# Auto frequency benefits fall to single-digit territory

Observable real-time data for October show an estimated decline in auto accidents of 7%. This compares to initially hit months of March and April at 32% and 51% respectively. The key takeaway on frequency remains that benefit declines have decelerated on their approach to more normal levels, ultimately serving as a short-to-mid-term benefit to carrier margins (holding pricing/severity flat). Our view remains that these external shocks will end up priced away as policies renew – something already visible with recent CPI disclosures pointing to high competition and a neutral environment for margin expansion/contraction.

Average state auto accident frequency
*Source: state level DOT, Inside P&C*
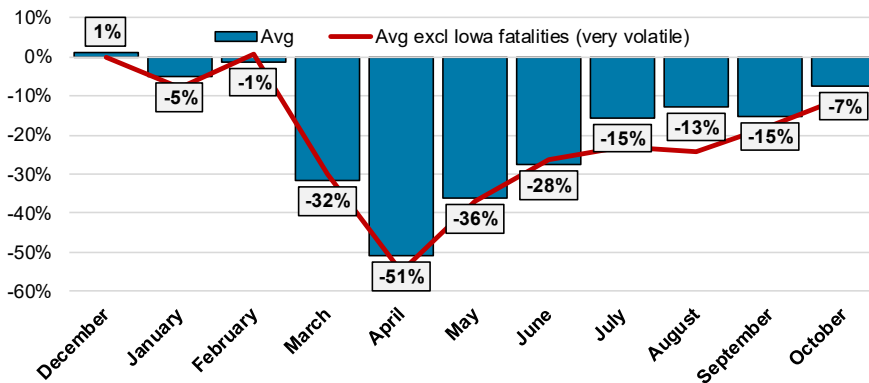
As referenced above, including the impacts of pricing/severity, current market dynamics now present a slight net headwind to carrier margins – something not seen since February 2020.

In October, the net headwind (holding inflation/severity flat from September) amounted to 0.4%, up from a benefit of 8.1% in August. The largest benefits were seen in March/April/May, but rebates that averaged ~15% did serve as partial offsets to the figures seen below. We will pay close attention to Progressive's October results as they provide rapid insight on loss ratio developments.

Auto factor net impacts
Source: state level DOT, BLS, Inside P&C
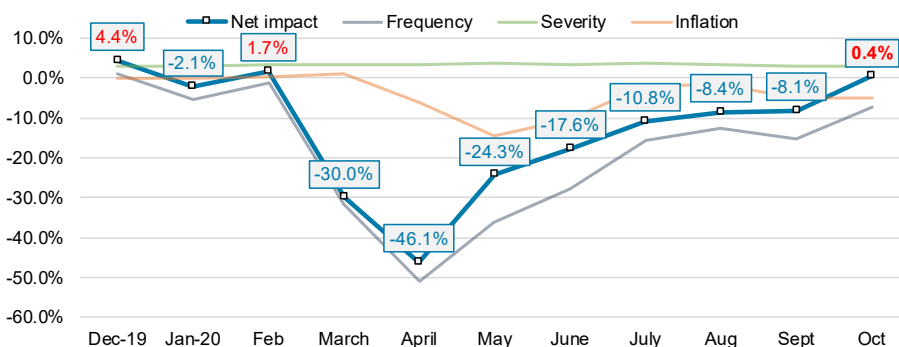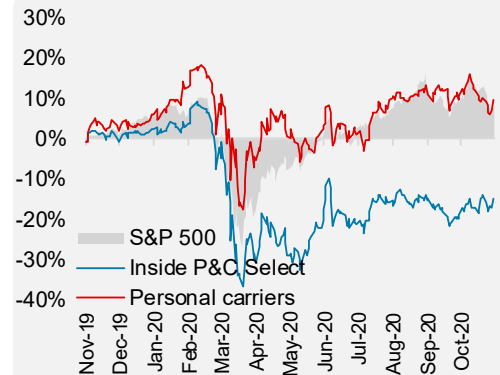
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Composite	YTD px chg.	P/B
Large comm.	(22.0)%	0.8x
Regional	(30.6)%	1.1x
Specialty	(16.1)%	1.4x
Personal	4.9%	1.8x
Bermuda	(24.3)%	1.0x
Florida	(44.4)%	0.7x
Brokers	(5.7)%	-
IPC Select	(16.3)%	1.1x
S&P 500 Fin.	(21.0)%	-
S&P 500	2.5%	-

1YR Price Peformance

Looking more specifically at frequency figures, October continues a trend of meaningful variation between state-level estimated accident frequency. This contrasts with initial Covid-exposed months which were closely aligned, and all had large drops. Like first reported in June, October continued to see a mix of both positive and negative results. New York City continues to see a significant decline in accident frequency, largely to its slow reopening relative to other regions. This compares to states like Texas, Ohio, Florida and Maine, which are seeing rises/declines roughly in line with historical YoY volatility.

