AUTO INSURANCE REPORT

The Authority on Insuring Personal and Commercial Vehicles

May 13, 2024 Vol. 31#34/1474

INSIDE

Drop in Ticketing Leaves Carriers Struggling to Find Risky Drivers

Police are still issuing fewer tickets four years after Covid-19 lockdowns, even as mileage has rebounded and drivers speed faster than ever. The result for insurers is less predictive pricing and lower surcharge revenue for all but the most serious violations.

Changes in policing have contributed to more dangerous roads and make it difficult for insurers to identify and price drivers who violate highway safety laws, according to a recent **TransUnion** analysis.

The drop in tickets in spring 2020 was predictable compared to the impacts that have persisted years later. (AIR 11/14/22) "There was a perception that there would be a return to normal," said **Niki Carangelo**, product strategy principal in TransUnion's insurance division. "And that's not happening."

When mileage initially decreased 11% in 2020, traffic

Please see TICKETING on Page 2

Higher Limits, Longer Surcharges Increase Costs in North Carolina

After humming along in its own idiosyncratic way, the **North Carolina** auto insurance market is gearing up for significant changes next year that will increase costs for many drivers and insurers.

Some provisions of the 2023 legislation responsible for these changes – Senate Bill 452 – have the potential to increase the willingness of auto insurers to keep risks on their books rather than offloading them to the **North Carolina Reinsurance Facility** (NCRF), the nation's largest auto insurance residual market, by allowing them to charge more for riskier drivers.

Among a host of other changes to the state's insurance laws, SB 452 raises minimum liability limits, changes the way underinsured motorist claims are paid – increasing potential recoveries – and extends the length of time inex-

Please see NORTH CAROLINA on Page 5

Overworked Auto Repair Shops Reject More Towed Vehicles Sent By Insurers

A growing number of auto repair shops are turning away badly damaged vehicles towed to their locations, citing a lack of staffing for additional work, low profitability on such repairs, a lack of space and damage to insurance company assessments of their turnaround time.

Agero, an accident management and driver assistance firm, reported that 4.2% of the vehicles for which it arranged a tow for an insurer were refused in 2023, up almost 2 percentage points from the prior year (AIR 5/29/23). A recent survey of more than 400 body shops by industry publication *CRASH Network* backs up that finding. More than 1 in 5 shops (21%) said the number of

Please see TURN AWAY on Page 12

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

Ever Since COVID-19 and Black Lives Matter, Violations Per Mile Driven Have Fallen

Source: TransUnion and traffic volume trends, U.S. Department of Transportation, Federal Highway Administration Office of Highway Policy Information

***TICKETING** Continued from Page 1*

violations dropped 20%, she said. Then in 2021, as workers returned to the roads, violations slowly rebounded. But even as miles driven continues to rise, the number of violations has plateaued due to a combination of law enforcement staffing reductions, changes to policies for traffic stops and backlogged court systems.

"Violation volumes are still down by 13% versus the pre-Covid annual average," Carangelo said last month at the Auto Insurance Report National Conference. "And there really is no rebound in sight for that."

Automated traffic enforcement has yet to pick up the slack from police forces that are now understaffed in many cities and often hesitate to initiate stops.

Recent bills in some states to allow automated systems show the pendulum may be swinging back in favor of camera enforcement after public backlash halted momentum last decade, she said. Advocates say automatic enforcement shows promise to issue citations more equitably and safely than people can.

Insurance companies charge more to insure drivers with minor violations in the previous three years and major violations in the previous five years. They also use violations to place drivers in different risk tiers. Without traffic tickets, carriers lack a predictive factor for rating drivers who speed, change lanes without signaling, or commit more serious traffic crimes.

