

**COVID-19
KEY CONSIDERATIONS
FOR AUTO LIABILITY**

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COVID-19 KEY CONSIDERATIONS FOR AUTO LIABILITY

The following is a list of key considerations in evaluating the impact of COVID-19 on commercial auto claims – both directly related to COVID-19 infection and indirect impacts from economic and societal changes:

- **Regulatory Changes**

The Federal Motor Carrier Safety Administration (FMCSA) has issued an Emergency Declaration granting exemptions from Parts 390 through 399 of the Federal Motor Carrier Safety Regulations (FMCSRs) for carriers and drivers providing direct assistance to COVID-19 relief with the transportation of essential foods, supplies, equipment, or persons. This Emergency Declaration is effective through May 15, 2020. This is the first time in history there has been a nationwide suspension of trucking safety regulations. Some jurisdictions have different standards for different diseases.

- **Hours-of-Service** Under normal HOS rules, a driver may drive up to 11 hours in any 14-hour period and up to a maximum of 8 hours consecutively before stopping for a 30 minute break. These drive-time limits have been suspended as long as the driver is making an essential delivery for COVID-19 relief.
- **Driver Qualifications** Many State Driver Licensing Agencies (SDLA) have reduced employee capacity or have closed offices in response to the CDC’s social distancing guidelines, resulting in delays in processing Commercial Driver’s License (CDL) credentials. As such, the FMCSA has issued a three-month waiver which relaxes the operating conditions and requirements for Commercial Learner’s Permit (CLP) holders as well as the driver training requirement for out-of-state CDL applicants. Additionally, expiring CDLs have been granted extensions on the renewal.
- **Claim Frequency** In addition to the regulatory changes described above, societal and economic impacts on commercial auto claim frequency may include the following:
 - **Past Recessions** Historical data from past recessions suggest commercial auto claims frequency may decline due to decreased vehicle mileage as well as lower accident rates.
 - **Social Distancing** Social distancing guidelines have resulted in dramatically reduced commuter traffic, allowing commercial vehicles to travel more efficiently especially during traditional rush hour times.
 - **Reduced Commercial Vehicle Demand** Based on GPS data, there has been a decrease in commercial vehicle traffic volume across the country in all vehicle types. However, heavy-duty vehicles had the smallest impact from COVID-19 as the transportation of essential goods continue. Commercial truck traffic volume remained robust in March due to COVID-19 relief freight balancing the loss of freight in other areas, but April will likely experience a decrease in freight volume. During the current pandemic, some commercial fleets have reduced employee hours, laid off employees, or closed locations, leading to fewer miles traveled. Trucking employment has historically declined during economic recessions.

- **Claims Severity**

There are multiple contributing factors that may result in claims taking longer than usual to settle. In general, the average severity of open claims increases with the amount of time they remain open.

- **Bodily Injury** Non-emergency medical treatment such as elective surgeries, physical therapy sessions, and follow-up doctor’s appointments may be postponed in order to direct medical staff and resources to address the COVID-19 pandemic.

- **Physical Damage** Auto repair shops are considered essential businesses and are still operational. However, the auto parts manufacturing supply chain has experienced disruptions and delays both domestically and abroad.
- **Litigation** Many courts around the nation have significantly reduced their hours or closed, causing postponements of hearings and mediations and lengthy delays in all liability claims.

Claims Handling Considerations The claims process is likely to lengthen during this pandemic from delays in claims processing by adjusters who have largely shifted from an office environment to working from home, potentially leading to an increase in claim severity and a slowdown in claim closures.

- **How should you respond?**

You're likely being asked and wondering, "how will COVID-19 impact our claims costs"? We're also being asked this by many of our clients. While the direction and degree of impact are uncertain, and none of us have a crystal ball, there are many steps we can take together to identify leading indicators and be proactive in managing your risks.

