

State of Personal and Commercial Lines Automobile Insurance

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September 13, 2021

Agenda

- Personal Auto
 - Current Trends
 - Current Challenges and Beyond
- Commercial Auto
 - Introduction: Commercial Auto Makeup
 - Industry & RRG Data
 - Current Issues
 - Future Considerations



Personal Auto – State of the Line



Current Trends



Bodily Injury



Source: ISS/ISO/NISS Private Passenger Auto Fast Track Data



Collision



Source: ISS/ISO/NISS Private Passenger Auto Fast Track Data



Declining Loss Ratios, Premium Growth Slowing



Source: ISS/ISO/NISS Private Passenger Auto Fast Track Data



Industry Profitability



Source: A.M. Best Global Insurance Database, Total U.S., All Private Passenger Auto, P&C Industry *Includes policyholder dividends*

- Largely profitable in recent years
- Contributing factors:
 - Focus on rate adequacy
 - Increased use of technology and data analytics
 - Enhancements in auto-repair management
- Impact of COVID-19 on auto travel generated single-lowest combined ratio in 11 years



Industry Profitability



Source: A.M. Best Global Insurance Database, Total U.S., All Private Passenger Auto, P&C Industry *Includes policyholder dividends*



Driving Trends - CARFAX



Source: CARFAX Vehicle History Database



Driving Trends - Empty Roads Led to a Spike in Speeding

As Trips Taken Dropped by 50%, Speeding Risk Increased by 45%

Source: CMT Research







Phone Distraction Rose and Remains Above Normal





Consumer Behavior – Shopping Volatile, Still On The Rise



Source: LexisNexis Insurance Demand Meter



The Economy and Uninsured Shopping

2020 SHOPPING VOLUME GROWTH BY INSURED AND UNINSURED SHOPPERS



Source: LexisNexis Insurance Demand Meter



Current Challenges and Beyond



Data Explosion





Adaptive driverassistance systems



Competitor





Census



Telematics



Weather



TomTom





Internet of Things



Drones

Geographical Location



Aerial Imagery





More Sophisticated Data Analysis





Usage Based Insurance (UBI) Demand

- The total UBI market share is difficult to determine
- Prior to 2020, the UBI take-up rate had been significantly slower than projected
- In 2020, the COVID-19 pandemic significantly increased consumer interest in UBI programs

"The global usage-based insurance market is projected to reach \$77.25 billion by 2026, from \$25.46 billion in 2020, according to a new study by Valuates Reports. The market is expected to grow at a compound annual growth rate of 20.32% between 2020 and 2026."

- Valuates Reports



More Intense Competition

- Increase in advertising
- Innovation in advertising
- Increase in supply
- Insuretech startups
- Increased sophistication
 - Analytics
 - Artificial intelligence
 - Process improvement



"Hybrid" Workplace, Addressing Employment Inequality

- Increased levels of remote work due to COVID-19 pandemic restrictions
- 2020 McKinsey Global Institute analysis:

[About] three-quarters of the time spent on activities in the finance and insurance industries can be done remotely without a loss of productivity"

- Insurers face hard decisions about vision for post-pandemic organization talent acquisition and retention, onboarding experiences, development opportunities, etc.
- Diversity, equity, and inclusion efforts part of short and long-term strategies
- Attracting top talent and greater volume of Millennials/Gen Z to backfill aging workforce



Heavier Scrutiny on Use of Credit-Based Insurance Scoring

- COVID-19 generated more discussion around credit-based insurance scoring
- Washington Insurance Commissioner issued three-year ban on credit score usage
- Consumer groups continue to express concern with bias in rating

New Michigan auto insurer doesn't use credit scores, charges lower rates

JC Reindl Detroit Free Press Published 6:04 a.m. ET Jul. 9, 2021 | Updated 9:08 p.m. ET Jul. 10, 2021

Washington State Bans Use Of Credit For Insurance Rates, Industry Injunction Request Fails

Updated: Apr 27, 2021, 10:18am



The Concerns with Bias in Rating Have Been Rising for Years





Mounting Pressure





In Summary

- COVID-19 pandemic has disrupted several areas of the personal auto line (claims and driving patterns, consumer behavior, etc.)
- Success in personal auto will require continued advancement in leveraging data by analytics, machine learning and automated processes
- Insurers must engage in the social justice and DE&I discussions to help define the true problem and develop effective solutions



Commercial Auto – State of the Line



Introduction: Commercial Auto Makeup



Commercial Auto Coverages (General)



Bodily Injury (BI)

Property Damage (PD)

Uninsured/Underinsured Motorist

Medical Payments (MedPay)

Personal Injury Protection (PIP)

