

Guy Carpenter 2018 Risk Benchmarks Research Automobile Liability Segment Outlook

In 2017, writers of automobile (auto) liability insurance continued to cope with deteriorating combined ratios, which remained above 100 percent for the seventh consecutive year. While carriers have implemented effective strategies that improved their operations and as a result are achieving improved accident year performance, evolving market and environment factors continue to challenge auto insurers. Consequently, improved expense ratios and rate increases did not fully offset cost inflation. The outlook for the sector remains negative.

Looking through 2018, expense ratios and combined ratios have shown continued improvement. However, with new developments in claim trends occurring at a rapid pace, carriers will need to track and tap into the most up-to-date data and expertise available to help them manage their volatility.

Guy Carpenter's Analytics and Global Strategic Advisory units are dedicated to providing clients the tools and solutions that help guide them in their strategic decision-making. The latest edition of Guy Carpenter's Insurance Risk Benchmarks Research report, released in November 2018, presents compelling research and analysis on risk and performance on auto liability lines and the entire property and casualty insurance spectrum. [Click here to request your copy of the 2018 Risk Benchmarks Report.](#)

2017 & 2018

According to the Guy Carpenter 2018 Risk Benchmarks Report, the 2017 combined ratio for commercial auto is estimated to be at 113.5 percent – a slight increase over the 2016 level, which stood at 113.0 percent. While year-over-year expense ratios declined from 36.4 percent to 35.3 percent, loss ratios have increased from 76.6 percent to 78.2 percent. Expense ratios improved slightly, driven primarily by continued increases in premium/rates, which carriers initiated in 2016. As a result, 2017 and the first nine months of 2018 delivered mid to high single-digit rate increases (occasionally double digits on accounts with marginal experience) for the auto liability line.

Rising losses and claims costs are the major drivers behind the high combined ratios. Several factors are contributing to the rising frequency and severity. Auto insurance writers are taking many steps to reduce the trend; however, any noticeable positive impact may be several years away. Lowering loss ratios is a more complex issue than simply adjusting rates and requires carriers to leverage many factors that are constantly evolving. An unexpected change in any one of the factors may notably impact combined ratios. While there are many influences that continue to impact the loss side of the equation, we have broken the most significant factors into two basic groups: Negative factors and positive factors that affect both frequency and severity.

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Negative Loss Trend Factors

On-the-road risks are becoming more challenging to manage, especially for commercial auto fleets.

Rising Costs

- **Medical Costs** – The expenses continued to rise.
- **Vehicle Repair** – These costs continue to rise. New vehicles on the road cost more to repair and replace after an accident. In the past several years, commercial heavy truck sales have increased significantly. These costs are a large contributor to the increasing combined ratios for commercial auto coverage. The advent of driverless technology introduces its own risks and makes new vehicles even more expensive to repair.

Emerging Risks

- **Driver Shortage** – The shortfall in commercial drivers could surpass 175,000 by 2026, leading to more inexperienced and under-qualified drivers on the road.
- **Distracted Driving** – According to the most recent year's available data, 3,477 people died in crashes involving a distracted driver and almost 400,000 were injured. It is currently estimated that 660,000 people use cellphones while driving, and that number is increasing as the driver pool becomes increasingly younger in age. Recent findings from the National Safety Council¹ indicate that as much as 27 percent of auto accidents involved drivers talking or texting on cell phones.
- **Cyber Security** – University of Michigan² researchers recently managed to hack into a truck's internal control system, changing the readouts of its instrument panel, which caused it to accelerate without driver control and disabling the braking system. This has the potential to become an even greater issue as more autonomous and semi-autonomous systems are introduced into newer model vehicles.
- **Fraud** – The Coalition against Insurance Fraud³ saw a recent 14 percent increase in fraudulent auto related claims. Medical claims have the highest incidence rate followed by auto claims.
- **Impaired Driving** – This factor continues to grow. According to a recent AAA Foundation for Traffic Safety⁴ report, 43 percent of fatally-injured drivers tested positive for substances in their systems, including marijuana and amphetamines. 37 percent had alcohol in their systems.

