

# NAMIC ISSUE ANALYSIS



## **COST DRIVERS: HOW RISKIER ROADS, RISING REPAIRS, AND RECKLESS DRIVING ARE INCREASING INSURANCE COSTS.**

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*The National Association of Mutual Insurance Companies is the largest property/casualty insurance trade group with a diverse membership of more than 1,500 local, regional, and national member companies, including seven of the top 10 property/casualty insurers in the United States. NAMIC members lead the personal lines sector representing 66 percent of the homeowner's insurance market and 53 percent of the auto market.*

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## INTRODUCTION

As our country and the world continue emerging from the fog of COVID-19, the cost of auto insurance will be squarely in the headlights for many policymakers at the federal, state, and local levels for some time to come. This interest would have developed with or without a global pandemic, but as with many products, COVID-19 has highlighted, accelerated, and exacerbated many existing and emerging challenges in auto insurance. Despite insurers voluntarily providing more than \$14 billion in relief to consumers, waiving fees, suspending exclusions, and pausing cancellations during the pandemic, consumer advocates, elected officials, and some regulators continue to focus on auto insurers for alleged “windfall” profits while failing to recognize the last decade of losses in a low-interest rate environment. In fact, a robust review of historical and ongoing trends in the market should give policymakers significant pause before embracing any hasty, unnecessary actions that will disrupt markets and disproportionately hurt exactly those constituents they are seeking to help.

The stark reality is that the rising cost of auto insurance is a downstream symptom rather than the root cause of a problem, and efforts to further legislate or regulate auto insurer practices in hopes of lowering costs will not be successful because they are not focused on these root causes. Like many other industries, modern auto insurance carriers find themselves in the unenviable position of having most of their costs determined by external forces they can do very little to control.

This paper provides an overview of the cost of modern auto insurance, identifies the most prominent pressures driving current costs, and suggests several policy recommendations for consideration by legislators as they establish rules for the future of financial protection on the roads for all Americans.

## THE STAKES: WHY AUTO INSURANCE COST MATTERS TO ALL OF US

### CONSUMERS

At its core, auto insurance is about protecting others from the harm you could cause as a driver. Car insurance is a critical financial safeguard for anyone who gets behind the wheel of one of the more than 285 million vehicles registered in the U.S.<sup>1</sup> No one wants to shoulder the financial burden of a crash on their own, and crashes are far more frequent than many might think.

While most of us take the relative safety of a daily commute or trip to the grocery store for granted, the nearly 6 million vehicle crashes per year are one of the biggest causes of financial loss and loss of life in this country.

Consumers must also consider the cost of auto insurance as part of their calculus during the initial purchase and ongoing maintenance of vehicles, both of which continue to increase. Particularly in light of microchip and supply chain shortages arising out of COVID-19, used car prices are up by an astonishing 45% between June 2020 and June 2021 – outpacing the approximately 5.4% rise in the cost of all goods and services, according to the most recent Consumer Price Index data.<sup>2</sup> The cost of transportation is second only to the cost of housing for most American families,<sup>3</sup> and it is only logical that as vehicles continue to become more expensive they will cost more to insure and further affect the bottom line for consumers who want to protect themselves and follow state laws.

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<sup>1</sup> <https://hedgescompany.com/automotive-market-research-statistics/auto-mailing-lists-and-marketing/>

<sup>2</sup> <https://money.com/used-car-prices-auto-insurance-book-value/>

<sup>3</sup> <https://www.bls.gov/cex/news.htm>

# COST DRIVERS: HOW RISKIER ROADS, RISING REPAIRS, AND RECKLESS DRIVING ARE INCREASING INSURANCE COST

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## GOVERNMENT AUTHORITIES

The cost of car insurance matters a great deal to elected and appointed officials. At the national level, politicians bemoan the costs of insurance, but rarely mention the hundreds of billions of dollars in claims and damages paid by carriers every year.<sup>4</sup> Federal auto safety mandates, while often supported and sometimes even championed by insurers, are not without costs. At the state level, legislators and regulators are very mindful that it is the laws they pass and regulations they promulgate that make car insurance mandatory and establish minimum limits for coverage, which influence the price their constituents pay. These near-universal requirements that drivers maintain liability insurance coverage to compensate others for injuries or damages resulting from crashes in which the insured is found to be at fault are ultimately public policy decisions, and it is political actors who will be held accountable for the results because of the way affordability issues resonate with voters and in some cases even affect their choices on where to live.<sup>5</sup> According to National Association of Insurance Commissioners' (NAIC) data from 2018, the most recent year available, the average expenditure for auto insurance was \$1,056<sup>6</sup> – a sizeable mandated expense that might motivate calls from otherwise disengaged constituents.

Policymakers are also clearly fueled by genuine desires to enhance public safety. Driving is the most dangerous activity many Americans do every day; recent articles have referred to crashes as an “under-recognized public health crisis”<sup>7</sup> and an “epidemic,”<sup>8</sup> the kind of language and coverage that are certain to draw the attention of public officials looking for problems to solve.

## INSURERS

Insurers are in the business of finding ways to help their policyholders offset risks. The ultimate cost of auto insurance to policyholders has immense significance to the industry; not only do companies suffer reputational harm when consumers believe their products are incorrectly overpriced – take-up suffers, as well. Along with that comes a domino effect of business problems, an increase in the risk of uninsured claims, a reduction of income, and, perhaps most importantly, a reduction in reserves that could trigger regulatory action. Insurers have the most vested interest of the three groups in getting the cost of auto insurance right. Like any business, auto insurers cannot survive if they are losing money, nor can they afford to be anything less than exceptional in their risk management and consumer engagement as they try to attract policyholders in an intensely competitive market<sup>9</sup> with record-high levels of customer satisfaction.<sup>10</sup>



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<sup>4</sup> <https://injuryfacts.nsc.org/motor-vehicle/overview/preliminary-estimates/>

<sup>5</sup> [https://www.mlive.com/news/detroit/2013/03/auto\\_rates\\_drive\\_detroit\\_voter.html](https://www.mlive.com/news/detroit/2013/03/auto_rates_drive_detroit_voter.html)

<sup>6</sup> <https://content.naic.org/sites/default/files/publication-aut-pb-auto-insurance-database.pdf>

<sup>7</sup> <https://www.globalhealthnow.org/2021-02/car-accident-no-accident-its-under-recognized-public-health-crisis>

<sup>8</sup> <https://www.vox.com/22675358/us-car-deaths-year-traffic-covid-pandemic>

<sup>9</sup> The Herfindahl-Hirschman Index commonly used to measure market concentration indicates that using 2019 NAIC data, PPA insurance had a score of 794 on a countrywide basis. According to the Department of Justice and Federal Trade Commission (FTC) merger guidelines, markets with HHI's less than 1,500 are considered “unconcentrated”; markets with HHIs between 1,500 and 2,500 are considered to be “moderately concentrated.”