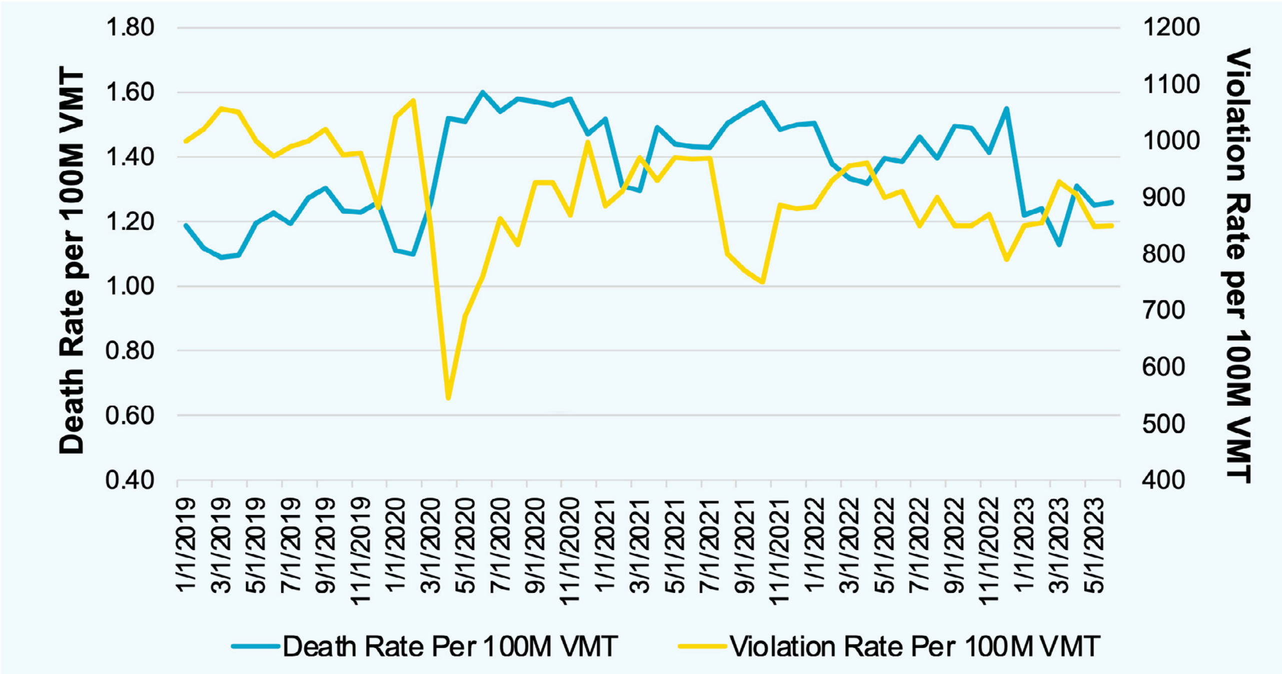
Before Covid-19, violations and mileage were tightly correlated – when total mileage rose and fell, so did tickets. That correlation no longer exists.

While the total number of violations remained low, the tickets that were issued in 2023 were for more serious infractions, like excessive speeding.

Drivers who are in collisions now are more likely than before 2020 to have previous violations in their history. That means the tickets that

Please see TICKETING on Page 3

As Violation Rates Decline, Traffic Death Rates Increase



Source: TransUnion and Fatality Analysis Reporting System (FARS); U.S. Department of Transportation, National Highway Traffic Safety Administration (NHTSA)

***TICKETING** Continued from Page 2*

are issued now are more predictive of losses than before the pandemic, she said. About 51% of drivers in collisions in the second half of 2022 had a violation in the previous three years, compared to 42% of drivers in a collision in the second half of 2019.

Backlogged courts also limited the number of adjudicated violations. In an effort to play catch-up, mass dismissals led to a 7% increase in dismissed violations.

"All of that led to a 9% decrease in surcharge revenue industrywide," she said. "This isn't a one-time event. Those violations didn't exist, they weren't being given out, they weren't adjudicated, and the effects of that are going to continue to compound year over year over year."

The impacts from fewer tickets issued in subsequent years also compound annually, exacerbating the decline in road safety and predictive pricing.

"There's no enforcement out there, they're hesitant to write tickets," she said. "And we are seeing the results of that."

Initially, many police departments reduced traffic stops to limit Covid-19 exposure. After the murder of **George Floyd** by a policeman in May 2020, some departments became wary of initiating traffic stops. Some cities like Philadelphia and states like **Virginia** passed new laws that prevent officers from stopping cars for minor infractions – like broken taillights – that have disproportionately impacted Black drivers. Staffing shortages in many city police departments have also led to reduced ticketing.

As tickets decreased, highway deaths surged. The fatality rate per 100 million vehicle miles jumped from 1.11 in 2019 to a peak of 1.38 in 2021, before settling at 1.26 in 2023. (AIR 4/8/24)

"Getting a traffic ticket is a strong deterrent to risky driving behavior," Carangelo said. "And we're seeing that more people are driving dan-

Please see TICKETING on Page 4

***TICKETING** Continued from Page 3*

gerously because they don't have that threat of enforcement."

While in-person tickets have dropped, the number of cities with automated speeding or red-light cameras have plateaued since 2020.

