CRC Group
Wholesale & Specialty

2024 Excess Trucking State of the Market

Trucking firms shouldn't expect an easy ride in the excess insurance market just yet, but it may be a bit smoother. Price increases are decelerating in a more manageable market after sharp hikes over the last few years. Still, carriers remain cautious and selective following years of losses, and better rates are reserved for better risks. Some new capacity is coming in even as a few long-standing carriers are backing out. Smaller accounts buying lesser limits may have an easier time, but larger accounts, particularly those looking to secure large limits, should expect a more difficult trip. Reading the market signs can be challenging. When it comes to arriving at the optimal insurance program, wholesale brokers with deep experience in the industry and established relationships can make the difference.

FACTORS IMPACTING THE MARKETPLACE

Higher insurance rates are just one of the challenges faced by the trucking industry, which moves more than 72% of U.S. freight by weight.[1] Trucking firms cited the economy as their main concern in 2023, followed by truck parking, fuel prices, driver shortage, compensation, and lawsuit abuse reform.[2] Price reporting agency FreightWaves cited overcapacity in the trucking industry as a factor in what it calls a severe recession in the freight market.[3] The impact was seen in the bankruptcy of Yellow Corp., which had held a market share of as much as 10%, putting some 30,000 employees out of work in August 2023.[4] In October 2023, digital brokerage Convoy announced it was shutting down.[5] Uber Freight, also a digital broker, hit bottom in April 2023 but is finally seeing truckload demand edge higher, perhaps in light of competitor close downs.

Smaller trucking firms have been bought up, but the pace of mergers and acquisitions has slowed. Deals rose sharply in the trucking and logistics sector in 2021 and 2022 but slowed substantially during the first few months of 2023 as declining freight rates added uncertainty along with economic concerns and the higher cost of capital.[6]

LOSSES INFLUENCE INSURANCE PRICING

While trucking firms struggle to make a profit, the insurance industry has been losing money on the class for years. Insurers piled up underwriting losses of $3.3 billion on commercial auto in 2022, AM Best reported, after nearly breaking even the previous year due to fewer vehicles on the road during the height of the pandemic. Commercial auto has been among the worst performing property/casualty lines over the last decade. Consequently, insurance prices have risen, but not kept pace with inflation nor increased lost costs due to an increasingly difficult legal environment. Adverse development on prior year losses and inadequate reserves continue to play a major role in driving combined ratios higher. [7]

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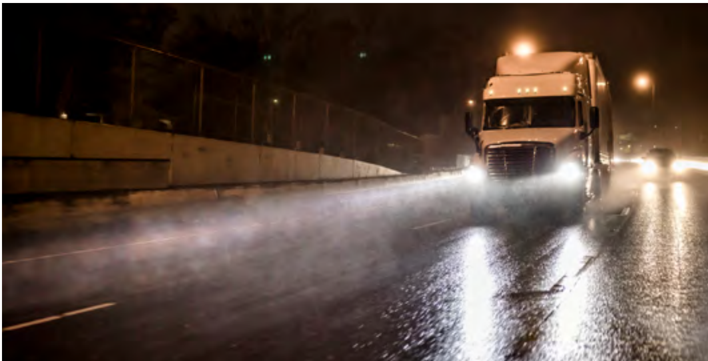
The average size of verdicts higher than $1 million increased more than ninefold between 2010 and 2018, according to the Institute for Legal Reform, even though the rate of fatal crashes involving a truck fell to 1.47 from 2.23 per hundred million large truck miles traveled (2000 - 2020).[8]



Fatal accidents involving large trucks declined 14% to 1,006 in Q1 2023 from 1,175 in Q1 2022.[8]

A CHALLENGING LEGAL ENVIRONMENT

The backlog of court cases built up during the pandemic is easing, but emerging verdicts have not been overly favorable to truckers and insurers due to the effects of social inflation, litigation funding, and a growing list of judicial hellholes. Only about 3% of lawsuits go to trial, but both the fear and reality of large verdicts increases the pressure to settle for higher amounts rather than risk a jury trial and potential awards for punitive damages.9 That can be true even when trucking firms would seem to have a strong case.

All of this leads to increased scrutiny during the underwriting process. In some cases, carriers may look to avoid difficult venues or structure and price deals in an attempt to address deteriorating loss results. States including, but not limited to, Texas, Louisiana, Florida, Georgia, and California are viewed as tougher jurisdictions. One insurer recently indicated it would stop writing new business in Florida and consider renewals on a case-by-case basis. States have started to enact legislative reform in response, but the impact is yet to be determined and any favorable change for insureds, and by extension, carrier losses will take time.

Given the poor litigation results in these states, insurers carefully review where trucking firms drive the most miles and may decline or structure deals less favorably for those operating in what are viewed as more challenging jurisdictions as stated above. Furthermore, insureds with any losses are facing tougher renewals in the current market. More insurers are opting to simply decline firms with more than one loss occurring in the last five years while firms with two years of losses in a five-year period will very likely see higher premiums and attachment points as well as larger retentions.

INSURER APPETITES & CAPACITY

Established insurers with significant portfolios of excess trucking risks have been reconsidering the acceptability of the class and drastically re-underwriting their books by changing attachment points and limit deployment in addition to pricing. Despite these changes, capacity is not always a challenge. Such pullbacks in the market have paved the way for new entrants that are having a stabilizing impact on pricing overall and creating a more competitive environment for smaller firms. For larger accounts, the widespread shortening of casualty excess limits remains a challenge and solutions may include both the Bermuda and London markets.

