

Coffee Break: Commercial Auto Loss Trends

Recharge your Knowledge, Refresh your Business



This presentation is general in nature. Every agent and broker is responsible for knowing the guidelines and laws that govern the business of insurance in the states where they are licensed. If any statement in this training conflicts with the policy language it describes, the policy language prevails.

The purpose of this training is for Liberty Mutual Insurance to share helpful information with insurance agents and brokers. It is imperative that participants avoid any discussions, including informal conversations, which may violate antitrust laws on topics such as pricing, promotional policies, market allocation, supplier costs, conduct that could be construed as boycott, and any company-specific trends, expenses, or profit. You should consult your legal counsel if you have any questions regarding antitrust laws.

Commercial Auto Loss Trends

Today's Agenda



What's Driving the Poor Loss Results?

- Vehicle Miles Driven Continue to Increase
- Distracted Driving is a Growing Concern
- Motor Vehicle Fatalities are Increasing
- Increase in Vehicle Repair Costs

Future Commercial Auto Trends

Tips for Your Clients: 8 Ways to Lower Risk

How Can We Help Make the Roads Safer? Resources to Share with Your Clients



What's Driving the Poor Loss Results?



ADDITIONAL FACTORS

MEDICAL
INFLATION

→ higher severity

INCREASED
LITIGATION

→ longer development

LOW
GAS PRICES

→ increased driving

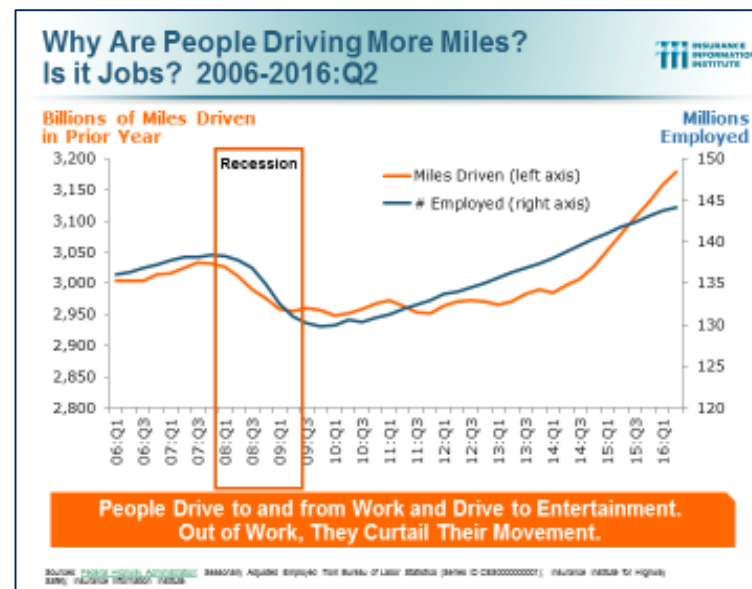
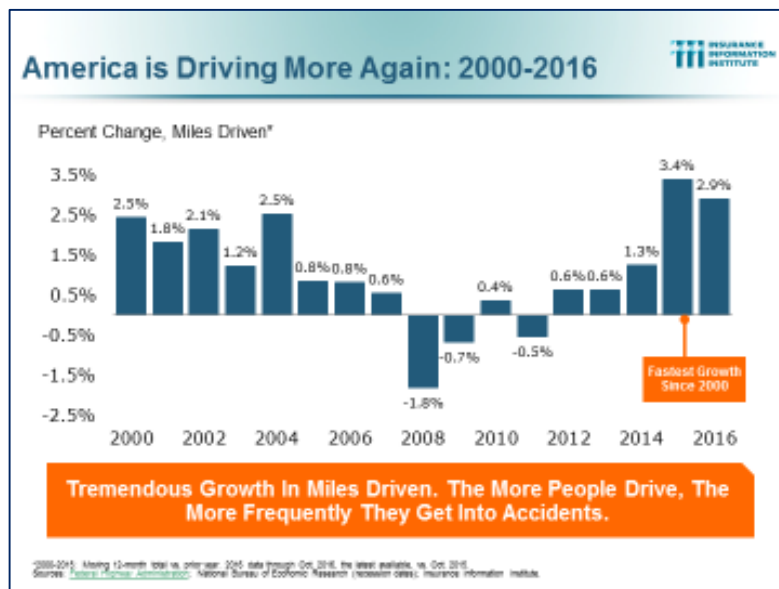
INCREASING NEW
VEHICLE SALES

→ newer fleets



Vehicle Miles Driven Continue to Increase

Recent analysis of miles driven statistics by Insurance Information Institute:



- Miles driven decreased during the recession but have increased steadily over the past few years during recovery – correlated with employment.
- Miles driven started increasing much faster in 2015 and 2016.

