Auto Insurance Report

The Authority on Insuring Personal and Commercial Vehicles

Dec. 4, 2023 Vol. 31#15/1454

INSIDE

Third-Quarter Data Points To Moderating Auto Repair Costs

Signs are emerging that the spike in auto repair costs that followed the Covid-19 lockdowns may finally be moderating, offering hope to beleaguered auto insurers.

Lower used car values are resulting in more cars being declared a total loss, which reduced the number of repairable claims in the third quarter, executives at **LKQ**, a supplier of aftermarket parts, told investors.

BMO analysts wrote that they expect insurer reimbursements to direct repair network shops will decline compared to the last 12 months as repair backlogs shrink.

Third-quarter results from **Progressive** and **Travelers** also noted improvements in physical damage losses resulting from moderating repair costs combined with higher premiums. AIR

Tools Begin Arriving to Help Insurers Measure Fairness

Analytical tools are arriving on the market that enable insurers to respond to regulatory inquiries about the social fairness of their business practices. The tools, which vary from out-of-the box model testing to bespoke consulting, are starting with pricing analysis and could evolve into also examining underwriting, marketing and claims practices.

At least three "fairness as a service" products entered the market this year: FairCheck from **Verisk**, Infer from **Octagram Analytics** and Fairness Optimizer from **FairPlay**. Rounding out the offerings are consulting firms, such as **Pinnacle Actuarial Resources**, which have been actively working on projects with carriers to address the issue.

The primary catalyst for the action was a 2021 **Colorado** law, Senate Bill 169, which aims to ensure that the external consumer data, algorithms and predictive models insurers use are not unfairly discriminatory. (AIR 1/31/22)

Please see FAIRNESS on Page 2

Tort Reform High on the Agenda For South Carolina Auto Insurers

It's not every day that a sordid murder and financial scandal worthy of Netflix treatment comes up in conversation about auto insurance, but such is the case in **South Carolina**, where convicted murderer and fraudster **Alex Murdaugh** once ran a lucrative and influential personal injury law firm built by his family on settlements from railroad crashes.

While TV viewers dig into the salacious details of Murdaugh's crimes and the corrupt family empire, auto insurers raise his name in the context of a much more parochial subject: tort reform.

Auto insurers have joined the broader business community to push for changes to the state's civil liability laws as they seek to close off the last avenue available to plaintiffs to collect large damages from deep-pocketed defendants

Please see SOUTH CAROLINA on Page 6

RISK INFORMATION
33765 Magellan Isle • Dana Point, CA • 92629 • (949) 443-0330 • www.riskinformation.com

FAIRNESS *Continued from Page 1*

Other states have begun looking closely at this issue as well, most notably the **District of Columbia** (AIR 9/12/22), **Connecticut** (AIR 1/16/23), **Washington** (AIR 8/7/23) and more broadly the **National Association of Insurance Commissioners** (NAIC).

There is a general consensus that insurers are not intentionally discriminating against people in protected classes, such as by race, but that unfair discrimination may be the outcome of new data-driven tools for pricing, claims handling and more.

"Algorithms pick up patterns in the past, even of those we wouldn't prefer for them to reproduce," **Cathy O'Neil**, CEO of **O'Neil Risk Consulting & Algorithmic Auditing** (ORCAA), said during a recent webinar.

•

> ***'Algorithms pick up patterns in the past, even of those we wouldn't prefer for them to reproduce.'***

Verisk FairCheck

Verisk's FairCheck is designed to allow auto insurers to test their pricing models for signs of unfair discrimination against protected classes. First announced last month, FairCheck grew out of work Verisk produced for the Risk Information Insurance Fairness Forum in September 2022. (AIR 10/17/22 and AIR 10/24/22).

FairCheck uses a control-variable methodology to look for bias. This method introduces a protected-class variable, such as race or sexual orientation, into a model to determine its predictive power. By introducing a protected-class variable, the test can measure the additional factor's influence within a model. If race proved to be highly predictive, for example, then perhaps the model's use of data is inadvertently unfair.

This is a similar approach to what was proposed at last year's Insurance Fairness Forum by **Birny Birnbaum**, executive director of the **Center for Economic Justice**, and **Roosevelt Mosley**, principal and consulting actuary at Pinnacle Actuarial.

Adrian Cuc
Verisk

Adrian Cuc, Verisk's senior vice president and head of analytics, likened the testing to a vehicle emissions test.

"The car is built and running, and then you do the emissions test to make sure you're in the clear," he said. Like an emissions test, Verisk's goal is to provide carriers with an assessment that reveals if the outcome is appropriate and complies with regulatory standards. FairCheck is specifically designed to be used with generalized linear models (GLMs), which Cuc said are the current industry standard for pricing models.

