



**INSURANCE
INFORMATION**
INSTITUTE

Rising Auto Costs

Gen Re Executive Forum, St. Petersburg, FL
January 19, 2017

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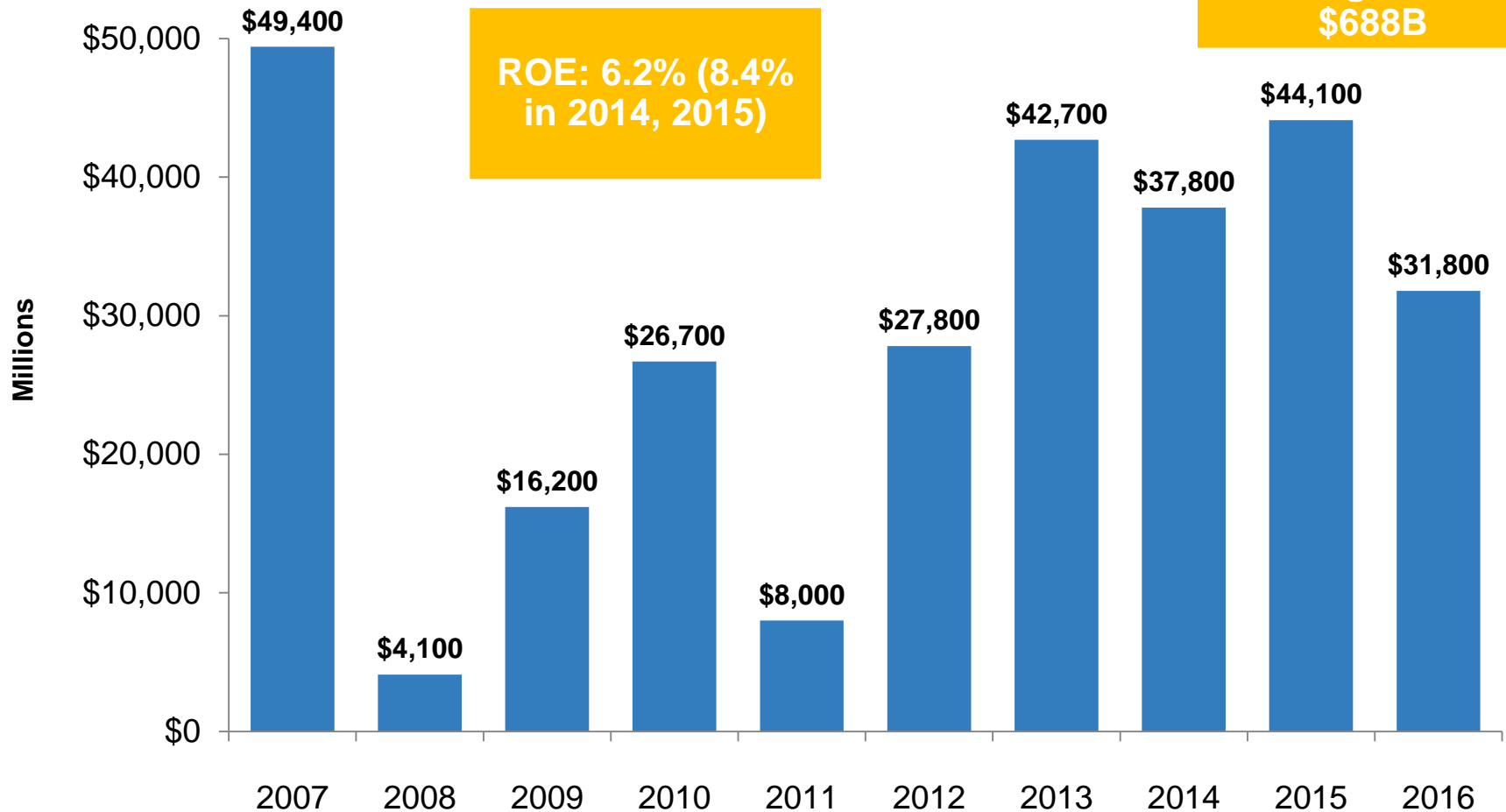
The P/C Insurance Industry: Financial Update & Outlook

Higher Cats Create Slight U/W Loss

Rising Rates May Help A Little

P/C Industry Net Income After Taxes, First Three Quarters, 2007-2016

Surplus Has Grown \$15B Through Q3, to \$688B



Sources: A.M. Best; ISO, a Verisk Analytics company; Insurance Information Institute.

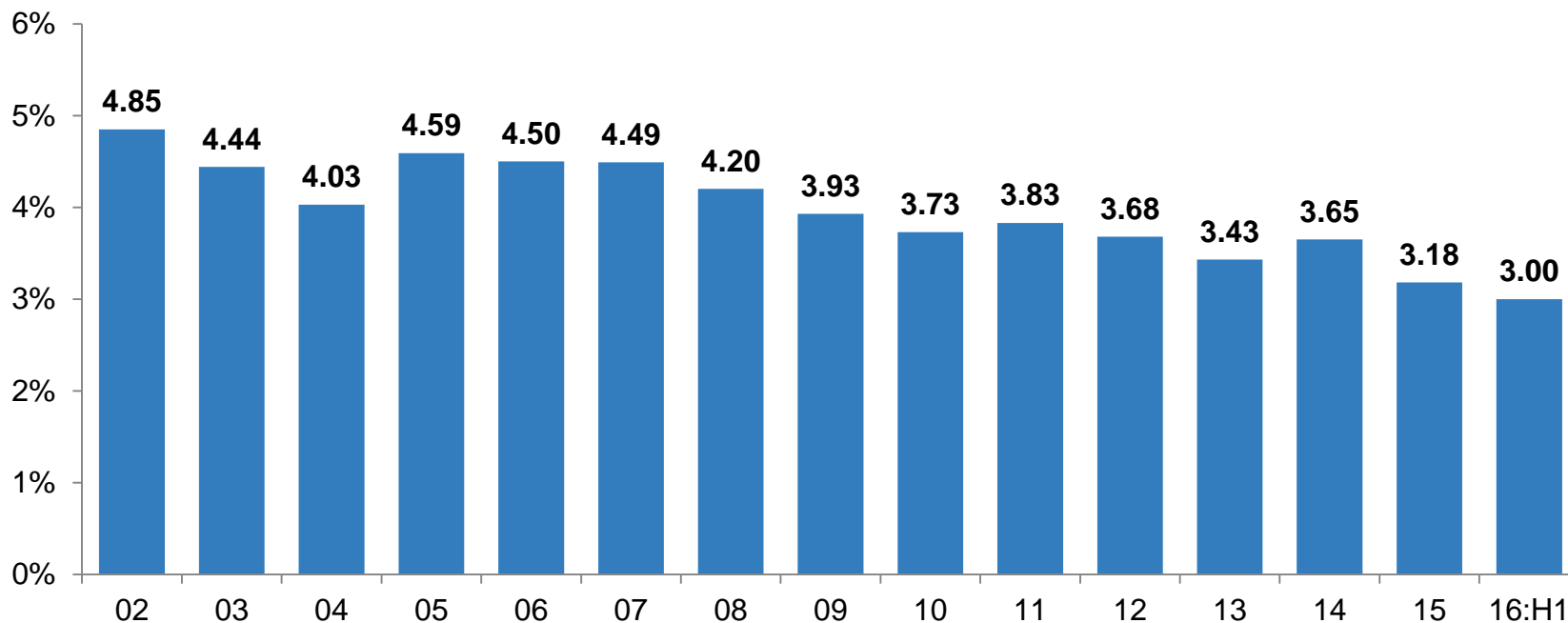
Investments

Investment Performance is a
Key Driver of Profitability

Depressed Yields Will Necessarily
Influence Underwriting & Pricing

P/C Insurer Portfolio Yields, 2002-2016

(Yield on Invested Assets)

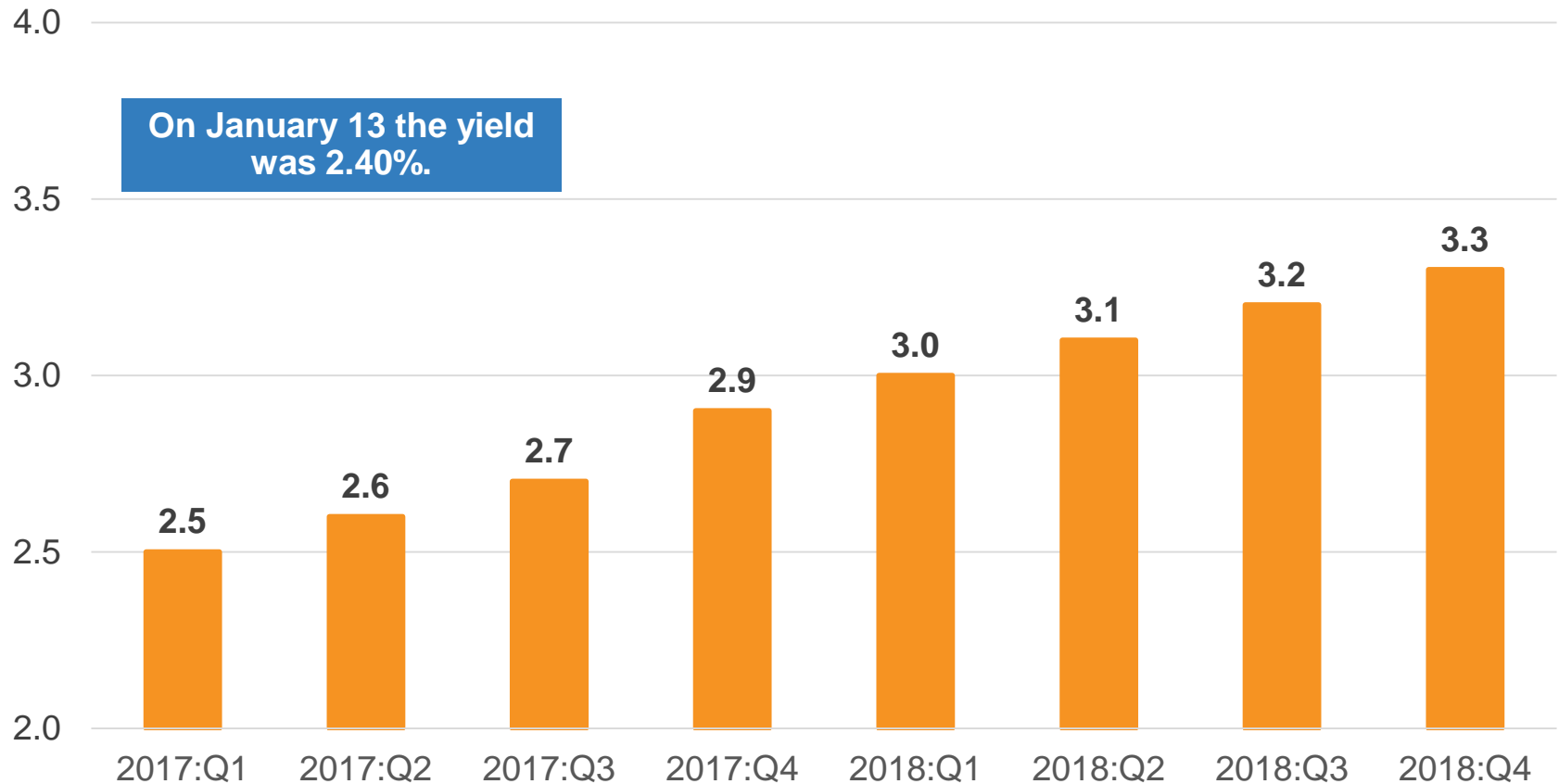


P/C Carrier Yields Have Been Falling for Over a Decade, Reflecting the Long Downtrend in Prevailing Interest Rates.



