

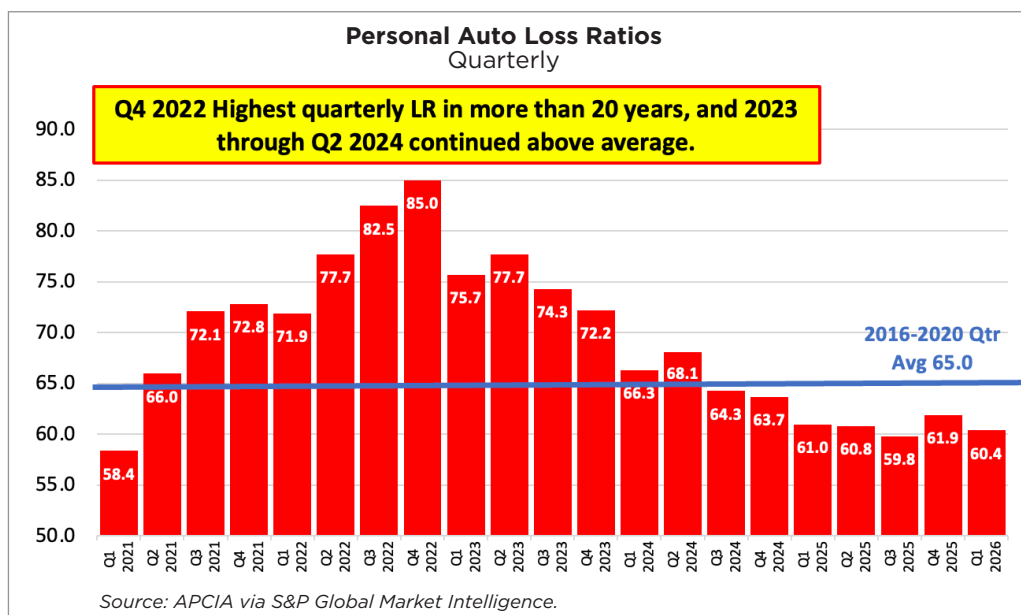


A New Road Ahead for Auto Insurance: Safer Vehicles, Higher Claim Costs?

September 2026

EXECUTIVE SUMMARY: A NEW ROAD AHEAD FOR AUTO INSURANCE: SAFER VEHICLES, HIGHER CLAIM COSTS?

Americans changed how we use vehicles during COVID. Post COVID, changes in vehicle use appear to be permanent as opposed to temporary with direct impacts upon the vehicle insurance market. As noted in earlier versions of this paper, specific categories of claim costs experienced inflationary pressures that exceeded consumer inflation. Between 2023 and 2026, several of those same claim related costs returned to more typical levels. At the same time, some regulators have made significant improvements in the time needed to approve personal auto rate requests. Both trends provided private passenger vehicle insurers with an opportunity to regain price adequacy. However, overshadowing the economic gains are trends that have ratings agencies and industry analysts describing this sector as experiencing structural shifts as opposed to typical hard and soft market cycles.



What has changed? Auto insurance is being reshaped by multiple forces at once—and none appears to be temporary. Plaintiff attorneys are rapidly expanding their use of AI. Deployment of Advance Driver Assistance Systems (ADAS) is accelerating, not reversing. And third-party litigation funding is moving into medical treatment financing, inflating costs before insurers even know a claim exists. The result is a fundamental challenge to historically reliable reserving practices: longer claim cycles, later loss emergence, and materially higher claim severity.

- As of Q2 2025, U.S. private passenger auto insurers posted a loss ratio of 60.8 percent, a significant improvement over the industry average of 67 percent from 2016-to 2023. AM Best forecasted the underwriting recovery that began in 2024 will continue into 2026.¹
- LexisNexis® Risk Solutions' report on U.S. private passenger auto insurance, *U.S. Auto Insurance Trends Report 2025*, analyzes severity changes year-over-year. This most recent report states the change in collision severity is improved by -2 percent.²

¹ <https://businessdailynetwork.com/stories/675695019-triple-i-and-milliman-project-continued-growth-for-u-s-property-casualty-insurance-in-2025>.

² <https://risk.lexisnexis.com/insights-resources/white-paper/auto-insurance-trends-report>. Figures noted as improvement is collision loss ratios apply to collision only, excluding property damage liability coverages.

- U.S. private passenger auto premiums have risen by 35%–37 percent in aggregate since 2023. The bulk of the increase occurred in 2023–2024, reflecting delayed rate adequacy after unprecedented severity inflation beginning in 2022. However, experience from 2024 and 2025 marked a clear deceleration.³
- (ADAS) capabilities have significantly changed accident patterns by reducing the most severe often resulting in fatalities as well as the least severe (low speed) types of crashes without a proportional reduction of claim costs. The resulting escalation of medical costs has also been magnified by growing plaintiff attorney intervention before insurers are first notified of a loss event.⁴
- Third party litigation funding (TPLF) expanded across both personal and commercial auto during 2023–2026, shifting claimant economics away from early resolution and toward longer claim duration and higher demanded outcomes.⁵
- From 2023–2026, systematic litigation and litigation dynamics were the dominant non-physical drivers of U.S. auto insurance loss costs, often outweighing changes in accident frequency and conventional medical inflation.⁶

BEHAVIORAL TRENDS: SAFER DRIVERS AND SAFER MACHINES

Vehicle miles traveled (VMT) returned to near pre-pandemic levels—roughly 2.85 trillion miles annually—but the policy story is not the volume of driving; it is the redistribution of exposure. Post-COVID travel became less concentrated around the traditional commute and more dispersed across mid-day, mid-week, caregiving, errands, leisure, and regional trips. Remote and hybrid work reduced commute frequency for tens of millions of workers, but those miles were not eliminated—they were largely replaced by non-work driving. From 2023 to 2026, commuting accounted for a smaller share of total driving while errands, caregiving, leisure, and regional trips increased, confirming that exposure shifted rather than fell.^{9,10}

For the first time in the modern driving era, rising vehicle miles traveled are coinciding with meaningful declines in fatalities representing a significant public-safety gain, but not a simple proxy for lower insurance risk.

The implication for policymakers and regulators is clear: roadway exposure did not decline; it shifted. That weakens older assumptions that lower commute intensity automatically means lower insurance risk and reinforces the need for traffic-safety, enforcement, infrastructure, and pricing frameworks that reflect a more fragmented post-COVID driving economy.¹¹

3 <https://www.businessinsurance.com/us-property-casualty-industry-results-much-improved-in-2024-best/>.

4 NHTSA Crash Stats publication (crashstats.nhtsa.dot.gov) – second publication referenced for 2024/2025 comparisons.

5 National Insurance Crime Bureau (NICB), “NICB Warns Insurance Industry of Fraud Facilitated by Third-Party Litigation Funding, Calls for Greater Transparency” (Nov 19, 2025).

6 National Insurance Crime Bureau (NICB), “NICB Warns Insurance Industry of Fraud Facilitated by Third-Party Litigation Funding, Calls for Greater Transparency” (Nov 19, 2025).

7 <https://www.insurancebusinessmag.com/us/news/property/us-pandc-insurers-post-strongest-underwriting-result-in-years-569875.aspx>.

