AUTO INSURANCE REPORT

The Authority on Insuring Personal and Commercial Vehicles

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THE GRAPEVINE

2019 National Conference Now Underway in Florida

You might see some extra "away" messages this week, as hundreds of industry leaders are at the 2019 Auto Insurance Report National Conference at The Breakers in Palm Beach, **Florida**. For those of you who have joined us – welcome! In future issues we will report on some of the discussions being held this week, but it won't be the same as being here. Join us next year! AIR



The Breakers, Palm Beach, FL, May 5-7

Insurer Advertising Jumps 13.2%, Thanks to Returning Profitability

Insurance advertising spending, tied mostly to personal auto, rose 13.2% to a record $7.49 billion in 2018, as easing frequency brought improved profits and a greater desire for growth, according to new research by **Dowling and Partners Securities**.

The 20 largest insurance advertisers, representing 90.4% of the total, pushed spending upward by 16%, while the balance of the industry cut spending by 6%. This continues a long term trend of the biggest advertisers increasing their investments while smaller advertisers are cutting back. It also fits into the narrative of many smaller insurers, who believe that unless you can spend big, it doesn't make sense to spend much of anything at all.

The rise in spending follows three years of insurer timidity as auto writers struggled to find acceptable profitability. In 2017, spending rose just 1.7%, in 2016 it fell

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After Long Struggle, South Carolina Market Finds a Profitable Stride

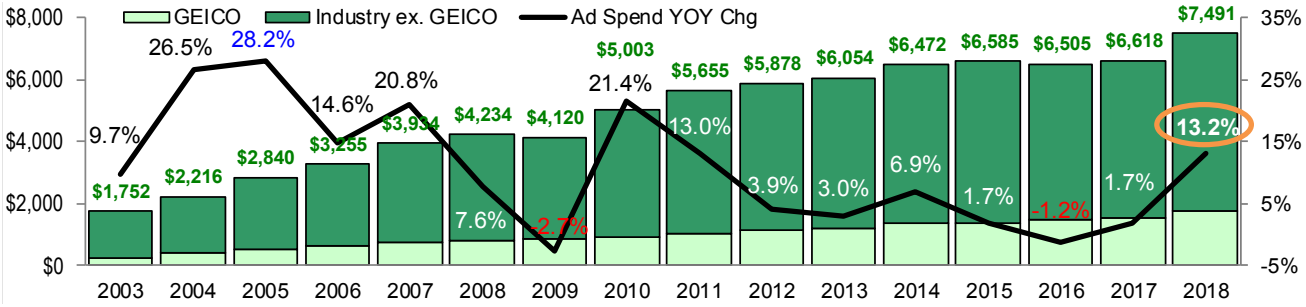
After several years of rate hikes and tighter underwriting, **South Carolina** personal auto insurers finally found what they've been looking for: solid growth with acceptable profitability. By contrast, the commercial auto market in South Carolina is still struggling, particularly for smaller trucking companies and trucks serving the logging industry.

Statewide, personal auto premium for 2018 grew 9.3%, down from 11.0% in 2017, but still greater than the national average growth rate of 6.5%, according to preliminary data from **S&P Global Market Intelligence**. While higher rates surely contributed, South Carolina has also been experiencing strong population growth. South Carolina had the ninth-fastest population growth in 2018, according to **U.S. Census** data. Since 2010, South Carolina's population grew 9.9% to 5.1 million people, compared with the countrywide

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Dowling: P&C Insurance Advertising Trends



Source: S&P Global Market Intelligence, Dowling & Partners Analysis

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1.2% and in 2015 it rose just 1.7%.

The incurred loss ratio fell measurably in 2018, improving to 64.5% from 68.8% in 2017 and 72.0% in 2016 (the worst result in 15 years).

Over time, advertising spending has soared from $961 million in 1997 ($1.52 billion in today's dollars).

The biggest advertising spenders, especially as a percentage of premium, tend to be those that market directly to consumers. Direct response insurers such as **Geico** rely on advertising to generate all of their new business, since they don't have agents sponsoring Little League teams for them. In the chart on page 3, Dowling puts the direct writers in bold to help separate them from the rest of the distribution channels.

Berkshire Hathaway is the undisputed leader in advertising spending, increasing its 2018 budget 14% to $1.77 billion. Of that, Dowling finds that $1.73 billion is dedicated to Geico. It is interesting that the other Berkshire Hathaway insurance companies spend $40 million, which, combined, would make them the 16th-largest advertiser, right after **Mercury General**. Berkshire Hathaway advertising represents 23.6% of the total property casualty industry.

Geico's advertising budget represents 5.2 points of the combined ratio, up from 5.1 in 2017 and down from 5.7 points in 2016. That is below the relative investment made by **Progressive Direct**, with 8.5 points on the combined ratio.

Progressive increased its overall advertising by 41% last year and 86.6% in the last two years to $1.29 billion. It also increased its direct advertising by 44% last year and 93.6% in two years to $1.03 billion.

