Trends in Underlying Cost Factors in Private Passenger Auto Insurance

Louisiana House Insurance Committee
Baton Rouge, LA
September 6, 2024

Robert P. Hartwig, PhD, CPCU
Clinical Associate Professor of Finance, Risk Management & Insurance
Darla Moore School of Business ♦ University of South Carolina
Robert.Hartwig@moore.sc.edu ♦ 803.777.6782

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Presentation Outline: Trends in Auto Insurance Cost Factors

- Claim Cost Drivers in Louisiana
- Overview of Claim Frequency and Severity Trends in Louisiana
- Inflation: Where it Is Headed & What It Means for Insurers and Consumers
  - New and Used Vehicles
  - Replacement vehicles
  - Motor vehicle parts and equipment
  - Repair costs
  - Medical costs
- Storm/Disaster Damage to Vehicles
- Deteriorating Driver Behaviors
- Insurer Advertising
- Attorney Advertising
- Underwriting Factors and Ratemaking
- Q&A

Claim Cost Drivers in Louisiana

Many Factors Are Driving Up Claim Costs in Louisiana—Frequently Faster than the US Overall

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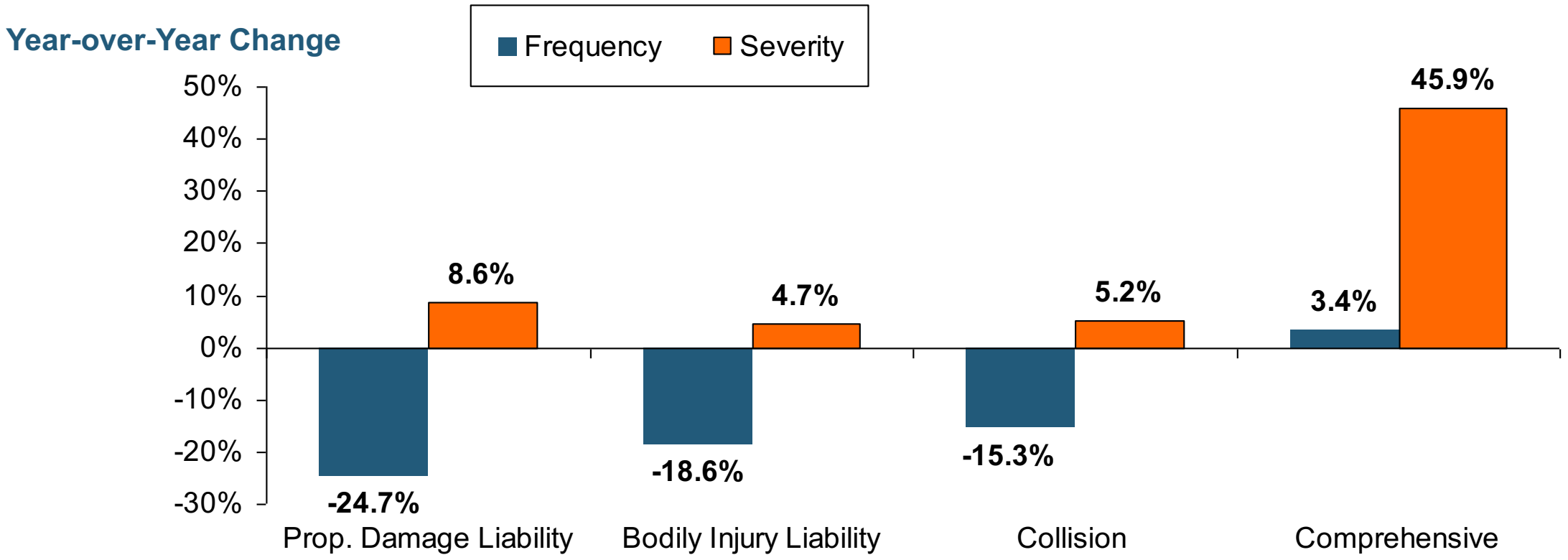
Overview of Recent Private Passenger Auto Frequency & Severity Trends in Louisiana

Severity and Loss Ratio Trends Have Generally Been Adverse

Inflation is a Major Driver

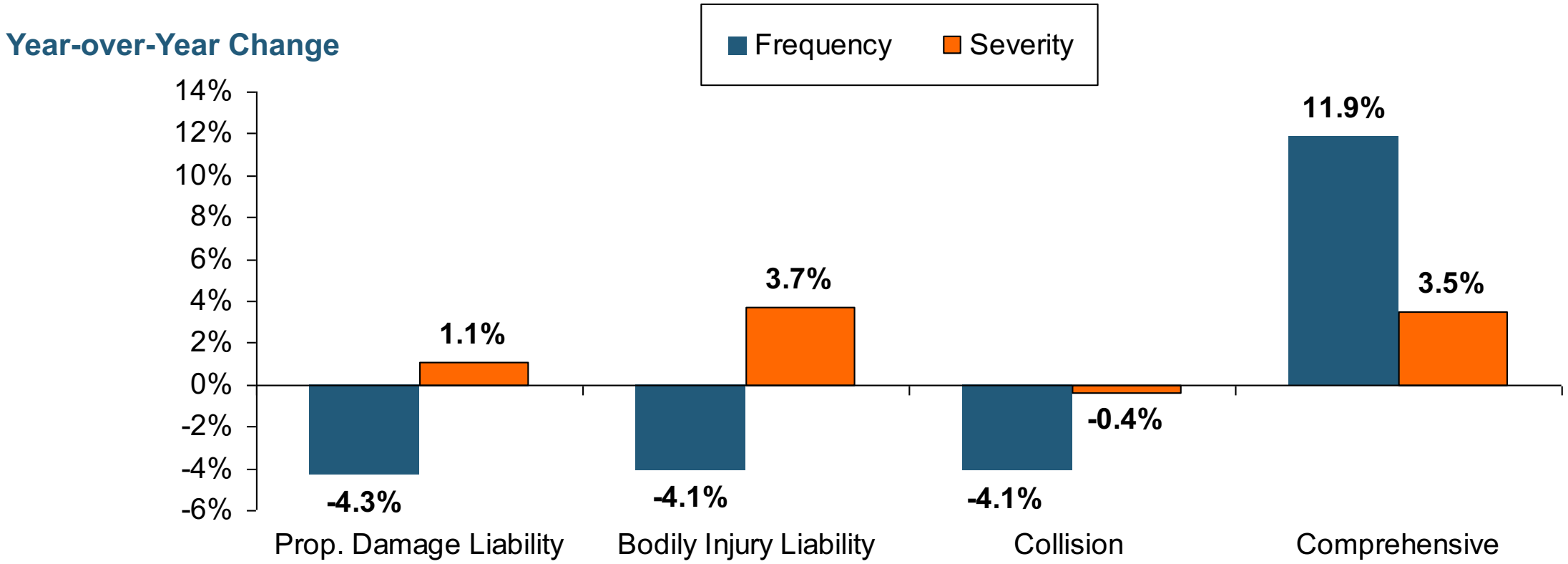
LA: At the Peak of the Pandemic, Frequencies Across Most Coverages Plummeted and But Severities Still Rose: 4 Qtrs. Ending Q1 2021



The COVID-19 Pandemic Introduced Unparalleled Volatility in the Personal Auto Line

Source: ISO/PCI *Fast Track* data for 4 quarters ending in Q1 2021; Risk and Uncertainty Management Center, Univ. of South Carolina.

LA: Personal Auto Claim Severities Are Generally Rising, While Comprehensive Frequency Soars: 4 Qtrs. Ending Q1 2024

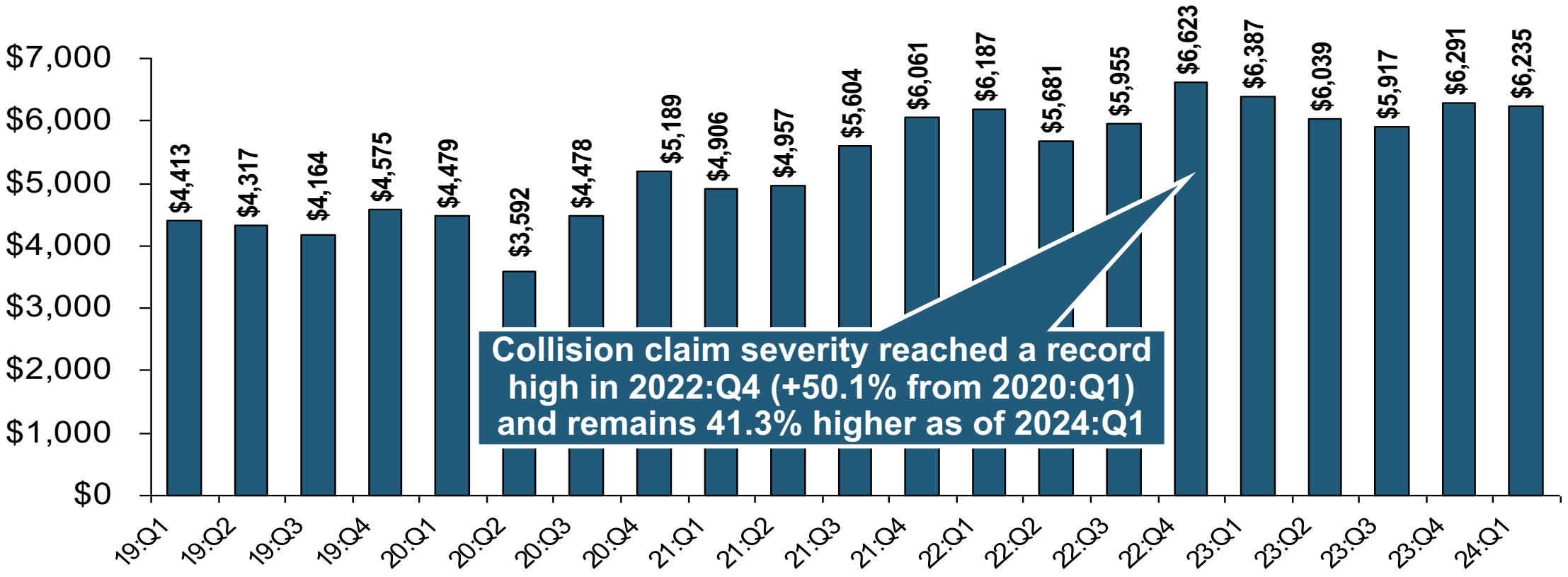


Auto Claim Frequencies Fell Sharply During the Pandemic, though Claim Severities Rose Materially

Source: ISO/PCI *Fast Track* data for four quarter ending in Q1 2024; Risk and Uncertainty Management Center, Univ. of South Carolina.

Louisiana Collision Claim Severity: Rising to New Record Highs

Average Loss, 2019:Q1 through 2024:Q1



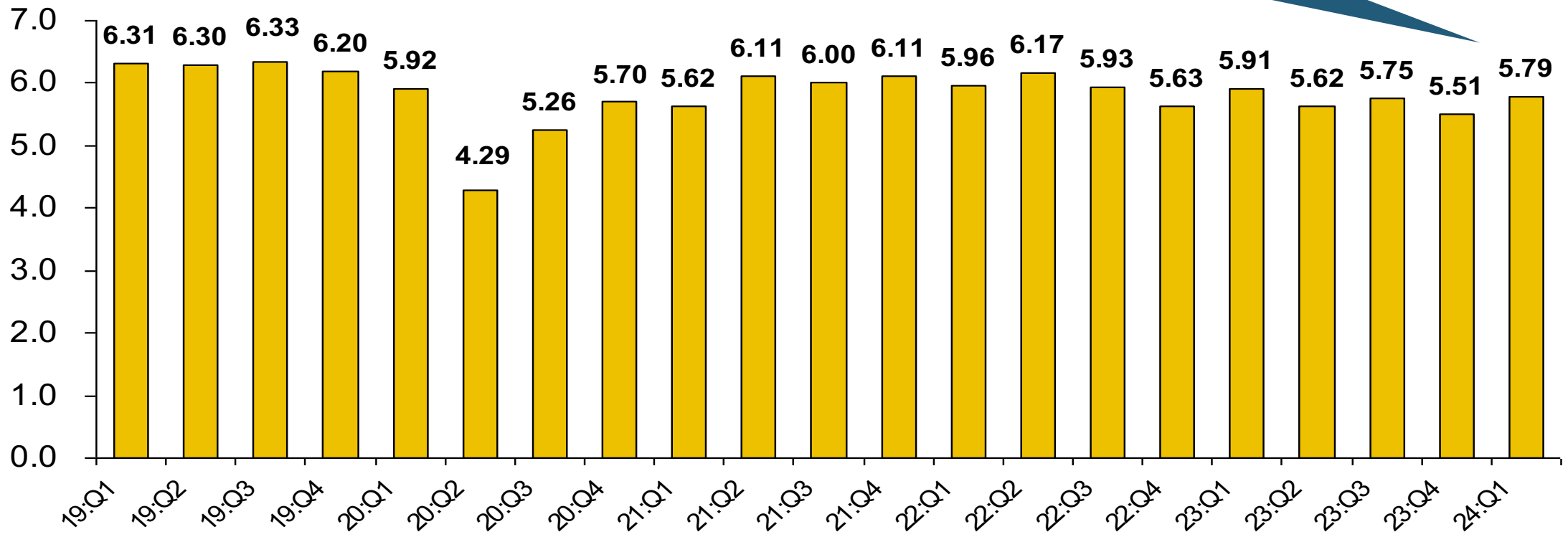
Severities Are Up Sharply—Inflation Is a Major Factor

Source: ISO/PCI *Fast Track* data; Center for Risk and Uncertainty Management, Univ. of South Carolina.

