STATE OF THE LINE REPORT

SUMMER 2023 CASUALTY

Auto liability industry trends and considerations

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Introduction

Sedgwick is known for taking a people first, tech forward, data driven approach to claims and productivity management. The extensive and diverse data we hold as the leading solutions provider in this space allows for sophisticated industry benchmarking and data analysis that can pinpoint trends, identify cost drivers, and track performance metrics. How we use our robust bank of data to benefit our clients and partners is one of our many differentiators.

This report is one such value-added offering. It provides an overview of the current metrics used for our auto liability claim programs and contextualizes the trends we see in our book of business within the broader story of the industry environment. While the report can offer useful information for your organization, it is not meant to be used as a side-by-side comparison with the data from your particular claims program. It also includes insights from Sedgwick's expert practice leads to offer perspectives on the previous period and an outlook on trends to watch for in the months ahead.

Thank you for your continued business partnership. We look forward to continuing to bring you additional data driven insights.

Sincerely,

K. Max Koonce
Chief claims officer, Sedgwick

CASUALTY

Auto liability

Chris Frechette
VP, liability practice

The objective of this report is two-fold: to provide an overview of our current metrics for our auto liability program and to provide an overview of the current environment surrounding auto liability claims and litigation.

Data parameters

For comparisons, the data is based on both insured and self-insured claims for all states across five calendar years (July 1 through June 30) from 2019 through 2023.

Designations

Auto liability (AU); bodily injury (BI); property damage (PD); and collision (CL — can include both BI and PD).

Summary/key observations

- Auto new claim volume increased 6.1% in FY 2023.
- AU new claim durations increased slightly while closed AU claim durations remained flat.
- Average paid on new auto claims rose 4.5%.
- Closure rates on new AU BI claims increased 5% in 2023.
- The overall litigation rate on new AU claims remains less than 1%.
- The average incurred for new auto BI claims increased significantly over 2022.
- The relative cost of a litigated AU claim (capped at $500K) is over 20 times that of a non-litigated AU claim.
- Nearly 60% of all auto claims that become litigated have representation in place at the time of notice and within 24 hours of receipt by Sedgwick.
- Aged pending decreased over 2% for the rolling 12 months. Litigated claims accounted for 61% of the aged pending.
- Closed litigated claims increased by 36%.

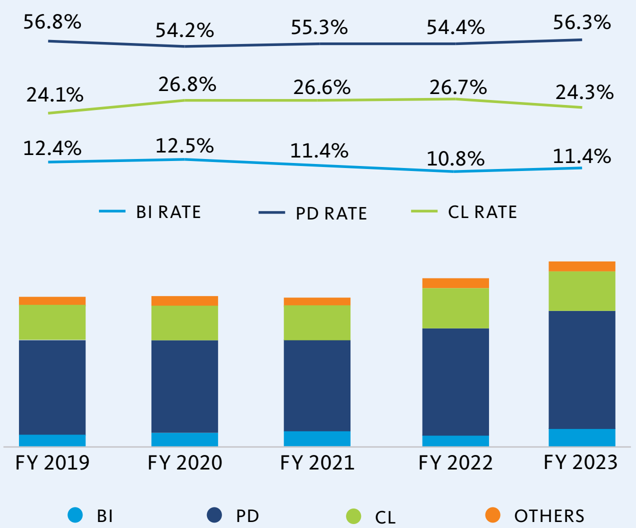
Market

- Auto rates increased by 9% in 2022 and are projected to increase another 8.4% this year, according to Berkshire Hathaway and ValuePenguin. The Insurance Information Institute reports that auto premiums lagged the inflation rate in 2020 and 2021, resulting in increases for 2022 that continue into 2023.
- After reaching a high of 9.1%, the economic inflation rate for 2022 finished at an average of 8%. While the average for 2023 is projected to drop to 3.5%, the average through June was 4.9%.
- Economic inflation together with social inflation, continued supply chain disruptions and labor shortages are impacting claims costs at rates exceeding price increases. Vehicle repair costs increased by several times the rate of consumer price increases alone. Claim costs are being further impacted by shifts in treatment protocols.
- For 2022, the net combined ratio for the property and casualty insurance industry was estimated by S&P Global to be 102.4% and forecasted to improve to 100% in 2023. Auto PD had its worst result in 25 years in 2022.
- The P&C industry recorded a $26.9 billion net underwriting loss for 2022, more than six times the loss recorded in 2021, according to the American Property Casualty Insurance Association (APCIA).
- Swiss Re forecasts premium growth in 2023, up 15% through March.

Volume

New claim volume increased 6.1% in the first half of 2023 following an 11% increase in 2022 after the 2020 drop.