8 <https://swh.princeton.edu/~reddings/pubpapers/SuburbanizationEconomica2022.pdf>.

9 Insurance Business Magazine .insurers-post-strongest-underwriting-result-in-years.

10 <https://swh.princeton.edu/~reddings/pubpapers/SuburbanizationEconomica2022.pdf>.

11 <https://www.insurancebusinessmag.com/us/news/property/us-pandc-insurers-post-strongest-underwriting-result-in-years-569875.aspx>.

ADVANCED DRIVER ASSISTANCE SYSTEMS (ADAS)

ADAS is improving safety, but it is not eliminating the policy and cost challenges facing auto insurance. These

systems are reducing specific crash types, yet they are not producing a proportional decline in overall crashes or insurance costs. Instead, ADAS is redistributing risk across the claims system—cutting some low-speed and fatal crashes while increasing the impact of medically complex injuries, higher-cost repairs, and longer-tail claim outcomes. ADAS performs best at both ends of the severity spectrum, reducing low-speed, low-severity collisions and fatalities. Automatic Emergency Braking

(AEB), for example, has cut front-to-rear crashes by about 50 percent and front-to-rear crashes with injuries by about 56 percent.¹² NHTSA PARTS also reports rear-end crash reductions of roughly 46 percent in model years 2015–2017 versus 52 percent in model years 2021–2023, indicating improving effectiveness in newer vehicles.



The policy implications are clear: safer vehicles do not automatically mean lower claims. Regulators and lawmakers should expect ADAS to change the composition of crashes and claims more than the underlying cost pressures on auto insurance. That makes it increasingly important for policy frameworks to account for repair complexity, calibration costs, survivable-injury severity, and the interaction between vehicle technology, infrastructure, and human behavior.

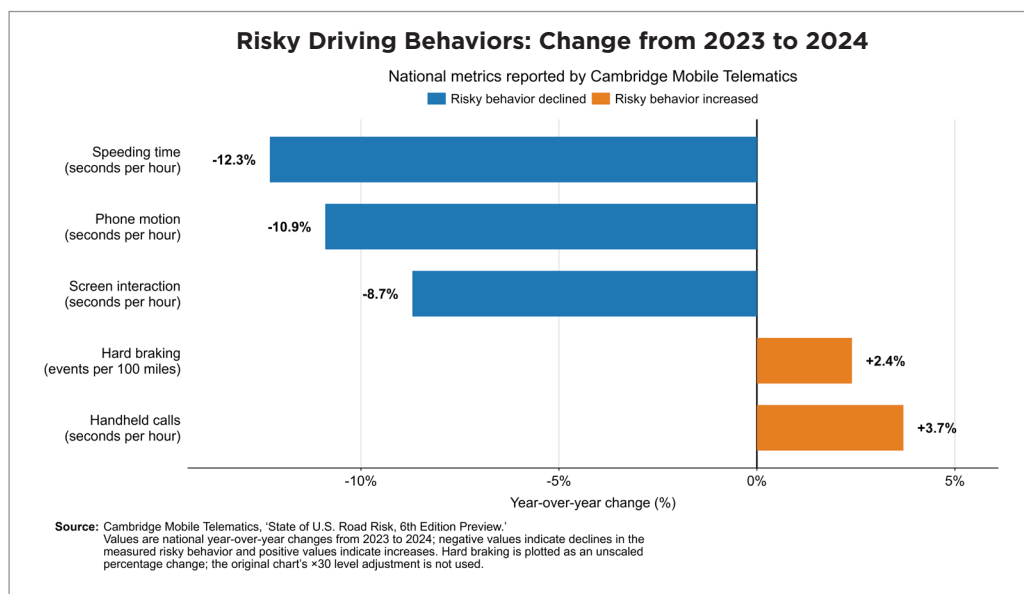
ADAS is making roads safer, but so far, have not meaningfully reduced overall claims costs, at least not yet. Real-world results show fewer crashes and claims, but the crashes that remain are often more expensive because repairs increasingly require sensor replacement and recalibration, and survivability can shift more losses into longer-tail injury claims.

The bottom line for policymakers: ADAS improves safety, but it does not by itself solve the cost challenge. Driver overreliance, limited protection for pedestrians and other vulnerable road users, heavier vehicles, and infrastructure gaps all mitigate the full range of potential benefits. The bottom line is ADAS capabilities are improving accident survivability, and to some degree frequency, the technologies also increase repair costs. **ADAS is changing the profile of crashes more than it is reducing the underlying cost pressures on auto insurance.**

¹² [JSTOR article referenced for supporting discussion of risk factors / safety trends \(jstor.org\)](#).

THE DRIVER SIDE OF SAFER BEHAVIOR

Data from the 6th edition of “[The State Of Road Risk](#)” by study from Cambridge Mobile Telematics (CMT), paired with NHTSA reporting, points to yet another positive trend in safety through improvements in risky driving behaviors. From 2022 to 2025, U.S. roadway safety improved most clearly at the fatal end of the severity spectrum, with fatalities down approximately 9–15 percent over the period.¹³ Key high-risk behavioral indicators also improved, including alcohol-impaired deaths (–7.6 percent, or –1,029 deaths), speeding-related deaths (–3.1 percent), unrestrained-occupant deaths (–7.7 percent), and distraction-affected deaths (–1.2 percent).



However, outcomes for pedestrians and other vulnerable road users improved only modestly and remained elevated compared with pre-pandemic baselines.¹⁴ At the same time, data from self-reported behavior, police reports, and NHTSA—combined by CMT—show a more encouraging decline in several risky driving behaviors.

But any honest assessment of ADAS must also account for its behavioral tradeoffs. CMT-captured data and broader research show that some drivers adapt to these technologies by following more closely, paying less attention, and over-relying on partial automation. In practice, lane-keeping and adaptive cruise can create a “hands-on, mind-off” driving pattern that limits real-world safety gains. Crash analyses of ADAS-equipped vehicles also indicate that severity can rise when systems disengage unexpectedly or when drivers respond poorly in edge cases such as construction zones, snow, or glare.¹⁵ In short, ADAS can improve average safety outcomes, but it can also increase tail-risk sensitivity to human behavior and situational complexity.

¹³ [NHTSA press release: “NHTSA Estimates 39,345 Traffic Fatalities in 2024”](#) (nhtsa.gov).

