Giving credit where credit is due:
COVID-19 and the private auto business

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Overview

Section 1: The onset of a pandemic

- Industry responds quickly through significant and unprecedented policyholder relief

- Historically favorable results even including the effects of relief and stagnant/declining rates

Section 2: The tide turns

- Regulators and consumer groups call for additional relief with isolated success

- Claims frequency rebounds as restrictions dissipate at the same time supply chain pressures drives alarming severity rise

Section 3: What does 'normal' look like?

- Poor recent underwriting results trigger push for rate hikes in environment still characterized by considerable behavioral uncertainty

- Longer-term threats haven't gone away as inflation presents near-term challenges

Section 4: Auto insurtech in transition

- The pandemic accentuated the importance of key foundational aspects of the insurtech model for personal auto-focused companies

- Operational and go-to-market approaches continue to evolve in underwriting and distribution

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Section 1: The onset of a pandemic

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Pre-March 2020 backdrop

- Safety improvements such as advanced driver assistance systems positively impact frequency over the long term, but severity increases through the use of new, more costly technologies
- Leading carriers introduce and enhance the use of telematics in the rating process
- Key competitive threats include emergence of autonomous vehicle technology, the sharing economy and the rise of insurtech disrupters
- Pricing stabilizes, competition increases with loss costs generally in check post-2017
- Original 2020 outlook for modest underwriting profitability, continuing 2018-2019 trend

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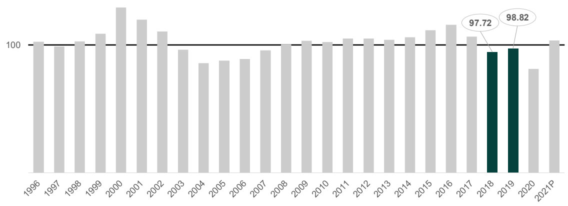
Private auto combined ratios by year (%)

Fell below 100% in 2018-2019 for the first time in more than a decade



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Data compiled April 22, 2022
P = preliminary based on incomplete results
Results for 1996-2020 from Insurance Expense Exhibits of annual statements
Source: S&P Global Market Intelligence
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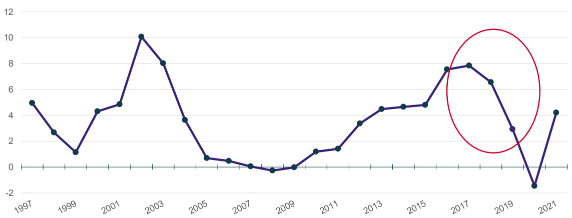
Pricing cycle on a downward trajectory pre-pandemic

Private auto direct premiums written growth by year (%)



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Data compiled April 22, 2022
Results for 1996-2020 from Insurance Expense Exhibits of annual statements
Results for 2021 from the state pages of annual statements
Source: S&P Global Market Intelligence
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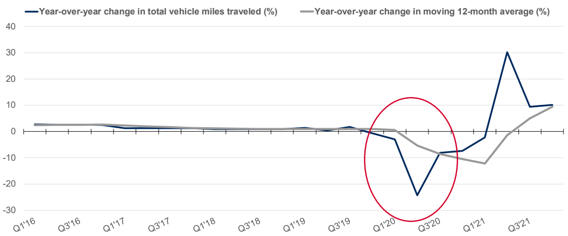
Stay-at-home restrictions cause miles driven to tumble



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Data compiled March 31, 2022.
Source: U.S. Bureau of Transportation Statistics data compiled by the Federal Reserve Bank of St. Louis

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Carriers respond with pandemic relief to various effects

- Stock insurers mostly offer 15%-25% credits for the months of April and May 2020. Some relief extends into June on a national basis, then selective amounts by geography.
  - Reduces premiums written and earned immediately upon issuance, raises loss ratios
- Mutual insurers and reciprocal exchanges mostly opt to issue policyholder dividends
  - No direct impact on premiums or loss ratios; dividend ratios spike 144 basis points to 22-year high
- No. 2 private auto insurer issues no credits or dividends, but offers 15% discount on next renewal
  - Significant drag on premiums written through Q3'2020; premiums earned through Q4'2020
- Some carriers introduce COVID-19 premium adjustment factor to reduce rates temporarily through a mechanism that can be quickly withdrawn as conditions changed
  - Pressure on written and earned premiums into 2021 as factors required prior approval in many states
- Various accommodations for policyholder financial hardship
  - Upward pressure on expense ratio (+147 bps); general expenses surge by 17.7%