Louisiana Collision Claim Frequency Trend: Returning to Pre-Pandemic Levels?

Paid Claim Frequency, 2019:Q1 through 2024:Q4*

Collision claim frequency in LA is somewhat below pre-pandemic levels

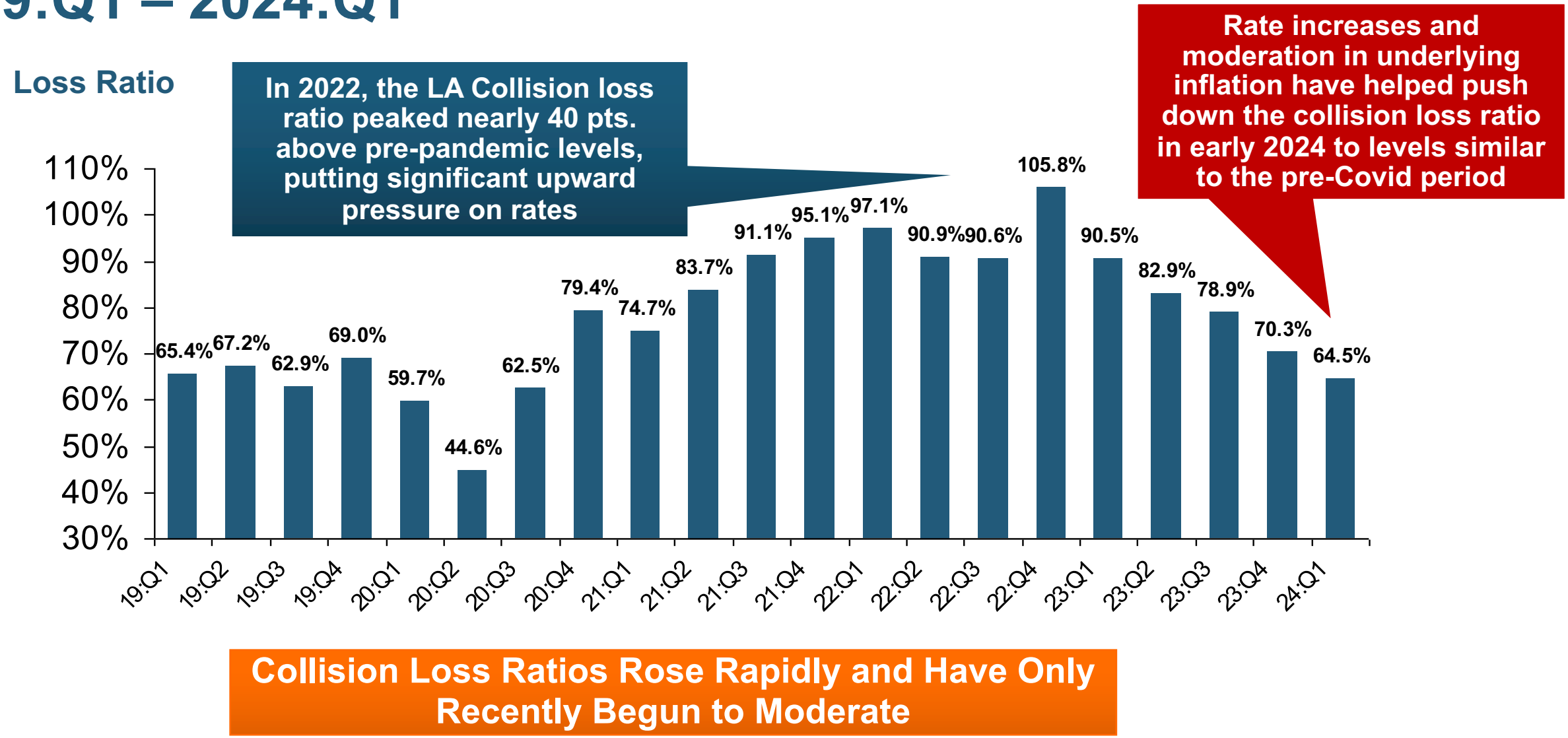


Has Frequency Reached its Post-Pandemic Peak?

*Number of claims per 100 earned car years.

Source: ISO/PCI *Fast Track* data; Center for Risk and Uncertainty Management, Univ. of South Carolina.

Louisiana: Collision Loss Ratios, Personal Auto, 2019:Q1 – 2024:Q1

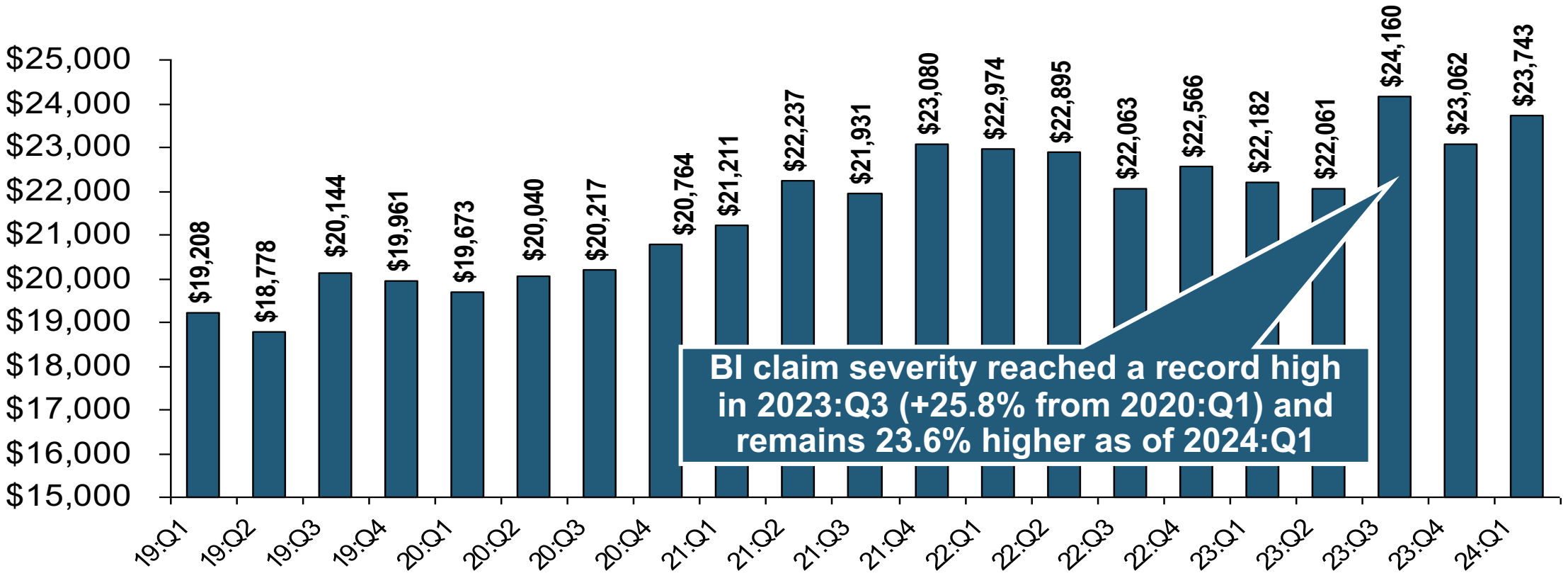


Collision Loss Ratios Rose Rapidly and Have Only Recently Begun to Moderate

Source: ISO *Fast Track* data; University of South Carolina, Risk & Uncertainty Management Center.

Louisiana Bodily Injury Claim Severity: Near Record Highs

Average Loss, 2019:Q1 through 2024:Q1

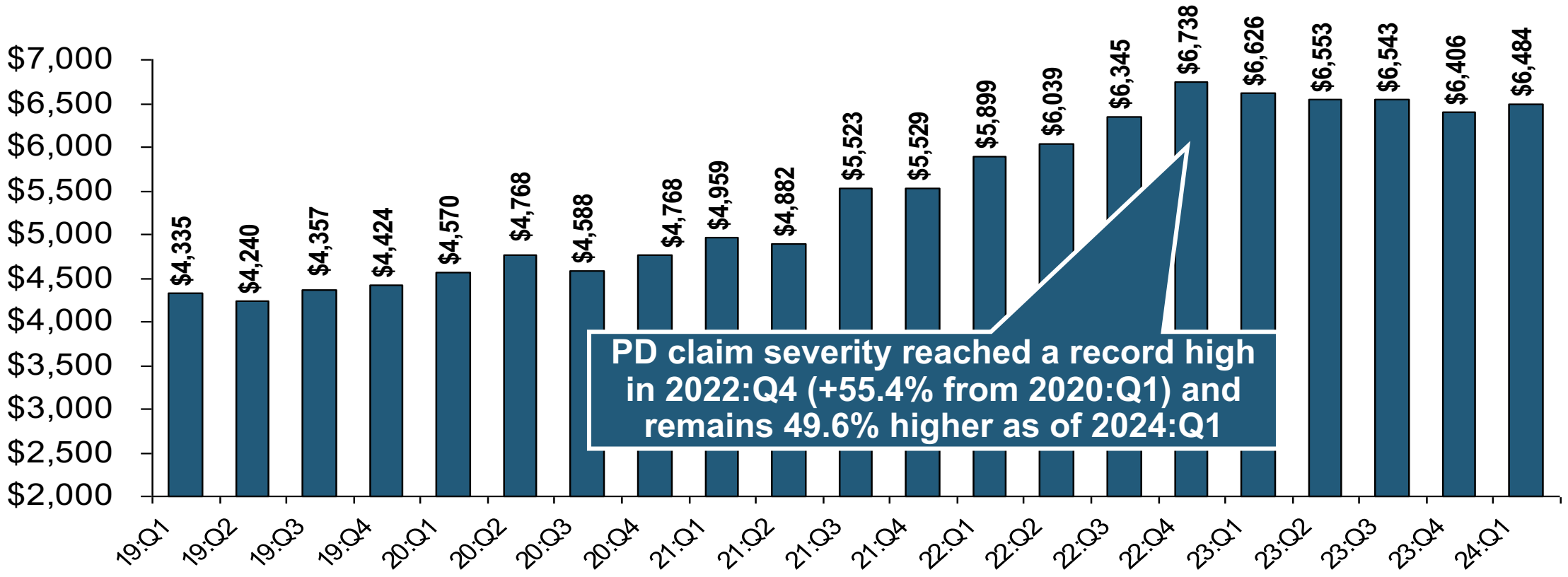


BI Severities Are Up Sharply—Litigation and Inflation Are Major Factors

Source: ISO/PCI *Fast Track* data; Center for Risk and Uncertainty Management, Univ. of South Carolina.

Louisiana Property Damage Liability Severity: Near Record Highs

Average Loss, 2019:Q1 through 2024:Q1



Property Damage Liability Severities Are Up Sharply—Inflation and Litigation Are Major Factors

Source: ISO/PCI *Fast Track* data; Center for Risk and Uncertainty Management, Univ. of South Carolina.