"This is just the start," he said. "It will become clearer what needs to be done over time, and we will evolve with that. We…wanted to have a framework out there, [something] the legislators and regulators [could see] so that they know that this is something that's available."

Key to Verisk's effort is its large set of industry data collected as part of its historical role in providing the industry and regulators with loss cost and claims data through its **ISO** subsidiary. That large data set enables Verisk to provide a usable sample of customers to test against even if the insurer itself or the market to be measured is relatively small.

"Let's take a smaller state, **New Mexico** for example," Cuc explained. If New Mexico had a mandate that testing is going to be done on policyholders just from that state, a carrier might not have enough of its own policies for a viable test. Instead, Verisk can pull data for almost everyone in the state for the test, Cuc said.

Even the largest insurers would likely benefit

Please see FAIRNESS on Page 3

***FAIRNESS** Continued from Page 2*

from a broader statewide test.

Carriers that wish to use FairCheck will need to agree to have their data included in the test set. Most are already included, Cuc said.

One of the big challenges in assessing the social fairness of any insurance process – pricing or claims – is determining whether a consumer belongs to a protected class.

A common tool used to solve this problem, developed by **Rand Corp.**, assigns expected race based on a person's name and location, known as Bayesian Improved First Name, Surname, Geocoding (BIFSG) or Bayesian Improved Surname and Geocoding (BISG). BIFSG/BISG does require specific personally identifiable information to function.

Verisk says that while its tool can use BIFSG or BISG, it finds greater precision using census data to determine protected class and randomizing records to appropriately reflect the number of protected individuals at the ZIP-code level. This includes race, LGBTQ+ status, religion and other protected characteristics.

Cuc said that although data currently being reported to Verisk is robust enough to conduct a test, more could be needed if regulators require a more precise test using personally identifiable information. So far, the regulators, insurers, consultants and consumer groups have expressed reluctance to gather and use personally identifiable information in this process for privacy reasons.

•

FairPlay

FairPlay is a dedicated "fairness-as-a-service" company, founded in 2020 by **Kareem Saleh** and **John Merrill** with a focus on serving the banking and financial services industries. The company expanded into insurance last year by hiring **Josh Hershman**, the former deputy commissioner for the **Connecticut Insurance Department**.

FairPlay is looking to bring the tools it built to improve fairness in the lending process to the insurance space though a multistep analysis of a company's algorithms.

Kareem Saleh
FairPlay

"I've been doing this work in banking for a decade," Saleh said. "What's funny to me about watching [these discussions] as a banking person is insurance is having all of the arguments today that we had in banking five years ago."

Saleh sees a lot of crossover between fairness requirements in banking and what is being asked of insurers. "I've seen this movie before," he said.

FairPlay's strategy is to take clients through a multistep "out-of-the-box" testing process.

> ***BIFSG is a common tool used to identify race by looking at a person's name and location.***

The first step is to look for input variables that are proxies for a protected class. To do this, FairPlay uses BISG to determine the demographic makeup of a client's applications and book of business. From there, FairPlay looks to see how correlated each rating factor is to protected class, a process it calls "proxy detection." That process weighs both a variable's predictive power as well as how predictive it is of protected status. Mathematically, the company uses Shapley values, a methodology for explaining the predictions of models and what factors drive those predictions, to determine each factor's predictiveness.

"Credit score, for example, is highly predictive of protected status but also highly predictive of risk," Saleh said. "Whereas another variable, let's say months at residence, [could be] highly predictive of protected status, but much less

Please see FAIRNESS on Page 4

FAIRNESS *Continued from Page 3*

predictive of risk." Before using months at residence, he said, it is important to see if any other variables would be similarly predictive, "but have less of a disparity-driving effect."

The company's software can evaluate any decisions with binary outcomes, looking for disparate impacts, be it in loan acceptance rates, insurance premiums or insurance claims outcomes.

If the system detects disparities in an algorithm, clients can use the company's Fairness Optimizer to build predictive models that maximize accuracy while minimizing differences in outcomes for protected classes. Clients can "tune" models by setting objectives like accuracy, profitability and fairness. To enable this analysis, FairPlay requires a number of data points from carriers, including model inputs, outputs,

> ***Though initial fairness efforts have focused on pricing, future efforts will look at underwriting, claims and more.***

outcomes for the issue in question – be it claims or premiums – as well as the personally identifiable information needed to use BISG. FairPlay can, but does not need to, use data external to a carrier.

