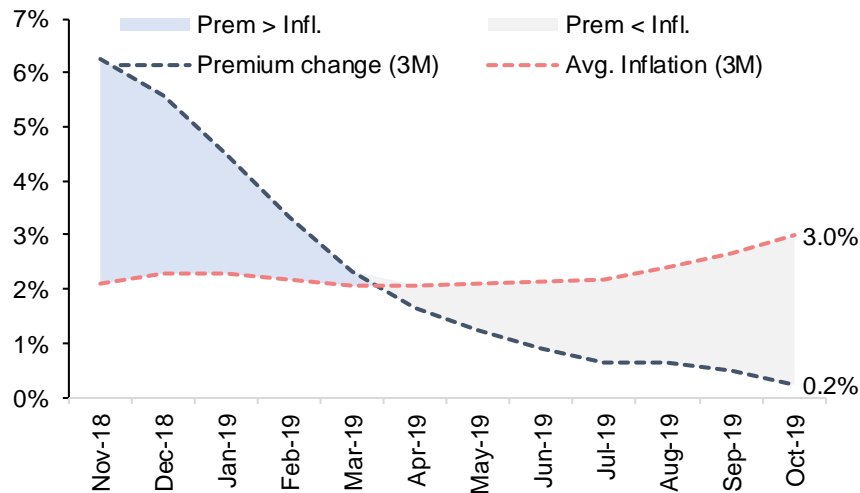


November 14, 2019

## AUTO PRICES TURN NEGATIVE FOR FIRST TIME SINCE 2007

**New inflation data shows continued pricing declines and rising average severity. Margin pressures continue to build as the spread widens, and frequency remains the wildcard.**



On Wednesday, the BLS released new CPI data including various data points relating to auto insurance, including premium inflation and cost-inputs that impact loss trends.

At a high level, premium increases are now negative and remain at cyclical lows, below loss cost severity trends.

Notably, personal auto premium inflation in October 2019 was negative 0.2%, down from September's +0.2% result. These levels of premium inflation are the lowest since 2007 as firms continue to compete for share.

Even as premium inflation drops, average severity continues to rise with +3.2% inflation in October, up from +2% YoY. The October result comprises mostly from medical care inflation which saw +5.1%, above the one-year average of +3.1%. Vehicle body work also contributed to the high result at +4.1%, above its one-year average of +3.4%. Overall, all individual inflation measures were above their one-year averages.

Low premium inflation compared to average severity resulted in the 9<sup>th</sup> straight month of estimated severity inflation outpacing premiums, and the spread continues to widen, now at -3.4%. If the trend continues, it will put pressure on underlying margins, all else equal.

**The wildcard remains frequency.** Favorable frequency trends have acted as a tailwind to the subsector since 2017, helping margins recover from cyclical highs in 2015-2016 towards cyclical lows in 2018 and H1:19. Frequency indicators remain something to monitor as we have observed a modest uptick in miles driven data in recent months.

## INSIDE P&C RESEARCH

**Gavin Davis**, Director of Research

gavin.davis@insidepandc.com  
(212) 224 3328

**James Thaler, CFA**, Senior Analyst

james.thaler@insidepandc.com  
(212) 224 3336

**Dan Lukpanov, CFA**, Research Analyst

dan.lukpanov@insidepandc.com  
(212) 224 3326

**Gianluca Casapietra**, Research Analyst

gianluca.casapietra@insidepandc.com  
(212) 224 3495

Index	QTD	YTD
Large Cap	(5.4)%	21.1%
Regional	(4.0)%	8.0%
Specialty	(1.0)%	27.3%
Personal	(5.3)%	15.6%
Bermuda	(4.7)%	31.8%
Florida	(0.9)%	(17.4)%
Brokers	2.7%	31.1%
IPC Select	(3.3)%	10.7%
S&P 500	4.0%	23.5%
S&P Fin.	5.5%	24.0%

Source: S&P Global, Inside P&C

## CPI: PREMIUM INFLATION FALLS INTO NEGATIVE TERRITORY

- ❖ **Auto premium prices -0.2%, remaining at lows not seen since 2007**
- ❖ **Avg. total severity of +3.2%, led by vehicle body work & medical care**
- ❖ **October premium to average severity spread widens to (-3.4)pts**

On Wednesday, the BLS released October CPI data including various data points relating to auto insurance, including premium inflation and cost-inputs that impact loss trends relating to autos and medical costs. At a high level, October marked the first month of premium deflation since May 2007. Concurrently, severity continues to rise.

