Texas Commercial Auto Insurance Market Continues to Deteriorate

American Property Casualty Insurance Association℠
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Texas commercial auto insurance premiums have risen dramatically over the past decade[1], driven by a number of factors which have increased lawsuits and claim values. Commercial trucking in Texas has been a significant driver of that growth rate, as evidenced by commercial auto losses recorded by Texas insurers. The rate of increase in commercial auto losses in Texas have far surpassed national rates that have also increased over nine straight years.

A recent comprehensive report by the American Transportation Research Institute (ATRI) indicates that Texas is among the worst states in the country for trucking liability cost increases, with extraordinarily high "nuclear verdicts" driving the cost escalation. ATRI also reports that Texas is among the most attractive states for litigation financiers, adding fuel to the case numbers.[2]

These trends have had a direct impact on insurance loss ratios, putting upward pressure on premiums:

- Based on Standard & Poor's estimates, **for every $100 paid in premiums, Texas auto insurers incur over $103 in costs.** S&P projects a full-year 2020 combined loss ratio (losses and expenses) of just under 103.2 percent for commercial auto, building on the ratio of 109.4 percent in 2019, and continuing a decade long trend of poor results.[3]

- The projected 2020 results will mark **a 10th-straight year of unprofitable underwriting** for this embattled sector.[4]

- According to The Council of Insurance Agents & Brokers,[5] **commercial rates are up significantly nationally**, reaching double digit growth for umbrella and commercial property coverages, **while countrywide commercial auto rates are up 6.5 percent in the third quarter alone.[6]**

continued

1 Texas commercial auto direct written premiums have increased 2.5 times (150.2 percent) from 2010 to 2019. Source: APCIA using S&P Global Market Intelligence

2 ATRI's comprehensive report, *Understanding the Impact of Nuclear Verdicts on the Trucking Industry*, June 23, 2020, indicates that nationally the number of trucking liability cases over 1 million dollars in value rose exponentially and that the number of "nuclear verdicts" over 10 million dollars in value nearly doubled. The report indicates that Texas has the largest number of trucking liability cases in its database (86) and its percentage of plaintiff verdicts (55.8 percent) ranks in the top tier of states. ATRI report, pp. 33-34.

3 S&P Global Market Intelligence: "2020 US Property & Casualty Insurance Market Report"

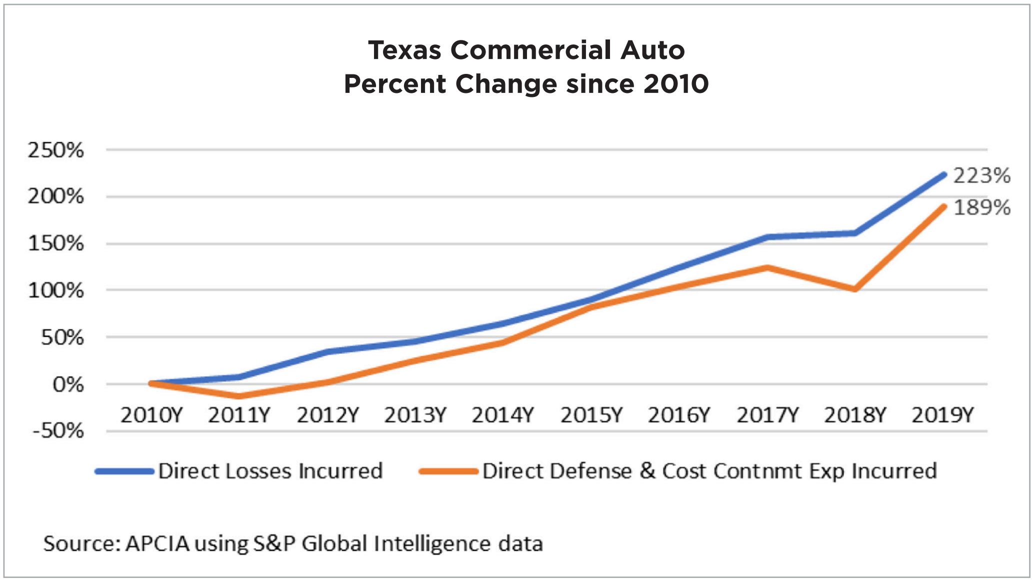
4 Ibid.

5 The Council of Insurance Agents & Brokers' quarterly Commercial Property/ Casualty Market Index.

6 MarketScout: "US commercial rates increase 4 percent in Q3" (https://cms.marketscout.com/2019/10/07/us-commercial-rates-increase-4-in-q3-marketscout/)

Texas Commercial Auto Losses and Expenses Accelerate

The Texas commercial auto experience has seen significant deterioration over that last decade.[7] As indicated in the following chart, over the last 10 calendar years losses have more than tripled (increased by 223 percent) and direct Defense and Cost Containment Expenses[8] ("DCCE" sometimes also referred to as allocated loss adjustment expenses or "ALAE") have almost tripled (increased by 189 percent).