FairPlay's client list remains heavily weighted toward fintech, but according to a report from the law firm **McDermott, Will & Emery**, the company has been engaged by the **New York Department of Financial Services** to help it better understand the role of AI and machine learning in the insurance sector. FairPlay would not comment on this report.

•

Octagram Infer

Octagram Analytics, a firm lead by **Jessica Leong**, a former president of the **Casualty Actuarial Society** and head of data and analytics at **Zurich North America**, this summer launched Insurance Fairness Explainability Review, known by its acronym, Infer. It was developed in partnership with O'Neil's ORCAA.

Jessica Leong
Octagram Analytics

O'Neil and ORCAA have previously worked as consultants on algorithmic fairness with both Colorado and the District of Columbia. ORCAA is currently preparing a market conduct report on algorithmic fairness for the District that is expected to be released this month. (AIR 11/13/23).

Infer is a holistic consulting framework that addresses both governance and testing. For governance, Octagram helps carriers implement best practices in managing their models and algorithms. This includes policies around reporting, documentation, accountability and leadership. Colorado has had an eye on these issues as well, having split the implementing regulations for SB 169 into a governance regulation and a testing regulation.

Infer's testing process is built from the "explainable fairness" consulting framework that ORCAA designed to address algorithmic fairness in diverse areas, from insurance to hiring practices and beyond.

"I really like the explainable fairness framework," said Leong. "You don't need to know statistics to understand the outcomes of this methodology."

In practice, the explainable fairness framework starts with determining an outcome of interest, such as premium rates. The process then moves into determining what groups need to be considered, such as race/ethnicity.

The following step measures outcomes of the selected question across selected groups. If there are differences between groups, the next step is to account for legitimate factors. Infer looks to regulators to determine what factors and differ-

Please see FAIRNESS on Page 5

***FAIRNESS** Continued from Page 4*

ences are acceptable.

"In the first run through, we'll…break up premiums by race, and look at how it differs on average between the groups," Leong said. "I'm sure you'll find some differences. [We] do another iteration where we say, OK, these are all the legitimate factors. If we account for those, then what kind of average premiums are we seeing?"

Another key item is the data firewall implemented by ORCAA that isolates protected class data from carriers. Testing typically requires access to proprietary company data, include personally identifiable information. With few carriers interested in hosting protected-class data in their systems, the Infer process maintains a firewall between a company's system and data and ORCAA's network, where it utilizes BIFSG/BISG to determine race.

Gary Wang
Pinnacle

"They don't need to have data on their systems about race. That is what the double firewall does for them," Leong said "We do not need to have all of their personally identifiable information either, which is obviously another sensitive point."

•

Pinnacle Actuarial Consulting

Beyond product offerings, consulting firms like **Pinnacle Actuarial Resources** are helping companies decide on the best course of action.

"What we're doing is really just helping clients become educated and familiar with the topic and strategize around the issues" said Pinnacle's Mosley. "A lot of companies don't spend time or haven't historically spent time thinking about this issue."

Pinnacle's fairness consulting services aim to help carriers better understand the issue, along with assessing where they stand.

Roosevelt Mosley
Pinnacle

"We have a framework which includes a battery of tests we can run," Mosley said. "But what we realized is that, like [much of] consulting, there are unique aspects to every company. Rather than just show up and run this battery of tests, we're going to make sure that we tailor the approach to whatever it is that we need to do."

Pinnacle's framework is to sit between the actuarial and business units, helping both sides understand broader implications.

"For example, when it comes to this idea of whether or not something is fair or unfair, it's not just an accuracy question," said **Gary Wang**, senior consulting actuary at Pinnacle. "There's an equity question that gets brought up. If you don't manage discussions of both teams, you might end up with the two sides not communicating with each other. This is really where we want to make sure we contribute."

Pinnacle customizes its testing framework to respond to the questions being asked and the models being reviewed.

It also focuses on measuring outcomes.

"If you're not testing the ultimate outcome, then you're missing the key element in the process," Mosley said.

Another key output of Pinnacle's work is a suite of metrics that help identify reasons beyond the model that may be impacting a test.

"On the back end, the outcome of the test is one thing. What's just as important to understand and try to unpack is whether the results are based on company influence and processes, or if there are market dynamics that are creating these outcomes," Mosley said.

Pinnacle is currently working with several carriers to help them to work through the process

Please see FAIRNESS on Page 10

State Market Focus: SOUTH CAROLINA

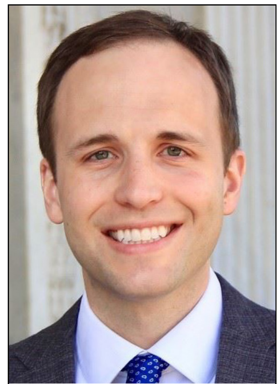
Continued from Page 1

only minimally at fault.

