

# NEWS BRIEF

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## Signs of Trouble Seen for U.S. Commercial Auto Insurance Market

Despite having cause for optimism in 2021, the U.S. commercial auto insurance market shows signs of falling behind again in 2022 as losses increase, according to a new segment report from AM Best.

The sector had its best year in a decade in 2021, with a combined ratio under 100, a small net underwriting loss and strong premium growth, the company noted. Commercial auto insurers have also steadily cut underwriting expenses over the last 10 years, helping to improve results.

“For several years, insurers have been maintaining greater pricing discipline while striving to obtain more adequate rates for the exposures being presented,” said Christopher Graham, a senior industry analyst with AM Best, in a statement. “With 10 years of persistent average rate increases, the segment saw marked improvement in 2020, followed by additional, albeit smaller, improvement in 2021.”

However, in 2022, vehicle repairs have become more expensive, distracted driving continues to be a problem and rates simply can’t keep up with claim severity, according to the report. Even with premiums still increasing in 2022, rates “barely keep up with headline inflation” and may be “insufficient.”

AM Best data showed that the average loss per commercial auto liability claim has risen from \$12,652 in 2012 to \$25,381 in 2021.

Prior-year loss development contributed to the problem, with reserves requiring strengthening each year between 2011 and 2019. “Persistently adverse

reserve development is a sign that insurers’ reserving techniques have yet to catch up with judicial trends,” the company said, adding that, up until 2019, “even new exposures were losing money.”

“Social inflation has impacted commercial auto insurance more than any other line over the past decade,” said Graham, citing nuclear verdicts against trucking firms as a key factor in rising loss costs.

The end of many COVID-19 restrictions has travel and shipping levels back to normal and may signal potential upticks in auto-related injuries and fatalities. AM Best cited the fact that vehicle fatalities increased during the pandemic despite fewer miles traveled.

“Whether 2021 was just a favorable blip or a sign of what’s to come remains uncertain,” said AM Best in the report. “And whether the first half of 2022 was merely an adjustment period as more people returned to pre-pandemic routines, or whether it represents a true return to the loss levels of the 2010s, also remains uncertain.”

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