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Auto Insurance

HITTING TRAFFIC

Commercial auto insurers have been tripped up by more frequent crashes of greater severity. An increase in available driving data should help them price and mitigate risk with greater precision.

by Tim Dobbyn

Commercial auto insurers, battered by poor results in the past few years, have been taking steps to steer the business in a more promising direction.

Many insurers have initiated reviews of their commercial auto business, canceling some accounts, raising premiums on retained clients, and trying to better assess risk before signing new accounts.

EMC Insurance Group, for example, launched its "Accelerate Commercial Auto Profitability" project last year, canceling policies and agents of its worst-performing accounts.

"We are encouraged by the early results," EMC Executive Vice President and Chief Operating Officer Kevin Hovick said during the insurer's

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Key Points

What's Happening Now: The commercial auto insurance segment is battling rising accident frequency and costly accidents.

On the Road: Despite years of inadequate pricing, commercial auto is still a competitive market.

What's Ahead: Insurers will use sophisticated telematics technology to improve underwriting that will lead to better pricing.

second-quarter earnings call in early August. He said there was initial evidence that the overall quality of its commercial auto book of business was improving and that mid-single-digit rate increases were being achieved on accounts where they were most needed.

U.S. commercial auto has been a rough journey for the past six years. Some policy writers have been successful, but in aggregate this segment, covering everything from taxis to interstate trucks, has struggled to keep pace with more frequent and more costly crashes.

Commercial auto slipped into losses overall, beginning in 2011, on a combined ratio basis and stood at 110.4 at the end of 2016 up from 108.6 in 2015. Scores over 100 mean more is being spent on claims and expenses than is coming in through premiums. (See graphic on page 36.)

Three of the top five commercial auto insurers by market share, Nationwide, Zurich Financial Services and Liberty Mutual, had combined ratios of over 100 in 2016. Travelers and Progressive Insurance, on the other hand, were below 90. (Go to page 48 for A.M. Best's commercial auto writer ranking based on direct premiums written.)

There is a growing flood of driving data that should allow insurers to more accurately underwrite the fleets they cover, but the segment, already prone to cycles, has been hit by a persistent uptick in claims after a period of aggressive competition.

Insurers and industry analysts cite a number of factors for the higher frequency of crashes, starting with the long, gradual economic recovery that has boosted miles driven by the national fleet. Then add into the mix increasing distractions in vehicles from smartphones and other technology, congested roads and even increased driver impairment from opioids and marijuana.

According to the latest data available from the Federal Highway Administration and National Highway Traffic Safety Administration, injury crashes involving large trucks or buses rose to 97,000 in 2015 from 93,000 in 2014 and just 67,000 in 2010.

Meanwhile, million miles traveled by all motor vehicles rose to 3.095 million in 2015, up from 3.026 million a year earlier and 2.967 million in 2010. Registrations of large trucks and buses have also been climbing.

But more miles traveled fails to explain the whole story, as even the rate of crashes is rising, according to this same government data. Injury crashes involving large vehicles per 100 million miles traveled by all vehicles rose to 3.12 crashes in 2015 from 3.06 in 2014 and 2.25 in 2010.

Landing a combination punch on insurers is the rise in severity, or the cost per crash. Vehicles are increasingly more complicated to repair, highway speeds have been raised in many jurisdictions, and medical costs and litigation expenses are also rising.

David Blades, senior research analyst at A.M. Best, said insurers are raising their rates in response but are paying the price for overly aggressive pricing in the past. "I still think companies are trying to get their arms around commercial auto loss costs.

"There were years when commercial auto rates were inadequate, and companies, I still think, are trying to catch up," said Blades, the author of a *Best's Special Report* on commercial auto insurance that was issued in December of 2016.

Several insurers offered upbeat comments about commercial auto in recent second-quarter earnings calls. W.R. Berkley President and Chief Executive Officer Robert Berkley said "commercial auto is clearly also improving." Gregory Toczydlowski,

[Progressive] has always been intensely focused on commercial auto as a specific line of business. "We believe this allows us to see things sooner and react faster than most in the industry."

