

MIDYEAR MARKET OUTLOOK

FOR COMMERCIAL AUTO AND COMMERCIAL PROPERTY INSURANCE

Monthly Minute Newsletter



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The last several years have seen the commercial property insurance market progressively harden, evidenced by ongoing rate increases over the past 22 consecutive quarters. Such rate hikes showed some signs of stagnation throughout 2022 by largely remaining within single digits, according to insurance experts. However, this moderation didn't last in 2023, as rates surged by an average of 20.4% in the first quarter of the year. Industry data reported that this jump represented the first time the segment has recorded overall rate increases above 20% in more than two decades. Further, current market trends have left some insureds with above-average rate increases and lower capacity, particularly those exposed to catastrophe (CAT) perils (e.g., hurricanes and wildfires). Looking ahead, policyholders who conduct high-risk operations, have poor loss control practices or are located in natural disaster-prone areas will likely remain increasingly vulnerable to persistent rate hikes and coverage limitations.



DEVELOPMENTS AND TRENDS TO WATCH

- **Natural disasters**—Natural disasters often cause severe losses for affected establishments, and the rising frequency and severity of these catastrophes have continued to pose concerns in the commercial property insurance market. According to industry research, natural disasters cost the global economy an estimated \$77 billion in the first quarter of the year, with about one-third (\$22 billion) of those expenses covered by insurers. Such costs are only expected to persist—or even worsen—throughout 2023 as hurricane season approaches and wildfires spread across the Western United States. In particular, the National Oceanic and Atmospheric Administration predicts that 12-17 total named storms will take place amid this year’s Atlantic hurricane season, which runs from June 1 through Nov. 30. Among these storms, as many as nine could become hurricanes (winds of 74 mph or higher), while up to four could reach major strength (winds of 111 mph or higher). Additionally, the National Interagency Fire Center reported that nearly 20,000 wildfires have already taken place so far this year, burning more than half a million (620,986) acres along the West Coast. Although this total falls below the 10-year average, the potential for yet another intense wildfire season in the months ahead remains. Many climate experts anticipate that natural disaster trends will proceed to exacerbate related property losses in the coming years.



DEVELOPMENTS AND TRENDS TO WATCH CONT.

• **Reinsurance capacity concerns**—The latest natural disaster and inflation trends have proven particularly difficult for the commercial property reinsurance space to navigate over the last few years, contributing to widespread capacity challenges. Making matters worse, Hurricane Ian wreaked havoc on the segment in the final months of 2022, causing substantial losses and making it even more challenging for reinsurers to maintain their coverage offerings, specifically as it pertains to CAT exposures. Consequently, some reinsurers have begun limiting their capacity for these exposures or eliminating capacity altogether, all while rates continue to surge. According to industry data, Jan. 1 reinsurance treaty renewals delivered some of the hardest market conditions in decades, with capacity shrinking by more than half across most layers and rate increases ranging between 40% and 100% for most policyholders, depending on their CAT exposures. Six months later, June 1 renewals reflected similar trends, with capacity tightening even further and rate hikes falling between 25% and 40%, thus demonstrating ongoing risk aversion within the reinsurance space.

Tips For Property Insurance Buyers

- Gather as much data as possible regarding your existing risk management techniques. Be sure to work with your insurance professionals to present loss control measures you have in place.
- Conduct a thorough inspection of both your commercial property and the surrounding area for specific risk management concerns. Implement additional mitigation measures as needed.
- Analyze your organization's natural disaster exposures. If your commercial property is located in a disaster-prone area, develop safeguards and response protocols that will protect your property as much as possible.

02 AUTO INSURANCE

The commercial auto insurance market has encountered significant underwriting losses and plummeting profitability for more than a decade. Although the segment continues to face challenging market conditions, rate increases mostly remained in the single digits in 2022, demonstrating signs of stagnation compared to double-digit rate hikes in prior years. The first half of 2023 reflected a similar trend; most policyholders experienced moderate rate increases ranging between 7% and 8% during the first quarter of the year, according to industry research. However, several cost-driving developments have become pressing concerns in the segment, pushing claims frequency to pre-pandemic levels and increasing overall loss severity. As a result, policyholders with large commercial fleets and additional auto exposures have had greater difficulty securing excess layers of coverage alongside elevated program pricing. Altogether, insureds across industries and vehicle classes can still expect to experience rate jumps and coverage restrictions going forward.

AUTO DEVELOPMENTS AND TRENDS TO WATCH

- **Social inflation and nuclear verdict concerns**— Social inflation has affected many lines of commercial coverage in recent years, but the auto insurance market has been particularly impacted. This is mainly due to trends in the trucking industry, including a surge in costly lawsuits and associated settlements. In particular, nuclear verdicts (jury awards exceeding \$10 million) have been on the rise. The American Transportation Institute reported that trucking verdicts have increased by more than 50% each year for the past decade. Furthermore, the number of nuclear verdicts has nearly doubled during this time frame. In total, the Insurance Information Institute found that social inflation has led to a \$30 billion surge in commercial auto claim costs since 2012.



AUTO DEVELOPMENTS AND TRENDS TO WATCH CONT.

- **Driver shortage challenges**— The nation’s driver shortage remained near record-setting levels in 2022 at 78,000 open positions, according to the American Trucking Associations (ATA). By the end of the decade, the ATA anticipates that rising freight demand and an aging workforce could cause the driver shortage to skyrocket to 160,000 open positions. To help minimize this shortage, a growing number of businesses have adjusted their driver recruitment strategies, including tapping into underrepresented demographics to expand their talent pools. Primarily, businesses have begun hiring more women drivers; industry data found that women made up nearly 14% of professional drivers in 2022, almost doubling from 2018’s findings.
- **Evolving technology solutions**— The last few years have seen vehicles continue to grow more advanced and incorporate new technology (e.g., blind-spot cameras, backup alarms, GPS devices and telematics software), providing opportunities to increase driver safety and bolster operational efficiency among commercial fleets. Automatic braking technology and advanced driver-assistance systems have also risen in popularity, offering features such as lane departure warnings, blind-spot detection, and front and rear crash prevention. Smartphones have even begun pushing road safety by providing more hands-free features, deploying “driving mode” options that silence notifications behind the wheel and offering various safe driving applications. Yet, it’s important to note that evolving vehicle and driver safety technology also carries potential risks. Namely, if implemented poorly or incorrectly, this technology could create additional distractions for drivers on the road—possibly resulting in further accidents and related commercial auto insurance costs.



Tips For AUTO Insurance Buyers

- Examine your loss control practices relative to your operations. Consider enhancing your fleet safety procedures by implementing new technology solutions. Regardless of these solutions’ safety features, make sure driving policies clearly address distracted driving to combat potential technology risks.
- Hire only qualified drivers by using motor vehicle records to vet candidates’ past experience and violations. Take steps to expand your talent pool by recruiting drivers from underrepresented demographics.
- Design driver training programs based on your key exposures. Regularly retrain staff on safe driving measures.