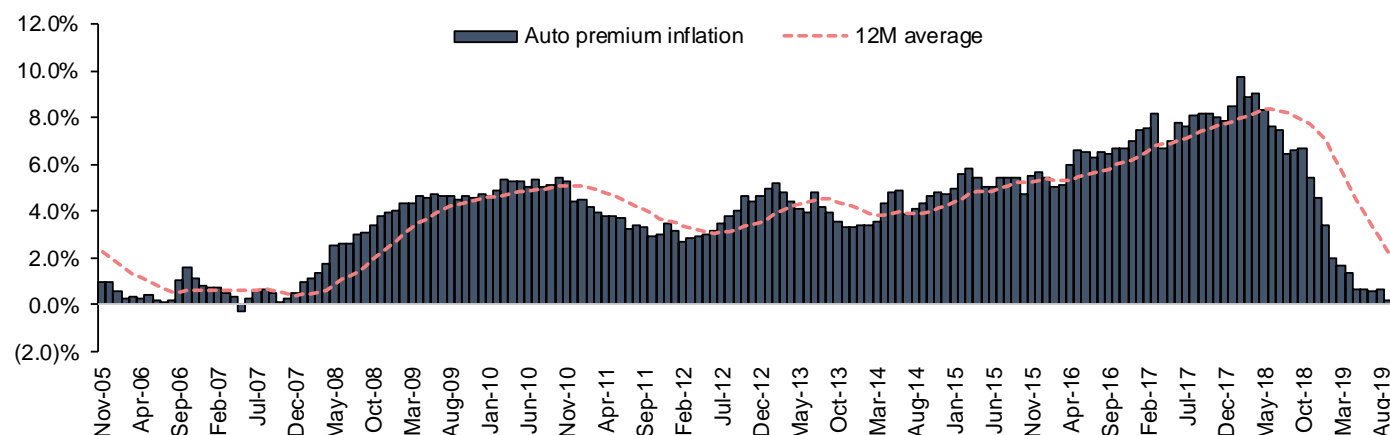
Highlights from the new data disclosed include:

- **Auto premium:** Auto premiums declined by -0.2% in October, down from +0.2% in September which marked a low not seen since 2007.
- **Vehicle severity:** On average, severity was up +3.2% for the month of October, largely driven by body work, and maintenance and repair which appreciated by +4.1% and +3.4% respectively.
- **Medical severity:** Average medical costs also rose by +3.2%, led by medical care which increased by +5.1%.

**October's auto premium inflation of -0.2%** remains at levels not seen since 2007. The decline in pricing started towards the end of the Q1:18, where pricing reached as high as 9.7%. Since March of this year, average estimated severity inflation has outpaced premium inflation. Prior to this inversion, the personal auto line of business pricing exceeding estimated severity inflation, with a spread averaging roughly 3.5% from May 2012 to January 2019. The recent decline in pricing comes as insurers are fighting for growth as outlined in a previous [auto report](#). Similar to the second quarter, Q3 calls highlighted high severity, with frequency only partially offsetting current trends.

### EXHIBIT: MONTHLY PERSONAL AUTO PREMIUM INFLATION (YOY)

Source: BLS, Inside P&C



**While premium inflation has turned into deflation, severity inflation continued to pick up in October.** Over the past year severity inflations averaged a monthly rate of +2.4%. October's average of +3.2% sits 0.8pts above the 1YR average, and +0.2pts above its 3M average. Severity has been largely led by medical care which saw inflation of +5.1% in October, +1pt higher than body work. The medical average was +3.2%, up from +1.9% last year, and from a low of +1.3% in June.