The Inflation Threat

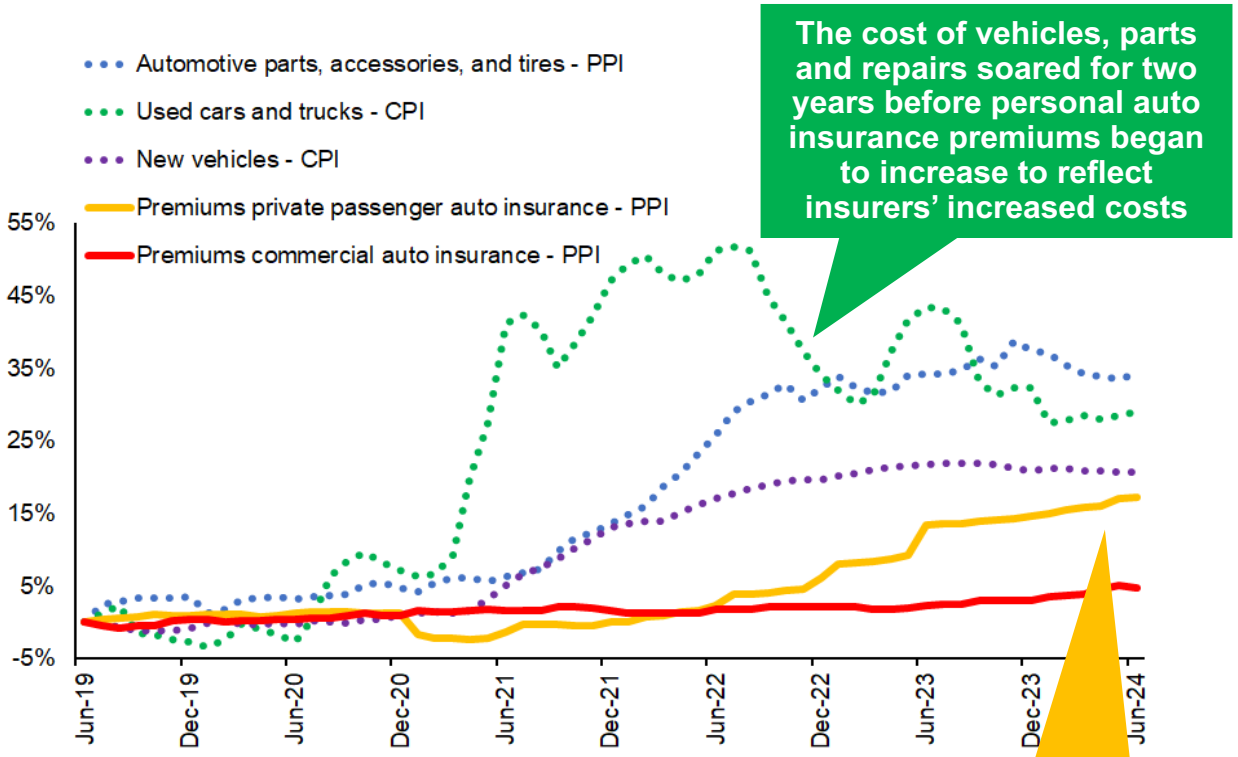
Inflation Has Been the #1 Driver of Rising Auto Claim Severities

Drivers of Auto Claim Severity Have Outpaced Overall Inflation

Some Moderation Is Underway

The Cost of New/Used Vehicles and Repairs Is Up Sharply

Cumulative Price Changes – Auto

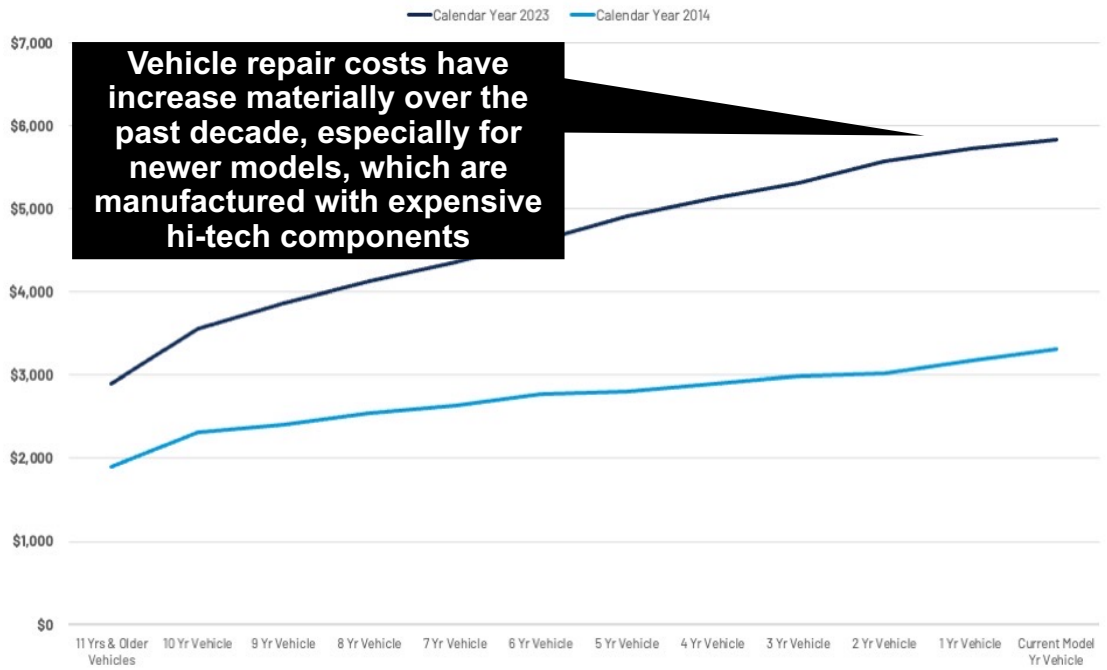


The cost of vehicles, parts and repairs soared for two years before personal auto insurance premiums began to increase to reflect insurers' increased costs

Personal auto insurance premiums began only after a substantial lag in underlying costs

Source: US Bureau of Labor Statistics from APCIA.

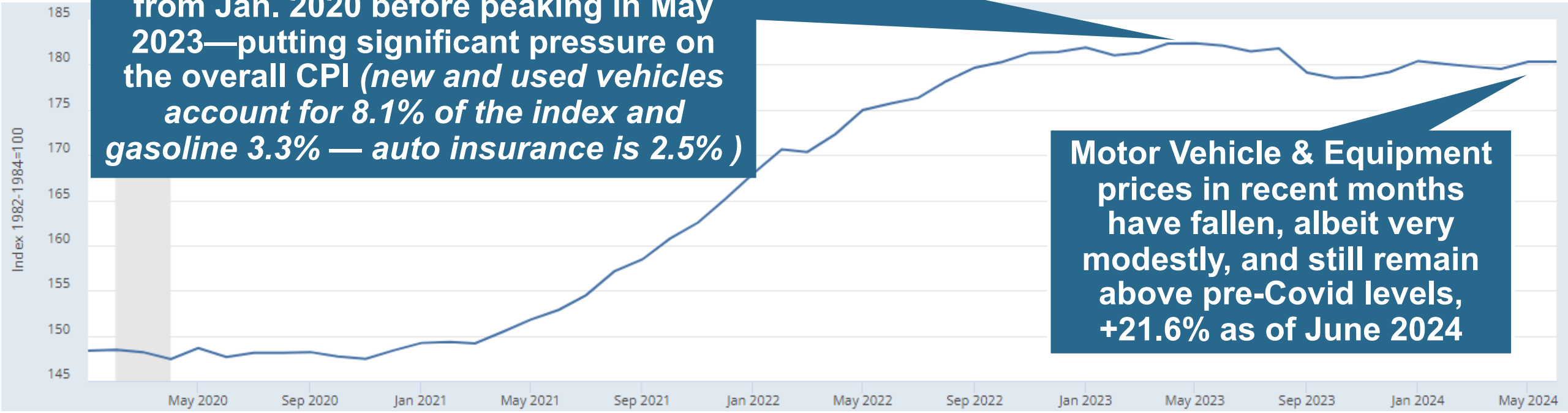
Avg. Cost of Repair by Vehicle Age, 2023 vs. 2014



Vehicle repair costs have increase materially over the past decade, especially for newer models, which are manufactured with expensive hi-tech components

Source: CCC intelligent Solutions from APCIA.

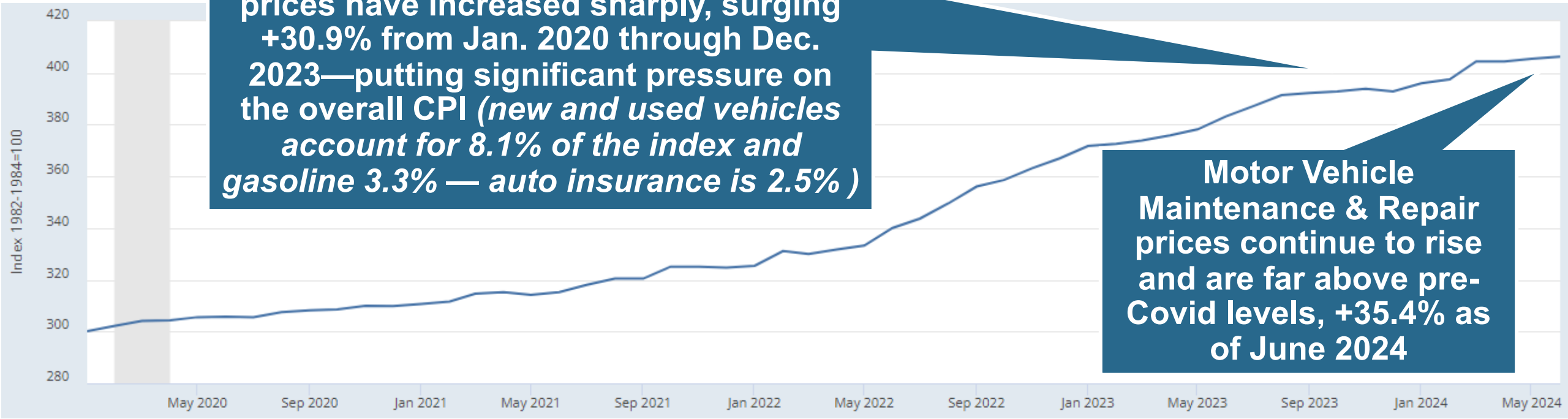
Price Index Changes for Motor Vehicle Parts & Equipment, Jan. 2020 – June 2024



Sources: US Bureau of Labor Statistics: https://fred.stlouisfed.org/series/CUUR0000SETC; Risk and Uncertainty Management Center, University of South Carolina.

Price Index Changes for Motor Vehicle Maintenance & Repair, Jan. 2020 – June 2024

Motor Vehicle Maintenance & Repair prices have increased sharply, surging +30.9% from Jan. 2020 through Dec. 2023—putting significant pressure on the overall CPI *(new and used vehicles account for 8.1% of the index and gasoline 3.3% — auto insurance is 2.5%)*

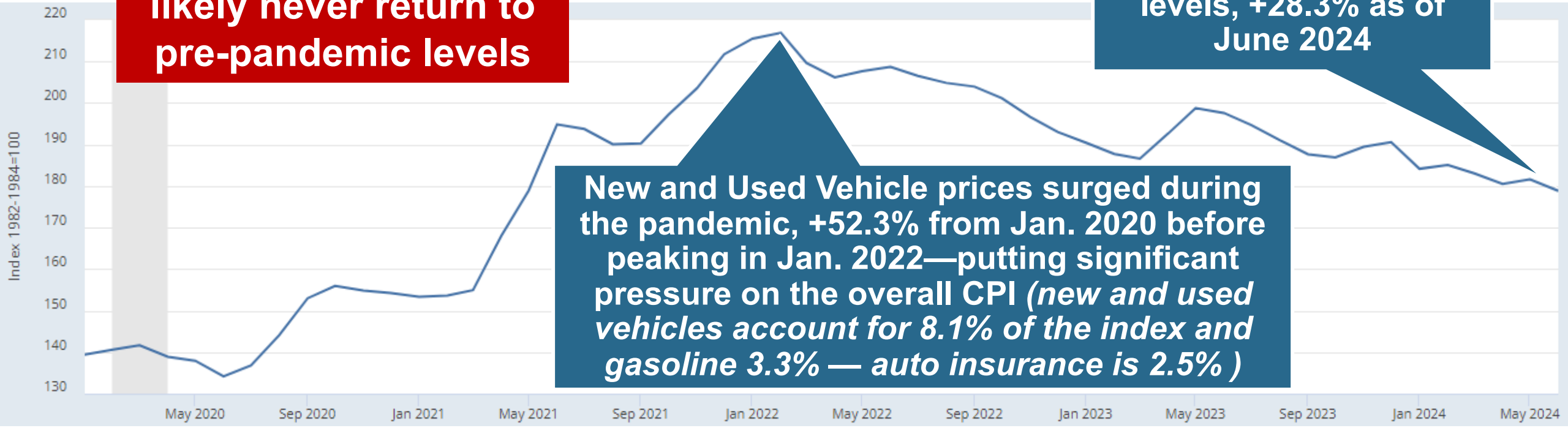


Motor Vehicle Maintenance & Repair prices continue to rise and are far above pre-Covid levels, +35.4% as of June 2024

Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center: https://fred.stlouisfed.org/series/CUSR0000SETD; University of South Carolina.