10-Year Treasury Forecast

Yield (%)



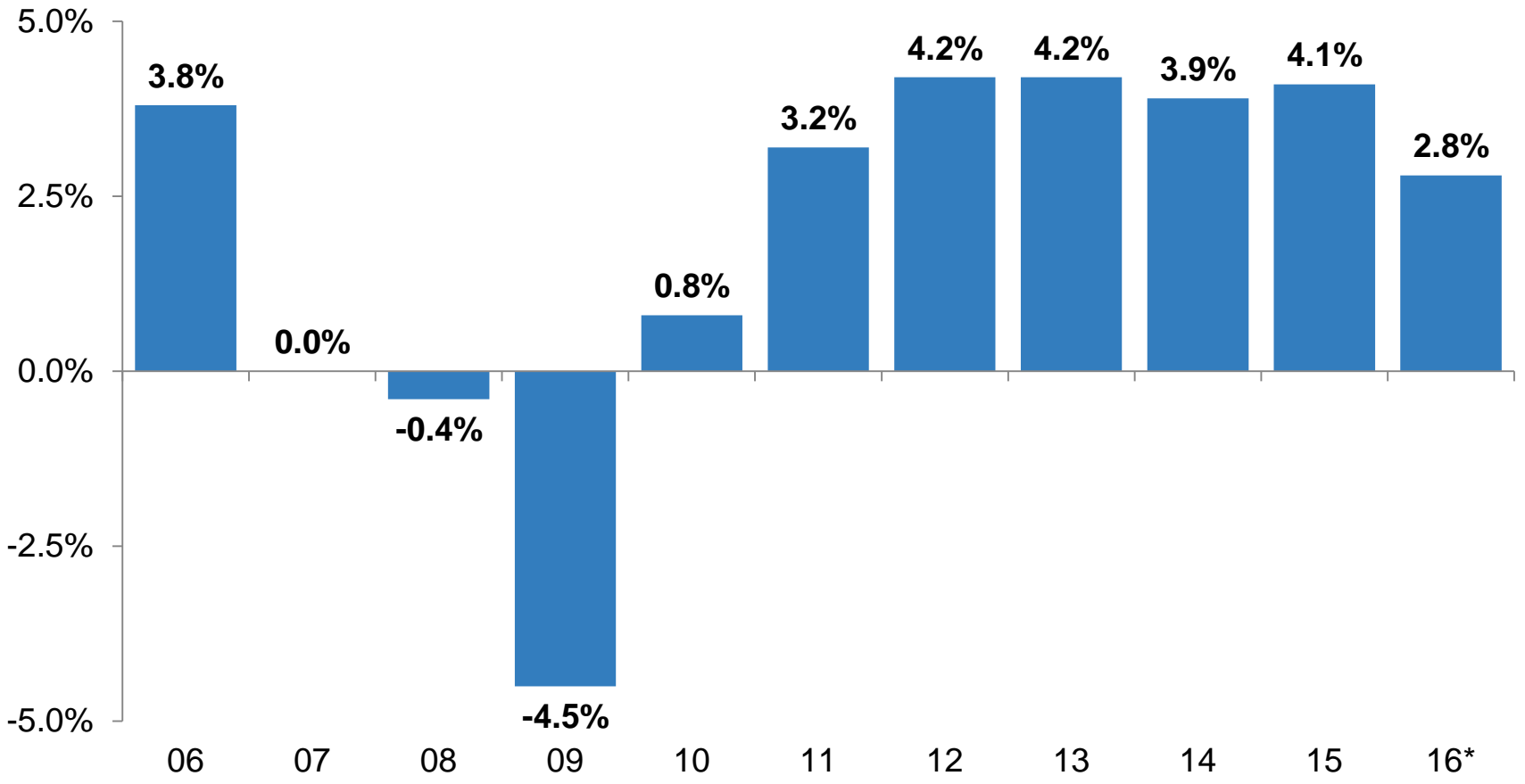
Virtually all of the 53 forecasts in the Blue Chip survey expect continual increases in the yield of long-term bonds in 2017-18.



Sources: Blue Chip Economic Indicators (1/17); Insurance Information Institute

Underwriting Performance

Net Written Premium Growth (All P/C Lines): First Three Quarters, 2006-2016

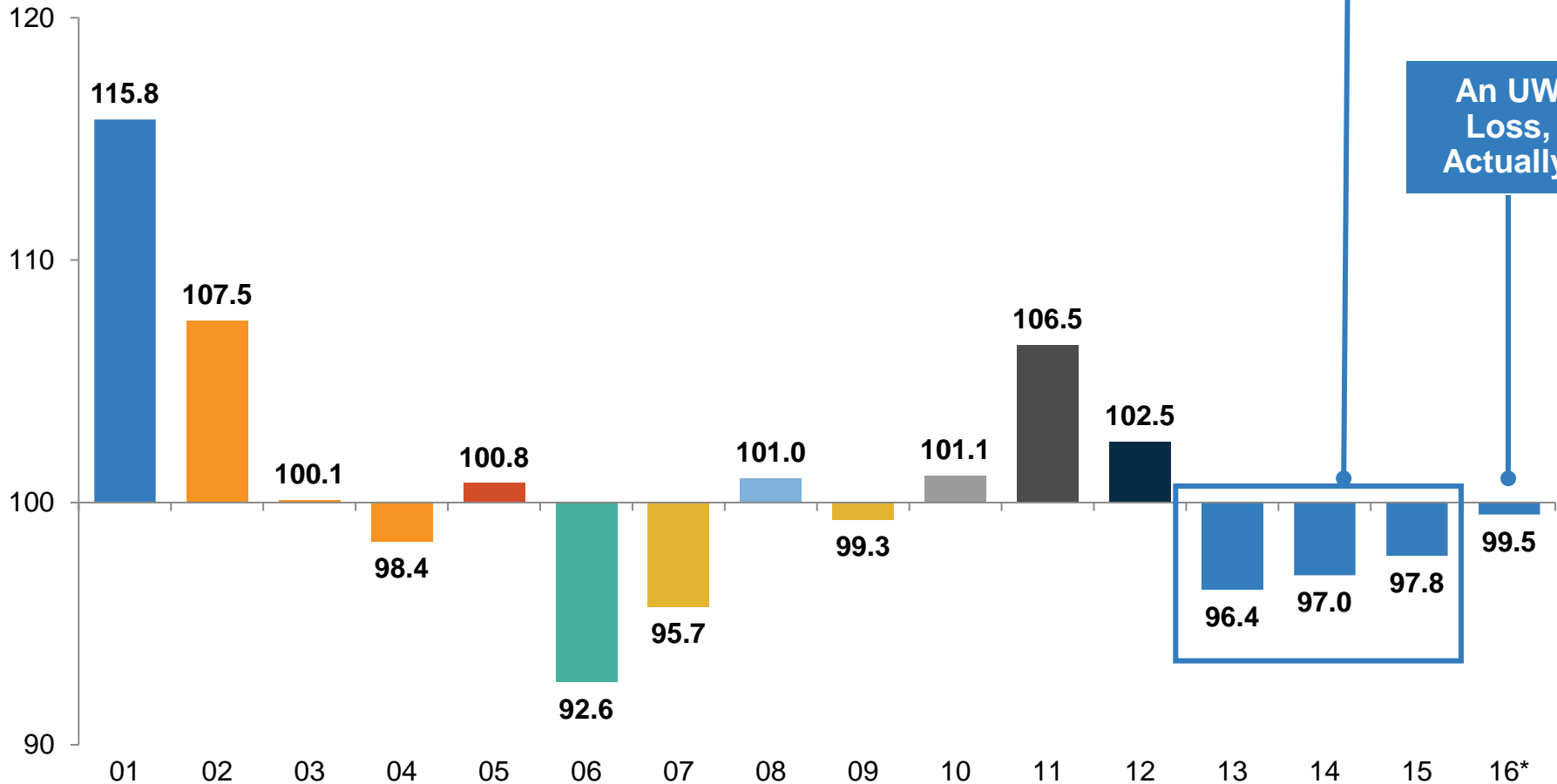


Total Net Written Premiums for the first nine months rose more slowly in 2016 than in any year since 2010.



Sources: A.M. Best (1971-2013), ISO (2014-16).

P/C Insurance Industry Combined Ratio, 2001-2016*

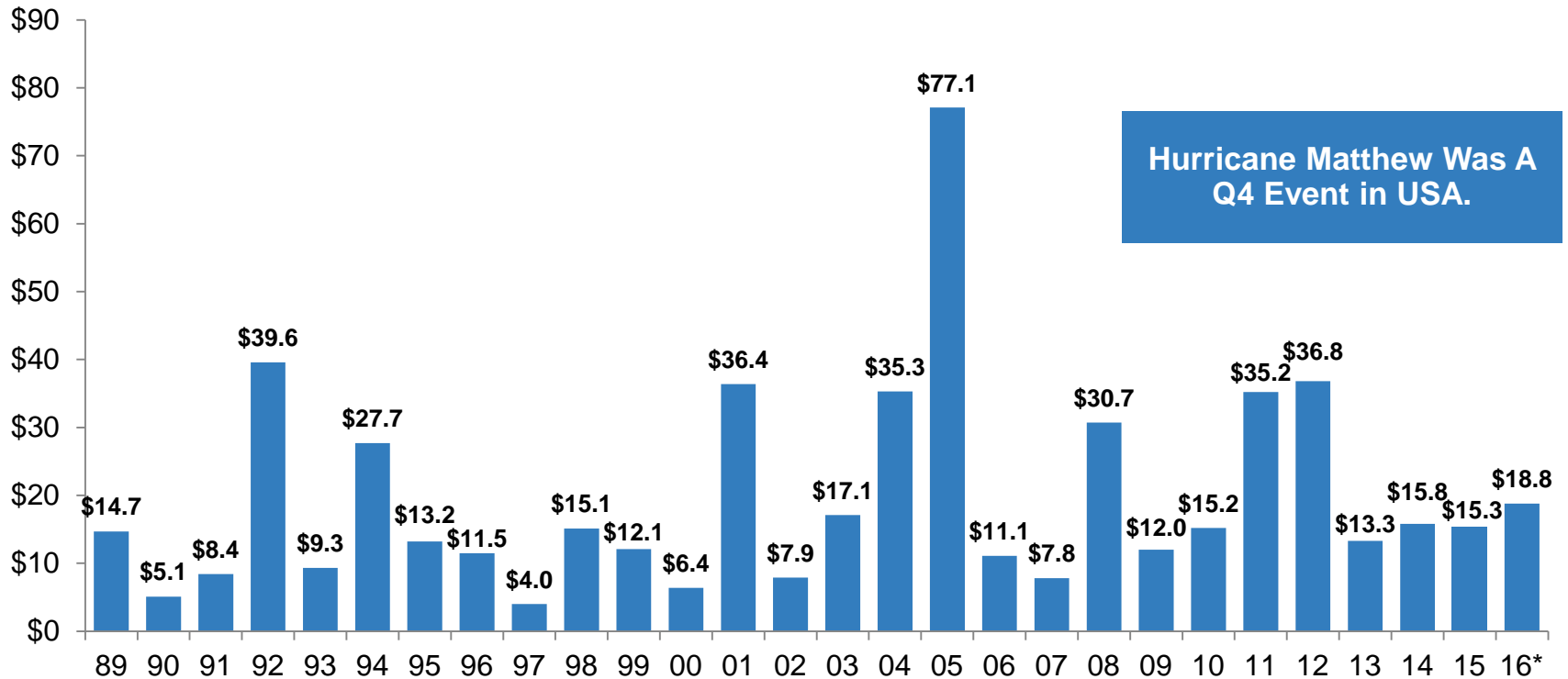


*Excludes Mortgage & Financial Guaranty insurers 2008-2014. 2016 is first nine months including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012:=103.2; 2013: = 96.1; 2014: = 97.0. Sources: A.M. Best; ISO, a Verisk Analytics company; 2010-2015E is from A.M. Best P&C Review and Preview, February 16, 2016.