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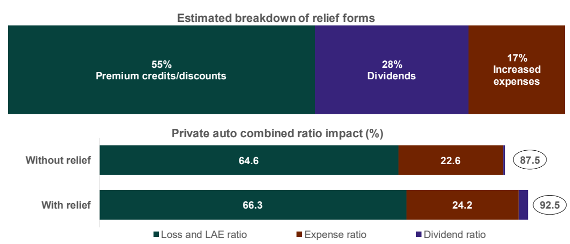
Estimated minimum dollar value of COVID-19 relief

$14.5 billion through premium credits, dividends, higher expenses



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Data compiled April 22, 2022
Sources: S&P Global Market Intelligence, proprietary estimates

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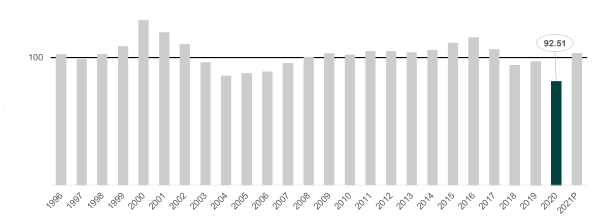
Private auto combined ratios by year
New 25+ year low in 2020 even with impact of pandemic relief



Data compiled April 22, 2022
P = preliminary based on incomplete results
Results for 1996-2020 from Insurance Expense Exhibits of annual statements
Source: S&P Global Market Intelligence

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Section 2: The tide turns

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Regulators, consumer groups push for more relief through 2021 despite emergence of worrisome trends

- California Department of Insurance COVID-19 relief data calls require companies to detail premium credits, other measures by business line on a quarterly basis[1]
- Consumer Federation of America claims “nearly $30 billion windfall” for private auto insurers[2]
- Some states, including California, require responses to COVID-19 questions in rate filings
- Policyholder class-action litigation filed against leading insurers in Nevada, elsewhere
- Insurer pushback premised upon:
  - Expectations for imminent return to work/school and resulting impact on claims frequency
  - Rebound in vehicle miles traveled data from internal and external sources
  - Supply chain pressures on repair costs, parts availability
  - Sustained increases in used vehicle valuations beginning in the summer of 2020
  - Uncertainty about the duration of pandemic’s impact on underwriting profitability

1-California COVID-19 Premium Refund Report Submissions
2-Consumer Federation of America release

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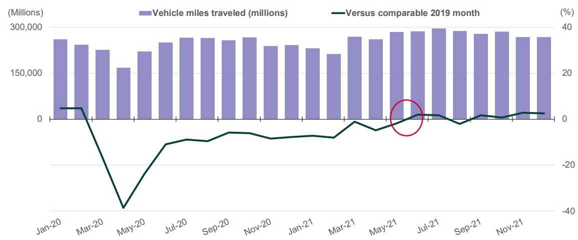
Vehicle miles traveled return to 2019 level in June 2021



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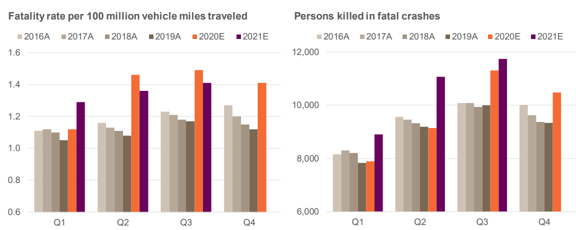
Motor vehicle fatalities rise on less-congested roads

Spike in fatality rate reverses long-term trend



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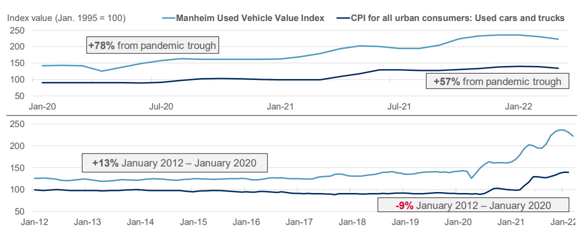
Costs to replace totaled vehicles surge to new highs

Pandemic-era and longer-term views



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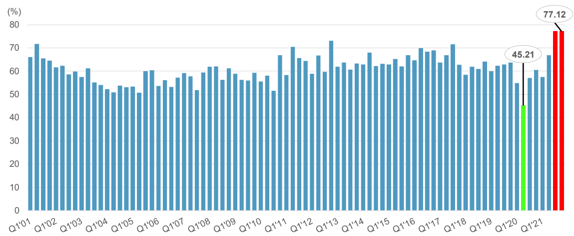
From feast to famine in 5 quarters: Auto physical damage loss ratio surges to 20+ year high in Q3'21 after bottoming in Q2'20