Price Index Changes for Used Cars & Trucks, Jan. 2020 – June 2024

Realistically, used vehicle prices will likely never return to pre-pandemic levels



Used car prices are falling, but still remain well above pre-Covid levels, +28.3% as of June 2024

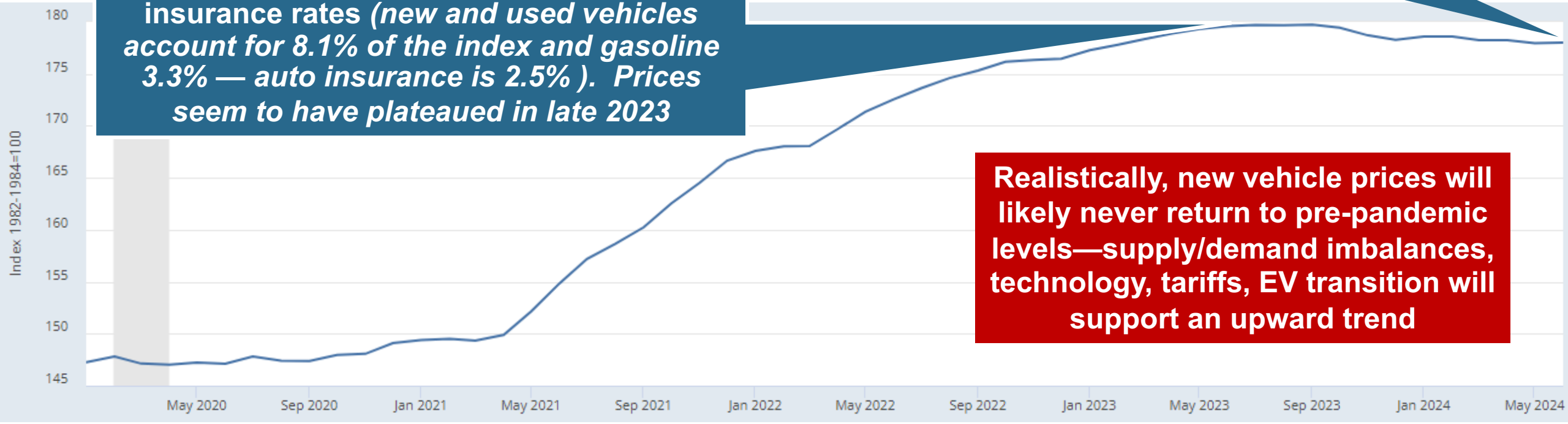
New and Used Vehicle prices surged during the pandemic, +52.3% from Jan. 2020 before peaking in Jan. 2022—putting significant pressure on the overall CPI *(new and used vehicles account for 8.1% of the index and gasoline 3.3% — auto insurance is 2.5%)*

Sources: US Bureau of Labor Statistics; https://fred.stlouisfed.org/series/CUSR0000SETA02. Risk and Uncertainty Management Center, University of South Carolina.

Price Index for New Vehicles, Jan. 2020 – June 2024

New vehicle prices surged during and after the pandemic, +22.1% from Jan. 2020 to Sept. 2023 (peak), putting significant pressure on the overall CPI and auto insurance rates *(new and used vehicles account for 8.1% of the index and gasoline 3.3% — auto insurance is 2.5%). Prices seem to have plateaued in late 2023*

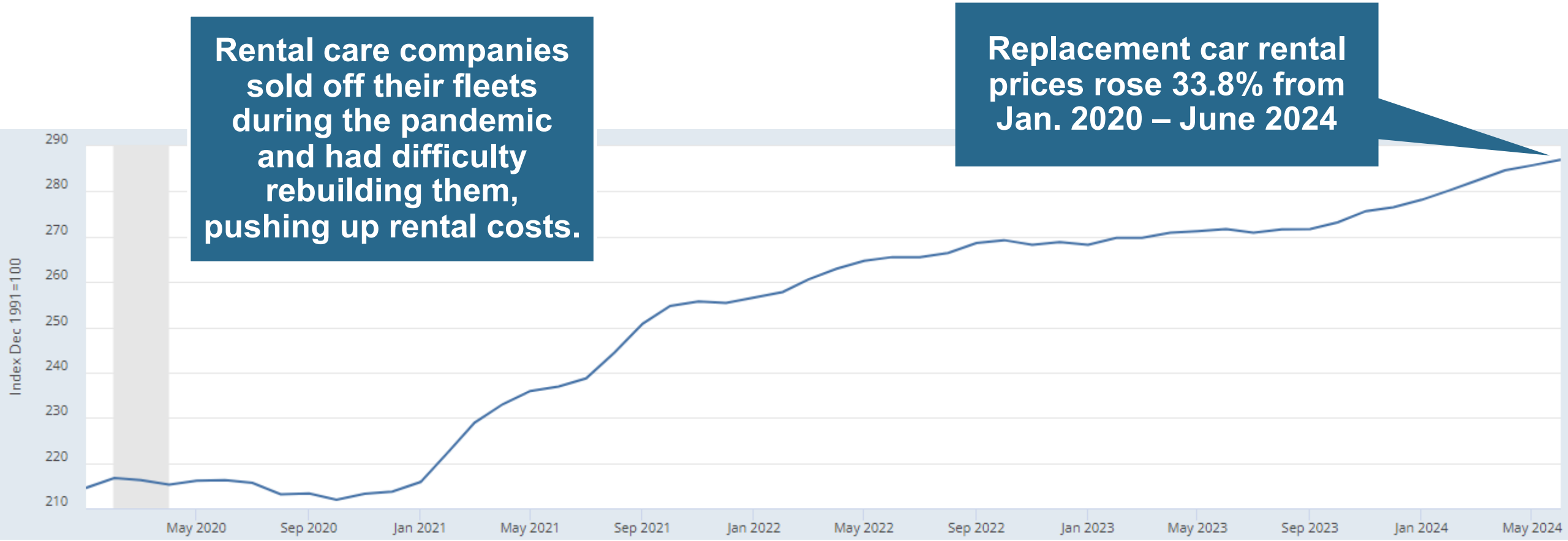
New car prices in recent months have begun to fall, but only slightly and still remain well above pre-Covid levels, +20.9% as of June 2024



Realistically, new vehicle prices will likely never return to pre-pandemic levels—supply/demand imbalances, technology, tariffs, EV transition will support an upward trend

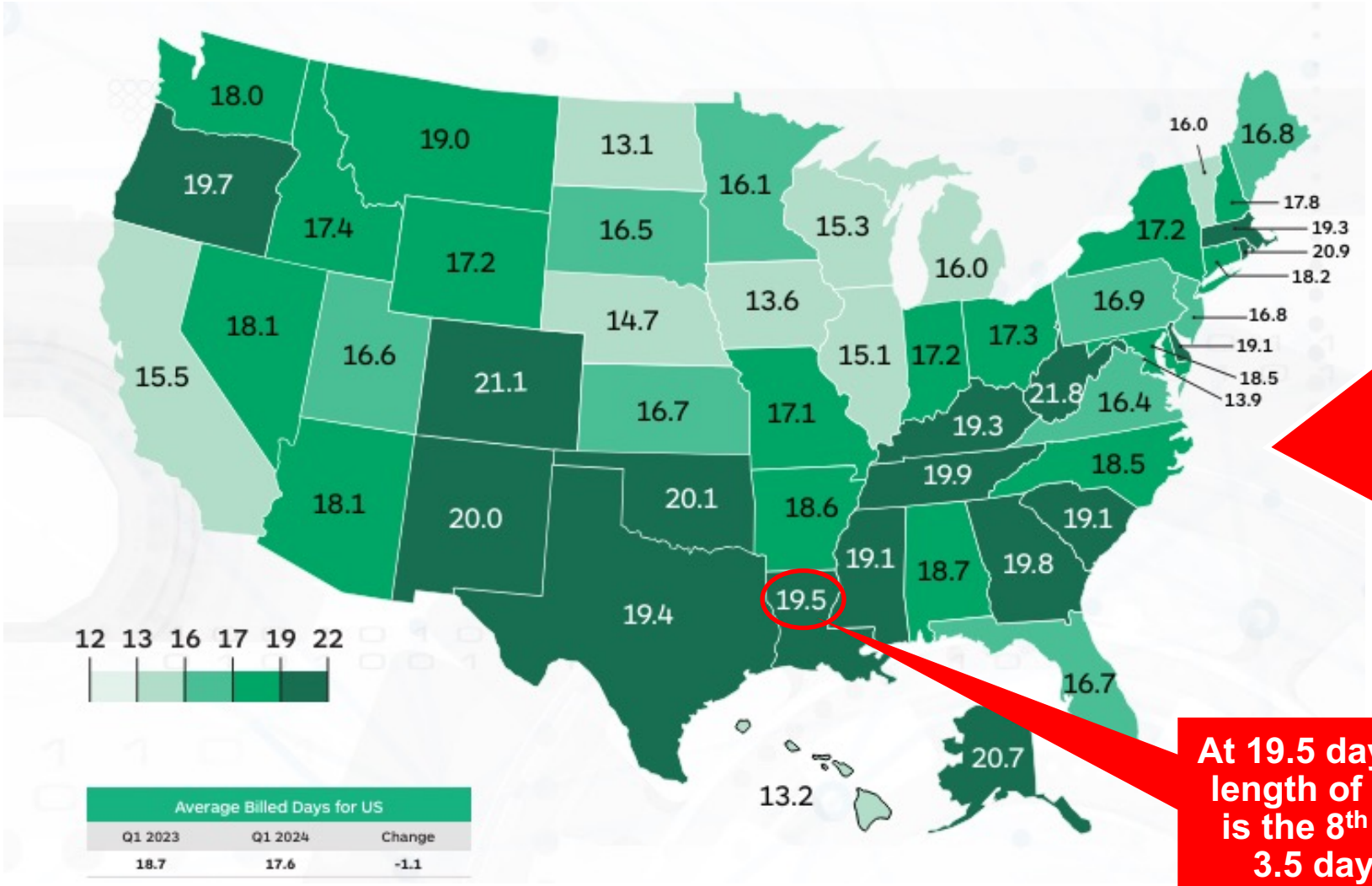
Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center: https://fred.stlouisfed.org/series/CUUR0000SETA01; University of South Carolina.

Price Index Change for Replacement Passenger Car Rentals, Jan. 2010 – June 2024 (% Change from Year Ago)



Sources: Federal Reserve Bank of St. Louis at: https://fred.stlouisfed.org/series/PCU5321115321113#0 from US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

Length of Collision Replacement Rentals by State (Days), 2024:Q2



Avg. Length of Rental

2024:Q2: 16.0 days

2023:Q2: 17.4 days

2022:Q4: 18.7 days

2021:Q4: 17.0 days

2021:Q2: 13.2 days

CHANGE: +5.5 Days (21:Q2 – 22:Q43)

