

Twenty Trends!

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I. Let the Good Times Roll

- In a world of great uncertainty, personal auto insurers may be the only part of the business world that is generally happy
- True, there are risks out there, ranging from higher costs due to tariffs to lower sales due to recession, but for now all is well
- The key: price increases have finally caught up to higher costs
- The biggest challenges right now are competitive
- Far better than the panic of two years ago

2. Fly in the Happy Ointment: Tariffs

- As of today – and it could change tomorrow – there are tariffs on imports of automobiles, auto parts, steel, aluminum, and goods from Canada and Mexico along with China and the EU
- Tariffs will add between \$80 to \$250 on parts alone
- The biggest problem is costs will rise before rates reflect them. Regulators won't approve more rate based on potential tariff costs
- A drag on profits and a competition suppressant

3. You Must Choose: Accept Risk and Grow, or Wait

- Entering 2025, carriers were almost all in growth mode
- From our reading, most insurers are confident that the risks, *as they currently view them*, are not enough to slow them down
- Advertising is still strong, rate increases are moderate, and this conference sold out quickly
- The most successful insurers have early warning systems that will allow them to see rising trouble
- Those systems have been improved and better tuned since COVID

4. Uncertainty Brings More Shopping, Which Will Work for Consumers

- A recession is increasingly likely, according to Bob Hartwig and other economists
- Even without it, recession fears will make consumers price sensitive
- Consumer shopping for better deals was unsuccessful in recent years as all insurers pushed rates up. This time will be different
- With some insurers still attacking, shopping will lead to switching
- Unlike 2021, carriers are better positioned to handle turmoil

5. Uncertainty Spares Nonstandard Insurers From Competition

- Nonstandard writers entered 2025 worried about standard carriers entering the market in search of fallen angels
- But economic uncertainty and price sensitivity will keep standard writers in their own lane, preserving NSA market share
- The General sale is big. Sentry is now positioned as a major player, AmFam gets a payday and its agents retain access to The General
- Sentry now rivals Kemper as the largest pure NSA writer

6. Billboard Lawyers Will Retain Control for Several Years

- Insurers deserve blame for the rise of billboard lawyers because of poor claims performance
- It will take a substantial improvement by insurers to turn the tide, but we don't see that happening right now
- Tort reforms help, but don't get to the root of the problem
- Policyholders do not feel they have an advocate in the claims process, and attorneys are only too happy to fill the void

7. Lawyer Insights Have Value If You Know How to Use Them

- Sure, understanding lawyers will empower you to negotiate more effectively and win some cases you are losing
- But the real power is learning where you are failing
- If you always lose, maybe it is because you are wrong!
- Even if you are right, you don't communicate effectively
- At the end of the day, insurers must outperform billboard attorneys if they want to regain control of the claims process

8. Tort Reform Gets Some Traction

- Constituents demand action in response to painful insurance costs
- Trade groups paint tort reform as a solution, consumer advocates are pushing prior approval in Illinois and Texas
- Legal System Abuse captures litigation financing, billboard lawyers, nuclear verdicts...a wide range of long time industry issues
- Action in Florida, Georgia, Arkansas, Louisiana, Missouri, and South Carolina
- Insurers are happy to let business groups lead the charge

9. Radical Realignment of Insurance Agents

- Agents still rule the distribution of personal lines P&C products
- Captive agents gaining more outside products, looking more like independents, which will make them more successful
- The Independent Agency channel of the past is gone. In its place, a very diverse group of sales organizations, fueled by private equity
- Agency consolidation continues. Bigger agents have more leverage!
- One thing hasn't changed: agents must feel the love or they sleep
- Are you sophisticated enough to manage these channels?