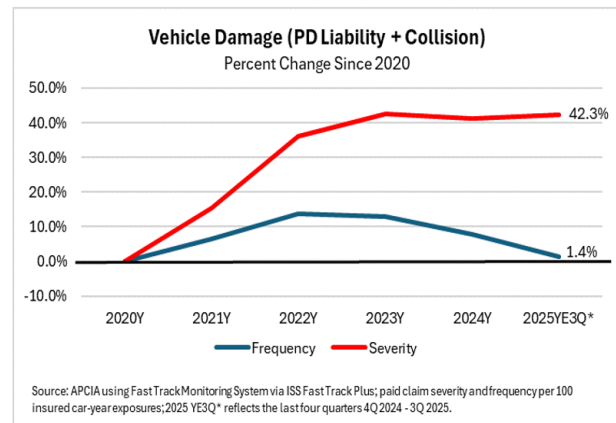
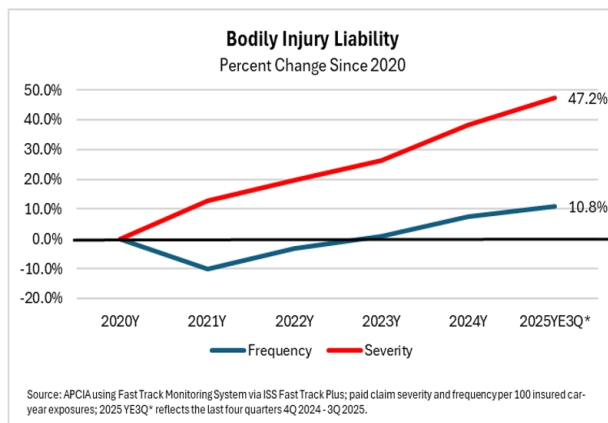
¹⁴ [AutoInsurance.com: car ownership / driving statistics page used as a secondary compilation source](#) (autoinsurance.com).

¹⁵ [NHTSA press release: “NHTSA Estimates 39,345 Traffic Fatalities in 2024”](#) (nhtsa.gov).

CYCLE OR SHIFT? ACCIDENT SEVERITY VS FREQUENCY

For insurers and regulators, the key point is that improvements in safety have yet to produce cheaper claims. Fewer fatalities often mean more survivors with medically complex injuries, longer claim tails, and higher per-claim medical and indemnity costs. In other words, public-safety gains can coexist with sustained—or even rising—bodily injury severity. The burden is concentrated in long-tail coverages such as BI and UM/UIM, while physical damage costs remain elevated because modern vehicles are more expensive to repair and calibrate.

The policy implication is straightforward: severity pressure is no longer just an inflation story; it is a structural claims system issue. The selected estimates point to sustained upward pressure across both liability and physical damage—BI severity rising roughly 6-8 percent annually, Med Pay/PIP about 6-10 percent as treatment pathways lengthen, UM/UIM BI increasing disproportionately where severe injuries intersect with underinsured drivers, and collision/physical damage severity rising about 8-14 percent because of repair complexity and parts inflation. For policymakers, that means safety gains may reduce deaths without reducing insurance costs, while for insurers it means longer tails, greater reserve sensitivity, and later loss emergence.



For personal auto bodily injury (BI) and UM/UIM since 2020, the key pattern was “excess severity” beyond general medical inflation. BI claim severity grew ~6-8 percent annually while general medical inflation averaged ~4-5 percent, implying 2 to 3 points per year attributable to litigation posture and claim dynamics rather than treatment-cost trend. UM/UIM often ran higher (commonly ~8-10 percent annual severity growth) and functioned as a backdoor litigation channel when tortfeasors were underinsured. The practical result is that personal BI can appear manageable in early development years yet still appear above expectation as files mature and disputes resolve.^{16, 17}

¹⁶ Princeton ([swh.princeton.edu](https://www.princeton.edu)).

¹⁷ JSTOR article-supporting discussion of risk factors / safety trends ([jstor.org](https://www.jstor.org)).

Against a backdrop of rising VMT, police-reported crashes increased modestly in 2023 (approximately 3 percent to 4 percent), while fatality rates improved meaningfully without an equal decline in crash counts.^{18, 19} In practical terms, claim frequency does not move one-for-one with fatality trends: PD and lower-severity BI frequency remained flat to slightly up, with the most material reductions concentrated in fatal and very severe crashes, yielding industry-wide net frequency impacts of approximately BI flat to -1 percent, PD flat to +2 percent, and collision flat to +1 percent to -3 percent.

The policy paradox is now clear: safer roads do not automatically mean cheaper auto insurance.

Fatalities are down and several high-risk driving indicators have improved, but pedestrian risk remains elevated and insurance costs continue to reflect longer-tail injury claims, higher repair complexity, and more expensive claim resolution.

For regulators and lawmakers, the takeaway is straightforward: public safety gains and insurance-cost pressures can now move in opposite directions. Bottom-line trend data for 2023 through 2025 reinforce that conclusion. Fatalities fell roughly 9 percent to 15 percent cumulatively, and the fatality rate per mile declined by about 15 percent to 20 percent. Alcohol- and speed-related deaths also moved lower. Yet crash counts edged upward, pedestrian risk remained historically elevated, and U.S. roadway outcomes still lag peer countries. The net effect is a transportation system that is measurably safer than a decade ago, but still well short of Vision Zero benchmarks—and an insurance market facing rising repair complexity, longer-tail medical exposure, and continued severity pressure.

CLAIM COST DRIVER: MEDICAL COST TRENDS

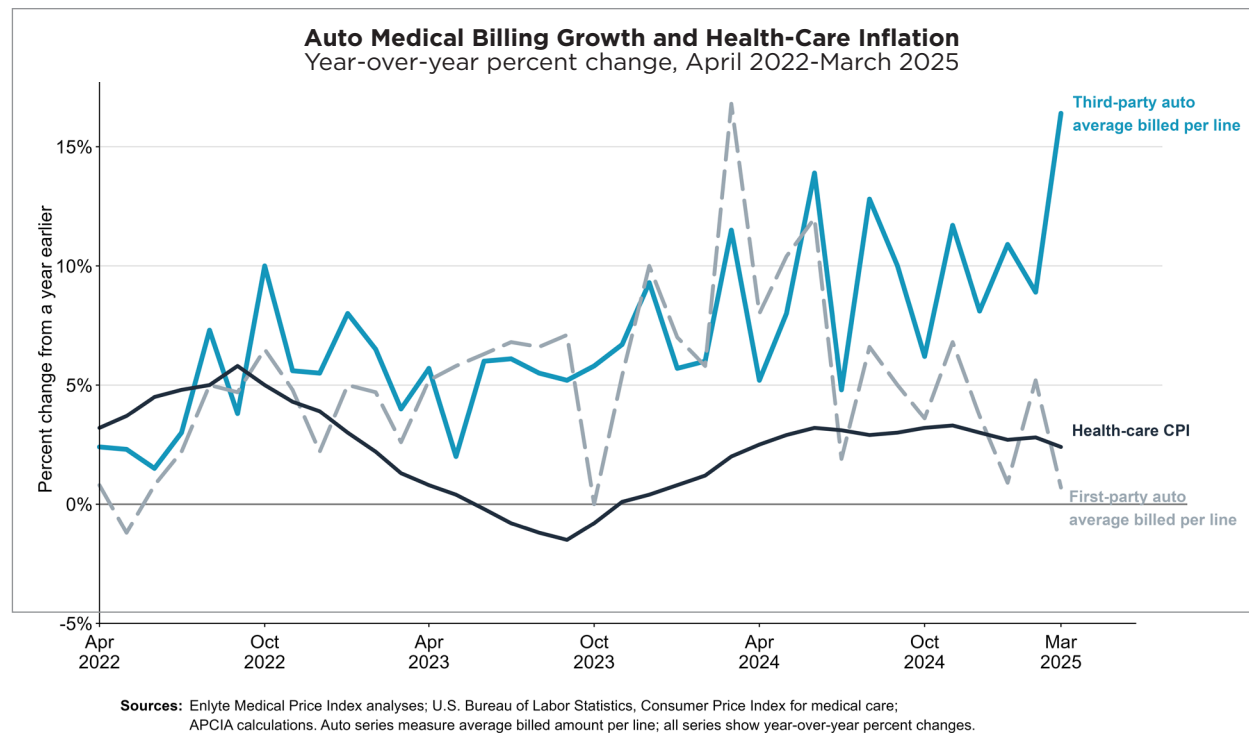
U.S. private passenger auto insurance medical costs continued to rise faster than general healthcare inflation from 2023 through 2025. The pace of increase moderated from the immediate post pandemic surge. Across the period, the primary drivers were severity per claim (i.e., higher cost per treatment episode and higher billed amounts), longer treatment durations, and greater legal involvement that extended claim lifecycles and increased medical “specials.”

