastrophe claims dropped below 30%.
- Extreme weather, including Hurricane Dorian, Hurricane Humberto and California wildfires contributed to All Peril severity, although levels were lower than in the previous two years.
- Wind loss cost dropped in 2019, driven by decreasing frequency and severity.
- Fire and Lightning loss cost decreased by 37%—a sharp drop since 2018.
- Weather-Related Water severity increased, with 2019 ranking as the second wettest year on record.¹

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 2014 through 2019. Between 87 and 89 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.



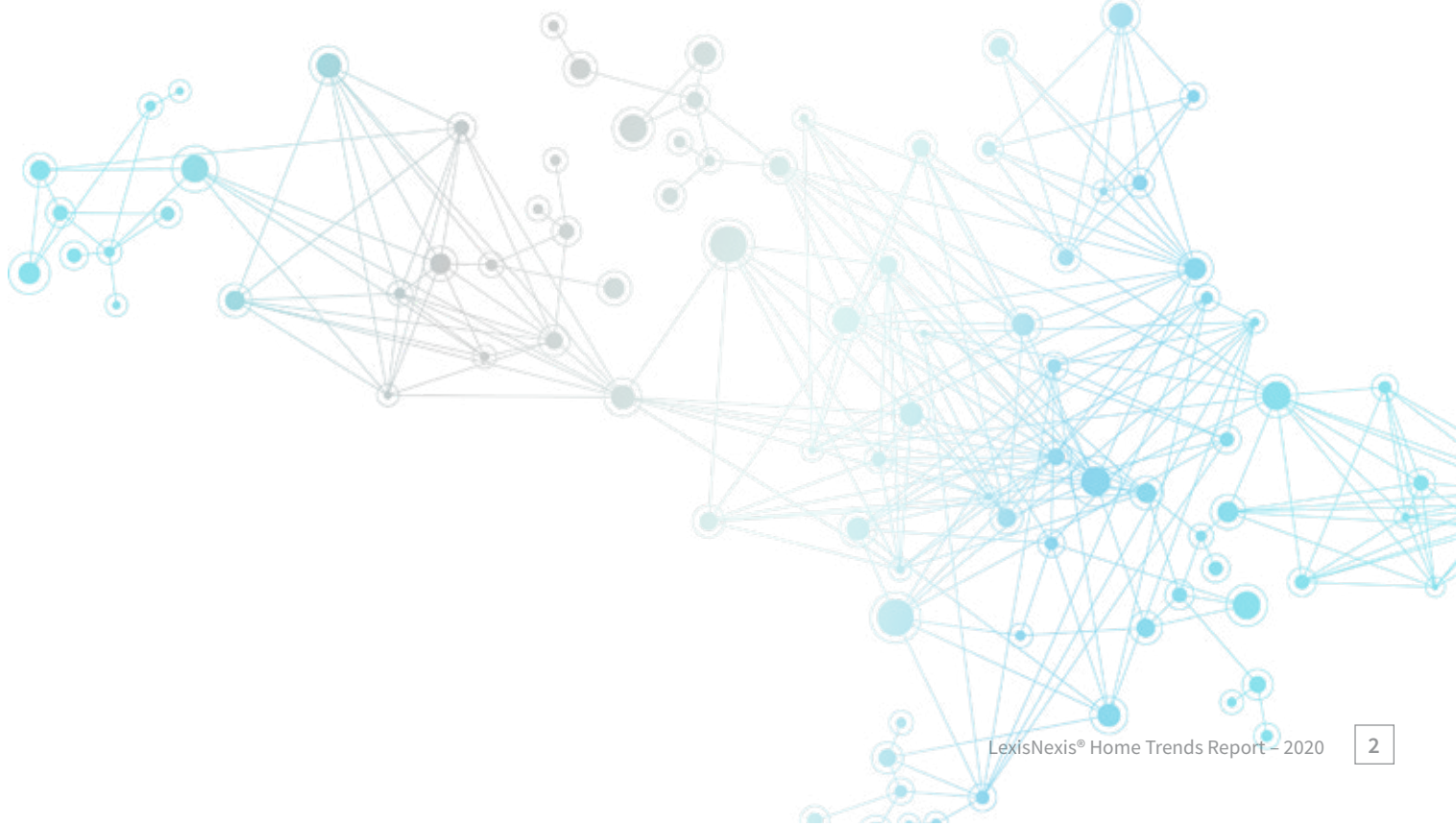
How to read the charts

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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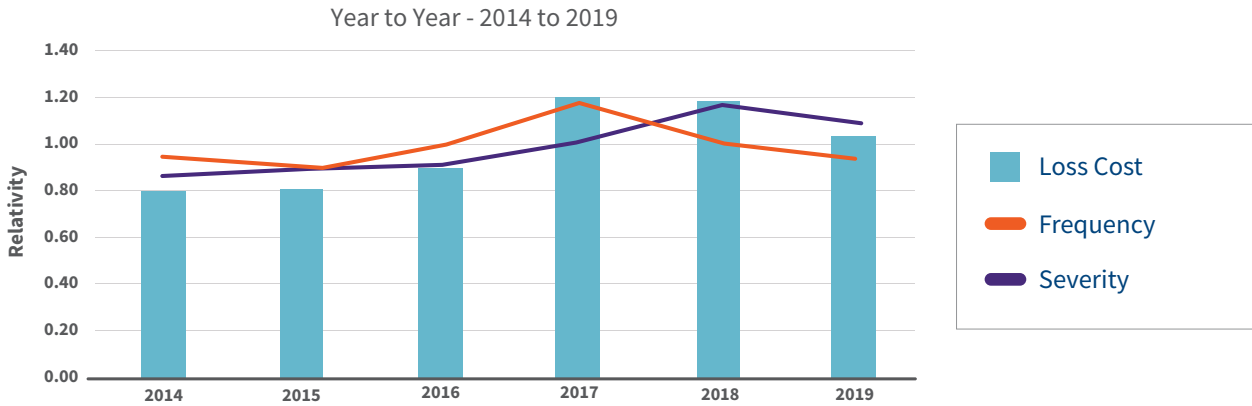


Overall Trends – All Peril

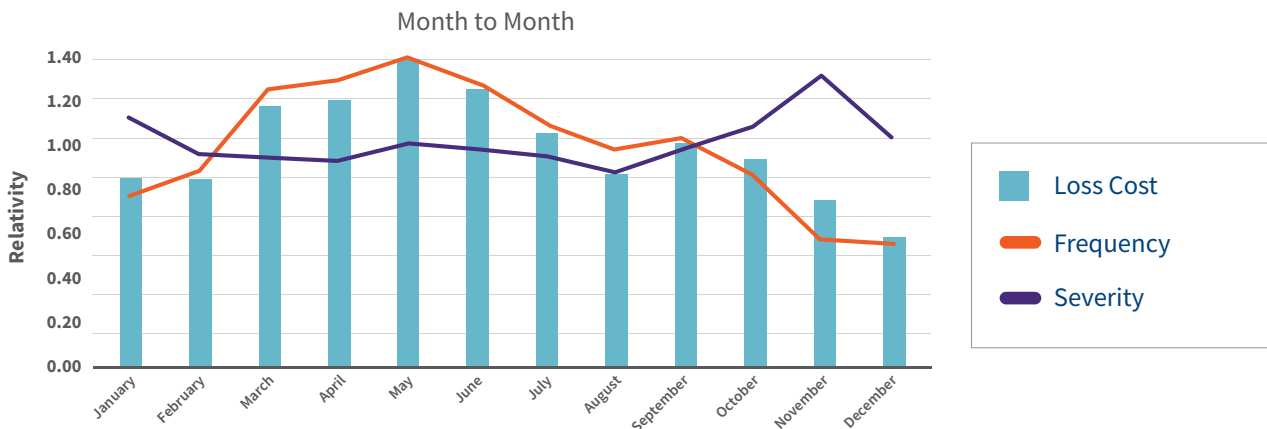
- All Peril loss cost decreased by 13% in 2019, while severity decreased by 6% over 2018.

For many in the industry, the reduced loss cost across all perils in 2019 was a welcome relief after the significantly higher levels in the previous two years. While 2018 was characterized by a ferocious California wildfire season and a severe hurricane season, 2019 saw fewer costs associated with Wind, Fire and Lightning perils.

All Peril Trend



All Peril Seasonality



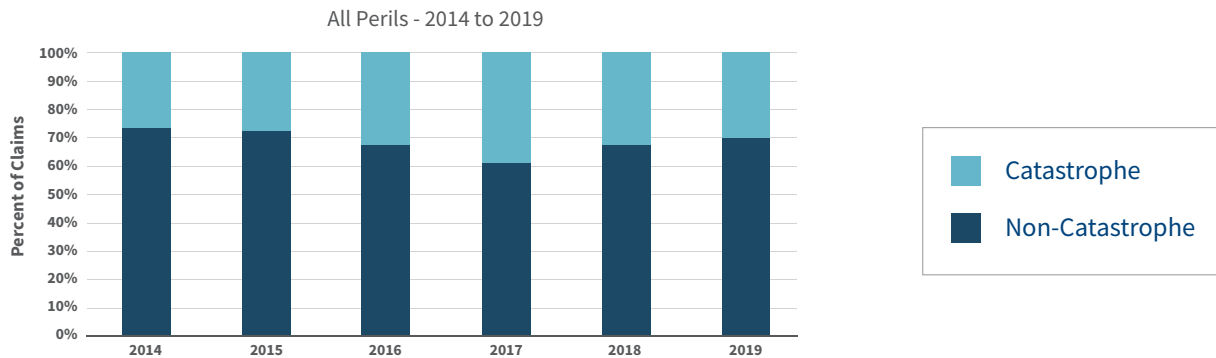
Overall Trends – All Peril

- Catastrophe claims and loss cost decreased in 2019; our estimates suggest there was a 32% year-over-year decrease in the cost of catastrophe claims.²
- Texas had the highest distribution of catastrophe claims at 22%.