10. AI Is Artificial, But It Isn't Intelligent

- We have stated this before, but visits with insurers show us that it bears repeating: AI won't change any industry fundamentals
- Big Data=Predictive Analytics=Algorithms=AI. All the same thing
- Nothing to fear. You are already doing this
- Won't change fundamentals, but will improve just about everything
- Regulators and others are all atwitter, but it won't amount to much
- Here is the risk: blindly implementing tools that are no good

II. As It Turns Out, Insurance Is Fair!

The
INSURANCE
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- Proud to say we were in the game on this
- Verisk's study from 2022 showed very little bias. Supported, begrudgingly, by DC's report from last year
- NAMIC, and to a lesser degree APCIA, have dismissed the fairness debate. They're wrong: embrace research clearly showing fairness
- Real-world challenges, but not the responsibility of insurance
- Models may have been black boxes to start, but modelers are responding to demands for greater transparency

I 2. Innovation: Small Is Beautiful

- “Innovation” on a big scale is folly
- “Your AI strategy should be the same as your Blockchain strategy”
- Innovation comes from an endless stream of small improvements, using new tools, at the most basic level
- You don’t need, or even want, an “innovation team.” Empower everyone to solve problems and find better ways to do things
- With the insuretech hype cycle behind us, we can see what that brought us: startups that solved narrow problems with real tools

13. Fleet Changes Are Now Clear for Everyone to See

- The fleet has always been changing
- The difference today is that you can these changes in great detail
- You can see who, what, when and where
- Differences in vehicle packages of seismic importance to insurers
- Want to use big data/predictive analytics/AI? Use it on this!

14. Electric Vehicles: We're Not Dead Yet!

- EVs were overhyped – really! – but that doesn't mean they are not going to become an essential part of the fleet
- As we learned from Matt Ebert, this creates big headaches that require investment and planning to resolve
- EV challenges exacerbated by greater complexity, megacasting, more complex materials, sensors, more OEM repair control
- Carriers need to adapt claims processes and expectations

15. Supplements Are Not Special

- They don't make them like they used to (megacast!), and it's almost impossible to identify all potential damage at first glance
- Claims need to adapt to changing vehicles and new tools
- Photo estimating is a key part of the future, but you need to understand how that tool interacts with new realities
- Supplements are no longer mistakes, but updates
- Go home and challenge the claims team: Are we smart enough in this area? Are we adapting to this new reality?

16. LiDAR Is a Step-Change In Accident Avoidance

- In 2013, we were excited by autonomous driving, thanks partly to Convicted Felon (Pardoned) Anthony Levandowski of Google
- But Google also explained why this will take a very long time
- Slow and steady march forward, but we have hit the limits of radar and cameras
- LIDAR is poised to be the technological breakthrough that propels autonomy to the next plateau, though hardly all the way
- Will better systems reduce claims enough to offset their cost?

17. Transparency Is Critical To UBI Adoption

- The public's questions about driving data remain, even if the spotlight has moved on
- Consumers want context!
- As cars generate more data, consumers will want to know how data is being used and by whom
- Lest we forget the cyber risk
- OEMs have been reluctant to engage, citing trade secrets, but they're next on the hot seat

18. Homeowners Remains Your Headache Too

- You think auto is hard? Property is much harder
- Changing climate has created chaos for everyone
- The chaos continues to captivate regulators and reporters
- It isn't just the coasts — the Midwest is a weather mess
- The Home and Auto bundle will complicate plans for auto growth

19. ONE YEAR AGO

- Biggest wild card, no exaggeration, is global turmoil, even war
- Reorganizations/layoffs will have stabilized
- Nonstandard auto has grown as uncertain insurers avoid risks
- Frequency and severity remain high, only severity will still be rising
- AI's impact will be modest, though growing
- Regulation will have improved in the roughest states due to reality
- Marketing will be back, and some will be tempted to get sloppy

20. ONE YEAR FROM TODAY

- Biggest wild card: global trade war/recession? Insurers will be OK
- Despite worries, competition will remain fierce
- The profit & growth spread between winners and losers will widen
- Something will give with both Farmers and Nationwide
- Unfortunately, the power of billboard lawyers will be unchanged
- Homeowners issues will overwhelm auto insurance concerns
- 2025 will deliver a PA loss ratio very close to 2024's 66.3%