In 2023, medical cost pressure remained elevated following the inflationary conditions of 2021–2022, even as overall claim frequency softened. The medical component of auto claim severity continued to increase as higher provider charges and longer courses of treatment raised the average cost per claim. In parallel, increased attorney involvement contributed to extended claim duration and higher medical demands, reinforcing a multi year pattern in which medical costs billed to auto insurers outpaced CPI for health care. 2023 was defined by persistent medical severity rather than normalization, despite cooling headline inflation.²⁰

¹⁸ [Consumer Affairs: car ownership / driving statistics page used as a secondary compilation source \(consumeraffairs.com\).](#)

¹⁹ [Princeton \(sw.h.princeton.edu\): source referenced in the document for insurance/safety framing.](#)

²⁰ [Enlyte Medical Price Index analyses; state-level settlement and claims severity data \(SetCalc\).](#)



PHANTOM MEDICAL BILLING

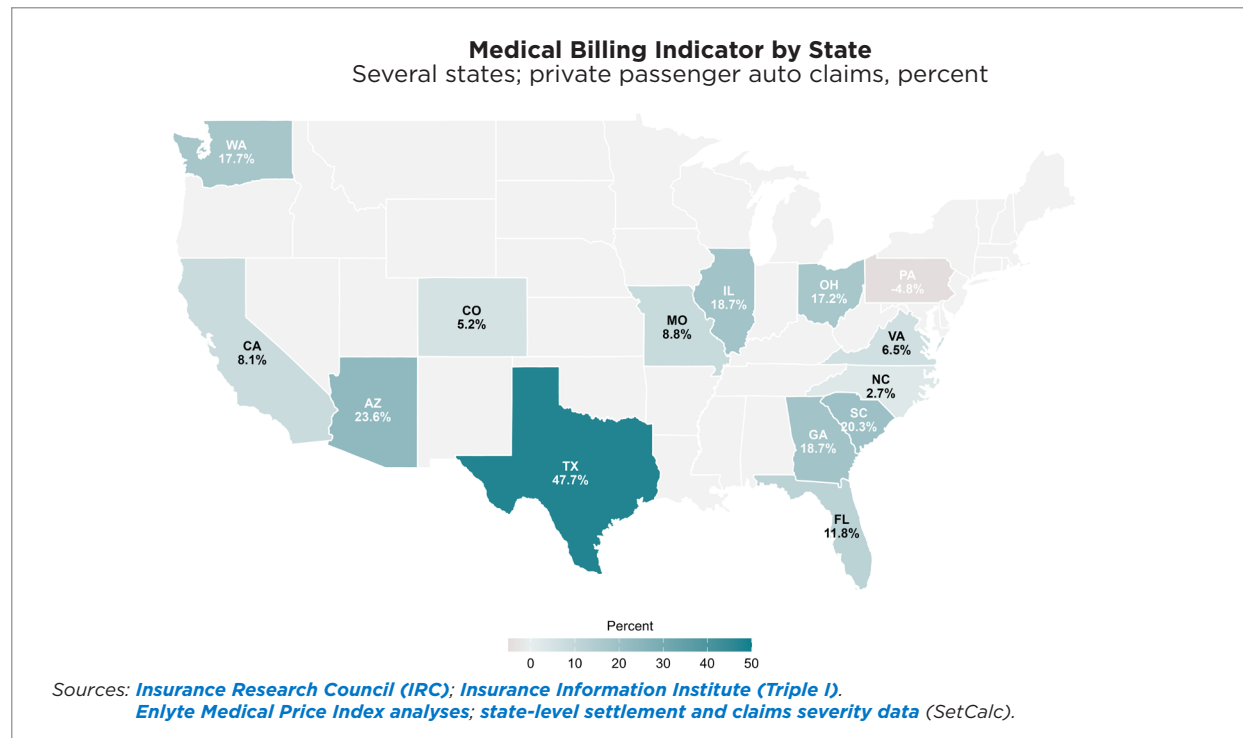
Litigation system abuse is addressed elsewhere in this report, but phantom medical billing warrants separate treatment because it has become a direct cost driver in auto injury claims. This is not simply billing abuse—it is a cost-shifting mechanism that inflates claim severity, distorts settlement values, and weakens the pricing signals insurers and regulators rely on.

In the auto-claims context, “phantom medical billing” refers to charges that misstate whether services were provided, who provided them, whether they were reimbursable, or whether they were medically necessary. In practice, providers often bill auto insurers at the highest available rates because auto coverage faces fewer price controls than health insurance. Lower network or negotiated rates may apply elsewhere, but in many collateral-source states the figures presented in claims and litigation are the inflated billed amounts rather than the actual paid amounts. That magnifies settlement pressure and obscures the true economics of treatment.

Common forms include billing for services never rendered; charging for unlicensed or non-reimbursable care (for example, massage billed as physical therapy); fabricated diagnostics such as MRIs, injections, or lab work; and prepackaged treatment “protocols” untethered to the reported injury.

For policymakers and regulators, the takeaway is straightforward: phantom billing is not a marginal abuse—it is a structural severity multiplier that inflates medical specials, strengthens plaintiff negotiation anchors, and raises the ultimate cost of auto insurance.

This map highlights those states with the highest medical treatment billing from private passenger claims, magnified by phantom billing practices. Phantom medical billing further escalated medical claim costs by inflating or fabricating “medical specials” that function as anchoring devices in BI negotiations and litigation.



Even when fraud indicators are present, the economics of contesting these claims often favor payment over full challenge—allowing severity to drift upward and delaying credible loss emergence. That is why phantom medical billing matters as more than a fraud problem: it operates as a claims system cost escalator.