The effort to eliminate the last vestiges of joint and several liability affects insurers of all businesses, but among auto insurers, those who underwrite commercial coverage, particularly trucks, would see the biggest benefit. The Murdaugh firm's influence in Hampton County turned the venue into a judicial hellhole until South Carolina limited forum shopping with tort reforms in 2005 that also abolished joint and several liability for a defendant responsible for less than 50% of the total fault. The law has an exception, however: if the conduct involved drug and alcohol or was grossly negligent or intentional, any defendant with any amount of fault could be on the hook for all damages.

Senate Bill 533, which is pending in the Senate and expected to be discussed in the next year, aims to eliminate that exposure.

"Joint and several liability makes insuring such a high-risk, targeted, essential sector very hard to calculate the risk," said **Rick Todd**, president and CEO of the **South Carolina Trucking Association**. "This issue has been of great concern to the trucking industry and fleet owners who face excessive liability even when not primarily at fault."



South Carolina Insurance Director Michael Wise

While current inflation, pricing and loss trends make the truck insurance market harder than usual, **Will Chitwood**, transportation agent with the broker **McGriff**, said coverage is still generally available for good risks, though trucking firms with a challenging claim history have fewer options.

"The people that are good at writing truck insurance are still writing trucks," Chitwood said. "Everything costs more. Everyone talks about nuclear verdicts, but what hurts are the $50,000

Please see SOUTH CAROLINA on Page 8

South Carolina Auto Insurance Profit Margins

Ten-Year Summary, Percent of Direct Premiums Earned

Line of Business	2021 Total Profit	2020 Total Profit	2019 Total Profit	2018 Total Profit	2017 Total Profit	2016 Total Profit	2015 Total Profit	2014 Total Profit	2013 Total Profit	2012 Total Profit	Avg Total Profit
Personal Auto Liab	3.9	5.4	3.9	4.1	0.3	-6.7	-3.3	0.0	1.5	3.8	1.3
Personal Auto Phys	4.4	11.3	11.5	11.2	5.0	0.1	0.6	-0.8	5.7	5.2	5.4
Personal Auto Total	4.1	7.6	6.7	6.7	2.2	-4.1	-1.8	-0.3	3.1	4.4	2.9
Comm. Auto Liab	1.6	-8.2	0.9	-4.9	-3.8	-3.7	-3.9	3.5	8.0	8.8	-0.2
Comm. Auto Phys	8.5	9.6	13.6	6.1	2.4	1.9	-1.3	1.8	5.4	1.1	4.9
Comm. Auto Total	3.1	-4.1	4.0	-2.2	-2.4	-2.3	-3.4	3.2	7.5	7.0	1.0
Total All Lines*	13.6	9.0	12.3	13.0	8.0	0.9	6.2	8.6	15.7	13.0	10.0

*Auto; Home, Farm & Commercial Multiperil; Fire; Allied; Inland Marine; Med Malpractice; Other Liability; Workers Comp; All Other

Note: Profit calculations are by *Auto Insurance Report* using data from the National Association of Insurance Commissioners. Calculations are estimates, some based on national averages.

South Carolina
Personal Auto Insurers

Groups Ranked by Total 2022 Direct Premium Written (000)