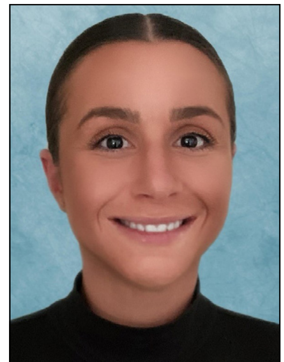
Despite a proven safety benefit when used properly, the number of U.S. municipalities with cameras fell – amid distrust and several scandals – from a peak of 533 in 2012 to 345 in 2020 and then 337 in 2023, according to the **Insurance Institute for Highway Safety**.

The tide could turn the other way, as cities and states see the cameras as a solution to reduce fatalities and solve racially biased traffic enforcement. Last October, **California** Gov. **Gavin Newsom** signed a new law authorizing pilot programs for automated traffic enforcement programs in six cities. **Pennsylvania** Gov. **Josh Shapiro** followed in December with a new law making a camera enforcement program permanent on one boulevard in Philadelphia and expanding the program to five additional corridors. Researchers at the **University of Pennsylvania** found that speed cameras on Roosevelt Boulevard in Philadelphia – made permanent by the new law – have saved almost one life per month, according to the city's news release.

Automated speeding and red-light cameras make roads safer when implemented correctly, but they have limited impact on pricing and underwriting insurance, depending on the state.

Currently, cameras are used in 27 states, but 17 of those states prohibit the use of automated enforcement violations in insurance rating and underwriting, according to Carangelo. Only nine states report automated enforcement violations on driving records.

Insurers looking to use driving records for pricing and underwriting often receive an incomplete picture for several additional reasons, she said. Tickets issued by police in person are not always reported on driving records due to a lack of communication between counties and state motor vehicle agencies. Programs among states to share driving records are also poor. Some violations, even once adjudicated, can also take months to appear on a driving record. Just 24 states have comprehensive reciprocity programs to share driving records, she said, meaning insurers relying on driving records are often not aware of tickets policyholders or shoppers may have received in other states.



Niki Carangelo
TransUnion

That became an even larger problem with population shifts during and after lockdowns. TransUnion estimates that from 2020 to 2023 some 11 million drivers moved to or from a state that restricts sharing records or poorly manages driving records.

"That means they basically came to a state, and no matter what they did previously, they have a clean bill of health," Carangelo said.

While the driving records from state motor vehicle agencies are often incomplete, Carangelo said that court records provide a more comprehensive view of violations across states.

In an aggregate review of insurance policies issued from 2021 to 2023, TransUnion found that court records identified an additional 14% of policyholders with recent violations that driving records alone did not catch. Driving records found just an additional 2% of policyholders with violations that court records missed.

Carangelo argued that using resources like court records in addition to driving records to find every ticket issued is increasingly important for carrier risk selection and pricing as the total number of tickets remains low.

"The people who now are being pulled over are being pulled over for the most egregious violations," she said. "So the violations are highly predictive." AIR

State Market Focus: NORTH CAROLINA

Continued from Page 1

perienced and dangerous drivers are subject to insurance surcharges. The changes are slated to take effect for new policies and renewals effective Jan. 1, 2025, though there is an effort underway to delay some of the changes until Oct. 1, according to **Joe Stewart**, vice president of government affairs for the **Independent Insurance Agents of North Carolina**.

The prospect of higher auto insurance costs in North Carolina – a state known for low premiums – has received far less attention than the cost of homeowners insurance, which is shaping up as an issue in the November election for insurance commissioner.

Insurance Commissioner **Mike Causey**, who is running for a third term, fended off two GOP challengers in the Republican primary in March and will face Democratic state Sen. **Natasha Marcus** in the Nov. 5 general election.

After filing last year for a 28.4% rate increase last year on behalf of the state's private passenger auto insurers, the **North Carolina Rate Bureau** (NCRB) reached a settlement with Causey to boost rates just 4.5% effective Dec. 1, 2023, and another 4.5% on Dec. 1, 2024. For the pending homeowners insurance rate filing, which would hike rates an average 42.2% statewide, no settlement is in sight, and a rate hearing is scheduled for Oct. 7. Under North Carolina law, the insurance commissioner – serving as judge and jury for the rate hearing – will determine what he considers an appropriate rate change, which the rate bureau can challenge in court.