## EXHIBIT: BLS INFLATION DATA – PREMIUM, VEHICLE, & MEDICAL

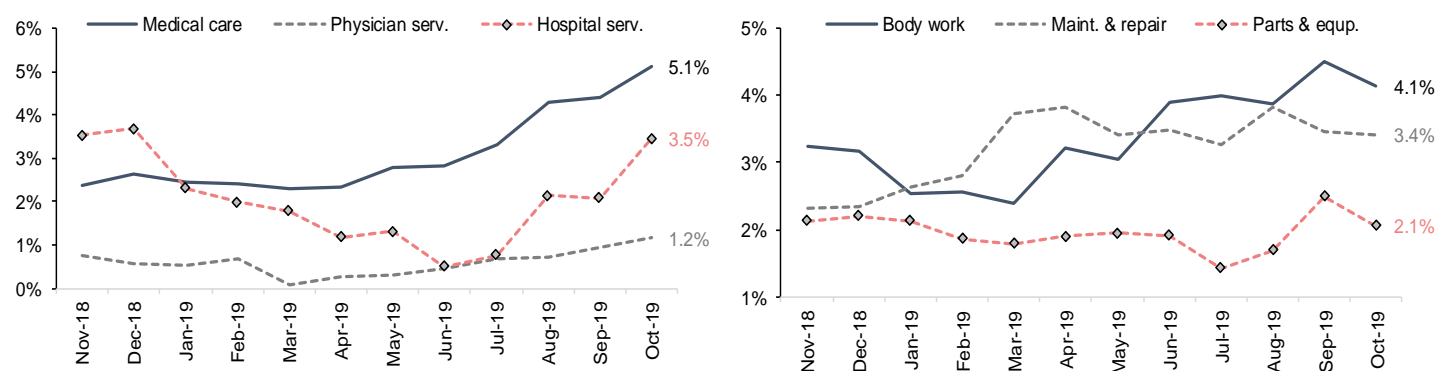
Source: BLS, Inside P&C

CPI severity	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	3M Avg	1YR Avg
Body work	3.2%	3.2%	3.2%	2.5%	2.6%	2.4%	3.2%	3.0%	3.9%	4.0%	3.9%	4.5%	4.1%	4.2%	3.4%
Maint. & repair	2.0%	2.3%	2.3%	2.6%	2.8%	3.7%	3.8%	3.4%	3.5%	3.3%	3.8%	3.5%	3.4%	3.6%	3.2%
Parts & equip.	1.2%	2.1%	2.2%	2.1%	1.9%	1.8%	1.9%	1.9%	1.9%	1.4%	1.7%	2.5%	2.1%	2.1%	2.0%
Medical care	1.9%	2.4%	2.6%	2.4%	2.4%	2.3%	2.3%	2.8%	2.8%	3.3%	4.3%	4.4%	5.1%	4.6%	3.1%
Physician serv.	0.4%	0.8%	0.6%	0.5%	0.7%	0.1%	0.3%	0.3%	0.4%	0.7%	0.7%	0.9%	1.2%	0.9%	0.6%
Hospital serv.	3.3%	3.5%	3.7%	2.3%	2.0%	1.8%	1.2%	1.3%	0.5%	0.8%	2.1%	2.1%	3.5%	2.6%	2.1%
Avg vehicle	2.2%	2.6%	2.6%	2.4%	2.4%	2.6%	3.0%	2.8%	3.1%	2.9%	3.1%	3.5%	3.2%	3.3%	2.8%
Avg medical	1.9%	2.2%	2.3%	1.8%	1.7%	1.4%	1.3%	1.5%	1.3%	1.6%	2.4%	2.5%	3.2%	2.7%	1.9%
<b>Avg. total severity</b>	<b>2.0%</b>	<b>2.4%</b>	<b>2.4%</b>	<b>2.1%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.1%</b>	<b>2.1%</b>	<b>2.2%</b>	<b>2.2%</b>	<b>2.8%</b>	<b>3.0%</b>	<b>3.2%</b>	<b>3.0%</b>	<b>2.4%</b>
<b>Auto premium</b>	<b>6.7%</b>	<b>5.5%</b>	<b>4.6%</b>	<b>3.4%</b>	<b>2.0%</b>	<b>1.7%</b>	<b>1.4%</b>	<b>0.7%</b>	<b>0.7%</b>	<b>0.6%</b>	<b>0.7%</b>	<b>0.2%</b>	<b>(0.2)%</b>	<b>0.2%</b>	<b>1.8%</b>
<b>Delta</b>	<b>4.7%</b>	<b>3.1%</b>	<b>2.2%</b>	<b>1.3%</b>	<b>(0.1)%</b>	<b>(0.4)%</b>	<b>(0.7)%</b>	<b>(1.4)%</b>	<b>(1.5)%</b>	<b>(1.6)%</b>	<b>(2.1)%</b>	<b>(2.8)%</b>	<b>(3.4)%</b>	<b>(2.7)%</b>	<b>(0.6)%</b>