Other insurers have seen bigger percentage increases, but no other carrier has been as aggressive as Progressive, and it is possible that no insurer has ever increased advertising spending so much in one year. All that additional spending apparently paid off, as Progressive's personal auto direct premium written rose 18.8% in 2019, the biggest increase of any insurer in the top 40 carriers by auto premium.

USAA sells direct to consumers, but with its military connection it doesn't rely as heavily on advertising, and its spending represented just 1.0 point of the combined ratio. While USAA may not spend as big a percentage of premium on advertising as Geico and others, it has been increasing its budget, with spending up 17% in 2017 and 24% more in 2018 to $215 million.

Allstate's direct subsidiary, **Esurance**, spent 8.3 points of the combined ratio. Allstate didn't increase its Esurance spending with nearly the same vigor as some, with a 14% increase in 2018 to $163 million, much lower than its peak spending of $255 million spent in 2014. After significantly reducing advertising spending since 2015, Allstate's 2018 investment indicates the leadership now seems confident that the company can make money on the customers its advertising attracts.

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Dowling Analysis of Largest Insurance Company Advertisers

'18 Ad Rank	'18 PP Auto Rank	Group	Advertising ($, M) 2014	2015	2016	2017	2018	YOY Chg 16/15	17/16	18/17	Ad Rank '16	'17	'18	Pts on Stat CR* 2016	2017	2018
1	2	Berkshire (GEICO)	$1,328	$1,368	$1,487	$1,548	$1,770	9%	4%	14%	1	1	1	3.8%	3.3%	3.5%
		of which =GEICO	**$1,312**	**$1,350**	**$1,465**	**$1,521**	**$1,730**	**9%**	**4%**	**14%**				**5.7%**	**5.1%**	**5.2%**
2	3	Progressive	$649	$696	$689	$911	$1,286	-1%	32%	41%	4	2	2	2.9%	3.4%	3.9%
		of which = Direct	**$518**	**$540**	**$530**	**$714**	**$1,026**	**-2%**	**35%**	**44%**				**6.2%**	**7.2%**	**8.5%**
		of which = Agency	$87	$112	$111	$137	$186	-1%	24%	36%				0.9%	1.0%	1.1%
		of which = Other	$44	$45	$48	$60	$74	7%	26%	23%				1.6%	1.7%	1.7%
3	1	State Farm	$844	$926	$861	$860	$900	-7%	0%	5%	2	3	3	1.4%	1.3%	1.4%
4	4	Allstate**	$937	$778	$786	$718	$816	1%	-9%	14%	3	4	4	2.6%	2.3%	2.5%
		of which =Esurance	**$255**	**$200**	**$186**	**$142**	**$163**	**-7%**	**-24%**	**14%**				**11.0%**	**8.2%**	**8.3%**
5	6	Liberty Mutual	$443	$498	$502	$451	$535	1%	-10%	19%	5	5	5	1.9%	1.6%	1.7%
6	7	Farmers	$329	$287	$261	$259	$276	-9%	-1%	6%	7	7	6	1.8%	1.8%	2.0%
7	8	Nationwide	$359	$359	$319	$283	$248	-11%	-11%	-12%	6	6	7	1.7%	1.5%	1.4%
8	**5**	**USAA Group**	**$133**	**$147**	**$148**	**$173**	**$215**	**0%**	**17%**	**24%**	**9**	**8**	**8**	**0.8%**	**0.9%**	**1.0%**
9	10	American Family	$191	$184	$165	$162	$141	-11%	-2%	-13%	8	9	9	2.1%	1.9%	1.6%
10	**22**	**Amica Mutual**	**$96**	**$99**	**$105**	**$106**	**$126**	**6%**	**1%**	**18%**	**10**	**10**	**10**	**5.0%**	**4.7%**	**5.3%**
11	**11**	**Auto Club Enterprises**	**$58**	**$59**	**$66**	**$78**	**$86**	**12%**	**19%**	**10%**	**13**	**11**	**11**	**1.9%**	**2.1%**	**2.0%**
12	9	Travelers	$114	$117	$96	$75	$77	-18%	-22%	3%	11	12	12	0.4%	0.3%	0.3%
13	23	National General	$44	$42	$55	$33	$61	30%	-40%	85%	15	16	13	2.4%	2.6%	2.8%