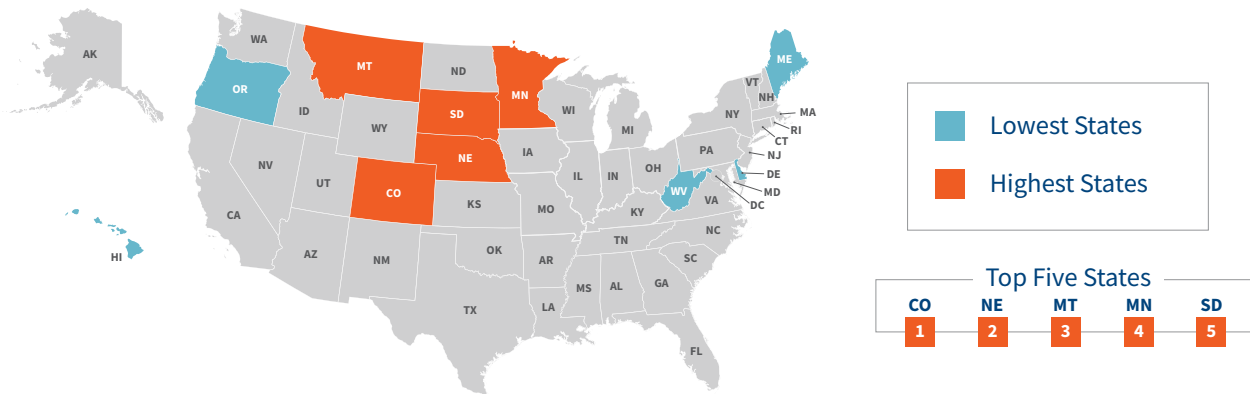
Notably, 90% of the catastrophe losses in 2019 resulted from Hail and Wind perils. Texas alone saw 872 major hail events, with hailstones one inch in diameter or larger.³ Despite Texas’s catastrophic hail claims, the state did not make our list of top states for loss cost.

Colorado and Nebraska ranked highest in loss cost over the six-year period from 2014 to 2019, with Colorado ranking the highest in 2019.

All Peril - Catastrophe Claim Distribution



Loss Cost by Location



Scientists expect increasingly damaging and extreme weather due to climate change

“Global warming has already increased the odds of record hot and wet events happening in **75%** of North America,” said Noah Diffenbaugh, *a professor of climate science at Stanford University in Palo Alto, California*. “For dry events such as droughts, it’s **50%** of North America.”⁴

A further complication for home insurance carriers is that home values continue to rise and homes are increasingly located in higher catastrophic risk areas than in the past, leading to escalating costs.



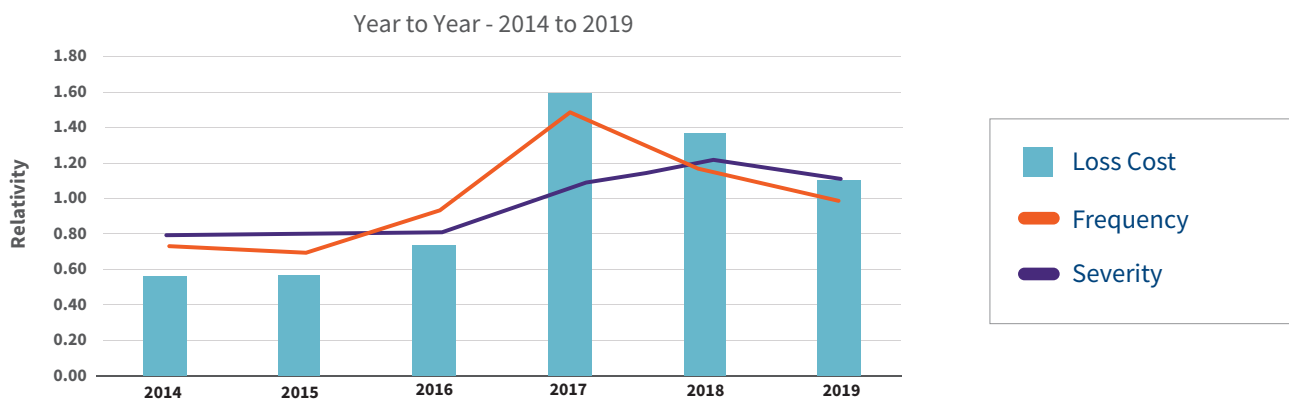


Wind

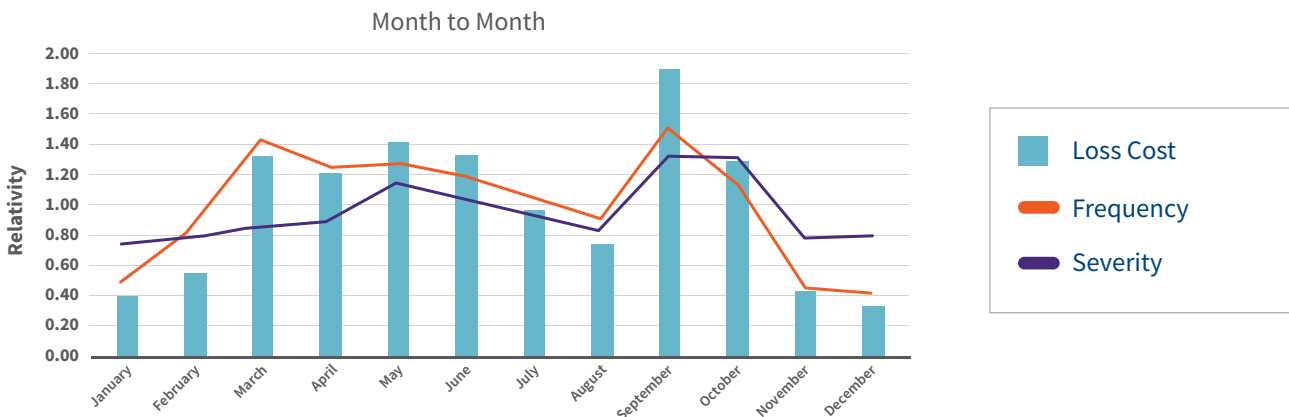
- Wind loss cost decreased by 20% in 2019 compared to 2018.
- The severity and frequency of this peril also decreased compared to 2018 levels, with severity lower by 7%.

Although the severity and frequency decreased, loss cost remained high compared to the six-year average. Loss cost and severity peaked in September, mainly driven by Hurricane Dorian and Hurricane Humberto.⁵

