WHITE PAPER:

Can Deeper Data Insights Save The Commercial Auto Insurance Industry?

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Introduction

It's a tough climate for the commercial auto insurance space, with combined ratios climbing year after year. Carriers have faced over a decade of increasing loss ratios as a result of numerous factors.

Social Inflation

The auto insurance space has been particularly impacted by social inflation, where insurers' claim costs have risen above general economic inflation. In 2019, the number of U.S. verdicts that resulted in $20 million or more was up more than 300% from the annual average from 2001 to 2010[1]. Commercial auto specifically has seen settlements regularly surpass $10 million.

Post-Pandemic Inflation

In 2021, inflation contributed to a historic $30 billion increase in loss costs across the insurance industry. Prices for motor vehicle parts and equipment rose 22.8% between 2021 and 2022, while the cost of used cars and trucks rose 14%. Supply chain disruptions and other causes of inflation in the automotive industry also led to an estimated $9 billion in loss costs for auto physical damage in 2021. The high prices for these core commodities drove up loss costs in commercial insurance specifically by $2 billion in 2021[2].

[1] www.genevaassociation.org

[2] www.mckinsey.com

Risky Driving Behavior

To make matters even more troubling, the nation has also seen a dramatic increase in risky driving behavior. In its most recent report, The National Highway Traffic Safety Administration (NHTSA) estimated that 9,560 people died in motor vehicle traffic crashes in the first quarter of 2022. This is an increase of about 7% as compared to the 8,935 fatalities projected for the same quarter in 2021, and the highest number of first-quarter fatalities since 2002[3]. With this rising rate of crashes comes a troubling rise in claims losses for carriers as well.

With insurance losses increasing faster than premiums, what can commercial auto carriers do to combat these growing challenges? Read on to discover strategies you can implement to increase your profitability as an insurer.

The Current State: An Incomplete Picture of Risk

As auto insurance carriers struggle with shrinking profitability margins, many turn to what they believe to be cost-saving strategies. These approaches actually limit their access to critical data used to accurately price and mitigate risk.

UNDERWRITING CHALLENGES

Identifying risk across a book of business can be an expensive and time-consuming process, especially if it's done manually. This is why the assessment of a commercial policyholder's risk is often limited to new business or renewal. During this assessment, it's also common for underwriters to only run MVR checks on a small subset of drivers during the quoting stages in an attempt to cut costs.

[3] www.nhtsa.gov

This lack of data creates huge and costly blind spots when it comes to understanding a company's complete risk profile, creating what we refer to as a "visibility gap."

Inaccurately pricing risk at Rate Call 1 inevitably leads to low conversion rates and lost business. And if the policy is still bound with uncovered risk, carriers subject themselves to future premium leakage – a multi-billion-dollar problem facing the commercial auto insurance industry.

LACK OF VISIBILITY THROUGHOUT THE POLICY TERM

While this visibility gap is costly during the underwriting stages of a policy, it creates even more vulnerabilities for carriers post-bind. Without the right insight across their book of business, carriers are unaware of trending risks and potential losses that may be growing across their portfolio. This affects customer retention rates at renewal, as carriers aim to stay competitive in the market and price risk profitably. Any unexpected rise in premium costs is likely to cause customers to shop around for better rates.

This visibility gap can also trickle down to policyholders, as traditional driver risk management for fleets typically involves the reliance on infrequent MVR pulls and self-reporting policies for driver activity. With this approach, companies don't have the data needed to ensure their drivers are prioritizing safety 365 days out of the year. And in today's state of social inflation, only relying on the bare minimum of safety policy governance and annual MVR checks has already become an almost indefensible position in the courts – increasing the likelihood of expensive insurance payouts.

To increase profitability, it's paramount that carriers implement better solutions for themselves and their policyholders. The great news is more and better data is out there. It just takes a new approach to access existing data.

The Solution: The Right Data at the Right Time

For carriers to increase underwriting accuracy and visibility of risk across their book of business, they must have access to data that's both insightful and actionable. Thanks to the introduction of innovative insurance solutions, these goals are more obtainable now than ever before.

THE COMPLETE CUSTOMER PICTURE, SOONER

As we noted before, traditional, manual underwriting practices are a time-consuming and costly process. Carriers must find a way to accelerate, automate and optimize underwriting in a way that paints a customer's entire picture of risk much earlier in the quote-to-bind process. There are now easier – and more cost-effective – resources carriers can tap into to quickly obtain the right data earlier in the lifecycle.