NEW AU CLAIM VOLUME BY COVERAGE

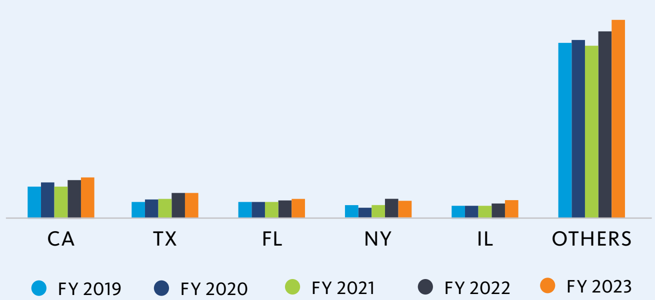


Total new AU claims

	2019	2020	2021	2022	2023	AAPC
% chg.		3.5%	-3.5%	11.0%	6.1%	4.3%

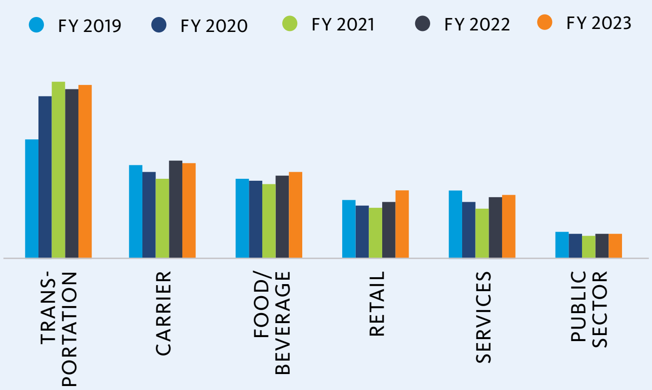
The top five volume states represent 41% of all new auto claims. Volume again trended up across the top five states except for New York, which was down just under 7%. Illinois increased by 43%.

NEW AU CLAIMS BY TOP VOLUME STATES



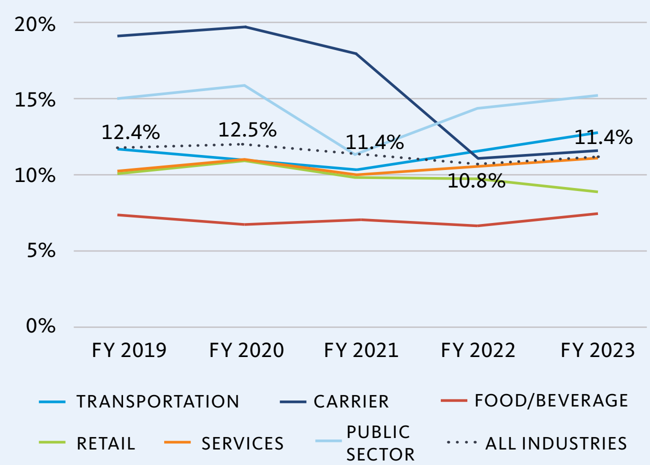
The top five industries represent 87.1% of the total claim volume. All groups experienced an increase in new claim volume over 2022 except for carrier which was down. Transportation, however, remains the chief driver of auto liability claims, representing approximately 34% of the overall new claim volume. Retail increased by 31% in 2023.

NEW AU CLAIMS BY TOP INDUSTRIES

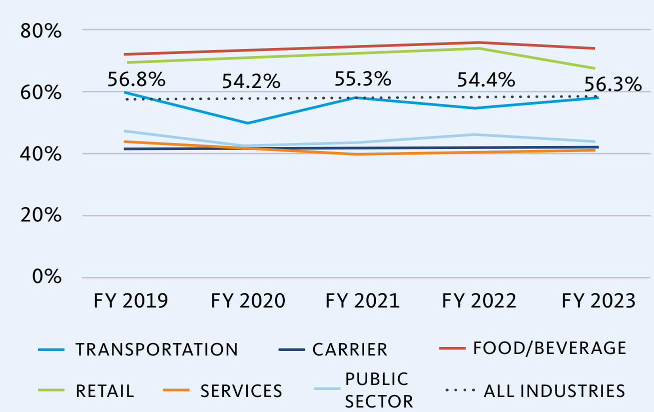


The overall BI rate in 2023 for new auto claims increased slightly YOY to 11.4%. Public sector (15.6%), transportation (13.3%), services (11.3%) and food and beverage (7%) all increased, and retail (8.6%) decreased.

