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# MUNICIPAL INSIGHTS

A Moreton & Company Public Entities Newsletter

## 6 Forces Driving Auto Insurance Costs

Over the past few years, commercial auto insurance rates have steadily increased due to inflation, driving behaviors and rising legal system abuse. To help you navigate future client conversations, we're sharing some insights into these latest trends. Over the past decade, auto insurance rates have increased steadily, well exceeding the rate of inflation over the same period. But what's driving this upward trend? Explore factors that have significantly impacted the rates for commercial auto.

### 1. Bodily Injury Loss Costs

Since 2020, bodily auto severity has increased 20%, while total loss claims have jumped by 29%. This trend is the result of multiple factors, including the rise in medical costs, uninsured drivers on the road, and speeding-related traffic incidents. Speeding directly contributes to nearly 30% of total traffic fatalities, and 13% of injuries. Of the speeding drivers who were involved in fatal crashes, 29% were driving without a valid driver's license, and more than half (52%) were not wearing a seatbelt at the time of the crash. Employers should implement a strong fleet safety program and monitor driver behavior to help reduce the likelihood of speeding. Below are some elements of a strong fleet safety program.

- **Driver Identification:** Is your entity aware of the full extent of non-owned vehicle exposure? You should identify everyone who drives on behalf of your entity, even those employees who use personal and/or rented vehicles.
- **Management Commitment:** Leadership support of the program will encourage employees to utilize it.
- **Driver Screening:** Screening and selecting drivers carefully can create a reliable, safe team. Without safe drivers, no organization is likely to have a good long-term safety record. Establish clear hiring standards and a thorough screening process for anyone who drives on entity business.
- **Comprehensive Training:** All drivers should have access to information on safe driving strategies and techniques, including instruction in defensive driving. When drivers understand the safety policies and procedures, they're more likely to follow them.
- **Driver Management:** Ongoing management is essential to ensure that drivers are following fleet safety rules and driving safely.
- **Accident Management:** Managing accidents when they occur can help mitigate costs and provide a better understanding of your exposures, which can be used to reduce the potential for future losses.
- **Policies & Procedures:** Establishing written policies and procedures sets clear, consistent expectations.
- **Vehicle Maintenance Plan:** Formalizing a plan for vehicle inspection, repair and maintenance helps reduce costly, unexpected breakdowns and can assist in avoiding accidents due to faulty equipment.

## 2. Rapid Rise Of Litigation Costs

Nuclear verdicts (awards over \$10 million) are on the rise, along with attorney involvement and social inflation. These factors add up to higher litigation costs across the board. For example, reptile theory (in which attorneys appeal to the jury's emotional response by highlighting what the defendant could have done differently) is routinely used to drive up award amounts.

What's more, third-party litigation funding is on the rise as a result of lax federal oversight, as well as the possibility for investors to get substantial returns on higher verdicts. Hiring and retaining safe drivers is key to reducing your exposure to these costly lawsuits. In general, there are four steps you can follow:

- 1. Check the Motor Vehicle Record (MVR):** Every driver comes with a history, and ensuring that your drivers' history meets your standards can save a great deal of trouble in the future.
- 2. Monitor Driver Performance:** Holding drivers accountable to safety standard is a key part of maintaining your driving program. Useful methods include reviewing all accidents or traffic incidents, conducting ride-along evaluations, and checking vehicle performance data for evidence of speeding, hard braking, or aggressive acceleration.
- 3. Prevent Driver Fatigue:** Fatigue is natural, but a tired driver has no business behind the wheel; the National Highway Traffic Safety Administration estimates approximately 100,000 accidents per year due to driver fatigue. Create policies and schedules to prevent driver fatigue, including training on the dangers of driving while fatigued. Establish written policies detailing when employees must seek accommodations to rest, and ensure that drivers understand the signs of fatigue disorder.
- 4. Promote Good Health In Drivers:** By ensuring that your drivers meet minimum health requirements set by the Federal Motor Carrier Safety Administration, you can avoid conditions that may negatively affect their driving. Encourage drivers to eat healthily while on the road, and educate drivers on how drinking, smoking, mental health, and other conditions can impact their driving.