Mike Causey
North Carolina
Insurance Commissioner

In campaign materials and interviews, Marcus, a trial lawyer, criticized Causey for his "close ties to the insurance industry and willingness to allow their profits to soar, while North

Please see NORTH CAROLINA on Page 6

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

Line of Business	2022 Total Profit	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	Avg Total Profit
Personal Auto Liab	-4.7	2.6	5.4	-2.8	1.6	-4.8	-1.8	-0.3	4.0	5.9	0.5
Personal Auto Phys	3.5	8.9	13.9	11.4	9.8	12.5	4.4	8.3	9.0	9.3	9.1
Personal Auto Total	-0.6	5.7	9.5	4.2	5.5	3.6	1.1	3.6	6.3	7.3	4.6
Comm. Auto Liab	11.9	11.6	12.7	5.1	3.6	9.1	2.8	7.3	14.0	13.1	9.1
Comm. Auto Phys	5.2	7.8	9.9	3.7	3.1	-2.7	-1.1	4.0	7.1	6.0	4.3
Comm. Auto Total	10.2	10.7	11.9	4.8	3.5	6.3	1.8	6.5	12.4	11.5	7.9
Total All Lines*	12.4	12.9	13.9	13.2	-3.6	13.8	8.2	14.0	16.6	16.7	11.8

*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.

State Market Focus: NORTH CAROLINA

Continued from Page 5

Carolinians' wallets get squeezed."

In reality, North Carolina auto insurance costs and profits are relatively low compared with other states. According to the most recent data from the **National Association of Insurance Commissioners** (NAIC), North Carolinians spent an average $780 on auto insurance in 2021, the 43rd highest. For homeowners insurance, the North Carolina average premium ranks 33rd, though coastal residents are definitely feel-

Please see NORTH CAROLINA on Page 7

North 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
Allstate Corp.	$1,382,048	18.1%	75.7%	$1,216,784	17.2%	65.8%	$1,194,418	17.8%	56.3%
Berkshire Hathaway/Geico	$1,088,176	14.3%	81.8%	$1,009,916	14.3%	72.9%	$866,924	12.9%	67.8%
State Farm Mutual	$1,077,222	14.2%	83.6%	$990,443	14.0%	67.6%	$954,761	14.2%	54.9%
Progressive Corp.	$830,153	10.9%	67.7%	$742,606	10.5%	71.3%	$591,823	8.8%	58.4%
North Carolina Farm Bureau Insurance	$714,002	9.4%	73.8%	$679,381	9.6%	64.5%	$666,923	9.9%	56.6%
USAA Insurance Group	$581,332	7.6%	87.0%	$559,962	7.9%	69.7%	$540,700	8.1%	57.4%
Nationwide Mutual Group	$580,673	7.6%	65.3%	$585,882	8.3%	57.6%	$606,355	9.0%	54.5%
Erie Insurance Group	$302,092	4.0%	80.5%	$280,249	4.0%	63.3%	$272,487	4.1%	54.3%
Liberty Mutual	$236,908	3.1%	56.2%	$230,509	3.3%	60.3%	$220,280	3.3%	58.5%
Auto-Owners Insurance	$121,276	1.6%	68.8%	$110,090	1.6%	60.4%	$101,887	1.5%	54.2%
Sentry Insurance Mutual	$103,845	1.4%	87.0%	$101,502	1.4%	82.2%	$102,088	1.5%	79.2%
Travelers Companies Inc.	$97,523	1.3%	63.7%	$88,848	1.3%	54.1%	$88,544	1.3%	45.7%
Farmers Insurance Group	$70,545	0.9%	56.1%	$73,649	1.0%	52.5%	$80,352	1.2%	53.5%
Auto Club Insurance Assn. (Michigan)	$54,059	0.7%	82.6%	$51,298	0.7%	67.3%	$50,374	0.8%	73.7%
Amica Mutual Insurance Co.	$45,897	0.6%	79.2%	$33,567	0.5%	51.0%	$47,864	0.7%	43.8%
Penn National Insurance	$43,752	0.6%	74.1%	$42,634	0.6%	62.7%	$41,419	0.6%	54.7%
American Family Insurance Group	$40,551	0.5%	115.7%	$42,065	0.6%	71.8%	$38,782	0.6%	80.5%
Discovery Insurance Co.	$40,147	0.5%	112.9%	$38,167	0.5%	104.4%	$42,532	0.6%	89.4%
Cincinnati Financial Corp.	$33,414	0.4%	58.8%	$33,133	0.5%	42.0%	$35,680	0.5%	43.6%
Kemper Corp.	$31,125	0.4%	75.1%	$41,704	0.6%	51.2%	$34,953	0.5%	40.5%
Horace Mann Educators Corp.	$30,789	0.4%	81.9%	$30,684	0.4%	57.1%	$31,129	0.5%	50.6%
Hartford Financial Services	$24,168	0.3%	54.7%	$23,655	0.3%	56.1%	$23,343	0.4%	52.1%
Central Insurance Companies	$21,723	0.3%	54.9%	$23,059	0.3%	52.4%	$25,366	0.4%	48.9%
Tokio Marine Group/PURE	$12,726	0.2%	70.5%	$12,235	0.2%	42.7%	$11,451	0.2%	49.8%
Southern General Insurance Co.	$11,821	0.2%	124.0%	$11,736	0.2%	107.5%	$12,039	0.2%	102.8%
Chubb Ltd.	$8,713	0.1%	91.5%	$7,813	0.1%	71.4%	$7,253	0.1%	62.8%
Markel Corp.	$5,682	0.1%	67.2%	$4,976	0.1%	44.8%	$4,429	0.1%	64.4%
Tiptree Inc.	$5,589	0.1%	24.7%	$4,787	0.1%	31.4%	$4,479	0.1%	20.4%
J Leon Hix Revocable Trust	$5,466	0.1%	129.1%	$6,041	0.1%	150.4%	$6,131	0.1%	103.4%
Statewide Totals	$7,613,283		76.3%	$7,087,596		66.6%	$6,715,171		58.0%

