

A photograph of two white semi-trucks driving on a multi-lane highway. The truck on the left is a Volvo, and the one on the right is a Freightliner. They are both moving towards the viewer. The scene is set during sunset or sunrise, with a warm, golden light illuminating the sky and the road. A large, stylized blue graphic element, resembling a road or a stylized 'M', is overlaid on the left side of the image. The background shows a hilly landscape under a clear sky.

# Transportation Market Update

April 2020



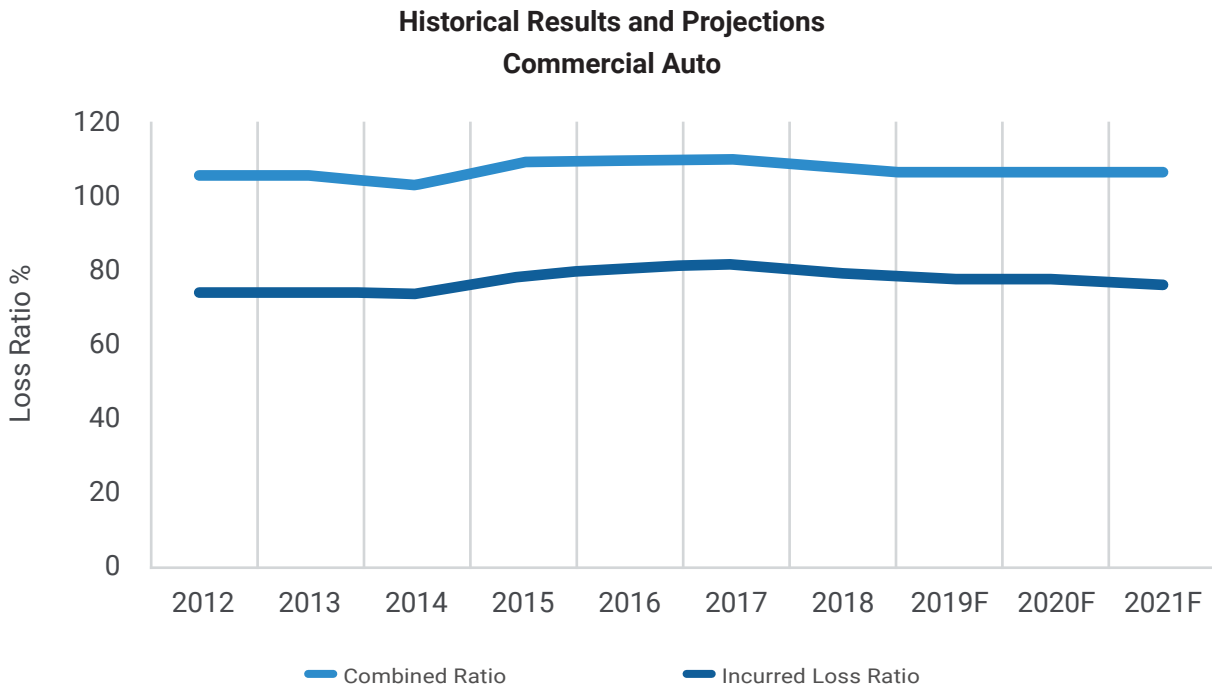


# Market Overview

As we head into the second quarter of 2020, we find ourselves faced with unprecedented circumstances resulting from the COVID-19 pandemic. Recognizing the severe impact this situation is having on various companies within the business insurance market, our primary focus has been and will continue to be on obtaining premium and cash flow relief for our clients as well as evaluating potential coverage for the financial losses resulting from this pandemic. Our first priority as an insurance broker is to support our clients in every way we can help to ensure ongoing financial health and prosperity. With this in mind, we wanted to take a moment to provide our clients with an update on overall casualty market conditions.