**The upward trend in vehicle component inflation continues to be led by body work** which inflated by +4.1% in October. This is up from +3.2% in October of 2018. Parts and equipment have also seen a significant uptrend from a monthly inflation of +1.2% to +2.1%. Maintenance & repair have also accelerated in monthly inflation by 1.4pts to +3.4%. **Medical inflation rose to +3.2% in October from +1.9% last year.** The result largely stems from medical care cost inflation rising 3.2pts to +5.1% YoY.

## EXHIBIT: AUTO & MEDICAL SEVERITY TRENDS

Source: BLS, Inside P&C

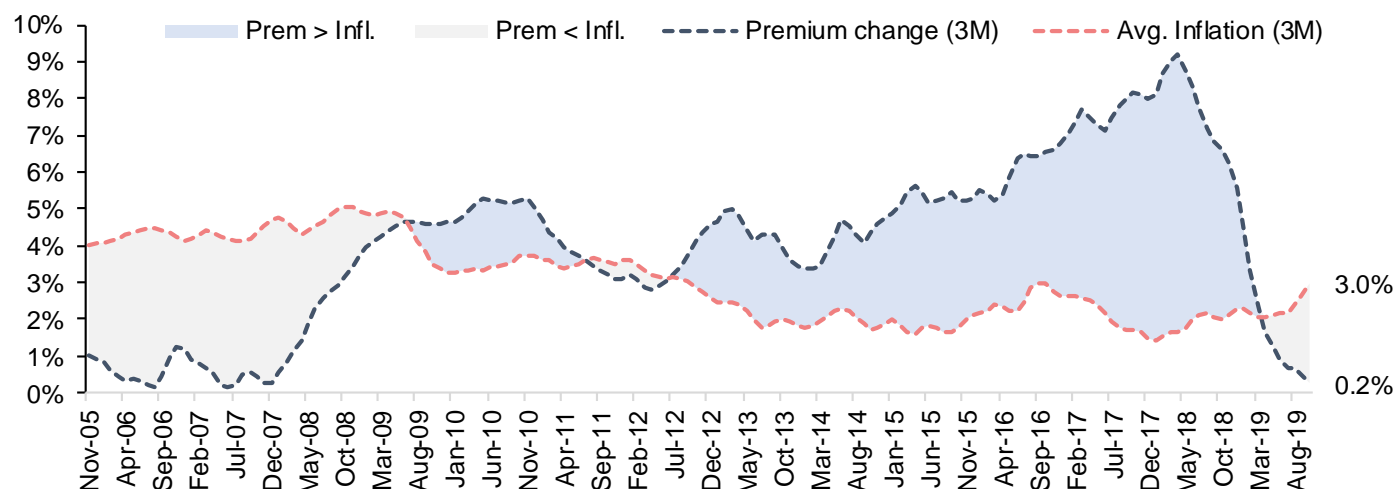


Combining consistent severity inflation and premium deflation has led to **9 straight months of estimated negative spreads for personal auto.** October's -3.4% spread is the largest (negative) spread so far this year.