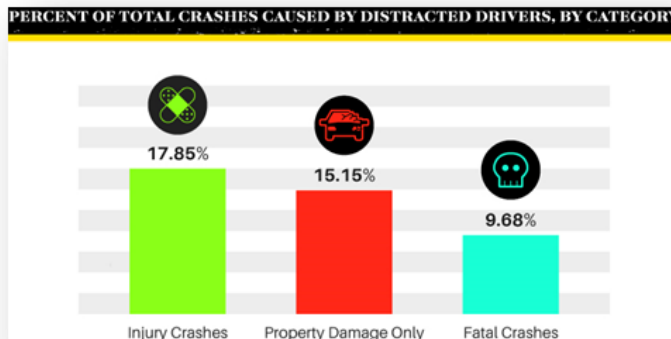
Distracted Driving is a Growing Concern



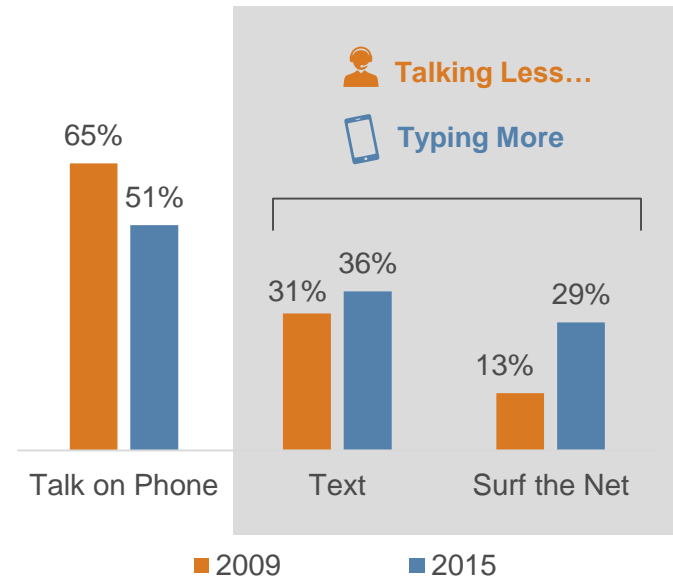
It's hard to measure the exact impact of distracted driving, but many sources show that it's becoming a bigger issue.

STUDY: Florida Distracted Driving

"During rush hour one February evening, analysts filmed 20 minutes of traffic on I-95's northbound lanes from the Clyde Moore Overpass in Boca Raton. During that time, 2,151 cars passed through. Of those 2,151 drivers, it was later revealed that **more than 8 percent were driving distracted.**"



SURVEY: "What We Do Behind The Wheel"



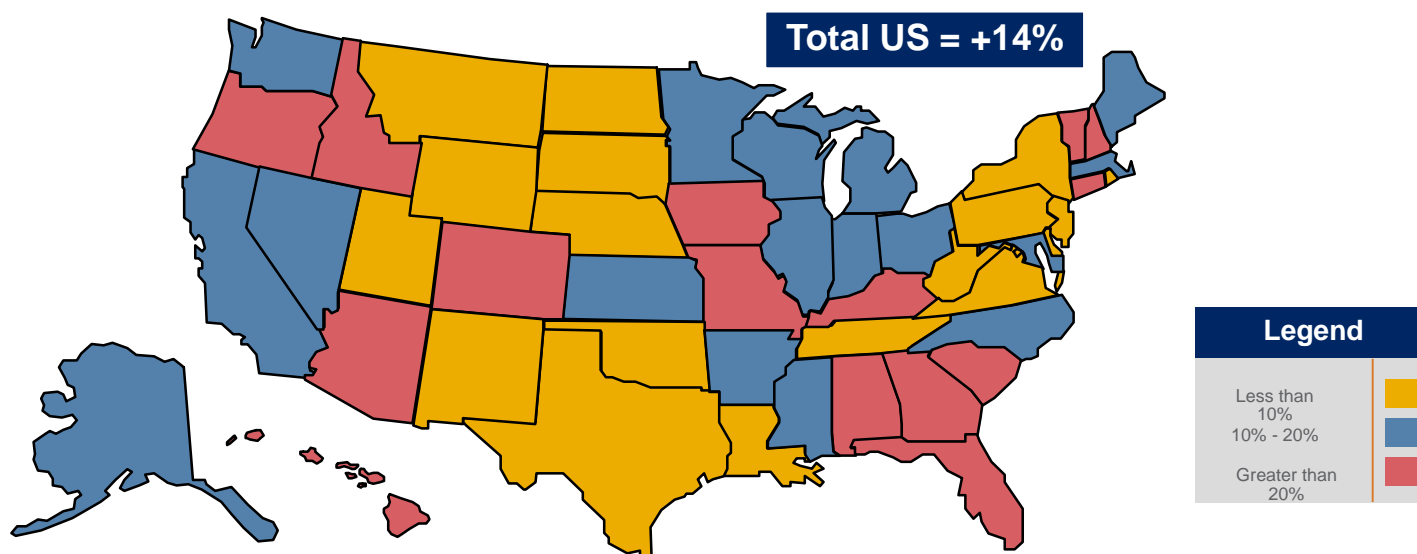
Source: SR-22 Agency, Broward Palm Beach New Times (left), Insurance Information Institute (right)