Exhibit: Auto accident frequency by state
*Source: State level DOT, Inside P&C*

| | | | | | | | | | | | Est* | |
Flag	State	%DWP	Jan	Feb	March	April	May	June	July	August	Sept	Oct
	Texas	9.2%	7%	7%	-21%	-49%	-33%	-18%	-15%	-17%	**-14%**	**-4%**
	Alabama	1.5%	-4%	1%	-22%	-52%	-28%	-12%	-8%	-17%	**-10%**	**-13%**
	Ohio	2.8%	-13%	7%	-30%	-50%	-33%	-20%	-15%	-22%	**-17%**	**5%**
	Florida	8.2%	-1%	-1%	-25%	-51%	-32%	-17%	-13%	-16%	**-5%**	**11%**
	Iowa	0.7%	14%	-15%	-41%	-23%	-30%	-37%	38%	68%	**4%**	**14%**
	NYC	N/A	-16%	-15%	-38%	-76%	-69%	-61%	-50%	-43%	**-45%**	**-43%**
	Vermont	0.2%	-21%	7%	-45%	-61%	-42%	-33%	-34%	-32%	**-26%**	**-22%**
	Maine	0.3%	-8%	1%	-30%	-46%	-24%	-23%	-26%	-20%	**-8%**	**-6%**
	Average	-	**-5%**	**-1%**	**-32%**	**-51%**	**-36%**	**-28%**	**-15%**	**-13%**	**-15%**	**-7%**

*Figures adjusted for lagged data (adjustment factor based on average monthly lag)

When it comes to reopening, most states have done so or are in the process of doing so. Some notable changes from last month include Texas reverting to "reopening", New Mexico and Arizona flipping on their statuses, New York "reversing" after "reopening", and states including Iowa/Michigan having reopened.

State reopening plans (Taken from the New York Times)
Source: The New York Times
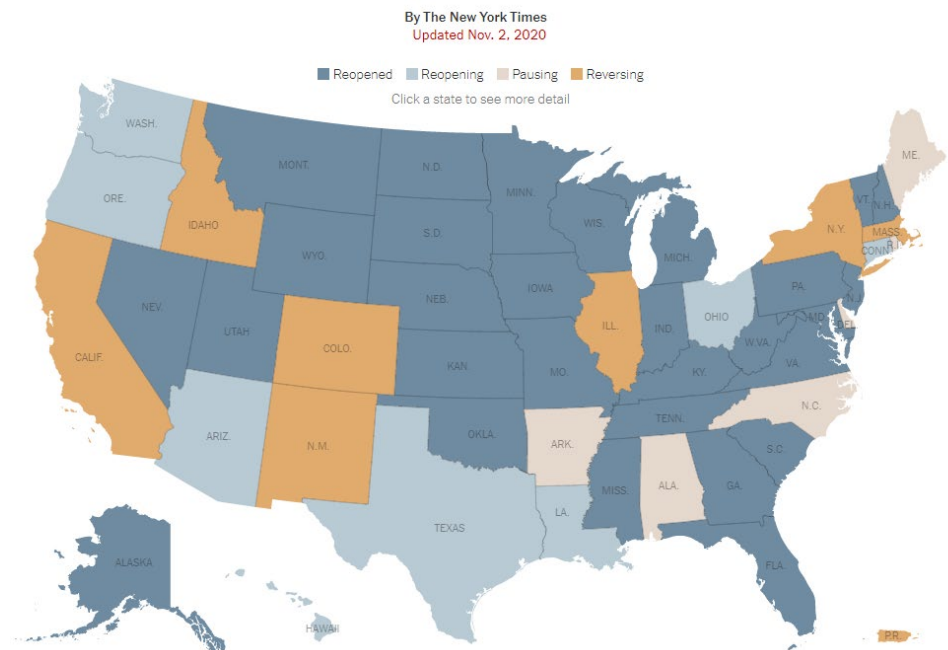
It's important to recognize that new outbreaks and a resurgence of Covid cases are leading to an upward trend in hospitalizations in the US. Continued stress on health services could lead to further reversals/restrictions, which would ultimately pad the already existing margin tailwind (all else equal) to auto-exposed names. For more context, just last week the UK, France and Germany announced new national restrictions following their own surges.