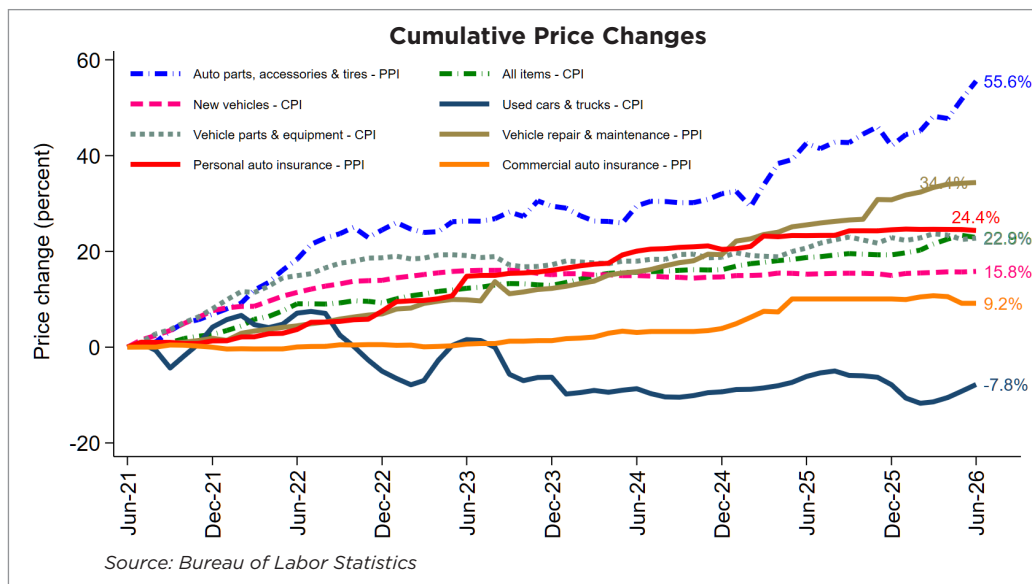
In personal auto, phantom billing functions like a hidden tax on BI, PIP, and UM/UIM severity; in commercial auto, it acts as a tail-risk amplifier with capital consequences. Inflated medical utilization, disputed billing, and prolonged treatment narratives extend claim duration, strengthen litigation leverage, and push reserve recognition further into the future. Allstate’s 2025 Houston RICO suit—alleging \$1.4 million in phantom treatments, forged records, and physician “rent-a-license” arrangements within a single network—illustrates how concentrated and industrialized these practices can become.

The policy implication is straightforward: the most damaging effect is not only the dollars ultimately paid, but the distortion of development patterns. Phantom billing can temporarily mask underlying severity trends, delay adverse development, and weaken the reliability of early accident-year signals. In personal auto, the practice appears to have added roughly 5 percent to 10 percent annually to BI and PIP medical spend in higher-risk states shown on the national map—evidence that this is not a marginal abuse, but a structural cost driver with direct implications for pricing, reserving, and capital planning.

MORE SOPHISTICATED VEHICLES—MORE EXPENSIVE REPAIRS

Rising repair costs are not just an inflation story—they reflect structural issues in the vehicle repair ecosystem. Limited access to parts, tools, and repair data can restrict competition, increase repair times, and drive-up costs for insurers and consumers. Policies like the REPAIR Act aim to improve transparency and access, which can help mitigate these cost pressures.

While overall inflation is moderating, the cost of key drivers of auto insurance claims—vehicle repairs and replacement—remains elevated.



Over the last five years:

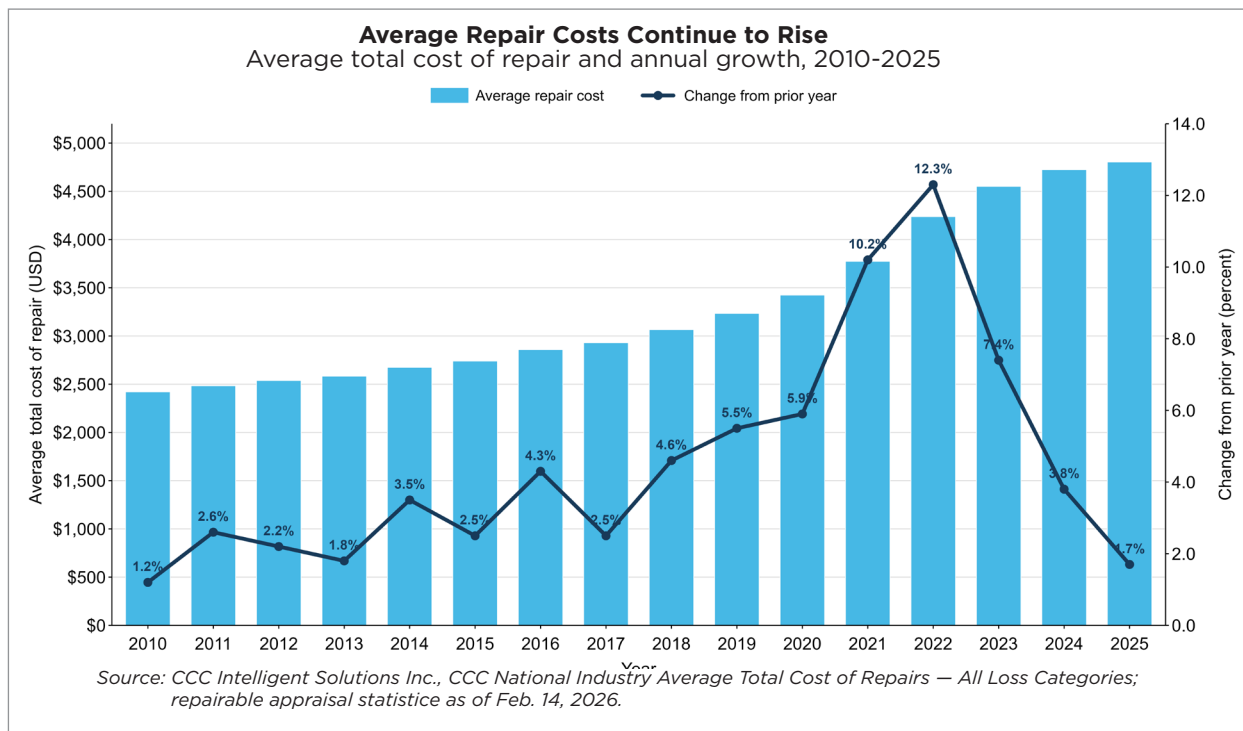
- Vehicle repair costs increased **34.4 percent**.
- Automotive repair parts increased **55.6 percent**.
- Used car values decreased by **7.8 percent**.

By comparison, personal auto insurance premiums (PPI) increased **24.4 percent**, reflecting these underlying cost pressures.