Group Name	2022 Premium	Mkt share 2022	Loss Ratio 2022	2021 Premium	Mkt share 2021	Loss Ratio 2021	2020 Premium	Mkt share 2020	Loss Ratio 2020
State Farm Mutual	$1,235,676	23.7%	94.6%	$1,127,178	22.9%	70.2%	$1,053,391	22.9%	59.0%
Progressive Corp.	$896,857	17.2%	68.0%	$793,727	16.1%	67.1%	$674,704	14.7%	56.3%
Berkshire Hathaway/Geico	$682,086	13.1%	86.4%	$686,045	13.9%	77.5%	$625,579	13.6%	71.7%
Allstate Corp.	$642,191	12.3%	74.1%	$621,198	12.6%	56.4%	$585,315	12.7%	52.8%
USAA Insurance Group	$491,443	9.4%	99.3%	$461,876	9.4%	78.4%	$460,865	10.0%	61.9%
Travelers Companies Inc.	$236,620	4.5%	74.1%	$224,404	4.6%	60.8%	$209,883	4.6%	54.9%
Liberty Mutual	$227,007	4.3%	67.5%	$234,943	4.8%	58.1%	$222,521	4.8%	61.3%
Nationwide Mutual Group	$179,529	3.4%	70.1%	$181,912	3.7%	62.5%	$198,931	4.3%	53.4%
Southern Farm Bureau Casualty	$115,533	2.2%	72.8%	$116,891	2.4%	77.5%	$120,979	2.6%	61.1%
Auto-Owners Insurance	$113,766	2.2%	76.4%	$102,962	2.1%	64.5%	$100,208	2.2%	65.6%
Hartford Financial Services	$45,916	0.9%	73.4%	$41,726	0.9%	63.8%	$39,587	0.9%	63.3%
American Family Insurance Group	$38,888	0.7%	82.7%	$30,879	0.6%	49.8%	$32,556	0.7%	75.7%
AssuranceAmerica	$37,615	0.7%	72.7%	$33,528	0.7%	73.8%	$27,539	0.6%	47.6%
Farmers Insurance Group	$36,213	0.7%	64.9%	$38,823	0.8%	69.0%	$43,776	1.0%	65.9%
Sentry Insurance Mutual	$29,539	0.6%	50.6%	$33,182	0.7%	53.2%	$40,525	0.9%	66.8%
American National Insurance	$26,580	0.5%	71.0%	$25,381	0.5%	67.7%	$24,175	0.5%	71.8%
Alfa Mutual Group	$23,795	0.5%	76.7%	$6,718	0.1%	62.2%	$0	0.0%	na
Auto Club Insurance Assn. (Michigan)	$23,217	0.4%	82.5%	$19,637	0.4%	85.9%	$15,384	0.3%	70.8%
Root Insurance Co.	$20,067	0.4%	89.1%	$26,296	0.5%	97.3%	$9,576	0.2%	104.8%
Horace Mann Educators Corp.	$18,622	0.4%	69.1%	$19,342	0.4%	58.3%	$20,426	0.4%	46.3%
Selective Insurance Group Inc.	$12,454	0.2%	106.9%	$11,434	0.2%	61.6%	$11,246	0.2%	48.5%
Markel Corp.	$11,910	0.2%	51.5%	$10,553	0.2%	40.5%	$8,427	0.2%	56.9%
Amica Mutual Insurance Co.	$10,893	0.2%	46.8%	$12,493	0.3%	58.0%	$13,940	0.3%	54.1%
First Acceptance Corp.	$10,745	0.2%	56.5%	$7,944	0.2%	48.2%	$9,261	0.2%	45.3%
Tokio Marine Group/PURE	$10,397	0.2%	84.1%	$8,872	0.2%	63.0%	$7,593	0.2%	63.5%
Cincinnati Financial Corp.	$9,316	0.2%	52.1%	$9,443	0.2%	43.4%	$10,449	0.2%	51.6%
Kemper Corp.	$4,579	0.1%	112.0%	$7,262	0.2%	66.9%	$7,007	0.2%	64.6%
Chubb Ltd.	$4,371	0.1%	65.0%	$4,043	0.1%	60.7%	$3,666	0.1%	61.0%
Central Insurance Companies	$4,107	0.1%	59.3%	$3,977	0.1%	51.0%	$4,309	0.1%	46.4%
American International Group	$3,618	0.1%	57.8%	$3,665	0.1%	51.9%	$3,816	0.1%	67.6%
Tiptree Inc.	$3,485	0.1%	15.0%	$3,030	0.1%	27.3%	$2,698	0.1%	61.9%
Munich Re/American Modern	$2,789	0.1%	32.4%	$2,616	0.1%	46.4%	$1,161	0.0%	63.9%
Electric Insurance Co.	$1,986	0.0%	104.3%	$1,841	0.0%	55.3%	$1,852	0.0%	47.3%
RFH Special Purpose I LLC	$1,670	0.0%	82.2%	$597	0.0%	4.7%	$752	0.0%	64.9%
Vault Reciprocal Exchange	$1,666	0.0%	121.5%	$984	0.0%	92.7%	$296	0.0%	50.0%
Shelter Insurance	$1,505	0.0%	147.2%	$1,357	0.0%	89.7%	$1,414	0.0%	103.5%
Stillwater Insurance/WT Holdings Inc.	$1,044	0.0%	96.0%	$537	0.0%	38.9%	$229	0.0%	48.8%
California Casualty	$851	0.0%	77.6%	$802	0.0%	79.8%	$867	0.0%	90.2%
J Leon Hix Revocable Trust	$725	0.0%	23.9%	$558	0.0%	174.2%	$1,382	0.0%	44.4%
Statewide Totals	$5,220,562		81.4%	$4,921,443		68.1%	$4,600,111		60.0%

Source: S&P Global Market Intelligence and the *Auto Insurance Report* database.
Loss ratio = incurred losses/direct premium earned and does not include dividends or loss adjustment expense.