Wind Peril Trend



Wind Peril Seasonality

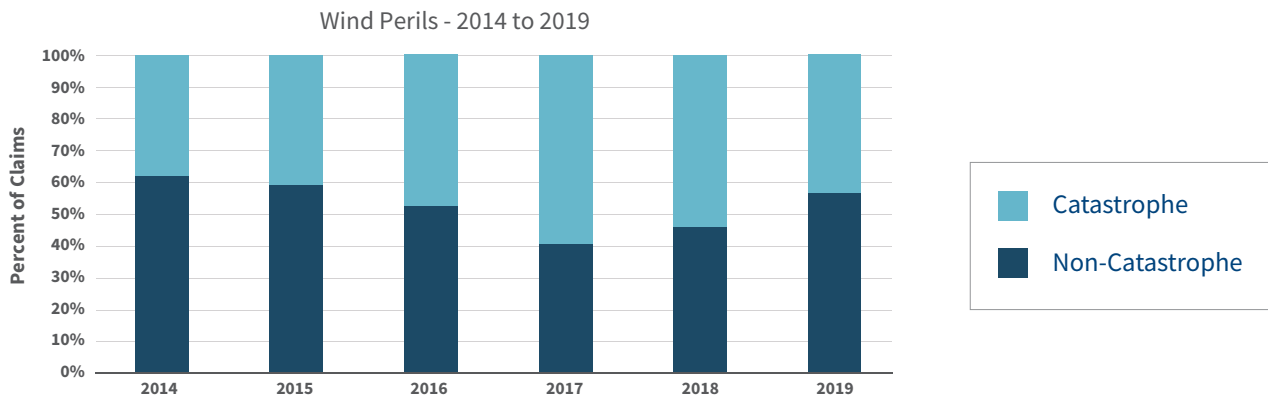


Wind

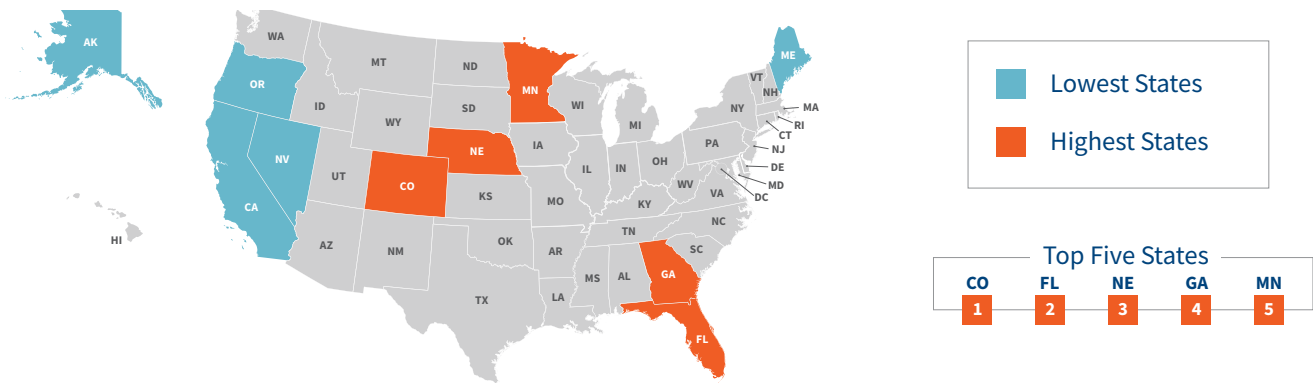
- The frequency of catastrophe Wind claims dropped 10 percentage points to 44% compared to 2018.

In 2019, there was a lower proportion of catastrophe claims than in the previous two years, likely due to a hurricane season that saw fewer powerful storms make landfall on the mainland United States.

Wind Peril - Catastrophe Claim Distribution

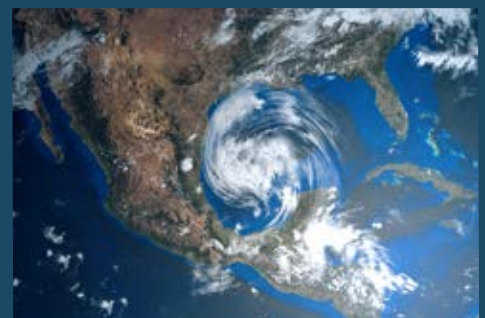


Wind Peril Location



A less damaging hurricane season overall

The 2019 Atlantic hurricane season was another active one, with 18 named storms, six hurricanes and three major hurricanes. However, many of the weather systems didn't make landfall, remained weak or were short-lived. Although Hurricane Dorian and Hurricane Humberto caused extensive damage in the Bahamas and Bermuda, the U.S. mainland was largely spared.⁶



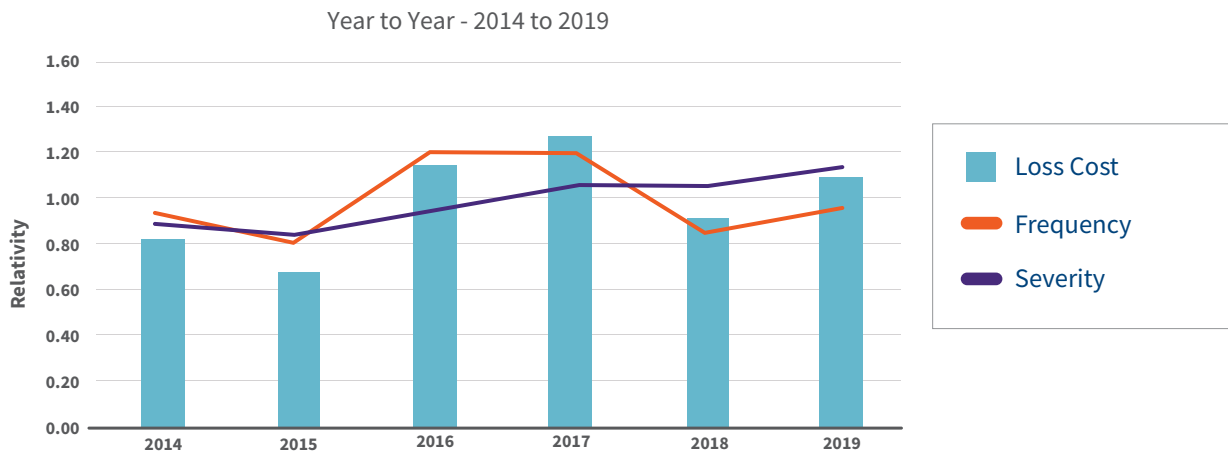


Hail

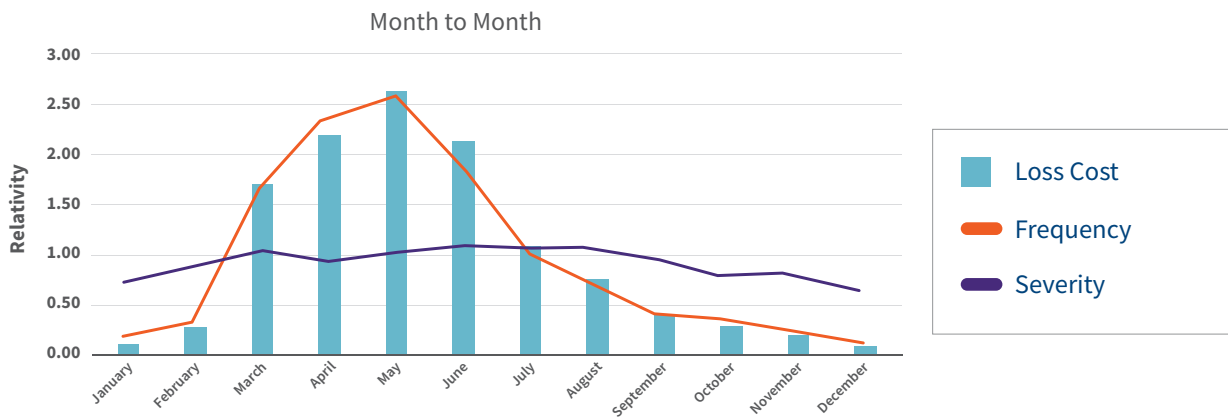
- Hail loss cost increased by 19% from 2018 to 2019.
- Severity also rose from 2018 levels.

The increase in loss cost was primarily driven by a surge in the frequency of claims. April, May and June are the worst months for Hail, and accounted for nearly 58% of 2019 claims. Over the course of the year, the U.S. experienced 5,392 major hail events, a large increase from 4,610 in 2018.⁷

Hail Peril Trend



Hail Peril Seasonality



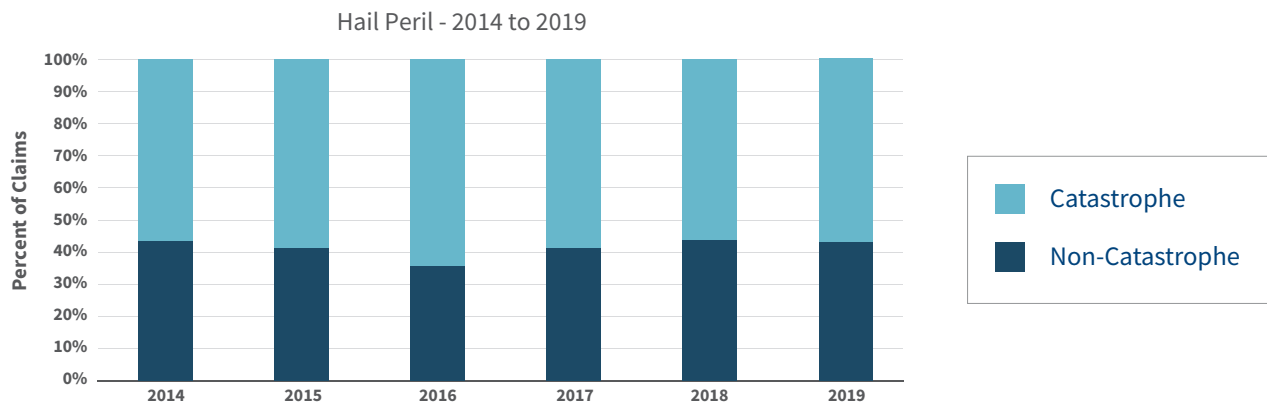


Hail

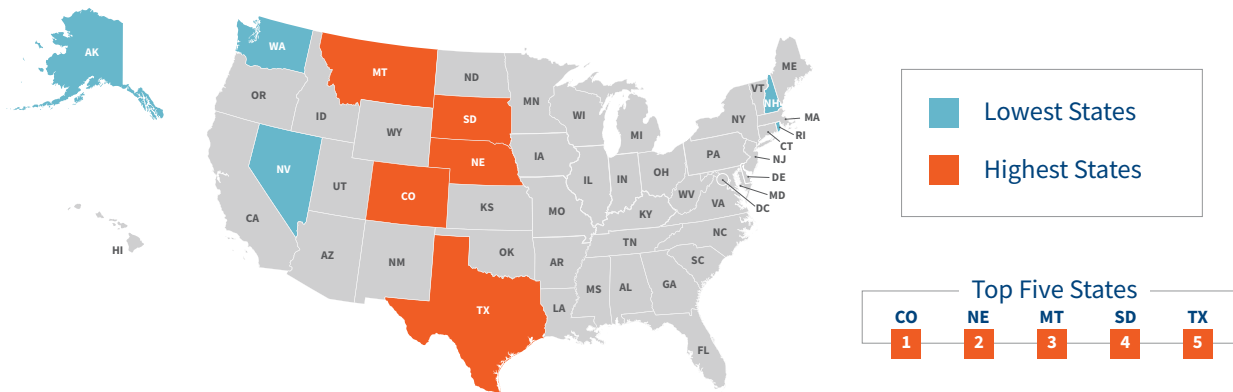
- The proportion of Hail catastrophe claims remained steady.
- Severity for Hail claims in Texas increased by 5% in 2019.

