

What's Wrong with Commercial Auto?

Nothing that can't be fixed!

Prepared for CAS Seminar on Reinsurance

June, 2018

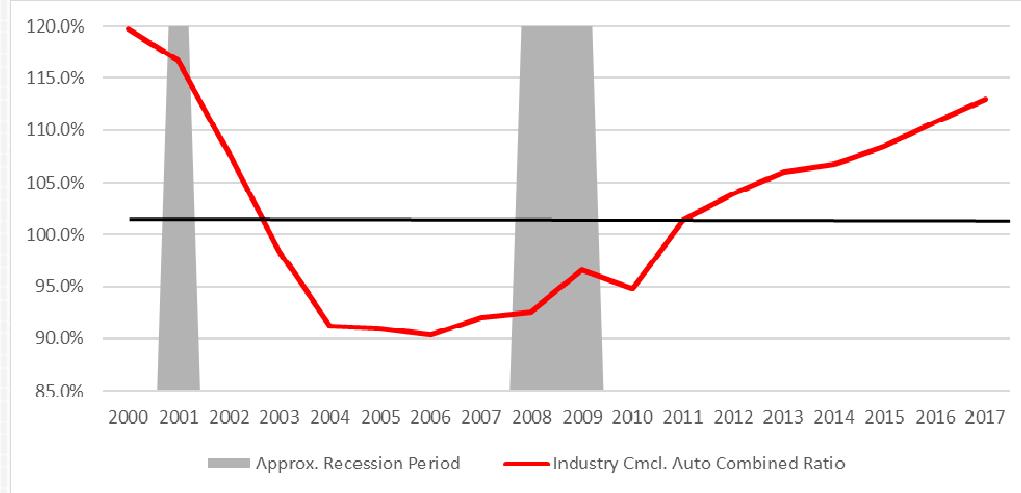
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COMMERCIAL AUTO: THORN IN THE INDUSTRY'S SIDE

The direct combined ratio has been above 100% for seven consecutive years.

And this despite consistent and material rate increases.

Cmcl. Auto Combined Ratio (before reinsurance)



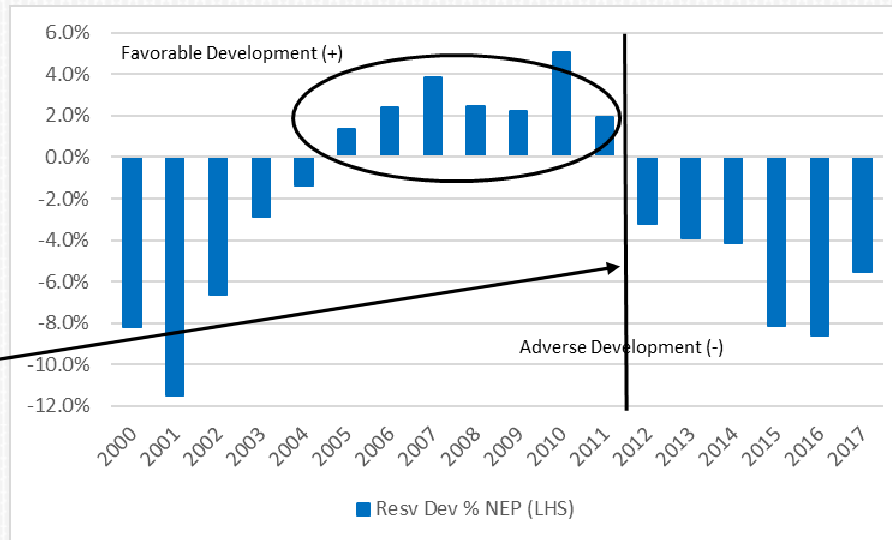
Sources: S&P Global, St. Louis FED (FRED), Assured Research

COMMERCIAL AUTO: THORN IN THE INDUSTRY'S SIDE

Reserves have developed adversely since 2012.