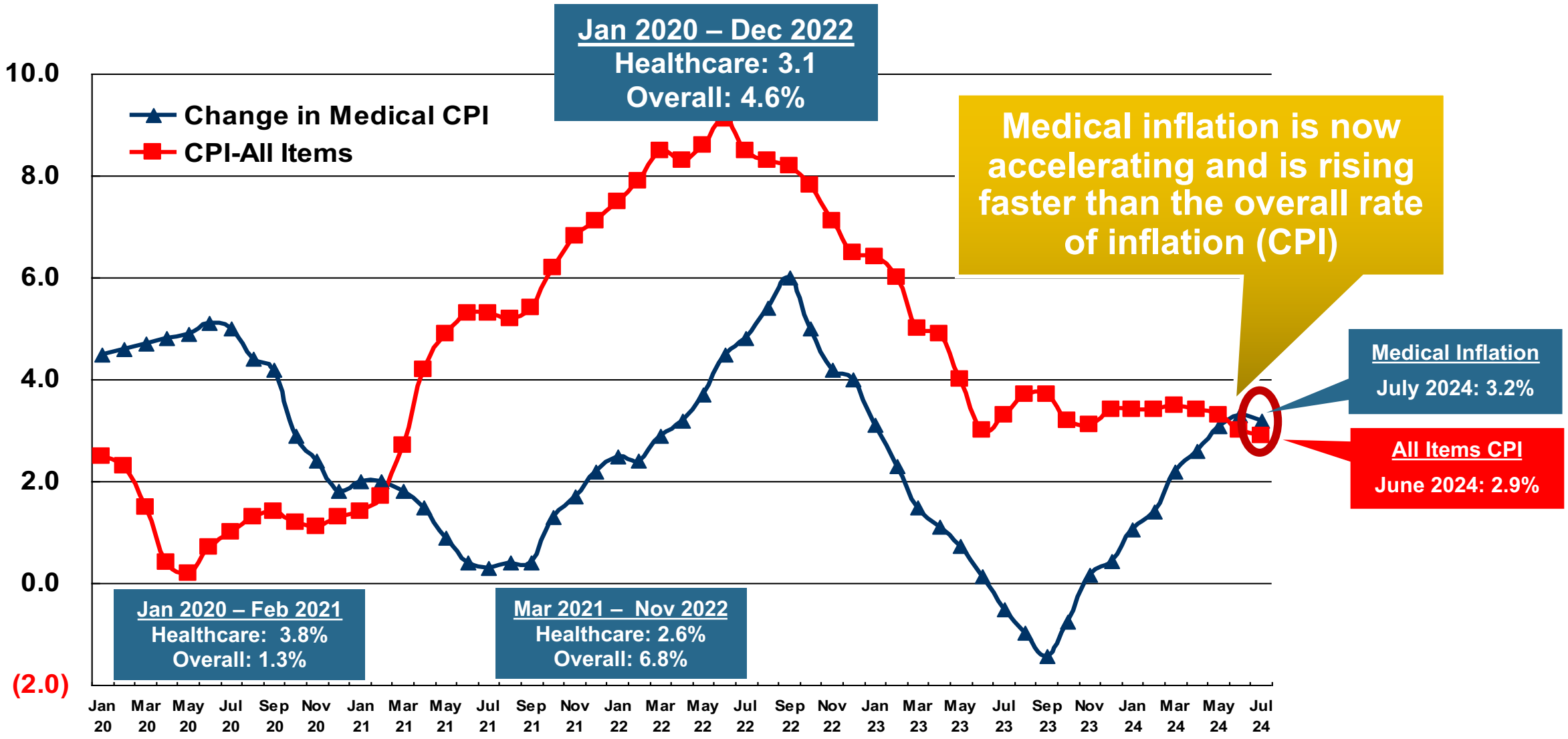
RANGE: 11.1 (ND) to 20.7 (AK)

Replacement rental length has begun to slowly decline but is still 2.8 days longer than in mid-2021

At 19.5 days, Louisiana's average length of collision repair rentals is the 8th longest in the US and 3.5 days longer that the US average of 16.0 days

Source: Enterprise Rental-A-Car U.S. Length of Rental Report accessed at: https://www.enterprise.com/content/dam/ent-brand/LOB/ReplacementResources/q2-2024/24_ENT_DR_M06780_RLD-LOR-Q2-2024_US.pdf

Medical Cost Inflation vs. Overall CPI Since COVID, Jan. 2020 – June 2024 *(Percent Change from Year Ago)*



Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

Storm Damage Is Impacting Auto Insurance Costs Too

Disasters Impact Motor Vehicles in Additional to Properties

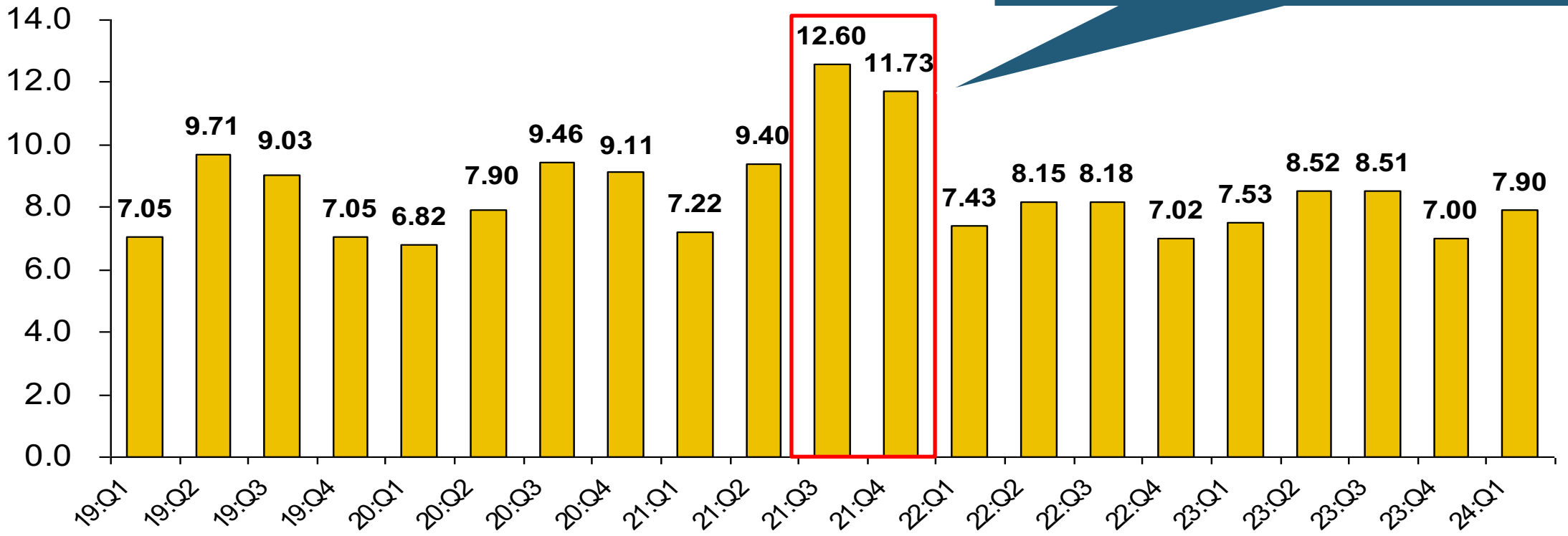
Sharp Spikes in Claim Frequency and Severity Are Common After Disasters

Claim Spikes Can Intensify Vehicle Repair and Replacement Cost Inflation

Louisiana Comprehensive Claim Frequency: Volatility Is Driven by Catastrophic Weather Events

Paid Claim Frequency, 2019:Q1 through 2024:Q1*

Comprehensive claim frequency jumped sharply when Hurricane Ida made landfall in LA in August 2021 (+33% over Q3 2020 and 48% over Q3 2023)

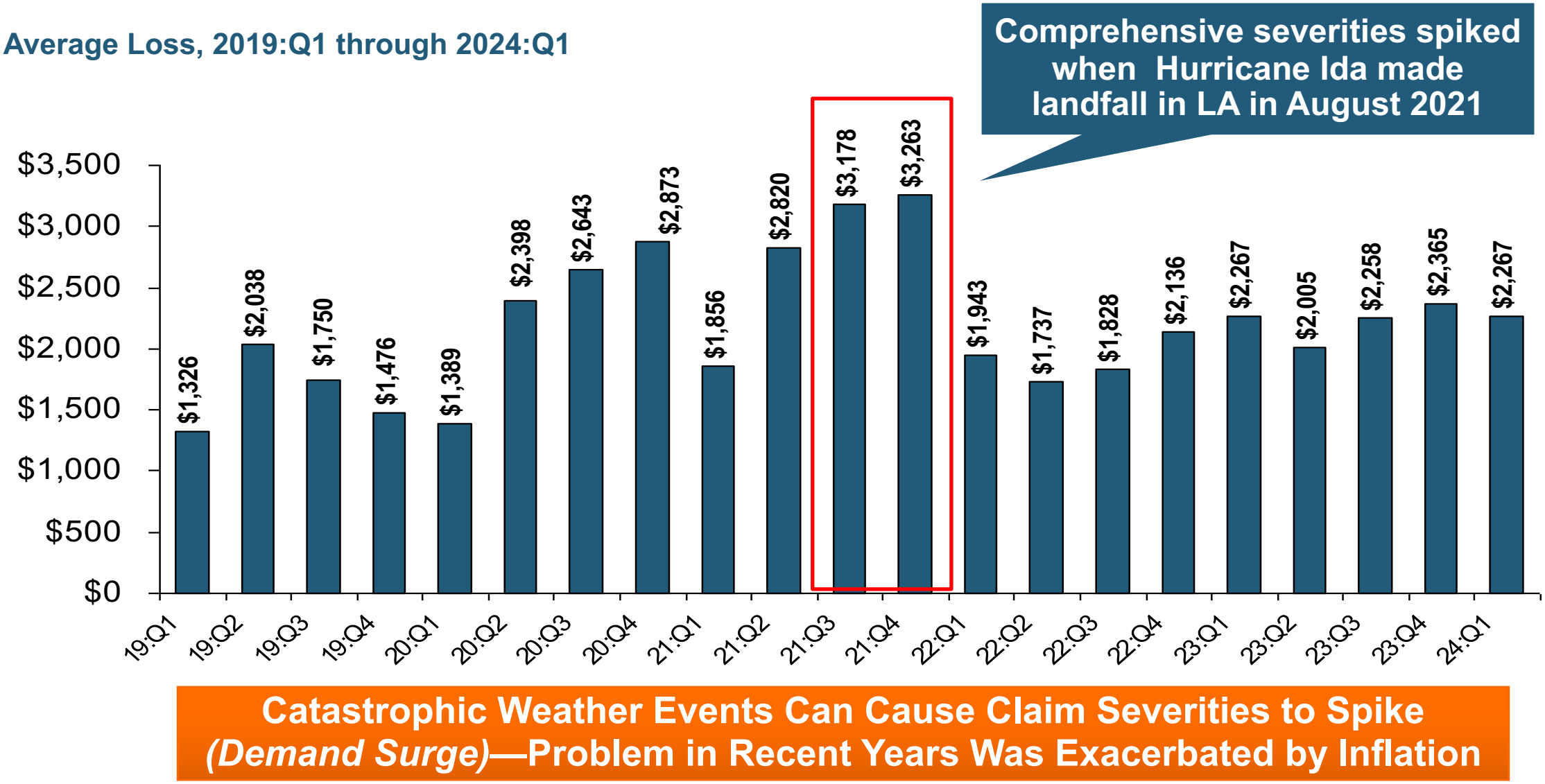


Catastrophic Weather Events Are Having an Increased Impact on Auto Claim Frequency—*Problem is Compounded by Inflation*

*Number of claims per 100 earned car years.

Source: ISO/PCI *Fast Track* data; Center for Risk and Uncertainty Management, Univ. of South Carolina.

Louisiana Comprehensive Claim Severity: Severe Weather Events Can Cause Claim Severity to Spike



Catastrophic Weather Events Can Cause Claim Severities to Spike *(Demand Surge)*—Problem in Recent Years Was Exacerbated by Inflation

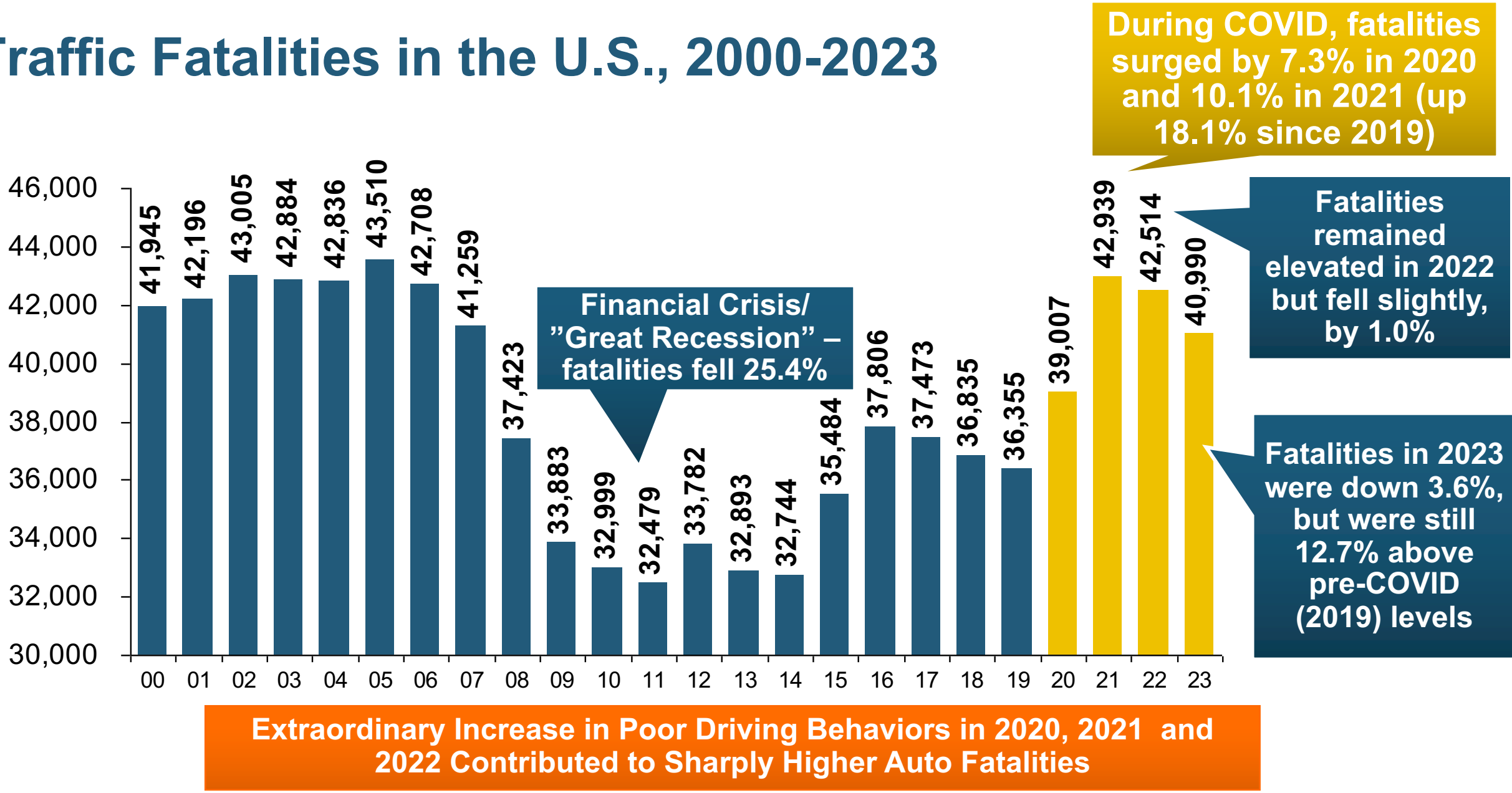
Source: ISO/PCI *Fast Track* data; Center for Risk and Uncertainty Management, Univ. of South Carolina.

