March 16, 2018

Market Segment Outlook: US Commercial Auto

Our outlook for the commercial auto segment remains negative; performance has lagged that of other P/C sectors, a trend that continued through third quarter 2017

A.M. Best is maintaining a negative outlook on the commercial auto segment for 2018. Despite several years of rate increases, adverse development of prior years' loss reserves continues to result in rising calendar-year underwriting losses. As a result, the performance of the commercial auto segment has lagged that of other P/C sectors for several years, a trend that continued through the third quarter of 2017.

Commercial auto underwriting challenges are being compounded by rising frequency and severity of claims. Miles driven has grown at record levels, and driver distraction continues to increase. At the same time, rising vehicle repair and medical costs are causing an increase in severity, exacerbated by legal tactics that contribute to higher settlements, such as delayed reporting of injuries until after extensive medical treatment has been provided.

The industry has responded with a series of substantial rate increases, but it has yet to get completely ahead of these trends. The use of more detail-focused underwriting (using effective loss control and risk management techniques) and continued rate increases are helping to mitigate claims frequency and severity. However, a discernible improvement in profitability is unlikely until there is a more significant reduction in accident frequency and severity, with improved recent accident years' results able to compensate for the ongoing adverse development of prior years' loss reserves.

Best's Market Segment Outlooks

Our market segment outlooks examine the impact of current trends on companies operating in particular segments of the insurance industry over the next 12 months. Typical factors we would consider include current and forecast economic conditions; the regulatory environment and potential changes; emerging product developments; and competitive issues that could impact the success of these companies. Best's ratings take into account the manner in which companies manage these factors and trends.

A Best's Market Segment Outlook, like a Best's Credit Rating Outlook for a company, can be positive, negative, or stable.

- A positive market segment outlook indicates that A.M. Best expects market trends to have a positive influence on companies operating in the market over the next 12 months. However, a positive outlook for a particular market segment does ***not*** mean that outlook for ***all*** the companies operating in that market segment will be positive.
- A negative market segment outlook indicates that A.M. Best expects market trends to have a negative influence on companies operating in the market over the next 12 months. However, a negative outlook for a particular market segment does not mean that outlook for all the companies operating in that market segment will be negative.
- A stable market segment outlook indicates that A.M. Best expects market trends to have a neutral influence on companies operating in that market segment over the next 12 months.

We update our market segment outlooks annually, but may revisit them at any time during the year if regulatory, financial, or market conditions warrant.

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