U.S. Insured Catastrophe Losses

(Billions of Dollars)



Hurricane Matthew Was A Q4 Event in USA.

2013/14/15 Were Welcome Respite from 2011/12, Which Were Among the Costliest Years for Insured Disaster Losses in U.S. History. Longer-term Trend is for More – Not Fewer – Costly Events.

*2016 is first nine months

Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01 (\$25.9B 2011 dollars). Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B (\$15.6B in 2011 dollars).

Sources: Property Claims Service, a Verisk Analytics business; Insurance Information Institute.



P/C Direct Written Premium by Line

(Billions of Dollars)

LOB	2015	2016	% Chg From Year Earlier
Personal Auto Liab	89.5	95.8	7.0%
Homeowners	70.5	72.4	2.6%
Auto PhysDam*	65.8	70.9	7.8%
GL (incl Products)	47.8	49.6	3.6%
WC	42.5	43.6	2.4%
Fire & Allied Lines	30.7	30.1	-2.2%
CMP	29.9	30.1	0.5%
Comm Auto Liab	18.0	19.0	5.2%
Other	47.5	50.3	5.9%
Total	442.4	461.7	4.4%

Commercial/
Personal
Premiums
Are Rising . . .

* Personal (~90+) and Commercial (~10%) combined.

Data through Q3.

Sources: NAIC Data, sourced from S&P Global Market Intelligence, Insurance Information Institute.



P/C Direct Incurred LR by Line

(Billions of Dollars)

LOB	2015	2016	Pt Chg From Year Earlier
Personal Auto Liab	69%	73%	4
Homeowners	53%	55%	2
Auto PhysDam*	63%	68%	5
GL (incl Products)	52%	53%	1
WC	58%	55%	(3)
Fire & Allied Lines	57%	64%	7
CMP	47%	50%	3
Comm Auto Liab	65%	67%	2
Other	42%	45%	3
Total	57%	60%	3

But Not Fast Enough...

* Personal (~90+) and Commercial (~10%) combined.

Data through Q3.

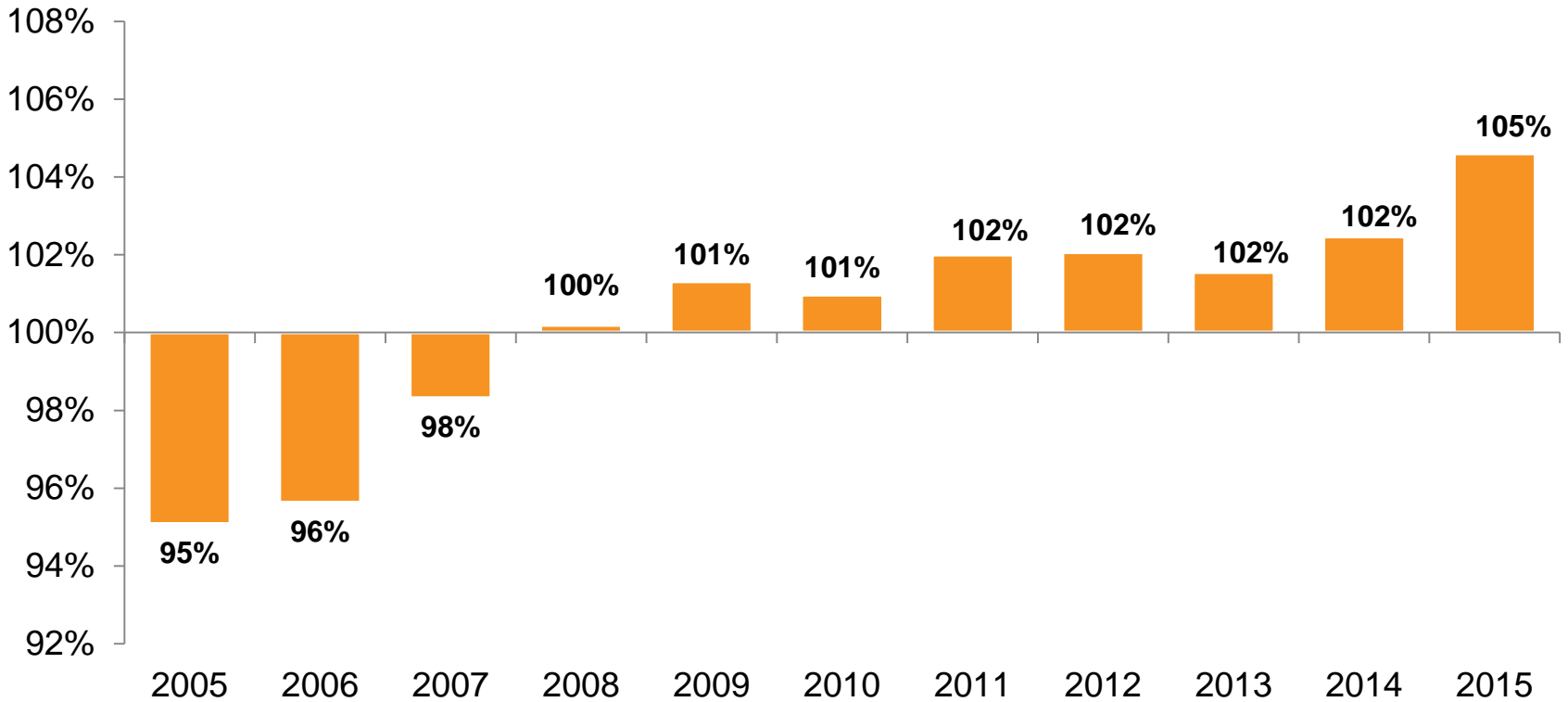
Sources: NAIC Data, sourced from S&P Global Market Intelligence, Insurance Information Institute.



Personal Auto

Rising Frequency, Severity Pinching
the Largest P/C Line

Personal Auto Net Combined Ratio, 2005-2015



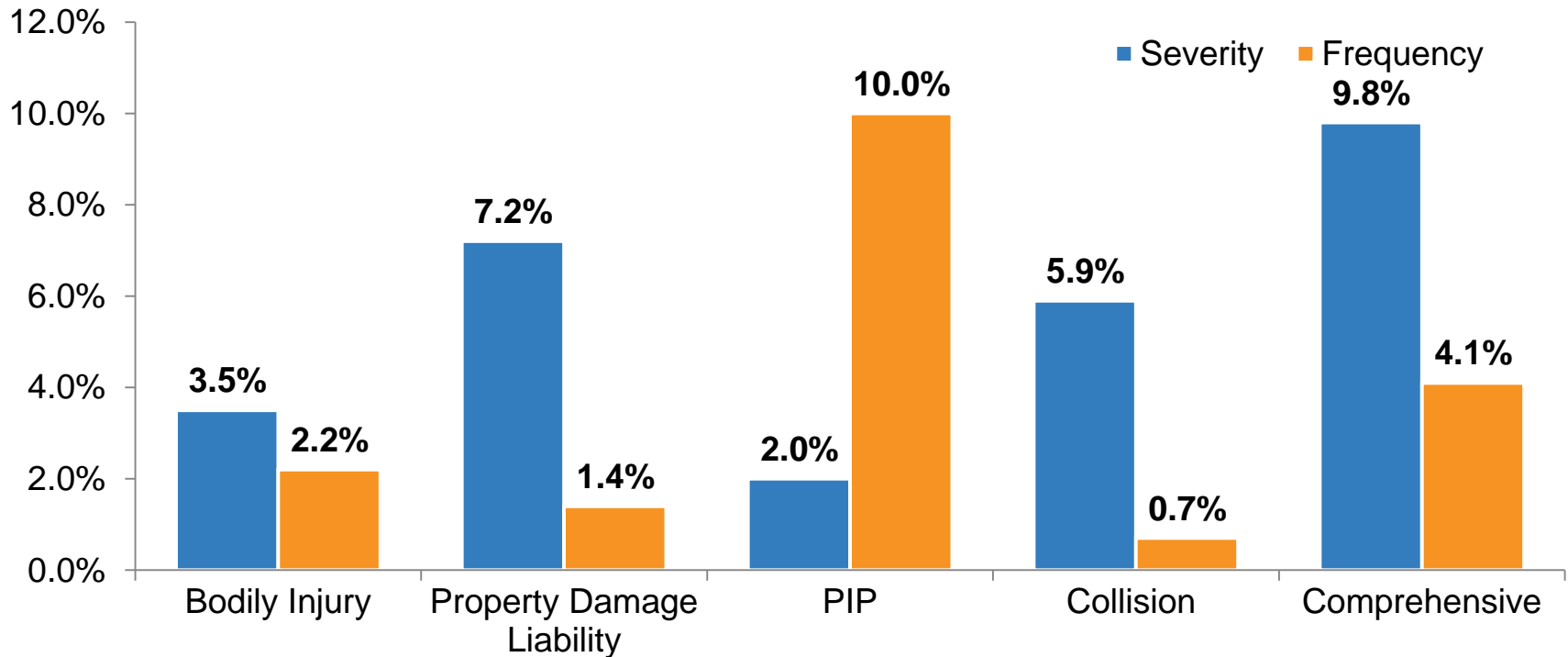
**Loss Ratios Have Been Rising for a Decade.
2015 Return on Net Worth is Likely Close to Zero or Negative.**



Source: National Association of Insurance Commissioners data, sourced from S&P Global Market Intelligence; Insurance Information Institute.

Why Personal Auto Loss Ratios are Rising: Severity & Frequency by Coverage, 2016 vs. 2015

Annual Change, 2016 Over 2015*



Significant Increases Across All Personal Coverage Types in 2016, Following Similar Patterns in 2014 and 2015.



*Four quarters ending in June.