The increasing sophistication of modern vehicles is a key driver of rising repair costs. Advanced driver assistance systems (ADAS), sensors, and integrated electronics require:

- More parts replacement
- Higher-skilled labor
- Additional scanning and calibration procedures

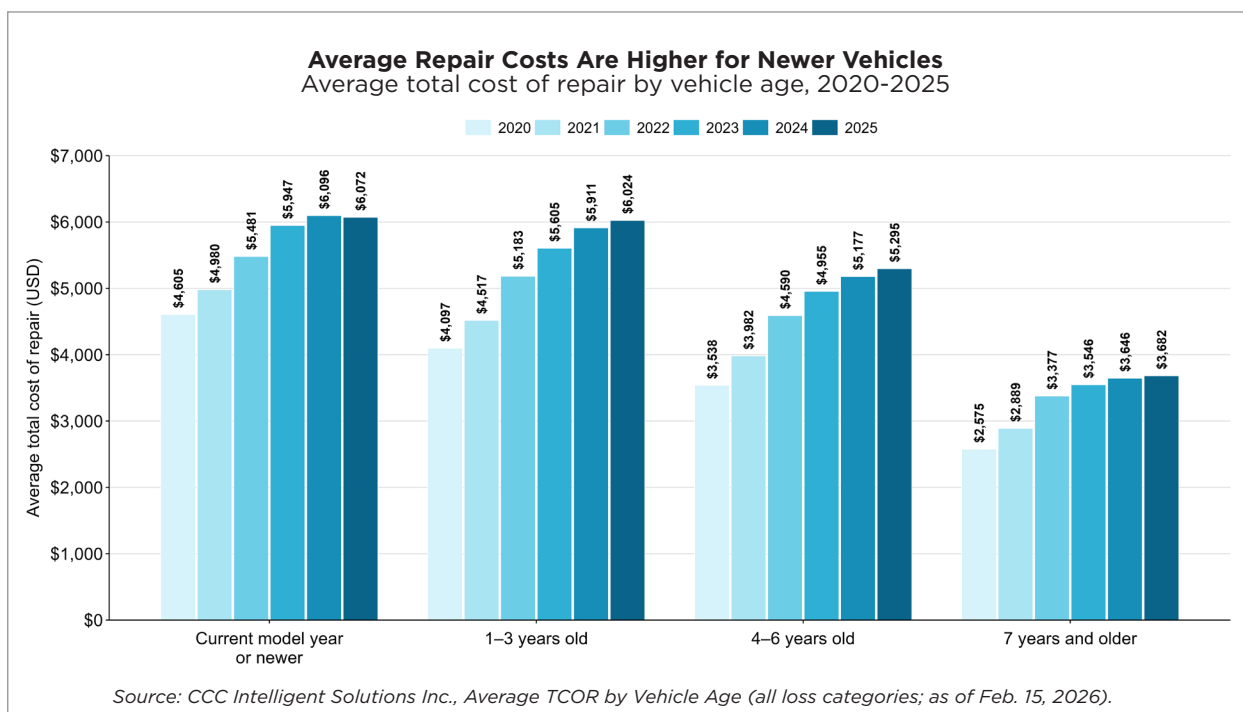
As a result, repair costs have increased significantly, with recent years showing the highest increases on record according to CCC Information Services, a provider of estimating software to insurers and repair facilities. These requirements also increase reliance on proprietary tools and data, limiting repair options and contributing to higher costs.



The average total cost of repair (TCOR) exceeded **\$4,800 in 2025** and has nearly doubled since 2010. Newer vehicles are significantly more expensive to repair:

- Vehicles ≤6 years old: **\$5,721 average TCOR**
- Vehicles ≥7 years old: **\$3,682 average TCOR**
- Difference: **+55 percent**

As vehicles become more complex, access to repair tools, parts, and data becomes increasingly critical to controlling costs.



More Complex Repairs Increase Repair Time and Rental Costs

More complex repairs take longer to complete, increasing rental vehicle costs.

According to data from Enterprise Rent a Car, average rental duration increased from 13 days in 2019 to 16 days in 2026, after peaking at 19 days in 2022. Repair delays—often linked to parts availability and access to repair information—directly increase costs for insurers and consumers.

IMPACT OF LEGAL SYSTEM ABUSE (LSA) ON VEHICLE INSURANCE

From 2023–2026, legal system abuse materially increased U.S. auto insurance loss costs—not because crashes surged, but because claims became more expensive, slower to resolve, and harder to predict. Profitability pressure was driven less by accident frequency than by early attorney involvement, rising defense costs, and a litigation environment that pushed settlement values higher while delaying the true cost of loss emergence challenging traditional reserve practices.

A recent APCIA report, [LEGAL SYSTEM ABUSE: Examining the Drivers, Impacts & Remedies of this Negative Trend](#), describes legal system abuse as a major driver of vehicle insurance affordability challenges, causing claim costs, settlements, and verdicts to rise well beyond normal economic inflation. A growing ecosystem of plaintiff attorneys, litigation financiers, medical financiers, and litigation support networks has transformed civil litigation from a system focused on compensating injuries into one increasingly driven by financial incentives. The result is higher litigation frequency, larger claims, escalating settlements, and increased costs that are ultimately borne by consumers and businesses through higher insurance premiums and the increased cost of goods and services. In a February 2026 report, the Perryman Group cites estimates that excessive tort costs now impose an annual burden of roughly \$1,771 per American.

Aggressive recruitment of claimants through attorney advertising is one of the most significant forces behind this trend. Legal advertising has grown into a multibillion-dollar industry that reaches consumers through television, billboards, social media, websites, and lead-generation platforms. These campaigns increasingly identify potential plaintiffs, encourage litigation, and funnel claimants into class actions and mass torts. Attorney involvement occurs earlier in the claims process and in less severe cases than in previous decades, contributing to a steady expansion in litigation activity and legal costs.

Third-party litigation financing is another major contributor to rising litigation costs. Investors now fund lawsuits in exchange for a share of future recoveries, transforming claims into financial assets. Litigation funders provide billions of dollars to law firms and plaintiffs, allowing cases to be pursued longer and more aggressively. Because funders profit when recoveries increase, they create incentives for prolonged litigation, larger settlement demands, and higher verdicts. The lack of disclosure requirements surrounding litigation financing creates transparency concerns and raises questions about outside influence over legal strategy and settlement decisions. Time is the economic engine of modern litigation finance. The earlier a claim enters the funding pipeline, the easier it is to manage duration, shape case development, and improve expected returns. Crash portals matter because they accelerate that process—moving claimants to counsel faster, reducing the odds of early pro se resolution, and increasing both the likelihood and duration of litigation.²¹

21 Casualty Actuarial Society (CAS) & Insurance Information Institute (Triple-I), *Increasing Inflation on Auto Liability Insurance—Impact as of Year-End 2023 (Oct 2024)*.

As already noted, medical damages have become another source of inflation in the civil justice system. Through letters of protection and other medical financing arrangements, plaintiffs can receive treatment on a deferred-payment basis, with providers seeking reimbursement from future settlement proceeds rather than health insurers. This system often produces medical bills that far exceed customary payment levels and can significantly increase the damages presented to juries.



An expansion of bad-faith litigation has increased costs throughout the insurance system. Plaintiff attorneys increasingly use highly technical settlement demands and strict deadlines to create opportunities for bad-faith allegations. Even when insurers attempt to settle claims within policy limits, minor procedural errors can be used to pursue damages far beyond contractual obligations. These practices increase uncertainty, encourage litigation, and drive additional premium costs into the market.

