Trends and Insights:
Commercial Auto

The commercial auto insurance line has struggled to achieve underwriting profitability for years, even before the inflationary conditions that have been affecting property/casualty lines more recently. This trend has been accompanied by steady growth in net written premiums (NWP).

The declines in underwriting profitability, despite relatively steady growth in premiums written, have been driven by several causes.

One is the fact that vehicles – both commercial vehicles and personal vehicles they collide with – have become increasingly expensive to repair, thanks to new materials and increased reliance on sensors and computer systems designed to make driving more comfortable and safer. This well-established trend has been exacerbated by supply-chain disruptions during COVID-19 and continuing inflation in the pandemic's aftermath.

"All the technology that's available now and all the things that go into these vehicles" are more expensive than they used to be, said Chris Demetroulis, managing director, transportation, for Arthur J. Gallagher & Co. He noted that a passenger car bumper that was once a high three-figure dollar cost to repair may now be mid-four figures. These material costs are exacerbated by rising labor and training costs.

Driven to distraction

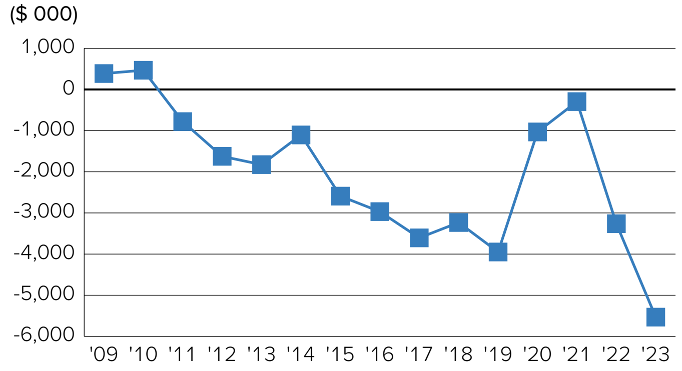
A consumer survey by The Travelers in 2023 highlighted distracted driving as a contributor to overall accidents. The survey found technology to be a leading cause of distraction. Other top reasons included "drowsiness, heightened emotions, and work-related stress."

According to the National Highway Traffic Safety Administration (NHTSA), more than 32,000 people died in crashes involving distracted driving from 2013 to 2022.

"Distracted driving comes in many forms," NTHSA reports. "But it's cell phone use…that is the most common distraction." NHTSA said texting is considered the most dangerous type of distracted driving because it combines visual, manual, and cognitive distraction.

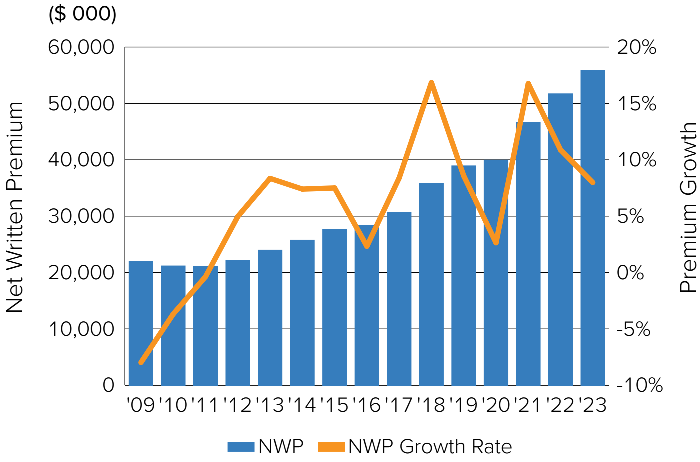
These findings are underscored by estimates from the National Safety Council (NSC), which show that deaths due to preventable traffic crashes in 2022 increased by 22 percent when compared with pre-pandemic levels. NHTSA said 8 percent of fatal crashes in 2022 involved distracted drivers.

Commercial Auto Net Underwriting Profit



Source: NAIC Statutory Financial Data through S&P Global Market Intelligence Analysis (as of 9/24/2024; Insurance Information Institute, Milliman.

Commercial Auto NWP and Premium Growth



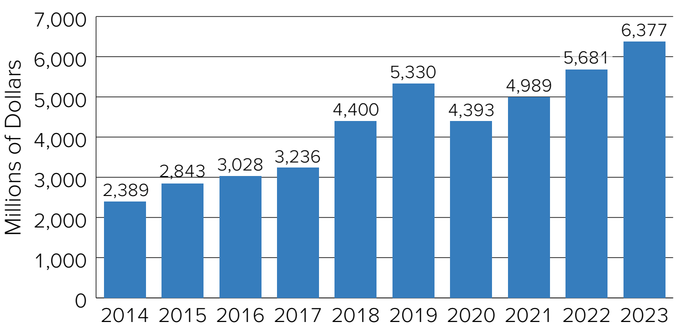
*Source: NAIC Statutory Financial Data through S&P Global Market Intelligence Analysis (as of 9/24/2024; Insurance Information Institute, Milliman.