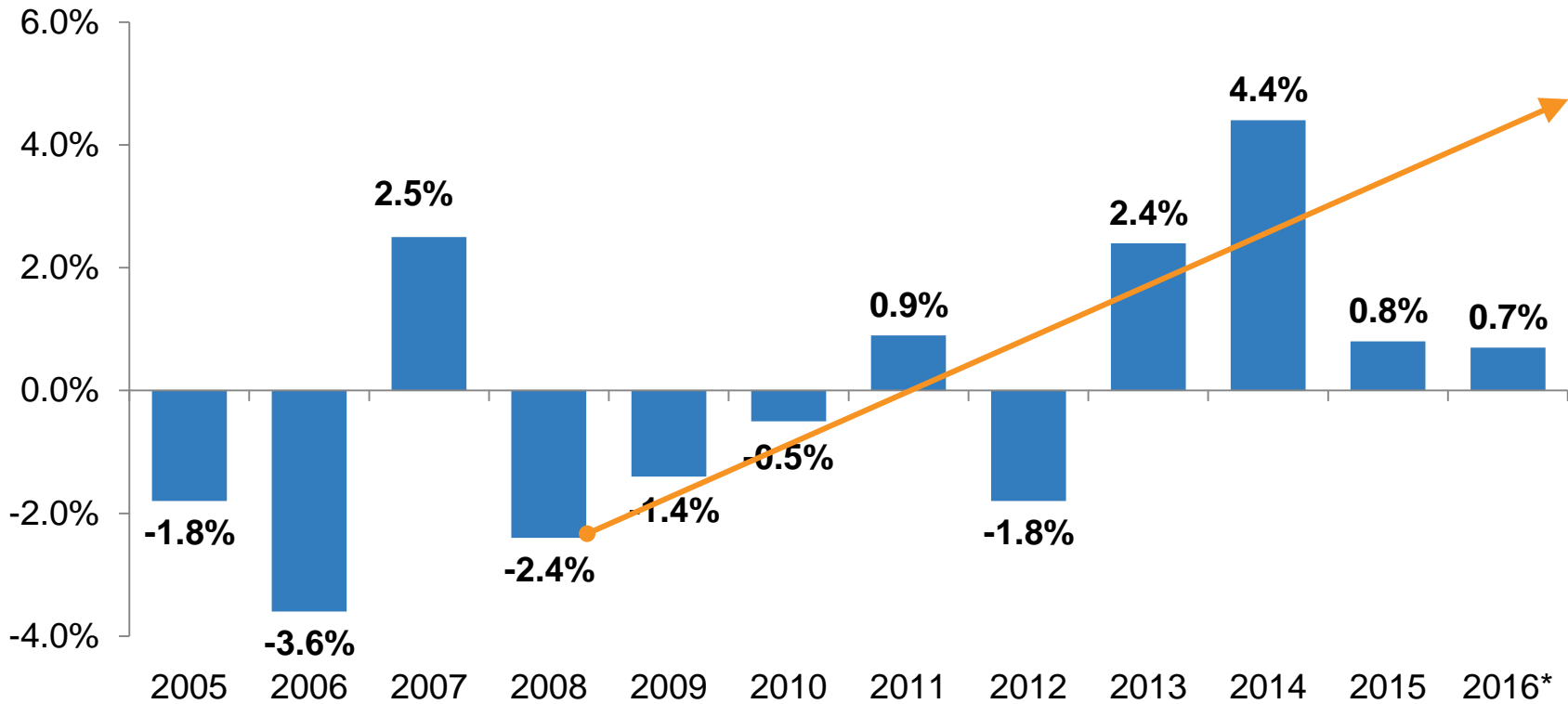
Source: ISO, a Verisk Analytics company; Insurance Information Institute.

Claim Trends by Coverage

Focus on Collision

Collision Claims: Frequency Trending Higher in 2010s

Annual Change, 2005 through 2016



For a Long Time, Claim Frequency Was Falling, But Since 2010 This Trend Seems to Have Reversed.

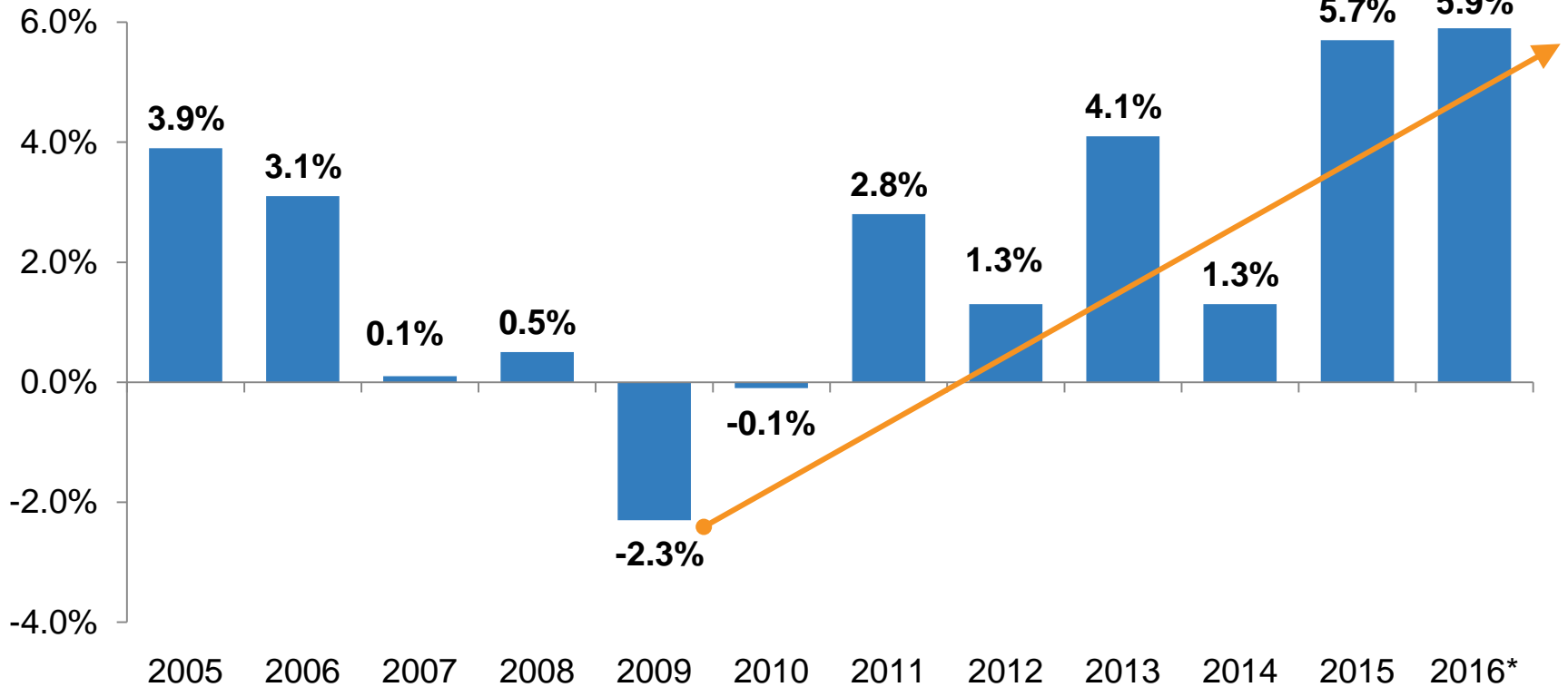


*Four Quarters Ending in June.

Source: ISO, a Verisk Analytics company; Insurance Information Institute.

Collision Claims: Severity Trending Higher in 2009-2016

Annual Change, 2005 through 2016



The Great Recession and High Fuel Prices Helped to Temper Claim Severity, But These forces Have Clearly Reversed, Consistent with Experience from Past Recoveries.



*Four Quarters Ended in June.

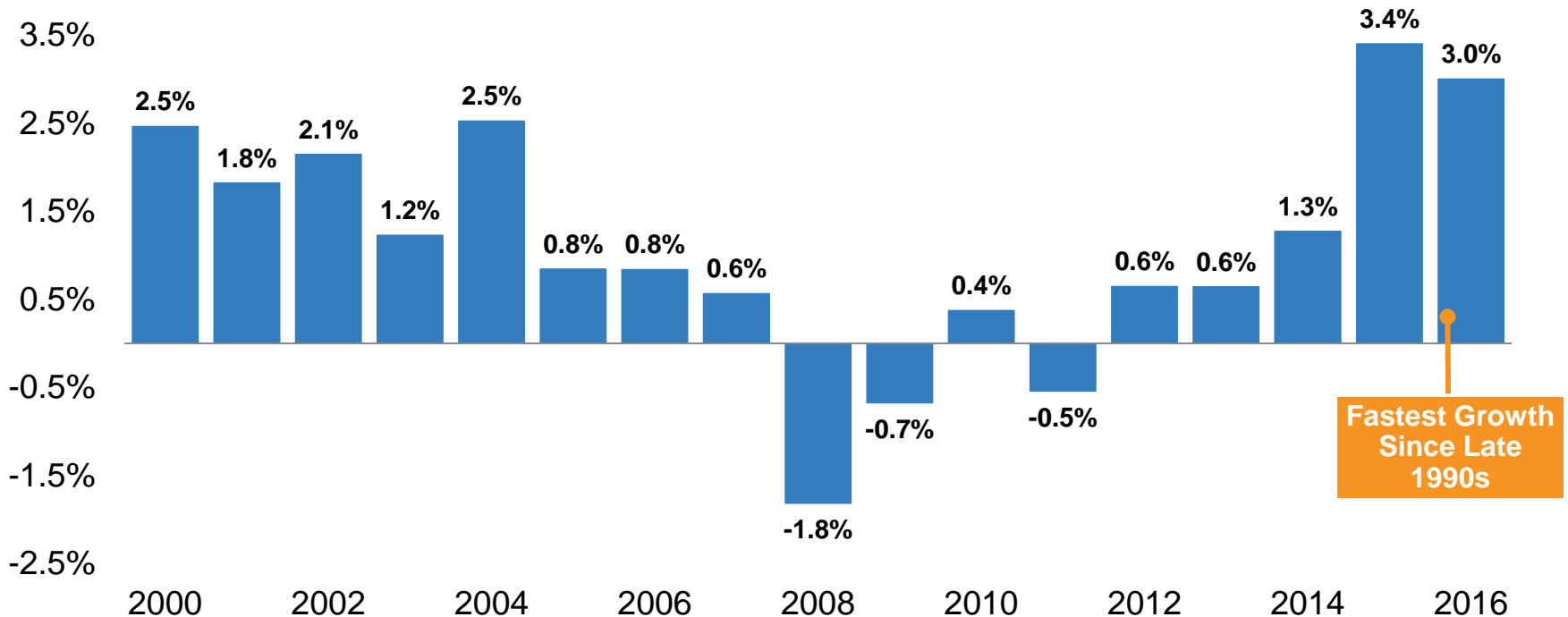
Source: ISO, a Verisk Analytics company; Insurance Information Institute.

What's Driving These Trends?

Frequency; Severity; Distraction?

America is Driving More Again: 2000-2016

Percent Change, Miles Driven*



Tremendous Growth In Miles Driven. The More People Drive, The More Frequently They Get Into Accidents.