<sup>10</sup> <https://www.jdpower.com/business/press-releases/2021-us-auto-claims-satisfaction-study>

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## THE ISSUE: THE MANY DRIVERS OF AUTO INSURANCE COSTS

Notwithstanding the extreme aberration in driving patterns caused by government shutdowns in early 2020, in recent years the costs of providing auto insurance coverage are up across the board. Despite a steady increase in net premiums written, auto insurers suffered combined ratios over 100 every year for the past decade – that is to say, nearly a decade of paying out more in claims than they received in premiums.<sup>11</sup> Accepting the painful reality that costs are up raises a simple question with extremely complex answers: why? There is no single answer, and any attempt to list all the reasons would be futile, but some of the primary contributors to the overall rise in the cost of providing auto insurance that policymakers should be aware of include:

### MORE DRIVERS ON THE ROAD

The U.S. population is growing, with an overall increase approaching 10 percent growth this decade and an accompanying growth in the number of licensed drivers to more than 230 million.<sup>12</sup> More drivers mean more cars, more miles driven, and more risk of crashes, particularly in the fastest growing metro areas.

Aside from the unprecedented and temporary decrease in national vehicle miles traveled (VMT) during the spring of 2020, as a country, we continue to spend more time and travel greater distances behind the wheel, especially in cities with the greatest population density where daily commutes routinely exceed an hour.<sup>13</sup> These major metropolitan areas usually also coincide with increased traffic, auto theft, vandalism, and rates of uninsured drivers, all of which contribute to the overall cost of coverage. An additional complicating factor for the immediate future is that during the early months of the pandemic public transit saw ridership decline by as much as 95% as consumers shifted behavior and embraced private passenger autos believing it would reduce the risk of infection.<sup>14</sup> These former public transit users are now contributing to soaring levels of vehicle usage – for instance, New York City’s Metropolitan Transit Authority reports an 18% year-over-year increase in new car registrations – every one of these vehicles faces and creates new risks on the road.<sup>15</sup> When added to the amount of COVID “revenge travel” expected from Americans in the coming months, it should be no surprise to see an overall increase in VMT across 2021 and 2022.

### MORE SPEEDING, CRASHES, AND DEATHS

There is no single clearinghouse for comprehensive auto crash information in the U.S. The federal government makes its best efforts to aggregate data from diverse federal, state, and local law enforcement and emergency tracking systems through the Fatality Analysis Reporting System, National Automotive Sampling System, National Emergency Management Information System, General Estimates System, and Crash Report Sampling System, among others. The National Highway Traffic Safety Administration (NHTSA), which receives and analyzes data for the U.S. Department of Transportation reports that more than 6 million crashes occur on a yearly basis in the U.S., a number that has gone down year-over-year only once in the last decade.<sup>16</sup> This is to say, crashes continue to increase nationwide year after year.

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<sup>11</sup> <https://www.iii.org/fact-statistic/facts-statistics-auto-insurance>

<sup>12</sup> <https://www.statista.com/statistics/191653/number-of-licensed-drivers-in-the-us-since-1988/>

<sup>13</sup> <https://www.cnn.com/2019/01/22/the-top-10-us-cities-where-workers-commute-the-longest.html>

<sup>14</sup> <https://www.reuters.com/article/us-health-coronavirus-usa-transit/empty-trains-clogged-roads-americans-get-behind-the-wheel-to-avoid-transit-idUSKBN22W29X>

<sup>15</sup> <https://www.bbc.com/worklife/article/20201202-why-our-reliance-on-cars-could-start-booming>

<sup>16</sup> <https://cdan.nhtsa.gov/tsftables/National%20Statistics.pdf>



# COST DRIVERS: HOW RISKIER ROADS, RISING REPAIRS, AND RECKLESS DRIVING ARE INCREASING INSURANCE COST



Accompanying the steady increase in the overall number of crashes is the severity of each claim. Some of the most useful predictors of crash severity are speed, seatbelt usage, and intoxication – NHTSA has issued several reports indicating very concerning behavior patterns showing that speeding and intoxicated crashes are up significantly while seatbelt usage is down as drivers chose to engage in riskier behavior, particularly during the early months of the pandemic.<sup>17</sup>

Early reports also provided distressing indicators that despite overall vehicle miles traveled being down more than 13% in 2020, traffic fatalities increased by 7%.<sup>18</sup> These more severe crashes impose increased costs on everyone involved.

More than any other element, speed affects the severity of a crash, and 2020 trends are not encouraging on that front. While stories and reporting by police departments and local media abound on this topic, two particularly salient examples come from Minnesota and Nebraska, where state patrol troopers hand out tickets to an average of just over 500 drivers per year for going over 100 mph. Both states saw those numbers more than double in 2020.<sup>19,20</sup> A recent NHTSA presentation showed that in 2019, even prior to the pandemic, 26% of fatal crashes, 12% of injury crashes, and 9% of property-damage-only crashes involved drivers who were speeding, according to the accompanying police reports.<sup>21</sup> The NHTSA Office of Behavioral Safety Research is engaged in multiple workstreams around the study of increased speeding and the behavioral patterns of the drivers who either habitually or circumstantially engage in it.<sup>22</sup>



*“This is a crisis. We cannot and should not accept these fatalities simply as part of everyday life in America. It will take all levels of government, industries, advocates, engineers, and communities across the country working together toward the day when family members no longer have to say goodbye to loved ones because of a traffic crash.”*

*- U.S. Transportation Secretary Pete Buttigieg*

<sup>17</sup> <https://www.nhtsa.gov/press-releases/2020-fatality-data-show-increased-traffic-fatalities-during-pandemic>

<sup>18</sup> <https://crashstats.nhtsa.dot.gov/Api/Public/ViewPublication/813115>