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: NORTH CAROLINA

Continued from Page 6

ing the pinch.

The average personal auto profit margin for the decade ended 2022, at 4.6%, mirrored the national average and ranked 36th in the country. In 2022, personal auto insurers failed to turn a profit, suffering a 0.6% loss, which was still better than the 3.6% loss countrywide. (AIR 4/8/24)

Last year showed a small improvement, with the statewide loss ratio falling to 75.7% from 76.3% in 2022.

Regardless of rate changes, the increase in minimum liability limits – to $50,000 for one person/$100,000 per accident for bodily injury and to $50,000 for property damage from

Please see NORTH CAROLINA on Page 8

North 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.	$242,939	16.2%	59.7%	$215,649	15.8%	59.9%	$144,542	12.9%	52.5%
Allstate Corp.	$129,774	8.6%	66.6%	$111,574	8.2%	65.1%	$79,807	7.1%	60.7%
Auto-Owners Insurance	$88,240	5.9%	73.0%	$83,105	6.1%	66.9%	$70,630	6.3%	62.1%
Travelers Companies Inc.	$83,883	5.6%	65.8%	$73,046	5.4%	46.8%	$68,022	6.1%	53.9%
Erie Insurance Group	$66,418	4.4%	77.3%	$58,317	4.3%	58.6%	$55,131	4.9%	54.6%
North Carolina Farm Bureau Insurance	$47,297	3.2%	67.2%	$44,549	3.3%	62.6%	$41,483	3.7%	55.8%
Zurich Insurance Group	$46,396	3.1%	48.9%	$41,859	3.1%	55.1%	$44,348	4.0%	47.6%
Old Republic International Corp.	$43,917	2.9%	73.3%	$34,705	2.5%	80.3%	$30,286	2.7%	64.9%
Selective Insurance Group Inc.	$43,029	2.9%	75.1%	$40,416	3.0%	72.1%	$35,410	3.2%	59.1%
Hartford Financial Services	$37,320	2.5%	69.8%	$35,132	2.6%	55.6%	$30,310	2.7%	87.4%
Nationwide Mutual Group	$37,206	2.5%	67.0%	$43,826	3.2%	50.2%	$39,657	3.5%	52.1%
Liberty Mutual	$36,580	2.4%	44.9%	$33,756	2.5%	54.4%	$34,323	3.1%	57.3%
American International Group	$34,083	2.3%	69.1%	$30,276	2.2%	58.3%	$28,680	2.6%	41.1%
Cincinnati Financial Corp.	$33,412	2.2%	77.3%	$33,606	2.5%	42.0%	$31,305	2.8%	62.6%
James River Group Hldgs Ltd.	$28,294	1.9%	82.6%	$27,365	2.0%	82.4%	$20,825	1.9%	101.3%
Sentry Insurance Mutual	$28,257	1.9%	58.9%	$25,813	1.9%	70.5%	$23,613	2.1%	66.7%
W. R. Berkley Corp.	$22,697	1.5%	73.7%	$21,068	1.5%	53.2%	$17,293	1.5%	77.9%
Builders Mutual	$22,195	1.5%	68.8%	$19,217	1.4%	64.7%	$16,978	1.5%	64.1%
Merfax Financial Group LLC	$22,077	1.5%	67.4%	$17,462	1.3%	55.5%	na	na	na
Chubb Ltd.	$21,542	1.4%	39.1%	$15,575	1.1%	133.1%	-$20,304	-1.8%	48.6%
State Farm Mutual	$21,372	1.4%	71.2%	$20,062	1.5%	62.6%	$17,770	1.6%	48.8%
Penn National Insurance	$21,052	1.4%	61.8%	$21,425	1.6%	62.0%	$20,876	1.9%	56.7%
Federated Mutual Group	$20,400	1.4%	62.0%	$17,712	1.3%	48.0%	$16,057	1.4%	65.1%
Berkshire Hathaway Inc.	$20,381	1.4%	79.7%	$32,045	2.4%	63.1%	$38,203	3.4%	62.9%
Canal Insurance Co.	$18,037	1.2%	51.9%	$14,137	1.0%	58.3%	$12,245	1.1%	52.8%
Frankenmuth Insurance	$17,947	1.2%	48.0%	$15,367	1.1%	54.2%	$13,362	1.2%	74.1%
Tokio Marine Group	$17,516	1.2%	68.5%	$16,013	1.2%	55.8%	$14,454	1.3%	51.8%
Statewide Totals	$1,502,802		64.0%	$1,366,181		59.9%	$1,120,189		58.8%