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Progressive Insurance Co.

president of business insurance for Travelers, said the insurer had been "pursuing rate" and "retention has been pretty strong and so that gives us that net impact on the top line."

David Golden, assistant vice president, commercial lines, at the Property Casualty Insurers Association of America (PCI) said the premium increases have been moderate in a very competitive segment of insurance. "There are still plenty of insurance companies out there willing to write auto fleets."

Golden said insurers may have been conservative in initially reacting to commercial auto losses, if they were underwriting on an account basis. "The fact that a single line was unprofitable in a given year would not be, necessarily, a reason to take drastic action on an entire account."

Progressive, the largest U.S. commercial auto insurer according to A.M. Best, stands out with over a decade of consecutively profitable years in this portion of its business.

John Barbagallo, Progressive's commercial lines president, said the insurer has always been intensely focused on commercial auto as a specific line of business. "We believe this allows us to see things sooner and react faster than most in the industry," he said. "When our data indicates, we respond decisively and quickly, at times slowing our growth when we are at risk of exceeding our underwriting targets."

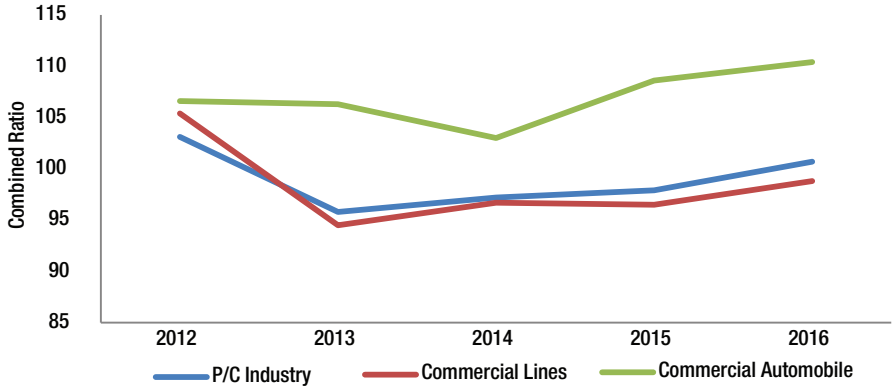
Data Blooms

EMC, like many other insurers, is latching on to telematics technology that monitors driver and vehicle performance to improve safety, save fuel and enhance vehicle reliability. Hovick described it as "one of our longer-term solutions to address commercial automobile profitability."

Telematics has a long history in large interstate trucks where electronic devices to log driving hours were used starting in the 1980s. Electronic logging will become mandatory at the end of the year for trucks of model-year 2000 or newer that are already required to keep paper logs.

PCI's Golden said telematics can help with everything from determining responsibility for an accident to coaching drivers and monitoring vehicle maintenance. "With telematics

Combined Ratio Trend, 2012-2016 Commercial Automobile Vs. Commercial Lines Composite & Total P/C Industry



Source: A.M. Best data and research
The data for Commercial Automobile represents all commercial auto business written by the companies comprising AMB composite #99200 (Total P/C Composite).
The Commercial Lines data represents all business written by companies representing AMB Commercial Lines composite #99056.

improving preventive maintenance, you no longer end up in as many situations where vehicles are just dead on the side of the road, sitting like targets."

The proliferation of cheaper devices, smartphone apps and factory-installed data systems is extending telematic capabilities to smaller enterprises, such as a fleet of contractor trucks.

Hovick said EMC was partnering with Octo Telematics as the insurer "began to target the smaller commercial fleets that are not fully realizing the benefits of telematics."

Progressive said it was currently focused on assisting customers with the Federal Motor Carrier Safety Administration's Electronic Logging Device (ELD) mandate. Under its Smart Haul program, drivers who obtain an ELD from Progressive will have their device and monthly subscription paid for as long as they are a customer and share their driving data with Progressive, said Barbagallo.

