



The Auto Insurance Affordability Crisis

Navigating the Rising Tide of UM/UIM Auto Claims

Persistent inflation is hurting the affordability of personal auto insurance. This concurs with a finding from the 2024 KPMG Perspectives Survey, which found that 65 percent of people plan to do more discount shopping. Seeking ways to lower their household costs, some drivers are opting for minimum coverage limits or even forgoing auto insurance altogether.

Auto insurers are also feeling the pressure from inflation that's led to higher repair and replacement costs, skyrocketing medical expenses, and a marked increase in the frequency and severity of claims. As a result, insurers have been forced to safeguard their financial stability by raising rates, as much as 30 percent. This situation creates a game of chicken between the insured and the insurer, as more drivers choose to underinsure or go without insurance as rates continue to rise. However, minimum limits are not keeping pace with repair costs and liability jury verdicts. It's bad for business. There is a way forward for insurers to satisfy the bottom line, mitigate inflation's impact, and win over customers.

“The insurance industry must address the rising tide of UM/UIM claims. Think holistically, from measuring insurance affordability and improving underwriting models to implementing creative claim handling strategies and shaping public policies that serve both insurers and policyholders.”

Scott Shapiro
US Sector Leader, Insurance

Strategies for managing UM/UIM claims

The best way to manage the insurance affordability crisis is with a multi-prong approach focused directly on the issue of uninsured motorist (UM)/underinsured motorist (UIM) claims. The approach includes several strategies: quantifying insurance affordability, enhancing underwriting models, implementing innovative claim handling strategies and regulatory lobbying efforts.

Quantify insurance affordability

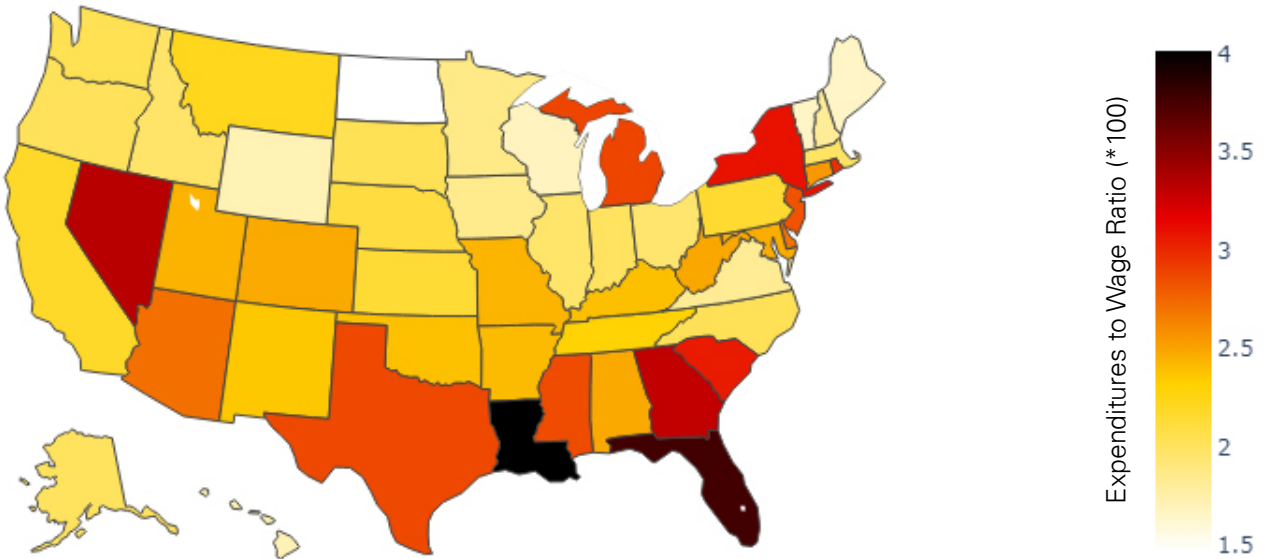
A key issue for UM/UIM is affordability. A simple and intuitive measurement of affordability is comparing the average price of a personal auto policy to the average wage in the region. It's reflected in the heat map below. Command of data and analytics would offer other ways of considering affordability.