<sup>19</sup> <https://www.usatoday.com/story/money/cars/2021/03/05/pandemic-travel-traffic-deaths-up-8-2020-despite-driving-less/4590942001>

<sup>20</sup> [https://omaha.com/news/state-and-regional/crime-and-courts/nebraska-state-patrol-has-issued-900-plus-tickets-for-speeding-over-100-mph-this-year/article\\_be9085d8-a578-5f35-b9db-490291961a2b.html](https://omaha.com/news/state-and-regional/crime-and-courts/nebraska-state-patrol-has-issued-900-plus-tickets-for-speeding-over-100-mph-this-year/article_be9085d8-a578-5f35-b9db-490291961a2b.html)

<sup>21</sup> <https://www.nhtsa.gov/events/research-public-meeting-2021>

<sup>22</sup> <https://www.nhtsa.gov/behavioral-research>

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Figure 1: Percentage Change in Fatalities in Every Quarter As Compared to the Fatalities in the Same Quarter During the Previous Year

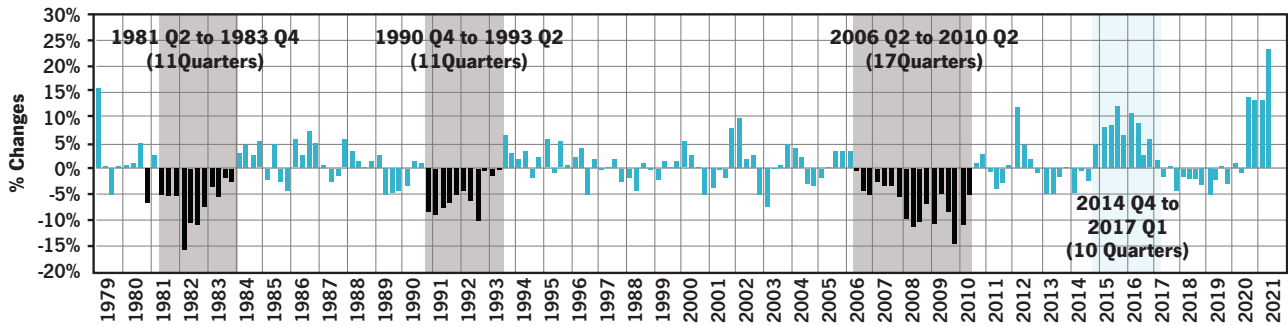


Table 1: Fatalities, VMT, Fatality Rate by Month or Quarter in 2021, and the Percentage Change in Fatalities and VMT from the Corresponding Month or Quarter in 2020

Year	1st Quarter				2nd Quarter				3rd Quarter				4th Quarter			
	Jan	Feb	Mar	Total	Apr	May	Jun	Total	Jul	Aug	Sep	Total	Oct	Nov	Dec	Total
<b>Fatalities in 2021 and Percentage Change in Fatalities for the Corresponding Month and Quarter From 2020</b>																
2020 <sup>†</sup>	2,665	2,675	2,560	7,900	2,310	3,095	3,715	9,120	3,770	3,820	3,715	11,305	3,795	3,430	3,130	10,355
2021 <sup>†</sup>	3,105 16.5%	2,585 -3.4%	3,245 26.8%	8,935 13.1%	3,575 54.8%	3,850 24.4%	3,800 2.3%	11,225 23.1%	-	-	-	-	-	-	-	-
<b>Fatality Rate per 100 Million Vehicle Miles Traveled (VMT)/VMT (in Billion) and Percentage Change in VMT</b>																
2020 <sup>†</sup>	1.06 251.7	1.14 233.9	1.16 221.1	1.12 706.7	1.39 165.9	1.46 212.7	1.51 246.8	1.46 625.0	1.45 260.1	1.51 252.8	1.50 247.2	1.49 760.1	1.46 259.1	1.47 233.6	1.28 244.1	1.41 736.8
2021 <sup>†</sup>	1.39 223.2 -11.3%	1.26 205.3 -12.2%	1.24 262.6 18.8%	1.29 691.1 -2.2%	1.39 257.3 55.2%	1.41 273.7 28.9	1.35 282.5 14.5%	1.38 813.5 30.2%	-	-	-	-	-	-	-	-

<sup>†</sup>2020 and 2021 statistical projections and rates based on these projections. Sources: VMT: FHWA June 2021 traffic volume trends for 2020 and 2021 VMT

For 2020, the U.S. Department of Transportation data reports more than 38,680 deaths in motor vehicle traffic crashes, the largest projected number of fatalities since 2007.<sup>23</sup> Early estimates for 2021 look similarly grim, with 20,160 deaths between January and June, an 18% increase over the same time period a year before, putting the U.S. on track for more than 40,000 traffic deaths this year.<sup>24</sup> That is more than 100 people per day, with traffic crashes being the leading cause of death for Americans between the ages of 1 and 25.<sup>25</sup> Perhaps most frightening is that the fatality rate per 100 million miles spiked 24% in 2020, the largest annual percentage increase since the National Safety Council began collecting data in 1923.<sup>26</sup> These crashes place tremendous emotional and financial strain on families and communities. To a lesser extent, the same can be true for crashes where there is no loss of life – even seemingly moderate crashes have the capacity to cause significant turmoil and impose emotional, medical, and property repair costs on all the individuals involved.

<sup>23</sup> <https://www.nhtsa.gov/press-releases/2020-fatality-data-show-increased-traffic-fatalities-during-pandemic>

<sup>24</sup> <https://crashstats.nhtsa.dot.gov/Api/Public/ViewPublication/813199>

<sup>25</sup> <https://www.congress.gov/117/bills/sres321/BILLS-117sres321is.pdf>

<sup>26</sup> <https://www.nsc.org/newsroom/nsc-preliminary-estimates-motor-vehicle-deaths-con>



# COST DRIVERS: HOW RISKIER ROADS, RISING REPAIRS, AND RECKLESS DRIVING ARE INCREASING INSURANCE COST

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## MORE DISTRACTED DRIVING

Eating, drinking, and conversing with passengers are not new distractions for drivers, but there is no question that roadways have become more dangerous because of in-vehicle technology and portable electronic devices that explicitly serve to distract drivers visually, manually, or cognitively from the task of driving. Whether texting on a cellular telephone, adjusting an entertainment console, or operating a navigation system, distractions that cause inattention by the driver focusing on another activity accounted for nearly a million reported crashes in 2019, in which 3,142 people were killed and another 424,000 were injured.<sup>27</sup>