For insurers, the number of telematics systems already used by existing and potential clients, the difficulties of getting access to that data and being able to interpret it, can be challenging.

"There are over 120 different telematics and data systems out there," said Chris Carver, the founder and president of ATG Risk Solutions that runs the Telematics Clearinghouse, providing identified commercial auto data indexed by vehicle identification number and anonymized data covering billions of miles by vehicle year, make and model.

"Any carrier who wants to try to win in commercial auto needs to start using this data from a trusted source of their choice—in some way, shape, or form," said Carver.

Ernst & Young's Gail McGiffin sees telematics as just one piece of a technological revolution that is transforming underwriting. She talks enthusiastically about a time when sensors in the vehicle and on the driver are combined with cameras and geographic and road information.

"As you think about the convergence of insights, both in the vehicle and around the vehicle, that continual flow of data and insight can't help but improve opportunities for risk management," said McGiffin, partner and global lead, underwriting, product and policy solutions.

Beyond telematics, insurers and insurance brokers are now focusing on safety technologies like automatic collision avoidance, lane departure warnings and front-and rear-facing cameras for commercial vehicles, said Todd Reiser, vice president in the transportation practice at Lockton, a global insurance broker.

"The insurance community, the underwriting community, is extremely interested in these types of technology," said Reiser. "Three years ago they might ask you: 'Do you have any technology that you've looked at?' Now it's: 'What do you have? What is the game plan for implementing that technology?'"

EY's McGiffin said one impediment for further technology entering the commercial fleet is that vehicles do not turn over as fast as in the personal auto fleet. "If you look at short-range light trucks or long-range tractor trailers, they are long-term leases," she said. "I think that's just a reality that time will solve."

Jerry Albright, principal of KPMG's actuarial and insurance risk practice, thinks the incentives of increased safety and saving money will nevertheless speed the proliferation of these driver-assist technologies that he likens to a "guardian angel" sitting behind the driver.

Fully autonomous big trucks are also on their way, he said, referring to demonstrations last year in Europe and the United States. "The economics behind it make a lot of sense and the risk mitigation."

Through all these coming changes, Albright sees commercial auto insurance benefiting as on-demand fleets of autonomous vehicles grow and personal auto ownership shrinks. But he also thinks that spare personal auto insurance capacity may then pile into the commercial auto business.

"Their slice of the pie is going to increase even though it's a smaller pie, but the other side of it is

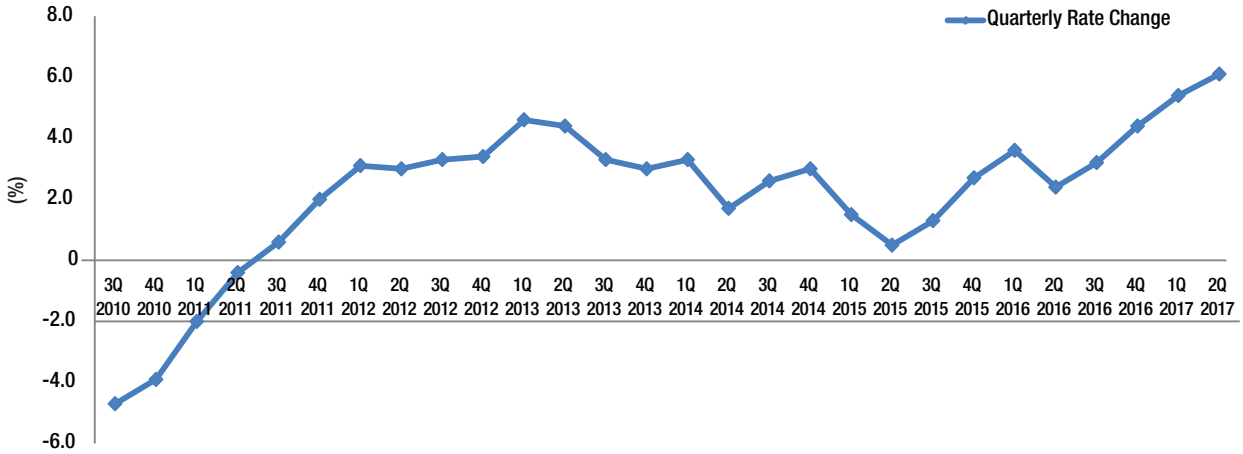
(Continued on page 40)