Like in 2018, Texas accounted for nearly 30% of hail claims. However, in terms of loss cost, Colorado ranked the highest in 2019, with an increase of 11% over 2018 levels. Many homes and vehicles were damaged by hailstorms in Denver and Fort Collins in July.⁸

Hail Peril - Catastrophe Claim Distribution



Hail Peril Location



Mitigate risk and improve profitability by leveraging roof condition insights

Wind and hail claims now make up 46% of home losses⁹ and trends are worsening. However, knowing the true condition of a roof can help home insurance carriers minimize unexpected losses.

LexisNexis® Rooftop delivers comprehensive roof condition insights—based on aerial photos and imagery analytics combined with forensic data from auto claims, home claims, weather events and property data. Each roof ages differently depending on weather, climate, shape, materials and homeowner maintenance. With Rooftop, home insurers can better understand risks and improve profitability.

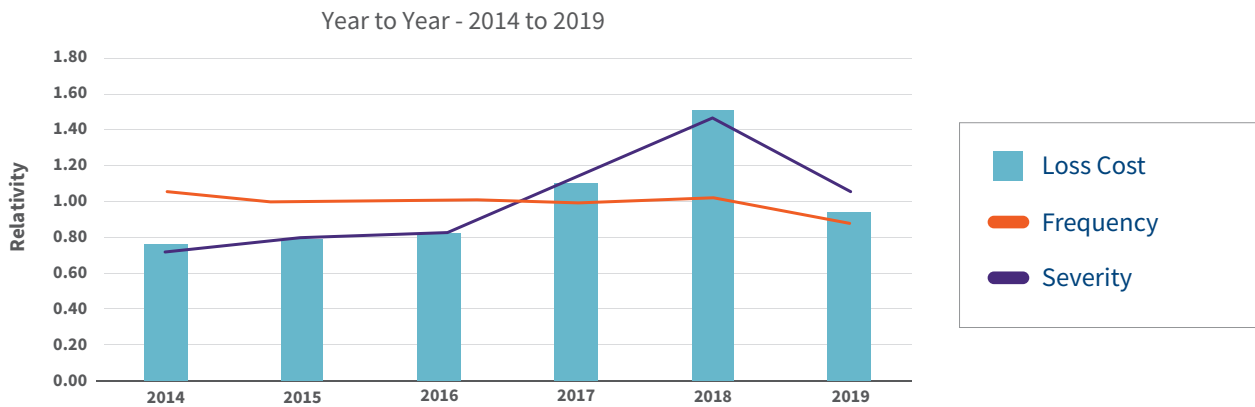


Fire and Lightning

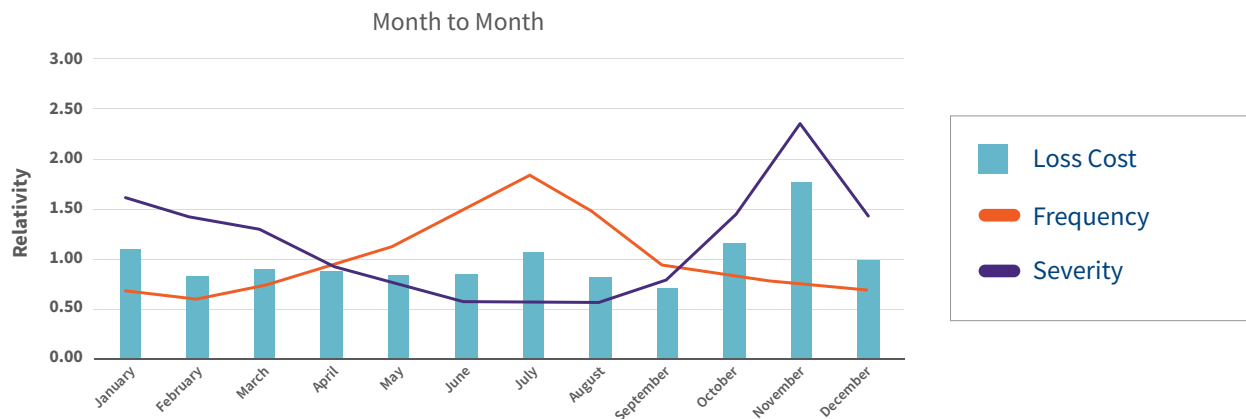
- Loss cost for Fire and Lightning claims dropped sharply in 2019, with a 37% decrease in loss cost compared to 2018.
- Loss cost peaked in November, almost 1.8 times higher than the 2018 monthly average.

Home insurance carriers were expecting another year of high claims and extensive losses after two of the most deadly and destructive wildfire seasons on record. However, rather than continuing the upward trend, 2019 saw fewer and smaller fires resulting in lower severity and a decrease in loss costs.

Fire and Lightning Peril Trend



Fire and Lightning Peril Seasonality

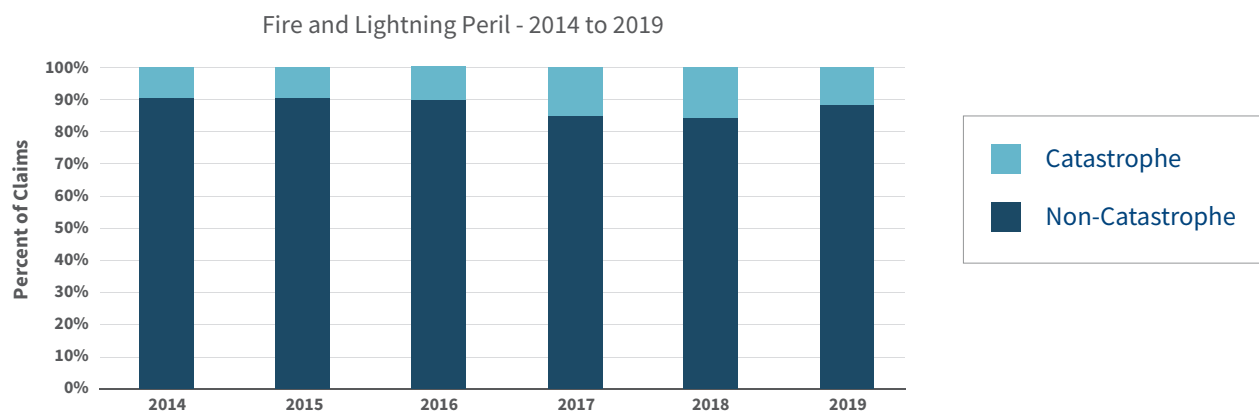


Fire and Lightning

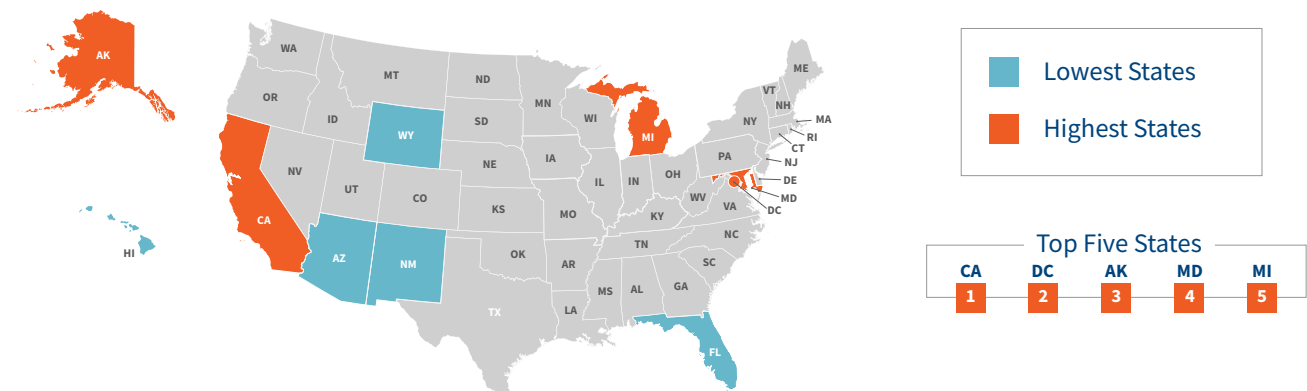
- Only 4% of Fire and Lightning losses in 2019 were for catastrophe losses, a significant decrease from the 31% in 2018.
- California accounted for more than 96% of catastrophe Fire losses in 2019.

