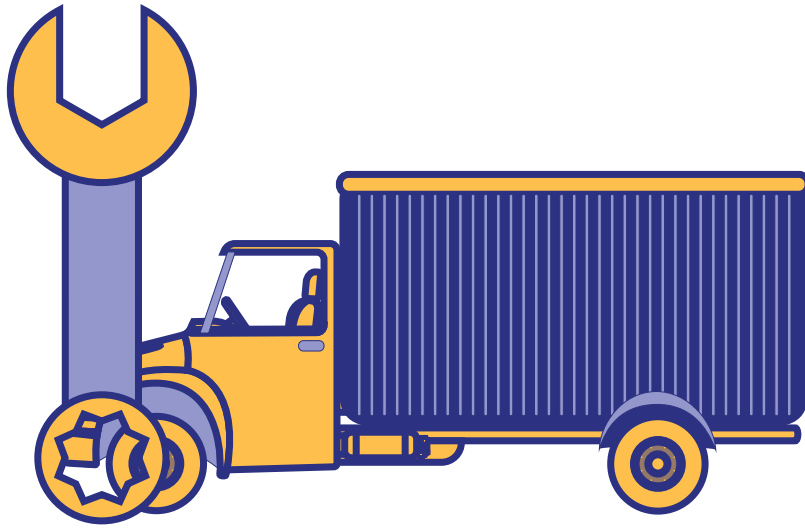


6 Factors

*Driving Commercial Auto
Insurance Costs*



The commercial auto insurance space has consistently hardened over the past decade, evidenced by ongoing rate increases, limited capacity and other difficult market conditions. In this hard market, most insurance companies have struggled to reach profitability for commercial auto insurance policies. This is largely due to several cost-driving trends impacting the segment. As such, it's important for businesses to understand the primary reasons behind rising premium costs. Here are six factors currently affecting commercial auto insurance costs.



1. 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 and blind-spot cameras), they are becoming increasingly expensive to repair.

What's more, ongoing supply chain issues coupled with an increased demand for certain components (e.g., computer chips) has led to inflated car part prices. Auto repair shops also have to contend with labor shortages for skilled positions. These labor shortages are increasing labor costs for vehicle repairs, as repair shops are having to offer employees higher wages.



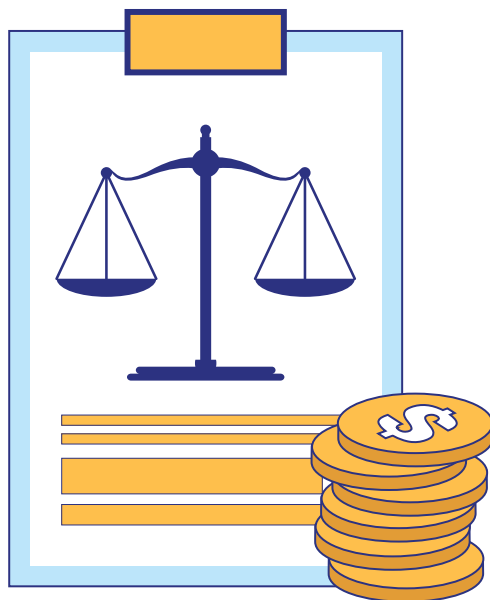
2. Ongoing Commercial Driver Shortage

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. In general, less experienced drivers are more likely to be involved in accidents and tend to be costlier to insure. 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.



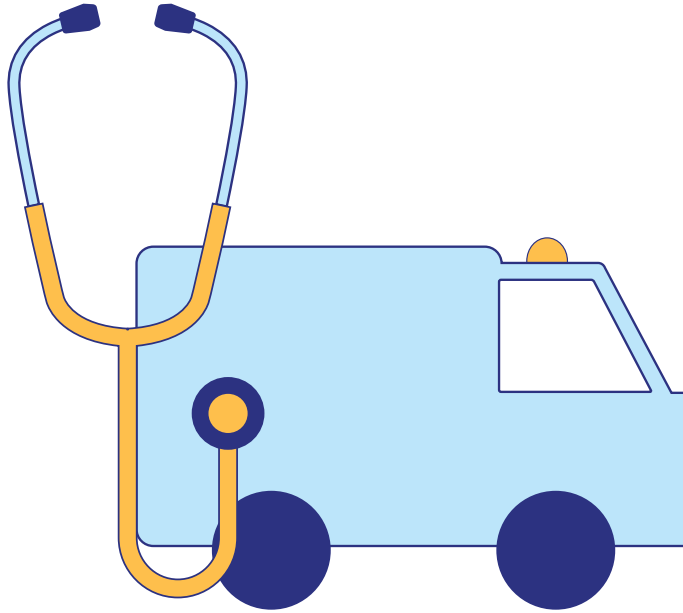
3. Rising Social Inflation

According to the National Association of Insurance Commissioners, social inflation describes how insurers' claims costs are increasing above general economic inflation. This is generally thought to be due to increasing litigation costs brought about by plaintiffs seeking large monetary relief for their injuries. Social inflation has affected many lines of commercial coverage in recent years, but the auto insurance market has been particularly impacted. In total, the Insurance Information Institute found that social inflation has led to a \$30 billion surge in commercial auto claim costs since 2012.



4. Nuclear Verdicts

Nuclear verdicts refer to exceptionally high jury awards—generally, those exceeding \$10 million. Such verdicts have become increasingly common in the past decade. 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. Increasingly, insurers are having to factor in nuclear verdicts when they price commercial auto insurance policies.



5. Elevated Medical Costs

Medical costs have been rising steadily over the past decade. In fact, losses for bodily injury claims have increased by 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 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. These rising costs are accounted for in the price of commercial auto insurance.



6. Distracted Driving Concerns

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.



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