Driving Behaviors Have Worsened

Motor Vehicle Fatalities Have Skyrocketed

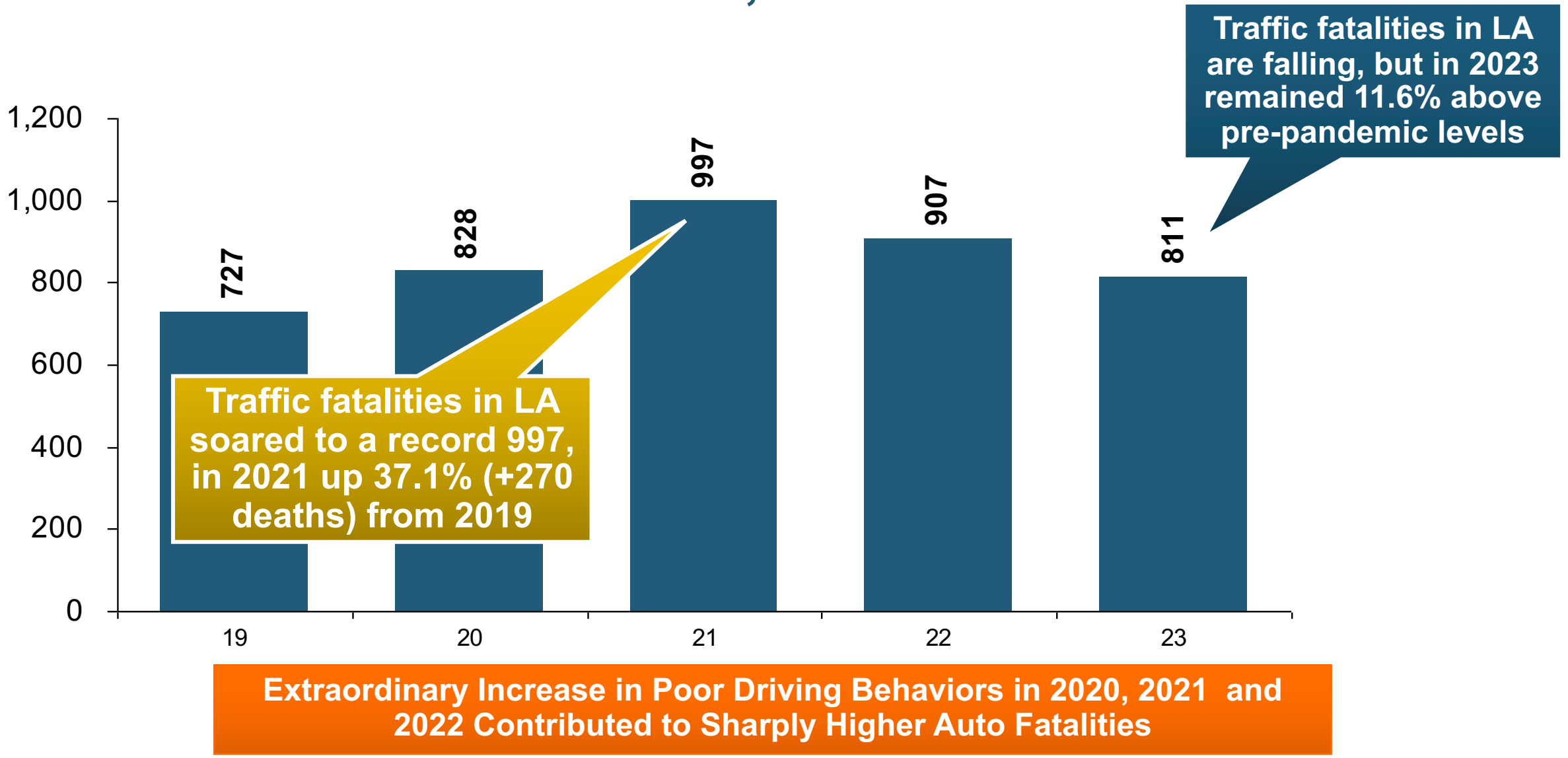
Driver Behaviors Have Changed for the Worse, Pushing Up Fatality Rates and Claim Costs

Traffic Fatalities in the U.S., 2000-2023



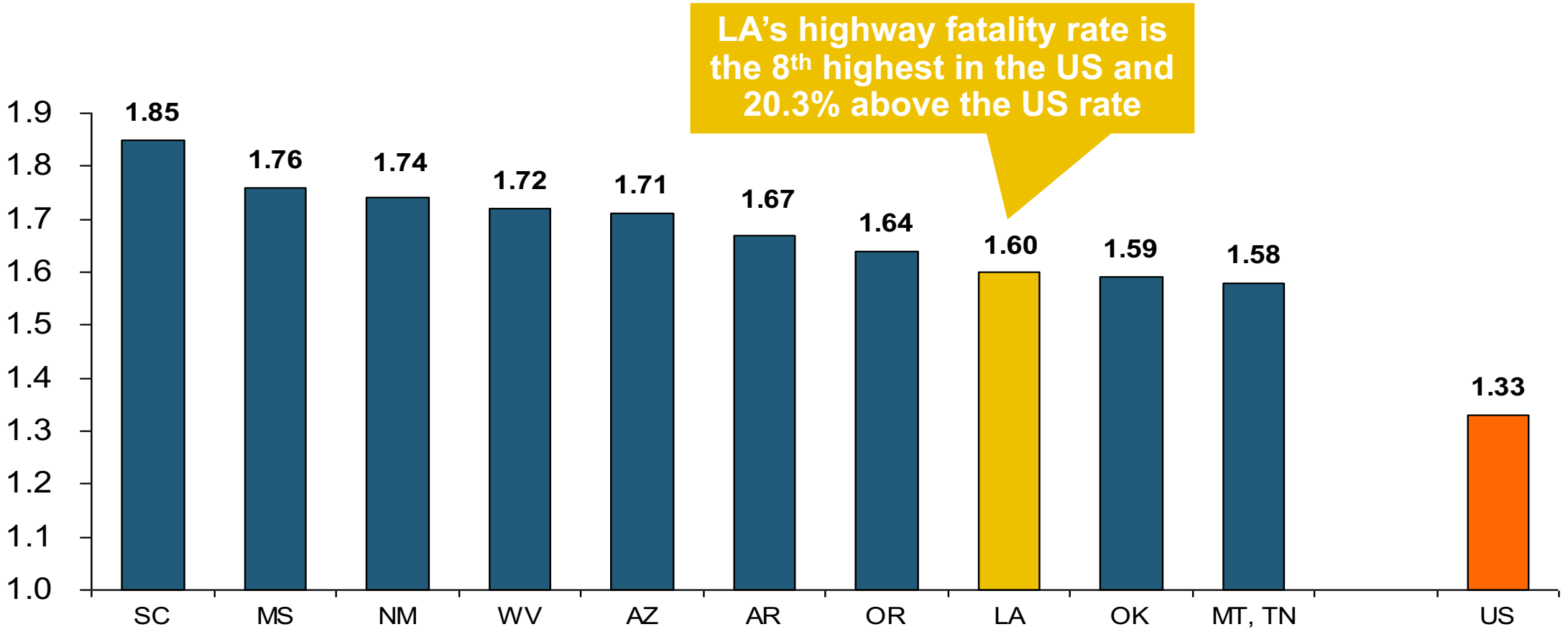
Source: Insurance Institute for Highway Safety and Highway Loss Data Institute: https://www.iihs.org/iihs/topics/t/general-statistics/fatalityfacts/overview-of-fatality-facts and NHTSA: https://www.nhtsa.gov/press-releases/2022-traffic-deaths-2023-early-estimates; Risk and Uncertainty Management Center, University of South Carolina.

Traffic Fatalities in Louisiana, 2019-2023



Source: NHTSA (2019-2020): https://crashstats.nhtsa.dot.gov/Api/Public/ViewPublication/813183. LA Dept. of Transportation & Development (2021): https://wwwapps.dotd.la.gov/administration/announcements/announcement.aspx?key=29014; IIHS (2022): https://www.iihs.org/topics/fatality-statistics/detail/state-by-state; LSU Center for Analytics & Research in Transportation Safety (2023): https://carts.lsu.edu/datareports/report/crash; Risk and Uncertainty Management Center, University of South Carolina.

Deaths per 100 Million Vehicle Miles Driven: Top 10 States (2022)



LA's High Rate of Motor Vehicle Fatalities is Indicative of Issue Related to Driver Behavior and Enforcement

Source: Insurance Institute for Highway Safety: https://www.iihs.org/topics/fatality-statistics/detail/state-by-state;
Center for Risk and Uncertainty Management, Univ. of South Carolina.

Insurer Advertising

Insurer Advertising Accounts for Only a Tiny Fraction of Auto Insurance Premiums

Most Advertising Educates Policyholders on How to Save Money and/or Safety

LA Dept. of Insurance Recommended Against the Adoption of an Advertising Expense Exclusion in 2022

Insurer Advertising

- Insurer advertising accounts for a tiny fraction of insurer expenses
  - 0.68% of Direct Premiums Written (DPW) nationally in 2023
- LA's personal auto insurance market is small
  - 0.58% of all P/C DPW nationally in 2023
- Most advertising educates policyholders on ways to save, drive safer, etc.
  - Shop and compare
  - Discounts
  - Safety tips
- It would not make sense to exclude from advertising expenses those expenses designed to save consumers money, encourage them to drive safer, etc.