Total catastrophe loss cost for Fire and Lightning claims dropped to 9% of 2018's loss cost. While this is positive news for the industry and homeowners alike, it's unlikely to hold at that level in 2020 with hot, dry conditions and gusting winds prevalent.

Fire and Lightning Peril - Catastrophe Claim Distribution



Fire and Lightning Peril Location



Low humidity and strong winds create fire-hazard conditions, lead to multiday blackouts

A large California electric company turned the power off to millions of homes and businesses during the 2019 California wildfire season in efforts to minimize fire risk from damaged power lines.¹⁰ The company's CEO says customers should expect outages to continue over the next 10 years.¹¹

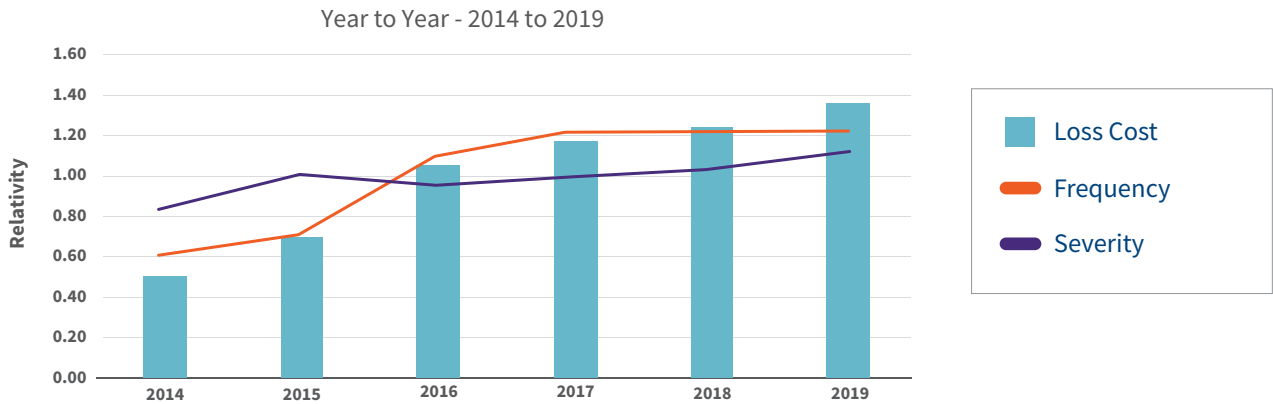


Non-Weather Related Water

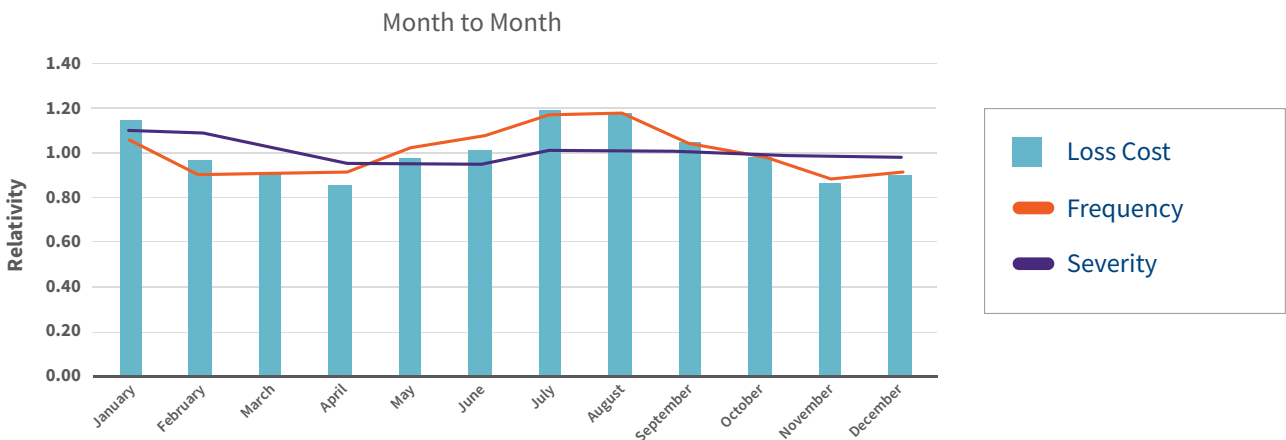
- Loss cost increased by 10% in 2019.
- Claim frequency remained relatively stable; severity increased by 9%.

This peril addresses claims related to water damage from accidental water discharge, such as pipe and appliance leakage. In 2019, Non-Weather Water related peril claims cost the industry more than \$2 billion and represented 20% of all property insurance losses in both home and commercial sectors.¹²

Non-Weather Related Water Peril Trend



Non-Weather Related Water Seasonality

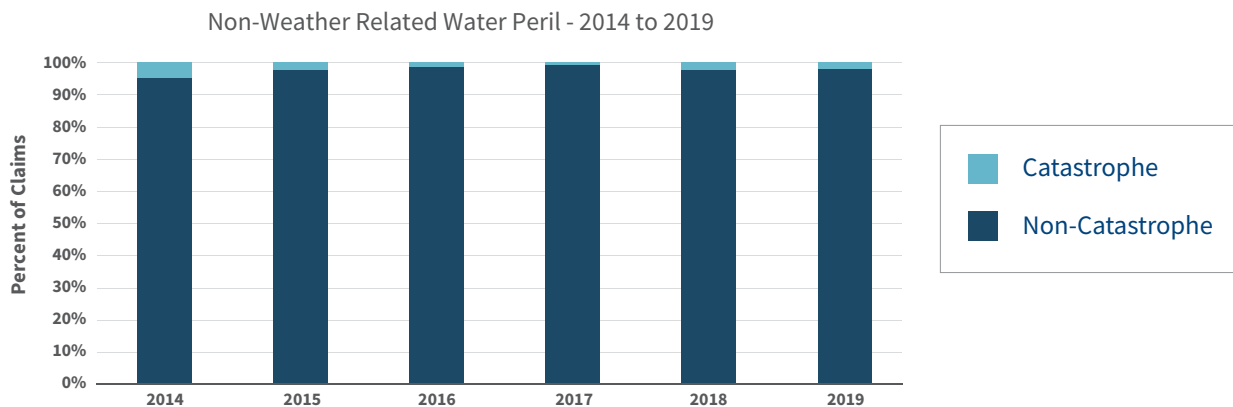


Non-Weather Related Water

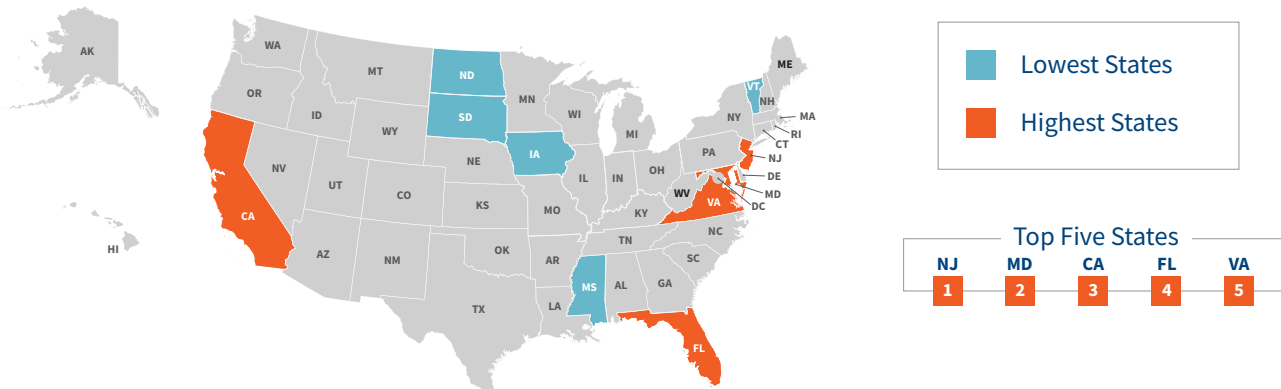
- Non-catastrophe claims accounted for 99% of this peril’s claims.
- New Jersey remained the top state for loss cost with an increase of 14% compared to 2018.

To mitigate the risk of this peril, we recommend home insurance carriers encourage homeowners to install smart water leak detectors. Our research shows that adoption of in-line water shutoff devices could reduce both the severity of claims and loss cost—in a study of the Flo by Moen Smart Water Shutoff, the number of paid water claims was reduced by 96% compared to a two-year period before the device was installed.¹³

Non-Weather Related Water - Catastrophe Claim Distribution



Non-Weather Related Water Peril Location



“Water leak claims are considered the most preventable of major loss cost events, and our performance data has begun to prove [in-line water shutoff devices] like these have a chance to solve a challenging problem for insurers and homeowners.”