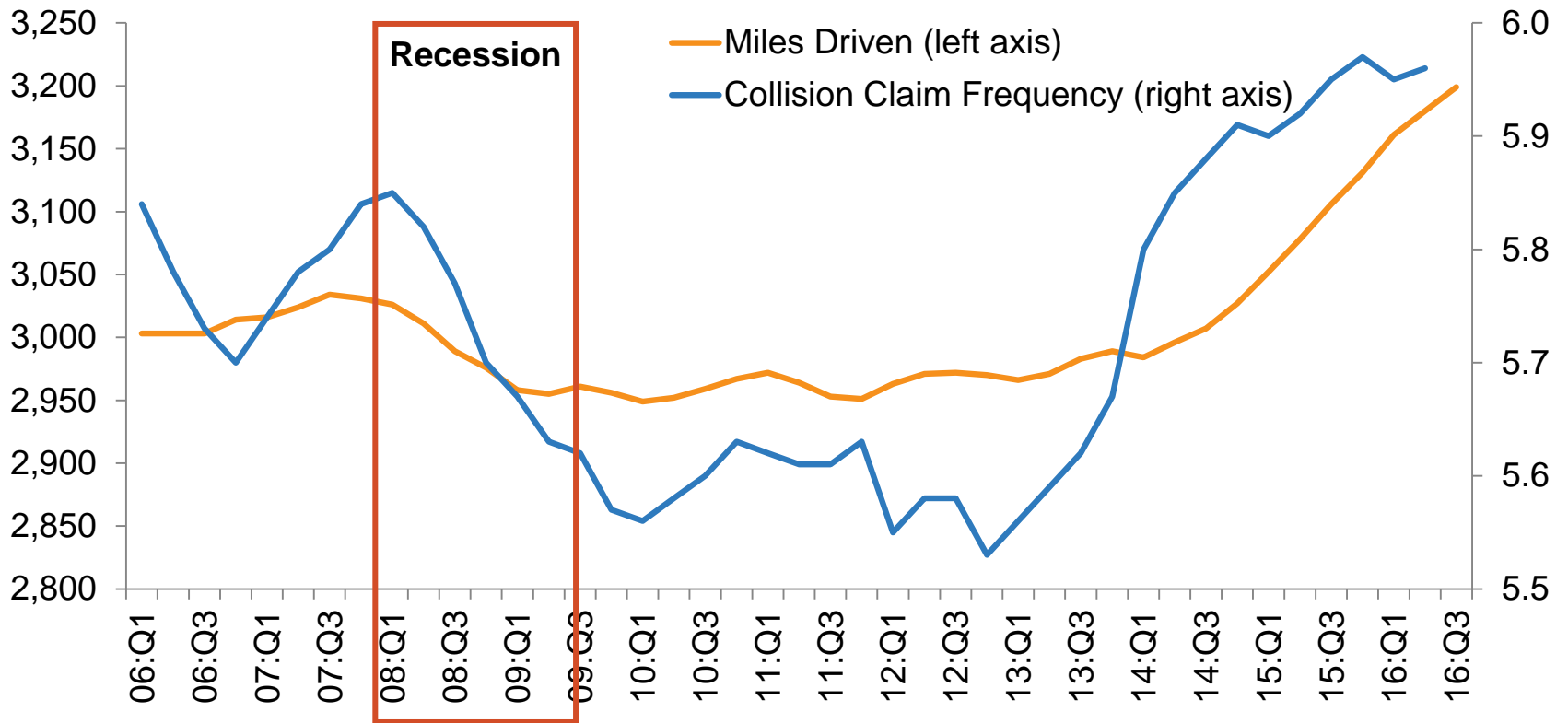


*2000-2015: Moving 12-month total vs. prior year. 2016 data through September 2016, the latest available, vs. September 2015. Sources: [Federal Highway Administration](#); National Bureau of Economic Research (recession dates); Insurance Information Institute.

More Miles Driven => More Collisions, 2006-2016

Billions of Miles Driven in Prior Year

Overall Collision Claims Per 100 Insured Vehicles



The More Miles People Drive, the More Likely They are to Get in an Accident, Helping Drive Claim Frequency Higher.

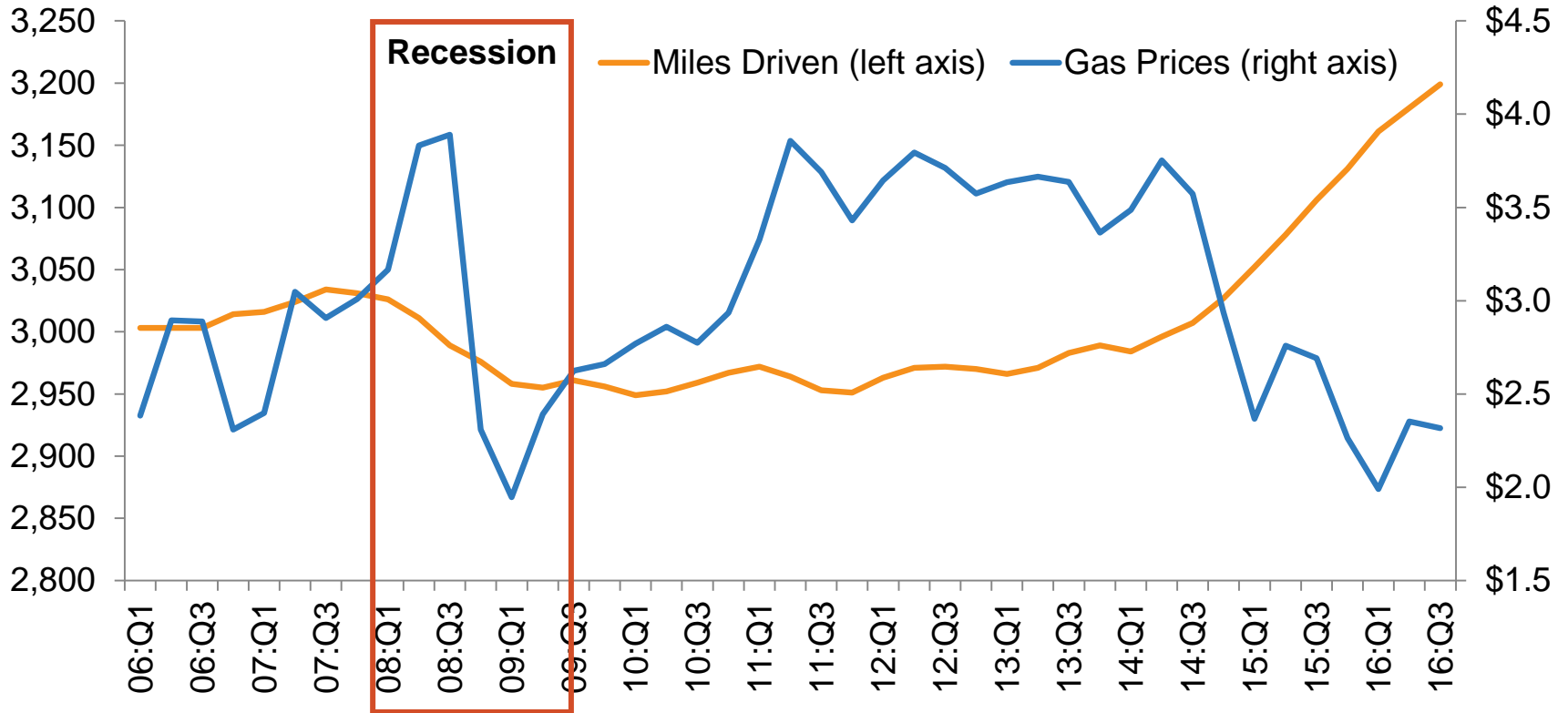


Sources: [Federal Highway Administration](#); Rolling four-quarter average frequency from ISO, a Verisk Analytics company; Insurance Institute for Highway Safety; Insurance Information Institute.

Why Are People Driving More Miles? Cheap Gas?

Billions of Miles Driven in Prior Year

Average Price Per Gallon



Gas Prices Don't Seem Correlated With Miles Driven.

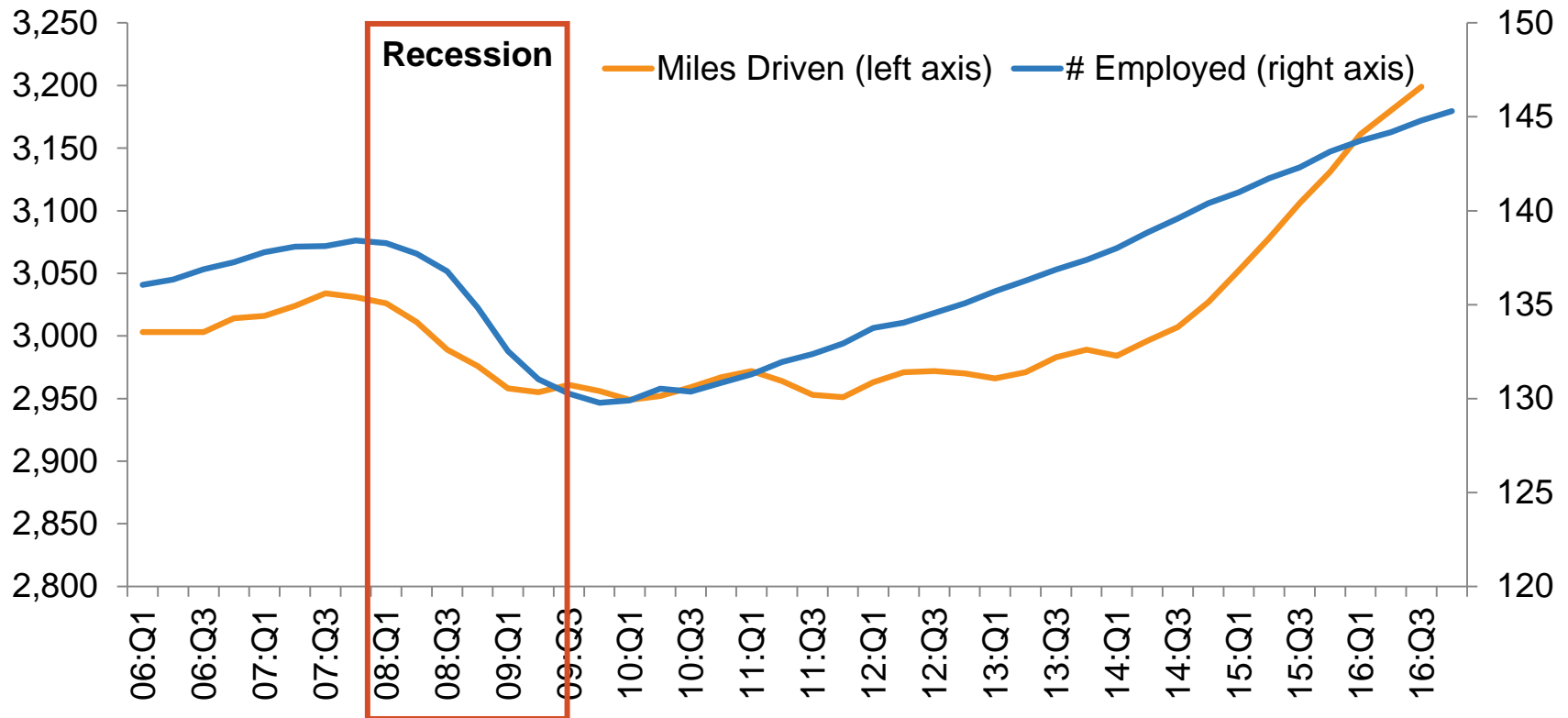


Sources: [Federal Highway Administration](#); [Energy Information Administration](#) (All Grades All Formulations Retail Gas Prices); Insurance Institute for Highway Safety; Insurance Information Institute.

Why Are People Driving More Miles? Jobs?