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: NORTH CAROLINA

Continued from Page 7

$30,000/$60,000/$25,000 – will increase costs for an estimated 28% of the state's drivers, according to **Joanna Biliouris**, general manager of the rate bureau and the reinsurance facility. In the worst-case scenario, premiums for a driver with liability-only coverage would increase 25% based on the increased limits, she said.

The minimum limits also apply to uninsured motorists (UM) coverage, which has been mandatory, while UIM has been mandatory only for drivers who buy more than the minimum limits. The new law made UIM coverage mandatory for all drivers.

Insurance agents and trial lawyers were unlikely allies in the push for higher limits, Stewart said.

Joe Stewart
Independent Insurance Agents of North Carolina

In an interview, Causey said he supports the higher minimum limits, though he recognizes it will make it more difficult for the poorest North Carolina residents to afford coverage.

In addition to increasing minimum limits, the new law makes a significant change to the way UIM claims are paid. Under current law, insurers can offset the liability coverage payment from the at-fault driver's policy from the UIM recovery, so the injured insured receives the difference between the liability coverage limit and the UIM coverage limit. The new law replaces the "limits trigger" with a "damages trigger," so an injured insured can recover the at-fault driver's liability limits plus the face value of their own UIM coverage, up to the amount of damages sustained.

In anticipation of higher losses, the rate bu-

Please see NORTH CAROLINA on Page 9

North Carolina Snapshot

Regulator: Commissioner Mike Causey
Rate regulation: prior approval
Average rate approval time (2023): 13 days;
U.S. average: 64 days

Size of personal auto market: $7.61 billion (2022 DPW) Rank: 10th
Average policy expenditure: $780 (2021)
Rank**:** 43rd
Auto Insurance Report PAIN Index rank:
38th (2021)
Property Insurance Report HURT Index rank:
24th (2021)

Auto registrations: 3.3 million (2022)
Truck registrations: 5.5 million (2022)
Vehicle miles traveled (VMT): 117.73 billion (2021)
Traffic fatalities: 1.41 per 100 million VMT;
U.S.: 1.37 (2021)
Vehicle thefts: 199.3 per 100,000 residents;
Region: 181.5 (2022)

Liability defense: contributory negligence
Minimum Insurance Requirements:
BI: $30,000/$60,000 • PD: $25,000 •
UM: $30,000/$60,000 (increase Jan. 1 to $50,000/$100,00/$25,000)

Safety Laws
Texting ban for all drivers; cellphone ban for drivers under 18
Primary enforcement seat belt law
Motorcycle helmets required for all riders

Demographics
Population: 10.8 million (2023)
Change 2010-2020: +9.5%, U.S.: +7.4%
Median household income (avg. 2018-2022): $66,186; U.S.: $75,149
Population density: 214.7 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: NORTH CAROLINA

Continued from Page 8

reau has filed for a 9.1% change overall in UM rates due to a projected 0.9% increase in uninsured motorists and a 64% increase in UIM rates due to the move to a damages trigger. While the proposed 64% increase is large, Biliouris said, it does not amount to a lot of money because UIM represents a very small component of the overall premium that drivers pay.

Most drivers already buy more coverage than required, so they won't feel much impact from the new minimum liability requirements, but households with young drivers and drivers with serious violations could be in for a serious shock.

Natasha Marcus
NC State Senator
Candidate for
Insurance Commissioner

Newly licensed drivers as of Jan. 1, 2025, will be subject to an inexperienced driver surcharge for eight years, instead of three, though they will also be eligible for safe driving discounts after three years.

The surcharge for some driving violations will also be extended from three years to five years. This applies to most convictions assigned four or more points under the Safe Driver Incentive Plan (SDIP), such as reckless, aggressive and impaired driving, though it excludes speeding. The law also makes it harder to avoid SDIP points by eliminating loopholes that enabled judges to suspend points on the condition that the defendant didn't have a second violation within a given amount of time.

