



IMPACT COLLISION SOLUTIONS

What Makes Insurers Tick—Part 1

AUGUST 2022 by John Halstead



Insurance is the game of trading off risk for a fixed outcome. When we buy a policy for life, fire, accident, or health, we are exchanging our premium dollars for protection against a possible future loss. The insurer, on the other hand, accepts the risky outcome in exchange for a certain income. That risk comes two-fold: the likelihood of a loss (**frequency**) and the magnitude of the loss (**severity**). The way insurers earn profits in this game is complicated.

First, they accept and pool the premiums collected, with certain amounts reserved to pay off and administer losses (claims). The remainder is then invested to generate a secondary source of income. Sometimes, they also buy insurance themselves, or pool funds with other insurers to further spread the risk. Insurers are in the risk management business and employ actuaries and underwriters to try to turn true uncertainty into something more predictable. They study weather and both natural and man-made phenomena to determine acceptable risk levels and the “price” needed for a profitable transaction.

On the expense side, insurers have three basic costs:
Claims, Loss Adjusting Expense (LAE), and Overhead.

1. **Claims** is the amount paid out to policyholders to make them whole for their loss, according to the terms of their specific policy. For automotive claims this may include collision repair costs, comprehensive coverage for theft or vandalism, liability for damage to third parties, and medical costs incurred by the insured.



In the collision repair business we are most often involved in the collision and comprehensive categories and in liability when our customer happens to be a claimant rather than an insured. But the “loss factor” includes not just the repair itself (less any deductible) but the cost of a rental car, storage, total loss fees, etc.

2. **Loss Adjusting Expense (LAE)** is the cost of processing the claim in the field either by the insurer’s field personnel and management or by independent adjusters.

3. **Overhead** is the total administrative cost of the insurer including underwriters, actuaries, and selling costs such as agency commissions.



Generally, about 60% - 70% of premiums collected are paid out in **losses**. LAE is about 13% and Overhead costs run about 23%. The remainder is **underwriting profit (or loss)**. Due to state regulation of premiums and variations in loss events, underwriting profits can be positive, negative, or zero in any given year. This tends to run in a cyclical pattern.

Further complicating the picture is the fierce competition between insurers to retain and gain policyholders. Insurers must simultaneously focus on policyholder satisfaction, loss containment, smart underwriting, minimizing LAE, and containment of policyholder acquisition costs.

Collision repairers are a part of the cost side of the picture for insurers and can have a positive or negative impact on claims costs (repair and rental costs), Loss Adjusting Expense (appraisal and claims handling costs), as well as cycle time that determines how long a claim is open, incurring LAE, and tying up claim reserves.

A Tip to Consider

You are in competition for your share of the collision repair business with both local shops and national consolidators. Whether you market to consumers, insurers, or both, the vast majority of your revenue is **COST** to an insurer. ***If you are able to improve performance factors for insurers, and remain profitable, you will be able to attract more insurers to you.***

Three KPI's Critical to Insurers

There are many metrics that are important to insurers. However, these are the three most important KPI's that collision centers can influence:

- CSI
- Severity
- Cycle Time

Next month, we will address how the ongoing changes in the automotive, insurance, and collision repair industries have affected these metrics, the relationship between repairers and insurers, and how you can profitably respond to those changes.

This TIPs flyer was written by John Halstead & edited by Georgia Thorson of RDA

John Halstead 410-336-3575 jhalstead@mindspring.com