## Primary Auto Liability

Primary Auto Liability insurers continue to struggle to become profitable in the face of increasing frequency and severity of losses. According to the NHTSA, the number of fatal crashes involving large trucks or buses increased 40 percent between 2009 and 2019. From 2016 to 2019, the number of fatal crashes involving large trucks or buses increased by 8%. This increase in frequency has been coupled with increased severity, due to large jury verdicts and settlements. The sustained high frequency and severity has not allowed insurers to return to profitability in Commercial Auto despite the rate adjustments we've seen for the past several years, as noted in the chart below.



Source: Conning Inc., An AM Best Company







These negative results and trends have led underwriters to either exit the marketplace or adjust rates significantly. Most impacted are insureds that are unable to take significant retentions where underwriters are seeking 10 to 50% rate increases in 2020. Insureds that are able to absorb meaningful retentions are experiencing rate increases between 5 to 10%. Insureds that have loss activity in insured layers are subject to higher rate increases.

In the Public Auto space, insurers have sought higher rate increases due to poorer results on their books of business. The added element of passengers has caused some insurers to avoid this space entirely. Insureds that purchase Guaranteed Cost or low deductibles are receiving 50 to 100% rate increases. Several of our larger Public Auto accounts have reported that smaller operators have approached them looking to sell, which is directly related to increased insurance costs.

On large deductible placements, insurers are looking at credit issues and exposures now more than ever. Therefore insureds should be prepared to disclose what they can about the uncertain impact of the pandemic on business revenues and their ability to weather the downturn. That means outlining expense reduction strategy, cost structure (fixed vs. variable), and sources and uses of cash.

Insurers that are reliant on the facultative reinsurance market for capacity are subject to more dramatic swings in rate as a result of a significant contraction in that marketplace. This favors larger insurers such as Chubb, AIG and AXA/XL, since they're better equipped to absorb more of the capacity on select risks to offset rate increases.

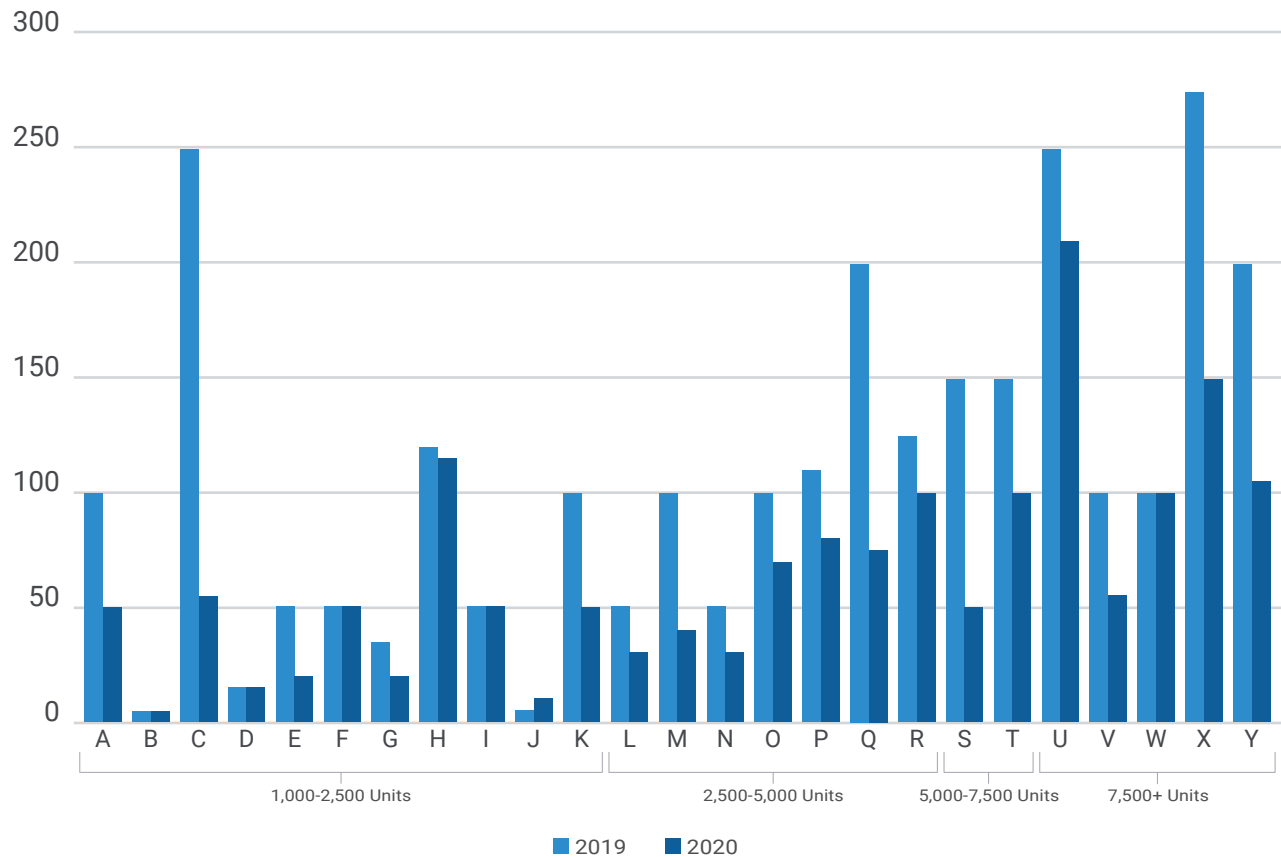
Detailed underwriting continues, focused in large part on technology investment, driver census, loss prevention and motor carrier controls.