- **Lawsuits** – The number and size of awards continues to increase unabated. Personal injury lawyers pursue business from claimants after accidents in unprecedented numbers. As a result, the number of first-party lawsuits against auto insurers has quadrupled in some jurisdictions, even where the number of accidents has fallen.

Positive Loss Trend Factors

Carriers are making a concerted effort to raise auto rates/pricing to the levels needed to achieve consistent profitability.

Trucks and Tractor/Trailers

- More companies are installing advanced safety technologies and more carriers are either insisting on or giving premium credit for the installation of advanced safety technologies.
- A recent AAA Foundation for Traffic Safety⁵ study concluded that equipping trucks over 10,000 Gross Vehicle Weight (GVW) with advanced safety technologies has the potential to prevent up to 77,077 truck-related crashes, 23,275 injuries, and 500 deaths each year. The benefits of installing these systems in all new and existing trucks over 10,000 GVW would far outweigh the cost.
- The National Transportation Safety Board has issued a list of monitoring technologies that are available and should be implemented in trucking fleets:
 - **Telematics** – A combination of GPS and telecommunications systems that give trucking companies real-time data about their fleets' locations, drivers' behavior and vehicle diagnostic information.
 - **Collision Avoidance Systems** – These technologies sense vehicles or other hazards and either warn the driver or autonomously avoid collisions by braking or returning the truck to its lane.
 - **Advanced Driver Assistance Systems** – These systems automate certain driver tasks through adaptive cruise control, adaptive lighting and blind spot detection.

Private Passenger Vehicles and Light Trucks

- Advanced Driver Assistance Systems, to one degree or another, are installed or available on all new cars and light trucks sold today. These technologies not only keep drivers and passengers safe, but also keep other drivers and pedestrians safe. As older vehicles are replaced, vehicles with these technologies will become the norm and safety will increase exponentially, resulting in a decrease in frequency and severity. Current technologies will be constantly improved and new technologies will be developed, which will continue to decrease frequency and severity. Some of the technologies available on most new cars and light trucks today include:
 - Automated Emergency Braking Systems
 - Pedestrian Automatic Emergency Braking

1. <https://www.nsc.org/road-safety/safety-topics/distracted-driving/underreported>

2. <http://www.umtri.umich.edu/what-were-doing/news/umtri-symposium-trends-pose-challenges-transportation>

3. https://www.insurancefraud.org/downloads/annual_report_2016.pdf

4. <https://aaafoundation.org/2017-traffic-safety-culture-index/>

5. <https://aaafoundation.org/air-disc-brakes-leveraging-large-truck-technology-engineering-realize-safety-gains/>

- Backup Cameras (Rear Video System)
- Forward Collision System
- Lane Departure Warning
- Lane Keeping Support system
- Blind Spot Detection
- Automatic Crash Detection
- Adaptive Lighting
- Adaptive Cruise Control

Emerging Risks

- **Number of Miles Driven** – The correlations between increased employment rates, number of miles driven and fatalities / serious injury appears to be diminishing. According to the Insurance Information Institute⁶, the year-over-year increase in vehicle-miles traveled was more than 2 percent in 2015 and 2016, and despite continued steady growth in the number of people employed, decreased 1.5 percent in the first half of 2017, just under 1 percent in the second half of 2017 and under 0.5 percent in the first five months of 2018.
- **Paid Claim Frequency** – The paid claim frequency rate has flattened, following the pattern of vehicle miles traveled.
- **Telematics** – Increasing deployment of telematics into commercial auto fleets has the potential to provide risk management data at unprecedented levels. Not only can telematics provide fleet maintenance and safety data, it also has the potential to provide data for driver management.

6. <https://www.iii.org/white-paper/personal-automobile-insurance-more-accidents-larger-claims-drive-costs-higher-101716>

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