The ability to collect higher rates and surcharges for violations is important for insurers in any state. (AIR 5/6/24) But it is even more important in North Carolina, where carriers are required to charge "clean risks" – drivers with high-risk characteristics but without chargeable violations – the same maximum voluntary rate that they charge to lower risk drivers. Unable to charge an adequate rate for drivers they know to be risky, they cede a large share of liability premium to the reinsurance facility. (While physical damage rates may also be inadequate, insurers have the option to charge more with the consent of the policyholder. This process became easier a few years ago when the state dropped the requirement that insurers obtain a new signature for consent to rate each year.)

Statewide, about 25% of liability premium is ceded to the reinsurance facility, amounting to more than $1 billion, according to the NCRF annual report. About 90% of the premium is for private passenger. More than three quarters of vehicles ceded to the facility are clean risks.

Unlike rates for clean risks, the rates that insurers can charge for "other than clean risks" – drivers with two years or less of driving experience or with violation points – are actuarially sound and have increased consistently. Last month, the facility filed a 23.4% increase for other than clean risks that is effective Dec. 1.

The state's drivers bear the cost of a system that sends underpriced business into a residual market whose rates are also limited for most of its policies. In October 2023, the facility's recoupment surcharge reached an all-time high of 13.77%, though last month it dropped to 9.83% for the next eight months. Policyholders statewide pay the subsidy but are generally unaware of it because it is included in their auto liability insurance premiums.

The reinsurance facility has come under legislative scrutiny, as the North Carolina House Oversight and Reform Committee sought to determine if insurers were dumping drivers into the residual market and profiting from administrative fees while policyholders statewide paid for its

Please see NORTH CAROLINA on Page 10

State Market Focus: NORTH CAROLINA

Continued from Page 9

losses in the form of the recoupment surcharge.

The committee commissioned a study by Jon Murphy, an academic economist. He recommended that to reduce the size of its residual market, North Carolina should emulate reforms **South Carolina** implemented in the 1990s, when its reinsurance facility peaked at a 40% market share. These reforms included moving from prior approval to a flex-rating system and clearly disclosing to consumers how much of the premium they were paying to support the residual market.

For years, large segments of the North Carolina auto insurance industry have lobbied for similar reforms, but they met resistance from both regulators and dominant insurers that wanted to keep the outmoded system in place.

> ***North Carolina's large residual market is a function of a system that requires inadequate rates.***

What Murphy's study neglected to mention was that auto insurance is far more expensive in South Carolina (average expenditure of $1,141 in 2021, ranked 15th) than in North Carolina (average expenditure of $780, ranked 43rd).

One factor is that North Carolina is one of just five jurisdictions that use a strict contributory negligence standard, which bars plaintiffs from recovering damages if they bear even a tiny bit of responsibility for what happened. But there's no question that prior approval of a rate bureau rate has also served to keep rates low.

Testifying before the House committee on Jan. 30, Biliouris explained that the reinsurance facility is a creature of North Carolina's unique ratemaking system and requirement that insurers "take all covers."

"They really have a hard time understanding why companies may cede to the facility. They think companies make money when they cede to the facility, and what we really tried to stress to them is they're not making money – they're trying to avoid losing money," Biliouris said in an interview.

"If you want to say they're getting a benefit, that's the benefit: they get an unprofitable risk off their books," she added. "And the reason that it's unprofitable is because we believe the rates are inadequate and have been for some time. When you file saying you need 28% and you get 4.5% and another 4.5%, that's not going to push the needle."

Several lawmakers acknowledged that the answer might be allowing insurers to charge higher rates for clean risks.

"I see a recurring problem, and that is that I believe insurance rates are insufficient," Rep. **Allen Chesser** said. "Is it a bigger problem that inadequate rates have been approved?"

In written testimony to the House committee in December, Causey urged lawmakers to wait and see the impact of recent changes in the state's auto insurance laws, which could increase the willingness of voluntary market carriers to write liability risks that they currently cede to the facility.

"By being enabled to collect the inexperienced-driver surcharge for eight years instead of three years, auto insurers should be less likely to cede the policies for such drivers to the facility," he wrote. "This, in turn, should lead to fewer assessments by the facility against the state's auto insurers, with a resulting drop in the amount of any recoupments charged to consumers.

"Additionally, the extended surcharge for new drivers should allow insurers to charge sufficient premiums to cover the risks for certain clean policies they would otherwise have ceded, leading to lower requests for auto rate increases

Please see NORTH CAROLINA on Page 11

State Market Focus: NORTH CAROLINA

Continued from Page 10

by the Rate Bureau."