Looking forward to the second half of 2020, we see continued pressure for rate increases in the primary, as insurers try to keep current with the increased loss trends. We expect loss trends to continue at 5 to 6% annually.

## Excess Auto Liability

In the second half of 2019, we saw premiums in the Excess Liability market for transportation risks escalate at an alarming rate as capacity shrunk. As difficult as it is to believe, the first quarter of 2020 actually got worse. We have seen further reduction in capacity and very little drop off in pricing from layer to layer. As a result, transportation companies have purchased significantly less excess limits during first-quarter renewals. As indicated in the chart below, of 25 companies renewing in the first quarter, the average limits purchased in 2019 was \$110 million vs. \$65 million at renewal in 2020.

**Transportation Company | Excess Insurance Limits Purchased  
2019 vs 2020**



Source: McGriff Book of Business and Industry Survey Data





Nuclear verdicts have been driving the market since 2018. Historically, a settlement/verdict in excess of \$10 million was relatively rare. Over the past two years, however, we've identified more than 25 Transportation settlements/verdicts in excess of \$15 million and more than seven in excess of \$100 million.

Plaintiff attorneys team up, share resources, and target big name truckers, but no entity within the supply chain is immune. Their goal is to present a corporation, versus an individual, and exploit any violation associated with the corporation's policy or procedures. If the employee, or corporate representative, deposed admits to an unsafe practice, or failure to comply with a policy or procedure plaintiff attorneys seek to punish the corporation. Most of the large awards include punitive damages, which are used to punish a corporation directly, and these damages are not insurable in all states.

The current legal environment has driven insureds and insurers to settle claims for higher amounts than previously expected in order to avoid litigation and the unknown outcome of a jury trial. The highly organized plaintiffs' bar is using advanced litigation tactics, including "reptile theory," to appeal to juror emotions, resulting in unprecedented liabilities for defendants.

We are also seeing more "litigation financing," in which third parties provide funds to finance lawsuits in exchange for a portion of the settlement. As a result, some insurers are leaving the marketplace or reducing capacity, which is driving significant premium increases and a need for new capacity. The excess market is broken down between Buffer Layer (the first layer above the primary), Lead Umbrella and Excess Tower.