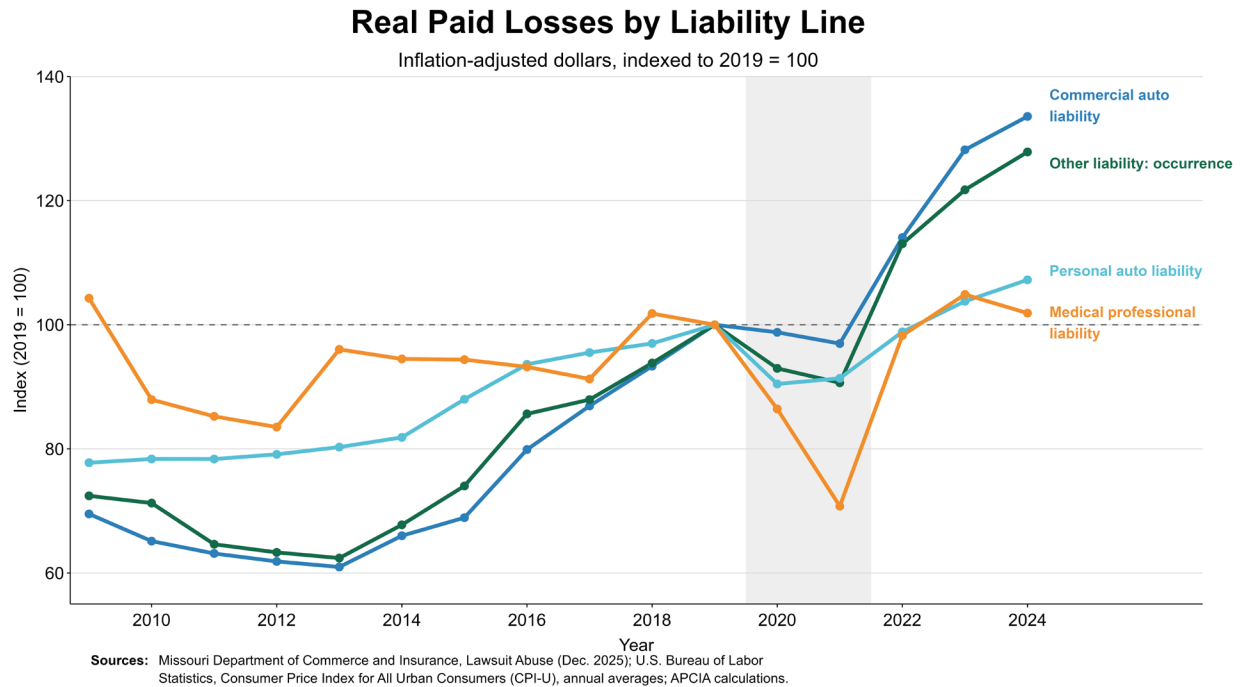
Courtroom tactics have evolved as well. Specifically, widespread use of Reptile Theory arguments, which encourage jurors to view defendants as threats to community safety rather than evaluate disputes solely on the facts of a case. Attorneys also increasingly employ jury anchoring techniques that introduce very large dollar figures early in litigation, establishing psychological benchmarks that can influence final award amounts. Combined with highly publicized verdicts and extensive attorney advertising, these practices have contributed to a substantial shift in juror expectations regarding what constitutes reasonable compensation.

Legal system abuse is not simply more litigation; it is the systematic conversion of insurance claims into higher-value legal assets. The term reflects exploitation of legal rules and process—not classic fraud—to manufacture settlement leverage, extend claim duration, and inflate ultimate loss costs. In practical terms, this is no longer a claims-management nuisance; it is a policy problem. Loss-cost pressure is being driven less by crash frequency or ordinary medical and repair inflation and more by engineered claim escalation, delayed resolution, and the widening spread between expected and ultimate outcomes—especially in liability coverages.^{22, 23}

²² Swiss Re Institute, sigma 4/2024: Social inflation: litigation costs drive claims inflation (published Sept 2024)

²³ Casualty Actuarial Society (CAS) & Insurance Information Institute (Triple-I), Increasing Inflation on Auto Liability Insurance – Impact as of Year-End 2023 (announcement published Oct 2024).

The following chart from the Missouri Department of Commerce & Insurance report, *Lawsuit Abuse*, Dec. 2025 looks at losses paid by line of business for the last 15 years. Between 2019 and 2021, there was a clear negative trend in paid losses. However, after 2021 losses spiked due to social inflation factors, including investor funded early involvement following a loss.

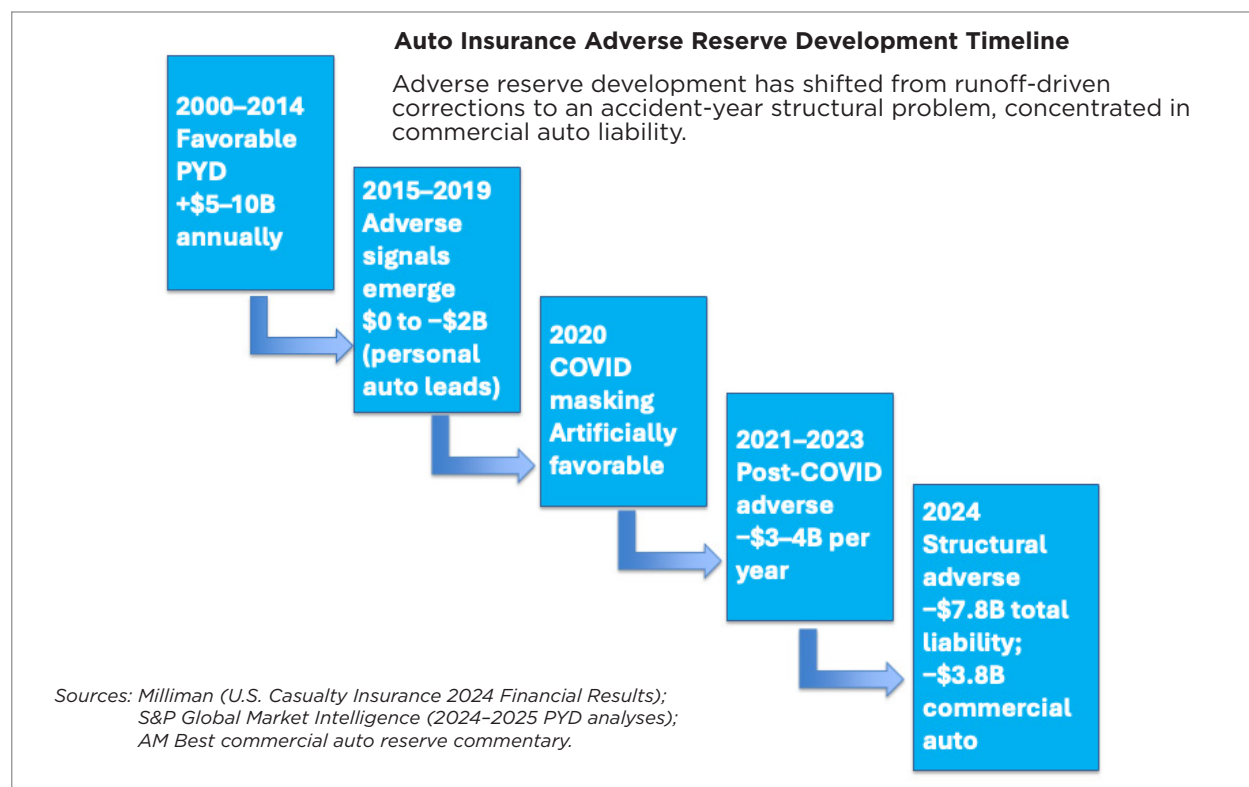


Directional estimates reinforce that this is a structural severity problem, not a temporary claims spike. The monetary impact shows up in higher severity on affected files, adverse development on older accident years, and outsized single-claim outcomes fueled by inflated medical specials. In commercial auto BI, that can mean severity inflation of roughly 10-20 percent, adverse development of 10-20 percent on older years, and individual claims reaching \$500,000 to \$5 million or more when medical utilization is leveraged into catastrophic narratives. Because commercial auto carries higher limits, a relatively small number of litigated files can drive disproportionate tail losses and materially larger reserve adjustments.