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Data compiled April 22, 2022.
Reflects the aggregation of results reported on Part 1 of statutory statements. Includes personal and commercial business.
Source: S&P Global Market Intelligence
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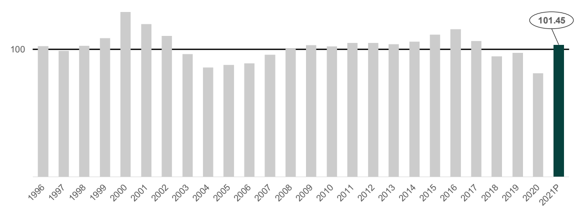
Private auto combined ratios by year

Dismal H2'2021 pushes result back above 100% for 1st time since 2017



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Data compiled April 22, 2022
E = estimated based on direct results
Results for 1996-2020 from Insurance Expense Exhibits of annual statements
Source: S&P Global Market Intelligence
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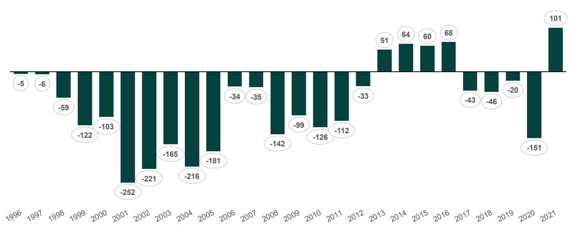
Net impact of private auto physical damage line on P&C results

Difference in P&C loss and DCCE ratio with and without (bps)



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Data compiled April 22, 2022
DCCE = defense and cost containment expense; bps = basis points.
Reflects the aggregation of results reported on the state pages of annual statements.
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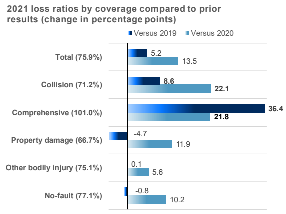
Uneven impact by coverage

New York supplement data for top 10 private auto insurers

- **Collision:** Inflation affecting used vehicles, parts, body components, labor, etc.
- **Bodily injury:** Mixed impact across geographies. Delayed court dockets may be contributing. Medical cost inflation less than other categories.
- **Comprehensive:** More frequent severe weather events such as hailstorms, derechos, thunderstorms with straight-line winds, etc. Surging theft of vehicles and vehicle components such as catalytic converters. (Stolen vehicles ▲**16.5%**[1] between 2019 and 2021.) Coverage not universal purchased, however, limiting exposure to some degree.



Data compiled March 31, 2022

1- U.S. Senate testimony of National Insurance Crim Bureau President and CEO David Glawe

Reflects the aggregation of results reported on New York State supplements by the top 10 individual private auto insurers in the state.

Source: S&P Global Market Intelligence

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Novel rate filing challenges emerge

- Nontraditional approaches to frequency and severity trend selection in developing rate indications to reduce or eliminate effects of aberrant 2020 results, including by:
  - Uneven weightings to prior accident years to emphasize pre-pandemic periods
  - Exclusion of accident year 2020 data altogether even when data became available
  - Selective application of pre-pandemic results for determining frequency trends, while leaving severity approached unchanged
  - Heavy weighting to accident years that include the third quarter of 2021 (and exclude the second quarter of 2020) when data emerges
  - Haircuts to pre-pandemic frequency trends to reflect expectations for different post-pandemic policyholder behavior
- Requests for significant additional data to justify selections of weightings/trends in addition to COVID-19 questionnaires in some states
- Filing backlogs in select prior-approval states due to work-from-home status, staffing issues

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Section 3: What does 'normal' look like?

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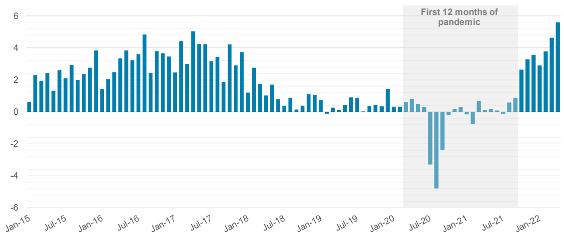
Sharp increase in approved/non-rejected rate filings
Weighted average approved change by renewal effective month (%)