The Buffer Layer has been relatively stable through the first quarter of 2020 after several years of market correction, though insurers are still seeking moderate rate increases between 5 to 20%. The challenge for large transportation accounts is that there are only a handful of insurers that will write the layer.

The Lead Umbrella layer for transportation was dominated by AIG and Zurich for years. After their departure from the layer three years ago, Chubb has assumed the majority of the marketplace by restructuring the lead to a \$10 million vs. \$10 million layer. There is no consistent alternative to Chubb for transportation risks. AXA/XL and London occasionally will offer terms for the Lead Umbrella, but their terms are typically not significantly better than Chubb's. Chubb is seeking between 15 and 30% in this layer to address 'trend' and claims now entering their layer.

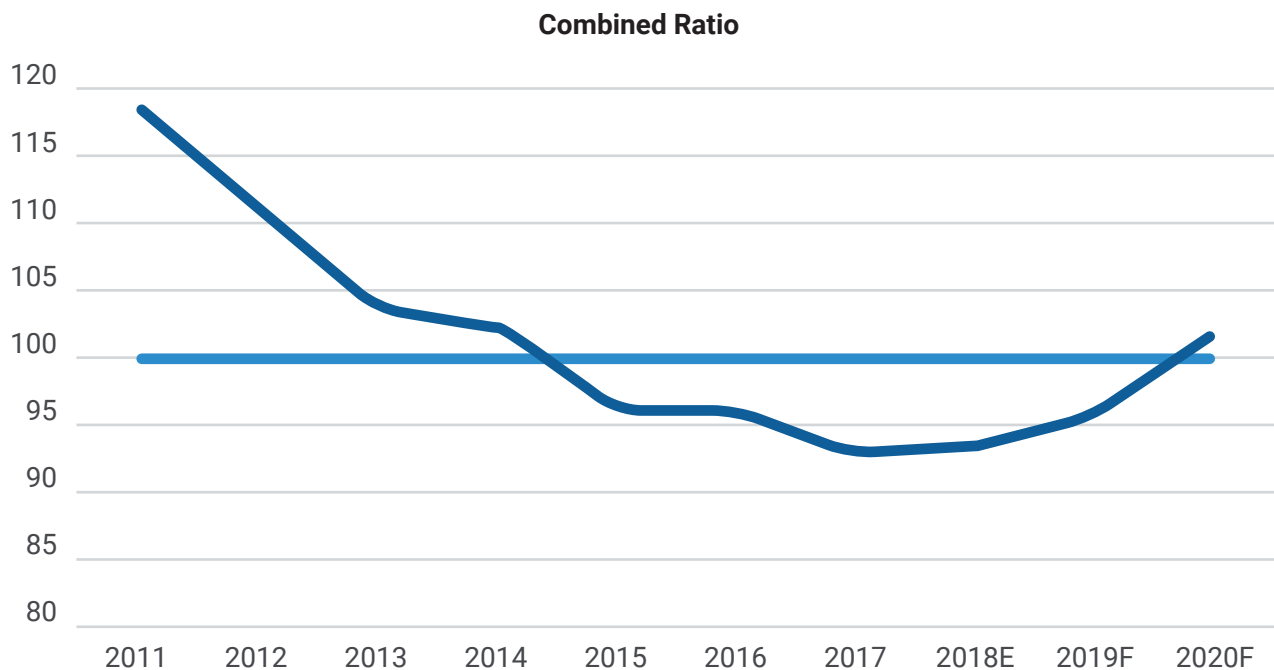
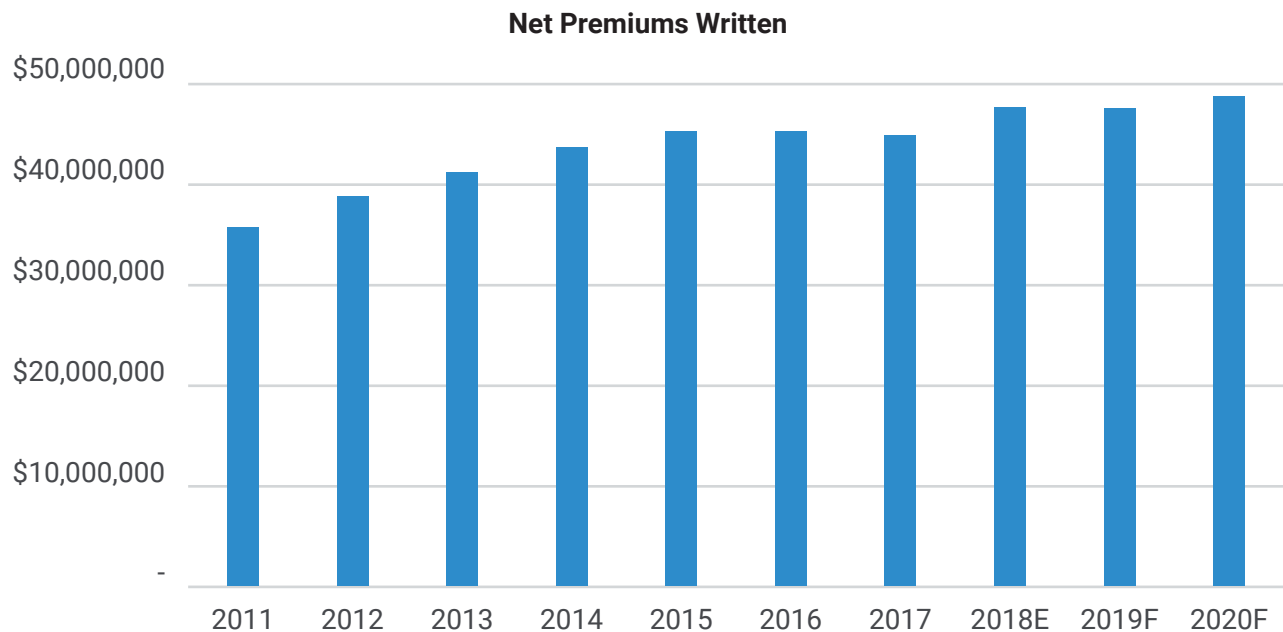
The Excess Tower has seen the most dramatic shift in capacity and pricing. The nuclear verdicts noted above have driven several insurers out of the marketplace and others to reduce their capacity and seek higher attachment points. In response to these shifts, we are restructuring the Excess Tower with smaller layers and more insurers. We are also seeking global capacity through the London, Bermuda and European marketplace.

