P/C Experts: Costs, Auto ‘Explosion’ Largely Beyond Regulators’ Control

- By Timothy Darragh
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KANSAS CITY, Mo. //BestWire// - After receiving a presentation outlining a world economy that is driving up property/casualty insurers’ costs at extraordinary rates, regulators at the National Association of Insurance Commissioners’ Spring National Meeting were left wondering what they could do.

Robert Hartwig

The truth, said Robert Hartwig, clinical associate professor of finance in the Moore School of Business at the University of South Carolina, is not much.

“Some of the things are completely beyond your control,” Hartwig said at a meeting of the NAIC’s P/C committee.

Hartwig had just completed a presentation showing that inflation, driven by supply chain issues, COVID-19 shutting down manufacturing plants, shortages of skilled workers and Russia’s war on Ukraine, is behind concerning trends for automobile and homeowners insurers. Piling on to that is what Hartwig called an “explosion” of severe auto accidents and injuries that first showed up as the pandemic took hold in 2020.

“They seem to be making up for the accident they didn’t have during COVID,” Hartwig said of the newest bunch of careless drivers.

To that point, one regulator said insurance departments could help by increasing educational efforts to warn motorists about the risks of aggressive and distracted driving.

Susanna Gotsch of CCC Intelligent Solutions, an auto analytics firm, said data show severity of auto accidents continues to rise, as more higher speed crashes occur.

Vehicle repair costs are up 9.2% from 2020 to 2021, the largest increase CCC has seen since it began collecting data in 1997, she said.

That is partially because of supply chain issues, but also because vehicles are technologically more complex, she said.

The good news is that much of that technology, such as lane drifting warnings and automatic braking, will save lives, Hartwig said.

But even that comes with a caveat, Gotsch said. Some of these technologies have been shown to increase driver distraction.

In addition, the savings of accident prevention or mitigation do not necessarily translate into lower premiums, Hartwig said, as these technology costs are "sticky," meaning the rate of growth in cost will slow down, but the price won't eventually go back down.

Many of the same dynamics are true for homeowners insurance as well, he said. Lumber and wood products to build or rebuild homes surged to a peak last June, but they still remain 62% higher than they were pre-pandemic, he said. Some of the largest natural catastrophe losses seen by the industry have occurred within the past five years, he added.

With costs on all fronts rising, Hartwig said rate adequacy should be a principal concern for regulators and insurers.

For example, he said the data shows incurred losses and loss ratios are up sharply for auto physical damage losses, but premiums haven't come close to keeping pace.

Adding to the gloom, investment yields were 2.4% in the third quarter of 2021, compared with an average of 4.9% from 1960-2019, Hartwig said.

One glimmer of positive news, Hartwig said, is the ratio of premiums and loss reserves to policyholder surplus has been relatively stable, suggesting resiliency.

"The fact that that the industry continues to see its policyholders' surplus rise should be something that comes with great comfort both to policyholders and regulators alike," he said.

A drop in automobile claims frequency due to COVID-19 offset 2021 pressures, including increased loss costs, above average catastrophe activity and pricing challenges, AM Best Director Michelle Baurkot and Associate Director Alan Murray said in March (Bestwire, March 7, 2022).