14	**18**	**Hartford**	**$82**	**$87**	**$62**	**$49**	**$56**	**-29%**	**-20%**	**14%**	**14**	**14**	**14**	**0.6%**	**0.5%**	**0.5%**
15	16	Mercury General***	$23	$44	$40	$37	$41	-9%	-8%	11%	16	15	15	1.3%	1.2%	1.2%
16	24	Country Ins & Fncl Svs	$27	$24	$26	$31	$33	9%	19%	4%	20	17	16	1.2%	1.4%	1.4%
17	**108**	**Elephant Ins Co**	**$10**	**$12**	**$12**	**$28**	**$32**	**-3%**	**134%**	**12%**	**29**	**18**	**17**	**17.8%**	**38.7%**	**35.3%**
18	12	Erie Ins Grp	$23	$24	$27	$22	$26	12%	-20%	22%	19	23	18	0.4%	0.3%	0.4%
19	21	American Int'l Grp	$48	$22	$19	$26	$26	-14%	34%	2%	24	19	19	0.1%	0.2%	0.2%
20	**120**	**Root Ins Co**	**$0**	**$0**	**$0**	**$7**	**$23**		**NM**	**250%**	**292**	**52**	**20**	**NM**	**356.1%**	**31.5%**
21	**98**	**Zurich NA**	**$23**	**$27**	**$24**	**$22**	**$22**	**-11%**	**-6%**	**0%**	**22**	**21**	**21**	**0.6%**	**0.5%**	**0.6%**
22	**19**	**Auto Club MI**	**$15**	**$24**	**$23**	**$20**	**$21**	**-4%**	**-13%**	**3%**	**23**	**24**	**22**	**1.0%**	**0.9%**	**0.9%**
23	15	Auto Owners	$14	$17	$26	$22	$19	54%	-15%	-12%	21	22	23	0.4%	0.3%	0.3%
24	**26**	**NJ Manufacturers Grp**	**$1**	**$3**	**$5**	**$9**	**$18**	**54%**	**74%**	**93%**	**53**	**38**	**24**	**0.3%**	**0.5%**	**0.9%**
25	29	Shelter Ins Grp	$10	$10	$13	$18	$18	26%	35%	3%	27	26	25	0.8%	1.0%	1.0%
26		**FM Global**	**$13**	**$13**	**$15**	**$17**	**$18**	**20%**	**10%**	**5%**	**25**	**27**	**26**	**0.5%**	**0.5%**	**0.5%**
27	32	Chubb Ltd Grp	$21	$26	$27	$11	$14	5%	-59%	29%	18	31	27	0.2%	0.1%	0.1%
28	247	Arch Ins Grp	$7	$7	$7	$9	$14	2%	24%	53%	46	40	28	0.4%	3.0%	0.5%
29	182	AXA Ins Grp	$9	$11	$11	$12	$13	4%	7%	10%	31	28	29	0.6%	0.5%	0.4%
30	13	Kemper Corp Grp	$10	$11	$11	$12	$13	1%	7%	8%	30	29	30	0.4%	0.4%	0.3%
31	17	Metropolitan P&C	$79	$71	$71	$72	$13	-1%	2%	-83%	12	13	31	2.0%	2.0%	0.3%
32	225	Allianz Ins Grp	$6	$13	$11	$12	$12	-17%	7%	7%	32	30	32	0.8%	0.6%	0.5%
33	125	Assurant Inc Grp	$5	$6	$6	$10	$12	14%	50%	20%	49	37	33	0.3%	0.4%	0.4%
34	28	Sentry Ins Grp	$3	$3	$2	$3	$11	-49%	84%	284%	118	88	34	0.1%	0.1%	0.5%
35		Jewelers Mut Grp	$7	$8	$10	$10	$11	31%	-2%	9%	34	33	35	5.7%	5.2%	5.1%
36	43	Loya Grp	$20	$21	$13	$3	$10	-37%	-79%	277%	26	92	36	2.1%	0.5%	1.8%
37	**54**	**Safe Auto Ins Co**	**$10**	**$11**	**$10**	**$9**	**$10**	**-3%**	**-16%**	**20%**	**35**	**42**	**37**	**3.3%**	**2.4%**	**2.7%**
38	**30**	**Alfa Ins Grp**	**$10**	**$11**	**$9**	**$10**	**$10**	**-15%**	**4%**	**5%**	**37**	**36**	**38**	**0.8%**	**0.7%**	**0.8%**
39	88	Tokio Marine Grp	$8	$8	$10	$10	$10	15%	3%	3%	36	35	39	0.2%	0.1%	0.2%
40	20	MAPFRE Ins Grp	$10	$9	$9	$8	$10	5%	-14%	24%	38	44	40	0.4%	0.4%	0.5%
		TOP 40	**$6,021**	**$6,086**	**$6,040**	**$6,156**	**$7,055**	**-1%**	**2%**	**15%**				**1.6%**	**1.6%**	**1.7%**
		All Other	$450	$499	$466	$463	$436	-7%	-1%	-6%				0.3%	0.3%	0.2%
		P&C INDUSTRY	**$6,472**	**$6,585**	**$6,505**	**$6,618**	**$7,491**	**-1%**	**2%**	**13%**				**1.2%**	**1.2%**	**1.2%**

State Farm Adjusted = +6%

* Advertising $ as % of Total Stat NPW. GEICO NPW is adjusted for LPT & QS in 2014 & forward which impacted stat financials

**Allstate acquired Esurance in Oct. 2011, Allstate data is proforma for Esurance for all periods. Note that Esurance advertising expenditure is GAAP from Allstate supplement.