Studies have shown that drivers taking their eyes off the road for as little as five seconds can equate to driving the full length of a football field with your eyes closed. As harrowing as these statistics are, driver surveys reveal a stark disconnect between driver views and behavior – most drivers agree that using a mobile device hinders your ability to drive, but most drivers also admit to engaging with their cellphone while driving, whether to text, take photos, or even video chat.<sup>28</sup>

## CONTINUED AND POTENTIALLY MORE IMPAIRED DRIVING

Driving under the influence is deadly, yet it continues to happen across the country. Combatting this behavior continues to present significant challenges despite extensive public awareness campaigns, enhanced penalties, and the evolution of technology like ignition interlock devices. According to the NHTSA, more than 10,000 lives were lost to alcohol-impaired driving in 2019 – that is more than one life every hour of every day.<sup>29</sup>

Early studies and data on cannabis-impaired driving also present alarming trends. As noted in NAMIC's recent "Cannabis Conundrum" white paper<sup>30</sup>, cannabis-impaired driving presents many novel challenges for policymakers and insurers, not the least of which are technological barriers for consistently measuring impairment. While testing continues to catch up with cannabis users, a recent release from the Insurance Institute for Highway Safety (IIHS) notes that more evidence is emerging that crash rates go up when states legalize recreational use and retail sales of marijuana.<sup>31</sup>

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<sup>27</sup> <https://www.nhtsa.gov/risky-driving/distracted-driving>

<sup>28</sup> <https://www.thezebra.com/resources/research/distracted-driving-statistics/#statistics-2021>

<sup>29</sup> <https://www.nhtsa.gov/risky-driving/drunken-driving>

<sup>30</sup> [https://www.namic.org/pdf/publicpolicy/210510\\_cannibus\\_conundrum.pdf](https://www.namic.org/pdf/publicpolicy/210510_cannibus_conundrum.pdf)

<sup>31</sup> <https://www.iihs.org/news/detail/crash-rates-jump-in-wake-of-marijuana-legalization-new-studies-show>

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## MORE EXPENSIVE CARS, PARTS, AND REPAIR PROCESSES

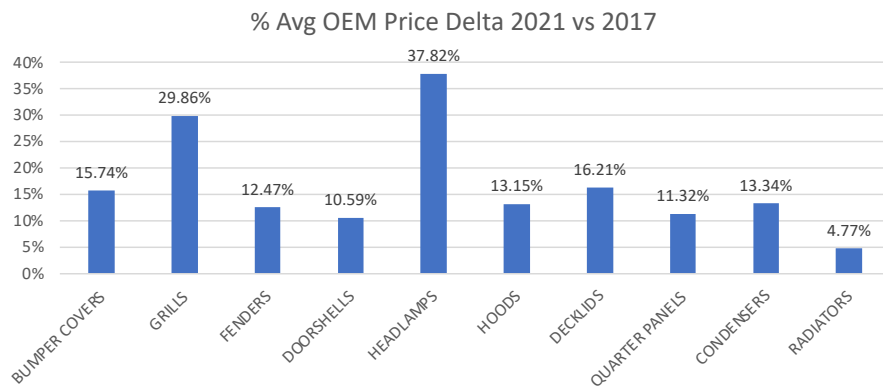
Modern cars are safer than ever. At the same time, they have more parts than ever, and they are more expensive than ever to repair. The days of the “shade tree mechanic” and the body shop that can fix anything with paint and filler are waning as auto repair becomes an ever more involved technological and complicated task. Between inventory challenges and the increased cost of components, the average cost of a new vehicle in 2021 has risen to nearly \$40,000.<sup>32</sup>

Logically, it follows that more expensive cars with more expensive parts cost more to repair, but the degree of difference in recent year-over-year comparisons is remarkable. The average cost of repair for vehicles has increased almost 8% since as recently as 2019 with the significant advances in standard equipped technology as well as changes in material construction. Body style redesigns are often accompanied by radical changes in the advanced safety capabilities of vehicles as well as the type of substrates automakers use to achieve weight reductions to improve fuel economy.

Example: The 2017 Toyota Camry has only 18 parts in the front bumper assembly, with a total cost of \$947.43. The redesigned 2018 Camry, however, has 43 parts in the front bumper assembly with a total cost of \$2,063.73. When analyzing the average repair cost for these two vehicles, we found the 2018 Camry is 43% more costly to repair than the 2017 model.

Changes in automotive technology not only have an impact on the number of components required in various assemblies but on the individual cost of parts. Two part types, grills and headlamps, have seen an explosion in price over the last five years, with the average cost rising almost 30% for grills and 38% for headlamps between 2017 and 2021, according to data from Mitchell International. The increasing ubiquity of front wave radar sensors and the move toward LED lighting technology are the primary drivers for this change.

Figure 2: 4-Year Increase in Average Prices for 10 Most Frequently Replaced Auto Parts



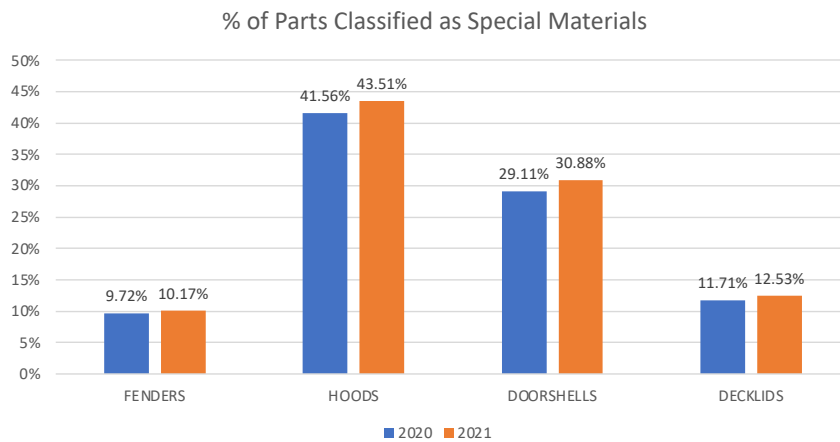
<sup>32</sup> <https://www.financialsamurai.com/average-new-car-price/>