Motor Vehicle Fatalities are Increasing



Year-over-Year Change in Fatalities 2016 vs. 2014



- The number of motor-vehicle deaths in 2016 totaled 40,200 up 6% from 2015 and +14% from 2014. **2016 marks the first time the annual fatality total has exceeded 40,000 since 2007.**
- The estimated cost of motor-vehicle deaths, injuries, and property damage in 2016 was \$432B **an increase of 12% from 2015.**



Increase in Vehicle Repair Costs

Sedan with Minor Front End Damage

Part	Description	2014 Model	2016 Model
Front Bumper	O/H Front Bumper	\$110	\$110
	Bumper Cover	\$528	\$528
	Add Clear Coat	\$53	\$53
Grille	Grille w/adaptive cruise	\$240	\$205
	Distance sensor	-	\$1,216
Front Lamps	Headlamp Assembly	\$394	\$918
	Aim Headlamps	\$18	\$18
Fender	Fender	\$450	\$450
	Add for Clear Coat	\$44	\$44
	Add for Edging	\$22	\$22
	Deduct for overlap	(\$13)	(\$13)
Estimate Totals	Parts	\$1,224	\$2,818
	Body Labor	\$273	\$277
	Paint Labor	\$348	\$348
	Mechanical Labor	-	\$108
	Total Cost of Repairs	\$1,844	\$3,551

Newer technologies and safety features provide benefits, but also significantly increase repair costs.

Features such as **LED headlights**, **adaptive cruise control**, **backup cameras** and other safety aids can significantly increase the physical damage cost of even low speed impacts

Almost **2x** the cost to repair due to more expensive parts

Future Commercial Auto Trends



The trends driving auto losses are expected to continue into the near future, which means we must exercise underwriting and pricing discipline and accept that rate increases will be the new norm.

Industry Outlook – Conning View

FREQUENCY

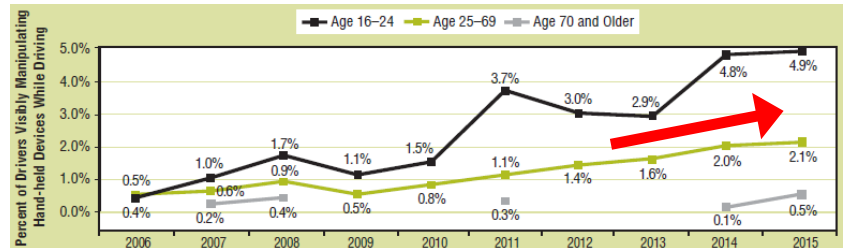
Expected to increase low single digits from 2016-2018, driven in part by increasing vehicle miles traveled (3% increase in latest year)

SEVERITY

Expected to increase low-to-mid single digits through 2018 driven by increasing repair costs and rising medical costs

ADDITIONAL CONSIDERATIONS:

1. **Percent of vehicles with collision avoidance systems continues to grow.** It will be a while before the technology saturates the market to the point where crashes decline.
 - a) Crash severity will actually increase in the short-term, meaning higher repair costs¹.
 - b) The average age of vehicles on the road is 11.6 years and continues to increase², which will only delay collision avoidance system saturation.
2. **Distracted driving continues to increase** despite known risks and the increase in laws banning the behavior³



Sources:

¹<http://www.repairerdrivennews.com/2015/08/26/ihs-in-just-2-years-percentage-of-vehicles-with-front-crash-protection-has-crossed-50/>

²<http://www.autonews.com/article/20161122/RETAIL05/161129973/average-age-of-vehicles-on-road-hits-11.6-years>

³https://www.nhtsa.gov/sites/nhtsa.dot.gov/files/documents/driver_electronic_device_use_in_2015_0.pdf

Tips for Your Clients: 8 Ways to Lower Risk



Implement a fleet safety program

Document the program and communicate expectations to all employees.