***Mercury expenditures are GAAP from 10K as stat advertising spend is understated.

Bold = Direct Writer *Source: S&P Global Market Intelligence, NAIC, Company Reports, Dowling & Partners Securities, LLC Analysis*

Advertising expenditures are pulled from the statutory Underwriting and Investment Exhibit Part 3, Line 4 and consist of services of advertising agents, public relations counsel, space in publications, literature for advertising/promotional purposes, drawings in connection with advertising, printing/paper charges in bills covering advertising, media broadcasts, prospects/mailing lists and signs for agents, and souvenirs for general distribution.

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Amica Mutual spent 5.3 points of the combined ratio in its search for preferred risk customers. Amica was among the industry's bigger advertisers back in 1998, with a $26 million budget, but it then went for years doing little more than printing its name on pencils for fear that it would attract customers with a higher risk profile than it desired. Today, the company is once again an advertising force, increasing spending by 18% in 2018 to $126 million.

Dowling uses data from **S&P Global Market Intelligence** (rebranded from **SNL Financial** and the same source as most *Auto Insurance Report* tables), supplemented by its own research because some statutory advertising data is incomplete. (See notes accompanying the table above.) It remains unclear how companies report sponsorships, naming rights and other long-term advertising or brand expenses.

Not included are "allowances to managers and agents," which is spending outside of agent commissions that includes general management expenses but also co-op advertising. These allowances are usually modest, but they matter

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State Market Focus: SOUTH CAROLINA

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average growth rate of 6.0%.

While most of the growth is on the highly exposed coast, population growth is also strong in the Upcountry and Midcountry regions of the state, attracting intense competition.

Perhaps more significant for auto insurers than growth was South Carolina's return to the norm in profitability. For the decade ended 2017, South Carolina personal auto insurers generated a meager 1.8% average annual profit margin, below the 3.9% national average and ranked 46th. 2018 marked the first year since 2012 that the statewide incurred loss ratio for personal auto was at least as good as the loss ratio for

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South Carolina Personal Auto Insurers

Groups Ranked by Total 2017 Direct Premium Written (000)

Group Name	2017 Premium	Mkt share 2017	Loss Ratio 2017	2016 Premium	Mkt share 2016	Loss Ratio 2016	2015 Premium	Mkt share 2015	Loss Ratio 2015
State Farm Mutual	$949,692	23.9%	70.9%	$874,436	24.4%	82.4%	$807,609	24.7%	72.7%
Berkshire Hathaway/GEICO	$523,217	13.2%	73.0%	$426,033	11.9%	73.6%	$356,546	10.9%	79.0%
Allstate Corp.	$473,094	11.9%	58.5%	$460,817	12.9%	66.7%	$460,064	14.1%	67.5%
USAA Insurance Group	$365,476	9.2%	92.2%	$306,788	8.6%	97.4%	$268,700	8.2%	96.6%
Progressive Corp.	$340,855	8.6%	61.8%	$259,531	7.2%	67.3%	$219,417	6.7%	66.3%
Nationwide Mutual Group	$283,086	7.1%	62.3%	$301,437	8.4%	79.4%	$292,607	8.9%	76.3%
Liberty Mutual	$206,434	5.2%	69.6%	$177,041	4.9%	77.1%	$152,885	4.7%	65.6%
Travelers Companies Inc.	$176,219	4.4%	70.6%	$148,397	4.1%	71.9%	$120,896	3.7%	56.6%
Southern Farm Bureau Casualty	$134,639	3.4%	81.2%	$116,412	3.3%	75.3%	$13,614	0.4%	89.2%
Auto-Owners Insurance	$68,469	1.7%	74.5%	$56,156	1.6%	71.0%	$52,297	1.6%	66.7%
MGA Insurance Co.	$55,940	1.4%	53.9%	$30,340	0.9%	63.2%	$21,177	0.7%	64.9%
Hartford Financial Services	$41,104	1.0%	67.5%	$44,342	1.2%	79.8%	$43,775	1.3%	68.8%
National General Holdings Corp.	$31,680	0.8%	60.0%	$38,005	1.1%	91.4%	$38,617	1.2%	78.6%
State Auto Insurance Companies	$30,787	0.8%	87.2%	$21,644	0.6%	70.8%	$18,630	0.6%	75.5%
MetLife Inc.	$28,021	0.7%	80.5%	$18,758	0.5%	69.3%	$16,151	0.5%	74.1%
Sentry Insurance Mutual	$23,480	0.6%	48.9%	$17,377	0.5%	72.6%	$19,445	0.6%	72.6%
ACCC Insurance Co.	$23,055	0.6%	83.4%	$25,090	0.7%	76.2%	$21,985	0.7%	73.8%
Horace Mann Educators Corp.	$21,471	0.5%	75.9%	$20,751	0.6%	72.3%	$20,760	0.6%	62.4%
First Acceptance Corp.	$19,512	0.5%	73.6%	$23,250	0.7%	112.9%	$22,324	0.7%	89.5%
American National Insurance	$16,590	0.4%	92.5%	$13,575	0.4%	76.4%	$12,316	0.4%	67.7%
American Family Insurance Group	$13,692	0.3%	74.4%	$12,866	0.4%	67.5%	$15,965	0.5%	81.6%
Cincinnati Financial Corp.	$12,745	0.3%	86.0%	$11,192	0.3%	77.2%	$9,717	0.3%	74.1%
AssuranceAmerica Corp.	$12,021	0.3%	61.6%	$10,949	0.3%	76.3%	$10,608	0.3%	81.3%
Safe Auto Insurance Co.	$11,862	0.3%	65.7%	$10,937	0.3%	73.8%	$10,524	0.3%	75.1%
Amica Mutual Insurance Co.	$11,657	0.3%	82.5%	$9,593	0.3%	68.0%	$8,562	0.3%	63.6%
Main Street America	$11,160	0.3%	61.9%	$7,446	0.2%	88.9%	$6,105	0.2%	78.1%
Farmers Insurance Group	$11,158	0.3%	57.4%	$17,599	0.5%	66.6%	$26,122	0.8%	72.2%
Statewide Totals	$3,976,597		70.6%	$3,583,918		77.5%	$3,275,078		73.5%