Exhibit: US Covid cases

Source: Covid Tracking Project
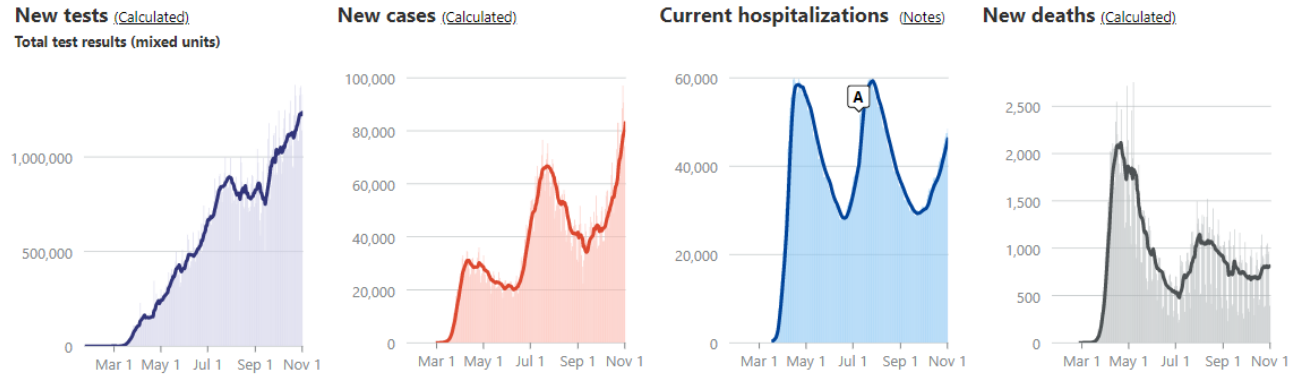
Countrywide mobility data provided by Apple and Google show rebounds in travel queries related to driving and walking. Public transit however continues to remain depressed given the obvious safety concerns of entering confined areas with others. The index is relative to queries taken in mid-January (captures seasonality like increased tourism during summer months) making it difficult to compare YoY changes. As winter comes, it will be telling if mobility dips below figures seen earlier this year in January-February.

## Apple Maps directions requests by mode of transportation (USA) – 7D moving avg

Source: Apple, Inside P&C (as of 11/01/2020)
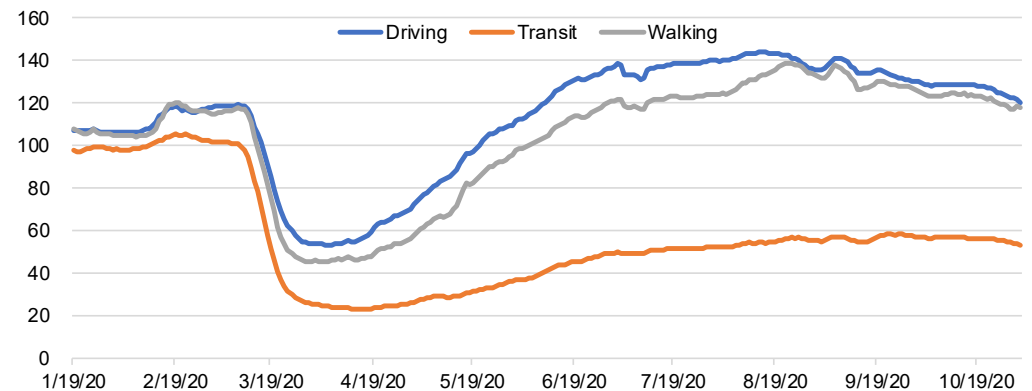
On a state-by-state basis, directional trends have remained consistent, but some states are clearly above others. Maine came in on top of its peers while Florida remains on the lower end. Multiple attributes can lead to state divergences over time from seasonal benefits in northern states during the summer months to perceived levels of safety within different regions.

