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# ViewPoint

Analyzing Industry Issues from an Independent Perspective



## PPA Loss Trends

*What's driving increased frequency and severity?*

**The private passenger auto market** is experiencing adverse frequency and severity trends. Some of the causes are readily apparent, while others may not be.

According to the Insurance Information Institute, the 2015 Bodily Injury claim frequency rate was 0.91, matching the ten-year average; however claim severity in that same time period increased 32% to \$17,024. Property damage liability is on average \$3,493, up 25% from 2006. Physical Damage frequency and severity have been steadily increasing over the past 10 years. *(See chart on page 2.)*

These trends appear to be worsening in 2016. Preliminary data from the National Safety Council estimates that as many as 40,000 people died in motor vehicle crashes last year—the highest figure since

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“...Sending a single text increases the chance of crashing six fold...”

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2007. That equates to a 6% increase over 2015, and a 14% increase over 2014. This is the most dramatic two-year escalation since 1964. The NSC estimates the cost to society was \$432Bn.

Safety improvement features in cars are being offset by roadway congestion (tied to more miles driven and infrastructure repairs), distracted driving and larger economic factors.

### Technology Safety Features

The National Highway Traffic Safety Administration

Private Passenger Auto Insurance Losses, 2006-2015 (1)

Year	Liability			
	Bodily injury (2)		Property damage (3)	
	Claim frequency (4)	Claim severity (5), (6)	Claim frequency (4)	Claim severity (5), (6)
2006	0.98	\$12,907	3.40	\$2,796
2007	0.9	\$13,361	3.46	\$2,847
2008	0.91	\$14,067	3.42	\$2,903
2009	0.89	\$13,891	3.49	\$2,869
2010	0.91	\$14,406	3.53	\$2,881
2011	0.92	\$14,848	3.56	\$2,958
2012	0.95	\$14,690	3.50	\$3,073
2013	0.95	\$15,441	3.55	\$3,231
2014	0.87	\$16,640	3.66	\$3,290
2015	0.91	\$17,024	3.73	\$3,493

Year	Physical damage (7)			
	Collision		Comprehensive (8)	
	Claim frequency (4)	Claim severity (5)	Claim frequency (4)	Claim severity (5)
2006	4.87	\$3,194	2.40	\$1,528
2007	5.2	\$3,109	2.48	\$1,524
2008	5.35	\$3,005	2.57	\$1,551
2009	5.48	\$2,869	2.75	\$1,389
2010	5.69	\$2,778	2.62	\$1,476
2011	5.75	\$2,861	2.79	\$1,490
2012	5.57	\$2,950	2.62	\$1,585
2013	5.71	\$3,144	2.57	\$1,621
2014	5.95	\$3,161	2.80	\$1,567
2015	6.05	\$3,350	2.73	\$1,671

(1) For all limits combined. Data are for paid claims. (2) Excludes Massachusetts and most states with no-fault automobile insurance laws. (3) Excludes Massachusetts, Michigan and New Jersey. (4) Claim frequency is claims per 100 car years. A car year is equal to 365 days of insured coverage for one vehicle. (5) Claim severity is the size of the loss. (6) Includes loss adjustment expenses. (7) Excludes Massachusetts, Michigan and Puerto Rico. Based on coverage with a \$500 deductible. (8) Excludes wind and water losses. Source: ISO®, a Verisk Analytics® business.

(NHTSA) requires all vehicles manufactured after model year 2012 to have electronic stability control (ESC), which helps prevent rollovers and other types of crashes by controlling brakes and engine power. In May 2014, the NHTSA estimated this technology decreased rollovers by 59.5%.

Contributing to claim severity are the quantity and quality of expensive safety features (i.e., blind spot sensors, automatic braking, rear view cameras, etc.), which are also more labor-intensive to repair and replace. These newer components provide some tempering impact on the frequency side, but the increase in miles driven is more than negating this benefit.

### Distracted Driving

Vehicle safety improvements are being offset by the pervasive issue of distracted driving. Industry stakeholders (from auto manufacturers and technology companies to telecommunications providers and insurers), as well as lawmakers are addressing this issue, but more needs to be done. An approximate 25% of accidents can be traced to some form of dis-

tracted driving, with cellphone usage and texting as the predominant culprits.