– Dan Davis, Director, IoT and Emerging Markets, Insurance, LexisNexis Risk Solutions



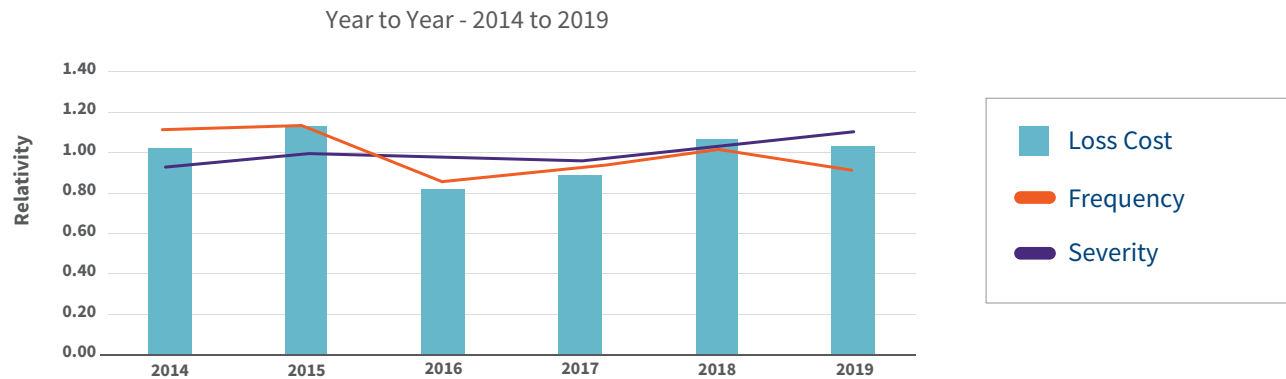


Weather Related Water

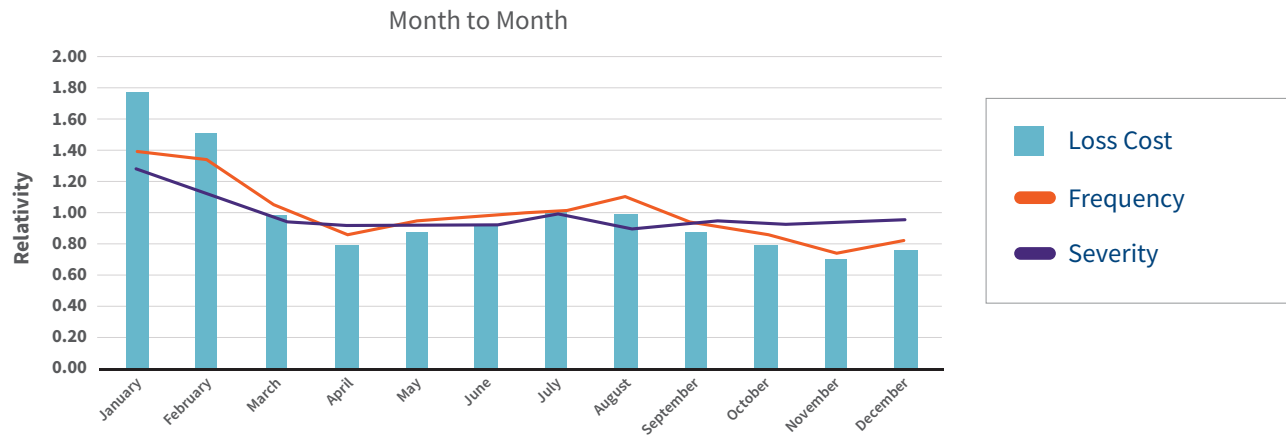
- Loss cost decreased 3% compared to 2018.
- Severity increased by 8%, possibly driven by record flooding along the Missouri and Mississippi rivers.

January and February continued to be the worst months for this peril, with 28% of the loss cost for 2019. Further, January's loss cost was almost 1.17 times higher than February's. According to NOAA's National Centers for Environmental Information, the country experienced the second wettest year on record, with precipitation across the contiguous U.S. of 34.78 inches.¹⁴

Weather Related Water Peril Trend



Weather Related Water Seasonality

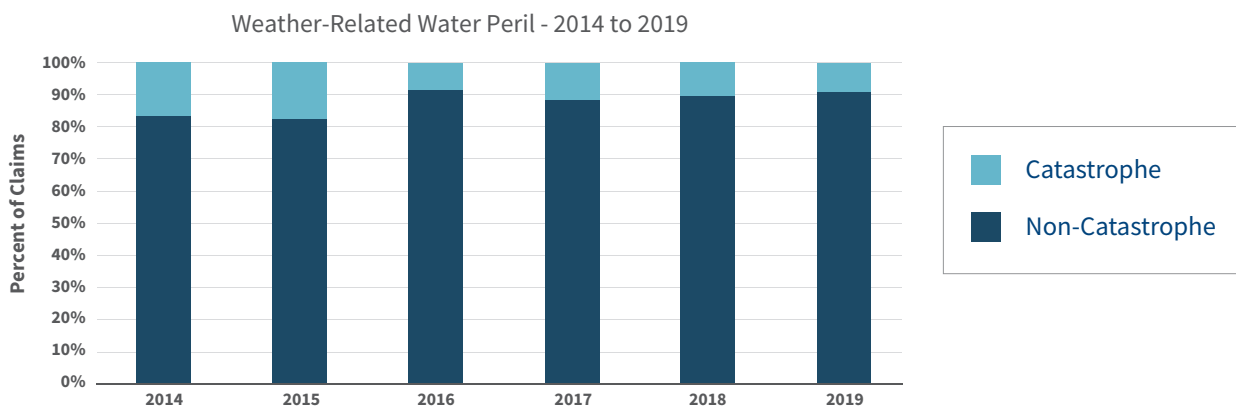


Weather Related Water

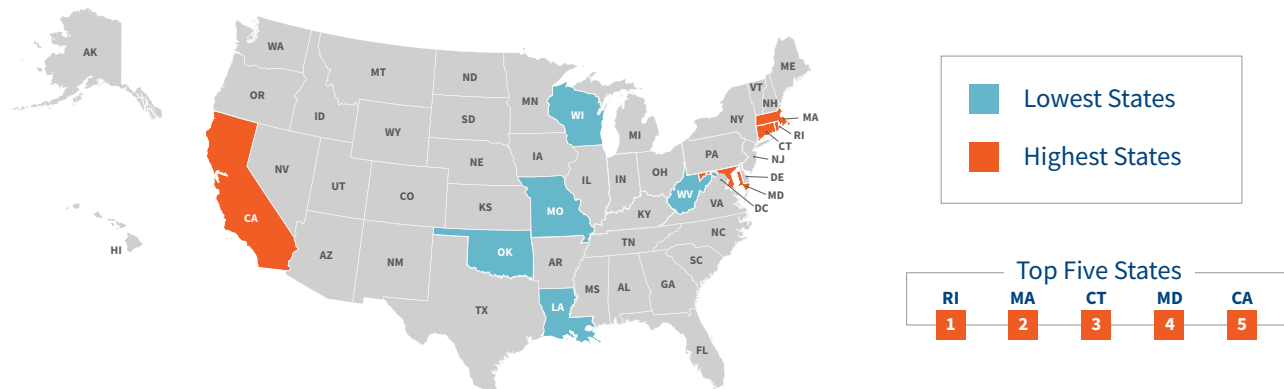
- Catastrophe and non-catastrophe claim distribution returned to levels like those in 2016.

The top five states in terms of loss cost remained the same as in 2018. Rhode Island once again saw the highest loss cost. On the coastline, the state is vulnerable to flooding resulting from severe storms and the rising sea level.¹⁵ An additional reason for the high weather-related water loss cost is that Rhode Island coastal homes are of higher value than nationwide average.

Weather Related Water - Catastrophe Claim Distribution



Weather Related Water Peril Location



Second wettest year in U.S. history

Michigan, Minnesota, North Dakota, South Dakota and Wisconsin set records for wetness in 2019, and almost every U.S. state experienced above-average precipitation. Winter Storm Ulmer brought record flooding, hitting eastern Nebraska and western Iowa particularly hard along the Missouri River.¹⁶ Sections of the Mississippi River were flooded for more than three months, making it the longest lasting flood since the Great Flood of 1927.¹⁷





LEXISNEXIS® HOME TRENDS REPORT – 2020

Theft

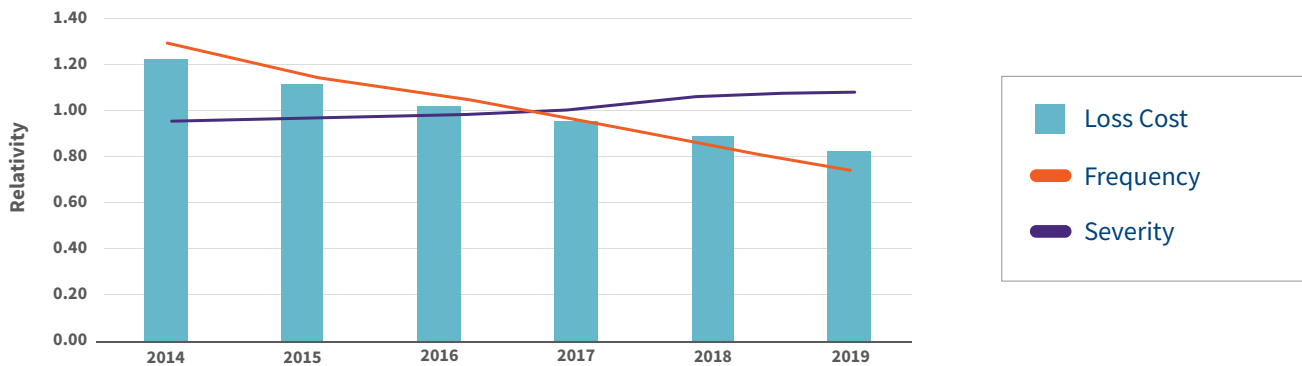
- Theft loss cost continued to steadily decline.