Source: SNL Financial, by permission, and the *Auto Insurance Report* database.
Loss ratio = incurred losses/direct premium earned and does not include dividends or loss adjustment expense.

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State Market Focus: SOUTH CAROLINA

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the industry nationwide. South Carolina's loss ratio came in at 64.5% in 2018, matching the national average, according to the preliminary data. In 2017, South Carolina delivered a 70.6% loss ratio, compared to 68.8% nationally, but the differences were starker in 2014 through 2016, when the statewide loss ratio was consistently more than 5 percentage points above the national average (71.7% for the state vs. 66.1% in 2014, 73.5% vs. 68.3% in 2015 and 77.5% vs. 72.0% in 2016).

The recent improvement was due to both a steep drop in losses and a significant increase in rates. After rising 10.5% in 2015 and 15.0% in 2016, incurred losses increased just 1% in 2017 and 0.8% in 2018.

The improvement is not uniform among insurers, reflected in rate trends among the leading carriers. After raising rates an average 8.8% in 2016 and 9.9% in 2017, the top 10 personal auto insurance groups increased rates just 2.1% last year, according to S&P. Filings through April 3 of this year showed a decline of 0.2%.

State Farm, the leading writer with 22.6% of premium, lowered rates 6.5% last year and another 3.9% so far this year after raising rates 12.3% in 2016 and 8.3% in 2017. No. 2 **Geico/ Berkshire Hathaway** lowered rates 4.5% this year after raising them 5.2% last year on top of 7.0% in 2017 and 8.3% in 2016. No. 3 **Allstate** and No. 5 **Progressive** kept rates flat last year and at least through the first quarter of this year.

Other carriers in the top 10, however, continue to raise rates. No. 4 **USAA** is raising rates 6.0% after a 6.0% rise last year, a 17.2% hike in 2017 and a 6.9% increase in 2016. (Loss ratios in the 90s will do that to you). No. 6 **Nationwide** increased rates 14.8% last year on top of 14.3% in 2017 after increases in the realm of 8% in the prior two years. **Liberty Mutual** raised rates around 9.1% last year after 14% in 2017 and a 9.8% increase in 2016, but so far this year it increased rates just 0.3%.

Southern Farm Bureau Casualty, the

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South Carolina
Auto Insurance Profit Margins
Ten-Year Summary, Percent of Direct Premiums Earned

Line of Business	2017 Total Profit	2016 Total Profit	2015 Total Profit	2014 Total Profit	2013 Total Profit	2012 Total Profit	2011 Total Profit	2010 Total Profit	2009 Total Profit	2008 Total Profit	Avg Total Profit
Personal Auto Liab	0.3	-6.7	-3.3	0.0	1.5	3.8	2.2	3.2	3.9	6.0	1.1
Personal Auto Phys	5.0	0.1	0.6	-0.8	5.7	5.2	-4.8	4.6	8.0	5.8	2.9
Personal Auto Total	2.2	-4.1	-1.8	-0.3	3.1	4.4	-0.4	3.7	5.5	5.9	1.8
Comm. Auto Liab	-3.8	-3.7	-3.9	3.5	8.0	8.8	13.0	18.2	11.7	12.6	6.4
Comm. Auto Phys	2.4	1.9	-1.3	1.8	5.4	1.1	-1.3	3.8	11.1	9.5	3.4
Comm. Auto Total	-2.4	-2.3	-3.4	3.2	7.5	7.0	9.5	14.6	11.6	11.8	5.7
Total All Lines*	8.0	0.9	6.2	8.6	15.7	13.0	3.6	11.0	11.1	11.8	9.0

*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.

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ninth-largest personal auto writer, is still working to achieve an appropriate rate. The company raised rates 17.5% effective March 1 after a 15% rate hikes last year and 9.9% in 2017. (Southern Farm Bureau's reported premium jumped in 2016 because of an accounting change, with premium previously written by **South Carolina Farm Bureau Mutual** being shifted. It does not represent dramatic growth.)