Enforce company policy for use of vehicles

Follow practices such as limiting personal use and monitoring who can use company vehicles.



Hire qualified drivers

Document standards and call for medical evaluations, references, and road tests.



Use a company fleet

Be aware of extra risks when drivers use personal vehicles on the job.



Train your drivers

Cover these essential topics: break-downs, distracted driving, driving under the influence, rest, speeding.



Regularly check driving records

Set a schedule for checking employee records and stick to it.



Monitor drivers with telematics

Focus on controlling risky practices like speeding and other aggressive behaviors.



Review every crash

Learn how to help prevent repeat incidents.

How Can We Help Make the Road Safer?



USE OUR RESOURCES

Educate your clients about the increased risks and costs so they and their employees can become safer drivers.



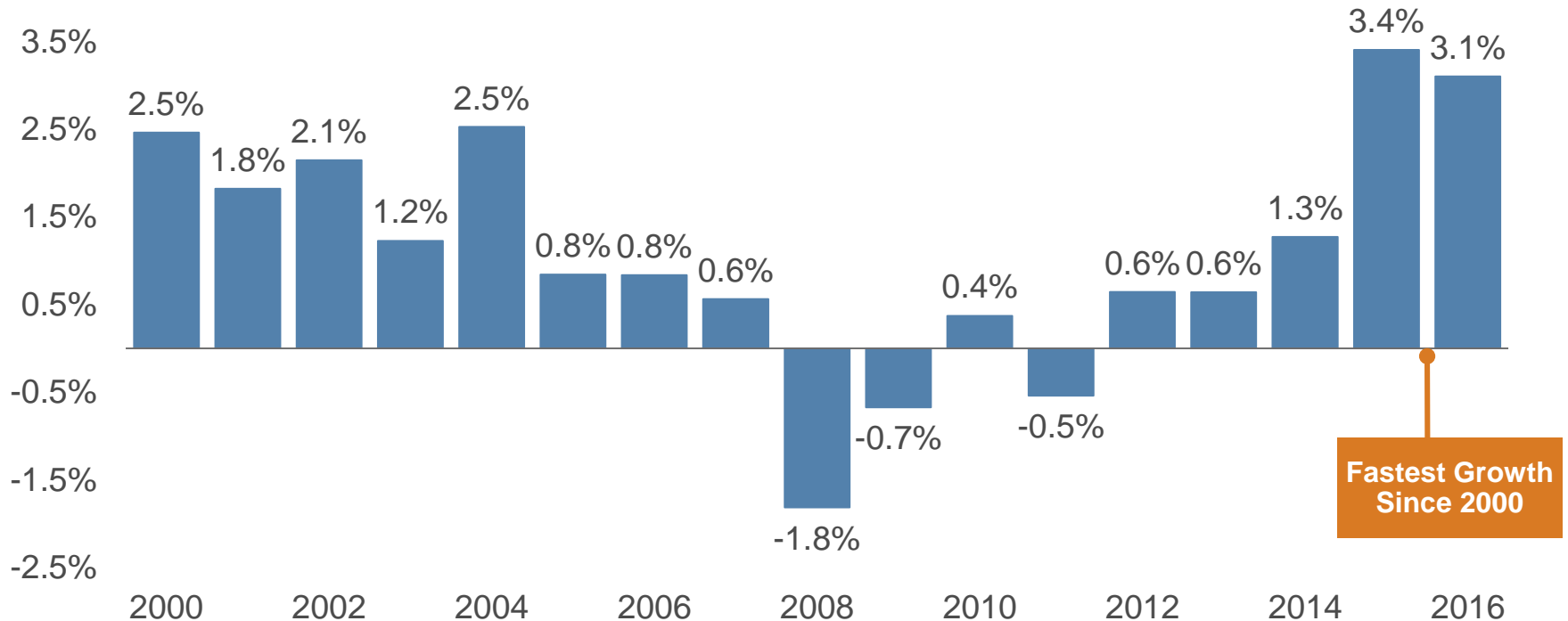
Visit helpingyousucceed-libertymutual.com/commercial-auto-trends to access resources you can share with your clients.

Questions?