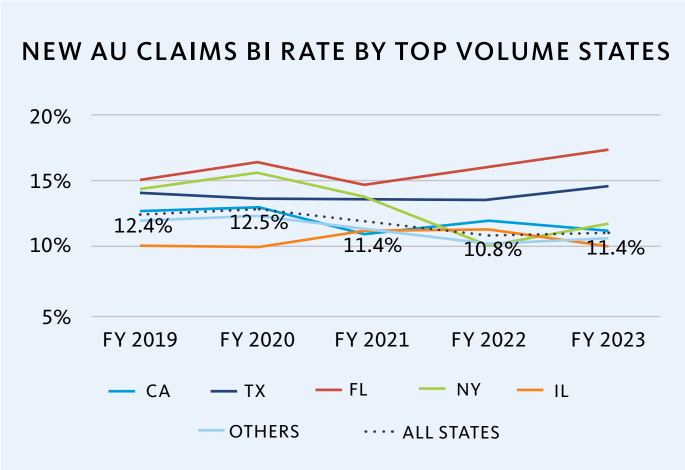
NEW AU CLAIMS BI RATE BY TOP INDUSTRIES

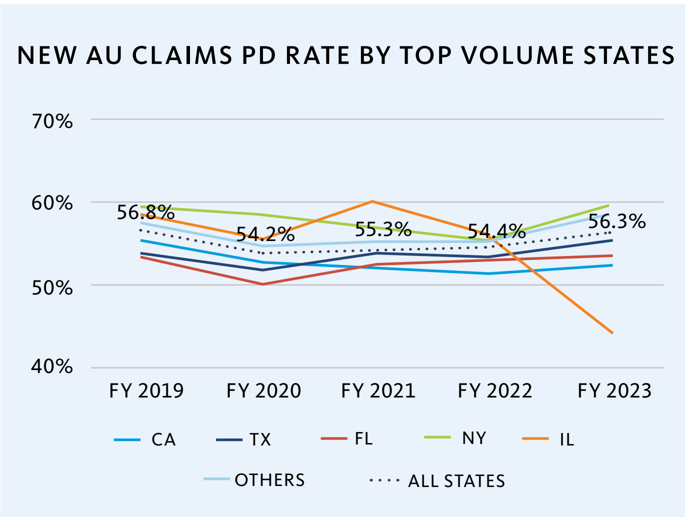


NEW AU CLAIMS PD RATE BY TOP INDUSTRIES

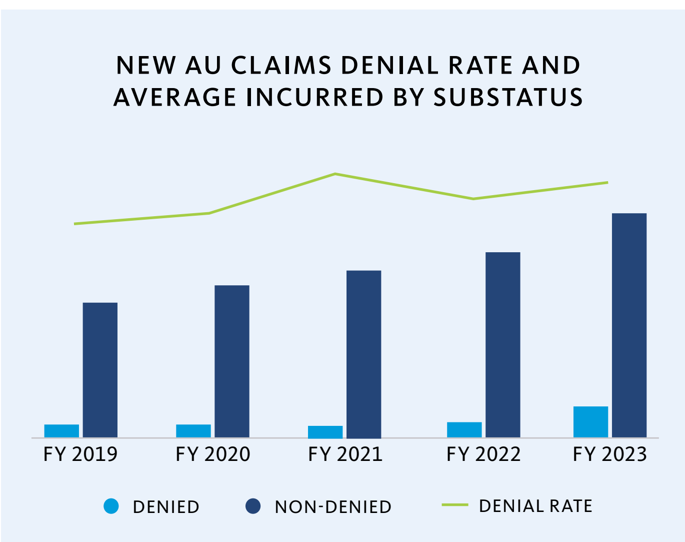


Among the top volume states, the BI rate increased in Florida, Texas and New York, and decreased in California and Illinois.