Telematics service provider Cambridge Mobile Telematics (CMT) collected data indicating distracted driving in the United States increased more than 20 percent from February 2020 to February 2022, as traffic levels returned following the early months of the pandemic. CMT estimates that "every 10 percent increase in distracted driving kills over 420 people and costs the American economy $4 billion every year."

Litigation trends

Bodily injury and fatalities contribute to increased attorney involvement, which, in turn leads to higher claim-related expenses due to larger settlements and protracted litigation. Nationally, the commercial auto defense and cost-containment expense (DCCE) ratio – a key measure of the impact of litigation on insurers – has nearly tripled over the past decade.

Commercial Auto Liability: Case-Incurred Estimate of Impact of Increasing Inflation by Year - P&C Industry



Source: Analysis by Insurance Information Institute

A recent study conducted by Triple-I found that attorney representation in commercial vehicle claims drove a 21 percent increase in total loss costs in 2019, compared with 2015, as well as a 2.9 percent increase in allocated loss adjustment expenses (ALAE), and a 19.1 percent increase in total loss and ALAE. The estimates for 2014 through 2019 occur in a period of stable economic inflation, providing strong evidence that the inflationary total for those years, $21 billion, is attributable to "social inflation" – excessive inflation in claims caused by, among other factors, policyholder or plaintiff attorney practices that increase the costs and time required to settle insurance claims to the detriment of consumers.

Commercial trucking is particularly affected by litigation trends. From 2010 to 2018, the average size of commercial trucking verdict awards grew 33 percent annually, as overall inflation grew 1.7 percent and healthcare costs grew 2.9 percent, according to a 2020 study by the American Transportation Research Institute.

"You can have a claim that historically may have been $500,000, $750,000 or $1 million now cost $3 million, $5 million, $10 million," Demetroulis said.

This has led to more policyholders – particularly larger companies with stronger balance sheets – retaining more risk through higher deductibles, self-insurance, and other risk-retention mechanisms. Companies also can help keep their risks down by investing in safety training and technology.

Technology can help

If technology contributes to the problems facing fleet owners, their drivers, and their insurers, it also can be part of the solution.

According to a recent survey of commercial fleet managers and decision makers by Verizon, video technology has helped respondents reduce false claims (77 percent), accident costs (48 percent), and insurance costs (44 percent). Thirty-four percent of respondents say the use of asset-tracking technology has helped them reduce insurance costs through improved security.

Increased use of sensors and telematics technology in both commercial and personal vehicles offers promise for preventing accidents and improving driver behavior over time by providing meaningful feedback. Telematics data also can help insurers more accurately and fairly align pricing with actual driving behavior.

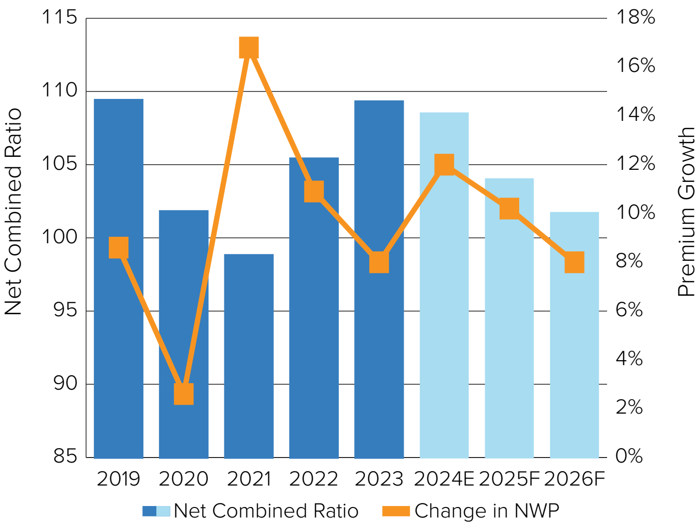
An Insurance Research Council survey found that 45 percent of drivers said they made significant safety-related changes in how they drove after participating in a telematics program. Another 35 percent said they made small changes in their driving behavior. Additionally, policyholders became more comfortable allowing their driving behavior to be monitored in exchange for potentially lower insurance costs during the pandemic.

What's next?

While commercial auto insurers continue to struggle to achieve underwriting profits, there are positive signs as reflected in their net combined ratios. The combined ratio is calculated by dividing the sum of claim-related losses and expenses by earned premium. A combined ratio under 100 indicates a profit. A ratio above 100 indicates a loss.

As the chart below shows, the 2024 net combined ratio for commercial auto insurance has improved slightly since 2023, and further improvement is expected over the next two years.

Commercial Auto Net Combined Ratio and Change in NWP



*Source: NAIC Statutory Financial Data through S&P Global Market Intelligence Analysis (as of 9/24/2024; Insurance Information Institute, Milliman.

These projected improvements are based on an expectation of continued premium growth – due more to aggressive premium rate increase than to increased exposure – as the rate of insured losses levels off.

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