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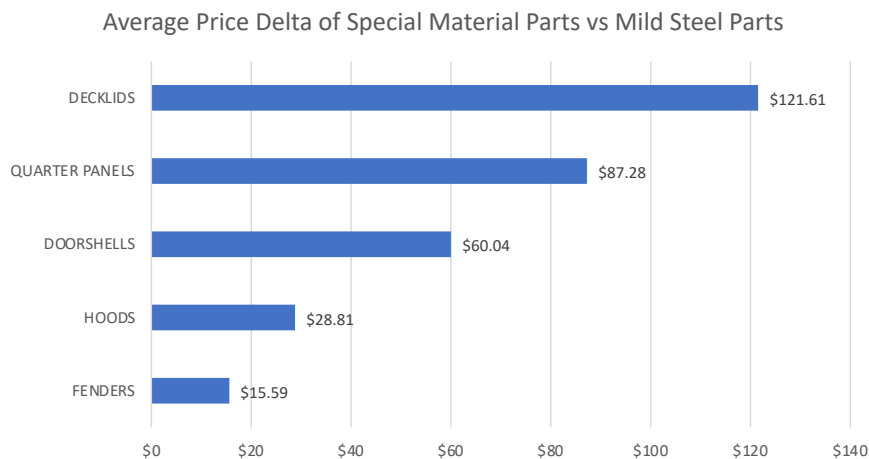
It is worth mentioning that a contributing factor as to why parts are more expensive is the rapid adoption of more mixed materials in new vehicle construction to improve fuel economy performance as well as crash-worthiness. Both are positive outcomes that insurers support, however, vehicles that rely less on mild steel and more on materials like aluminum, ultra-high strength steel (UHSS), magnesium, and plastic composites present novel challenges in a collision repair setting. Many of these materials are extremely difficult to repair or in the case of magnesium and UHSS, are not repairable at all. Mitchell data shows that parts constructed of such materials are also more expensive, on average, than their mild steel counterparts, further elevating the cost of repairs.

It is also worth noting that these parts-cost issues are not unique to the U.S. The German Insurance Association recently reported that the prices of spare car parts in Germany rose by 44% over the last eight years while inflation was rated at 13%, due primarily to the fact that part suppliers have limited incentives to lower prices in a “quasi-monopoly.”<sup>33</sup>

**Figure 3a: Parts Classified as “Special” Material**



**Figure 3b: Cost Delta Between Special Parts and Steel Parts**



<sup>33</sup> <https://www.carscoops.com/2021/10/auto-spare-part-prices-have-increased-by-44-since-2013-according-to-the-german-insurance-association/>

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In addition to the parts themselves, repairing newer and more complex cars often requires more involved and extensive processes. Diagnostic scans have become a virtually compulsory operation in the collision repair industry; almost 80% of vehicles repaired in 2021 received diagnostic scans based on Mitchell data. The pre- and post-scans of vehicles involved in an accident allow technicians to appropriately identify affected systems that are not visible to the naked eye and ensure a vehicle receives a clean bill of health before being returned to the vehicle owner. The cost of these scans, however, is adding further cost pressure to the repair process, with the average cost of cumulative scanning on a repair averaging more than \$120, according to Mitchell.

## MORE EXPENSIVE MEDICAL CARE

While advanced vehicle safety features continue to save lives, it cannot eliminate all injuries arising from crashes – these injuries, in turn, create costs auto insurers must account for, both in frequency and severity. The National Safety Council uses estimates from the National Health Interview Survey to study statistics on injuries serious enough that a medical professional was consulted. Based on the current medically consulted injury-to-death ratio of 114:1, and rounded to the nearest thousand, the estimated number of non-fatal medically consulted injuries resulting from crashes during 2020 was 4,795,000. The cost of these medical consultations continues to rise at a rate that far outpaces the cost of auto insurance premiums.

Medical costs for insurers are not going up in a vacuum; from 2010 to 2017, bodily injury claim frequency increased every year, accompanied by increases in claim severity of nearly 30%. Over the same period, according to the Consumer Price Index, medical care supplies are up by 30% and hospital services up a whopping 46.3%.<sup>34</sup> Despite having absolutely no control over these costs, auto insurers must account for them when setting rates to remain solvent and avoid regulatory action.

## MORE EXTREME WEATHER

It is critical to remember that auto insurance does not only cover vehicles when they are being driven. Cars not only face dangers from other drivers and other perils when parked on the street; garaged cars suffer the wrath of hurricanes, wildfires, named storms, and other natural disasters that are on the rise in recent years, with 2020 breaking records for weather and climate disaster events in the U.S.<sup>35</sup> Losses and claims related to weather vary considerably by state and over time, but the percentage of dollars paid out to catastrophe-related auto claims is up more than 4% over the past decade, in part, because catastrophe claims often result in total loss declarations rather than repair.<sup>36</sup> In some cases, claim severity has risen as much as 300% in the aftermath of hurricanes and subsequent flooding.<sup>37</sup>

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<sup>34</sup> <https://www.iii.org/fact-statistic/facts-statistics-auto-insurance>

<sup>35</sup> BRIC Pocket Guide, NAMIC.

<sup>36</sup> Patterns in Auto Physical Damage Insurance Claims, Insurance Research Council, 2020.

<sup>37</sup> <https://www.nytimes.com/2017/08/31/business/car-insurance-storm.html>

# COST DRIVERS: HOW RISKIER ROADS, RISING REPAIRS, AND RECKLESS DRIVING ARE INCREASING INSURANCE COST

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## MORE THEFT AND FRAUD

The National Insurance Crime Bureau reports that following back-to-back drops in 2018 and 2019, auto thefts increased by 9.2% in 2020, with more than 873,000 vehicles stolen across the country, with as much as 300% increases in car-jackings year-over-year in certain cities.<sup>38</sup> This amounts to one car stolen every 36 seconds.<sup>39</sup> In most instances, when a car is not recovered, insurers must treat the vehicle as if it was totaled. It is not just the theft of cars that raises the cost of claims; a pandemic rush on catalytic converters indicates a greater than 400% increase in such thefts for 2020. States and localities are fighting back against the theft of this part – the Texas Legislature passed a bill making it a felony to sell a catalytic converter without proof of what vehicle it came from<sup>40</sup>, and police departments across the country are hosting etching events for consumers to better protect their vehicle parts.<sup>41</sup>