- **Claims handling changes** – we encourage you to maintain open communication with your claims adjuster and be apprised of any changes in claims settlement. We would be happy to help monitor settlement patterns and other claims pattern changes.
- **Exposure volume changes** – the easiest and most obvious adjustments to loss estimates are those stemming from expected changes to your exposure volume and composition – changes in fleet size or miles driven. We can incorporate estimates of your go-forward exposures into updated reserve analyses. We can work with you to test ranges of exposure estimates.
- **Scenario testing** – while the ultimate impacts of the pandemic on the total cost of risk are currently unknown, it may be helpful to "scenario-test" differing levels of changes in exposure level, frequency, and severity. We can work with you to estimate differing combinations of each. For instance, if exposure drops 40%, but the frequency rate increases 10%, and the average claim size increases 10%, what would be the impact on your total reserve estimate at various evaluations. As time goes on, we can learn from observed data and narrow the ranges of estimated impacts.
- **Close monitoring of results and data visualization** – it is critical to monitor how the number and size of claims are developing month-to-month throughout this period. Using the most current data available, we can work with you to not only demonstrate how claim numbers and size are comparing to expectations. Additionally, we can use our tools to investigate what is driving the deltas – different types of claims, vehicles, and locations driving changes. Additionally, our tools enable powerful graphics to demonstrate these drivers to your teams and management.
- **Collateral evaluations** – during a time when insurance carrier's reactions to these changes are difficult to anticipate (in response to credit rating changes or changes to loss experience), we can help you make the most persuasive case possible for reasonable collateral need evaluations. We can help "fight your corner."

The world was changing rapidly before COVID-19, and it's changing even faster now. To keep up with the laws and legislation around these complicated claims topics, please consult us with any questions or concerns you may have. We are here to help you in any way during this time with analysis or even to be a sounding board. Please also see the Oliver Wyman Consulting **Coronavirus Hub** for some really good articles and research that you might find helpful.

Links:

<https://www.automotive-fleet.com/355373/fmcsa-extends-expands-essential-goods-exemption>

those providing COVID-19 relief are exempt from certain regulations including hours of service, vehicle inspections, and driver qualifications

<https://www.autoblog.com/2020/03/16/coronavirus-trucker-hours-of-service-safety-rules-exemption/>

<https://www.fmcsa.dot.gov/emergency/three-month-waiver-response-covid-19-emergency-states-and-clp-holders-operating-3-month-waiver>

<https://www.automotive-fleet.com/355267/overall-commercial-vehicle-traffic-dips-while-trucking-activity-is-strong>

overall drop in commercial vehicle activity but heavy-duty trucking remains robust due to deliveries of essential supplies, equipment, or persons

<https://www.automotive-fleet.com/355064/march-truck-traffic-still-strong-says-prepass>

volume of commercial truck traffic in March was similar to January and February and very similar to the volume reported during March 2019

there could be a decline in April

<https://www.fleetowner.com/covid-19-coverage/article/21128402/cv-experts-brace-for-continued-declines-in-the-covid19-era>

commercial fleets reported that their average weekly miles were down by 6% during the pandemic. Approximately 35% of fleet respondents surveyed said they reduced employee hours, while 9% laid-off employees and 8% closed locations.

<https://truckingresearch.org/2020/03/24/gps-data-shows-critical-truck-deliveries-continue-despite-covid-19-analysis-of-data-finds-unprecedented-performance-year-over-year/>

first is the dramatic reduction in commuter traffic, allowing trucks to operate at higher speeds, particularly during traditional rush hours. Second, is the continuous 24/7 truck operations that generate higher average truck speeds across nearly all hours of the day.

<https://www.carriermanagement.com/features/2020/03/26/204853.htm>

courts stopped, severity of unpaid claims increases with age, elective surgeries postponed, physical therapy, and follow up appointments postponed; lengthened tails; decline in frequency due to less miles and accident rates have historically declined during economic downturns

<https://www.automotive-fleet.com/354487/the-impact-of-covid-19-on-the-fleet-ecosystem>

"Larger fleets have generally been concerned about operational impacts: they want to make sure they can still pick up vehicles or are asking about delivery to dealers, especially for vehicles that are for essential uses," said Tom Coffey, senior VP of sales & consulting, Merchants Fleet. "They are also asking if service partners are still available to schedule preventive and non-preventive maintenance. Small fleets may be more sensitive to near-term changes and economic impacts due to the virus, so we have been working with them on customized and flexible offerings to meet their new and changing needs."

Most all organizations are doing their best to minimize the financial impact and conserve cash reserves.

<https://www.ceinetwork.com/cei-covid-19-resource-center/>

very limited number of auto repair shops closed; considered essential businesses
DOT employees WFH so delay in processing MVRs (driver safety record)

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