Auto Physical Damage

Episode 1: Re-Imagining What's Possible in a Pandemic

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Ryan and Tony Cotto, director of auto and underwriting policy at National Association of Mutual Insurance Companies (NAMIC), discuss the impact of COVID-19 on automotive insurers. Learn how carriers have quickly adapted to a new normal and how they're re-imagining the future of claims post-pandemic.

Ryan Mandell: I think just to give everyone a little bit of background, would you mind just kind of walking through what your roles and responsibilities are with NAMIC and then maybe just giving the listeners an idea of something they might want to know about you, that we can't look up on your LinkedIn profile?

Tony Cotto: Absolutely. So I joined NAMIC, hard to believe, but before COVID really got into everyone's vernacular. I joined NAMIC at the beginning of this year, around February, mid-February, as in this new position as auto and director of auto and underwriting policy. I'm part of our public policy team, part of our NAIC regulatory affairs team, and work on a daily basis also with our regional vice presidents who deal with state legislatures and deal with the departments of insurance.

In a sense, it's almost like being the back office slash part of the brain trust that really puts together a lot of thought pieces and materials for our lobbyists and our advocates to go speak to officials.

I mentioned that it's a newly created position. The NAMIC team that brought me on board in February in their sort of crystal ball—perhaps not even realizing just how predictive it was going to be—you use their crystal ball to say: “Ok, , where are the big attacks going to be and where do we need to really develop some public policy chops and expertise?”

Well, it looks like they're going to be coming in the auto and underwriting space, whether it's attacks from the federal level or from the state level or from the trial bar or consumer groups, all of these sort of coming together. Everyone is really concerned about auto prices right now, auto insurance pricing, auto insurance practices. And the same is said for underwriting and rate making, which is the bread and butter of the insurance industry, as you know. At NAMIC, we represent about 1,400 carriers across the country, everyone from huge multi-nationals and down to three county farm mutuals. So we see sort of all of it. And I basically just sort of watch, monitor everything I can and try to put forth educated positions for our members on these auto and underwriting issues. And to the question of something about me that that doesn't pop out from my LinkedIn profile is probably a lifelong obsession with baseball. Having flushed a lot of cash down the drain at the Washington Nationals Stadium for my 10 plus years in D.C., only to leave, move to Kentucky where my wife is from, and then win the World Series. So I take my leaving as being the impetus. I will take credit for that.

Ryan Mandell: They just needed to get you out of the way first.

Tony Cotto: That's it.

Ryan Mandell: You were holding them back.

Well, thanks so much, Tony, I really appreciate you sharing that that background and, you know, you talk about all the different, you know, the huge variation in the types of companies that NAMIC represents.

So I think one thing that's interesting for me is to maybe learn from you some of the different types of responses that these carriers have taken to COVID and adapting their businesses in the wake of COVID. So can you speak to some of the different things that your members have done in response to this pandemic?

Tony Cotto: Absolutely. And I will say it's important to keep in mind that everything that the insurance industry has done has been done while themselves adapting to work-from-home environments to virtual claims adjusting, which I'm sure we'll talk about some more. They're not just doing the everyday business of paying claims and processing claims like they always do. They're doing it while they themselves are implementing continuity plans and figuring out how to deal with all of all of the changes. We are very proud of what the industry's response to COVID has been. It has been largely done on our own. Our companies saw the issues and took action. There have been some regulatory recommendations. There have been some regulatory bulletins out there and enforcement at least suggested enforcement. But really, our companies were the ones who took it upon themselves to do things like suspend cancellations because people can't make their premiums, suspending non-renewals for nonpayment, extending grace periods, flexibilities, delays, waiving late fees, administrative fees for policyholders, you know, relaxing claim-related reporting deadlines. These kinds of things that are consumer friendly were done by the insurers’ own volition. In many instances, I think the calculation was made by the company and they said: “Well, you know, we need our policyholders in good times and bad and this is a really bad time for them”. Forget putting aside what a bad time it is for us. It's a terrible time for a lot of policyholders whose economic livelihood has been upended. So how can we help that? Well, things like extending coverage for previously uncovered activities or was one that a lot of discussion went into. That one is a little bit different because there are products out there for pizza delivery. Right? But when a restaurant is told, OK, you can't serve in person meals, you need to convert all your staff to delivery drivers. The insurer has to look at that and say: “Ok, well, am I ok with that?” And, by and large, the responses have been really good.