Many markets are still willing to put up $2M on a lead excess basis. However, carriers previously offering $5M layers in most cases will now only offer $2M - $3M, and those previously at $10M have downshifted to $5M or less. It should be expected that more markets will be required to fill out the same expiring limit structure. A $25M placement, for instance, may now require three to five markets versus only one or two in the past.

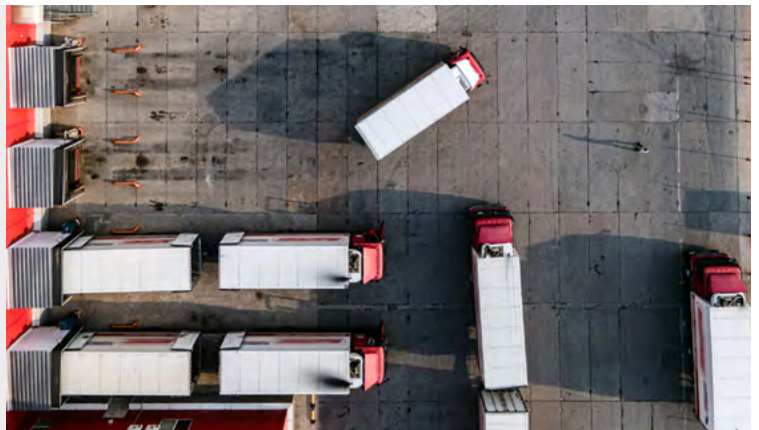
Observed examples of the above include the full exit of one liability carrier who regularly contributed $5M of excess limits and other carriers reducing limits from $10M down to $2.5M-$5M but not deploying those limits unless above a $25M attachment point. Another market leader previously offering $10M limits above the first $10M of excess coverage is now seeking a $10M deductible, which would place it in excess of $20M on the first claim.

A MORE STABLE PRICING ENVIRONMENT

Pricing has stabilized somewhat in comparison with recent years. One could also say that the rate of increase is decreasing. Smaller accounts buying lesser limits can expect an easier ride, but larger accounts, particularly those looking at very large limits will have more difficulty. The impact grows with the size of the placement.

Truck fleets under 250 units that typically don't buy limits of more than $5M or $10M in excess are feeling the economic crunch, so they are buying less, and in some cases buying only contractually mandated limits. Some trucking firms cite concerns that higher limits may attract higher legal settlements in the event of lawsuits as a reason to buy lower limits, but that can be a slippery slope. For some smaller truckers, minimum premiums can still be challenging.[10]

About 92% of trucking companies have ten or fewer trucks.[10]



Rates are rising 5% to 10% on reasonable accounts. Claims make the difference, and will drive pricing up, unless balanced by a reduction in fleet size or driving distance. Insureds may benefit from a lift in exposures as pricing will not necessarily increase on a unit-by-unit basis. If exposures are flat, good accounts buying less than $10M in limits with good loss histories and clean CAB records can still obtain reasonable pricing.

However, it's a different story for large accounts that are buying more than $10M with 500 to 1,000 units. Those accounts will find it is more difficult to obtain the desired limits at acceptable prices. Excess carriers are tending to follow the price increase on the primary, so if the primary rises 7%, the excess may fall nearer that level instead of the 15% - 20% percent increases seen in recent years.

Insureds may have to take on a bit more risk in the layer above the first $5M or $10M of excess coverage, including quota share or corridor deductibles. For larger accounts buying larger limits, capacity remains tighter, and it is more expensive. The higher layers may see more of a percentage increase, which is likely to flow down through the entire tower given the compression in rates among the excess layers, which can be priced at up to 90% of the layer below rather than the 50% or 60% seen in past years. For the higher layers, more carriers are raising their minimum attachment points and minimum per million pricing.

Ancillary industries, such as waste and non-emergency medical transportation, may have fewer markets available in the excess trucking market and may face significant price increases.

UNDERWRITING: QUALITY SUBMISSIONS MATTER

On the underwriting side, small and medium accounts may be rejected out of hand if CAB and safety scores exceed certain levels. For larger accounts, underwriters are often more willing to consider additional information, such as remedial actions taken to improve those scores. This includes technology upgrades and safety efforts being implemented by the insured as well as details around any CAB issues and corresponding corrective actions. In conjunction with technology deployment information, submission data should include locations and driving distances.

Along with forward-looking and driver-facing cameras, underwriters are also interested in collision avoidance and lane assist technology useful in documenting accidents. In the court room, technological evidence has gone both ways and may not always support a positive outcome for insureds.

BOTTOM LINE

The excess market for trucking firms has become more manageable. Renewal pricing is falling more in line with primary insurance. Still, it's important to create reasonable expectations for insureds. If a firm's primary insurance rates are increasing, the excess rates are very likely to follow suit. Accounts that require substantial towers need to prepare well in advance of renewal as it will likely take more carriers to achieve desired limits, perhaps requiring a restructuring of the tower, different attachment points, and other complex details.

CRC Group is home to experienced Casualty brokers with the established relationships and marketplace expertise that can help ensure your client's submission reaches the top of the underwriting stack. Reach out to your local CRC Group producer today.

CONTRIBUTORS

- **Andrew Baker** and **Joe LaRocca** are Brokers and Senior Vice Presidents with CRC Group's Birmingham, AL office.
- Casualty Broker **Craig Nettles** and Senior Broker **Tim Stone** are part of CRC Group's Norcross, GA office.
- **Terry Winkler** is a Senior Vice President and Broker with CRC Group's Chicago, IL office.

END NOTES

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