Auto Casualty

Five Questions with Assured Research President William Wilt on What's Trending in Auto and Workers' Comp Today

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5 MIN READ

We sat down with William Wilt, president of P&C industry research firm Assured Research, to explore what's trending in the auto casualty and workers' compensation industry today.

1. What trends or factors are affecting the workers' compensation industry the most today?

The big debate among workers' compensation insurance professionals and investment analysts today is whether loss cost tailwinds can continue to outpace the headwinds of rate decreases. We're entering the second or third year of that debate, and to this point loss cost tailwinds have won out. Of course, if those tailwinds dissipate, (even a little), accelerating rate decreases will lead to an upward inflection point in the workers' comp loss ratio. As to the sources of loss cost tailwinds—we'd highlight three. First, medical inflation has been surprisingly benign for several years (and below the projections of most actuaries). Also, on the medical front, our research indicates that the implementation of the Affordable Care Act had been incrementally helpful to workers' compensation insurers; quite simply more people with healthcare equates to fewer workers' compensation claims. And last, but by no means least, the gradual reduction in opioid prescriptions has generated a material cost tailwind for insurers, and of course, is also an important societal benefit.

2. What predictions do you have for the workers' compensation industry for the rest of 2019 and into 2020?

We think those cost tailwinds—particularly the benefits gained from declining opioid prescriptions—will cause tailwinds to continue to outpace rate headwinds in 2019. Insurers' accident year workers' compensation loss ratio picks for 2019 may stabilize, but we certainly forecast more favorable reserve development for this line. Looking ahead to 2020, the picture grows a little cloudier. It seems likely that insurers will increase their accident year 2020 loss ratio selection (that is, after all, a self-graded exam). Unfortunately, the benefits of the ACA appear to have dissipated, and in fact we saw the rate of medically uninsured tick higher in 2018 for the first time in years, which is not helpful. We know there are conflicting views about the interaction of changes in

the economy and workers' compensation claims; but insofar as many executives were concerned that a too-hot economy was leading to more claims from inexperienced workers—a cooling of the economy in 2020 should lessen those pressures.

3. What trends or factors are impacting the auto insurance industry the most today?

The confluence of trends impacting the personal auto space are fascinating. The good news is that the personal auto line is the largest, most stable and profitable major insurance product—that won't change anytime soon. But powerful forces are affecting the industry and insurance professionals need to engage now to protect that business in the years (and decades) ahead. For instance, new research from the Highway Loss Data Institute shows a 56 percent reduction in front-to-rear crashes with injuries in cars that combine forward collision warning and autobraking. That's huge! We know those cars are still a small fraction of the fleet—but what will happen in five or 10 years from now? The attitude of people toward cars and transportation are changing. Not everyone needs, or even wants, a car today. The younger generation is more focused on how to get from point A to point B, not whether they own the means to get there. In short, we see a medium-term future where both accident frequency and auto ownership is declining. We recommend auto insurance executives think today about how to position their company for success in, say 2030, when the competitive environments will be noticeably different than today.

4. What predictions do you have for the auto insurance industry for the rest of 2019 and into 2020?

In the immediate term, we think the auto pricing and competitive environment will look much the same as it has for the past several years. That is to say, we think normal competitive forces will dictate results. Auto insurance rates are decelerating after several good years so profitability seems likely to decline—with perhaps some offset if driving slows with a decelerating economy. We're on the record as forecasting peak profitability for the auto industry in the middish 2020s. We think that's when the reduced claim benefits of cars with advanced safety features will begin to prove really impactful, though we suspect insurers will be cautious to grant material rate decreases until their data convinces them that the benefits are sustainable. In other words, we think their margins will widen before competition (and maybe regulatory pressure) cause them to materially lower rates for cars with those features.

5. Of all of the challenges, trends and factors you're seeing in the P&C industry today, which do you think claims organizations should be paying the most attention to?

Here, I'd change gears from the topics we've been discussing and turn attention to the incredible gains we've seen at the intersection of science, medicine and the law. What does that have to do with property and casualty claims you might ask? We're increasingly aware that advances in our understanding of the interaction of the human genome and various toxins show that different environmental toxins can impact people differently. For instance, it's now understood that there are many inherited genetic mutations associated with mesothelioma. For decades it was believed that anyone with mesothelioma had to have had exposure to asbestos—with a culpable property and casualty policyholder as the cause behind that exposure. And while that is good news for the industry, consider that there are hundreds of thousands of other cancers diagnosed annually. What if even a small

fraction of those aren’t just someone’s bad luck, but rather are catalyzed by an environmental exposure to a product or workplace environment with a particular toxin? We don’t know how all this will unfold, but we do believe that well-funded plaintiff’s attorneys will use science as their spearhead in bringing novel cases against property and casualty insurance policyholders. If insurers don’t invest in their claims and legal departments in these areas, they risk being on the losing end of those cases.

About William Wilt

William Wilt is the president of Assured Research, a boutique research firm producing subscription content focused on business development, financial, legal, claim and other topics relevant to (re)insurance professionals. Clients of Assured Research include global and U.S. focused (re)insurers, brokers, and consulting firms writing or controlling some $150 billion in premiums. Assured Research also provides analytical content for the insurance investment community.



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