Thanks to alternative data sources that leverage extensive driver data vaults and networks, carriers can establish a robust risk profile for each company in its entirety. These third-party resources remove the need to sample small datasets or pull expensive MVRs for every single driver, as underwriters can save money and time investing in data that gives them the insights they need to drive an impact for their business.

And beyond relieving the heavy administrative burden tied to traditional risk assessment, these streamlined underwriting processes also meet customers' high expectations when it comes to prioritizing the customer experience. While price is important to customers, the time it takes to obtain a quote is just as critical.

Carriers that can leverage these resources to optimize their underwriting processes will ultimately make better business decisions using a more complete driver data set.

Did you know? Underwriters can identify **up to 70%** of clean drivers without pulling an MVR

(SambaSafety Insights)

TEAMING WITH POLICYHOLDERS TO CLOSE THE GAPS

In order to fully close the visibility gap throughout the lifetime of an insurance policy, carriers need to promote risk-averse behavior across their portfolio.

By encouraging policyholders to implement a pro-active approach to risk management, both parties can gain better insight into actionable data for identifying and mitigating risk.

Improve Policyholder Insight at the Driver Level

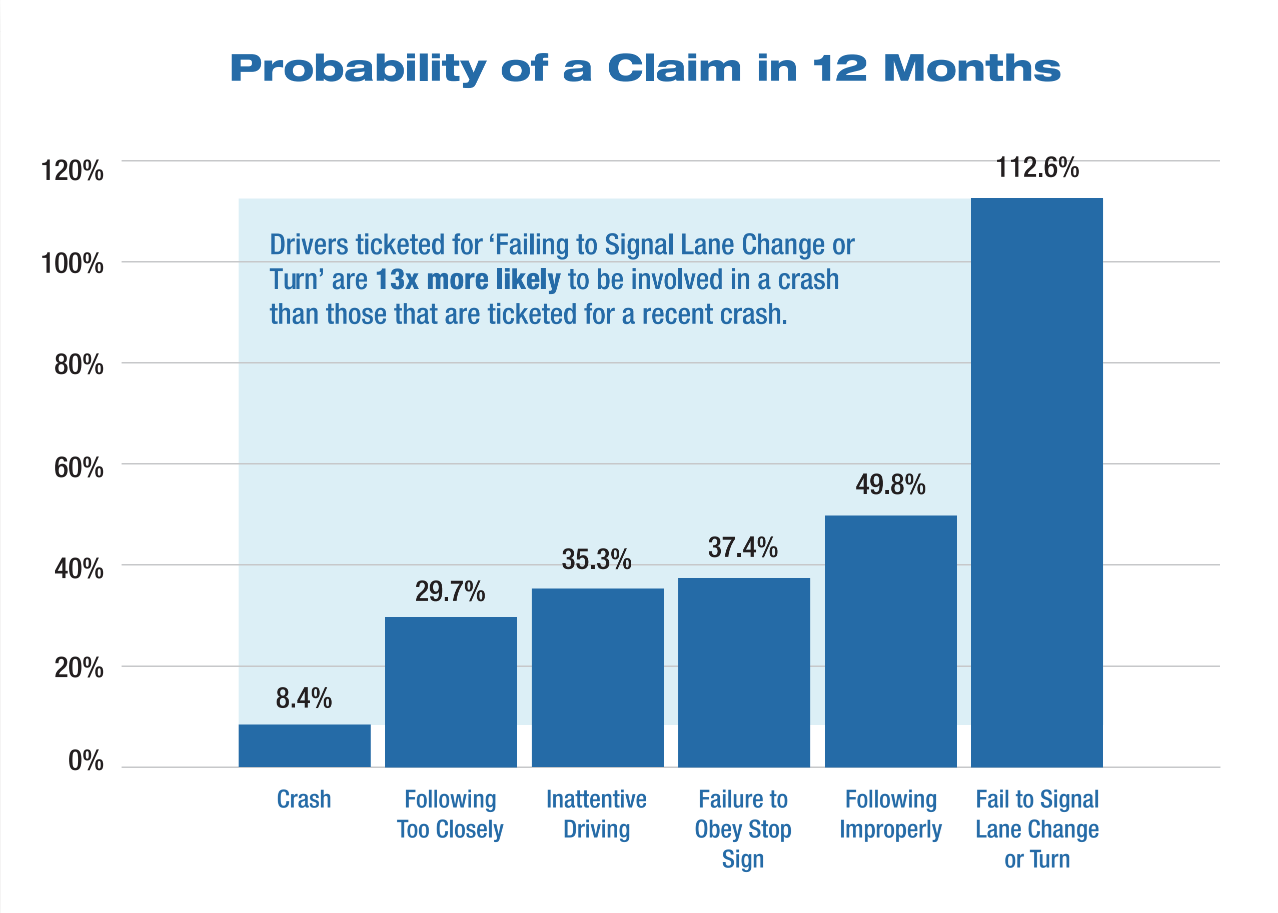
Risk at the driver level is costly. Policyholders that have infrequent processes for assessing their driver risk create a major visibility gap for themselves and their carriers, exposing both parties to immense potential liability.