Billions of Miles Driven in Prior Year

Millions Employed



**People Drive to and from Work and Drive to Entertainment.
Out of Work, They Curtail Their Movement.**

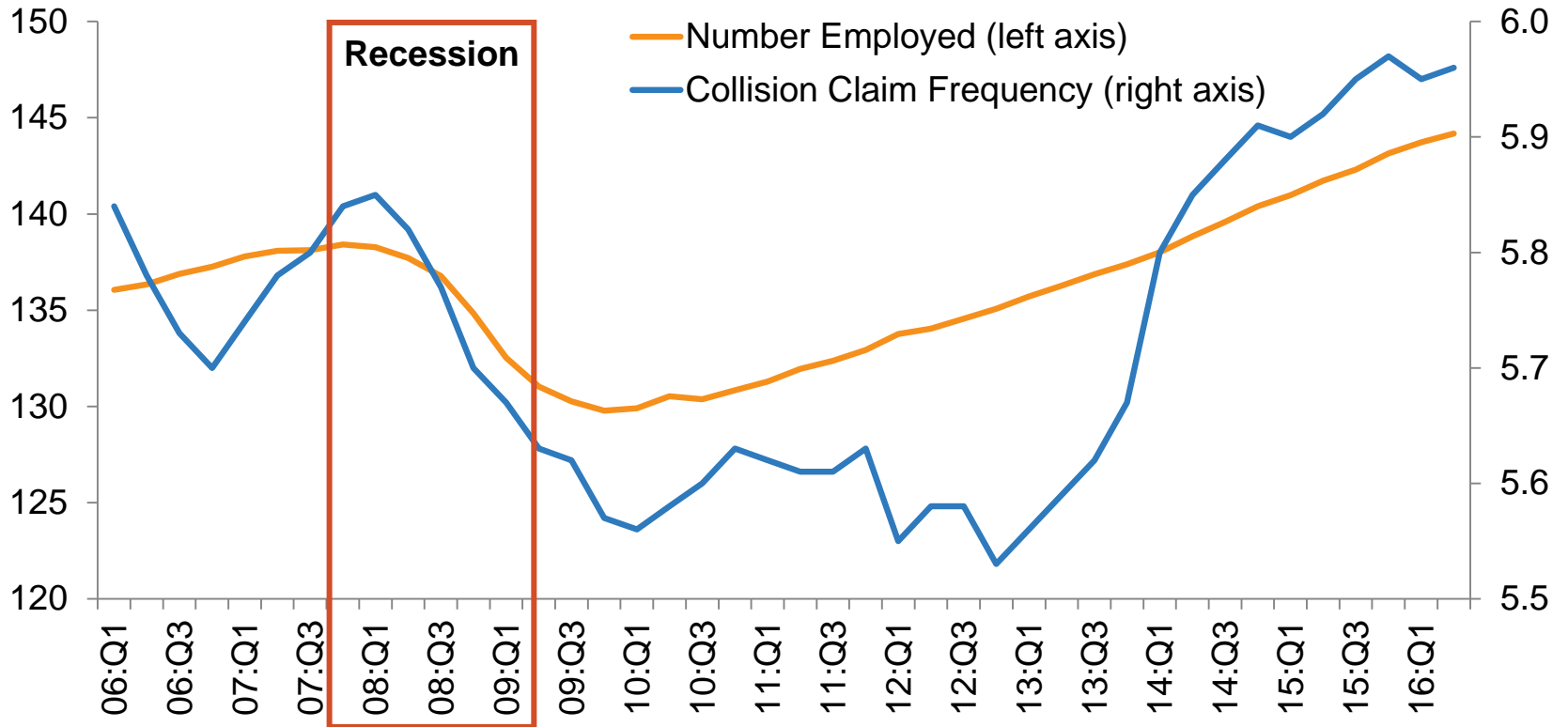


Sources: [Federal Highway Administration](#); Seasonally Adjusted Employed from Bureau of Labor Statistics via [FRED](#); Insurance Institute for Highway Safety; Insurance Information Institute.

More People Working and Driving => More Collisions, 2006-2016

Number Employed, Millions

Overall Collision Claims Per 100 Insured Vehicles



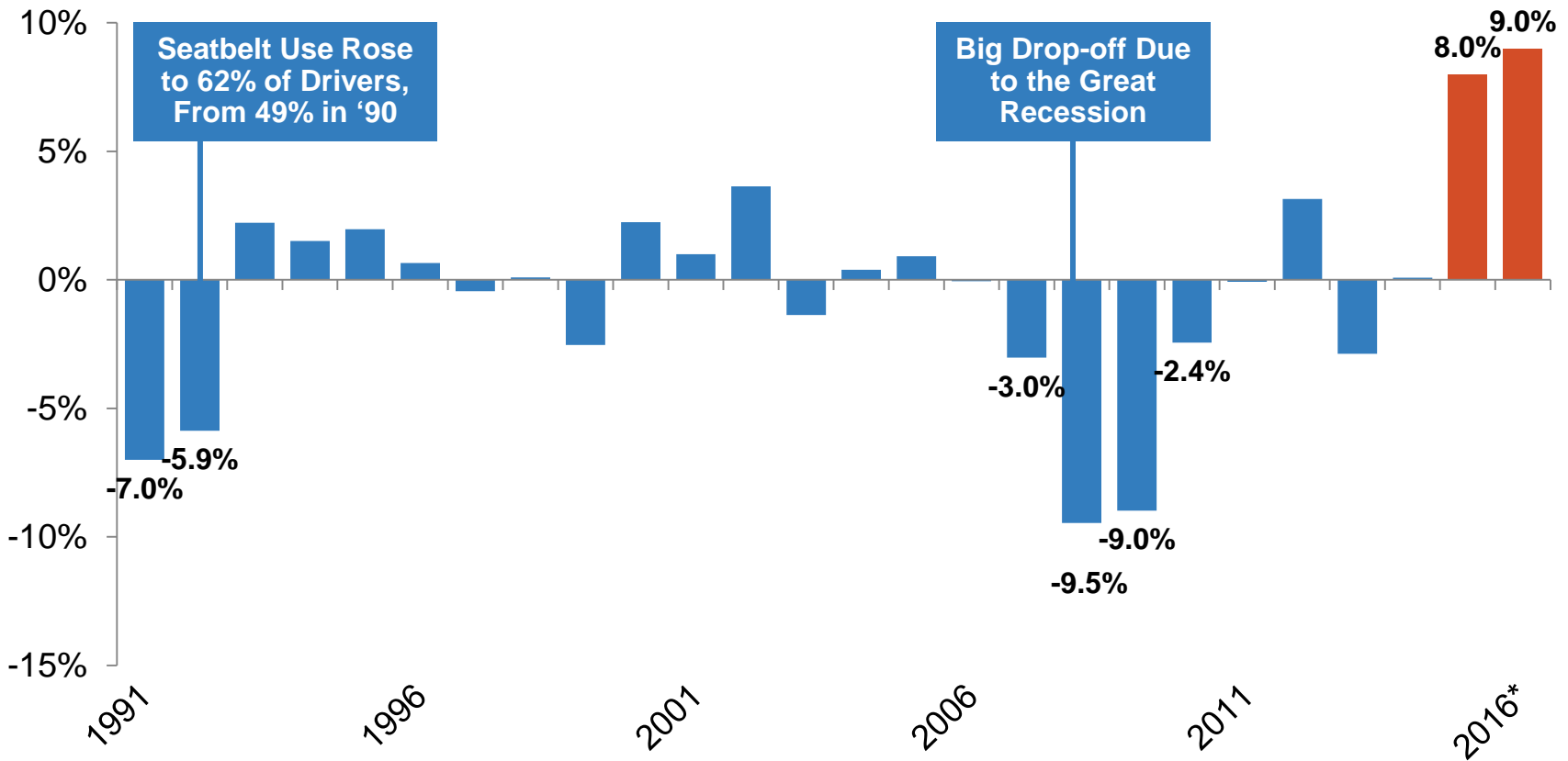
When People are Out of Work, They Drive Less. When They Get Jobs, They Drive to Work, Helping Drive Claim Frequency Higher.



Sources: Seasonally Adjusted Employed from Bureau of Labor Statistics; Rolling four-quarter average frequency from ISO, a Verisk Analytics company; Insurance Information Institute.

Severity: Driving Fatalities are Rising

Annual Change in Motor Vehicle Deaths



Driving Has Been Getting Safer for Decades, But Recent Trend is Discouraging—38,300 Deaths in 2015.

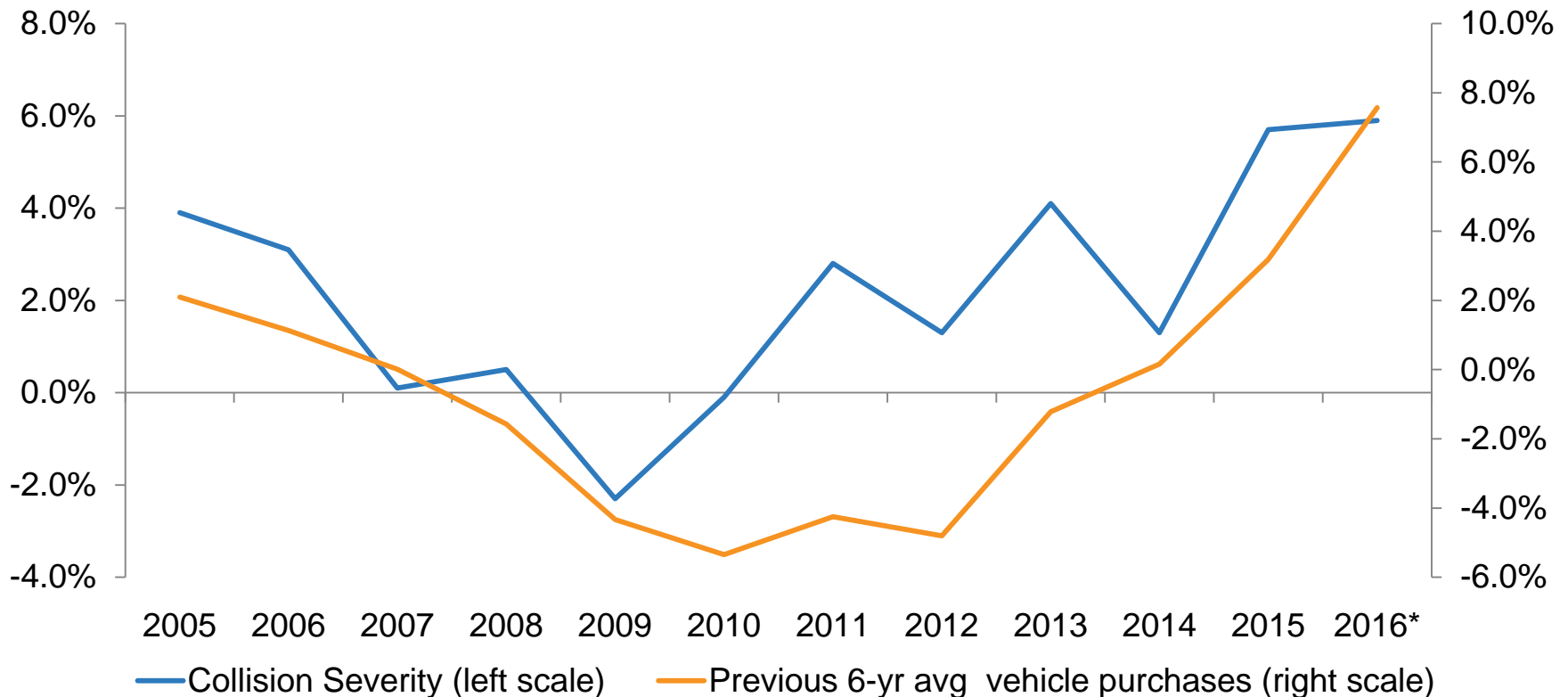


* Through June

Sources: National Safety Council, Insurance Information Institute.

Does Spending on Vehicles Affect Claim Severity?

Annual Change, 2005 through 2016



As the Economy Has Gotten Better, People Are Spending More on Vehicles – When Those Cars Wreck, Severity Increases.

* Claim Frequency Through Second Quarter.

Source: ISO, a Verisk Analytics company; Bureau of Labor Statistics Consumer Expenditure Survey (vehicle purchases – net outlay) Insurance Information Institute.