Data compiled March 31, 2022.
Results calculated by S&P Global Market Intelligence's P&C Rate and Product Filings Trend Analysis and Histogram
Excludes motorcycle and recreational vehicle rate filings as well as states where rate filings are either unavailable or presented in a different format..
Source: S&P Global Market Intelligence
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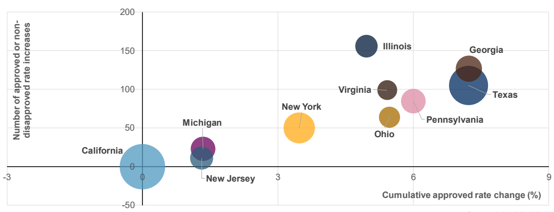
Private auto rate filing trends vary widely by state
Number of rate hikes approved and cumulative rate changes in select markets. Limited to filings effective for renewals after Sept. 1, 2021



Data compiled April 22, 2022.
Results calculated by S&P Global Market Intelligence's P&C Rate and Product Filings Trend Analysis and Histogram
Bubble size determined by relative amount of 2021 private auto direct premiums written.
Excludes motorcycle and recreational vehicle rate filings as well as states where rate filings are either unavailable or presented in a different format.
Source: S&P Global Market Intelligence
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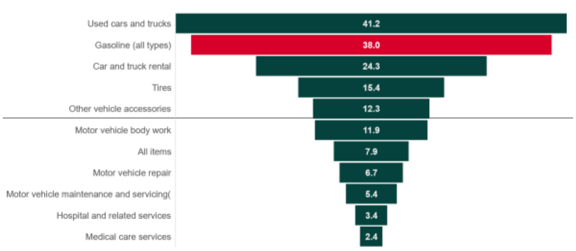
Soaring consumer prices boost severity but may constrain frequency
February year-over-year changes in CPI for all urban consumers (%)



Data compiled April 22, 2022.
Sources: U.S. Bureau of Labor Statistics
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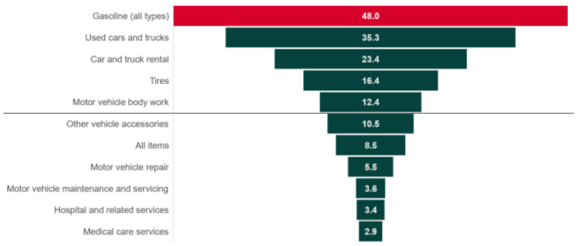
Soaring consumer prices boost severity but may constrain frequency
March year-over-year changes in CPI for all urban consumers (%)



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Data compiled April 22, 2022.
Sources: U.S. Bureau of Labor Statistics
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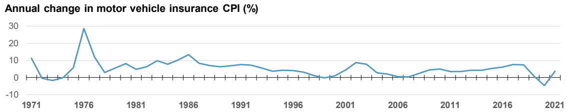
Risks and uncertainties abound

- **Near-term challenges:**
  - How quickly can companies implement rate increases to address high and rising loss costs?
  - Accurately predicting what frequency will look like in remote/hybrid work environment.
  - Will underwriting/pricing discipline extend across all major carriers, or will some seek to grab share?
  - Wage inflation could also pressure carrier margins, providing more justification for rising rates.
  - Political populism. Past private auto pricing cycles led to rate hike moratoriums (late 1970s), Proposition 103 in California (late 1980s), and greater activism by state insurance departments.

Annual change in motor vehicle insurance CPI (%)



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Data compiled March 31, 2022.
Source: U.S. Bureau of Labor Statistics
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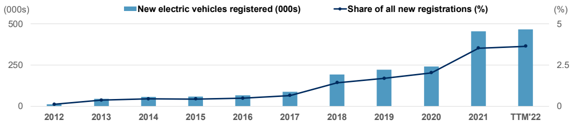
Risks and uncertainties abound

- **Longer-term challenges:**
  - Dramatic changes coming to the US auto fleet: higher levels of autonomy, transition to electrical vehicles.
  - Emerging data-driven competition from automotive OEMs, particularly EV OEMs.
  - Continued consumer resistance to telematics adoption due to privacy consumers, contentment with existing coverage, etc., even as traditional factors face scrutiny over fairness. Could adverse selection emerge?
  - Insurtechs continue to seek to disrupt, but to what extent have the disrupters been disrupted by COVID-19?



