

2024 Commercial Auto Insurance

Market Outlook

The commercial auto insurance market has faced hardening conditions for much of the past decade, as evidenced by plummeting profitability and continued rate hikes. Although 2022 saw lower average premium increases due to strengthening reserves and 2021's combined ratio falling below 100 for the first time in years, this deceleration wasn't here to stay. After the combined ratio jumped back up to 105 in 2022, industry data revealed that most policyholders experienced premium increases near or above double digits by the latter half of 2023. Various factors have led to such conditions, including widespread driver shortages, nuclear verdict concerns and inflation issues. Considering these developments, most insureds can expect ongoing premium hikes going into 2024. Policyholders with sizeable fleets or poor loss history may face double-digit rate jumps and possible coverage restrictions.

Developments and Trends to Watch

- **Driver shortages**—According to the American Trucking Associations, the nation's driver shortage is forecast to reach a record high of 82,000 in 2024. To help minimize this shortage, a growing number of businesses have adjusted their driver attraction strategies. Yet, many businesses have still had to lower their applicant standards to fill open positions. These drivers often have fewer years of experience, making them more likely to be involved in accidents on the road and contributing to an increase in commercial auto losses. To combat these concerns, the federal government introduced the DRIVE Safe Integrity Act in May 2023, which enhances safety and training standards for both new and current drivers. Even with these efforts underway, it's important for businesses to educate new drivers and encourage them to prioritize safety behind the wheel.
- **Nuclear verdict concerns**—The Insurance Information Institute (III) recently reported that the culmination of social inflation and nuclear verdicts (jury awards exceeding \$10 million) has led to a \$30 billion surge in commercial auto claim costs since 2012. Making matters worse, the ongoing rise in nuclear verdicts has contributed to many commercial auto insurance carriers either decreasing their risk appetites and restricting coverage offerings or exiting the market altogether. Consequently, insureds affected by nuclear verdicts are less likely to have proper coverage for these events, potentially leading to financial devastation when they occur.
- **Marijuana legalization considerations**—As state and federal marijuana legislation evolves, the substance's widespread legalization could increase the likelihood of commercial drivers operating vehicles under the influence. This could lead to a rise in accidents on the road and related commercial auto losses. To mitigate this risk, the U.S. Department of Transportation (DOT) requires commercial drivers to submit to routine drug testing, with failed tests prompting adverse employment actions. Nevertheless, a report from the American Transportation Research Institute found more than 70,000 commercial drivers were still in "prohibited" status as of 2023 after failing to comply with the DOT's return-to-duty protocols following failed drug tests, suggesting that those who test positive for marijuana are opting to leave the industry rather than regain their driving eligibility. Altogether, this means that enforcement of the DOT's requirements could exacerbate driver shortages and associated commercial auto exposures across the transportation sector.
- **Inflation issues**—In addition to social inflation, general inflation issues have impacted the commercial auto insurance segment in several ways over the last few years. Specifically, inflation has driven up the cost of various auto parts and associated vehicle repair expenses. It has also exacerbated the cost of treating third-party injuries following accidents on the road. Namely, prices for medical equipment and advanced treatment methods have climbed. As a whole, inflation issues have compounded commercial auto claim costs and premiums. In fact, a recent III report revealed that inflation has led to claim expenses across the segment, totaling an estimated \$95 billion to \$106 billion higher than they otherwise would have over the past decade.

Tips for Insurance Buyers

- Establish effective onboarding measures for new drivers. Regularly retrain drivers on safe driving techniques.
- Prioritize accident prevention initiatives and establish proper post-accident investigation protocols.
- Comply with all commercial driving legislation, particularly regarding road safety and drug testing policies.
- Determine whether you should make any coverage changes by speaking with trusted insurance professionals.

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