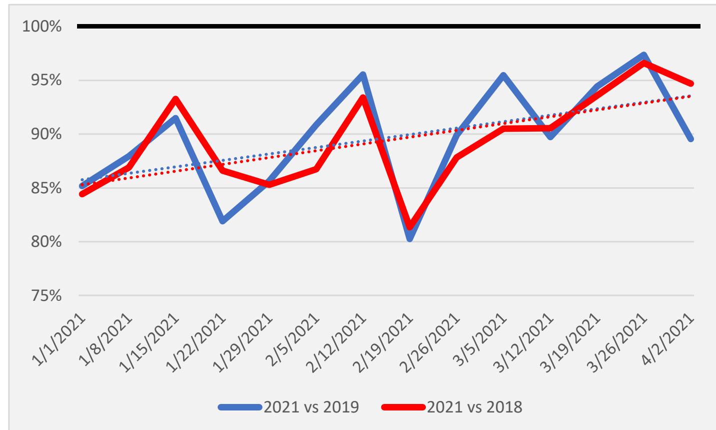
Assured Comment: Gasoline Demand Returning to Normal; Driving Accelerates

The era of pandemic profits has passed; regulators may see 4% U/W target as an average, not a floor

Data tracking vehicle miles travelled and Y/Y comparisons have now gone haywire since the full onset of lockdowns last year throws off the denominator. But using the long data series of weekly gasoline supplied we can compare 1Q21 to the 'normal' years 2019 and 2018. Figure 1 shows that **gasoline consumption** provided by the Energy Information Administration **is rising and on a trajectory to soon reach 100% of levels last seen in 2018 and 2019.** That squares with comments from the Allstate CEO who recently said in CNBC interview "Total miles driven are now pretty close to where they were pre-pandemic." **Gas consumption is 82% correlated with VMT** over the past 10 years. With driving patterns having changed and still-lower volume commuting hours likely continuing through most of 2021, **we expect crash frequency will remain below 'normal'**. But does anyone doubt the pent-up demand for Americans to hit the road as vaccinations proliferate?

Figure 1: Weekly Gasoline Demand – 2021 vs. 2019 and 2018



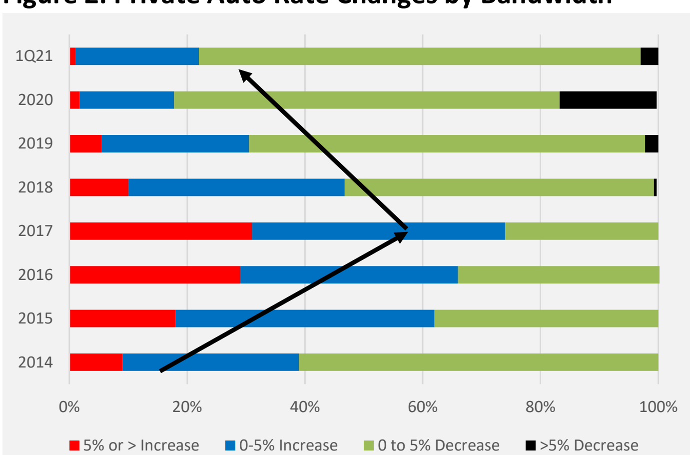
Source: Energy Information Admin., Assured Research.

The era of pandemic profits has passed and we expect challenges lie ahead for auto insurers.

The strategy to keep base rates high was prescient, but…

We're not the only ones to notice the rich profits earned by most major auto insurers during a year when people used their product about 13% less (the '20/'19 decline in VMT). And we've also acknowledged the merits of their corn flakes pricing strategy: Keep base rates high in the face of growing profits but allow price sensitive customers to opt into telematics programs to lower their premiums and insurers' margins (akin to overcharging for a box of corn flakes but flooding the market with coupons so price sensitive consumers can self-select their price point).

Figure 2: Private Auto Rate Changes by Bandwidth



Source: S&P Global, Assured Research.

The fascinating dynamics that will play out in the months ahead: How rapidly will vehicle miles travelled respond to the super-charged economy in 2021 (>6% GDP growth expected) **and will insurers be allowed, if necessary, to raise rates to maintain their target auto profit margins?**

Figure 2 shows the recent rate change history of private passenger auto rates. Readers will recall that most insurers needed to raise rates during the 2014-2017 timeframe in response to the confluence of 1) an economy expanding at 2-3% per annum; 2) falling gasoline prices (down 36% from '14-'16); which resulted in 3) VMT expanding by 5% from '14 to '16. No two cycles will look alike, but with economic expansion in '21 some 3x the annual rate of that earlier period, continued job growth (let's all hope) like the March '21 figures, vaccinations and a pent-up demand to ***move*** – **the roadways in 2021 will be busy!** And auto rates have been gradually, slowly, deflating as Figure 2 shows.

Many auto insurers target a 4% U/W margin. We suspect some auto regulators will follow the lead of the Federal Reserve, which has said its 2% inflation target is an average, not a ceiling. Similarly, **when rate increases are requested, those state regulators may respond 'Sorry, we see your 4% target as an average, not a floor.'**