Increased and increasingly sophisticated fraudsters also plague the auto insurance ecosystem. Whether it is selling phantom windshield replacements, inflating claims through assignment of benefits, staging crashes, or submitting false reports of drivers, mileage, violations, or garaging, the Coalition Against Insurance Fraud estimates that auto insurers lose at least \$29 billion per year to these scams.<sup>42</sup> Auto manufacturers continue to introduce improved anti-theft measures like remote tracking that assist insurers and law enforcement in efforts to recover stolen vehicles, but thieves continue to develop sophisticated tools for defeating these devices.<sup>43</sup>

## UNINSURED MOTORISTS AND MANDATORY MINIMUM COVERAGE

Uninsured motorists impose costs on the three interested groups identified at the outset of this analysis: consumers, governments, and insurers. The most recent study of uninsured drivers by the Insurance Research Council estimates the percentage of drivers countrywide who are uninsured is 12.6%.<sup>44</sup> The costs associated with uninsured motorist (UM) claims increased more than 160% over the 10-year span between 2007 and 2017, with the average cost of a claim rising to \$25,696. Insurers must not only be mindful of these claims, but also the administrative and compliance costs of tracking auto coverage confirmations and cancellations, yet over the same period, UM premium costs rose only at an annualized rate of 1.6%, increasing from \$66 to \$78.<sup>45</sup>



<sup>38</sup> <https://www.nicb.org/news/news-releases/auto-thefts-surge-2020-according-new-nicb-report>

<sup>39</sup> <https://www.msn.com/en-us/money/insurance/spike-in-car-thefts-during-pandemic-may-cost-everyone-in-insurance/ar-AAOq79v?ocid=entnewsntp&pc=U531>

<sup>40</sup> <https://legiscan.com/TX/text/HB4110/id/2408113>

<sup>41</sup> <https://www.nicb.org/news/blog/nicb-partners-law-enforcement-combat-catalytic-converter-thefts>

<sup>42</sup> <https://insurancefraud.org/fraud-stats/>

<sup>43</sup> <https://foxsanantonio.com/news/yami-investigates/car-thieves-find-a-way-around-gps>

<sup>44</sup> Uninsured Motorists, Insurance Research Council, 2021 Edition.

<sup>45</sup> <https://content.naic.org/sites/default/files/publication-aut-pb-auto-insurance-database.pdf>, National Association of Insurance Commissioners.

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It was concerns over uninsured motorists that led to financial responsibility/mandatory minimum laws across the country being enacted and updated several times over the last century. While state minimum limits vary across geographies, the majority of states require at least \$25,000 of bodily injury coverage per person, \$50,000 of bodily injury per crash, and \$25,000 of property damage per crash.<sup>46</sup> Any time policymakers consider raising minimum limits, they must confront the accompanying reality that coverage rates for consumers will increase because higher minimums mean higher risk exposures. Higher rates, in turn, increase the temptation to drive without coverage, increasing the risk to all drivers on a state's roads by increasing the number of uninsured motorists. It is also worth bearing in mind that when prices go up, the most price-sensitive and the riskiest drivers are most affected.

## POTENTIAL SOLUTIONS: WHAT TO DO ABOUT IT?

Having identified some of the most prominent drivers of cost for auto insurers and consumers, we move into four broad recommendations for promoting healthy auto insurance markets, each of which includes proactive and reactive elements.

### EMBRACE CONSUMER CHOICE AND DATA PRIVACY

Consumers should have the right to choose where, by whom, and whether to have their vehicles repaired using non-original equipment manufacturer parts. Legislative and regulatory proposals to artificially limit consumer choice by eliminating or restricting the availability of aftermarket parts, prohibiting insurer direct repair programs, or limiting a consumer's ability to access or share data generated by their vehicles with their insurers are all bad public policy and should be rejected or repealed where already in place.



In May 2021, the Federal Trade Commission (FTC) released a long-awaited report to Congress that concluded manufacturers use a variety of methods to make consumer products harder to fix and maintain.<sup>47</sup> These restrictions on things like parts, tools, and diagnostic software necessary to complete repairs increase burdens and costs for consumers and businesses in a way that might violate federal law. In July 2021, the FTC unanimously adopted a new policy statement pledging to target repair restrictions that violate antitrust laws or prohibitions on unfair or deceptive acts or practices.<sup>48</sup> While the report and policies are not specific to auto manufacturer parts, the principles established by the FTC can and should be applied to that industry.

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<sup>46</sup> A complete list of state minimum limit requirements is available at <https://www.iii.org/article/background-on-compulsory-auto-uninsured-motorists>.

<sup>47</sup> <https://www.ftc.gov/news-events/press-releases/2021/05/ftc-report-congress-examines-anti-competitive-repair-restrictions>

<sup>48</sup> <https://www.ftc.gov/news-events/press-releases/2021/07/ftc-ramp-law-enforcement-against-illegal-repair-restrictions>



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## THE RIGHT TO REPAIR – AFTERMARKET PARTS

Auto insurers pay billions of dollars each year to repair policyholders' vehicles when they are involved in accidents.<sup>49</sup> These repair costs have a direct impact on the cost of insurance coverage, so insurers are always interested in identifying ways to ensure the repair process is as cost effective and efficient as possible. Aftermarket crash parts – including exterior sheet metal and plastic parts such as fenders, hoods, and door panels – are frequently much less expensive than original equipment manufacturer (OEM) parts, with no difference in the safety of the repaired vehicle, making their use in repairs beneficial to consumers.<sup>50</sup> Over the years there have been many attempts by those who profit from the use of OEM repair parts to limit the availability and use of less expensive aftermarket parts when cars are repaired following accidents. It should be the consumer, not the manufacturer, who has the right to contract for the parts to be used in a replacement.