Comprehensive

Collision



Data Sources

- Federal Motor Carrier Safety Administration (FMCSA)
 - Motor Carrier Management Information System (MCMIS) Crash File
- National Highway Traffic Safety Administration (NHTSA)
 - Fatality Analysis Reporting System (FARS)
 - General Estimates System (GES)
- Federal Highway Administration (FHWA)
 - Highway Statistics



Industry Data - NAIC

- NAIC Commercial Auto Liability (CAL) is all commercial vehicle types
- Just a few NAIC annual statement lines of business:





Industry Data - ISO

- ISO Commercial Auto split by vehicle type
 - Bus
 - School, church and "urban" buses
 - Buses used to transport athletes and entertainers
 - Airport, charter, inter-city and sightseeing buses
 - Etc.
 - Garage
 - Franchised and non-franchised dealers of motor vehicles
 - Misc Vehicles
 - Ambulances
 - Vehicles with welding apparatuses
 - Any risk not included in the ISO circulars
 - Private Passenger Types
 - Sedans used by a business
 - Certain other vehicles used by farmers



Industry Data - ISO

- ISO Commercial Auto split by vehicle type
 - Public
 - Taxis
 - Limousines
 - Van pools
 - Social service automobiles
 - Trucks, Tractors & Trailers
 - Light, medium and heavy trucks
 - Heavy and extra-heavy truck tractors
 - Trailers
 - Zone Rated
 - Zone rated trucks, tractors and trailers
 - Includes light, medium, and heavy trucks
 - Heavy and extra-heavy truck tractors
 - Trailers



Commercial Vehicle Distribution

- 276M registered vehicles in the US in 2019
- Approximately 13M single-unit and combination trucks





Source: BTS

Source: BTS



Commercial Auto Liability Market Share (DPW%) - Groups



Source: A.M. Best's Market Share Report



Current Commercial Auto Loss Cost (or Pure Premium) Industry Trend

			CAL LC (or
AMB#	NAIC#	Company Name	PP) Trend
001900	11770	United Financial Casualty Company	7.1%
002563	16535	Zurich American Insurance Company	5.8%
000439	11371	Great West Casualty Company	6.7%
004461	25674	Travelers Property Casualty Co of Amer	5.8%
000733	24147	Old Republic Insurance Company	5.0%
N/A	N/A	Insurance Services Office	5.5%
		Average	6.0%

Source: Individual rate filings for each company from A.M. Best's State Rate Filings



Commercial Auto Liabiltiy Insurance Industry Loss Ratios



Accident Year

Source: Total US P&C Industry Schedule P Triangles - CAL





Source: Total US P&C Industry Schedule P Part 2 Triangles - CAL

Commercial Auto Liability Accident Year Frequency / Severity



Source: Total US P&C Industry Schedule P Data - CAL



RRG vs Industry



Commercial Auto RRG vs Industry Fact Sheet

Line of	Number of "Pure" RRGs								
<u>Business</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>				
CAL	27	27	28	30	31				
_									
	Direct Written CAL Premium								
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>				
"Pure" CAL RRGs	244,543	267,723	263,669	257,860	275,035				
Total RRGs	278,520	328,111	307,469	315,134	334,057				
Total Industry	25,174,642	27,404,493	30,981,251	34,697,494	34,993,199				

"Pure" is defined as > 90% DWP in one LOB

Source: Based on Annual Statement Data, Exhibit of Premiums and Losses & Underwriting and Investment Exhibits



Direct Written Premium Trends



Source: Based on Annual Statement Data, Exhibit of Premiums and Losses & Underwriting and Investment Exhibits









Source: Based on Annual Statement Data, Liabilities, Surplus and Other Funds & Statement of Income



CAL Loss Ratios – Accident Year



Source: Based on Annual Statement Data, Schedule P Part 1



CAL Combined Ratios



Source: Based on Annual Statement Data, Insurance Expense Exhibits



CAL RRG 1 Year Development



Source: Based on Annual Statement Data, Schedule P & Liabilities, Surplus and Other Funds



CAL Net Loss and LAE to Net Written Premium – Calendar Year



Source: Based on Annual Statement Data, Insurance Expense Exhibits & Underwriting and Investment Exhibit Part 1b



Current Issues



Increase in Comprehensive Claims Driven by Catalytic Converter Thefts



Source: moneymetals.com

Source: NICB



2020

1,122

1,040

2,347

578

430

1,844

1.650

1,268

1,131

Rising Used Car Prices

- Supply chain issues through the pandemic
- Rental car shortages
- Computer chip shortage dragging new car supply
- Example: Tesla cited "limited availability of battery cells and global supply chain challenges" as reason for semi truck production delay in July 2021





PRICE CHANGES FOR SELECTIVE MARKET CLASSES year-over-year % change, Mid July 2021

Source: Manheim



Shift in Driver Behavior

Percentage Change in Speeds in Urban Settings (2019 Versus 2020; Percentile by Functional Classification)