State Market Focus: SOUTH CAROLINA

Continued from Page 6

claims that turn into $200,000 claims."

Included in SB 500, a catchall insurance bill, was a provision that added commercial motor vehicle liability to the list of coverages available from surplus lines writers. Agents report that truckers have been able to buy excess policies in the non-admitted market in the past, but this tweak to the state law could increase liability options.

"The change is reportedly increasing product availability, particularly with trucking and garage liability products," **Michael Wise**, director of the

Please see SOUTH CAROLINA on Page 9

South Carolina Commercial Auto Insurers

Groups Ranked by Total 2022 Direct Premium Written (000)

Group Name	2022 Premium	Mkt share 2022	Loss Ratio 2022	2021 Premium	Mkt share 2021	Loss Ratio 2021	2020 Premium	Mkt share 2020	Loss Ratio 2020
Progressive Corp.	$140,396	17.5%	49.3%	$126,174	17.4%	58.7%	$89,161	14.9%	62.2%
Auto-Owners Insurance	$49,804	6.2%	111.1%	$45,286	6.3%	67.9%	$39,636	6.6%	78.0%
Liberty Mutual	$37,591	4.7%	91.1%	$34,727	4.8%	90.1%	$23,772	4.0%	85.9%
Travelers Companies Inc.	$36,969	4.6%	59.8%	$35,044	4.8%	69.9%	$34,963	5.8%	52.7%
Old Republic International Corp.	$32,857	4.1%	99.9%	$25,424	3.5%	83.5%	$23,006	3.8%	92.9%
Berkshire Hathaway Inc.	$31,856	4.0%	58.7%	$26,260	3.6%	67.9%	$21,474	3.6%	87.7%
Selective Insurance Group Inc.	$31,190	3.9%	88.3%	$27,420	3.8%	75.3%	$22,454	3.7%	62.3%
Zurich Insurance Group	$31,153	3.9%	57.6%	$26,065	3.6%	88.0%	$21,178	3.5%	95.5%
W. R. Berkley Corp.	$26,212	3.3%	67.7%	$20,279	2.8%	63.1%	$16,129	2.7%	62.0%
Nationwide Mutual Group	$24,240	3.0%	66.3%	$22,482	3.1%	87.3%	$25,110	4.2%	102.1%
Sentry Insurance Mutual	$17,465	2.2%	73.0%	$16,116	2.2%	55.4%	$15,376	2.6%	71.4%
Allstate Corp.	$15,645	2.0%	28.3%	$15,108	2.1%	101.2%	$15,984	2.7%	60.0%
Great American Insurance	$15,454	1.9%	62.8%	$13,863	1.9%	27.9%	$8,215	1.4%	76.8%
Canal Insurance Co.	$15,371	1.9%	52.2%	$11,726	1.6%	42.9%	$8,673	1.4%	44.3%
Hartford Financial Services	$15,207	1.9%	43.5%	$14,919	2.1%	48.3%	$12,336	2.1%	62.0%
State Farm Mutual	$14,920	1.9%	100.4%	$14,410	2.0%	59.0%	$9,777	1.6%	70.0%
American International Group	$12,439	1.6%	69.9%	$10,230	1.4%	70.8%	$11,938	2.0%	53.2%
Encova Mutual Insurance Group	$11,135	1.4%	90.8%	$12,197	1.7%	64.8%	$12,333	2.0%	81.8%
Cincinnati Financial Corp.	$10,987	1.4%	47.3%	$11,616	1.6%	69.3%	$10,342	1.7%	39.1%
Chubb Ltd.	$10,814	1.3%	53.2%	$9,018	1.2%	94.0%	$7,458	1.2%	48.7%
Builders Mutual	$10,619	1.3%	88.8%	$9,335	1.3%	86.4%	$7,158	1.2%	79.8%
Frankenmuth Insurance	$10,325	1.3%	74.1%	$10,117	1.4%	62.6%	$9,348	1.6%	99.6%
Federated Mutual Group	$9,761	1.2%	65.2%	$8,771	1.2%	66.8%	$8,307	1.4%	59.9%
FCCI Mutual Insurance Holding Co.	$9,282	1.1%	82.2%	$9,564	1.3%	62.3%	$9,695	1.6%	42.4%
Amerisure Mutual Insurance Co.	$8,836	1.1%	102.3%	$7,994	1.1%	55.6%	$5,604	0.9%	52.0%
Tokio Marine Group	$8,567	1.1%	41.8%	$7,501	1.0%	84.2%	$6,875	1.1%	60.3%
Penn National Insurance	$7,479	0.9%	114.5%	$7,834	1.1%	85.2%	$6,898	1.1%	56.9%
EMC Insurance Companies	$6,624	0.8%	70.4%	$6,702	0.9%	64.9%	$8,094	1.4%	91.5%
Statewide Totals	$804,198		68.2%	$724,863		69.5%	$600,260		71.8%