The commitment from the industry above all else has been to help the consumers get through this. And we saw that in the form of give backs. Whether it's a percentage of your premium back for auto for the time that you weren't driving or that you were driving less or whether it was a dollar amount, there were any number of ways that insurers are trying to basically help their policyholders out, just even a little bit as we get through this. So that's some of the things we've seen. We do have a whole part of our website dedicated to featuring member stories and sort of the feedback that they've gotten from policyholders on www.NAMIC.org. But there they are heartwarming stories in some instances, too, about handwritten notes saying thank you for the $25 in premium I got back. It's going to make a big difference this month. It has been a good story overall, as difficult as the year has been for everyone.

Ryan Mandell: Yeah. You know you mentioned kind of how the insurance carriers themselves had to adapt to their own internal businesses in addition to the business environment? Do you see that there's going to be any sort of lasting change in the way that carriers are engaging with their customers?

Tony Cotto: I hope so. I don't want to make too much light of it, but this has forced the industry to take some uncomfortable leaps forward and it has also forced the regulators to do that, right? Thinking things like remote examinations for agents and things that regulators had previously scoffed at were suddenly ok.

And they said, well, we need to find a way to do it.

You know, our industry is not immune to that. So I think insurers who might have in some instances not been crazy about the idea of using a drone—an aerial drone to assess damage—they'd much rather have eyes and ears on site. Well, that might not be possible in the current environment, so you have to train your adjusters differently. You have to look for different things. You have to be open to the technological development. So the answer to your question: yes. I think there could be some positives to come out of it in terms of how insurers interact with customers. Now, I do still think and this is something that you and I have discussed a little bit before, which is it's still a people business, right? Insurance is, ultimately, it's still a people business. And the human component and the human interactions and the human judgments are not going away any time soon. But, they will now be aided by some of the some of these kinds of technologies that we talk about, some of the adjusting and even on the front end, the mitigation type stuff in home, for instance, I think you see a lot more openness to things like water pressure sensors before the damage even happens.

So I think it has been a little uncomfortable. But, we've been pushed in the direction of, I don't know what exactly you call it, but just shoved forward in the responsiveness to consumer, to customer needs.

Ryan Mandell: We've seen similar things on our end when you look at photo-based estimating. You know, you look at virtual claims handling. You know, what we've seen from the pandemic is it's kind of accelerated the trend towards virtual claims handling more so than the pace that it was already on. And so, you know, you talk about this balance between the human aspect, relationship aspect of the business and leveraging these new technological tools that are available. Do you see that there's a difference in kind of how some of the different-sized companies are handling this? And you mentioned three county farm mutual companies. You know, are those kind of carriers approaching virtual claims handling and photo-based estimating differently than maybe some of the larger members that you have?

Tony Cotto: A little bit, but I'd say primarily to the extent that a lot of the smaller companies rely on third parties for things like data. Right. For some of their analysis. So they don't really have a choice in some instances.

But I'd say, by and large, it seems like everyone is sort of moving in the same direction with the stream here. There are challenges, of course, in a people business and a handshake business, in a business built on promises where policyholders don't want to talk to a computer, in many instances. Now, there's a generational divide there, too. But I'd say particularly as policyholders sort of get older in age, they are less likely to want an app or, you know, to interact with them with a voice menu on a phone. They're going to operator, operator, operator.

