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Market Segment Outlook: US Personal Auto Insurance

The outlook for the US personal auto segment moves from Negative to Stable owing to improved conditions and solid risk-adjusted capitalization

AM Best is revising its outlook for the US personal auto insurance segment from Negative to Stable. The key drivers of the outlook change are the following:

- Improved rate adequacy
- A more accommodating regulatory landscape
- Solid risk-adjusted capitalization and an improving capital base
- Rising investment yields as lower-yielding bonds mature and are reinvested at higher rates

The change in outlook is further supported by improving segment results. The average direct loss ratios of the top twenty personal auto writers improved through the first half of 2024 after peaking in 2022. These writers represented over 85% of direct personal auto premium in 2023. The improved loss ratio is due partly to an aggressive push toward rate adequacy, which has offset the impact of elevated loss cost severity. Additionally, carriers have benefited from more accommodating treatment of rate requests by regulators despite challenging macro-economic conditions. While state regulators remain diligent in reviewing rate adjustments, they have generally allowed carriers to accelerate the frequency and degree of rate filings. In some jurisdictions, regulators have eased restrictions by allowing insurers to use more granular information to determine appropriate rates for insureds.

In addition to the improved underwriting performance, the segment has generated consistent surplus gains, driven primarily by a steady stream of net investment income and the strong equity market. The capital generated has fortified the solid risk-adjusted capitalization of the segment, enabling insurers to replenish capital lost in prior years.

The personal auto line further benefits from being a leader in leveraging current technology across all operational areas, including claims, underwriting, and distribution. Most companies have updated their legacy systems to remain competitive and their innovative efforts have led to efficiencies and an enhanced customer experience. As the use of technology expands across the segment and the broader insurance industry, companies will continue to look for ways to meet higher customer expectations, particularly the ease of doing business. Technological advancements have enabled insurers to match insurance risk and pricing more precisely through the use of more comprehensive data on miles driven, driver behavior, and other variables. AM Best expects this trend to accelerate as Machine Learning and AI further develop.

Headwinds for the segment include volatility in loss cost severity, driven by higher fatality rates, increased repair costs for newer vehicles, higher used car prices, supply chain and labor market disruptions, and rising medical costs, in addition to the overall inflationary environment.

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GUIDE TO 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.

A Best's Market Segment Outlook can be Positive, Negative, or Stable.

Best's Market Segment Outlook	
Positive	A Positive market segment outlook indicates that AM 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 the outlook for all the companies operating in that market segment will be Positive.
Negative	A Negative market segment outlook indicates that AM Best expects market trends to have a negative influence on companies operating in the market over the next 12 months. However, a Negative outlook for a particular market segment does not mean that the outlook for all the companies operating in that market segment will be Negative.
Stable	A Stable market segment outlook indicates that AM 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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