Source: S&P Global Market Intelligence and the *Auto Insurance Report* database.
Loss ratio = incurred losses/direct premium earned and does not include dividends or loss adjustment expense.

State Market Focus: SOUTH CAROLINA

Continued from Page 8

South Carolina Department of Insurance, said in an email.

Much of the legislative focus for insurers and businesses is on the pending tort reform bill. Passage is no sure thing, despite Republican majorities in both legislative chambers. Some industry sources speculate that as the debate yields to nuts-and-bolts compromise with advocates for the trial bar, there could be a proposal to increase minimum liability limits for personal auto insurance and/or coverage for commercial vehicles that carry passengers.

Frank Sheppard Independent Insurance Agents of South Carolina

Frank Sheppard, president of the **Independent Insurance Agents of South Carolina**, said that raising minimum limits is a double-edged sword, given the impact on drivers who can barely afford coverage with the current minimum limits of $25,000 for bodily injury of one person, $50,000 per accident and $25,000 for property damage liability. But anecdotal evidence suggests that underinsured motorist claims "are skyrocketing, which tells me minimum limits are probably too low," he said. The agents' group does not have an official position on proposals to increase limits.

South Carolina is already among the least affordable auto insurance markets, and rates have been rising significantly. On our PAIN Index, which gauges affordability by comparing premium to income, South Carolina was less affordable than all but seven other states in the country in 2020, according to the most recent data from the **National Association of Insurance Com-**

Please see SOUTH CAROLINA on Page 10

South Carolina Snapshot

Regulator: Director Michael Wise
Rate regulation: prior approval; file and use for one rate change within 7% per 12 months
Average rate approval time: 53 days

Size of personal auto market: $5.22 billion (2022 DPW) Rank: 18th

Average policy expenditure: $1,113 (2020)
Rank: 15th
Auto Insurance Report PAIN Index rank: 8th (2020)
Property Insurance Report HURT Index rank: 12th (2020)

Auto registrations: 1.9 million (2021)
Truck registrations: 3.0 million (2021)
Vehicle miles traveled (VMT): 57.49 billion (2021)
Traffic fatalities: 2.08 per 100 million VMT; U.S.: 1.37 (2021)

Vehicle thefts: 312.3 per 100,000 residents; South Region: 249.0 (2021)

Liability defense: modified comparative fault – 51% bar
Minimum Insurance Requirements:
BI: $25,000/$50,000 • PD: $25,000 • UM: $25,000/$50,000

Safety Laws
Ban on texting for all drivers; no ban on hand-held phone use while driving
Primary enforcement seat belt law
Motorcycle helmets required for riders under 21

Demographics
Population: 5.3 million (2022)
Change 2010-2020: 10.7%, U.S.: +7.4%
Median household income (avg. 2017-2021): $58,234; U.S.: $69,021
Population density: 170.3 per square mile; U.S.: 93.8 per square mile (2020)

Sources: S&P Global Market Intelligence; NAIC; Milliman; U.S. Dept. of Transportation; NAMIC; U.S. Census; Insurance Institute for Highway Safety; FBI; Matthiesen, Wickert & Lehrer

State Market Focus: SOUTH CAROLINA

Continued from Page 9

missioners (NAIC), while the average expenditure ranked 15th.

Based on filings recorded through Nov. 20, the top 10 personal auto groups in South Carolina increased rates an average 13.6% this year on top of 13.3% last year, according to RateWatch from **S&P Global Market Intelligence**. No. 5 **USAA** led the top 10 this year with an average 27.2% increase following a 10.3% hike last year, nearly matching the two-year cumulative rate increase by No. 3 **Geico**, which boosted groupwide rates an average 24.3% last year followed by a 12.9% increase this year.

"The personal auto insurance market in South Carolina is extremely competitive. While rates have been increasing, the residual market remains small," Wise said. "Rate increases are being driven by higher claim costs due to severity, inflation, more expensive technology in vehicles and increased labor and material costs."