Likewise, he added, insurers might be less likely to cede drivers with violations when they are able to collect a surcharge on these drivers for five years instead of three.

"The General Assembly should not consider reforming the facility or the rate statutes in any way until a sufficient number of years have passed to learn whether the 2023 changes are successful," Causey said.

In an interview, Causey – who first ran for office on a platform of market reforms – emphasized that he has improved the current system with incremental changes that provide carriers with greater flexibility, such as making consent to rate easier and allowing "deviations" to charge higher premiums for coverage enhancements.

Joanna Biliouris
N.C. Rate Bureau and Reinsurance Facility

"We want to maintain a healthy and viable automobile insurance market here, but I don't want to be like some of the other states that have file and use, where they can file and just start charging those rates," Causey said. "We're big on consumer protection, but also at the same time aware that companies have to stay profitable to stay in business. So yeah, we're proud to be fair to both sides."

In response to criticism from Marcus, his Democratic opponent, that he forges secret agreements with insurers to increase rates rather than opting for open hearings, Causey said his settlements have dramatically cut requested rate increases while sparing consumers the cost of long, drawn-out adversarial hearings that are often followed by an appeal to the courts.

In addition to fighting a Democrat for his seat, Causey has also done battle with fellow Republicans. Most recently, lawmakers stripped the insurance commissioner of his secondary title of state fire marshal, making the **Office of the Fire Marshal** an independent agency. When Causey dismissed employees in the fire marshal's office before the change took effect, Republicans passed legislation that, among other things, required him to hire them back.

During the interview, Causey was awaiting his turn to testify in court for the retrial of an insurance executive and Republican donor accused of attempting to bribe Causey for favorable regulatory treatment early in his tenure.

North Carolina media have also highlighted what they described as Causey's shady hiring practices and "make work" jobs.

While the political shenanigans play out, auto insurers continue to find ways to navigate North Carolina's unusual insurance landscape to take advantage of its benefits: It is a large market with a growing population and a generally business-friendly government.

North Carolina is poised to become the seventh-most populous state by the early 2030s, surpassing **Georgia** and **Ohio**, according to an analysis of census data by the **North Carolina Office of State Budget and Management**.

North Carolina is the nation's 10-largest personal auto insurance market, with premiums of $8.49 billion in 2023, up 11.5% from $7.61 billion in 2022.

State Farm's 17.4% premium growth propelled it to the No. 2 spot, as **Geico** – keeping premiums flat – moved to third.

Stymied by its inability to deploy its most sophisticated pricing in North Carolina, **Progressive**, growing 19.4% to $991.0 million last year, is on the verge of joining the top 3 writers that write more than $1 billion in statewide personal auto premium. AIR

***TURN AWAY** Continued from Page 1*

such vehicles they have turned away as they arrive is up over the past 12 months – including 7% of shops who said the number is up “significantly,” according to the March survey.

Only about 15% of responding shops said they are refusing fewer tow-ins than in the past, with 64% saying the number is unchanged, including many who say they never turn away towed-in vehicles.

In the survey, 22% of shops pointed to their current backlog of work as a reason to turn away badly damaged cars. But an even higher percentage (28%) said they are refusing work from certain insurers due to inadequate payment. Other top reasons cited included tow-in vehicles that are not a type (year/make/model) the shop can or wants to repair (15%), a lack of space in the shop or lot (14%), or the towed-in vehicles appearing to be likely total losses (9%).

“In the past, the insurers would call us wanting to know if we had room for a non-drive,” an estimator at a franchise body shop location in north **Georgia** said, noting they are turning away significantly more tow-ins.

“Now we are seeing an increase in no-call tow-ins and after-hours tow-ins,” he said.. “I feel like insurance companies are doing this because so many shops are refusing tow-ins because of volume of work.”

He said the shop turns away more tow-ins because the insurers with which they have direct repair agreements grade the shop based on cycle time. “We are having to limit hard-hits to keep the shop flowing,” he said. AIR

Correction

A story about **Texas** in the May 6 edition of *Auto Insurance Report* reported incorrect information regarding named driver exclusions. Texas permits named driver exclusions, but prohibits named driver policies. Click here for a corrected version of AIR 5/6/24. We regret the error. 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, John Yoswick

Dana Horst Sullivan, Subscription Director
dana@riskinformation.com

www.riskinformation.com

Click Here for Index of Back Issues

Auto Insurance Report, © 2024, published weekly, 48 times a year, by Risk Information Inc., 33765 Magellan Isle, Dana Point, CA 92629. It is a violation of federal law to reproduce any part of this publication without first obtaining permission from the publisher. ISSN: 1084-2950