Let's track industry behavior/economic series for 2005-2011 separately from 2012 and subsequent

Commercial Auto Reserve Development



Sources: S&P Global, St. Louis FED (FRED), Assured Research

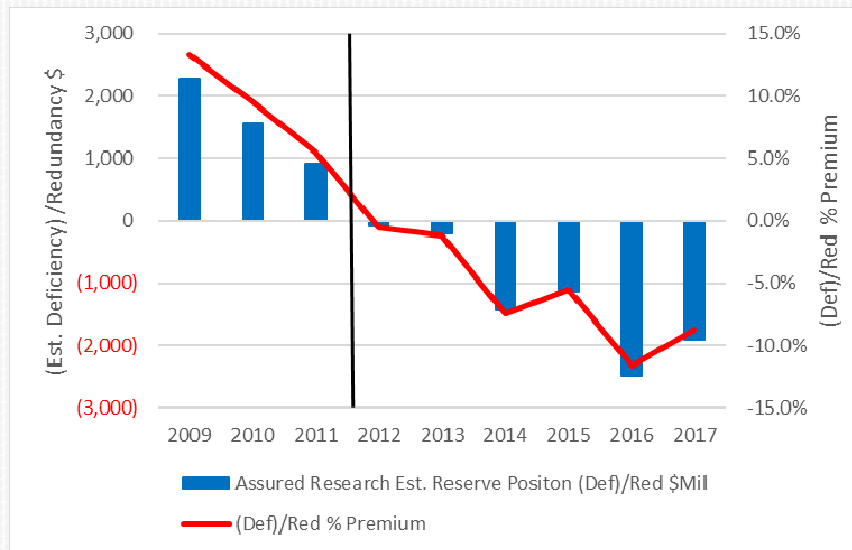
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COMMERCIAL AUTO: THORN IN THE INDUSTRY'S SIDE

Our reserving work flagged the years 2011/2012 as a turning point when the industry moved from reserve redundancy to deficiencies.

Why this turning point, and how did the industry respond?

Assured Research Est. Reserve Position



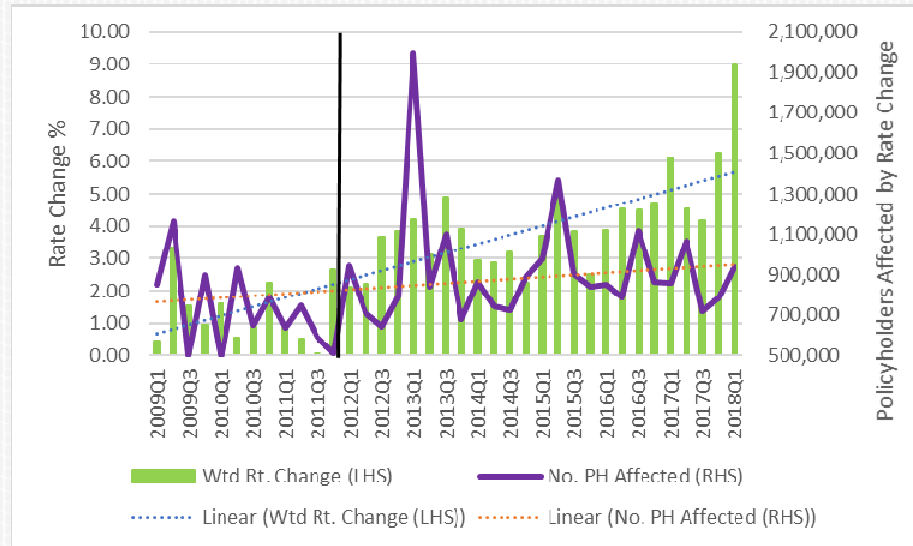
Sources: S&P Global, St. Louis FED (FRED), Assured Research

COMMERCIAL AUTO RATES HAVE BEEN RISING SINCE 2013

Industry responded promptly by raising rates and broadening the # of policyholders impacted by rate changes.

Why wasn't this enough to suppress or reverse the rising combined ratio?