Russ Dubisky
South Carolina
Insurance Association

Auto insurers are taking full advantage of a 2021 change in South Carolina law that enables them to increase rates twice in a year, instead of just once. Only one can be filed under the state's flex-rating law, which allows insurers to file and use rates up to 7% within 12 months without prior approval.

"While many carriers are now electing to submit two rate filings each year, we are not observing any concerning trends as a result," Wise said.

Robert Hartwig, director of the **University of South Carolina Center for Risk and Uncertainty Management**, said it's not unusual for insurers to receive "blow back" from regulators when both auto and homeowners insurance rates are rising, but South Carolina's regulators have a reputation for following the data.

"To the best of my knowledge, we are not seeing the state insurance department here basically say, 'I don't care what's happening to your underlying claim severity or your claim frequency, and we're going to disallow a rate increase," Hartwig said. "Historically, the state insurance department here has been relatively objective about those sorts of things."

In addition to raising rates, insurers are tightening eligibility and more readily nonrenewing policies, said **Russ Dubisky**, executive director of the **South Carolina Insurance Association**.

"People are getting more choosey on underwriting, but markets are still available," he said. As an example, he cited additional scrutiny on property damage claims history, including windshield losses. In South Carolina, comprehensive coverage cannot require a deductible for windshield claims.

Collision claims have been a concerning issue in South Carolina – not surprising given the state's consistently high traffic fatality rate. In 2021, South Carolina had 2.08 highway deaths per 100 million miles traveled, compared with the national average 1.37. Estimates for the first half of 2023 showed some improvement, though the 1.73 rate was still substantially higher than the 1.24 national average.

Robert Hartwig, director of the **University of South Carolina Center for Risk and Uncertainty Management**, said collision claim severity for South Carolina was up 8% from the second quarter of 2022 following a 23.3% increase over 2021, with outsized inflation trends the main driver.

Property damage claims "are very vulnerable to inflation," Hartwig said. "If there's a silver lining in all of this right now, it's that we've seen

Please see SOUTH CAROLINA on Page 12

FAIRNESS Continued from Page 5

and determine next steps.

"We've had some clients that have been maybe a little more proactive in wanting to get ahead of whatever is coming next," Mosley said. "They've wanted to do some tests and analyses to determine if there are any areas they need to focus on."

•

How Will Regulators Respond?

The biggest question for anyone working in this field is what regulators think of these products and services. The first draft of Colorado's testing regulation is centered on life insurance, and auto insurance regulations are in the process of being developed. (AIR 10/9/23)

"My thought is that most carriers are going to want to test to comply with Colorado," Leong said.

Even with product development in full swing, vendors have all had to put key components on hold until regulators clarify what's acceptable. Verisk hopes the release of FairCheck can demonstrate to regulators that there is a path forward and a product that could potentially address their concerns. What remains to be seen is what regulators in Colorado will accept, and if other states follow in its footsteps.

Though regulatory work has been focused on rating, other practices are on deck. Mosley noted that Pinnacle has been engaged by carriers to look at underwriting, claims and agency evaluations. Additional fields mean additional complexity and the need for different approaches.

Actuaries and data scientists are already establishing methodologies to address more complex products like gradient boosting machines (GBM) and AI-driven models. This is on top of work being done to make existing modeling more transparent. (AIR 7/24/23)

Vendors report that since their products were announced, they have had multiple discussions with carriers. And they clearly expect there to be a growing need for these services. AIR

AUTO INSURANCE REPORT

Established 1993

Brian P. Sullivan Sr., Editor
(949) 443-0330
bpsullivan@riskinformation.com

Leslie Werstein Hann, Managing Editor
(908) 310-7129
leslie@hannwriting.com

Patrick Sullivan, Senior Editor
(949) 412-5851
patsullivan@riskinformation.com

Ed McMenamin, Senior Editor
(217) 201-3956
edm@riskinformation.com

Contributing Writers: Hal Conick, Michael Ruscoe, John Yoswick

Dana Horst Sullivan, Subscription Director
dana@riskinformation.com

www.riskinformation.com

Click Here for Index of Back Issues

Focus: SOUTH CAROLINA

Continued from Page 10

some pretty sharp moderation in bodily injury claim costs."

The intense focus on refining pricing and underwriting and stemming claims costs coming off last year's 81.4% incurred loss ratio may have dimmed the spark of flashy product innovations.

One emerging trend Wise noted is increasing attention to a driver's insurance history with other carriers.

"We have not seen the same level of innovation this year as in years prior," Wise said. "There have been advancements in data collection and output resulting in the refinement of telematics products and implementation of vehicle history scoring. Companies are taking time to digest their captured data and focus on refining existing rating plans before adding more variables." AIR