Rates in the \$25 million to \$100 million layers have increased between 100 to 1,000%. Rates in layers above \$100 million meanwhile have increased even higher due to increased minimum premiums per \$1 million of coverage offered. Looking forward to the remainder of 2020, we see these trends continuing along with a need to meet with the global markets in person to discuss risks and mitigation strategies to gain capacity at reasonable cost.



## Workers' Compensation

The Workers' Compensation market has remained relatively flat, averaging less than 5% rate increases over the past seven years. Underwriters are now profitable on this line of coverage and we do not anticipate any material rate changes for Workers' Compensation in 2020. Looking beyond 2020, we see the Workers' Compensation market drifting back into the red based upon current trends and the longtail nature of Workers' Compensation claims. This trend is noted below in the forecasts prepared by Conning, Inc. based on AM Best data.



McGriff continues to invest in our suite of digital, data and analytics capabilities, and will use the data-driven market intelligence delivered by MAP®, our McGriff Analytics Platform, to assist you in securing favorable pricing and coverage terms.

Contact a member of your local McGriff team for current information and guidance on navigating this changing marketplace, specifically:

- Begin renewal conversations early to avoid the unexpected
- Document and communicate your risk control processes and communications
- Engage your McGriff team to prepare data and analytics that differentiate your company from peer organizations



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