America is Driving More Again: 2000-2016



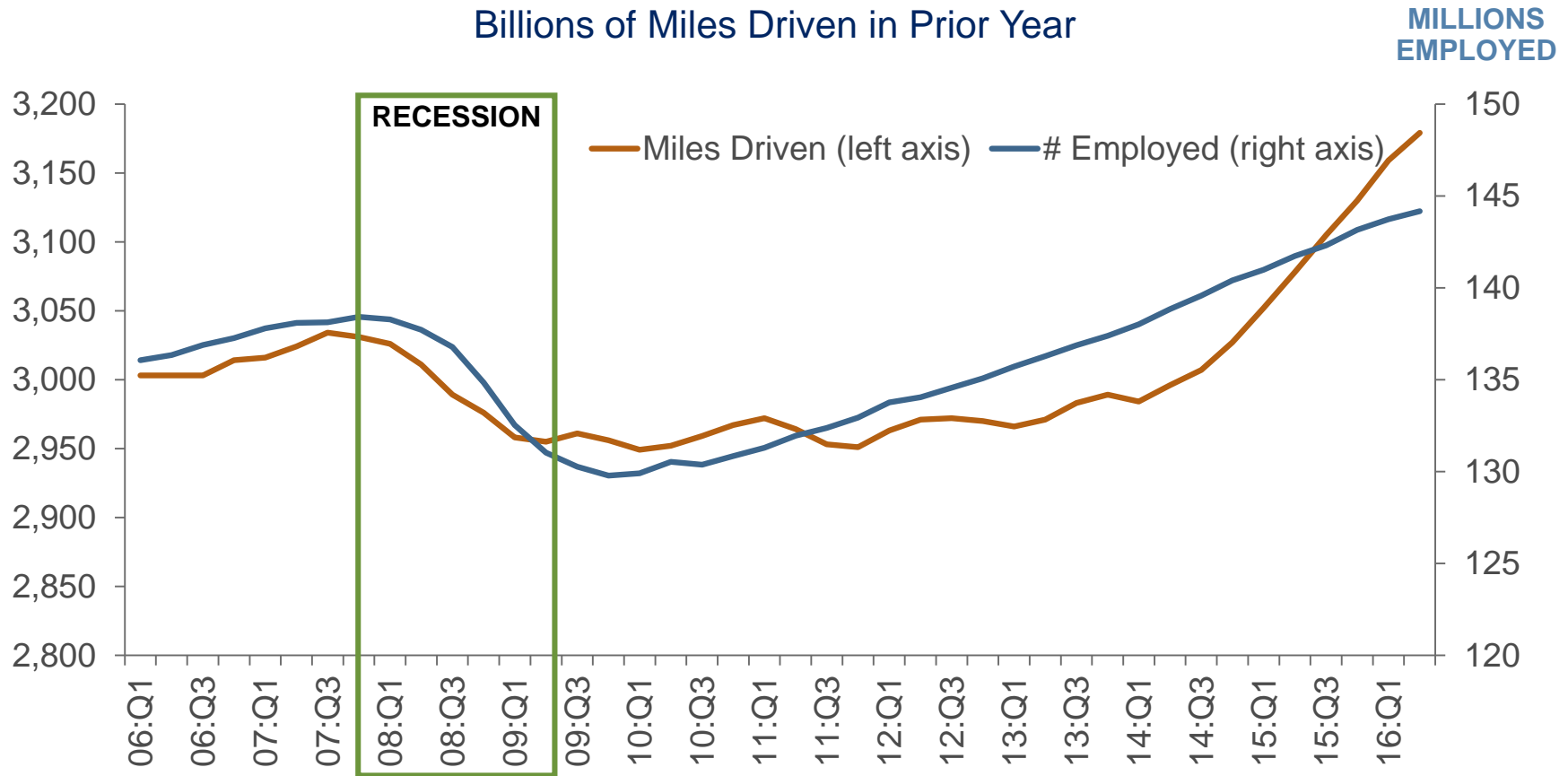
Percent Change, Miles Driven*



Tremendous Growth In Miles Driven.
The More People Drive,
The More Frequently They Get Into Accidents.

*2000-2015: Moving 12-month total vs. prior year. 2016 data through July 2016, the latest available, vs. July 2015.
Sources: [Federal Highway Administration](#); National Bureau of Economic Research (recession dates); Insurance Information Institute.

Why Are People Driving More Miles? Is it Jobs? 2006-2016:Q2



People Drive to and from Work and Drive to Entertainment.
Out of Work, They Curtail Their Movement.

Sources: [Federal Highway Administration](#); Seasonally Adjusted Employed from Bureau of Labor Statistics (Series ID CES0000000001); Insurance Institute for Highway Safety; Insurance Information Institute.

Liberty Mutual Insurance Coffee Break



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