This represents an annualized increase of 9 percent and 7 percent over the 10 years for auto losses and DCCE, respectively. By comparison, the Consumer Price Index (CPI) inflation[9] has been only 17 percent for that period with an average annualized rate of only 2 percent. Even increases in medical care have only been 28 percent over the same period with an average annualized rate of only 3 percent.[10]

continued

7 See Charts below.

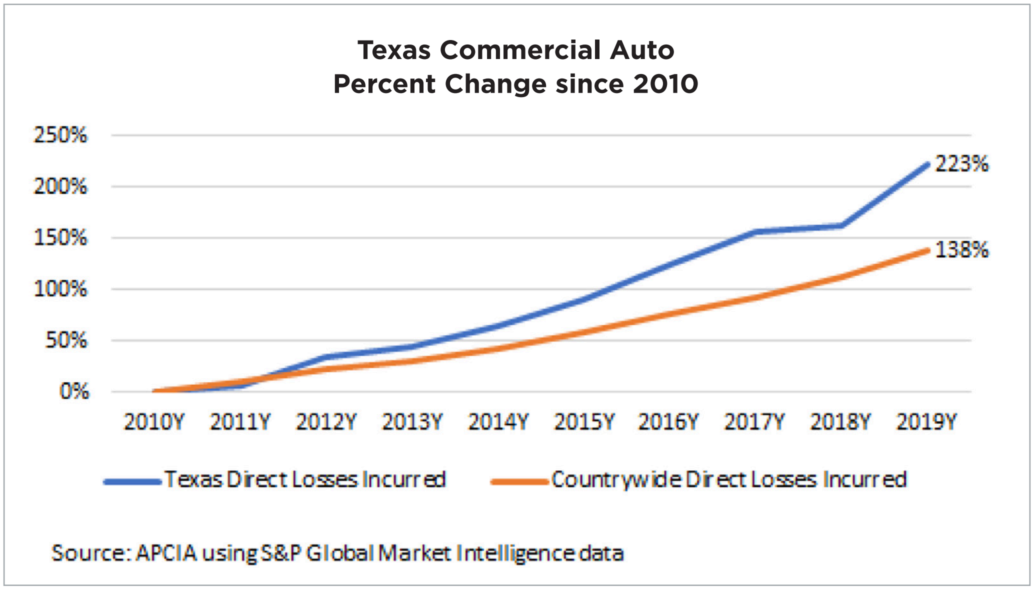
8 Direct defense and cost containment expenses are costs associated with an insurance claim that encompass defense, litigation, and medical cost containment expenses, and include but are not limited to, accident investigation, surveillance, litigation management and fees of attorneys and others if working in defense of a claim, and medical bill review.

9 US Bureau of Labor Statistics: All items in U.S. city average, all urban consumers, not seasonally adjusted; https://data.bls.gov/pdq/SurveyOutputServlet

10 US Bureau of Labor Statistics: Medical care in U.S. city average, all urban consumers, not seasonally adjusted; https://data.bls.gov/cgi-bin/dsrv?cu

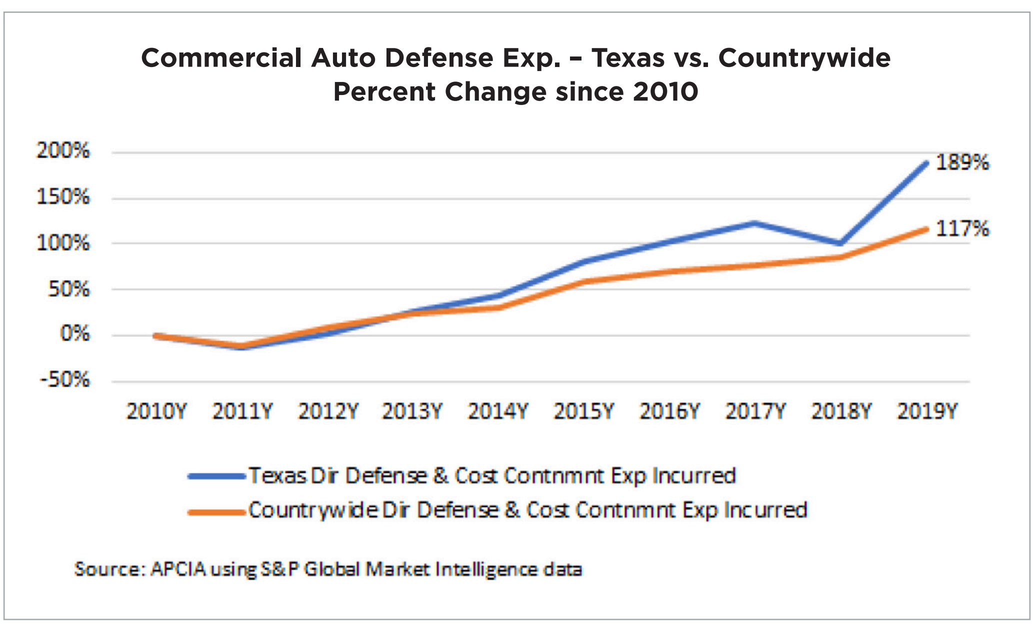
Texas Commercial Auto Losses Significantly Outpace the Nation