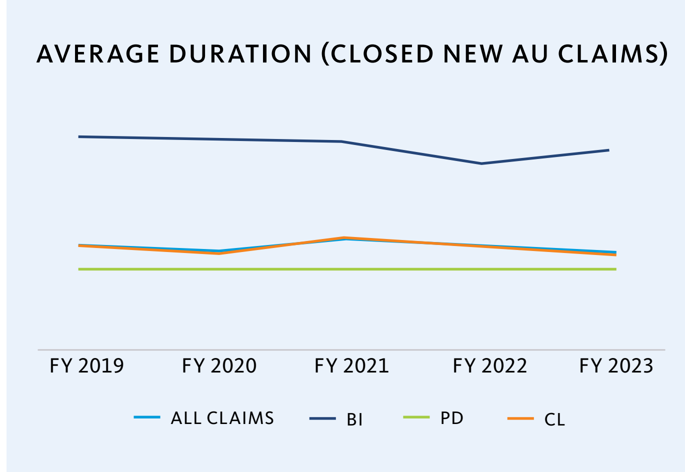


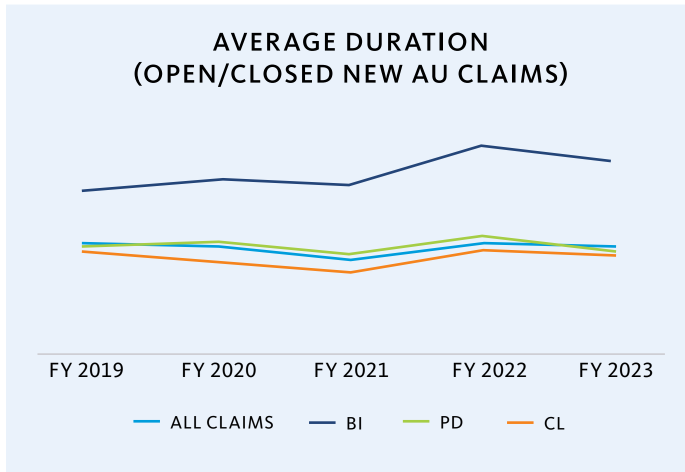


The average incurred for both denied and accepted claims increased in 2023, compared to 2022. The denial rate increased slightly while remaining below its height in 2021.



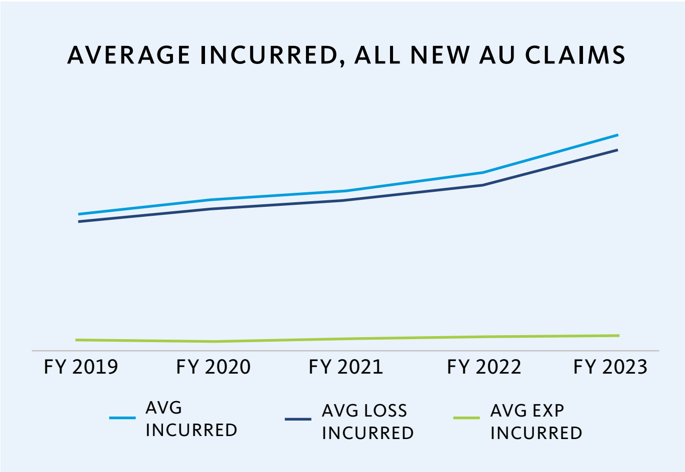
Claims durations were somewhat flat, measured across all segments.