Rate Changes and Affected Policyholders



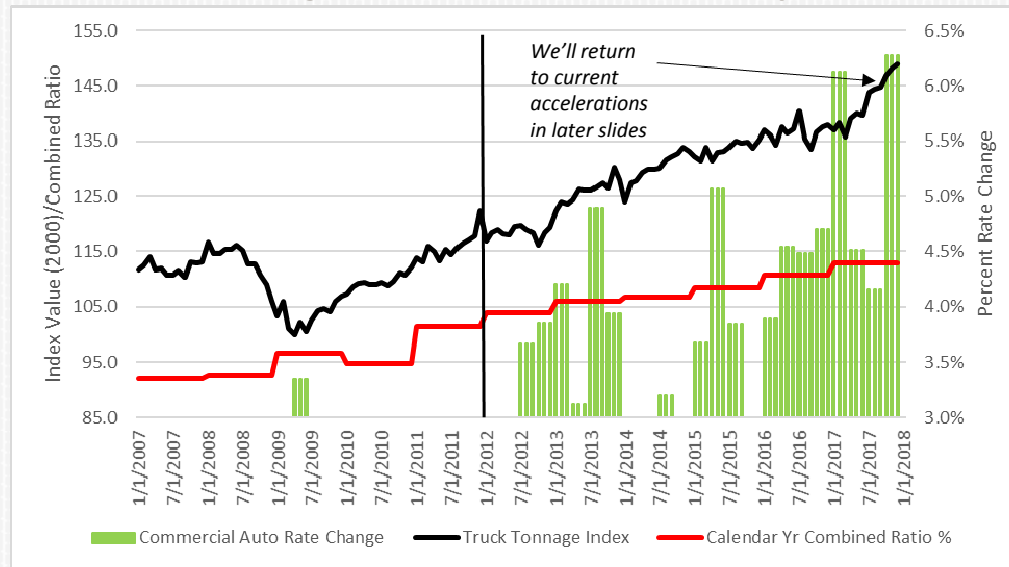
Sources: S&P Global, Assured Research

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RISING EXPOSURES EXPLAIN THE PROBLEM - PARTLY

Industry rate increases were very modest before 2012 while reserves were developing favorably – even though the CR was rising and exposures were on the rise (post recession)

Rate Changes, Comb. Ratio, Truck Exposures

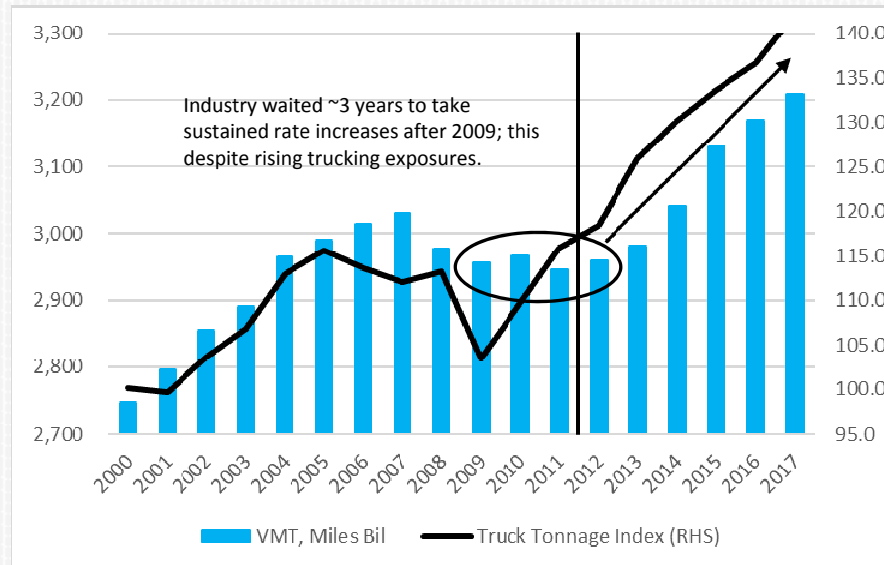


Sources: S&P Global, St. Louis FED (FRED), Assured Research

BUT WAIT...THERE'S MORE: PERSONAL VMT RISING!