Also, I think it's important to bear in mind here when a consumer, when a policyholder is making a claim, it's because something bad has happened. And that's when insurers have an opportunity to shine because we step up and fulfill our obligations that we took on. For that policyholder, that’s one of the worst moments that they can imagine.

So having them talk to a virtual claims handler is not always going to be ideal or having them say: “Yeah, we're going to fly a drone over your house that just caught on fire”. That's not where we want to be.

Ryan Mandell: Sure. You lose a little bit of the empathy in that in that aspect. Absolutely. Now, I think that makes perfect sense.

Again, it's a balance between the relationship side and technology, of course. So you're kind of thinking about your role on the government side of this. Do you think the regulators are going to be approaching the insurance industry a little bit differently? You know, are regulators going to sit back and say: “Well gosh, you know, there's just been this huge reduction of lost costs. Insurers aren't paying out as many claims. Do we need to change the way that we regulate the insurance industry?” Do you think that there's going to be a shift in the stance that regulators take towards insurance carriers?

Tony Cotto: I do and this is, it's all as I mentioned, I'm part of our NAIC team. And I should also add probably in full disclosure, that several, several years ago I actually worked at the NAIC. For any of your listeners who may not know is the standard-setting body for insurance regulators, for departments of insurance. And it's made up of all 56 state and jurisdiction commissioners. They have, you know, dozens of work streams that are all being affected by exactly what you've laid out, Ryan, which is these changes that are happening in and around the industry.

The most salient ones, I think, are probably dedicated to artificial intelligence—questions around artificial intelligence and how insurers use it and what they're using it for and what's allowed and what's not going to be allowed. And then what is called CASTF, which is the Casualty Actuarial Standards Task Force. You really are starting to see some of the regulators question risk-based pricing and actuarial standards, which is a change. It's not entirely new, but I think it's a louder drumbeat that we're hearing on those fronts. The regulators, by and large, do absolutely understand and appreciate what the insurance industry is. Right, it is unique in that we don't know the cost of the policy when we sell it right. Right? We have actuaries, we estimate, we underwrite, we make rates. We do everything we can to match the rate to the risk that's being sold or that's being purchased, I should say.

But it's not perfect and the regulators understand that. Now how do regulators look at the industry differently in the wake of COVID and in the wake of all the artificial intelligence issues that we talk about?

I think it's going to depend on the regulator. I hate to say that, but I think a lot of things are going to come down to how the regulator feels about whether incorporating new ways of doing things and new technologies is going to ultimately be good or bad for the consumer.

Ryan Mandell: Sure

Tony Cotto: And that goes for all the regulators, whether they're appointed or elected. I think they will be consistently saying when they evaluate all the leaps and bounds forward, are they going to say: “Are consumers getting left behind?”

Ryan Mandell: Right. As you think about your members and other, you know, carriers throughout the industry and keeping the consumer at the center of the conversation seems to be something that's going to benefit them in the long term—especially as they start to work with regulators on this changing environment, making sure that they don't lose sight of the customer.

Tony Cotto: Absolutely. They're the policyholder. They are the one without whom none of this exists.

Ryan Mandell: Correct. Correct. Absolutely. So you brought up a couple points about trying to match the policy to the price and the risk—all of these different components—kind of shift gears a little bit away from COVID. When we look at all the growth of complexity in the industry, especially when we focus on the auto side, there's been this huge growth of ADAS technology coming into the vehicles. These partial automation features, different lightweight materials, more electric vehicles—all these different factors that are forcing severity upwards. The cost of repair goes up every single year and doesn't seem to be slowing down any time soon. So thinking about again, back to your members, are there some strategies that they're taking in order to kind of manage this growth of complexity in terms of on the underwriting side?