The trend of declining Theft loss cost continues to be primarily driven by a decrease in frequency, possibly due to homeowners using burglary deterrents such as home security systems and smart security devices. More than half (59%) of homeowners who responded to our survey in 2019 own smart security devices, including security cameras, wireless motion sensors and doorbells with video cameras.¹⁸

Nevada and Washington D.C. continue to top the nation in terms of loss cost. While Nevada had the highest loss cost as it has had for the past five years, there was a decrease of nearly 6% compared to 2018. Washington D.C. had the highest Theft frequency for the 9th year in a row. However, on a positive note, it decreased by nearly 10% from 2018 levels.

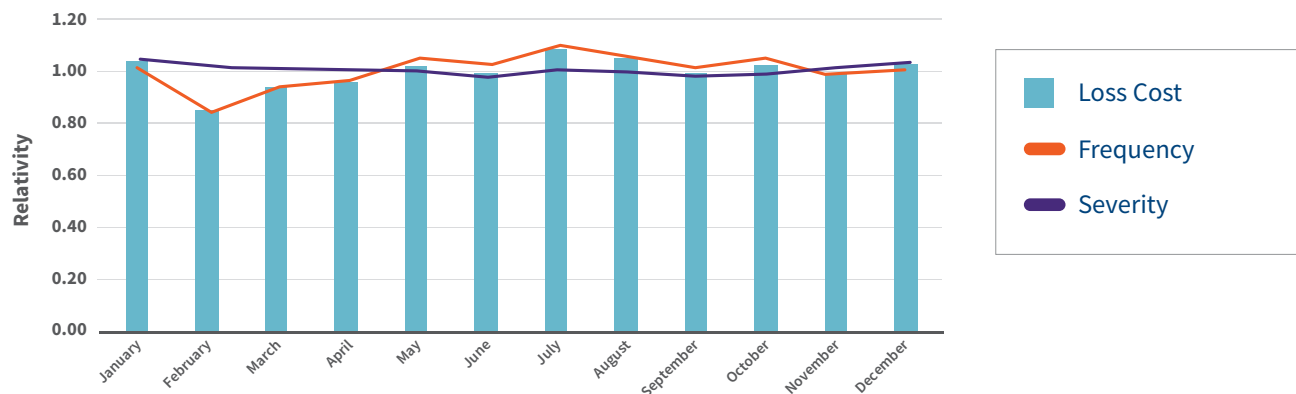
Theft Peril Trend

Year to Year - 2014 to 2019



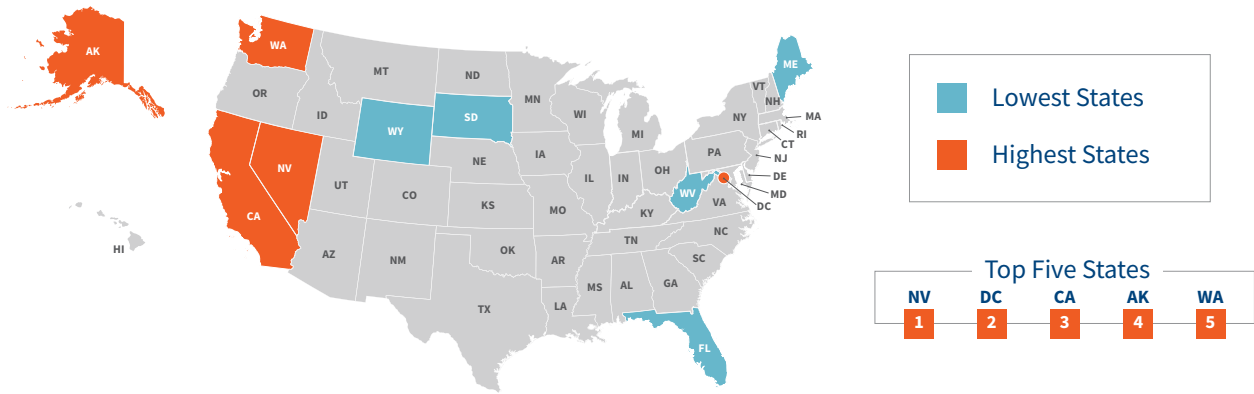
Theft Peril Seasonality

Month to Month



Theft

Theft Peril Location



Despite a drop of 6%, Nevada remained the state with the highest Theft loss for the fourth straight year.

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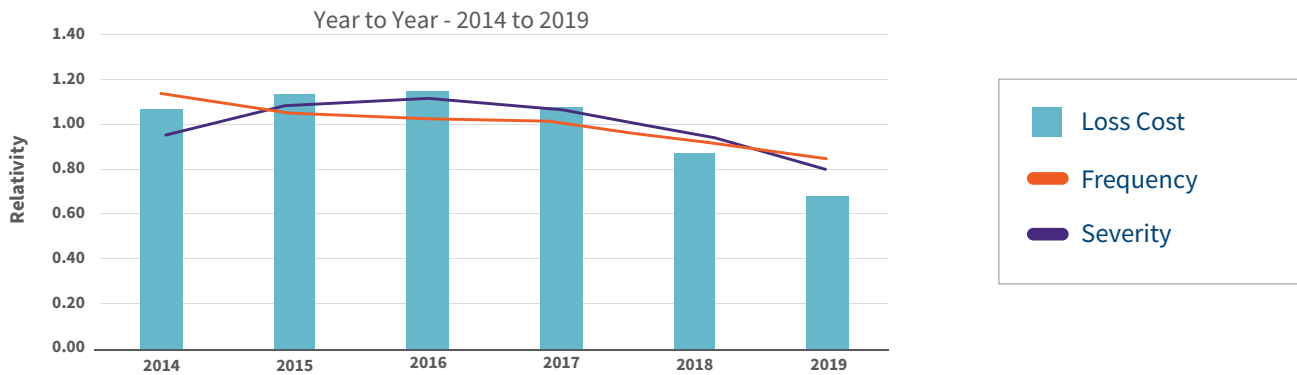
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Liability

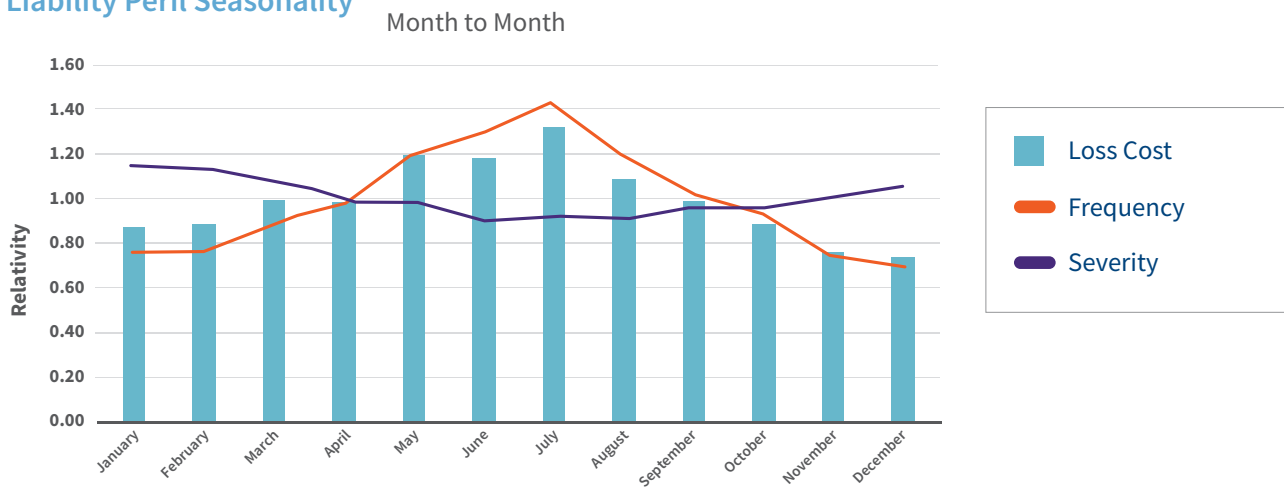
- Liability loss cost, frequency and severity all continued to decline steadily.

In 2019, the industry once again saw the favorable downward trend continue for the Liability peril. As with previous years, there was a spike in frequency during the summer months. This could be due to a surge in outdoor activities, and subsequent increase in pool, hot tub and trampoline claims. Alaska and Missouri were in the top five states for loss cost, replacing New Hampshire and New York.