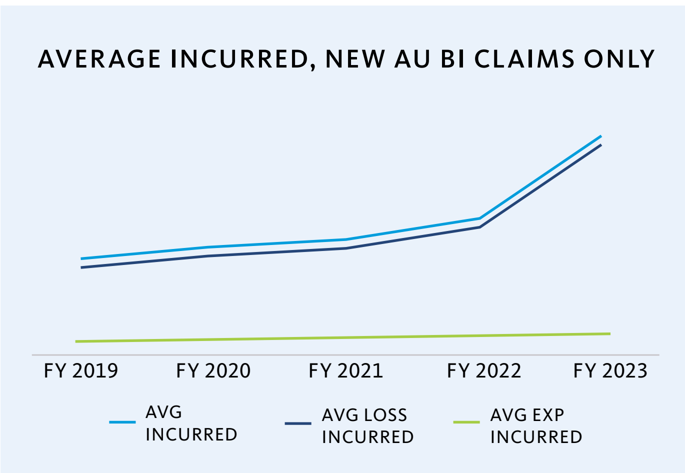




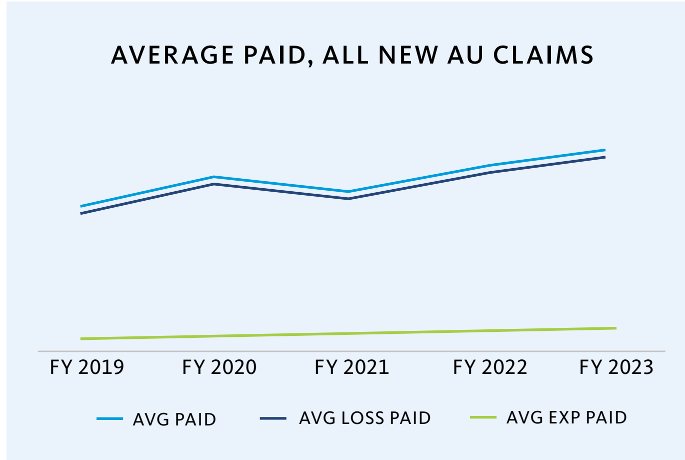
Costs

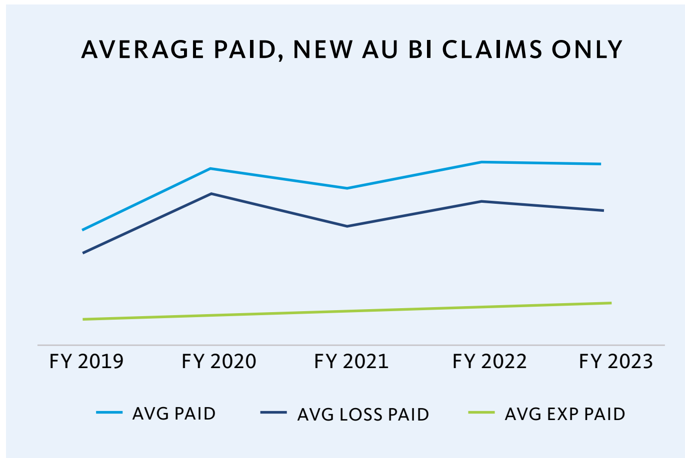
The average incurred for all new AU claims has been steadily increasing since 2019. BI claims are driving the overall increase, primarily due to an increase in claim volume in the top cost tiers.

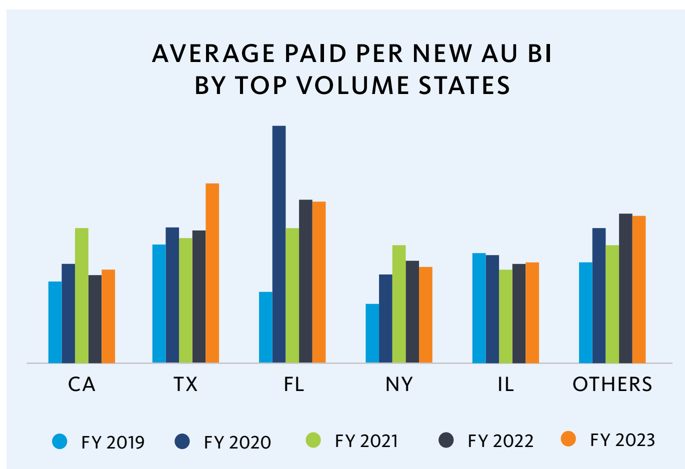




For all new auto clams, average paid increased slightly in 2023, driven primarily by the increase in the average loss category.

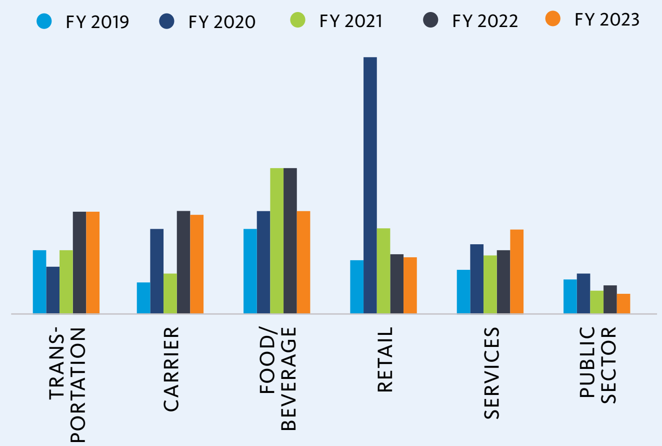






The average paid per new AU BI claim increased in the service industry and in transportation, while decreasing in food and beverage, public sector and retail.

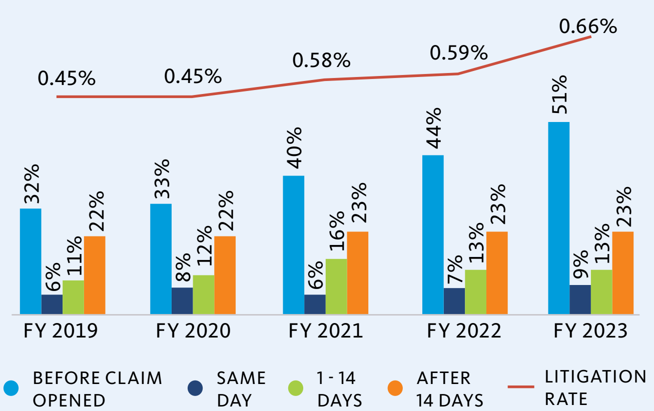
AVERAGE PAID PER NEW AU BI BY TOP INDUSTRIES