Tony Cotto: Yes, so there are and you've put a real finger on a potential source, on a pain point for sure, which is this rising cost. I think taking a step back is helpful here for bigger context too. When we talk about auto, there is a general acceptance of the idea that having an automobile and having mobility is a value add to a person's life—to their potential for employment, and to their potential to move and relocate if they want to. There's a lot that comes with having a car and not just the sort of, you know, 16-year-old status symbol driving to school—as much fun as that is. But because of that, the public policy and the politicians focus on auto insurance price is abnormally high vis-a-vis any other kind of insurance, let's say, right? They feel it because people in their hometown say, well, my car insurance is really expensive. I'm going to write to Congress. So there's a microscope on it. But having taken that step back now, let's get back to what you're talking about, which is these cost increases and these cost drivers. If we accept that auto insurance premiums have gone up, which I think, you know, we can just all say, yes, they've got up.

Ryan Mandell: No surprise there.

Tony Cotto: They've gone up and they continue to go up. The question is why?

Right, and it's not as some would have you believe: because insurance companies are suddenly making money hand over fist and having windfall profits. It is because costs have gone up across the board. And this is everything from parts, individual parts. I joke that in high school I learned how to fix cars and I don't even dare change the oil on my wife's new car these days. There is so much technology involved and so many things that that could go wrong that I just don't know how to do it because I'm not a trained mechanic

Ryan Mandell: Right, you look under the hood of most cars and it's mostly just plastic now.

Tony Cotto: Right. And everything, everything's covered. And, it's not intuitive either.

So self-help is sort of significantly reduced. But that speaks to the fact that the repair shops costs are going up because they have to have more training and they have to have people who know what they're doing, obviously.

And you need the exact equipment to fix vehicles the right way, you need to understand how to read the data that's being put out and maybe we'll get to talking to what's going on in Massachusetts a little bit as well on this with right to repair issues, but parts cost a lot.

Labor costs a lot. The cost of healthcare has skyrocketed in recent years, and when people get hurt in a car crash, that matters because the cost of healthcare matters. There's more people on the roads. And when you've got more congested roads, there's more crashes.

There is no shortage of things that really factor into these costs when we really get into it. Now, does the tech make the car safer? Absolutely, right? When you talk about blind spot cameras and lane alerts, ADAS and rearview cameras, lane departures, parking assist. Right? The movie trope of learning how to parallel park and not being able to do it a la Clueless—like that's not really an issue so much anymore because people have these rearview cameras and parking assist. But these stability controls are all great. But as you said, they do, they come with a price. Now to the question of how our members are looking at this. Everyone looks at it a little differently. I think on net, people are very happy about all of these safety features. Remember that no one wants to eliminate crashes more than the insurance industry. We want zero crashes.

And the historical tidbit, of course, which I'm sure you're aware of, but some of your listeners may not know just yet, is that the reason that there are seatbelts in cars is the insurance industry. The insurance industry basically pioneered the idea of seatbelts in cars and making them mandatory. And while as much as my instinctive, like small government get out of my car mantra kicks in, I'm also the first one to get angry when I look out my window and see tthe three cars next to me, everyone holding their cell phone. So there might be something to be said for mandatory hands-free equipment in cars. So those are some of the thoughts I have on what you've raised, but we can unpack any of those. But, really, it's about costs going up and they're not costs that an insurance company can control.

Ryan Mandell: Exactly. There are so many things that are out of their control. That they have no influence over. They can’t change the fact that more vehicles are being built out of aluminum or there's more carbon fiber components going on cars these days. So, certainly, I think that's going to continue to be a hot topic.

Tony Cotto: That's in your wheelhouse.

Ryan Mandell: Absolutely. And our clients are always concerned about that and are definitely interested in seeing how the rest of the industry is handling those issues—to understand what are people doing to more accurately underwrite policies and to truly reflect the balance between the safety improvements with the ADAS components and the increased cost when that vehicle is in an accident. I think you and I talked about the Toyota Camry and how the move from the previous body style to the new body style. You look at the exact same accident and there's a 43% increase in the cost of that repair—simply just because of the changes in the technology and the changes in the construction of the vehicle. So there's a lot of different insurance carriers that don't have any say in how that vehicle is constructed or the technology that goes on that vehicle. And now they're forced to underwrite a policy from one year to the next, from one vehicle model year to the next where the vehicle may not be that different on paper until it gets into an accident.

