

The Hardening Auto Insurance Market



Auto insurance premiums have been on the rise since April 2016, when a 6 percent rate hike made it the biggest monthly increase since 2003. Today, double digit rate increases have become the new normal as insurance companies work toward adequate rate structures to offset countrywide poor auto results for both personal and commercial auto exposures. The contributing factors include the high costs of claims, increasing costs of vehicle repairs and unsafe driving behaviors, policyholders are not likely to see a softer market any time soon.

More Drivers on the Road

Thanks to low gasoline prices and rising employment rates, more Americans are driving. As a result, there are more accidents, which lead to higher payouts. Higher payouts lead to higher premiums.

The cause of more accidents isn't entirely because more drivers are on the road—it is because of drivers' unsafe driving practices. According to the AAA Foundation for Traffic Safety, about 87 percent of drivers admitted to engaging in at least one risky behavior while behind the wheel, including using cellphones while driving and not wearing seat belts.

Claims Severity

Adding to the causes of the hardening market is the increasing size of insurance claims—also known as claim severity. Three large drivers of claim severity include the increase in the costs of medical care, auto repair and

auto parts. According to a recent study by CarMD, the largest repair cost comes from replacing the expensive technology that is common in newer vehicles, as body shops struggle to afford the special equipment and training required to perform the repairs.

Uninsured Motorists

Although auto liability insurance is compulsory in most states, approximately 13 percent of drivers drive uninsured. Unfortunately, it is the drivers who abide by compulsory insurance laws who end up paying the price—in the form of uninsured motorist coverage. According to the Insurance Research Council, uninsured claim payments have increased by 75 percent over the past 10 years, resulting in a \$14 premium increase for every insured individual.

The Threat of Autonomous Vehicles

Although autonomous vehicles (driverless vehicles) have the potential to save lives and reduce injuries, they could also decrease the personal automobile insurance sector to less than 40 percent of its current size. While the change should be gradual, many insurers have been increasing rates by 5-10 percent in anticipation of the threat.

Insurance Fraud

The Insurance Information Institute estimates that insurance fraud costs the United States \$32 billion per year. A common form of insurance fraud is when someone cheats the claims process by faking an injury



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and blaming it on an accident. As a result, insurance companies end up paying claims for injuries that never occurred.

Another common type of insurance fraud is when policyholders lie on their application in an effort to receive low insurance rates—lies that cost insurers \$16 billion per year.

Options

Employers should establish and implement an effective fleet safety program with regular updates and driver training. Additionally, the investment in telematics, camera systems, and other similar tracking devices may be warranted depending on the size of the fleet and loss experience. Given the consistent growth trends of automobile claim payments, insurance companies are moving in the direction of requiring tracking devices more often than simply recommending them.

-if you would like more information about this issue or if you need additional assistance regarding fleet safety training, please contact a member of your BCH Service Team.