

2023 Commercial Auto Insurance Midyear

Market Outlook

The commercial auto insurance market has encountered significant underwriting losses and plummeting profitability for more than a decade. Although the segment continues to face challenging market conditions, rate increases mostly remained in the single digits in 2022, demonstrating signs of stagnation compared to double-digit rate hikes in prior years. The first half of 2023 reflected a similar trend; most policyholders experienced moderate rate increases ranging between 7% and 8% during the first quarter of the year, according to industry research. However, several cost-driving developments have become pressing concerns in the segment, pushing claims frequency to pre-pandemic levels and increasing overall loss severity. As a result, policyholders with large commercial fleets and additional auto exposures have had greater difficulty securing excess layers of coverage alongside elevated program pricing. Altogether, insureds across industries and vehicle classes can still expect to experience rate jumps and coverage restrictions going forward.

Developments and Trends to Watch

- **Social inflation and nuclear verdict concerns—**Social inflation has affected many lines of commercial coverage in recent years, but the auto insurance market has been particularly impacted. This is mainly due to trends in the trucking industry, including a surge in costly lawsuits and associated settlements. In particular, nuclear verdicts (jury awards exceeding $10 million) have been on the rise. The American Transportation Institute reported that trucking verdicts have increased by more than 50% each year for the past decade. Furthermore, the number of nuclear verdicts has nearly doubled during this time frame. In total, the Insurance Information Institute found that social inflation has led to a $30 billion surge in commercial auto claim costs since 2012.

- **Driver shortage challenges—**The nation's driver shortage remained near record-setting levels in 2022 at 78,000 open positions, according to the American Trucking Associations (ATA). By the end of the decade, the ATA anticipates that rising freight demand and an aging workforce could cause the driver shortage to skyrocket to 160,000 open positions. To help minimize this shortage, a growing number of businesses have adjusted their driver recruitment strategies, including tapping into underrepresented demographics to expand their talent pools. Primarily, businesses have begun hiring more women drivers; industry data found that women made up nearly 14% of professional drivers in 2022, almost doubling from 2018's findings.

- **Evolving technology solutions—**The last few years have seen vehicles continue to grow more advanced and incorporate new technology (e.g., blind-spot cameras, backup alarms, GPS devices and telematics software), providing opportunities to increase driver safety and bolster operational efficiency among commercial fleets. Automatic braking technology and advanced driver-assistance systems have also risen in popularity, offering features such as lane departure warnings, blind-spot detection, and front and rear crash prevention. Smartphones have even begun pushing road safety by providing more hands-free features, deploying "driving mode" options that silence notifications behind the wheel and offering various safe driving applications. Yet, it's important to note that evolving vehicle and driver safety technology also carries potential risks. Namely, if implemented poorly or incorrectly, this technology could create additional distractions for drivers on the road—possibly resulting in further accidents and related commercial auto insurance costs.

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Tips for Insurance Buyers

- Examine your loss control practices relative to your operations. Consider enhancing your fleet safety procedures by implementing new technology solutions. Regardless of these solutions' safety features, make sure driving policies clearly address distracted driving to combat potential technology risks.
- Hire only qualified drivers by using motor vehicle records to vet candidates' past experience and violations. Take steps to expand your talent pool by recruiting drivers from underrepresented demographics.
- Design driver training programs based on your key exposures. Regularly retrain staff on safe driving measures.

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