A significant number of states require that the use of aftermarket parts be disclosed to consumers prior to a repair, and many states require that any aftermarket parts be “of like kind and quality” to OEM parts. The NAIC has adopted a model regulation containing such requirements. In 2010, NAMIC commissioned a public policy paper that examined the implications of removing aftermarket parts from the competitive marketplace. It found that if aftermarket parts could no longer be used for insured auto repairs, annual auto insurance premiums would increase on average by \$109 per vehicle.<sup>51</sup>

## REMOVE RESTRICTIONS ON DIRECT REPAIR PROGRAMS



An auto accident requiring vehicle repair is typically, at a minimum, an inconvenient disruption in the auto owner's life. It is also an opportunity for an insurance company to provide needed service by assisting the auto owner through the claims process. Operating in an intensely competitive environment, many insurance companies have developed streamlined processes in which enhanced services are provided when an insured uses one of the insurer's recommended, or preferred, auto repair shops. However, some segments of the auto repair industry not aligned with insurers have sought to interfere with this relationship by limiting insurers' ability to make those recommendations, recommendations that many consumers greatly value and rely on.

Under the preferred repair shop model, insurers negotiate with shops to designate them as preferred shops because they have demonstrated the ability to perform repairs quickly, efficiently, and keep costs low while delivering exceptional service. Insurers designate certain shops as preferred because they also meet high standards regarding equipment and training. These shops are typically authorized to begin repairs right away without having to receive approval from adjusters or appraisers. It is because preferred shops can deliver such a high level of service that they are frequently chosen by consumers to perform their repairs.

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<sup>49</sup> <https://content.naic.org/sites/default/files/publication-aut-pb-auto-insurance-database.pdf>, National Association of Insurance Commissioners.

<sup>50</sup> <https://www.iihs.org/news/detail/iihs-responds-to-tests-involving-aftermarket-repair-parts>

<sup>51</sup> <https://www.namic.org/pdf/101001AutoRepairPractices.pdf>

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## PROTECT CONSUMER DATA ACCESS

Consumer choice of where and how their vehicles are repaired should extend to all information and data necessary to complete such repairs. Contrary to positions taken by some auto manufacturers, access to information systems in a consumer's vehicle should not be restricted to the manufacturer. To the extent this issue has been put in front of voters, the people of Massachusetts overwhelmingly supported the "Vehicle Data Access Requirement Initiative" on their 2020 ballot.<sup>52</sup> While these issues are in their relative infancy in Congress and state legislatures, they will be debated for many years to come, and insurers believe it is in the consumer's best interest to always have access and the ability to share data generated by their automobile with whomever they choose to service and repair the vehicle, free of artificial restrictions created by manufacturers.

## PROMOTE SOUND UNDERWRITING

Sound underwriting empowers auto insurers to match risk to rate and provide the best coverage at the most accurate cost for consumers, thereby maximizing the benefit to insurance policyholders.

By enabling insurers to focus on accuracy, policymakers will also reduce market challenges like cross-subsidization and adverse selection. This keeps safe family sedan drivers from overpaying for their insurance to subsidize risky teenage male sports car drivers, for instance.

## REMOVE RESTRICTIONS ON DISCOUNTS AND REBATES

In recent years, insurers have developed several ways for consumers to earn additional savings by participating in programs that help reduce friction and carrier uncertainty in the auto insurance transaction. These discounts and rebates should not only be permitted, they should be encouraged and facilitated by legislators and regulators, especially in the wake of their successful use during the pandemic. Examples of this include autopay, electronic signature/online payments, pay-in-full, and purchase in advance. Many insurers also offer popular additional discounts for groups like good students or voluntary participation in defensive driving courses. These are all positive results that make our roads safer and should continue to be allowed and, in fact, applauded by policymakers.

## RESIST CALLS TO RESTRICT UNDERWRITING AND RATING FACTORS

Insurers use objective information to assess risk more accurately – this underwriting freedom is critical to ensuring the insurance industry can set appropriate rates to reflect risk and maintain solvency required by regulators.<sup>53</sup> Recent years have seen state legislatures and regulators skeptical of particular rating factors seek to prohibit their use, regardless of actuarial validity. Rather than reflexively restricting rating factors, which would severely hamper healthy markets by limiting competition, policymakers should embrace scientifically and mathematically proven underwriting and rating factors that help keep constituent auto insurance costs down.

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<sup>52</sup> Massachusetts 2020 Ballot Question 1 received 75% of the vote.

<sup>53</sup> Why Your Insurance Costs What It Does: A Risk-Based Pricing Primer, NAMIC.

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## PRESERVE OR EXPAND INSURER ABILITY TO USE DRIVING RECORDS/ENHANCE ACCURACY OF DRIVING RECORDS

While policymakers and consumers have a spectrum of views regarding other rating factors, one they seem to agree upon is the validity of an applicant or policyholder's driving history. Not only is the connection between past driving and future driving intuitive, but there is a significant sense of control over driving history. Opponents of other factors are less able to dismiss reckless driving tickets, driving with a suspended license, refusal of a breathalyzer, racing, hit and runs, or DUIs/DWIs as irrelevant to the risk a particular would-be policyholder may pose. Across the U.S., about 11% of Americans have an at-fault motor-vehicle crash on their driving record.<sup>54</sup>

Two suggestions for policymakers in this arena can further improve the value of a consumer's driving history in insurer efforts to best match risk to rate:

- (1) Expansive or permissive time periods for records in underwriting and rating will promote accuracy. While some time-period restrictions may be appropriate, the shorter a time period a carrier is able to consider, the less complete its view of the driver and his or her behavior will be.
- (2) Accuracy of state records regarding vehicular infractions is key to insurer ability to ensure the correct rates are being offered to the correct consumer. A commitment by state and local policymakers to invest in improved recordkeeping across state and local law enforcement traffic and crash records could further improve insurer accuracy and ensure consumers are not wrongly identified as risky or safe drivers on the basis of incomplete recordkeeping.

## PRESERVE THE USE OF TERRITORY RATING SYSTEMS

One of the most easily understood rating factors is also one of the most important and an exposure touched on previously: the rate you pay for your auto insurance depends in part on where you live. This is because some areas are more susceptible to crime, crashes, and catastrophes, among other things. Port and border cities tend to have high incidences of thefts, while dense cities tend to have more crashes and vandalism. Where you live also matters a great deal when commutes are considered – living in the exurbs will mean more daily driving, and as established earlier, more miles driven means more risk, which will appropriately be factored into rates. When working with the law of large numbers and risk pools, where a risk is located most of the time matters a great deal. Any efforts to limit auto insurers' ability to use geographical or territory-based rating should be rejected by policymakers.