Litigation

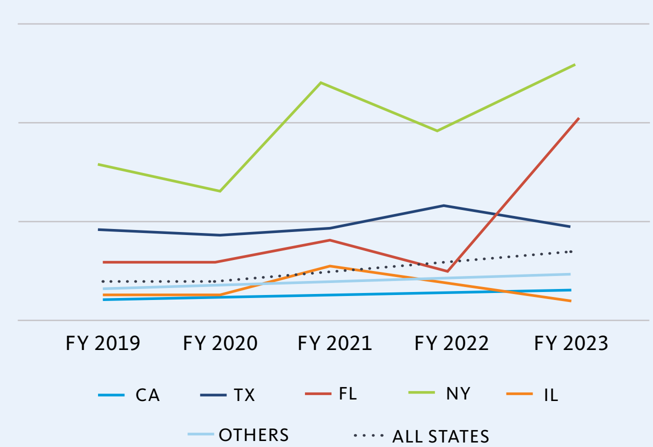
The overall litigation rate for new AU claims is 0.66%. Nearly 60% of the claims that become litigated have representation in place within 24 hours of first notice, and nearly three-fourths of all claims that become litigated have representation in place within 14 days.

% OF LITIGATED NEW AU CLAIMS FROM DATE OPENED TO DATE ATTORNEY REPRESENTED

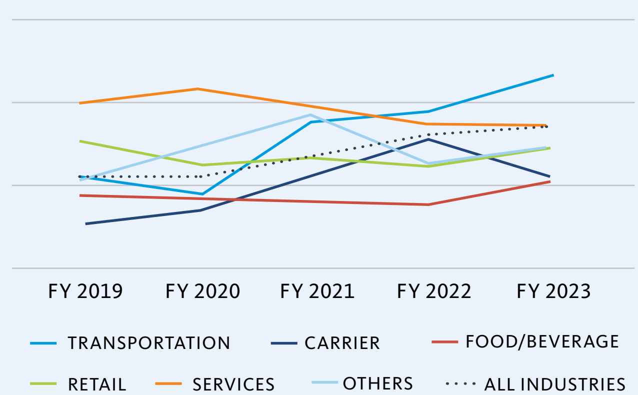


New York continues to have the highest litigation rate of the top five states, but Florida experienced the largest increase driven by thousands of lawsuits filed by Florida attorneys prior to the passage of Florida's comprehensive tort reform act in March 2023. Both the food and beverage and retail industries have seen increases in the AU litigation rate, and transportation had the largest increase over recent years, surpassing all the rest of the top five in 2022.

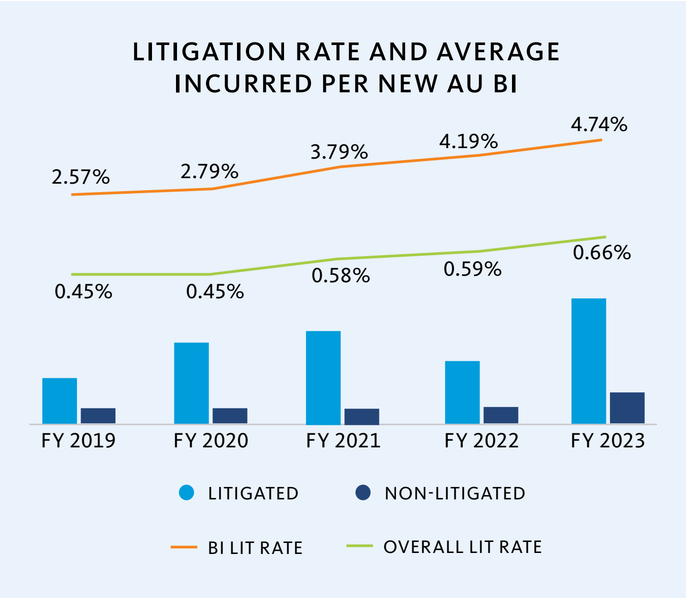
NEW AU CLAIMS LITIGATION RATE BY TOP STATES



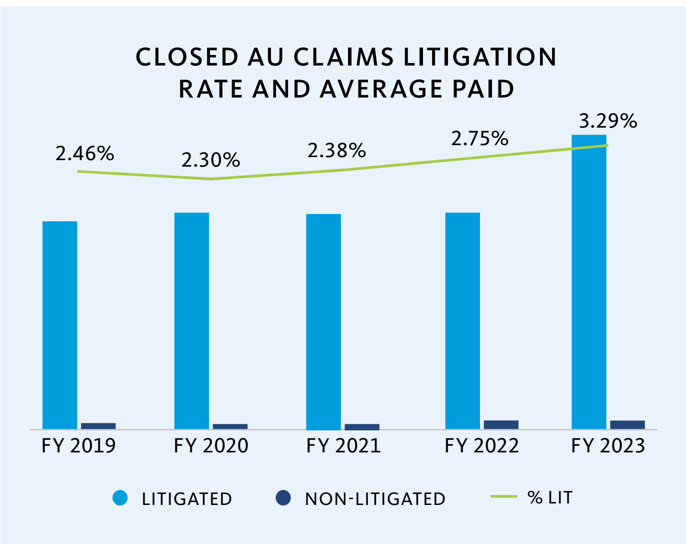
NEW AU CLAIMS LITIGATION RATE BY TOP INDUSTRIES



The overall litigation rates for both new AU claims and AU BI claims have increased this fiscal year. The average incurred on new AU BI claims saw significant increases in both litigated and non-litigated claims.