U.S. Commercial Automobile Combined Ratio Components, 2007-2016

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net Premiums Written ($ Thousands)	25,585,127	23,518,085	21,831,343	20,963,998	21,013,037	22,068,714	23,917,949	25,780,016	27,619,258	28,313,538
Pure Net Loss Ratio	52.7	54.6	54.2	54.7	59.7	63.2	62.8	62.5	65.2	68.2
Net Loss Adjustment Expense (LAE) Ratio	11.0	11.5	11.2	11.6	11.8	12.2	12.6	12.3	13.3	12.6
Loss & LAE Ratio	63.7	66.1	65.4	66.3	71.5	75.4	75.4	74.8	78.5	80.8
Underwriting Expense Ratio	29.9	30.2	33.1	31.1	31.7	31.2	30.9	28.2	30.1	29.6
Calendar Year Combined Ratio	93.6	96.3	98.5	97.4	103.2	106.6	106.3	103.0	108.6	110.4

Source: A.M. Best data and research
The data in this exhibit is based on companies within the U.S. Total PC Industry Composite (AMB #99200) that filed the Insurance Expense Exhibit (IEE) for 2015 and represents all Commercial Automobile business written.

Commercial Automobile Rate Change by Quarter



Source: Council of Insurance Agents and Brokers

(Continued from page 37)

that they are going to have a lot more competition," said Albright.

The Future: Near or Here?

Companies working in the telematics and big data areas think much of the future of commercial auto insurance is already here and they aim to make it easier to access.

Smartphone use is associated with around a quarter of U.S. traffic crashes, but Zendrive has flipped the script to harness the phone as a ubiquitous monitor of driver behavior and as a coaching tool. Residing as an app, or embedded in another commercial fleet app already on the phone, Zendrive can detect speeding, aggressive driving and phone use.

"We can tell, for instance, whether the phone is mounted or not. We can tell if the phone is used by the driver for making calls or texting, if the driver is speeding or driving recklessly. We can even detect a crash in real time, and dispatch an ambulance or roadside assistance to help the driver out," said Zendrive Chief Executive Officer Jonathan Matus.

"There's a small group of drivers in every fleet that's much more likely to be in crashes," said Matus. "We're talking about typically a quarter of drivers that contribute to 53% of crashes."

ATG's Carver, on the other hand, believes driver behavior is just one piece of understanding risk and must be placed in the context of the driven environment.

ATG takes vehicle and driver data from multiple telematics systems and converts the information to a common format. It then overlays additional data like weather, route information and the speed of other traffic. Carver describes the multilayered data as the "underwriting score" as opposed to the "driver score."

Reference statistics derived from 55 billion miles of driving data being collected each year allow insurers and fleets to benchmark their risks. Vehicle operators decide with which insurers they share the data.

Carver said this enhanced data could also be vital to defending a court case by showing that a driver was driving like everyone else on the road. The extra information is also more valuable in coaching drivers.

"Joe says 'I'm just keeping up with traffic,'" said Carver. "The boss can say: 'No Joe, you're the fastest plumbing contractor driving a Ford F-150 in Queen Anne County.'"

Overcoming the reluctance of fleet owners to share data has been a central challenge facing ATG's Telematics Clearinghouse, but it now has 48% of its fleet members willing to share data in some form with an insurer, he said.

It is a wonderful time for data geeks but there are limits to the impact on an insurer's balance sheet.

EY's McGiffin said the precision that these technologies bring will improve underwriting results for commercial auto but would not have prevented the soft pricing seen in recent years. "I still think there's a market cycle that is unique to the P/C insurance industry that contributes to the pricing behavior." BR

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