## ENHANCE STUDY, EDUCATION, AND ENFORCEMENT OF AUTO-RELATED LAWS

Across federal and state levels, there are dozens of programs and initiatives to promote and enhance vehicle and road safety that could help contain the cost of auto insurance for consumers by reducing opportunities for losses. As roads and transportation systems continue to develop, it is imperative that policymakers continue to fund not only the construction of those systems, but the study of how they are working and, more importantly, when they are not working. Two recent IIHS studies are particularly informative here. One analysis indicates that 846 people were killed and an estimated 143,000 were injured in red-light-running crashes in 2019.<sup>55</sup>

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<sup>54</sup> <https://insurify.com/insights/auto-brands-most-car-accidents/>

<sup>55</sup> <https://www.ghsa.org/resources/news-releases/Automated-Enforcement-Checklist21>

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Source: <https://inhabitat.com/keystone-parkway-is-the-greenest-highway-intersection-in-the-us/>

Meanwhile, a 2021 analysis of “Double Teardrop Roundabouts” in the city of Carmel, Ind., found those road design patterns to have a stunning 84% reduction in injury crashes and a total 65% reduction in all crashes.<sup>56</sup> It is also important to continue funding studies of usage patterns by investing in monitoring and tracking systems to better understand driving and traffic patterns to optimize safety for all who share the road.<sup>57</sup>

Policymakers also need to continue working with insurers to improve public messaging around the importance of traffic safety laws and practices, which are key to controlling costs for everyone involved. Educational campaigns partnering with local and national advocacy groups and non-profits like the Governors Highway Safety Association<sup>58</sup>, the National Safety Council<sup>59</sup>, Advocates for Highway and Auto Safety<sup>60</sup>, and the National Road Safety Foundation<sup>61</sup> are excellent ways to amplify messaging around the importance of roadway safety. Other encouraging developments include the U.S. Department of Transportation announcement that it will unveil its first ever “National Roadway Safety Strategy” in January 2022 and the introduction of a “Vision Zero” resolution by Sen. Richard Blumenthal, D-Conn., and Rep. Jan Schakowsky, D-Ill., with a goal of eliminating traffic deaths by 2050.<sup>62</sup>



Sen. Richard Blumenthal



Rep. Jan Schakowsky

Promotion of safer auto technology and driving behavior does no good without consistent and fair enforcement of auto-related laws. Advocacy for laws updating state traffic codes to improve safety once vehicles are on the roads is even more important than improving the safety features built into the vehicles. Strong commitments by public officials to high-visibility enforcement<sup>63</sup> of tougher impaired-driving laws, bans on texting while driving with primary enforcement and fines, and penalties for speeding will also help curtail reckless driving. Automated speed enforcement and red-light cameras are additional useful tools to reduce crashes, but they are best used to augment, not replace, traditional traffic enforcement.

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<sup>56</sup> <https://www.iihs.org/news/detail/unusual-design-slashes-injury-crashes-for-roundabout-city>

<sup>57</sup> <https://www.ghsa.org/resources/news-releases/GHSA/IIHS/NRSF/Speed-Management-Pilot-Projects21>

<sup>58</sup> <https://www.ghsa.org/issues>

<sup>59</sup> <https://www.nsc.org/road/resources>

<sup>60</sup> <https://www.saferoads.org>

<sup>61</sup> <https://www.nrsf.org/>

<sup>62</sup> <https://visionzeronetwerk.org/media-advisory-resolution-for-zero-traffic-deaths-introduced-in-congress/>

<sup>63</sup> <https://www.nhtsa.gov/enforcement-justice-services/high-visibility-enforcement-hve-toolkit>

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Concurrently, states should commit the necessary resources to the enforcement of auto insurance verification to further reduce the impact and frequency of uninsured motorists. Insurers have developed the Insurance Industry Committee on Motor Vehicle Administration (IICMVA)<sup>64</sup> to assist states in these efforts and advise on issues of driver licensing, vehicle titling, vehicle registration, and motor vehicle records. The IICMVA has also developed a model law for verification of evidence that states should consider adopting to better protect citizens on their roads.<sup>65</sup>

## TORT REFORM TO STOP CIVIL ABUSE OF PHANTOM DAMAGES

Social inflation and runaway litigation by the plaintiff's bar impose extraordinary costs on auto insurers. In recent years, enterprising trial attorneys and third-party litigation funders have taken advantage of a litigious culture and embraced every opportunity to bring cases seeking to expand insurance coverage and benefits beyond policy contracts under theories of bad faith and liability that result in nuclear verdicts and serve as major disruptors to insurance markets.<sup>66</sup> The use of the courts to regulate insurers is not only inappropriate in light of existing laws and regulations, it needlessly raises the cost of coverage for all insurance consumers.

Rather than believing unfounded assertions by the trial bar, policymakers should take concrete steps to limit the potential damage done by attorneys seeking large, extracontractual recoveries. Some of these include:

- Limiting requirements around the disclosure of policy limits;
- Immunity for companies that have been subject to department of insurance examinations with no adverse findings;
- Requiring policyholders to exhaust administrative remedies prior to litigation;
- Mandatory alternative dispute resolution;
- Opportunities to resolve/correct alleged violations prior to litigation;
- Caps on alleged damages and elimination of punitive damages; and
- Limitations on attorney's fees.

While these proposals will necessarily be tailored to each state's laws and circumstances, as a general matter, policymakers should understand that excessive litigation is a significant factor driving all insurance premiums, and any efforts they can make to curb such ongoing practices will help reduce costs for their constituents.

## CONCLUSION AND THE FUTURE OF AUTO INSURANCE

For the foreseeable future, cars and the need to insure them remain an economic reality, and the dozens of external influences on the costs related to vehicle ownership and driving are becoming increasingly more complex. The continued study of all the attendant factors and potential remedies laid out above is necessary to inform sound public policy to promote an environment where auto insurers can continue to do what they do best: provide financial security and peace of mind for policyholders on roads across America by matching rate to risk.

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<sup>64</sup> <https://www.iicmva.com/IICMVAabout.html>

<sup>65</sup> <https://www.iicmva.com/IICMVAPublications.html>

<sup>66</sup> [https://www.namic.org/pdf/publicpolicy/191212\\_badfaith.pdf](https://www.namic.org/pdf/publicpolicy/191212_badfaith.pdf)

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