

# Twenty Trends!

Patrick Sullivan and Brian Sullivan, *Auto Insurance Report*



# 1. 2026 Won't Collapse

- Rate activity has slowed, competition is rising, advertising is increasing, non-rate barriers to sales are easing ...
- And consumers remain price sensitive, so shopping and switching remains elevated even as price pressure eases
- But there is a caution that not always present in profitable times, perhaps because the broader environment is so chaotic
- High gas prices will suppress driving, which will suppress claims frequency

## 2. Underlying Structure Remains Worrisome

- A big reason for insurer caution: underlying market fundamentals are still problematic
- Severity will keep rising as fleet turns over and more complex cares replace less complex cars
- Thus, any increase in frequency will be painful and costly

# 3. Auto Makers Still Don't Care About Repair Costs

- Auto makers don't care about repair costs; no reason for change
- Problem: auto makers are also getting into the middle of auto repair, affecting many decisions and driving up costs
- Not really about auto makers trying to capture the repair business
- Insurers must deal with this, but long term requires effort
- Be careful, as resisting anything that hints at safety will create a major backlash for insurers. Choose your fights thoughtfully
- Don't fight the shops — the issue is with the auto makers

## 4. It is Very Hard To Drive a Brick

- Vehicle computer obsolescence isn't a problem ... yet
- As we learned, there are plenty of regulations protecting technology from being abandoned
- It would not be great business for car makers to brick a car
- And yet you can't escape the reality of software and hardware life cycles. This is an issue that will need to be faced
- Near term not a concern, long term likely to lead to more expensive repairs and more total losses

# 5. Beware a Rise In Small and Mid-Sized Claims

- Caliber's data could not be more clear: there are many small and mid-sized auto repairs that are not being submitted to insurers
- And they're taking out financing to pay!
- This has been wise by consumers as the penalty for making those claims exceeded the benefit of the payout
- As the insurance market loosens the penalty for those claims eases
- As the economy tightens, short-term cash will become more attractive even if it means long-term loss

# 6. The Pressure Is On Captive Insurance Agents

- The last few conferences have featured sessions about the rise of the independent agent, with new structures, financing, etc.
- The channel most impacted by this has been captive agents, who have been seeing their share of personal and commercial lines fall
- Captive agency insurers have responded by giving their agents more products and flexibility, but for some it has not been enough
- Direct sales growth will more likely come out the captive agency channel which is closest in its features. Even direct is learning to leverage missed sales into other opportunities

# 7. Different Competitor Pathways

- The winner: Progressive
- Holding steady: State Farm and Allstate
- Shrinking too fast: Liberty Farmers and Nationwide
- Playing their own game reasonably well: USAA, Erie, and Mercury
- Commercial comes first: Travelers and Hartford
- Lost their way: Geico
- Regionals fall into all these buckets
- New minimum size
- Unproven: Tesla/Embedded

# 8. Waymo Has a Lead That Will Last For Several Years

- This is a classic Auto Insurance Report Conference topic — we introduced it 13 years ago
- And yes, that speaker went to jail for industrial espionage, only to buy a pardon from the President
- But still, we got the idea right, if the timeline was wrong (classic)
- Waymo has a lead that will not be broached soon, as others stick too long with radar and cameras. Tesla must change to catch up
- The impact on insurance will take a long time to develop

## 9. LIDAR Is the (Distant?) Future

- Last year's LIDAR session was another perfect AIRNC experience:
- Undeniably true, but the car we brought to Florida is off market, and Luminar that created the LIDAR went bust in December
- Still LIDAR is the key tool in Waymo's advantage, and the costs are falling and capability is rising quickly
- Unfortunately, LIDAR won't come to passengers cars soon ...
- ... but when it does, ADAS system abilities will improve dramatically

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# 10. So Far, Regulators Have It Right On Artificial Intelligence