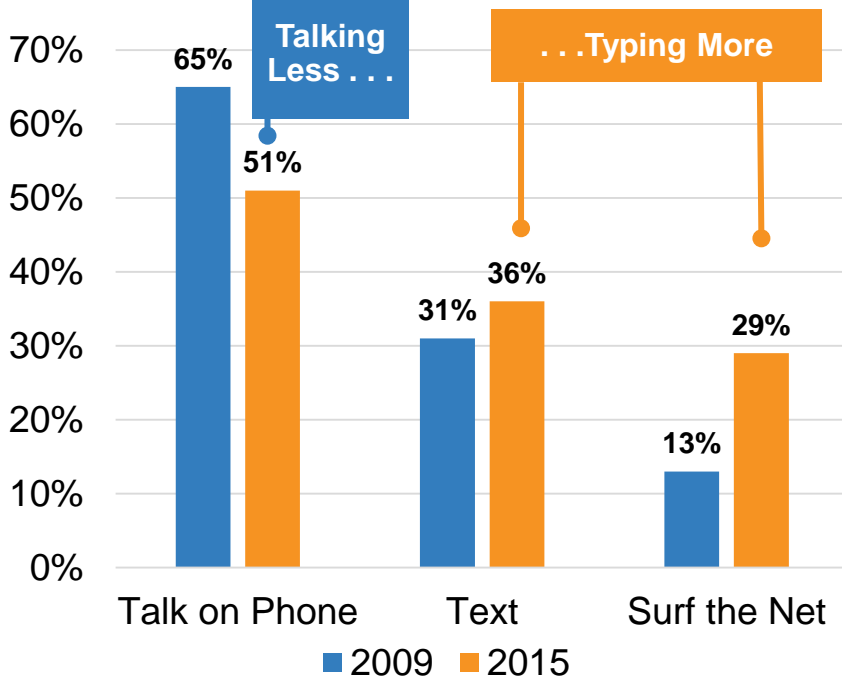


What About Distractions?

It's A Problem. Is It Growing?

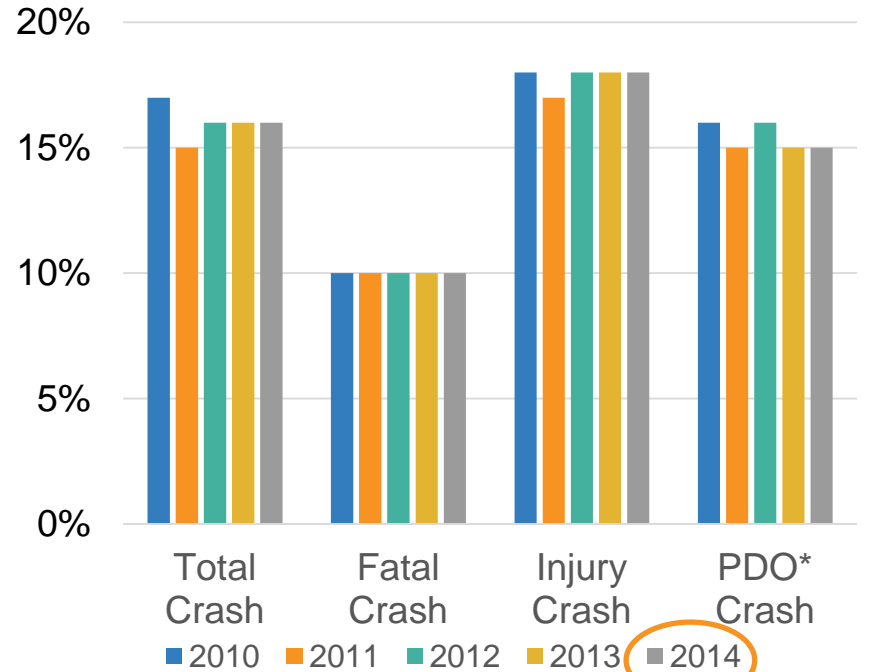
What We Do Behind The Wheel

Percentage of Drivers Who . . .



But Impact Is Not Clear

Percentage of Crashes Involving Distraction



Most Recent Year



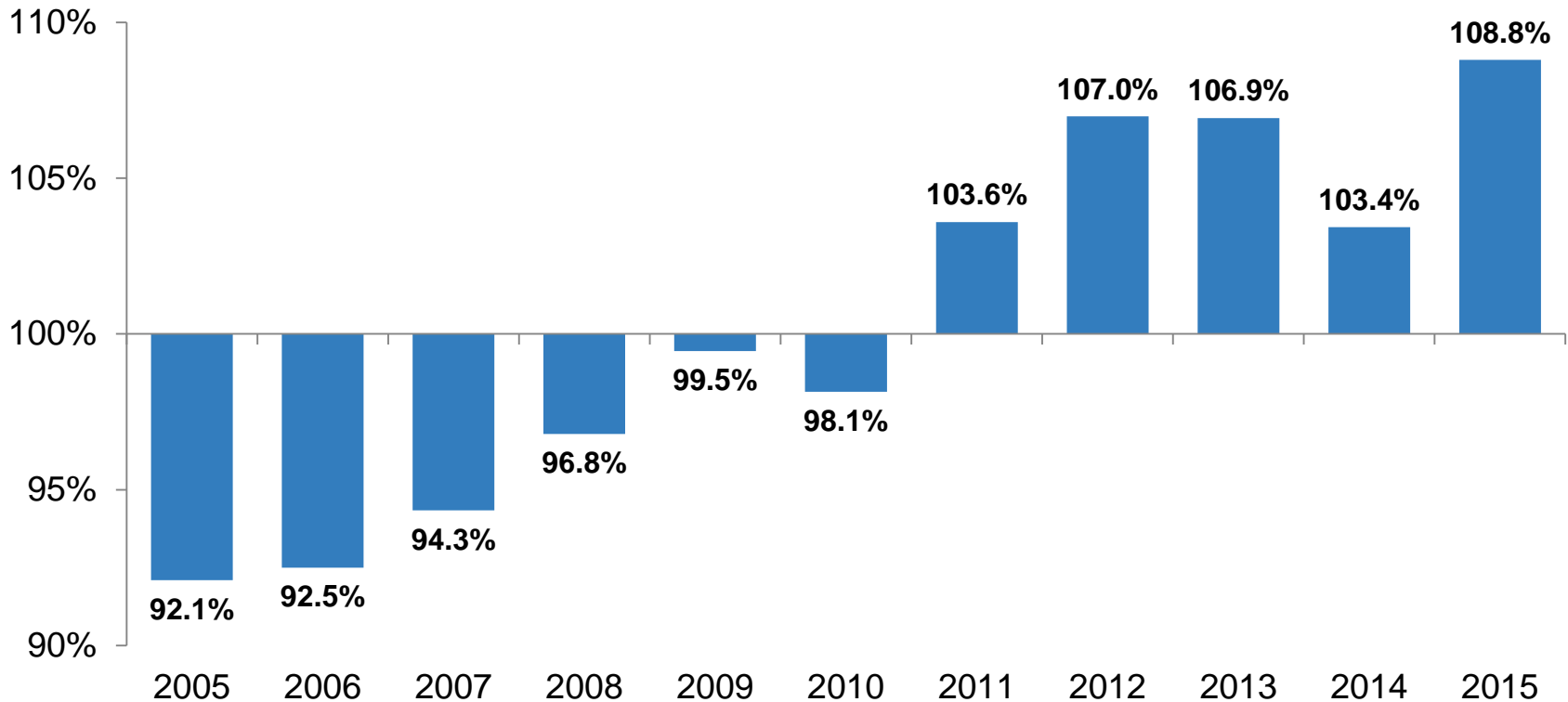
* Property Damage Only.

SOURCES: State Farm, National Highway Transportation Safety Administration (distraction.gov)

Commercial Auto

The Long Burn

Comm Auto Net Combined Ratio, 2005-2015

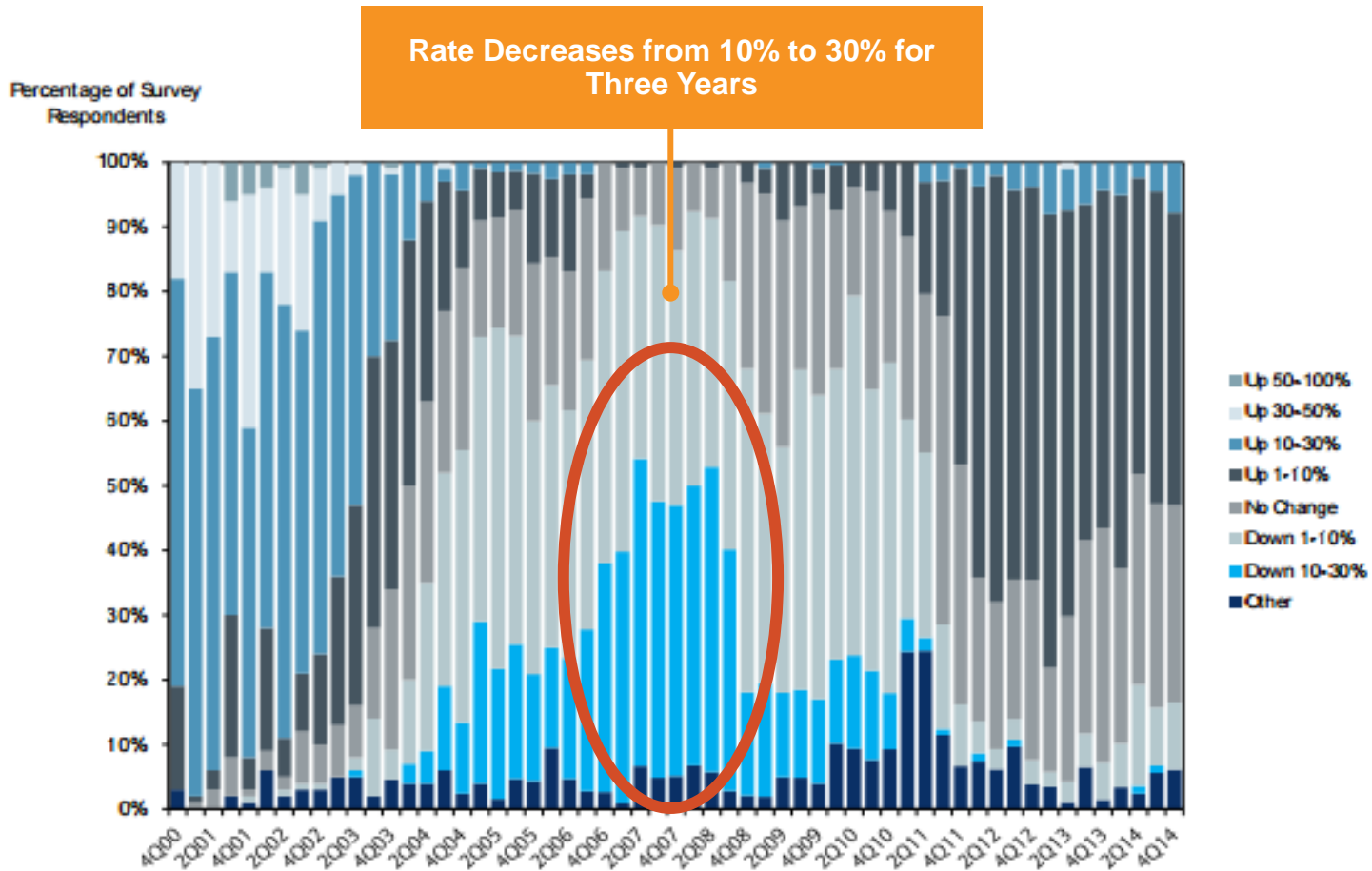


**Loss Ratios Have Been Rising for a Decade.
2015 Return on Net Worth is Likely Close to Zero or Negative.**



Source: National Association of Insurance Commissioners data, sourced from S&P Global Market Intelligence; Insurance Information Institute.

