

Coverage Insights

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Factors Increasing Commercial Auto Insurance Rates

Whether they're transporting materials and tools to worksites, hauling goods for deliveries or driving to meet clients—companies of all kinds rely on safe and functioning vehicles to serve customers and generate profit. As such, commercial auto insurance has become invaluable for any business that operates vehicles as part of their operations.

However, exposures related to commercial auto insurance are vast, and a number of industry changes, as well as the frequency and severity of claims, have had a significant impact on carriers in the space. In fact, many carriers are finding it difficult to maintain profitability for commercial auto insurance and, in turn, are passing the uptick in cost along to insureds.

It's not uncommon for businesses to see year-over-year rate increases even when they hire safe drivers and have a clean loss record. But, the truth is that claims history is just one piece of the puzzle, and a number of high-level trends affect commercial auto insurance rates. This Coverage Insights will examine some of the trends driving up the cost of commercial auto insurance.

Distracted Driving Incidents

While many factors can lead to a crash (e.g., impaired driving, poor road conditions and adverse weather), distracted driving is one of the most common causes of accidents. As these incidents have become more common, insurance rates have climbed in tandem, creating a risk management challenge for insureds and a profitability challenge for insurance carriers that sell commercial auto insurance.

Data from the National Highway Traffic Safety Administration indicates that every year, up to 391,000 people are injured and 3,450 people are killed in crashes involving distracted drivers. Distracted driving reduces awareness, decision-making and performance—increasing the likelihood of driver error, near-crashes or crashes.

Distracted driving is an ongoing safety concern for organizations that use vehicles as part of their operations—a concern that continues to impact the cost of coverage for businesses across the board.

Accident Costs

The overall cost associated with vehicle collisions has climbed significantly in recent years. While the financial impact of individual accidents can vary based on the severity of a collision, steep medical and repair costs continue to drive up the cost of claims overall.

Increasing Medical Costs

In general, medical costs have been rising steadily over the past number of years. In fact, losses for bodily injury liability insurance claims increased 10% over a five-year period alone. These increased costs have affected multiple lines of insurance, including commercial auto insurance.

Following an accident, injuries for all of those involved can vary in severity. It's not uncommon for the injuries of those involved in an accident to require multiple doctor visits or even surgery, which can extend recovery time and influence the cost of claims.

Increasing Vehicle Repair Costs

Technological advancements have made vehicles safer and more efficient. However, as commercial vehicles are outfitted with a variety of sophisticated components (e.g., backup cameras and blind-spot cameras) they are becoming increasingly expensive to repair.

According to a report from AAA, vehicles equipped with driver assistance systems often cost twice as much to repair as those that aren't. As such, losses associated with a collision are much more substantial, leading to rate increases and creating numerous challenges for insurers.

Driver Shortages

According to the American Trucking Associations, approximately 160,000 commercial driver positions will go unfilled in the next decade. This ongoing shortage has placed a substantial burden on businesses, often forcing them to hire less experienced drivers.

Not only does this increase the potential for accidents and subsequent claims, but it has also made businesses more costly to insure. And with no end in sight to the driver shortage, businesses will need to train drivers effectively and ensure their company makes road safety a priority.

More Vehicles on the Road

According to industry experts, there are more drivers on the road than ever before. Additionally, industry demand is on the rise, and drivers are logging added miles in order to make deliveries and meet employer demands. Together, this means a higher number of drivers are on the road for longer periods of time, increasing the likelihood of an accident.

Litigation Trends

Simply put, auto liability claims are increasing in both frequency and severity year over year. This is occurring for a number of reasons, including the following:

- **Litigation funding**—Litigation funding is when a third party provides resources to attorneys to finance a lawsuit. In exchange, the third party receives a portion of the settlement. This is becoming more common in auto liability claims and often increases the cost of litigation overall, sometimes to seven figures.
- **Claim severity**—Settlement verdicts for bodily injury claims have been rising steadily. As a result, attorneys are more inclined to go to trial. This extends litigation and significantly raises the cost to defend a claim.

These facts depict an expensive and litigious environment for businesses involved in auto liability claims. In turn, insurers have a lower appetite for risk, making it difficult for employers to secure low rates.

Securing Affordable Coverage

While it can feel like the factors influencing the cost of coverage are out of a business's control, there are things policyholders can do to secure better rates.

Organizations should have a strong understanding of their exposures and regularly examine the root causes of collisions and similar commercial auto concerns. Additionally, businesses should seek the help of a qualified insurance broker with a deep understanding of their operations and effective risk management strategies.

Contact Winters-Oliver Insurance Agency today to learn more.

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