- As you can read in this week's *Auto Insurance Report*, the NAIC is taking a hard look at insurer use of artificial intelligence
- So far, it is a rare case of insurers and regulators and to some extent even consumer groups singing Kumbaya together
- Rather than elaborate testing protocols, it is all about governance, data hygiene, disclosure, and “best practices”
- Exactly what insurers should do to get the most out of AI tools
- This will speed, not impede, AI adoption by insurers

# 11. The Claims Dream Becomes Real. Will It Work?

- What if could know exactly, and we mean EXACTLY, what happened when a car crashed? Wouldn't insurance claims become faster, better, and more fair?
- That was the dream of Injury Sciences when they presented pulling black box data in ... 2003
- Now Toyota has a system that is essentially perfect
- The remaining question: will Toyota drivers accept this? Toyota is embracing disclosure, so that will help
- Will other OEMs follow?

# 12. The Key to Success In Almost All Things: Disclosure

- Toyota, Bill Madison and LexisNexis, Arity and TomTom are all singing the same hymn: disclosure, disclosure, disclosure!
- The key to getting access to any new large scale consumer data is being clear and transparent about collection and use
- It can't be tiny print! And it can't be just once! And it can't look like "we use cookies"!
- "Legal" is not adequate
- The public standard for disclosure is a moving target

# 13. Revenge of the English Majors

- Dealing with Automated Intelligence requires a nuanced understanding of the English language
- It requires and understand an understanding of old fashioned traditional logic, and date we say it, philosophy
- It requires very little in the way of the computer programming skills kids were told was there future
- For high school and college, it will be essential to ensure that these skills are part of each and every area of study, and that's is what you should seek in new employees more than anything else

# 14. Bringing Alexander Graham Bell Back Into the Game

- Consumers love digital communication, until they don't
- Insurance is incredibly complex, and people want to talk to people
- But no one answers the telephone!
- There are solutions, and they must be embraced
- Unsolved challenge: you have to be better at allowing return calls
- As we always ask, are you best in class? If not, why not?

# 15. Roadway Data Is Too Good To Ignore

- Roadway data won't turn into broadly adopted products soon; Arity introduced an earlier version of this two years ago
- But this is too good an idea to ignore. If you know the roads better, you know the risks better
- More people are putting in the work to make it happen
- Public/private partnerships make so much sense. Insurers and municipalities share a desire for better and safer roads
- Insurers must help or this can't happen

# 16. Florida: Who Knew They Could Get It Right?

- Florida has been home to some of the dumbest political and regulatory actions of the past three decades
- So credit where it is due: thanks to the homeowners market crash, the state revamped its dysfunctional relationship with the trial bar
- The key: don't go for broad "tort reform," but instead go after very specific market woes. And lobby with great skill, and good data
- Reserves still a mess, and will take time to shake out

# 17. California Also Back From the Brink

- Insurers won't have Ricardo Lara to kick around any more
- But credit him for acting to deal with property market disasters
- The result: better regulatory environment for auto insurers as well
- All the reforms have not been fully implemented, chiefly for auto insurers facing long rate approval timelines
- The future hinges on California voters and their selection of the next commissioner

# 18. 2024 Predictions: TWO YEARS AGO

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

# 19. 2025 Predictions: ONE YEAR AGO

- **X** Biggest wild card: global trade war/recession? **How about real war?**
- **✓** Despite worries, competition will remain fierce
- **✓** Profit & growth spread between winners and losers will widen
- **X** Something will give with both Farmers and Nationwide
- **✓** Unfortunately, the power of billboard lawyers will be unchanged
- **✓** Homeowners issues will overwhelm auto insurance concerns
- **X** 2025 will deliver a PA loss ratio close to 2024's 66.3%. **61.5%!**

# 20. 2026 Predictions: ONE YEAR FROM TODAY

- Progressive has widened its lead as the largest auto insurer, though it will continue to struggle with homeowners
- Economic and political instability will continue to suppress VMT
- Captive agents will have less personal auto market share
- Physical damage severity trends will have worsened
- The Great EV Retrenchment will be complete; gradual EV growth
- The Golden Era of Auto Profits will have ended, 2025 is peak LR