Auto insurers expect to have more pricing flexibility if the South Carolina legislature passes Senate Bill 579, which would allow carriers to file a new rate every six months, as they can for homeowners insurance. The bill won unanimous approval in the Senate, and at press time it was in the House Committee on Labor, Commerce and Industry. It was unclear if the bill would move before the session adjourns on May 9, but if it doesn't, insurers would press for it again.

Insurers argue that allowing two rate changes a year would benefit consumers when loss trends are rising quickly, as they had been in recent years, by enabling insurers to raise rates more gradually. When loss trends were most volatile, insurers were implementing rate increases for new business but could not change rates on renewals for 12 months after the prior increase, resulting in some very large hikes.

The 12-month restriction "is not consumer friendly because it forces our companies to look further out, and if they need an increase they have to take it all at once rather than with incremental increases," said **Russ Dubisky**, executive director of the **South Carolina Insurance Association**. "Now is the time to do this, so if and when down the road we see a different cycle with upward pressure on rates, we want the increases to be smaller and slower."

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South Carolina Commercial Auto Insurers

Groups Ranked by Total 2017 Direct Premium Written (000)

Group Name	2017 Premium	Mkt share 2017	Loss Ratio 2017	2016 Premium	Mkt share 2016	Loss Ratio 2016	2015 Premium	Mkt share 2015	Loss Ratio 2015
Progressive Corp.	$54,089	11.7%	58.7%	$42,399	10.4%	62.9%	$30,270	8.0%	64.7%
Nationwide Mutual Group	$31,295	6.8%	77.5%	$31,212	7.7%	78.7%	$26,562	7.1%	67.1%
Auto-Owners Insurance	$28,511	6.2%	68.6%	$24,653	6.1%	59.4%	$22,828	6.1%	75.2%
Berkshire Hathaway Inc.	$26,655	5.8%	70.7%	$21,080	5.2%	43.9%	$18,990	5.0%	70.7%
Travelers Companies Inc.	$22,820	5.0%	64.1%	$19,296	4.7%	69.2%	$17,129	4.6%	52.9%
Liberty Mutual	$20,708	4.5%	96.2%	$18,886	4.6%	86.1%	$16,055	4.3%	100.2%
Zurich Insurance Group	$18,082	3.9%	87.4%	$17,478	4.3%	69.0%	$16,509	4.4%	90.1%
Selective Insurance Group Inc.	$16,459	3.6%	76.0%	$13,206	3.2%	100.1%	$11,539	3.1%	96.1%
Old Republic International Corp.	$13,244	2.9%	90.1%	$10,406	2.5%	79.2%	$9,328	2.5%	64.5%
Cincinnati Financial Corp.	$11,139	2.4%	84.8%	$10,689	2.6%	72.1%	$9,991	2.7%	94.0%
Chubb Ltd.	$9,856	2.1%	54.5%	$8,196	2.0%	67.4%	$5,867	1.6%	62.3%
Sentry Insurance Mutual	$9,075	2.0%	59.3%	$7,800	1.9%	61.6%	$6,195	1.6%	59.7%
EMC Insurance Companies	$8,745	1.9%	84.3%	$6,701	1.6%	99.2%	$5,099	1.4%	90.5%
Hartford Financial Services	$8,564	1.9%	82.4%	$10,094	2.5%	48.4%	$9,793	2.6%	46.2%
Statewide Totals	$460,637		75.9%	$407,700		74.7%	$376,731		75.2%

Source: SNL Financial, by permission, and the *Auto Insurance Report* database.
Loss ratio = incurred losses/direct premium earned and does not include dividends or loss adjustment expense.

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Insurance Director **Ray Farmer**, however, has suggested that raising rates just once a year is more fair and more transparent, as consumers have a better sense of what they will have to deal with for the full year. He also argued that the law didn't allow more than one rate increase on a book of business in a year, though insurers disagreed with his interpretation. If anything, insurers said, the 12-month restriction should apply only on rates filed under the state's flex rating law, which enables insurers to implement rate changes less than 7% within 30 days of filing, bypassing the prior approval process.

Farmer said the industry's push for the change allowing two increases a year was not a surprise. "If I had my preference, I would rather see one increase a year," Farmer said in a recent interview. "It is certainly not the end of the world if they can file two rate increases. The department still retains our authority to approve or disapprove rate filings."

The auto insurance challenges of recent years hit nonstandard insurers hardest, with some raising prices dramatically or pulling programs from the state. And while that segment is always more volatile than the standard market, nonstandard trends have also improved to some degree, Farmer said. "A good barometer is how many insurers are in the residual market, and our residual market has remained extremely low," he said.

Auto insurers have also struggled through year after year of losses due to flooded cars. Hurricane Florence in September produced a little more than 3,400 auto claims totaling $13.3 million in insured losses, Farmer said, far less than the 13,000 claims with $56 million in losses from Hurricane Matthew in October 2016 and $84 million from 17,000 auto claims following the October 2015 catastrophic flooding associated with Hurricane Joaquin.

