

March 16, 2018

## Market Segment Outlook: US Personal Auto

**We are maintaining our stable outlook for the segment, owing to companies' strong risk-adjusted capitalization, as well as other factors**

A.M. Best is maintaining a stable outlook on the personal auto segment for 2018. The key drivers of this outlook are the ongoing strong risk-adjusted capitalization of companies in the segment, aggressive implementation of underwriting initiatives, sustained investment in technology, and the continued evolution of enterprise risk management programs.

Despite unprecedented personal auto losses stemming from Hurricane Harvey, financial results for the personal auto market improved somewhat in 2017, following two years of significant deterioration that was triggered by a spike in frequency and ongoing severity pressures. Combined ratios in 2017 remain elevated when compared to longer-term historical results, but the aggressive rate taking that has occurred industry-wide and the implementation of additional underwriting initiatives helped improve results over the last 12 months.

We expect that financial results will continue to improve in 2018 despite the ongoing severity pressures from medical inflation and rising repair costs associated with today's more sophisticated vehicles. This expectation is based on the aggressive rate actions taken over the last couple of years, which will fully earn in 2018, during an expected period of flat or moderating frequency trends. Furthermore, continued investments in technology in every facet of the organization should yield measurable expense and loss cost savings. Examples of undertakings expected to have a significant impact on the personal auto segment in 2018 and beyond are the following:

- Continued replacement of legacy systems
- Increased automation of processes using robotic process automation (RPA) and artificial intelligence (AI) to help with areas such as fraud identification
- Collection of data through connected devices (UBI)
- Implementation of advanced analytics to provide personalized insurance offerings
- Digitalization of claims process

Now more than ever, companies need to distinguish themselves in this highly saturated and extremely competitive market. Given the proliferation of ride-sharing, new entrants unencumbered by legacy systems and liabilities, and the continued advancement of autonomous vehicles, competition for the premium dollar will only become more intense in 2018 and beyond. Those companies that can use technology to create operational efficiencies while optimizing the customer experience will be best positioned to succeed. Those companies that do not possess the scale, expertise, or the technological capabilities to keep up with rapidly evolving landscape will likely be adversely selected against and falter—which could lead to consolidation in the personal auto segment in the form of affiliations or M&A.

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### Best's Market Segment Outlooks

Our market segment outlooks examine the impact of current trends on companies operating in particular segments of the insurance industry over the next 12 months. Typical factors we would consider include current and forecast economic conditions; the regulatory environment and potential changes; emerging product developments; and competitive issues that could impact the success of these companies. Best's ratings take into account the manner in which companies manage these factors and trends.

A Best's Market Segment Outlook, like a Best's Credit Rating Outlook for a company, can be positive, negative, or stable.

- A positive market segment outlook indicates that A.M. Best expects market trends to have a positive influence on companies operating in the market over the next 12 months. However, a positive outlook for a particular market segment does **not** mean that outlook for **all** the companies operating in that market segment will be positive.
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- A stable market segment outlook indicates that A.M. Best expects market trends to have a neutral influence on companies operating in that market segment over the next 12 months.

We update our market segment outlooks annually, but may revisit them at any time during the year if regulatory, financial, or market conditions warrant.

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