Just as driving history is factored into an auto insurance policy, affordability should be another consideration. Ultimately, rates must reflect expected loss costs and not tailored to willingness or ability to pay. But the insurer can use affordability metrics to intelligently decide whether to offer coverage at all as well as what deductibles/limits are suitable for a given customer.

People's expectations of government using technology, especially genAI. #1 response: DMV services (driver's license, vehicle registration, etc.) Can auto insurance afford to be far behind?

Source: KPMG American Perspectives Survey, Summer 2024

Ratio by state: Average expenditure/average salary



Source: 2020/2021 Auto Insurance Database Report, National Association of Insurance Commissioners, January 2024
Source: Occupational Employment and Wage Statistics, U.S. Bureau of Labor Statistics, May 2023

Enhanced underwriting models

Underwriting models provide a score indicating the customer's propensity for being involved in UM/UIIM claim. The score is based on various factors. But what if these underwriting models could be enhanced with more finely tuned predictive analytics? Your insurance company might hit on different value propositions for more defined customer segments.

Does a particular applicant pose a greater risk of being a UM/UIIM claimant? Is your organization able to answer this question? If so, how does this influence your underwriting?

Innovate claims handling strategies

It's not often you can gain inspiration from ambulance chasers. However, by monitoring and analyzing traffic incident reports, social media alerts, and police records, insurers can identify policyholders involved in accidents more swiftly than traditional claims reporting.

This early detection system could be instrumental in managing UM/UIIM claims more effectively. For example, instead of a policyholder reporting the incident, the insurer reaches out to the policyholder to start the claims process like documenting the incident and securing witness statements. Being proactive in this critical period can have a crucial impact on the trajectory of the claim. Ideally, carriers can negotiate a settlement before external legal become involved. At a minimum, proactive carriers can establish a level of ground truth around the facts of the claim which can mitigate a UM/UIIM legal spiral.



Develop winning public policies

There is only so much that can be done internally to manage runaway UM/UIM claims. Accomplishing more requires an external focus—lobbying lawmakers and participating in public debates, ensuring industry viewpoints are heard. Low hanging fruit includes lobbying, tort reform, aftermarket parts, and strengthening the safety net.



Lobbying

Insurance companies have a vital voice to contribute to ensure opinions, judgments and regulations reflect the interests of auto insurers. That said, it's tempting to lobby for higher minimum limits with the theory that it would lead to fewer UIM claims. However, doing so would increase pressure on uninsured motorists. Take positions that serve desired outcomes.



Tort reform

Advocating for tort reform can help streamline the claims process, reduce legal expenses, and ultimately lower costs for policyholders. Measures such as limiting punitive damages or establishing clearer guidelines for pain and suffering awards can mitigate the inflationary pressures on premiums. Tort reform would address this key driver of high insurance costs.



Approval to use aftermarket parts

Just as generic drugs offered consumers tremendous cost savings, a similar opportunity exists with approval to use aftermarket parts for auto repairs. Using certified aftermarket parts could significantly reduce repair costs without compromising safety or performance. Regulations will need to change, along with consumer sentiment, to gain approval for aftermarket parts.



Strengthening the safety net

High-risk drivers lack access to affordable insurance, making them more likely to turn to UM/UIM. It calls for a collaborative effort between insurers, regulators, and policymakers to devise solutions that reflect the realities of today's economic and social landscape. Strengthening the safety net requires adequate funding and innovate approaches to risk assessment and coverage pricing.



Addressing the crisis of insurance affordability

The crisis of insurance affordability, underscored by the increasing frequency of UM/UIM claims, is a major challenge for auto insurers. To navigate the rising tide of claims, insurers must adopt a comprehensive approach that includes quantifying insurance affordability, enhancing underwriting models, implementing innovative claim handling strategies, and sharpening a public policy program that supports the interests of the insurance company. An all-out push on these fronts would help lower the rate of UM/UIM claims.



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