The Texas commercial auto loss trends do not compare favorably to national trends either. Even as countrywide losses have more than doubled (increased by 138 percent), Texas losses have more than tripled (increased by 223 percent).



Texas Loss Adjustment Expenses Also Outpace the Nation

The gap between DCCE related to handling and defending Texas cases versus the national trend is similarly pronounced. Over the past decade countrywide defense and containment costs have more than doubled (increased by 117 percent), while in Texas these costs have nearly tripled (increased by 189 percent).



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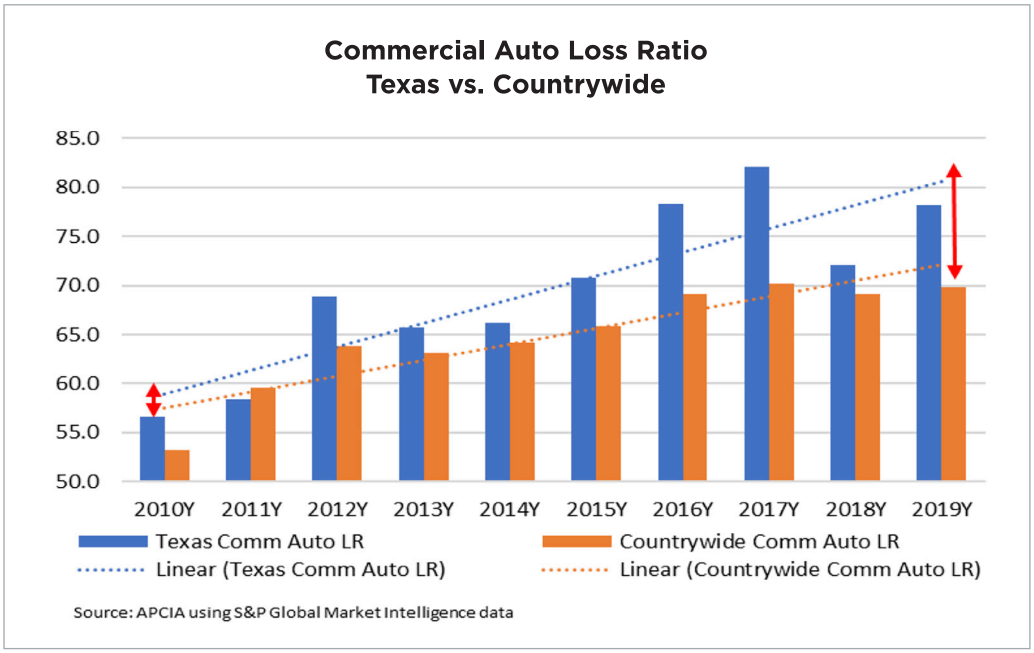
Texas Commercial Auto Loss Ratios Underperform Countrywide Averages for Nearly All of the Past Decade

In all but one calendar year (2011) over the last decade, Texas commercial auto loss ratios[11] have been worse (higher) than the national average. Texas commercial auto loss ratios have also been worsening at a more rapid pace in recent years, as evidenced by the widening gap of the trend lines in the following chart. Over the past four years, Texas experienced three of its worst loss ratios in the last decade.



Conclusion

Over the last decade Texas commercial auto claims losses, as well as adjusting and defense expenses have well outpaced inflation and national averages. For ten consecutive years Texas has seen unprofitable underwriting in this line. At the same time, premiums in this line continue a steep climb to account for these challenges. Steps need to be taken to normalize commercial auto insurance experience to protect the market and its consumers.

11 Loss ratios reflect losses a company is paying out compared to premiums it has brought in, calculated by dividing the total incurred losses (excluding expenses) by the total collected insurance premiums. The lower the loss ratio the more favorable the impact on the overall insurance marketplace as higher loss ratios may often portend premium increases.