Soft Market: 2006 to 2008

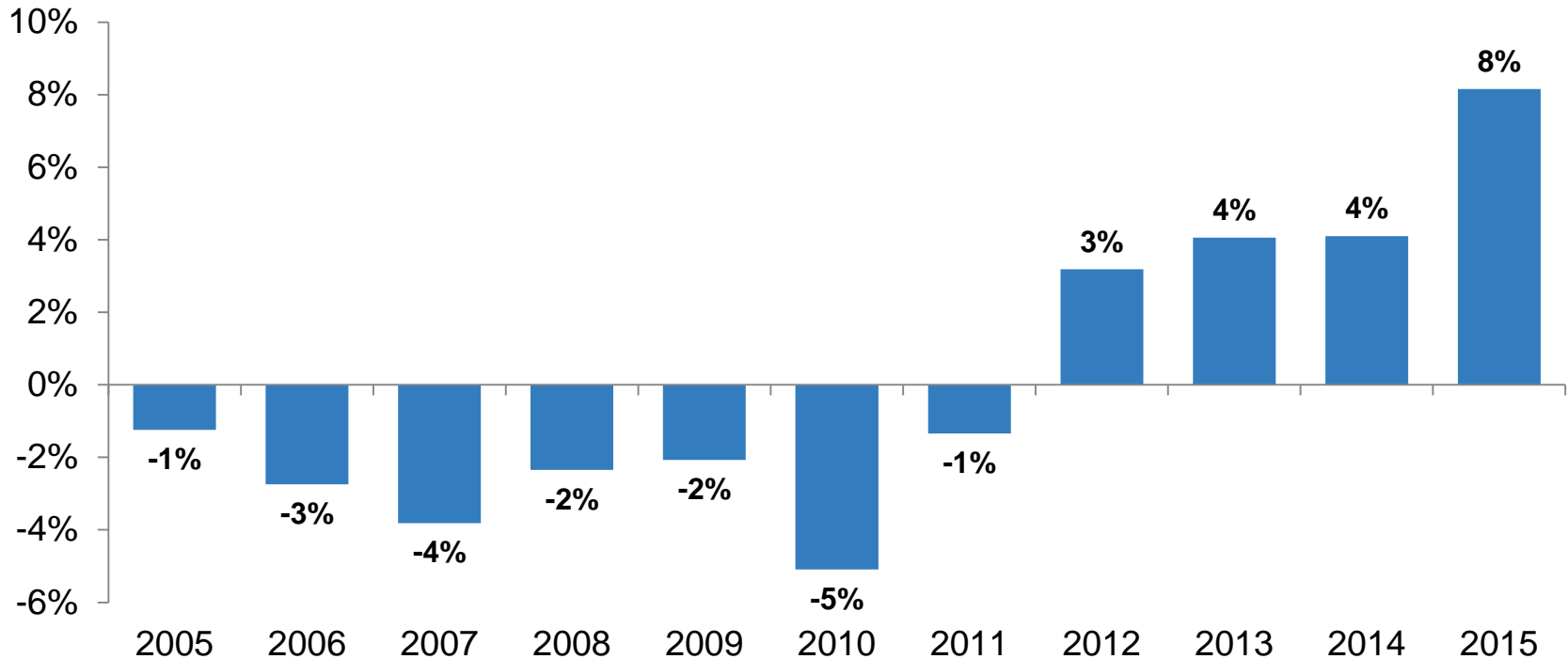


Source: The Council of Insurance Agents & Brokers. Chart prepared by Barclays Research.



Comm Auto Liab Development, 2005-2015

(Development on Prior as % of NEP)



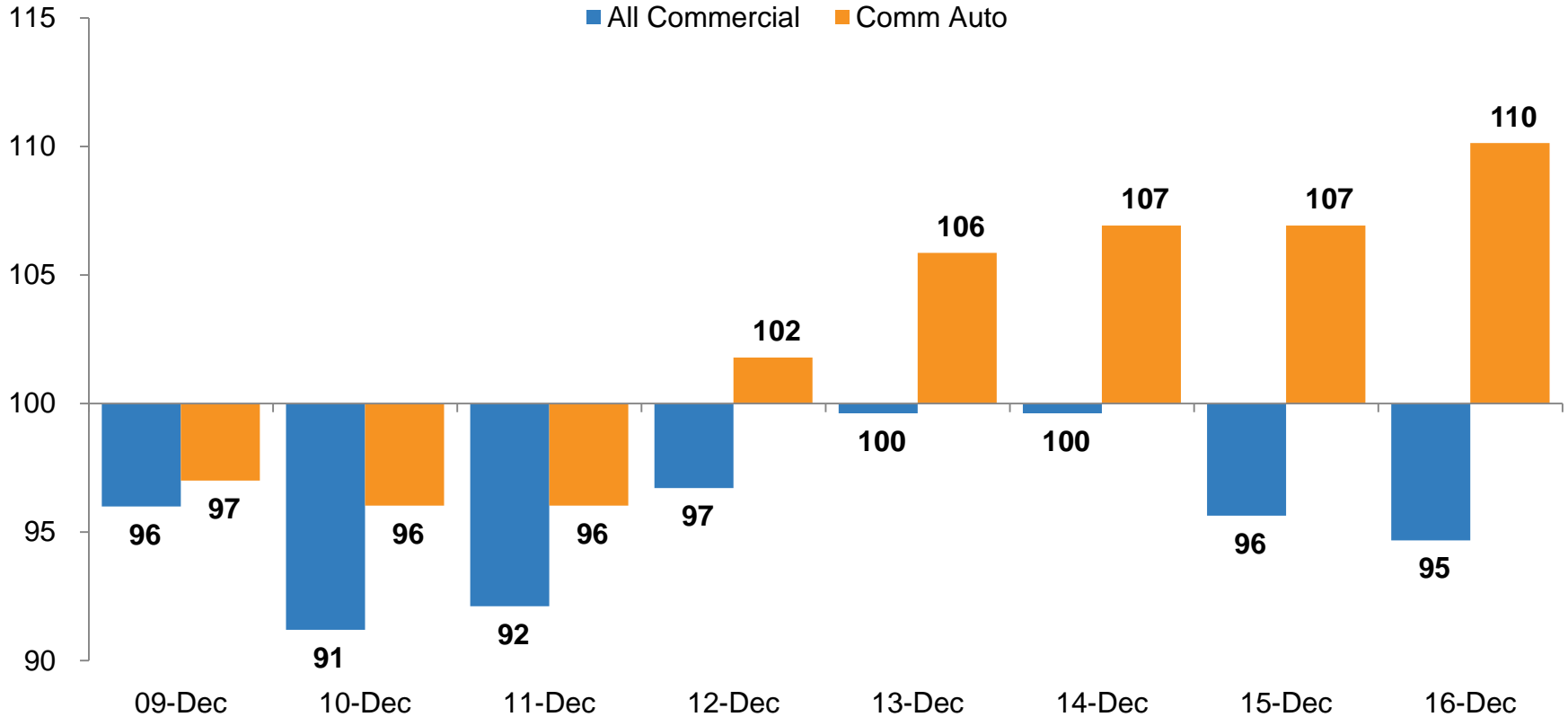
Insurers Have Struggled to Estimate Loss Reserves.



Source: National Association of Insurance Commissioners data, sourced from S&P Global Market Intelligence; Insurance Information Institute.

Commercial Auto Rates Since Late 2008

(Rate Index: December 2008 = 100)



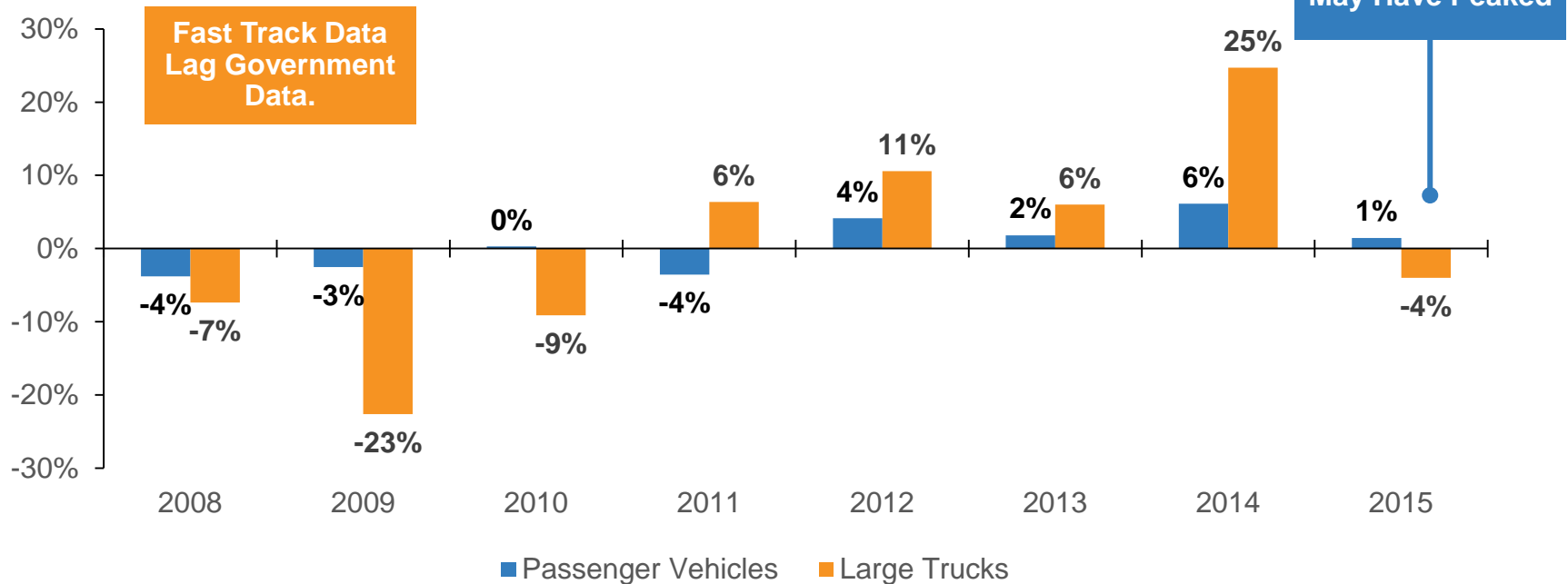
Commercial Auto Rates Fell Less in Soft Cycle and Have Risen More Than Overall Property/Casualty Market.



Sources: MarketScout, Insurance Information Institute.

Vehicles in Crashes Per 100 Registered Vehicles (Government Data)

(% Change From Year Earlier)



Commercial Auto Claim Frequency Began Growing Before Personal Auto.

Trucking Trends

▲ Driver Shortage

- ◆ Laid-off Drivers Aren't Returning
- ◆ Older, Inexperienced Drivers Entering Force
- ◆ High Turnover Exacerbates Problem

▲ 'Super Lawyers'

- ◆ Moving From Products into Trucking
 - Allege “Insured Indifference to Safety”
 - Lots of Data
 - Cases Settle Faster



Summary

- ▲ The industry has posted a modest underwriting loss through Q3.
- ▲ Interest rates may be climbing a bit, but investment income will continue to lag prior years.
- ▲ Personal auto costs are rising (both frequency and severity), linked closely to the improving economy.
- ▲ Commercial auto results continue to vex the industry.





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Thank you for your time
and your attention!

Read our auto [White Paper](#) on Rising Personal Auto Costs at
www.iii.org