Tony Cotto: Right. And it's important always in a vehicle, tech cuts both ways, right? It's a great improvement, it's good we like safety, we want safety, but there's a cost involved.

Ryan Mandell: Sure. Exactly.

So I just want to kind of close up shop here a little bit. One of the things that you mentioned was, the more congested roads lead to more accidents. I don't think anyone would argue with that. But, kind of just looking a little bit to the future. We've already seen prior to kind of this most recent increase in lockdowns, we saw an increase in traffic from the height of the pandemic to really where in some regions we actually saw traffic returning to normal pre-pandemic levels. One of my hypotheses at least, is that we could possibly see an increase in vehicle travel and personal vehicle ownership as we continue to move past the pandemic for a variety of reasons. You know, it's a great way to social distance on your own in your car. People are shying away from mass transit, from ride sharing, and from shared spaces. What is your take on the future of the personal vehicle, the future of vehicle ownership and the future of traffic, really?

Tony Cotto: I'm going to buy a drive-in movie theater. That's my thought. I mean, they're going to do gangbusters, but only for a few years.

I'm bullish on personal vehicles. I'm not so sold on autonomous. A lot of people say, oh, AVs and electric vehicles and the computers are going to take over the world. I think there are still a whole lot of people who want to control the car themselves and who actually enjoy getting behind the wheel. So, in terms of the future of the personal vehicle, I agree with you. I think we're going to see more vehicles on the road and more sales especially. And this is, of course, the almost sort of a worst case possibility. In cities we're going to see more people who are used to taking public transit or ride sharing, like you said, in cities, buying a car instead, which is going to create more traffic, more congestion, more parking shortages, and it's going to increase costs. Now, I might be wrong here and we might both be wrong. And it's possible that people will buy the cars and then move out of the city.

Ryan Mandell: Sure.

Tony Cotto: But I suspect that what you're going to have is you're going to just have more cars in urban areas. And again, with all the improvements in the technology that may not be a particular driver of increased costs or lack of safety in the future, right? As the cars get better, as the drivers get better as the technology, anti-theft technology, as we get better at detecting fraud, as we get better at repairing them in an efficient way. Public awareness on this is just huge. There's some great organizations out there doing really impressive work on this front. You've got the Governors' Highway Safety Association and the National Safety Council. Everyone is sort of looking at cars right now, which is a good thing. From the insurance company's perspective, I think, you know, more cars on the road—yeah, it's scary because it's increased risk, but there's also increased opportunity and increases in overall coverage out there. So I think that's mostly a wash as long as we can start finding ways to incentivize other cost drivers to control their costs. Right? Now, I don't know how much the American Medical Association cares what the car insurers think of medical pricing.

Ryan Mandell: Probably not much.

Tony Cotto: Not much; about as much as they care what you or I think. But I think I'm generally bullish on personal vehicles and vehicle ownership. I don't really see sharing—the sharing economy, as it were—thriving in this space.

Ryan Mandell: Yeah, I think we may have hit a plateau, at least for the next several years in terms of that sharing economy. And I think we'll probably we won't see a return to those kind of levels of ridership and ride-sharing programs or mass transit for some time now.

Tony Cotto: And I think there's also privacy concerns in that space, too. Right? I think, you know, when I first heard of one of the car-sharing platforms, I said, no, nobody's driving my truck but me.

Ryan Mandell: You know, there's definitely those concerns out there. So I think it's going to be interesting to see how that evolves. I mean, we're already seeing some of the ridesharing companies kind of pivot a little bit more towards food delivery and delivery of goods. So I think they see what's happening in terms of the trends—not only in the short term, but at least for the mid-term, for the next several years as well.

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