## 3. Distractions & Impairment

In a recent report, 64% of organizations surveyed worry that employees driving while distracted could cause liabilities, representing a five-year high. Technology is a leading cause of distracted driving; 25% of employees reporting work-related crashes or collisions attribute it to technological distractions. Implementing and consistently following a distracted driving policy at all levels of the organization is an essential first step to eliminating such accidents. You can enhance your distracted driving policy with four simple steps:

1. Create a formal, written policy that directly addresses mobile device use while driving. Include any other source of distraction your drivers are likely to encounter.
2. Communicate your safety policy to employees on a regular basis. Go beyond asking employees to acknowledge that they have read and understood the policy with emails, newsletters, and signage throughout the year.
3. Lead by example. Managers should remind employees that no phone call, text, or email is more important than their safety—and back this up by refraining from reaching out to employees while they are on the road.
4. Promote safe driving practices with strong leadership and reinforcing desired behavior.

## By the Numbers:

25% of employees report collisions due to technology distractions.

Motor vehicle maintenance costs rose 10% between 2023 and 2024.

Bodily auto injury severity increased 20%, and total loss claims have jumped by 29%.



## 4. Inexperienced Drivers

Resignations and retirements are leading to a shortage of commercial operators, which in turn leads to less experienced replacement drivers behind the wheel. Studies have shown that inexperienced commercial drivers have higher rates of preventable accidents, crash involvements, and moving violations than their more experienced counterparts. Driver retention is critical for an effective fleet, but when it comes time to recruit new drivers, here are some tips:

- Create consistent standards for all drivers
- Evaluate MVRs for violations
- Verify past work history and safety records
- Conduct written road tests
- Conduct background checks
- Verify certification

## 5. Vehicle Repair & Replacement Costs

Advanced materials and emerging technologies have rendered autos more expensive to insure and repair. The consumer price index of motor vehicle maintenance and repair rose 10% between 2023 and 2024 alone. Meanwhile, vehicle theft rates are further contributing to increasing auto insurance costs, with vandalism and catalytic converter thefts driving recent claims volume.

## 6. Increasing Usage Of Third-Party Transportation Carriers

The use of third-party carriers is on the rise, thanks to the explosion of global e-commerce shipping, supply chain complexity and cost optimization. However, businesses that rely on third-party carriers could face litigation if the motor carrier is involved in an auto accident and lacks adequate liability coverage. Additionally, increasing attorney involvement means plaintiffs and their legal counsel may seek higher damage amounts by alleging that the business was negligent in hiring the third-party transportation provider or was engaged in direct oversight to the drivers.

Travelers. "6 Forces Driving Commercial Auto Insurance Costs." Travelers Insurance, August 11, 2023.

[https://www.travelers.com/resources/business-topics/insuring/commercial-auto-risks-that-can-increase-insurance-rates?utm\\_source=AGT\\_BIA\\_MultiMessageM-BIWide-AutoRate-Agent\\_PROD\\_2024-12-12&utm\\_medium=SFMC\\_EMAIL&utm\\_campaign=AgentAndBroker&utm\\_term=BIWide&utm\\_content=AutoRate\\_PrimaryCTA-SeeTheUpdates-BodyTop](https://www.travelers.com/resources/business-topics/insuring/commercial-auto-risks-that-can-increase-insurance-rates?utm_source=AGT_BIA_MultiMessageM-BIWide-AutoRate-Agent_PROD_2024-12-12&utm_medium=SFMC_EMAIL&utm_campaign=AgentAndBroker&utm_term=BIWide&utm_content=AutoRate_PrimaryCTA-SeeTheUpdates-BodyTop).

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