THE CONVERGENCE OF TRENDS OVERSHADOWS UNDERWRITING PROFITS

From 2023–2026, systematic litigation increased the dispersion of outcomes and extended claim duration. Multi-year cycle times on a growing inventory of claims is reducing insurer earnings and increasing the likelihood that adverse reserve development appears later than in existing established procedures. In practical terms, compressed periods of greater attorney intervention, elevated the value tail stress testing, and reinsurance planning focused on uncertainty and large-loss scenarios, particularly for commercial auto liability.²⁴

These conditions support treating recent loss cost pressure as structurally driven rather than purely cyclical. Practical responses typically include: (1) reserving and pricing assumptions that explicitly reflect longer claim lifecycles and heavier-tail outcomes; (2) segmentation strategies that incorporate legal environment, venue risk, and attorney representation propensity; and (3) operational investment in early-case triage, defense cost management, and litigation intelligence to reduce duration and outcome volatility.²⁵



When claims close more slowly and severity rises later, early accident-year results can look better than they are. That creates a false sense of reserve adequacy and weakens the value of traditional early-year signals. In a lengthening-claims environment, reserve and pricing governance should place more weight on closure rates, litigation rates, and paid-to-incurred behavior—not just reported results.

²⁴ [AM Best, Best's Special Report: Social Inflation Remains a Thorn in the Side of Casualty Insurers](#) (May 9, 2024).

²⁵ [Casualty Actuarial Society \(CAS\) & Insurance Information Institute \(Triple-I\), Increasing Inflation on Auto Liability Insurance—Impact as of Year-End 2023](#) (published Oct 2024).

The reserve problem is no longer episodic; it is becoming structural. Adverse development is now persistent and material in auto insurance, especially in commercial auto liability, after nearly two decades in which favorable development was the norm. Post-COVID accident years are driving a disproportionate share of reserve strengthening, marking a clear break from the historical pattern in which reserve deficiencies typically emerged in older years. Commercial auto liability remains the most stressed segment, while personal auto has been closer to breakeven but is increasingly functioning as an early warning signal for broader casualty deterioration.²⁶

Milliman reports that 2024 statutory statements *showed a net \$7.8 billion of adverse prior development* across all liability lines, following seventeen consecutive years of favorable net development industry wide. Within that total, casualty lines posted \$15.8 billion of adverse development, partially offset by favorable workers' comp development, for a net of \$7.8 billion.²⁷

SOLUTIONS

In short, from 2023–2026, legal system abuse shifted auto insurance from a frequency problem to a reserve-risk and tail-risk problem. Even where exposure and crash counts were stable, longer claim tails, higher defense costs, and verdict volatility made outcomes harder to price, reserve, and manage liability severity is now being shaped as much by litigation dynamics as by underlying economic inflation. As claims become more contested, settlement values rise, volatility widens, and claim duration lengthens—driving up ALAE and DCC while shifting reserve recognition further into the future. The result is a structural challenge to pricing, reserving, and capital management, not just a cyclical claims spike.

Practical responses include updating pricing and reserving assumptions to reflect longer claim tails and weaker early accident-year signals; incorporating venue risk, legal environment, and attorney-representation propensity into segmentation; strengthening early-case triage and litigation intelligence to reduce duration and volatility; and stress-testing capital and reinsurance plans for heavier-tail outcomes and adverse development risk.²⁸

Governance should therefore place more weight on closure rates, litigation rates, and paid-to-incurred behavior, because claim behavior is changing faster than crash behavior in a lengthening-claims environment. Insurers, regulators, and lawmakers should treat litigation-driven severity as a first-order market issue. Early representation raises both the expected value and volatility of claims by increasing settlement anchors, intensifying nuclear-verdict pressure, lengthening time to resolution, and pushing reserve recognition later into the development curve. Those effects are especially acute in personal auto BI and UM/UIM, where attorney-driven narratives can reshape both liability posture and damages expectations.^{29, 30}

²⁶ NAIC, Property & Casualty and Title Insurance Industries Analysis Reports (annual/mid-year statutory analysis series).

²⁷ Milliman. “2024 Reserve Development in Statutory Statements”

²⁸ Casualty Actuarial Society (CAS) & Insurance Information Institute (Triple-I), Increasing Inflation on Auto Liability Insurance – Impact as of Year-End 2023 (published Oct 2024).

²⁹ Casualty Actuarial Society (CAS) & Insurance Information Institute (Triple-I), Increasing Inflation on Auto Liability Insurance – Impact as of Year-End 2023 (Oct 2024).

³⁰ National Insurance Crime Bureau (NICB), “NICB Warns Insurance Industry of Fraud Facilitated by Third-Party Litigation Funding, Calls for Greater Transparency” (Nov 19, 2025).

Insurers lead efforts to reduce deaths, injuries, and losses on the roads by funding research and public awareness to promote safety. The Insurance Institute for Highway Safety conducts crash testing and rating resulting in adoption of safety features. As advocates for highway and auto safety, the industry promotes measures to save lives, reduce injuries and hold costs. Through bonds, insurers are supporting investment in infrastructure to make roads safer. In collaboration supporting vehicle manufacturers, insurers also advocate for NHTSA funding to promote road safety research. APCIA also advocates for auto accident cost mitigation measures including supporting highway safety enforcement, reducing legal system abuse, opposing auto parts tariffs, reducing regulatory costs, defending risk-based pricing, and reducing fraud.

The central takeaway of this report is that underwriting recovery should not be mistaken for restored predictability. Since 2023, insurers have benefited from moderating claim-cost inflation and faster rate approval, helping rebuild price adequacy. Yet those gains are being offset by structural shifts in how claims develop. Post-COVID driving patterns have stabilized, ADAS is changing crash composition rather than eliminating severity, and attorney involvement and third-party litigation funding are extending claim cycles and weakening the reliability of early accident-year signals. Profitability therefore cannot be judged by near-term combined ratios alone. Insurers, regulators, and policymakers should respond with stronger pricing discipline, reserving oversight, litigation intelligence, provider analytics, and policy reforms that improve transparency and reduce incentives for system-driven cost escalation.

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- Expect longer claim lifecycles and later loss emergence to persist, especially for BI and UM/UIM.
- Treat severity as a combined function of medical utilization, litigation posture, and technology-driven repair/BI complexity—not a pure inflation story.
- Strengthen reserve governance and stress testing for tail outcomes.
- Prioritize SIU, provider analytics, and early-case triage to manage the interaction between suspected fraud and litigation leverage.

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