

Commercial Auto Trends to Watch in 2021



Whether they're transporting materials and tools to worksites, hauling goods for deliveries or driving to meet clients—organizations of all sizes and industries rely on safe, functioning vehicles to serve their customers and generate profit. But, while utilizing a commercial fleet can offer numerous benefits, it can also create additional risks. As such, commercial auto insurance has become invaluable for any organization that operates vehicles as part of their operations.

Apart from securing commercial auto insurance, it's important to stay up to date on the latest market trends. Doing so will allow your organization to take a proactive approach to both driver safety and fleet management. Don't let your organization fall behind in this evolving risk landscape. Review this guidance to learn more about commercial auto trends to watch in 2021.

Market Challenges

For the past decade, the commercial auto space has been challenging and largely unprofitable for insurance carriers. In fact, according to a recent report from AM Best, the commercial auto insurance segment's underwriting losses reached \$4 billion in 2019—the worst loss the industry has seen in 10 years.

Various factors have contributed to this poor underwriting performance, including litigation trends, a wide range of driver safety failures, medical inflation, surging accident expenses and a deteriorating public road infrastructure.

In this environment, many commercial auto insurance carriers have elevated policyholders' premium costs—with some policyholders even experiencing double-digit

rate increases. Nevertheless, despite rising premiums, insurance carriers have not returned an underwriting profit for commercial auto lines in over a decade.

Unfortunately, industry experts predict that this hard market will continue to be a concern throughout 2021. In a hard market, employers like you may experience a more difficult renewal process by way of increased commercial auto insurance premiums, lowered capacity and more stringent policy requirements or restrictions.

However, these market conditions should not discourage you from securing adequate insurance for your organization. After all, keeping your organization and commercial fleet properly protected from potential losses is well worth the cost.

Driver Shortages

According to the American Trucking Associations, approximately 160,000 commercial driver positions will go unfilled in the next decade. This shortage is largely due to increasing freight demands and a rapidly aging workforce.

There are several concerning implications associated with driver shortages. First, many organizations have had to lower their commercial driver applicant standards in order to fill open positions. Consequently, these drivers often have fewer years of experience behind the wheel, less training and shorter driving records. Such factors can make these newly hired employees significantly more likely to be involved in an accident on the road, which can lead to a rise in commercial auto claims and elevated premium costs.

Provided by Lamb Insurance Services

Commercial Auto Trends to Watch in 2021

Second, driver shortages have forced some organizations to require their more experienced staff to take on longer shifts and drive additional hours. While this may initially seem like an effective measure, such a practice can greatly increase the risk of employees experiencing driver fatigue, which can contribute to accidents and subsequent claims.

With these implications in mind, it's crucial for your organization to mitigate the risks connected to driver shortages by developing an effective driver training program and implementing incentives that reward employees for demonstrating safe driving behaviors.

Further, establish adequate driving schedules to reduce driver fatigue. In addition, educate employees on driver fatigue and encourage them to take a break if they start experiencing symptoms (e.g., headache, dizziness, sore muscles, irritability and slowed responses) behind the wheel. After all, taking a break is well worth it to minimize road safety concerns and prevent costly claims.

Distracted Driving Concerns

While many factors can lead to a crash, distracted driving is one of the most common causes of accidents, and—consequently—commercial auto claims. Examples of distracted driving include eating, drinking, applying makeup, texting or talking on the phone behind the wheel. Distracted driving reduces awareness, decision-making and performance—increasing the likelihood of driver error, near-crashes or crashes.

In fact, 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. As these incidents have become more prevalent, commercial auto insurance costs have climbed in tandem.

That being said, it's important for your organization to enforce various workplace policies aimed at minimizing

the likelihood of distracted driving (e.g., a policy on cellphone and portable electronics usage behind the wheel or a policy requiring employees to pull over at a rest stop in order to eat during their shift).

Additional Vehicles on the Road

According to industry experts, there are more drivers on the road than ever before. The Department of Transportation (DOT) reports that 286.9 million vehicles were registered in the United States in 2020, up from 284.5 million in 2019. Looking ahead, the DOT estimates that an additional 2.6 million vehicles will be registered in 2021.

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 will be on the road for longer periods of time, increasing the likelihood of accidents and subsequent commercial auto claims.