Apple Maps driving directions requests by state – 7D moving avg
*Source: Apple, Inside P&C (as of 11/01/2020)*
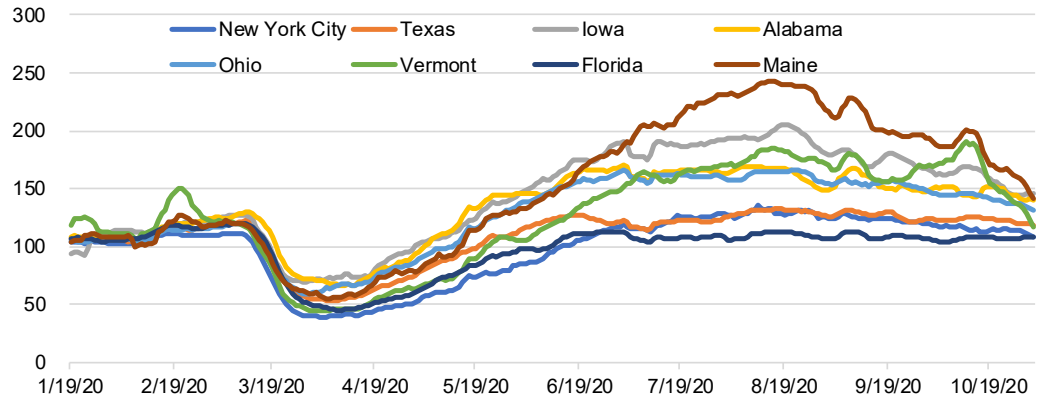
[Google data](#) also provides interesting datapoints on user behavior. For example, compared to baselines set in January, workplace mobility is down 31%. Travel to groceries and pharmacies, on the other hand, is only down 7%. A large divergence when compared to last month is park mobility. While up 48% during the end of September, the figure is now at 1%, likely due to the fact that winter is coming. Colder weather resulting in more indoor activities could push up Covid cases and thus hospitalizations, something we continue to monitor.

Google mobility statistics (USA)
Source: Google, Inside P&C (as of 10/27/2020)
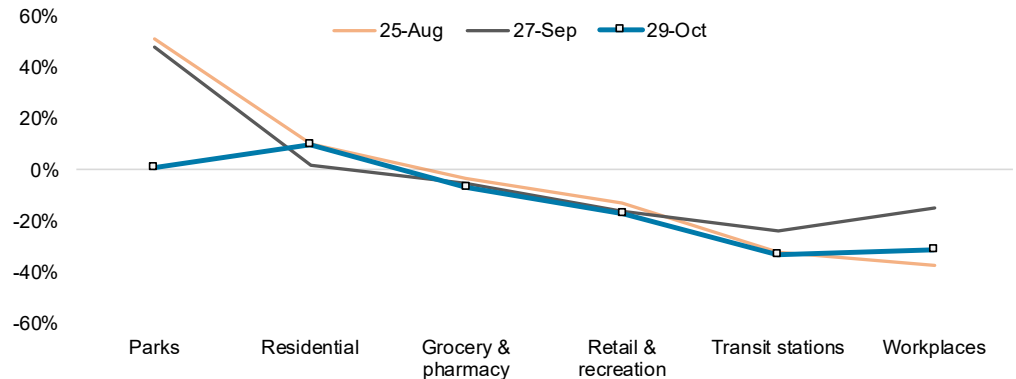
As large auto carriers including Progressive and Allstate hold earnings calls this week, we expect to gain additional clarity on how frequency benefits are developing and the impact to margins. On a forward basis, our view remains that carriers will compete away excess margins to maintain market share.

Appendix:

Every month we measure observable changes in auto accidents by compiling data from real-time state traffic accident databases. All states are required to compile various crash statistics for mandatory federal reporting, but the quality of the data, structure of the data, and timeliness varies significantly. Due to a reporting lag, we adjust state figures by a factor (determined using historical data + assuming recent data ages at a rate comparable to previous months) which we believe to provide a reliable frequency estimate for the most recent two months.