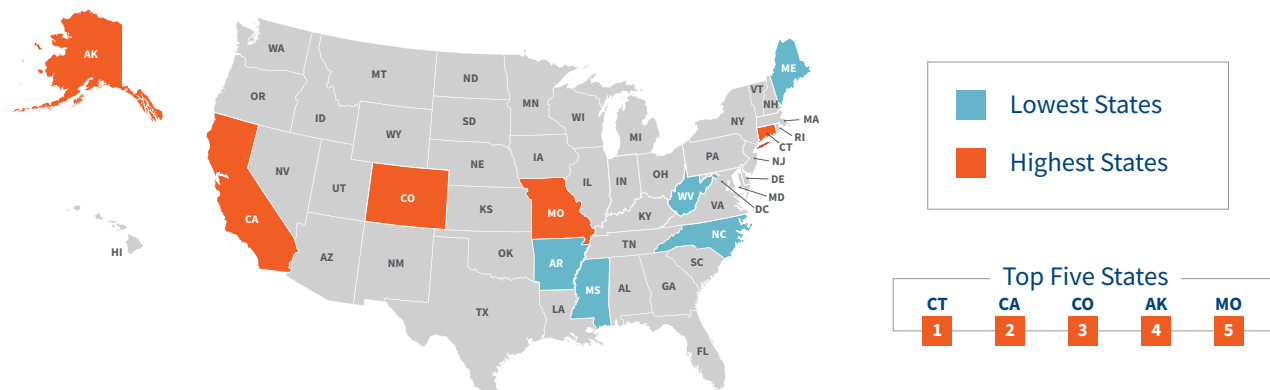
Liability Peril Trend



Liability Peril Seasonality



Liability Peril Location

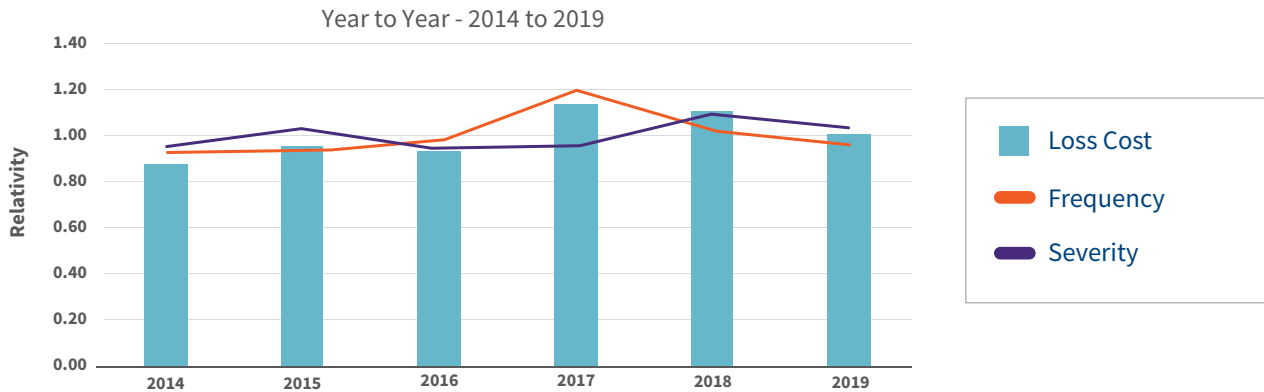


Other Perils

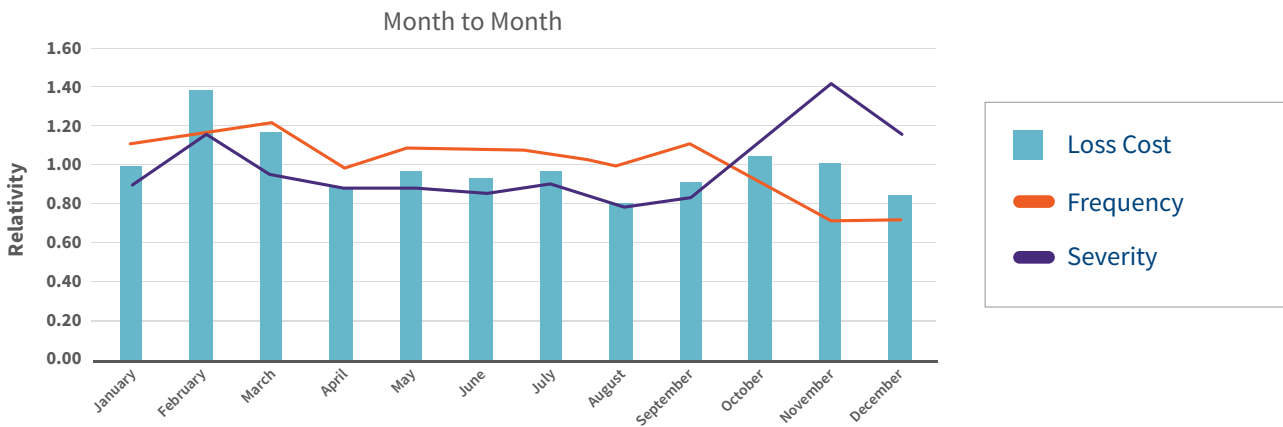
- Loss cost dropped 10% compared to 2018.
- Loss cost peaked in February, while severity was highest in November.

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. In 2019, Nebraska returned to its position in the top five states for loss cost, pushing South Dakota further down the rankings.

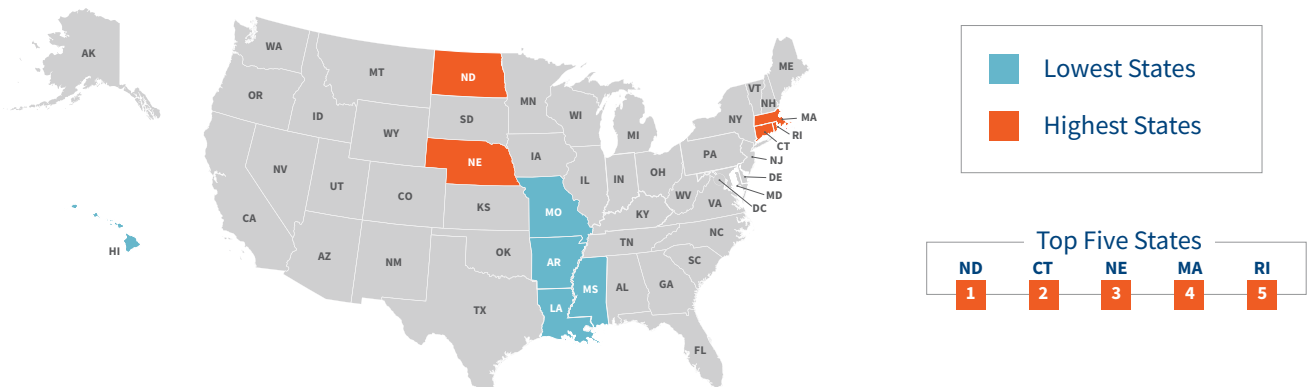
Other Perils Trend



Other Perils Seasonality



Other Perils Location



Conclusion

The 2020 LexisNexis Home Trends report highlights some of the challenges that home insurance carriers face in managing by-peril risk. Across all perils in 2019, catastrophe claims and loss cost decreased—good news for both carriers and homeowners. The California fire season was less severe than in the previous two years, resulting in lower loss costs, and many hurricanes did not make landfall on the continental U.S., largely sparing homeowners on the mainland. Instead, hail and wind damage accounted for most catastrophe losses, with some states experiencing record flooding—which drove up the severity of weather-related water claims.

Looking ahead to next year's report, home insurance carriers and homeowners might not be so lucky. As of this writing, dozens of lightning-sparked wildfires spread by dry conditions, high heat and powerful winds are devastating parts of California, Oregon and Washington. Millions of acres of land have been burned, tens of thousands of people evacuated, homes and businesses destroyed and lives lost.¹⁹

The COVID-19 pandemic is also likely to have an impact on the risk of some perils. For example, with more people working from home and not leaving their houses unattended for long periods of time, loss cost due to theft is expected to decrease even further than indicated by the current downward trend. However, the risks of fire and water perils are likely to grow.

Considering the unpredictable nature of extreme weather events and unexpected public health crises, it is imperative for carriers to understand by-peril and macro-

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

George has been with LexisNexis for more than 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 MBA from the University of Richmond, Robins School of Business.



Contributor:

Prince Kohli, ACAS, CSPA

Director, Data Science
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Prince Kohli is a Director of Data Science at LexisNexis Risk Solutions. In this role, Prince leads a team of industry experts to develop Big Data Analytics and Modeling solutions for Auto, Homeowners and Commercial lines.

Prince has over 10 years of experience in insurance pricing, underwriting, and reserving. Prior to joining LexisNexis Risk Solutions, Prince worked in actuarial capacity at GEICO and AIG. He is an Associate of the Casualty Actuarial Society and holds a Master's degree in Statistics from University of Akron.



Contributor:

Huang (Richard) Gao

Data Science
LexisNexis® Risk Solutions

Huang (Richard) Gao is a data scientist at LexisNexis Risk Solutions, where he has worked for three years. Richard is responsible for conducting research and development projects, supporting and developing claim associated models and delivering innovative machine learning projects.

Prior to joining LexisNexis, Richard received a B.A. in Mathematics for Economics and Finance from the University of Wisconsin and a Master's degree in qualitative computational finance from Georgia Institute of Technology.

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.
- Reduce the time to quote and make it easier for consumers and agents to do business through all distribution channels.

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

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.