

Commercial Auto Insurance

Plummeting profitability has been an ongoing concern in the commercial auto insurance segment, prompting hardening conditions and continued rate hikes. While the majority of policyholders saw lower average premium increases throughout 2022 due to the sector's strengthening reserves, this trend quickly dissipated during the latter half of 2023. In fact, industry data revealed that most insureds experienced rate jumps near or above double digits by the end of last year. Challenging market conditions have remained thus far in 2024, largely fueled by nuclear verdict concerns, inflation issues and distracted driving losses. Consequently, industry experts reported that average premium increases ranged between 7% and 10.3% during the first quarter of the year. Considering these results, most policyholders can expect persistent rate hikes in the second half of 2024. Insureds with sizeable fleets or poor loss history could be more likely to face double-digit premium increases and possible coverage restrictions.

Developments and Trends to Watch

- **Nuclear verdict concerns**—Jury awards exceeding \$10 million, also called nuclear verdicts, have become a growing concern in the commercial auto insurance market. These verdicts are often associated with severe vehicle accidents, especially in the trucking industry. Social inflation, which refers to the rising costs of insurance claims influenced by societal trends, has played a key role in driving up these verdicts. In particular, as plaintiffs seek substantial compensation for accident-related injuries, the insurance sector is facing higher litigation costs, impacting claim payouts and policyholders' premiums. According to public relations firm Marathon Strategies, the median nuclear verdict reached \$44 million in 2023, more than doubling since 2020. In response, some commercial auto insurance carriers have restricted coverage or exited the market, leaving insureds vulnerable. In the first half of 2024, some states introduced new legislation to address this concern. These laws include limits on nonmonetary damages and the ability to submit a plaintiff's seat belt use as evidence amid vehicle accident lawsuits. While other states could pass similar laws going forward, nuclear verdicts may continue to affect claim costs for the foreseeable future.
- **Inflation issues**—In addition to social inflation, general inflation issues have impacted the commercial auto insurance market in several ways throughout the last few years. Specifically, inflation has increased auto part and labor costs, resulting in higher vehicle repair expenses. For example, research from the American Property Casualty Insurance Association confirmed that auto parts and equipment costs have risen by 24% since 2019. The U.S. Bureau of Labor Statistics also reported that advancing vehicle technology has contributed to a 20% increase in auto repair expenses in the past year, as these features often require extra time, effort and resources to fix. What's more, continued worker shortages have motivated some employers (including those in the vehicle repair sector) to boost employees' wages, ultimately increasing total labor costs. Altogether, the Insurance Information Institute revealed that inflation has led to claim expenses across the commercial auto insurance segment totaling up to \$106 billion higher than they otherwise would have over the past decade.
- **Distracted driving losses**—Distracted driving consists of any activity that may divert a motorist's attention from the road. Common distractions are texting, adjusting the radio, eating and daydreaming. Regardless of distraction type, distracted driving is a major safety hazard. According to the National Highway Traffic Safety Administration, more than 2,800 people are killed and 400,000 are injured in crashes involving a distracted driver each year, with distracted driving playing a role in 80% of all accidents on the road. Additionally, certain forms of distracted driving, namely texting while driving, are illegal in most states. As such, distracted driving losses have left many insureds with heightened commercial auto claim costs and serious regulatory ramifications. With these incidents on the rise, it has become all the more crucial to prioritize distracted driving prevention measures.

Tips for Insurance Buyers

- Provide regular training and resources to help educate drivers on safe driving techniques.
- Comply with all commercial driving legislation, particularly regarding distracted driving.
- Determine whether you should make any coverage adjustments by speaking with insurance professionals.

Fusco Orsini
— & ASSOCIATES —
INSURANCE SERVICES