The Uneven Impact of COVID-19 on Commercial Miles Driven



Source: Verizon Connect – COVID 19 fleet data trends



PINN/

ACTUARIAL RESOURCES

CIF

Social Inflation



Average Size of Verdict

- Inexperienced drivers
- Litigation funding
- Wealth gap Jury decisions
- Increased attorney involvement

Source: American Transport Research Institute, "Understanding the Impact of Nuclear Verdicts on the Trucking Industry"; June 2020



Social Inflation

- Inexperienced drivers
- Litigation funding
- Wealth gap Jury decisions
- Increased attorney involvement

Number of Cases With Verdicts Over \$1 Million



Source: American Transport Research Institute, "Understanding the Impact of Nuclear Verdicts on the Trucking Industry"; June 2020



Social Inflation

- Reptile theory REPTILE: The 2009 Manual of the Plaintiff's Revolution
 - Ask jurors to put themselves in the shoes of the plaintiff
- Texas HB 19 Passed. Effective 9/1/2021
 - Two-phase trial
- Louisiana SB 115 Passed.
 Effective 1/1/2021
 - Disclose attorney fees/expenses

Texas Commercial Automobile – Percent of Claims with Attorney and Average Loss and Allocated Loss Adjustment Expenses										
		All Claims			Claims with Attorney			Claims without Attorney		
Year Claim Closed	Percent of Claims with Attorney	Average Total Loss	Average Total ALAE	Average Total Loss and ALAE	Average Total Loss	Average Total ALAE	Average Total Loss and ALAE	Average Total Loss	Average Total ALAE	Average Total Loss and ALAE
2015	34.8%	62,988	7,495	70,483	152,850	19,932	172,782	15,099	867	15,967
2016	36.7%	70,028	8,158	78,185	167,148	21,333	188,481	13,623	506	14,129
2017	37.8%	63,389	12,130	75,519	148,384	30,497	178,881	11,651	949	12,600
2018	37.3%	56,840	7,856	64,696	138,469	20,618	159,087	8,349	275	8,623
2019	39.7%	70,932	8,989	79,921	163,948	21,987	185,935	9,579	416	9,995
2015-2018	36.7%	63,311	8,910	72,221	151,713	23,095	174,807	12,181	649	12,830
2019 Percent	39.7%	70,932	8,989	79,921	163,948	21,987	185,935	9,579	416	9,995
Change	8.4%	12.0%	0.9%	10.7%	8.1%	-4.8%	6.4%	-21.4%	-35.9%	-22.1%

Source: Trends in Attorney Representation: Texas Commercial Automobile Insurance - Milliman



Future Considerations



Electric Vehicle News - 2021

Daimler speeds u	p plans to be electric-o	nly					
automaker							
JULY 09, 2021 07:13 AM	Rivian plant gearing up for June launch in Normal						
A	PRIL 16, 2021						
UK's Arrival, Uber t	o develop electric ride-ha	ailing					
car				_			
F	FedEx Ground Operators Order 120 Xos Electric						
May 04, 2021 02:11 AM	Trucks						
A	UGUST 11, 2021 08:38 AM						
GM's BrightDrop locks	s in second customer with						
order for 12,600 electric vans				PINNACLE			
FEBRUARY 02, 2021 04:23 PM				ACTUARIAL RESOURCES			

Autonomous Vehicle News - 2021

Self-driving startup Argo AI locks down key permit needed for robotaxis in California

AUGUST 02, 2021 04:38:03 PM

VW pushes ahead with 'super platform' for self-driving electric cars

JULY 26, 2021 06:38:50 AM

VW plans to offer autonomous microbus ready for roads in 2025

MAY 12, 2021 06:42:04 AM

FedEx, Nuro partner on autonomous delivery in Houston

JUNE 15, 2021 09:00:01 AM



Shift to Specific Last Mile Delivery Companies (Amazon Effect)

Amazon starts offering free 2hour shipping on select

items/locations

(2014)

Last mile = delivery from warehouse/distribution center to final destination.

Amazon

introduces free 2-day delivery (2005) Amazon starts rollout of free 1day delivery (2019) The pandemic accelerates consumer demands for expeditious last mile delivery New players accelerate entry into the space, challenging legacy carriers and spurring innovation.



Uber's Expansion





"94 percent of serious crashes are due to dangerous choices or errors people make behind the wheel." - NHTSA

- Decrease in fraudulent claims
- Premium shift between personal auto and commercial auto
- Telematics / PAYD



Source: Deloitte - Quantifying an uncertain future Insurance in the new mobility ecosystem



Conclusion

- Introduction: Commercial Auto Makeup
- Industry & RRG Data
- Current Issues
- Future Considerations



Questions





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