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Keep on Truckin': An Update on the Commercial Auto Market

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If you ate it, drank it, wore it, sat on it, drove it or bought it off the shelf, it came to you on a truck. If it was assembled before you got it, those parts were delivered to the manufacturer by a truck. When you work in an office building, sleep in a hotel or even in your home, the materials used to build it were delivered by a truck. Trucks are the lifeblood of the economy and they are here to stay, in one form or another.

Why are trucks so difficult to insure?

The Commercial Auto market remains in a state of chaos and flux which creates opportunities for experts and specialists at all levels. This includes trucking companies, insurance carriers, retail producers and MGA/Wholesalers. It also weeds out the dabblers or pretenders who simply chase the premiums without doing the work to become an expert.

From a carrier perspective, the Commercial Auto market has been a losing game for the past seven years. Transportation has consistently underperformed the rest of the insurance market by 12 to 15 points, and 2010 was the last year Commercial Auto posted a combined ratio under 100%.

What's the reason for such poor loss results?

There are many reasons for the market's poor loss results, and these reasons combined created a perfect storm that caught many carriers by surprise. Since the recession ended in 2010, trucks have driven many more miles, increasing exposure and congestion. Our infrastructure of roads, bridges and ports is aging and struggling to keep up with the demand for trucks. Given our record low unemployment, there is a shortage of qualified drivers which has led to more inexperienced drivers behind the wheel. Distracted driving is a killer that is constantly in the news, and we continue to battle a highly successful and sophisticated plaintiff's bar that has created previously unimaginable verdicts in the tens of millions of dollars. The robust economy has created more new ventures which have historically poor loss ratios and high cancellation rates. In summary, it has been a tough time to be an insurance carrier insuring trucks.

What are we doing to improve?

Insurance carriers continue to raise rates and tighten underwriting requirements and we do not expect this trend to stop or abate. Rates have increased steadily for the past five years, and the 2018 combined ratio for Commercial Auto is still estimated around 110%. As bad as this sounds, it is actually an improvement from prior years—though still way short of profitability and acceptable investment returns. Loss costs for both liability and physical damage are increasing annually by 5% to 7%, so a rate increase at this level it essentially a flat renewal for the carrier.

The more sophisticated carriers are also using data and predictive analytics to better segment their business and identify risks that will perform better in the future. We expect the better-performing accounts to see rate increases of 5% to 10%, average accounts 10% to 15%, and poor accounts 15% to 25% or possibly non-renewed.

So what's the good news?

The economy drives the success of the trucking industry, and in recent years the external factors have been outstanding – probably as good as we have ever seen. The demand for trucking is as high as it has ever been. Goods are shipping, freight rates are as high as we have ever seen and load boards are full. Our trucking clients who are well-managed with dedicated runs, stable teams of drivers and disciplined management are successful and profitable. These companies are making enough money to absorb the increased insurance costs, raise driver pay and still improve margins.

Insurance carriers now require specialization and expertise from their distribution partners or else they will not allow us to sell and distribute their product. For example, one leading market has recently cut their MGA representation by 30% and openly stated they will only work with "hard core" transportation specialists. As a result, retail producers and MGA/Wholesalers who are true experts and specialists now control a larger part of the business and enjoy the benefits of rate increases, which increases revenue and margins. It's a good time to be a trucking company or a distributor of truck insurance.

What about technology?

We already mentioned carriers are using data and predictive analytics to refine risk selection, and the carriers that are ahead in this process are starting to win and far outperform their competitors. Carriers that are not investing in this technology and continue to operate like they did 10 years ago will get selected against and end up in a crowded graveyard.

Telematics is the use of technology to identify driving habits such as rapid acceleration, sharp turns and quick stops. Sophisticated trucking companies are using telematics to coach drivers into better driving habits, which will lead to fewer accidents and lower insurance costs.

Many trucking companies now have cameras installed in trucks. The outward-facing cameras document the cause of accidents which many times are caused by passenger vehicles cutting in front of trucks. This evidence makes it possible for trucking companies to defend themselves against claims that on the surface appear to be the fault of the trucking company.

What can we expect in the future?

Insurance rates for trucking companies will continue to rise until underwriting results become profitable...and they will. Data and predictive analytics will dominate in the 1 to 10 unit segment and that business will be controlled by a smaller number of carriers and producers that are specialists and proficient in the technology.

We are beginning to see some softening in the economy and freight rates on both the contract and spot market have fallen. We're also seeing an increase in fuel prices which puts pressure on trucking companies to better manage their costs, operations and driver teams.

Retail producers and MGA/Wholesalers will have to develop a strategy to insure and serve the larger fleet clients and offer consultative and compliance services in addition to competitive insurance pricing. And retail producers, MGA/Wholesalers and carriers that experiment with trucking or try to fold it into a P&C division will fail spectacularly.

Autonomous vehicles will begin to appear, but so far the technology is far ahead of the business model and legislative process. Accidents and claims will no longer be the fault of negligent drivers but more of a products and cyber liability issue. In the early stages we expect autonomous vehicles to be more driver assisted and not fully autonomous. They will be used primarily in platoons on the highway, in trucking yards or in confined spaces of manufacturing facilities or college campuses that have limited and highly-defined routes.

There are many challenges ahead in the Transportation business, but it is an enormous market that is not going away. This demand will continue to create big opportunities for the experts and specialists at all levels. It is a good time to be in the trucking business.

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