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Data compiled March 31, 2022.
TTM = trailing 12 months through Jan. 31, 2022.
New registrations for personal purposes for vehicles with electric fuel type.
Source: Catalyst for Insight
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Section 4: Insurtech in transition

Insurtech model well-suited for pandemic era

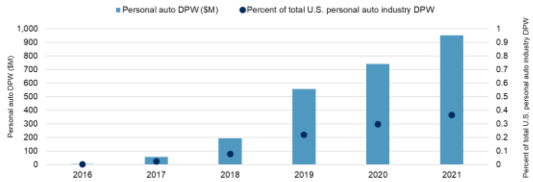
- Pandemic spurred digital adoption.
- Machine learning and automation.
  - One of the hurdles for insurtech startups is lack of data.
    - Telematics.
    - Alternative data.
      - Consumer reporting agencies, DMVs, Census, IRS, OpenStreetMap, Wikidata, Open Data portals from U.S. cities.
- Fast quoting.
  - Can get a quote in 10 seconds.
- Flexible policies and payments options.
  - Prepaid accounts
  - 30-day policies

Full-stack still on track

- Insurtech startups still becoming carriers, either starting as full-stack or starting as a digital agency and adding underwriting operations.
- Trend still well underway in the P&C sector, though not as many personal-auto-focused companies lately.
- Roughly even split between those that acquire an existing carrier and those that form a new one.
  - Some do both.
- Full-stack model offers some advantages.
  - More revenue potential as the carrier receives the entire policyholder premium off a sale while brokers receive just a percentage.
  - Control over the entire insurance process.
  - Potential for investment income.
  - Unique structures like reciprocal exchanges.

Full-stack still on track

Full-stack insurtech startups are growing quickly, but still account for less than 1% of the US personal auto insurance market



Data compiled April 27, 2022.
DPW = direct premiums written.
Based on the state pages of annual statutory statements submitted to the National Association of Insurance Commissioners.
May include some legacy business in certain periods if the carrier was acquired. Excludes insurtech companies that were formed as subsidiaries of large incumbents.
Source: S&P Global Market Intelligence

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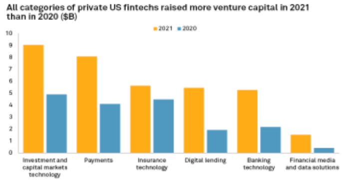
Full-stack still on track

- Full-stack startups have faced some headwinds of late.
  - Elevated losses and expenses.
  - Lackluster performance of publicly traded companies.
- But venture capital funding to the U.S. fintech space remains ample, including insurtech

All categories of private US fintechs raised more venture capital in 2021 than in 2020 ($B)



Data compiled Jan. 26, 2022.
This analysis is limited to offerings that completed in the time period shown and uses a best-efforts approach to capture only the portion of the offering that was raised during that time period, excluding tranches that closed prior to that time frame.
Reflects private placements completed by private, U.S.-based fintech companies, as defined by S&P Global Market Intelligence, in the time period shown. Excludes debt transactions.
Dates are the assumed closing date of the offering as of the time the data was compiled. Rounds might be subsequently extended.
Source: S&P Global Market Intelligence

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Personal auto distribution

- Embedded insurance gaining more traction
  - Online auto dealers and rental sites
  - Brick-and-mortar auto dealers
    - Dealer asks whether the car buyer wants a quote. If so, the buyer receives a text, scans license and receives a bindable quote from the insurer.

Strengths	**Weaknesses**
Embedded insurance removes the cost of agents and marketing. It could attract a more lucrative base of policyholders that are less cost-sensitive.	Embedded insurance does not have human experts involved in the insurance sale. The product partner has ultimate control over the checkout process.
Opportunities	**Threats**
Embedded insurance will open new channels for distribution through partnerships with companies offering non-insurance products and services.	Partners could drop the insurer for hampering the checkout process. The partner might start its own insurance operation.

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Personal auto distribution

- Insurtechs exploring other distribution models as well.
  - Partner with original equipment manufacturers on white-labeled insurance programs.
  - Partner with other fintech app providers.
    - Payments companies, digital banks, robo-advisers, etc.
    - The "super app" model might gain more traction
  - Multi-channel approach
    - Combination of direct channel and agents

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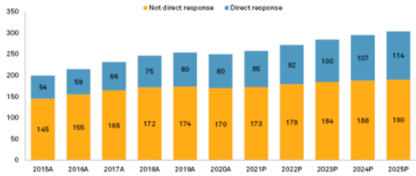
Direct channel personal auto

Estimated US private auto direct premiums written via the direct channel ($B)



Data compiled Sept. 22, 2021.
A = actual; P = predicted
Based primarily on an analysis of data reported by U.S. P&C insurers in the Insurance Expense Exhibit, Part 3, of annual statutory filings submitted to the NAIC.
Sources: S&P Global Market Intelligence, proprietary estimates

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