### Reported auto underwriting results

Source: Company reports, Inside P&C

Firm:	Auto loss ratios by firm					
Period:	**Q2:19**	**Q3:19**	**Q4:19**	**Q1:20**	**Q2:20**	**VAR**
Progressive direct	70.1%	71.4%	73.8%	65.7%	50.3%	(19.8)pts
Progressive agency	68.8%	71.0%	71.4%	64.6%	53.2%	(15.7)pts
Geico	82.0%	81.6%	85.4%	74.3%	62.1%	(19.9)pts
Allstate brand auto	68.4%	67.7%	67.4%	61.1%	47.7%	(20.7)pts
Travelers auto	70.1%	70.1%	76.1%	65.9%	57.5%	(12.6)pts
Hartford personal*	71.0%	66.6%	69.0%	59.9%	8.9%	(62.1)pts
Kemper specialty	75.1%	73.8%	75.0%	76.0%	69.8%	(5.3)pts
Mercury General*	73.9%	74.4%	79.8%	70.6%	61.0%	(12.9)pts
Horace Mann auto	73.8%	65.8%	72.0%	65.8%	53.2%	(20.6)pts
Average	72.6%	71.4%	74.4%	67.1%	51.5%	(21.1)pts

* Headline loss ratios, auto loss ratios not available
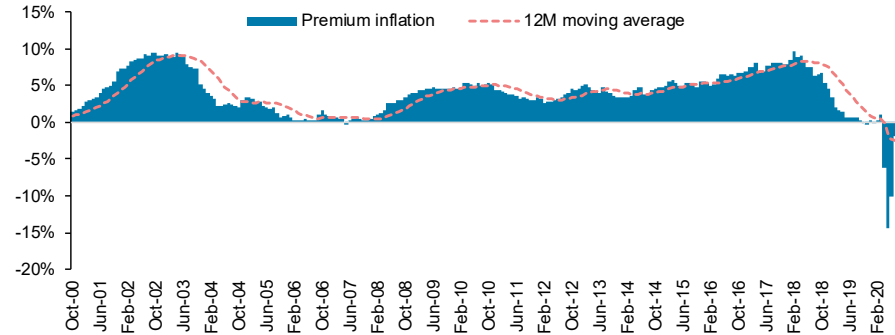
* Hartford auto combined declined 14.7pts YoY to 82.5%

Severity/frequency net impact (severity held flat from September)

Source: BLS, Inside P&C, State DOTs
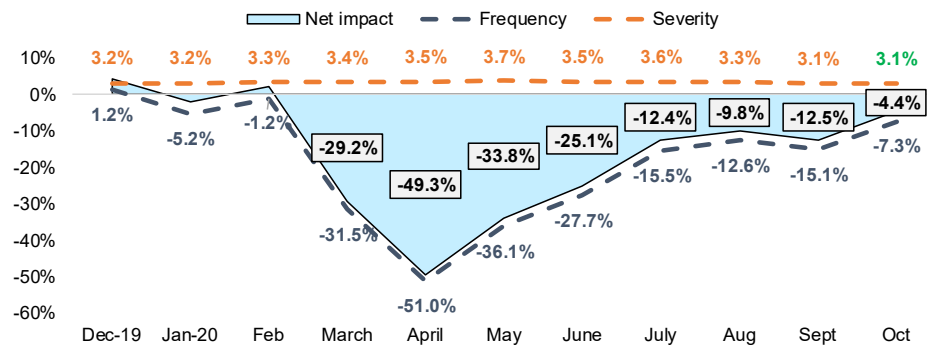
Auto premium inflation statistics

Auto carrier refund announcement to date

Firm	Refund/credit	2019 auto DWP
State Farm	$4.2bn in rate cuts (up from $2bn or 25% credit on two months of auto premium)	$40.9bn
Geico	15% (for 6M or 12M policy) credit for new and existing policyholders, totals $2.5bn	$34.9bn
Progressive	20% credit on two months of auto premium	$31bn
Allstate	15% refund credited to customer (April through June)	$23.6bn
USAA	10-20% credit on four months of premiums, totals $1.1bn	$15.2bn
Liberty	15% refund on two months of auto premium	$11.7bn
Farmers	25% credit for April, 15% for May	$10.5bn
Nationwide	One-time premium refund of $50 per policy	$6.2bn
AmFam	10% rebate on new and existing auto policies between July and December	$5.8bn
Travelers	15% refund credited to customers (April / May / June)	$4.9bn
Kemper	15% credit on two months of auto premium	$3.4bn
National General	15% credit on April premiums for personal auto policyholders	$3.2bn
Mercury	10-15% credit on four months of premium	$2.8bn
Hartford	15% credit on three months of premium	$2bn
Hanover	15% refund on two months of premium	$1.2bn
Chubb	35% reduction for April/May, "with additional discounts for subsequent months, as the situation warrants"	$0.8bn
Cincinnati	15% credit on two months of premium	$0.63bn
Horace Mann	15% credit on two months of premium	$0.45bn