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South Carolina Snapshot

Regulator: Insurance Director Ray Farmer
Rate regulation: file and use for rate changes of 7% or less; prior approval for others

Size of personal auto market: $3.98 billion (2017 DPW) Rank: 20th
Average policy expenditure: $923 (2016)
Rank: 17th
Auto Insurance Report PAIN Index rank: 10th (2016)
Property Insurance Report HURT Index rank: 9th (2016)

Auto registrations: 1.8 million (2017)
Truck registrations: 2.5 million (2017)
Vehicle miles traveled (VMT): 54.86 billion (2017)
Traffic fatalities: 1.80 per 100 million VMT; U.S.: 1.16 (2017)

Vehicle thefts: 283.8 per 100,000 residents; Region: 200.8 (2017)

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
All driver texting ban
Relatively weak graduated licensing law
Primary safety belt law
Motorcycle helmets required for riders under 21

Demographics
Population: 5.1 million (2018 est.)
Change 2010-2018: 9.9%, U.S.: +6.0%
Median household income (avg. 2013-2017): $48,781; U.S.: $57,652
Population density: 153.9 per square mile; U.S.: 87.4 per square mile (2010)

Sources: SNL Financial; NAIC; U.S. Dept. of Transportation; NAMIC; U.S. Census; Insurance Institute for Highway Safety; FBI; Matthiesen, Wickert & Lehrer

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"We need a hurricane season off," he said.

The commercial auto market continues to struggle with liability claims, even as the incurred loss ratio declined to 73.7% from 75.9%, which was the highest since the year 2000, when it was 84.6%. "The commercial trucking sector in South Carolina is the most problematic piece of it," Farmer said, pointing particularly to problems facing the logging industry. "It is an economic force in our state, and people involved in the logging industry are having issues finding truck drivers and getting those drivers, particularly younger drivers, insured."

The forestry trucking industry represents an estimated 4.5% of South Carolina's commercial auto market, according to a December 2017

> ***South Carolina desperately needs to take "a hurricane season off" so auto insurance flood claims can stabilize.***

report prepared by Insurance Department staff, who determined that four insurers served the market.

One insurer that had withdrawn cited several reasons for its poor underwriting results, including the fact that these truckers, because they operate largely within state lines, are not subject to more stringent federal interstate trucking safety regulations; exposure to inexperienced drivers; several high-verdict losses; and aging and poorly maintained vehicles. Insurers and agents also stressed the need for all trucking companies, particularly those in the forestry industry, to adopt stronger safety and loss-prevention programs. Other suggestions included allowing surplus lines companies to write commercial auto coverage, although there has been no move to do that; encouraging the formation of additional captive insurers to serve the market after one started up in 2017; and greater utilization of the residual market, though truckers struggle to afford its expensive policies.

The trucking industry and the larger business community point to another solution to address the problem: civil litigation reform, particularly changing the joint and several liability law.

"We've had a deteriorating marketplace for a long time running, mostly due to our tort system and how it's been facilitated by court decisions, legislative inaction and plaintiff attorney manipulation," said **Rick Todd**, president and CEO of the **South Carolina Trucking Association**. "Put that all together and we are where we are today."

Back in 2005, South Carolina changed its law to become a "modified joint and several liability state," meaning parties in a case would have to pay their fair share of damages based on their percentage of fault. Only if other parties were unable to pay could one party be forced to pay for 100% of the damages, and only if that party was at least 50% at fault.

In a 2017 case, however, the **South Carolina Supreme Court** ruled that the language in the 2005 law was ambiguous and allowed a trucking company to face 100% of liability because its parked truck blocked the view of a driver who hit another car. Following that decision, *Smith v. Tiffany*, plaintiff attorneys increasingly sought quick settlements with parties that have low-limits policies and then went after the companies with "deeper pockets," Todd said.

Of the 124 members of the South Carolina House of Representatives, 55 are co-sponsors of House Bill 3758, which would change the wording of the 2005 modified comparative fault law to address the ambiguities that the Supreme Court found problematic. However, it has been stalled in the House Judiciary Committee without a hearing since the end of January.

"This is the biggest one for the trucking in-

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a great deal when talking about **State Farm**, which not only spends big money on advertising directly, but also sends big money to its branded agents for them to spend on marketing.

After direct response insurers, captive agency companies are the second-biggest spenders, led by State Farm. The company spent $900 million directly, or 1.4 points on its combined ratio, up 5% in 2018, along with another $1.19 billion in "allowances to managers and agents." When including this allocation, Dowling estimates that State Farm's advertising spending grew 6% in 2018. It is not possible to know how much of those allowances could be considered advertising, but we suspect State Farm could challenge Geico for the top of the industry's advertising list.

Liberty Mutual is another insurer that uses the allowances line aggressively, recording $290 million. According to Dowling, **Hartford** ($119 million) and **American Family** ($86 million) also record significant sums under allowances to managers and agents, though Hartford's personal auto business largely comes through its direct channel, marketing to members of **AARP**.