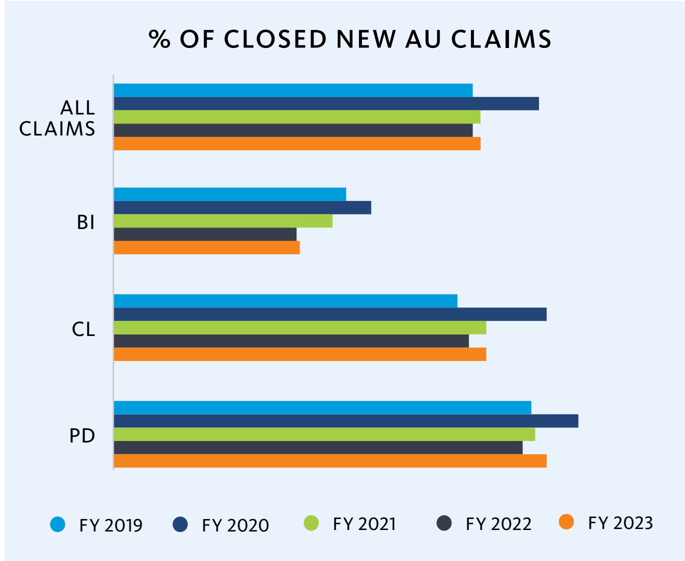


Closed litigated AU claims represented just over 3% of the total auto claims closed and approximately 50% of the total paid. The relative average cost of a litigated AU claim is significantly higher than the average cost of a non-litigated AU claim.

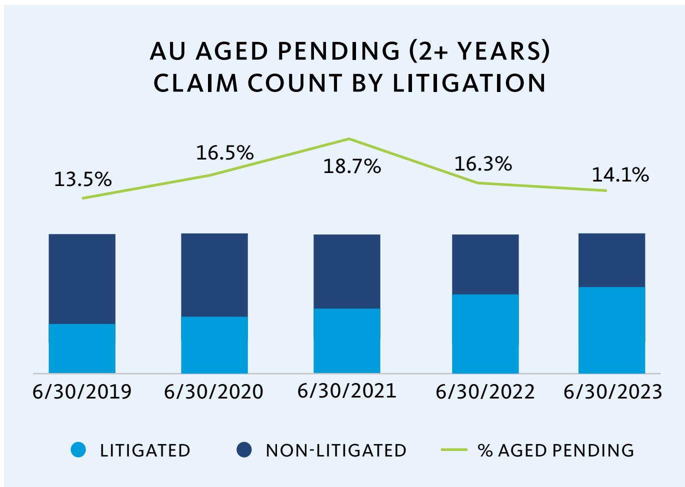


Closings

The percentage of new AU BI claims that closed increased in 2023 over 2022.



Aged pending decreased by 2% over 2022. Litigated claims accounted for 61% of aged pending. New York aged pending claims were reduced by 5% following a reduction the previous year.



Considerations for 2023

SEDGWICK TRENDS

Both incurred and paid amounts in AU continue to increase. Consistent with the overall industry, Sedgwick auto claims data reflects:

- Slight increases in paid with larger increases in incurred costs. While our overall litigation rate remains relatively flat, the percentage of claims that are litigated earlier continues to increase incrementally, including the number of claims with representation in place before the first notice.
- Rising additional costs for litigated cases.

Increased claim payment costs continue to be exacerbated by external factors, including:

- Falling, but still elevated, inflation.
- Increases in medical care and hospital costs outpacing the rate of inflation.
  - Consumer Price Index data shows that, since 2000 and through June 2023, the price of medical care, including services, insurance, drugs and medical equipment, has increased by 114.3%. In contrast, prices for all consumer goods and services rose by 80.8% in the same period.
- Shifts in medical treatment toward costly diagnostics with increased surgeries.
- Continued supply chain disruptions.
- Labor shortages.
  - According to the American Trucking Association, there is currently a shortage of drivers In the U.S.
  - According to the U.S. Chamber of Commerce, an additional 3 million workers are needed to have a workforce comparable to pre-pandemic levels.
- An increasing number of severe weather events.

The volume of closed litigated AU clams continued to increase over the past 12 months. While our overall litigation rate remains relatively flat, the percentage of claims that are litigated earlier continues to increase incrementally with representation in place before the first notice.