NAIC Annual Statement Reporting Instructions for Advertising Expenses

- **Insurers are required to report advertising expenses**

- **Items Included/Excluded per NAIC:**

Include:

- Services of advertising agents
- Public relations counsel
- Space in newspapers, periodicals, billboards, programs, and other publications
- Circulars, pamphlets, calendars and literature issued for advertising or promotional purposes
- Drawings, plates, etchings, etc., in connection with advertising
- All charges for printing, paper, etc., in bills covering advertising
- Media Broadcasts (e.g., radio, television, etc.)
- Prospect and mailing lists
- Signs, frames, medals, etc., for agents
- Souvenirs for general distribution
- House organs and similar publications distributed to others than employees
- Advertising required by law when more than the minimum space required to comply with the law is taken

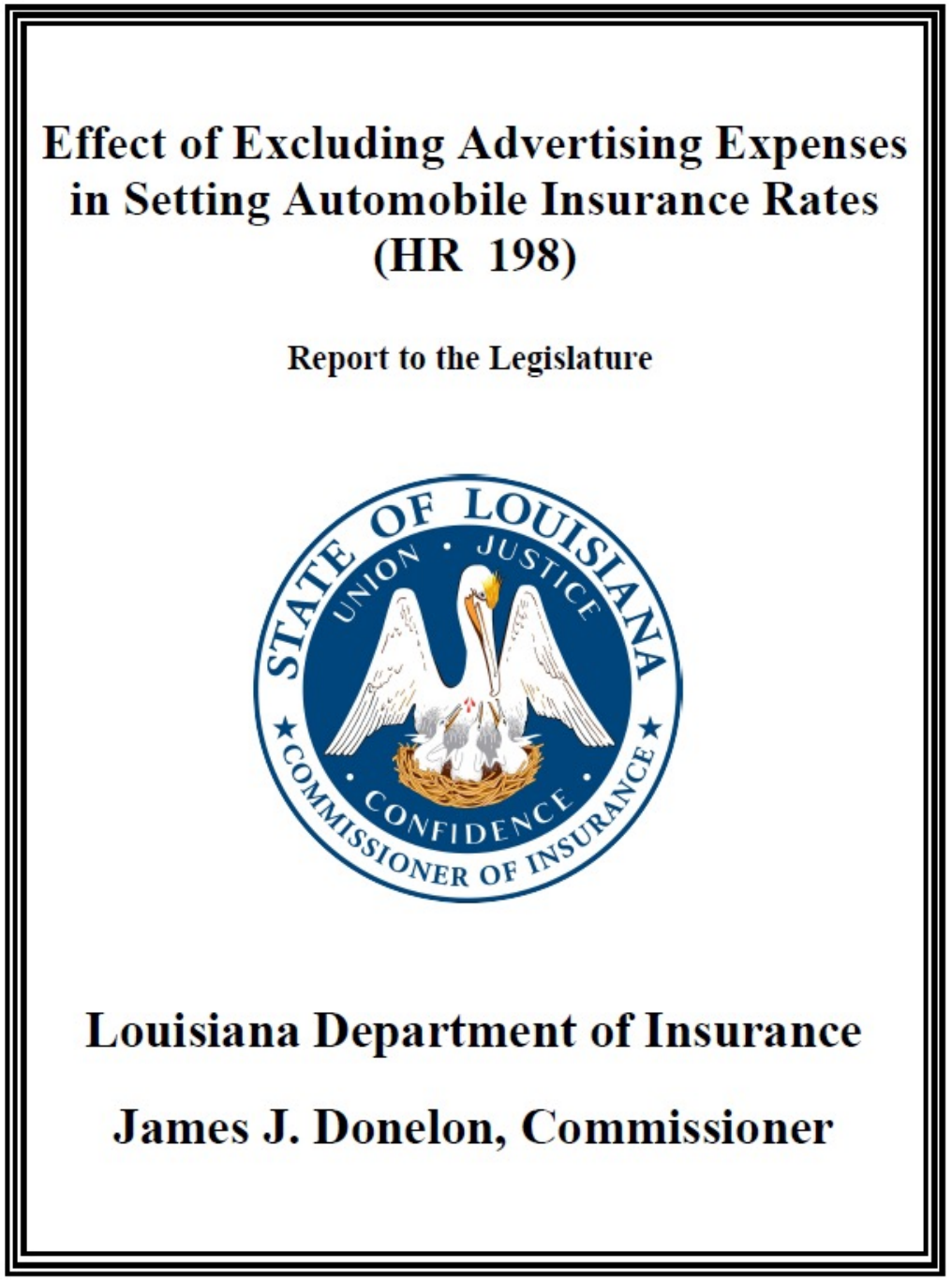
Exclude:

- Compensation to employees (see Salaries)
- Items includible in Travel and Travel Items, Claim Adjustment Services, and Boards, Bureaus and Associations
- Cost of literature, booklets, placards, signs, etc., issued solely for accident and loss prevention (see Surveys and Underwriting Reports)
- Advertising and business development expenses allowed, reimbursed or paid to managers, agents, brokers, solicitors, and other producers (see Allowances to Managers and Agents)
- Cost of help wanted advertising (see Employee Relations and Welfare)
- Cost of advertising in connection with owned real estate (see Real Estate Expenses)
- Cost of house organs and similar publications for the use of employees (see Printing and Stationery)
- Donations to organized charities (see Miscellaneous)
- Cost of souvenirs not generally distributed (see Travel and Travel Items)

Sources: NAIC from Louisiana Department of Insurance “Effects of Excluding Advertising Expenses in Setting Automobile Insurance Rates (HR 198)” December 2022.

HR 198

- LA's HR 198 examined this issue in 2022
- The LA DOI found that only 2 states (CA and TX) exclude certain advertising expenses
  - CA excludes *"institutional advertising"* for ratemaking purposes, which is *"advertising not aimed at obtaining business for a specific insurer and not providing consumers with information pertinent to the decision whether to buy to the insurer's product."*
  - TX statute is similar, but makes clear that loss prevention advertising can be included
- The CA and TX statutes require additional data reporting for advertising and other allowed or excluded expenses (i.e., increasing compliance costs)


Effect of Excluding Advertising Expenses in Setting Automobile Insurance Rates (HR 198)

Report to the Legislature

STATE OF LOUISIANA
UNION · JUSTICE · CONFIDENCE
COMMISSIONER OF INSURANCE

Louisiana Department of Insurance

James J. Donelon, Commissioner

HR 198

- Most advertising ***is*** aimed at obtaining business for a specific insurer and/or ***does*** provide consumers with information
- Consequently, only a small percentage of advertising expense meets the definition of "institutional advertising expense" (under the CA or similar TX definitions)
- LDI discussions with the CA DOI *"indicated that a rate increase may be reduced by as much as 0.02% by the exclusion of this expense"*

Effect of Excluding Advertising Expenses in Setting Automobile Insurance Rates (HR 198)

Report to the Legislature

Louisiana Department of Insurance

James J. Donelon, Commissioner

HR 198

- Applying this 0.02% factor to LA's 2022 average personal auto insurance premium of $1557.61 suggests that excluded advertising expenses would amount to just 32 cents per the average policy

- Insurers would incur additional compliance costs associated with any statute

Effect of Excluding Advertising Expenses in Setting Automobile Insurance Rates (HR 198)

Report to the Legislature

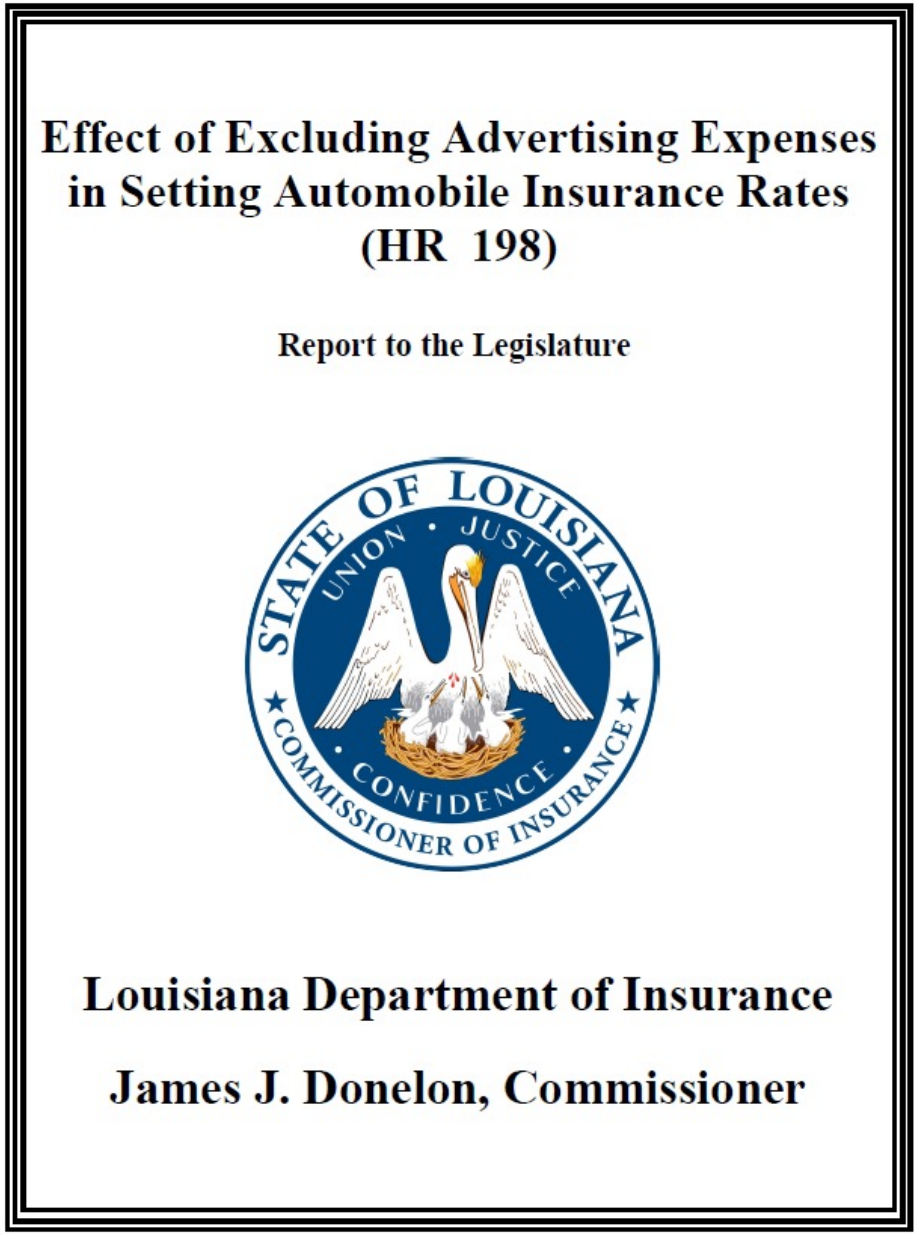
Louisiana Department of Insurance

James J. Donelon, Commissioner

HR 198: LDI Conclusions & Recommendations

- The LDI *"recommends against the adoption of an exclusion from rate setting for any or all advertising expenses"*

- The LDI notes that while insurers do report advertising expenses per the NAIC definition, there are many obstacles:
  - Ad expenditures are not allocated by state or line, so data do not currently exist
  - Effect of implementing such an exclusion would "not be predictable" given data limitations
  - Definition of excluded expenses would need to be developed for LA



Attorney Advertising

Attorney Adverting Has Become Ubiquitous

Research Suggests Saturation Attorney Advertising Contributes to Excessive Tort Costs and Adversely Impacts the State's Economy

Legal Services Advertising: Saturation

- **In 2023, an estimated $2.4 billion was spent on more than 26 million local legal services television, radio, print ads or billboards soliciting legal claims across the United States — an increase of more than 5% compared to these types of local ads in 2022** ***(ATRA, 2024)****
- **In 2023, more than $609.7 million was spent on approximately 650,000 national legal services advertisements. This includes print, digital, network radio, cable television, network television, and syndicated television ads.** ***(ATRA, 2024)****
- **According to the *American Lawyer*, large law firms spend 2-5% of their revenue on advertising, whereas small law firms may spend 5-10% of revenue on marketing****
  - **This means that law firms spend between 3x and 15x what insurers spend on marketing and advertising expense as a share of revenue**

*American Tort Reform Association available at: https://www.atra.org/white_paper/legal-services-advertising-new-york-2019-2023
** See: https://www.huffpost.com/entry/how-to-determine-a-law-fi_b_7724754.

Legal Services Advertising in Louisiana

- **In 2022, LA trial lawyers spent more than $39 million to air nearly 858,000 local legal services television advertisements across Louisiana's media markets**
  - ***This works out to 2,350 per day or about 100 per hour***
- **Saturation legal services spending is one reason why the American Tort Reform Foundation named Louisiana one of its Top 10 "Judicial Hellholes" for 2023-2024**
- **According to the ATRF, excessive tort costs impose a "tort tax" of $1,118 per year on every LA resident**
- **Excessive tort costs cost the LA economy an estimated 48,696 jobs and $3.28 billion in personal income**

Source: American Tort Reform Foundation, "Judicial Hellholes, 2023/24"; Available at: https://www.judicialhellholes.org/reports/2023-2024/2023-2024-executive-summary/.