Allstate boosted spending for its primary brand by 14% in 2018 to $816 million after cutting the budget 9% in 2017. Allstate spends 2.5 points on its combined ratio on advertising, which is more than its captive agency competi-

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dustry and the business community," Todd said.

Easy access to punitive damages is another concern for South Carolina personal and commercial auto insurers because state law mandates coverage of punitive damages in automobile liability policies, even though insurers can exclude coverage for them in other lines of insurance.

Insurers are seeking another legislative change that they believe would improve the liability climate: Senate Bill 120 would make evidence that a person was not wearing a seat belt admissible in a civil trial. The bill, similar to legislation introduced recently in other states, has been stalled in the Senate Judiciary Committee since its introduction.

Resistance to proposed tort reforms is not uncommon in legislatures dominated by trial lawyers. But in South Carolina there has also been strong resistance to distracted-driving legislation. H.B. 3355 would expand upon South Carolina's anti-texting law by forbidding the use of handheld electronic devices while driving. Seeking to equate the issue with drunk driving, sponsors titled the legislation the "Driving Under the Influence of an Electronic Device or DUI-E Law."

"It was debated extensively last year and this year, and while it's not going to pass this year, we are encouraged that the legislature continues to talk about it," Dubisky said. "As more and more states do this, there is additional pressure."

Although he feels strongly "you shouldn't need legislation to do something you know in your mind is correct," Farmer supports the legislation. "In South Carolina, we are not very good drivers anyway, and when you put a telephone in our hands, we are worse," he said.

Indeed, South Carolina had the highest highway fatality rate in 2017, at 1.80 deaths per 100 million miles, though this was down from 1.88 in. 2016 and 1.89 in 2015. The number of highway deaths seemed stable in 2018 and appears to be on the decline so far this year. The **South Carolina Department of Public Safety** reports that the number of fatal crashes increased again last year. According to preliminary data, 1,038 people were killed in 971 fatal crashes in 2018, compared with 989 people killed in 925 fatal crashes in 2017. The trend seems to be improving so far this year. Through April 29, the state reported 261 fatal crashes this year, down from 281 for the same period last year. AIR

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tors such as State Farm, **Farmers**, and American Family.

Nationwide, long a captive agency insurer, has moved to independent agency distribution, and its advertising budget has reflected the shift, falling 30.9% from $359 million in 2015 to $248 million in 2018. As a rule, insurers selling through independent agencies spend the least on advertising, relying on the agents to handle marketing. We suppose Nationwide is now technically the biggest advertiser among independent agency companies, but that feels unfair because it is transitioning from captive and possesses a valuable brand worth maintaining in the public's mind. It seems more fair to cite **Travelers** as the biggest independent agency spender, although it is also trying to build some direct sales and has slashed its advertising budget 34% to $77 million in 2018 from $117 million in 2015.

Independent agency insurers **National General** (formerly GMAC), **Mercury** and **Erie** all boosted 2018 spending after cutting back in 2017. (Someone should point out to them the value of consistency in brand-building.)

The biggest percentage increase in advertising goes to **Root**, the startup usage-based auto insurer, which plunked down $23 million in 2018 after spending just $7 million in 2017 in search of new business. It worked: The company generated $106.4 million in direct premium written in 2018, after $4.0 million in 2017 when it was getting started.

New Jersey Manufacturers also pushed more chips onto the table, boosting its advertising budget to $18 million, up 93% in 2018 after increasing it 74% in 2017 and 54% in 2016 as it opened itself up to the general population and expanded into new states.

The data suggests that two insurers pulled back hard. **MetLife** reported an 83% drop in advertising to $13 million, and **CSAA** (Northern California Auto Club) reported an 88% decline to just $7 million. AIR

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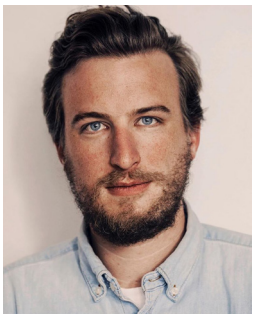
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Ed McMenamin Joins *Auto Insurance Report* As Senior Editor



Ed McMenamin has joined the *Auto Insurance Report* team as senior editor. Based in Chicago, McMenamin will focus on a wide range of topics, including insuretech and distribution. He will also serve in the same role for our sister publication, *Property Insurance Report*. Before joining **Risk Information**, McMenamin was chief editor of **BNP Media's** *PM Engineer* magazine and an associate editor of *Quality and Appliance Design*. He also contributed regular freelance articles to both *Property Insurance Report* and *Auto Insurance Report*. McMenamin covered city government, business and crime for the *Peoria Journal Star* and *Pekin Daily Times* in Central **Illinois**, and then the *Elmhurst Press/Downers Grove Reporter* in Chicago's western suburbs. McMenamin is a native of Springfield, Illinois, and a 2008 graduate of **Bradley University**. AIR

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