



Global Risk Management

Update: Commercial Auto Market Conditions

Commercial auto prices are rising. Lead umbrella providers are moving to higher attachment points. Brokers are asking primary carriers to extend limits to fill the gap. Clients are taking higher deductibles. Why? The US commercial auto insurance market has faced an increase in the frequency of severe losses over the past decade. Unfortunately, this increase has accelerated and is likely to get worse before getting better.

Frequency contributors

Distracted Driving ¹

Among commercial drivers surveyed, 47% admit to reading text messages while behind the wheel. Another 34% of drivers report falling asleep while operating a motor vehicle, while 24% indicated having a near-miss accident in the past week.

Shrinking Driver Pool and Turnover ²

The shortage of qualified commercial drivers has been on the rise for the past two decades. In 2018, truck driver shortage exceeded 60,000 across the U.S. We expect this to worsen largely due to age demographics. The transportation industry's difficulty in attracting younger drivers is evidenced by an average driver age of 49, with 25% of the industry being 55 or older.

Increased Road Utilization ³

In 2019, the estimated miles driven totaled 3.225 trillion, an 8.5% increase compared to the five-year average between 2009 and 2015. Roadway use, fueled by an expanding economy and low fuel prices, however, has far outpaced roadway expansion spending leading to greater congestion.

Severity root causes

Claims litigation, and third-party litigation funding ⁴

Claims litigation rates are increasing. Litigated claims take longer to resolve, often by as much as two to three years. Plaintiff attorney firms more often seek third-party financing to sustain longer litigations, allowing them to mount more formidable cases, which lessen the pressure to settle. Third-party plaintiff firm financing has increased from 7% in 2013 to over 36% in 2017 ⁵.

For insureds, this could lead to latent claim development spikes, necessitating sharp increases in pricing, program structure, or both. Over time, increases in verdict values result in increases in settlement demands. Litigated claim severity increases by 20-25% compared to non-litigated claims and face greater unpredictability in ultimate outcomes.

Accident related medical costs rising

The immensely positive results from improved vehicle safety features mean more will survive an accident than ever before. However, injuries related to motor vehicle accidents are sometimes inevitable. Advances in medical technology enable those traumatically injured to survive, though at ever greater expense due to medical cost inflation.

Motor vehicle fatalities

While more people are surviving motor vehicle accidents, fatalities have persisted, reaching 40,000+ deaths annually since 2016 ⁶. According to a recent Federal Motor Carrier Safety Administration report ⁷, a commercial auto accident resulting in a fatality has an average cost of USD 4.8 million.

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Social inflation

Social inflation is not a new concept. It has been driving claims costs up for decades. Ultimate claims values have risen more substantially in recent years. The industry's top auto related claims that reached a jury verdict increased from an average of USD 30 million in 2015 to USD 54 million in 2018. This is expected to increase as the industry has now seen several verdicts breaking the USD 100 million threshold.

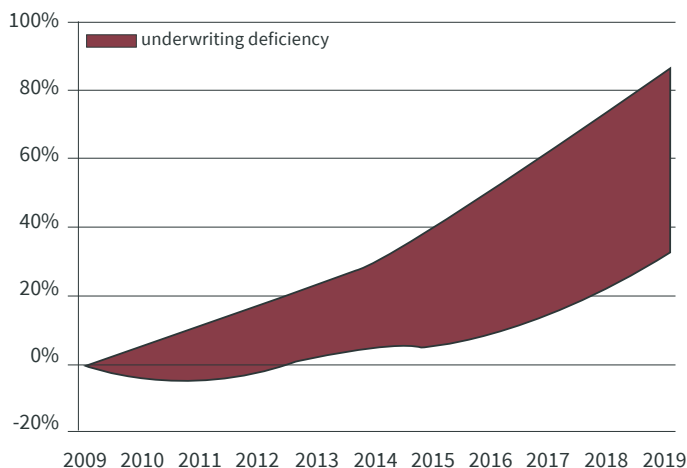
Vehicle repair/replacement cost increasing

Vehicles are becoming more sophisticated due to the integration of more complex electronics and safety technologies. Consequently, the third-party property damage portion of motor vehicle accident claims increases.

The widening price gap

Increases in loss cost trends are outpacing historic rate changes. This creates a large pricing deficiency that drives poor results throughout the commercial auto market. (See below graph). In 2018, the commercial auto segment reported USD 1.8 billion of adverse development. Conning estimates a remaining deficiency of USD 2.7 billion.⁸

INDUSTRY RESULTS: COMMERCIAL AUTO RATE VS. LOSS COST INFLATION



Working for you

The safety and protection of our partners and their employees is our top priority. At AXA XL, we're here to work with you and your broker to help you understand how to alleviate losses, structure sustainable programs and help close the gap.



References

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4. Federal Highway Administration
5. Burford Capital survey of US Law Firms
6. National Safety Council
7. Federal Motor Carrier Safety Administration
8. Conning Institute Segment Report: Commercial Auto Year End 2019

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