But by ensuring they have continuous access to driver data and insight via digital solutions, carriers can help their policyholders spot the warning signs of risky driving behavior and intervene long before a claim occurs.

SambaSafety's recent crash prediction study correlates MVR events with insurance claims, calculating the increased probability of a claim occurring within the 12 months following a specific violation.

The data in the table below are a critical example of why policyholders need to intervene immediately after these violations occur to help prevent future crashes, and in turn, reduce the likelihood of an expensive insurance payout.

Violation	Increased Probability of a Claim within 12 Months (by %)	Violation	Increased Probability of a Claim within 12 Months (by %)
Fail To Signal Lane Chg Or Turn	**112.6**	Following Improperly	**49.8**
Speed 21-25 Over Limit In A 60	**82.2**	Speed 16-20 Over Limit In A 65	**49.6**
FTA/Complete Required Courses	**71.8**	Failed To File Change Of Addr/Name	**48.1**
Show Or Use Improperly Reg Or Title	**71.8**	Expired Or No DL/Permit/ID	**47.5**
Failed To Show DL/Permit/ID	**68.2**	Failure To Appear	**45.8**
Failed To File Reqd Doc Or Report	**59.1**	DUI Of Alcohol And/Or Drugs	**42.1**
Driving While License Suspended	**55.6**	Speed 6-10 Over Limit	**40.6**
Suspension	**55.5**	Fail To Pay Fine And Costs	**40.0**
Fail To Pay Child Support	**53.6**	DUI - BAC Over .08%	**39.8**
Refused To Submit To Test	**51.5**	Failure To Obey Stop Sign	**37.4**



ACCESS DATA SOONER FOR QUICKER INTERVENTIONS

The ability to mitigate risky driving behavior at the time of these early warning signs and violations is critical. Every mile an at-risk employee is driving without intervention puts policyholders and their carriers at greater risk.

With continuous visibility into their drivers' violation data, policyholders can intervene to correct risky behavior and mitigate the possibility of a future claim. They can do this by establishing a targeted intervention strategy, where companies assign drivers relevant training courses following a minor violation.

For an even more proactive approach, incentivizing policyholders to offer monthly driver training as an additional safety policy requirement is another proven method to reduce violations and ultimately, crashes and claims across fleets.

Policyholders that incorporate monthly training have **50% fewer violations** than those that only offer training twice a year.

(SambaSafety Insights)

DEEPEN DATA INSIGHTS AT THE ACCOUNT LEVEL AND BEYOND

New insight tools exist that are opening up a new world of opportunity when it comes to proactively managing risk across a carrier's portfolio. These tools aggregate and normalize large amounts of data from each account, giving carriers full visibility into trending and historical risk across their book of business.

By analyzing the aggregated data, carriers can now identify specific trends, such as an increase in speeding violations, across a particular account. They can then collaborate with the policyholder and advise them to remediate this trending behavior – in turn decreasing their risk exposure while protecting their premium price come renewal time.

These deeper data insights also allow carriers to leverage predictive, trending data at a portfolio level to measure their efforts long term and understand what improvements need to be made to decrease their loss costs and improve profitability.

Conclusion

Deeper data insights can save the commercial auto insurance industry.

With access to the right data at the right time, carriers can better assess the risk of an entire fleet, and thus, price policies more accurately, confidently and competitively than ever before.

They can also partner with customers post-bind to improve driving behavior, decrease the likelihood of nuclear verdicts and offer competitive pricing again at renewal. This in turn promotes strong customer loyalty across a carrier's portfolio.

With these secure cost-saving strategies, carriers can retain happy, safety-minded customers while avoiding the need to automatically increase policy rates or implement risky processes to make up for poor loss ratios.

Want to explore how SambaSafety's digital insurance solutions can help you stay profitable in a persistently hard market?

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