

# Commercial Auto Insurance

The commercial auto space has been largely unprofitable for insurance carriers over the past decade, with underwriters experiencing significant losses despite deploying consistent rate increases. While this segment continues to face difficult market conditions, rate increases have started to decelerate in recent months. According to industry data, rates increased by an average of 7.3% in the first quarter of 2022, down from 8% in the fourth quarter of 2021. This deceleration can be attributed to a reemergence of insurers that had previously

been inactive in the segment as well as the growing implementation of telematics among usage-based insurers to help collect additional driving data and ensure more accurate premium pricing. Yet, certain cost-driving trends remain pressing concerns across the market, pushing claims frequency to pre-pandemic levels and increasing overall loss severity. Looking ahead, policyholders with poor loss history may be especially vulnerable to ongoing rate increases.

## Developments and Trends to Watch

**Increased claim costs**—There are several factors contributing to surging accident costs and associated commercial auto claim expenses. Primarily, rising accident frequency, greater crash severity, increased road violations and a subsequent jump in related litigation have led to elevated social inflation issues across the segment. Social inflation, which refers to the growing costs of legal settlements and jury verdicts, has worsened the market's existing profitability concerns, creating continued challenges for insurers and policyholders alike. Such social inflation issues have been evident through a higher frequency in attorney representation for commercial auto claims, prolonged claim resolution processes and increased legal defense costs. As a result, industry data confirmed that commercial auto losses soared to \$32.3 billion by the end of 2021. Additionally, certain technological advancements have made vehicles increasingly expensive to repair following accidents, further driving up claim costs. Industry research shows that electronics now make up more than 40% of the cost of a new vehicle, highlighting the economic concerns associated with repairing or replacing modern vehicle parts. Compounding concerns, supply chain issues brought on by the pandemic and various international disruptions have made some vehicle parts harder to obtain. This issue, coupled with rising labor expenses, has led to extended vehicle repair times and—consequently—elevated claim costs.

**Driver shortages**—The nation's driver shortage reached a historic high of more than 80,000 open positions in 2021, according to the American Trucking Associations. Amid this shortage, many companies have had to lower their driver applicant standards to fill open positions. These drivers often have fewer years of experience and shorter driving records. Such factors can make these new employees more likely to be involved in accidents on the road, contributing to an increase in commercial auto claims. Although the latest industry data suggests that the driver shortage may have peaked last year and will likely diminish going forward, this trend is still expected to exacerbate overall trucking sector costs for months and years to come.

**Distracted driving issues**—The National Highway Traffic Safety Administration estimates that every year, up to 391,000 people are injured and 3,450 people are killed in crashes involving distracted drivers. In addition to injuries and fatalities, these crashes can result in substantial costs for impacted businesses. According to Advisen's loss database, the average distracted driving loss ranges from \$1.2 million to \$2 million among top industries. While the trucking sector contributes to most distracted driving losses, the manufacturing industry holds the highest median cost for such losses. Regardless, the growing prevalence of distracted driving incidents has played a role in climbing commercial auto insurance costs for policyholders across industry lines.

## Tips for Insurance Buyers

- Examine your loss control practices relative to your fleet and drivers. Enhance your driver safety programs by implementing or modifying safe driving and distracted driving policies.
- Ensure you hire qualified drivers by reviewing motor vehicle records and moving violations regularly.
- Consider technology solutions, such as telematics, to strengthen loss control measures.
- Prioritize accident prevention initiatives and establish effective post-accident investigation protocols.
- Consult insurance professionals to ensure your commercial auto coverage meets your organization's needs.