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Surge in auto liability loss ratios evident in Q3 statutory data

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The U.S. property and casualty industry's direct incurred loss ratio in the private-passenger auto liability line appears to have surged to its highest level in a third quarter in more than a decade, a first look at results for the period ended Sept. 30 reveals.

(companies)

The third-quarter direct incurred loss ratio in the private-passenger auto liability line was 71.7% collectively generated by the 2,574 individual P&C entities for which Sept. 30 data was available as of Nov. 23. That marked an increase from 66.1% for the same entities in the year-earlier period. Including all filers, the private-passenger auto liability direct incurred loss ratio had averaged 64.6% during the third quarters of 2003 through 2014. It totaled 71.1% in the third quarter of 2002, which marked an improvement at the time from a ratio of 75.3% during the same period in 2001.

Results are subject to change as S&P Capital IQ and SNL receives additional information. Most notably, Liberty Mutual Insurance Co. received permission from the Massachusetts Department of Insurance for a one-month delay in the filing of its Sept. 30 quarterly statement. Results for the third quarter and prior periods have been adjusted to exclude that company and others for which Sept. 30 data is not available, except where noted. Other U.S.-domiciled P&C units of Liberty Mutual Holding Co. Inc. timely filed their Sept. 30 quarterly statements, and their results are included in the analysis.

Upward pressure on private auto liability losses

PERSONAL LINES

The P&C industry's loss experience is consistent with the second quarter, when its industry's direct incurred loss ratio in the private-passenger auto liability line spiked to 69.7% on a total-filed basis from 64.8% in the year-earlier period. That result had been the industry's highest in a second quarter since it produced a 71.9% direct incurred loss ratio in the private-passenger auto liability line during the three-month period ended June 30, 2002.

For the first nine months of 2015, the private-passenger auto liability loss ratio of 69.4% marked an increase from 65.2% in the year-earlier period.

Reports of rising loss frequency and severity have emerged from a range of private-passenger auto insurers in 2015, and the third-quarter results show the market's largest participants generally saw deterioration in their loss experience.

State Farm Mutual Automobile Insurance Co.'s private-passenger auto liability direct incurred loss ratio of 69.8% for the third quarter represented an increase from 61.7% in the year-earlier period. At the group level, the State Farm private-passenger auto liability direct incurred loss ratio of 70.6% marked an increase of nearly 8.1 percentage points from the year-earlier period.

The Berkshire Hathaway Inc. P&C group, which generates the vast majority of its private-passenger auto liability business from the GEICO Corp. companies, generated a private-passenger auto liability direct incurred loss ratio of 75.8% during the third quarter, up from 71.2% in the year-earlier period and down from 78.7% in the second quarter. The direct incurred loss ratio in the business line for the first nine months of 2015 of 75.8% marked an increase from 68.4% in the year-earlier period.

Allstate Corp., which had been among the first in the industry to publicly sound the alarm and take broad-based pricing actions in response to rising losses, posted a private-passenger auto liability direct incurred loss ratio at the group level of 74.6% in the third quarter, up from 65.1% in the year-earlier period. The group had not previously generated a direct incurred loss ratio in that line of more than 68.2% in the 15 years for which SNL has tabulated statutory disclosures on a quarterly basis. The second-quarter direct incurred loss ratio was 72.9%. For the first nine months of 2015, the direct incurred loss ratio of 72.5% compared unfavorably to a result of 63.9% in the year-earlier period.

Farmers Insurance Group of Cos. produced direct incurred loss ratios of 68.1% and 65.2% in the private-passenger auto liability line in the third quarter and first nine months of 2015, respectively, up from 61.5% and 59.5% in the year-earlier periods.

Progressive Corp. proved the exception among 2014's top five writers of private-passenger auto liability direct premiums written, despite recent management commentary that the company was not immune from rising loss frequency. Its group-level direct incurred loss ratio in the business line of 61.4% represented improvement from 63.3% in the third quarter of 2014. Current- and prior-period results for the Progressive group exclude Progressive Garden State Insurance Co. Quarterly results for certain New Jersey-domiciled filers are permitted to be disseminated to the public under a provision of state law.