The average cost of resolving litigated claims remains significantly higher than the relative cost of non-litigated claims.

Aged pending (claims open over two years) is decreasing.

The growth in severity and costs in AU, in addition to the general economic factors named above, is further influenced by:

- Increased repair costs due to the complexities and technologies of newer vehicles.
- Availability of parts.
- Social inflation.
- Litigation costs.
- Increasing jury verdicts.

INDUSTRY CONCERNS

As driving activity has returned to almost pre-pandemic levels, claim levels have followed. Although miles driven remain slightly below pre-pandemic levels, severity has increased.

Driving behavior: A LexisNexis report indicates that, since 2019, AU, BI and PD severity have increased by 35% and collision BI severity has increased by approximately 40%. Average vehicle travel speeds have increased since the pandemic, and as a result, speeding violations are up 20%. The resulting higher collision speeds have increased the frequency of spinal and head injuries causing increased related treatment costs. The American Automobile Association reports that:

- The number of drivers who admit to driving over the legal blood alcohol level increased by almost 24%.
- Drivers admitting to driving within an hour of consuming cannabis increased by almost 14%.

The American Property Casualty Insurance Association reports a sharp increase in deadly motor vehicle accidents:

- Distracted driving — use of phones and electronics while driving — has increased by nearly 7%.
- Driving while overly tired and aggressive driving are both up over 7%.

Cambridge Telematics has released a report that found a 23% increase in distracted driving incidents and estimated a resulting additional 420,000 crashes, 1,000 fatalities and $10 billion in damages in the U.S.

Increased vehicle/vehicle repair costs

- Vehicle repair prices have increased 23% over the past year according to the Bureau of Labor and Statistics — increasing at nearly four times the overall rate of price increases. While inflation may be cooling, these costs have spiked to a 20+ year high.
- New and used car values remain high. Used car values are still 39.5% higher than in September 2019 according to CollisionWeek.
- The increase in vehicle values increases the number of repairs allowable before a vehicle is deemed a total loss.
- Local labor availability has increased the costs of repairs. TechForce projects that by 2024 the automotive and transportation industries may need to fill as many as 642,000 auto technician jobs across auto, diesel and collision specialties.
- The sophisticated electronic components of newer vehicles are often more costly to repair and necessitate specialized labor.
- Duration of repairs has increased.
- CCC reports increased durations resulting from specialized parts replacements in addition to labor availability.
- J.D. Power calculates the average number of days to repair increased to 17 from its pre-pandemic average of 12.

Litigation:

The growing cost of litigated cases continues to outpace that of non-litigated cases, even when adjusted for inflation. Current award trends median personal injury verdicts have increased by nearly 320% between 2010 and 2020. More recent data shows these trends continuing.

- **Litigation funding:** Tens of billions of dollars continue to be invested into litigation funding globally with the U.S. accounting for more than half. Concerns around litigation funding include increasing the duration of litigated matters, plaintiffs less inclined to seek resolution in hopes of securing an extreme verdict and the outsized influence of those not necessary to the litigation process. States are beginning to expand regulation of third-party litigation funding by mandating licensure and disclosure requirements, further regulating interest rates, and equating the financing with loans, thus bringing it under lending and consumer credit law scrutiny. Only four courts require disclosure of third-party litigation finance: New Jersey and Delaware U.S. District courts and Wisconsin and West Virginia state courts. In May, Montana passed a law requiring disclosure of any litigation financing agreement and limited fees to 25% of any judgment. Louisiana had a similar law pass the Senate only to be vetoed by the governor. Congress updated the drafted Litigation Funding Transparency Act of 2018 in 2021, but the act remains unpassed.
- **Social inflation:** Juries continue to dictate that when someone is injured, someone else must pay — and that someone is inevitably the party perceived to have deep pockets. A corporate tortfeasor who has (or who can be painted to have) acted with disregard can be a target for inflated awards. Corporate mistrust leads the list of suspected causes. A recent Pew Research survey found that 71% of those surveyed feel corporations negatively affect the country.
- **Nuclear verdicts:** A study by Marathon Strategies reports that the sum of nuclear verdicts (verdicts greater than $10 million) nearly quadrupled between 2020 and 2022, the median rising by 95% to $41.1 million. The report suggests the adoption of the term "thermonuclear" for verdicts emerging now more than $100 million. So far in 2023, some of the nuclear verdicts arising out of AU include $44million to a woman partially paralyzed in Indiana; $96 million in a multiple fatality crash in New Jersey; $75.3 million in a crash that resulted in brain injury to an unborn child; and $161 million to a man injured in a motorcycle crash in California when the brakes failed.

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