This rise in vehicles makes it all the more vital for your organization to encourage safe driving habits behind the wheel, especially in high-traffic situations. Be sure to remind employees that engaging in unsafe driving practices—such as speeding, tailgating or taking alternate/unapproved routes—to boost efficiency or complete trips faster is not worth the risk of being involved in an accident.

The COVID-19 Pandemic

At the beginning of the COVID-19 pandemic, many states enacted shelter-in-place orders. These orders temporarily reduced vehicle traffic, and, in turn, accident frequency. However, with fewer vehicles on the road, accident severity increased. Experts attribute this surge in severity to drivers engaging in riskier behaviors behind the wheel (e.g., speeding or multitasking), motivated by the false security of less traffic.

What's more, due to the ongoing pandemic, many

Commercial Auto Trends to Watch in 2021

organizations have adjusted their typical operations to remain open—including extending delivery capabilities or hiring delivery drivers for the first time. For many organizations, these new services represent additional commercial auto exposures for their operations, thus increasing the likelihood of claims.

As such, make sure your organization reprimands employees who engage in risky behaviors on the road. If your organization has just begun implementing delivery services or recently hired new delivery drivers due to the pandemic, remember to fully assess the potential risks associated with these changes and implement measures to minimize potential damages (e.g., driver training programs and safe delivery protocols).

New Vehicle Technology

In response to the rise in accidents on the road, many employers are resorting to new vehicle technology as a way to promote safe driving habits within their workforce. Specifically, some organizations have begun equipping their vehicles with telematics.

Telematics is a form of vehicle software that combines the features of telecommunications and informatics to help employers effectively manage their fleet. This software operates by connecting to various devices installed in a vehicle, including GPS technology, sensors, mobile applications, dashcams and vehicle engine diagnostics solutions. Common data collected by vehicle telematics software includes vehicle speeds, vehicle locations and driving behaviors (e.g., braking intensity or acceleration frequency).

Telematics can be used in a variety of different commercial vehicles. Many employers use this technology to monitor vehicle deliveries, determine routes, communicate with drivers, review employee driving practices and detect vehicle maintenance concerns.

Utilizing telematics can benefit your organization in many

ways—namely, reducing operational expenses, bolstering fleet security, encouraging safe driving habits and maintaining effective vehicle maintenance practices. What's more, these benefits can collectively help prevent accidents and any resulting claims, which can also lead to lowered premium costs.

Elevated Accident Costs

As accidents steadily increase, their associated costs have unfortunately followed suit. In the scope of commercial vehicle accidents, the following factors have contributed to a rise in accident expenses:

- **Vehicle repair costs**—Although technological advancements (e.g., blind-spot cameras, backup alarms, GPS devices and telematics software) have made commercial vehicles safer and more efficient, the steep monetary value of these advancements can lead to higher repair costs in the event of an accident. According to a report from AAA, vehicles equipped with driver assistance systems often cost twice as much to repair as those that aren't.
- **Medical costs**—In general, medical costs have been rising over the past number of years. After an accident, injuries for all of those involved can vary in severity. It's not uncommon for the injuries from an accident to require multiple doctor visits or even surgery, which can extend recovery time and influence overall medical expenses.

Due to the surge in both vehicle repair costs and medical costs, the losses associated with an accident have become significantly more substantial—leading to increasingly expensive claims.

This surge emphasizes how critical it is for your organization to prioritize accident prevention initiatives and establish effective post-accident investigation protocols to prevent future collisions on the road.

Commercial Auto Trends to Watch in 2021

Litigation Funding and Nuclear Verdicts

Lastly, commercial auto claims as a whole have significantly increased in severity in recent years. Some key factors contributing to this issue include:

- **The rise in 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 commercial auto claims and often increases the cost of litigation overall, sometimes to as much as seven figures.
- **The number of nuclear verdicts**—Settlement verdicts for bodily injury claims have been rising steadily. Specifically, nuclear verdicts—which refer to jury awards in which the penalties exceed \$10 million—have become increasingly prevalent. As a result, attorneys are more inclined to go to trial. This extends litigation and significantly raises the cost to defend a claim.

To minimize your organization's risk of experiencing such severe claims, be sure to regularly review all driver safety and fleet management practices for effectiveness. Make updates as needed.

We're Here to Help

You don't have to respond to this changing risk landscape alone. We're here to help you navigate these commercial auto market trends with ease. For additional coverage guidance and solutions, contact us today.