Sending a single text increases the chance of crashing six fold. A recent AAA survey found Millennials acknowledged typing or sending a text or email while driving at nearly twice the rate of other drivers (59.3% vs. 31.4%). Distracted driving increases impact speeds (i.e., relatively less braking) and reduces driver readiness for, and avoidance of, collisions, which increases claim severity.

### Economic Recovery

The inflation-adjusted annual average gasoline price from 1918 is \$2.64 (adjusted through December 2015). As of mid-February 2017, the current national average gas price is \$2.28. Lower gas prices and improved economic conditions have led to increased vehicle sales, more miles driven and higher density of vehicles on roadways.

Gas prices also affect the types of cars purchased. With SUV sales again surging, misalignment of bumpers in accidents involving SUVs increases the severity of damage to involved vehicles.

Another factor affecting frequency of claims is the presence of road construction. An increase in the volume of cars on the road, coupled with this infrastructure repair is creating more congestion on roadways. Higher congestion means closer vehicle spacing and a higher incidence rate of collisions

### Medical Inflation

Medical inflation continues to increase at a pace that exceeds general inflation. Auto BI severity is rising at about 4% annually in recent years, as opposed to an approximate 2% general inflation. PIP severity trend is even more dramatic, at 8%.

Some contend that the Affordable Care Act (ACA) resulted in cost and claim shifting to PPA insurance companies, both legally and fraudulently. Substantial cost containment provisions under the Act served to reduce reimbursement from health insurers to healthcare providers. There is a suspicion that some providers are seeking other avenues to make up for lost revenue.

PPA insurers in personal injury situations figure

prominently among those most at risk for this redirecting, particularly in no-fault states (perhaps explaining the heightened severity trend noted above). Often PPA insurers lack the bargaining power of large health insurers (Medicare being the largest), and find themselves accepting higher reimbursement rates for a broader spectrum of services than is, perhaps, medically necessary.

Additionally, in an effort to mitigate the financial impact of health insurance premium increases post-ACA implementation, some employers dialed back available coverage and premium support for their employees. The result is employees generally paying more out-of-pocket, while shouldering much higher deductibles and co-pays.

PPA insurance can serve to fill gaps and lower net costs, which provides incentive on the claimant's end as well. For example, PIP benefits are commonly used to cover or reduce medical insurance deductibles for at-fault drivers. And while some argue that the reduction in the number of medically uninsured resulting from the ACA will reduce the quantity of fraudulent claims on PPA insurers, others argue the contrary due to the financial incentive created by higher deductibles and copays under ongoing medical plans.

## How to Respond

The Insurance Research Council's 2014 report states, *"To mitigate [ACA's] potential impact, property-casualty insurers should consider options to ensure that the prices paid as reimbursement for medical services are consistent with prices paid by public and private health insurers. Market-based fee schedules and bill review authority are among the tools often*

*applied to address medical pricing issues... Utilization of review authority, evidence-based treatment guidelines, and the authority to deny reimbursement for unnecessary or inappropriate treatment are among the tools that should be considered."*

In addition, aligning premium and risk by increasing rates is an obvious remedy, but that should not be the only "lever" pulled, particularly given the current landscape (traditional competition, InsureTech, P2P, driverless cars, etc.). Insurers may find that more strongly embracing usage-based underwriting yields competitive advantage.

One of the biggest "premium leakage" issues in PPA is underestimation of mileage. Better and more accurate capture of mileage and insured driving habits will innately align premium with risk. This goes hand-in-hand with continued investment to enhance the granularity of predictive modeling, which will allow for better risk selection and said alignment.

Investments in distracted driving awareness campaigns both individually and with other industry players may save claim dollars and, more importantly, lives. In conjunction, financial incentives for heads of household to receive safe-driving discounts are a strong motivator to reinforce policing of all family drivers, particularly new teenage drivers, with whom this issue is particularly acute.

Somewhat ironically, smartphones which are largely responsible for the proliferation of distracted driving can be a powerful tool to combat the same. Innovative technology and the formation of partnerships with smartphone manufacturers, mobile software application developers and telecommunication service providers could carve out a competitive advantage for insurers.

Holborn continues to examine the PPA sector with an upcoming ViewPoint focusing on the industry response to combatting distracted driving.