Commercial auto liability losses also move higher

COMMERCIAL LINES

The third-quarter direct incurred loss ratio in commercial auto liability of 70.9% marked an increase from 63.6% in the year-earlier period and represented the industry's highest such result in a third quarter since the three-month period ended Sept. 30, 2010. It also appears to have been a product, in part, of quarterly volatility in one P&C group's reporting.

The leading commercial auto liability writers based on 2014 direct premiums written saw mixed loss trends during the quarter, with Travelers

Cos. Inc. and the group led by Nationwide Mutual Insurance Co. having witnessed improvement year over year whereas Progressive posted some deterioration.

The U.S. P&C subsidiaries of American International Group Inc. and Zurich Insurance Group Ltd. appeared to account for much of the deterioration experienced by the industry, however, as the direct incurred loss ratio would have increased year over year by only 1 percentage point to 64.2% had they been excluded from the calculation.

The estimated AIG commercial auto liability direct incurred loss ratio soared to 191.4% during the third quarter from 70.5% in the year-earlier period, largely as a result of the $204.8 million in direct losses incurred juxtaposed with $88.5 million in direct premiums earned reported by National Union Fire Insurance Co. of Pittsburgh Pa. The increase was considerably smaller for the first nine months of 2015, but the group's estimated loss ratio remained elevated as it rose to nearly 95.5% from 86.2% in the year-earlier period.

National Union Fire has shown considerable volatility in quarterly direct incurred loss ratios in certain business lines, particularly commercial auto liability. The 231.5% third-quarter direct incurred loss ratio in the business line followed a second-quarter ratio of a negative 12.9%. For the first nine months of the year, however, the commercial auto liability direct incurred loss ratio of less than 93% represented an increase from 92.6% in the year-earlier period.

As a result, the year-over-year increase in the industry's commercial auto liability direct incurred loss ratio is considerably smaller when excluding AIG's units from the analysis. The ratio of 65.1% on that basis would mark an increase from an ex-AIG result of 63.2% in the year-earlier period.

The Zurich group, meanwhile, posted a commercial auto liability direct incurred loss ratio of 82.6%, up from 64% in the third quarter of 2014, fueled by sharply higher incurred losses at Zurich American Insurance Co. The group's lead U.S. subsidiary's commercial auto liability direct incurred loss ratio soared to 120.2% during the third quarter from 71.6% in the year-earlier period. For the first nine months of 2015, the ratio of 72.8% compared unfavorably to a result of 59.8% in the year-earlier period.

Zurich had cautioned in September that U.S. auto liability business would be a primary contributor to a reserve charge the company planned to take during the third quarter. During a Nov. 5 conference call, in response to a question regarding the charge, executives highlighted the "larger trucking end of the market" as an area "that we're going to tackle with vigor before we enter next year." They said the challenges associated with commercial auto had become clearer during the third quarter and pledged to address them by taking "more radical action from this point onward" from an underwriting perspective.

Zurich also took note of unfavorable loss frequency and severity trends in the Farmers exchanges during the third quarter, particularly in states such as California and Texas in which they maintain a strong presence. A Zurich subsidiary manages Farmers Insurance Exchange and its affiliates.

"Farmers is pushing for adequate rates in these states, but it will take time for this to come through," Zurich said in its third-quarter financial report.

That statement likely applies across the P&C industry. The rate of increase in private-passenger auto liability direct premiums written totaled less than 4% during the third quarter and 3.4% for the first nine months of 2015. Direct premiums written in the business line had expanded year over year by 4.1% in the third quarter of 2014.

Trends in the auto physical damage line, which as it is reported in quarterly statements includes both private-passenger and commercial auto business, were decidedly more benign across the industry. In fact, the direct incurred loss ratio of 62% in that line compared favorably to the result of 62.2% in the year-earlier period and the second quarter's 65.3%. For the first nine months of 2015, the direct incurred loss ratio improved to 63.4% from 64.4% in the year-earlier period. Approximately 91.4% of the auto physical damage direct premiums written in 2014 on a total-filed basis pertained to the private-passenger side of the business.

But with private-passenger auto liability premiums having accounted for 60.7% of the total-filed private-passenger auto direct premiums written and 20.5% of total-filed direct premiums written during 2014, the recent relative increase in incurred losses in that line is likely to more than offset the improvements evident in the physical damage side of the business.