All else equal, a negative spread leads to margin erosion as losses accelerate at a faster rate than the sector's earned premium. However, this does not include the impact of frequency.

## EXHIBIT: AUTO PREMIUM LESS AVG SEVERITY MONTHLY SPREAD (3M AVERAGE)

Source: BLS, Inside P&C



Rising severity is nothing new and has been disclosed by many firms quarter over quarter. Q3 disclosures from Geico, Progressive, and Allstate show consistent YTD and quarterly severity trends in the mid-single digit range.

## EXHIBIT: REPORTED SEVERITY STATISTICS

Source: Company Reports, Inside P&C

Severity:	Q1:17	Q2:17	Q3:17	Q4:17	Q1:18	Q2:18	Q3:18	Q4:18	Q1:19	Q2:19	Q3:19
<b>Geico (YTD)</b>											
Property	5.0%	4.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Collision	5.0%	4.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Bodily	5.0%	5.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	7.0%	7.0%	7.0%
<b>Progressive (YTD)</b>											
Total auto	4.0%	4.0%	3.0%	3% - 5%	3.0%	3.0%	4.0%	3% - 5%	8.0%	8.0%	7.0%
Bodily injury	6.0%	4.0%	3.0%	2.0%	2.0%	2%-3%	3.0%	4.0%	8.0%	9.0%	8.0%
Auto property	7.0%	6.0%	6.0%	5.0%	2.0%	2%-3%	3.0%	4.0%	7.0%	6.0%	6.0%
Collision	(3.0)%	(2.0)%		Flat	9.0%	7.0%	8.0%	8.0%	7.0%	7.0%	6.0%
PIP	7.0%	10.0%	3.0%	4.0%	(1.0)%	(4.0)%	1.0%	2.0%	8.0%	6.0%	7.0%
<b>Allstate claims (YoY)</b>											
Paid claims (PD)	4.8%	1.6%	4.9%	6.7%	4.7%	3.7%	7.7%	7.4%	6.1%	8.8%	5.1%

Despite the pressures from declining premium increases, and more recently deflation, relative to severity trends, benign frequency trends have so far served as a partial offset, and Q3 data-points showed a continuation in the trend.