Louisiana's Tort Environment Is Bad for Its Economy, Citizens and Businesses

- **At 2.99%, Louisiana's tort costs as a share of GDP are the second highest in country, second only to FL**
- **LA's tort costs exceeded $7 billion in 2020**

State	Total Tort Costs [1]	State GDP [2]	Tort Costs as % of State GDP [3]
FL	$40,173	$1,106,036	3.63%
LA	$7,040	$235,437	2.99%
NM	$2,745	$98,472	2.79%
DE	$2,033	$75,787	2.68%
NJ	$16,552	$618,579	2.68%
MT	$1,358	$51,509	2.64%
MS	$2,998	$113,846	2.63%
AR	$3,380	$130,751	2.59%
GA	$15,922	$622,628	2.56%
SC	$6,239	$244,882	2.55%
Top 10 States	**$98,439**	**$3,297,926**	**2.98%**

Source: US Chamber of Commerce Institute for Legal Reform, "Tort Costs in America: An Empirical Analysis of Costs and Compensation of the US Tort System," Nov, 2022. Available at: https://instituteforlegalreform.com/research/tort-costs-in-america-an-empirical-analysis-of-costs-and-compensation-of-the-u-s-tort-system/

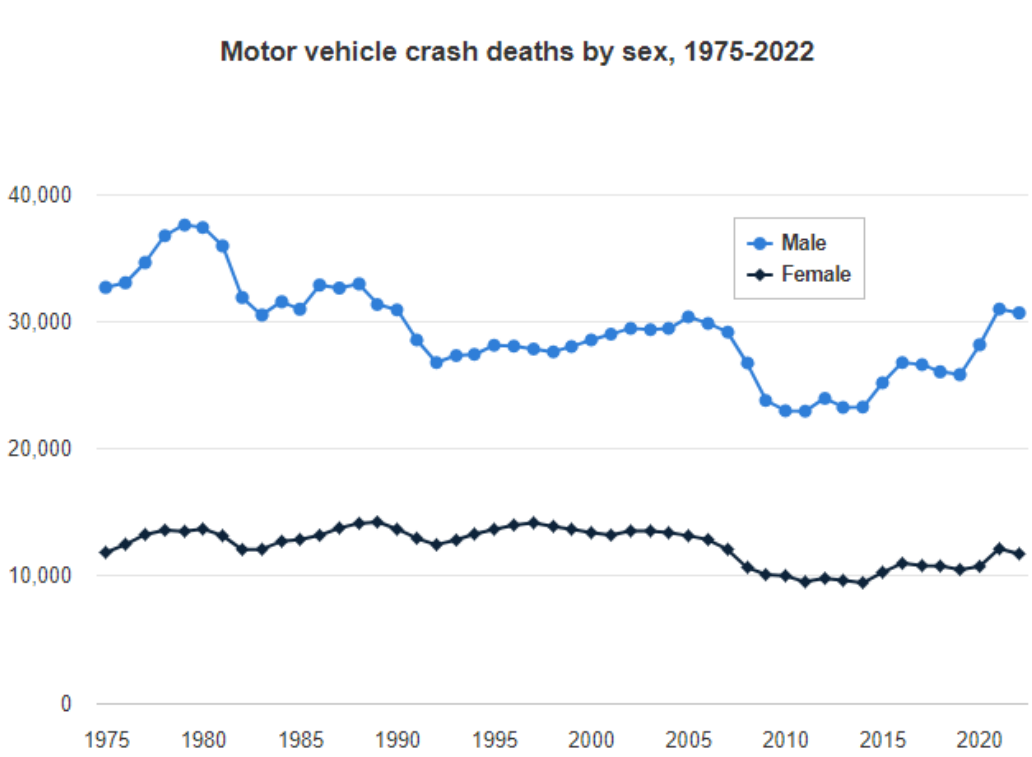
Factors Used in Personal Auto Insurance Ratemaking

Insurers Use a Variety of Factors for Underwriting Auto Insurance Purposes

All Are Actuarially Sound and Predictive of Loss

Personal Auto Underwriting Factors

- Personal auto insurers employ a range of underwriting factors to classify risks
- Insurers develop rates for each class of driver
- Most people are familiar with factors such as age and sex



Source: Insurance Institute for Highway Safety, "Fatality Facts 2022: Males and Females"; Available at: https://www.iihs.org/topics/fatality-statistics/detail/males-and-females.

Death rates for males, young drivers and elderly drivers are much higher than for the overall populations

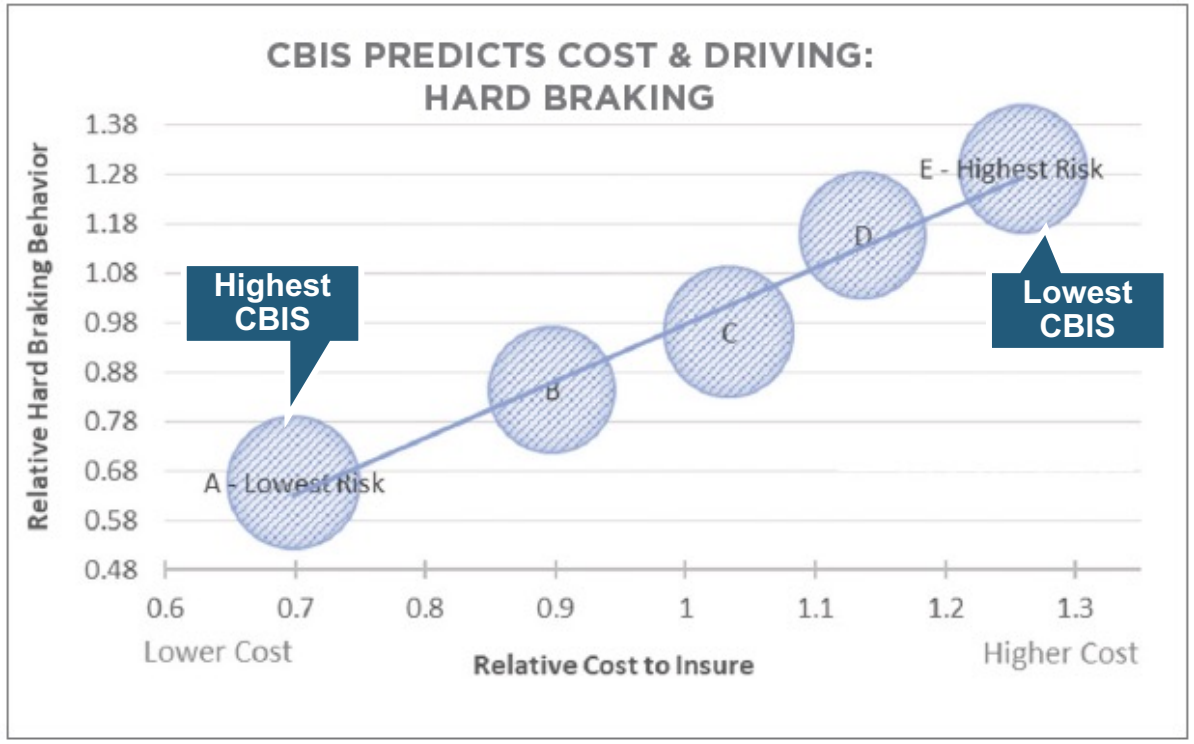
Passenger vehicle occupant deaths per 100,000 people by age and sex, 2022

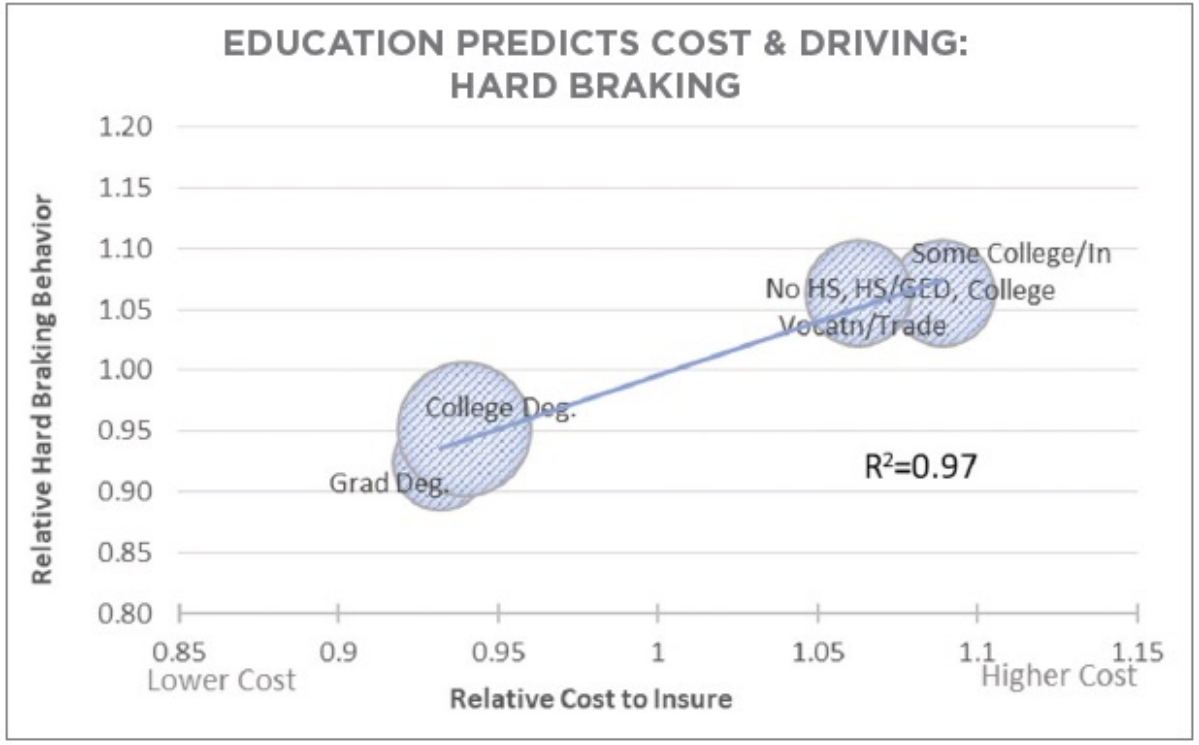
Age	Male			Female			Total*		
	Population	Deaths	Rate	Population	Deaths	Rate	Population	Deaths	Rate
0-15	32,661,995	479	1.5	31,171,958	421	1.4	63,833,953	901	1.4
16-19	8,828,942	1,297	14.7	8,410,284	620	7.4	17,239,226	1,919	11.1
20-24	11,601,988	1,949	16.8	11,103,791	886	8.0	22,705,779	2,838	12.5
25-29	11,352,742	1,798	15.8	10,840,422	771	7.1	22,193,164	2,570	11.6
30-34	11,836,820	1,613	13.6	11,471,316	768	6.7	23,308,136	2,384	10.2
35-39	11,302,300	1,399	12.4	10,965,649	605	5.5	22,267,949	2,006	9.0
40-44	10,817,889	1,209	11.2	10,609,527	508	4.8	21,427,416	1,717	8.0
45-49	9,844,989	1,008	10.2	9,779,109	467	4.8	19,624,098	1,476	7.5
50-54	10,434,641	1,020	9.8	10,372,906	502	4.8	20,807,547	1,522	7.3
55-59	10,373,923	992	9.6	10,593,091	529	5.0	20,967,014	1,521	7.3
60-64	10,297,980	1,025	10.0	10,820,443	483	4.5	21,118,423	1,508	7.1
65-69	8,873,901	856	9.6	9,757,521	444	4.6	18,631,422	1,301	7.0
70-74	7,036,771	742	10.5	8,120,246	460	5.7	15,157,017	1,202	7.9
75-79	4,909,686	659	13.4	5,951,314	434	7.3	10,861,000	1,093	10.1
80-84	2,825,159	490	17.3	3,834,386	333	8.7	6,659,545	824	12.4
≥85	2,283,827	494	21.6	4,202,041	382	9.1	6,485,868	879	13.6
Total	165,283,553	17,064	10.3	168,004,004	8,633	5.1	333,287,557	25,726	7.7

*Total includes other and/or unknowns

Personal Auto Underwriting Factors

- Telematics technology has been used to validate many rating factors
- Credit-Based Insurance Scores (CBIS), Education, Occupation, Marital Status are all examples (see charts)
- Examples illustrate that risky driving behaviors (e.g., relatively frequently hard braking) correlate to higher insurance costs for each factor





Source: Hartwig, R. and Gordon, R., *Behavioral Validation of Auto Insurance Rating Variables*, Nov. 2021; Available at: https://www.uscriskcenter.com/presentations/white-paper-behavioral-validation-of-auto-insurance-rating-variables/.

SUMMARY

- Personal auto insurance costs remain under pressure nationally and in Louisiana
- Claim severities remain near record highs across most coverage types
- Inflation is the major source of rising claim cost severities
- Driving behaviors have worsened materially since the pandemic
- Costly storm damage is also impact auto insurance costs
- Plaintiff attorney advertising has reach saturation levels and is contributor to high auto insurance costs in Louisiana
- Underwriting variables and ratemaking models are actuarially sound and strongly predictive of loss

UNIVERSITY OF
SOUTH CAROLINA
Darla Moore School of Business

Thank you for your time and your attention!

For a copy of this presentation, email me at robert.hartwig@moore.sc.edu or

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