*Vehicle miles travelled decline for several years before 2012. The acceleration in VMT corresponded with a continued rise in truck tonnage. Most commercial claims involve an at-fault, private auto**

Rate Changes and Affected Policyholders



Sources: St. Louis FED (FRED), Assured Research

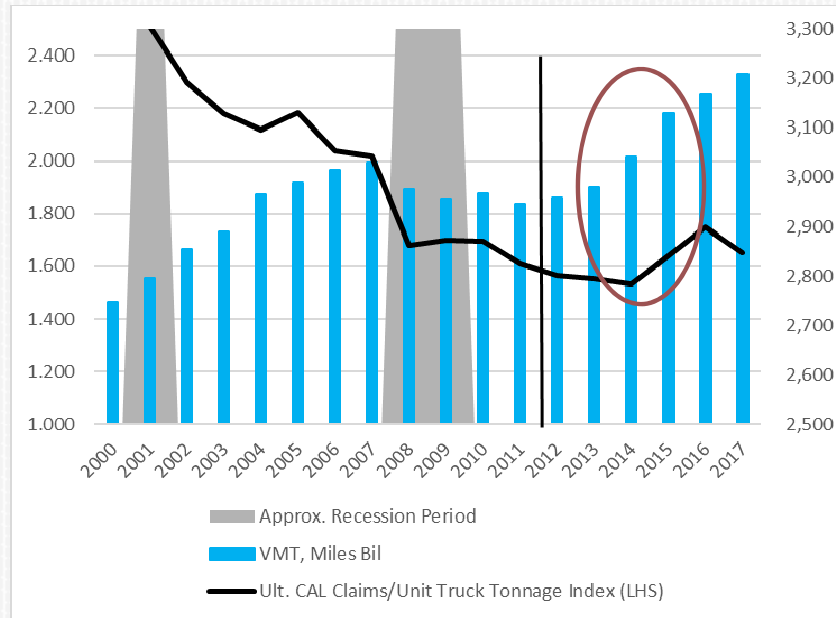
*Report from American Trucking Association (2013): *Relative Contribution/Fault in Car-Truck Crashes*.

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BUT WAIT...THERE'S MORE: PERSONAL VMT RISING!

Commercial auto claims fell steadily pre-2012 (even allowing for rising trucking exposures). But as personal VMT accelerated the claim frequency of commercial auto rose by 2014

Cmcl. Auto Claims Indexed to Truck Exposure



Sources: St. Louis FED (FRED), Assured Research

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OTHER ISSUES WEIGHING ON RESULTS

- ◆ **Our graphs paint a picture of pricing falling behind a confluence of adverse macro trends, but there's surely more...**
- ◆ **...self-inflicted problems**
 - **One of the “least underwritten” commercial line of insurance**
 - **Claims professionals need more training**
 - **Rating algorithms don't adequately capture exposure changes**
 - **Improving employment picture leaves transportation companies scrapping for less qualified drivers**

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HEADWINDS AND TAILWINDS AHEAD

◆ Tailwinds include:

- **Line has the attention of industry professionals**
 - × Will that lead to more investments in training (claims and UW)?
- **Vehicle Miles Travelled is stabilizing**
 - × Roadways becoming more crowded at a slower rate!
- **Accelerating use of safety technology in commercial (and personal) autos**
- **Rate increases accelerated into late 2017/1Q18 (avg. 7.6% 4q17/1q18)**
 - × Continual rate increases *have to work at some point...right?*

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HEADWINDS AND TAILWINDS AHEAD

◆ Headwinds include:

- **Social inflation is back!**
 - × The 12% y/y rise in legal services advertising is at least partly trained on commercial auto claims
- **Diminishment of the Affordable Care Act**
 - × We've come to believe the ACA played a role in mitigating medical inflation; impact of the individual mandate repeal in '19...not helpful
- **That's 4 tailwinds and 2 headwinds**
 - × Must mean the outlook is positive?

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OUR DIAGNOSIS AND OUTLOOK FOR COMMERCIAL AUTO

◆ Diagnosis Unchanged from last year

- **80% of the problems in commercial auto were classic pricing cycle issues**
 - × Rates fell while reserves developed favorably but exposures rose and the macro environment worsened
- **20% of the problems attributable to new(er) issues like rising litigation rates or macro-factor interaction**
 - × Example: distracted driving/rising speed limits while both commercial and personal VMT accelerated

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What's Wrong with Commercial Auto?

Questions
?

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Thank you!

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