Auto Casualty, Auto Physical Damage, Enlyte, Workers' Comp

P&C Industry Claims Severity: Trends, Drivers and Mitigators

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3 MIN READ

Claim severity has always been top of mind for the P&C industry. While the pandemic has certainly had an impact on claims costs, there are several drivers behind claim severity trends varying by market. While it is important to note what is behind claims costs, it is equally important to understand how to mitigate severity and control costs.

Workers' Compensation

Workers' compensation claim severity trends vary based on occupation type. While there seems to be increased costs in some areas, others vary depending on segmentation of industry groups. For example, while severity with essential workers is increasing due to the pandemic (i.e. first responders, nurses), others groups such as “Office & Clerical” are finding severity and frequency of claims trending down.

While advances in medicine and technology are beneficial for increasing life expectancy, they are also very costly and some of the main drivers behind the growing claims costs in workers’ comp. They are not the only contributing factors, however, as comorbidities also play a large role. “Typically, comorbidities such as obesity, hypertension and diabetes can negatively affect a claim’s development,” Mariellen Blue and Jim Harris (Genex Services) explain in an article for Workers’ Compensation magazine on claim severity scoring.

Preventative services, case management, independent medical exams, early intervention, and utilization review are just a few ways to help alleviate these rising costs. Services such as Genex’s ClinicalCare24 equip workers with medical expertise at the time of injury. Utilizing a registered nurse at the onset of the injury-reporting process can help lower preventable future costs.

Auto Physical Damage

While trends seem to vary within workers’ compensation, auto physical damage has undoubtedly seen a rise in severity. This rise in repair costs can largely be attributed to vehicle complexity, however cost of newer manufacturing materials is also responsible. Lightweight materials, which are being used to improve fuel economy, are more costly to repair. Another factor, and probably the most influential, driving up cost of repair is inflation. “Inflation may also be to blame—driving higher parts prices as a result of government spending, supply chain imbalances, an increase in the cost of raw materials and other factors,” explains Ryan Mandell

(Director, Claims Performance), in the 2021 Enlytened Trends Report.

With the advancement of diagnostic and estimating tools, scanning is more cost-effective, and these solutions help take the uncertainty out of the repair process. Additionally, access to OEM repair procedures as the estimate is being written reduces questions about what must be done making cost more predictable.

Auto Casualty

Auto casualty is seeing similar rising trends in both first and third party claims. In first party auto, the charge per claimant has risen by 6% since 2018. A major driver behind this trend is rising market rates. Costs for diagnostic testing, such as MRIs and CAT scans, are increasing over time which is also contributing to increases in overall claim costs.

Third party claims are also trending upward, and social inflation is mostly to blame. The Insurance Information Institute, describes social inflation as “rising litigation costs and their impact on insurers’ claim payouts, loss ratios and, ultimately, how much policyholders pay for coverage.” An example of this being one most people are all too familiar with– television commercials with accident lawyers claiming to help land large settlements for those injured in accidents–has been steadily driving social inflation up over the years.

Independent medical evaluations, monitoring and managing pharmaceuticals on a claim, early intervention, and using benchmark rates can all assist in mitigating claims costs in auto casualty.

Overall, it appears claims severity is mostly increasing across the P&C industry, with a few exceptions in workers’ comp. As we enter into 2022, it will be interesting to see if these trends will continue in the same direction or if regulatory, economic and technological factors will impact costs.

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