## EXHIBIT: REPORTED FREQUENCY STATISTICS

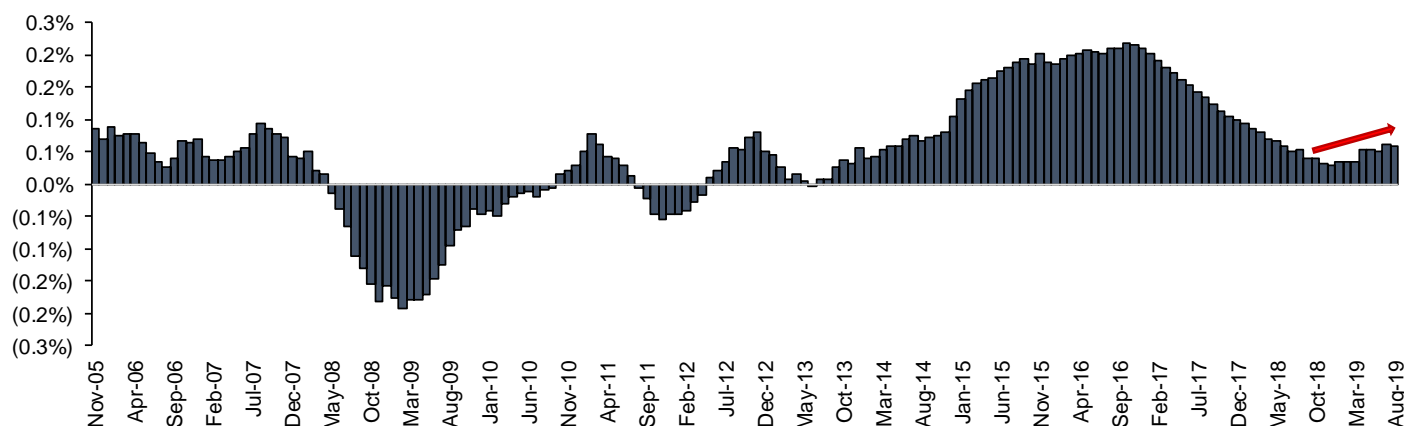
Source: Company Reports, Inside P&C

Frequency:	Q1:17	Q2:17	Q3:17	Q4:17	Q1:18	Q2:18	Q3:18	Q4:18	Q1:19	Q2:19	Q3:19
<b>Geico (YTD)</b>											
Property	0.0%	0.0%	0.0%	(1.0)%	D slightly	(2.0)%	(2.5)%	(3.0)%	(3.0)%	(3.0)%	(2.5)%
Collision	0.0%	0.0%	0.0%	(1.0)%	D slightly	(2.0)%	(2.5)%	(3.0)%	(3.0)%	(3.0)%	(2.5)%
Personal	(1.0)%	(2.0)%	(3.0)%	(2.5)%	D slightly	(2.0)%	(2.5)%	(3.0)%	(3.0)%	(3.0)%	(3.0)%
Bodily	2.5%	3.0%	0.0%	0.0%	(2.0)%	(3.0)%	(2.5)%	(3.0)%	0.0%	0.0%	0.0%
<b>Progressive (YTD)</b>											
Personal auto	(4.0)%	(3.0)%	(4.0)%	(3.0)%	1.5%	(2.0)%	(2.0)%	(3.0)%	(3.0)%	(3.0)%	(3.0)%
PIP	(5.0)%	(6.0)%	(6.0)%	(5.0)%	(3.0)%	(2%)-(3%)	(3.0)%	3.0%	(4.0)%	(5.0)%	(6.0)%
Collision	(4.0)%	(4.0)%	(4.0)%	(4.0)%	(1.0)%	(1.0)%	(2.0)%	3.0%	(4.0)%	(5.0)%	(4.0)%
Auto property	(3.0)%	(2.0)%	(3.0)%	(3.0)%	(2.0)%	(2%)-(3%)	(3.0)%	3.0%	(3.0)%	(4.0)%	(4.0)%
Bodily injury	(3.0)%	(2.0)%	(2.0)%	(2.0)%	(1.0)%	(2%)-(3%)	(3.0)%	3.0%	(3.0)%	(3.0)%	(2.0)%
<b>Allstate (YoY)</b>											
Paid claims (PD)	(3.2)%	(3.4)%	(9.0)%	(5.2)%	(3.0)%	(3.0)%	0.2%	(0.6)%	(3.6)%	(1.5)%	0.2%
Gross claims (BI)	(6.0)%	(4.7)%	(5.6)%	(2.9)%	(2.0)%	(2.7)%	(0.7)%	(2.5)%	(1.2)%	(2.1)%	(0.5)%

Frequency trends have so far allowed companies to lower pricing below severity inflation without too much damage to their margins. However, if frequency begins to tick up, it could serve as a large headwind to personal auto carriers, and a continued uptick in monthly miles driven growth remains something to monitor.

## EXHIBIT: 12M MOVING AVERAGE TTM MILES DRIVEN GROWTH

Source: FRED, Inside P&C



*This research report was written by Insider Publishing's Research team which includes Gavin Davis, James Thaler, Gianluca Casapietra, and Dan Lukpanov.*

*The content of this report is the copyright of Insider Publishing Ltd. All rights reserved. Registered in England 3923422. Insider Publishing actively monitors the usage of our reports, emails and websites and reserves the right to terminate accounts if abuse occurs. No part of this report may be used, reproduced or stored in an information retrieval system or transmitted in any manner whatsoever without prior consent from Insider Publishing*

*For further information on what you can, and cannot do with the information contained within this report, please refer to our Terms & Conditions page on our website. Insider Publishing Limited - 3rd Floor, 41 Eastcheap, London, EC3M 1DT, United Kingdom.*