



Texas Department of Insurance

Commercial Auto Biennial Report

November 2022

TDI | Texas Department
of Insurance



Commercial Auto Biennial Report

by the

Texas Department of Insurance

Submitted November 2022

A handwritten signature in black ink, appearing to read "C. Brown", with a long horizontal flourish extending to the right.

Cassie Brown

Commissioner of Insurance

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Overview

Background

In September 2021, the Texas Legislature enacted [House Bill 19](#) (87R, 2021). The bill:

- Changed the process for civil litigation involving commercial motor vehicles. It requires courts to split, upon timely motion, a trial into an initial phase to determine liability and resulting compensatory damages, and a second phase to determine exemplary damages.
- Detailed new procedures, in certain situations, for introducing evidence of an owner-employee liability during the initial phase of a trial.
- Created Insurance Code Section 38.005. The section instructs TDI to conduct a study every even-numbered year through 2026 on the effect of the law on commercial automobile insurance premiums, deductibles, coverage, and coverage availability. TDI must also submit a report of the study results to the Legislature.

Commercial auto study

To evaluate commercial auto insurance premiums, deductibles, coverage, and coverage availability, this study focuses on:

- Market conditions.
- Competition.
- Rates and average premiums.
- Deductibles and limits.
- Loss performance.
- Underwriting practices.

Because this initial study was conducted shortly after the law took effect, it mainly provides baseline information about the commercial auto market. It also provides some data from after the law took effect, but it is too early to pinpoint trends, effects, or marketplace changes possibly due to the law.

The study considers:

- **Liability coverage:** Since the law only addresses third-party litigation, the study focuses on mandatory liability coverages.
- **TTT vehicle type:** Commercial auto insurance covers many vehicle types, but where possible, the study separates the trucks, tractors, trailers (TTT) vehicle type, and, specifically, truckers' risks from other vehicle types.
 - **Truckers:** Truckers is an industry within TTT covering autos used to haul or transport goods, materials, or commodities for another, other than autos used in moving operations.
 - **Non-truckers:** Other industries within TTT include manufacturers, contractors, food delivery, specialized delivery, farmers, and dump trucks.
- **Non-TTT vehicle types:** Other commercial vehicle types are private passenger, garage risks, public autos, special autos, and non-owned autos.

Key findings

Coverage and availability of coverage

- The top 10 groups write over half the commercial auto premium in Texas, but the commercial auto market is competitive.
- The truckers' liability submarket is highly concentrated and becoming less competitive. A few insurers write the bulk of this business.
- Surplus lines market share in Texas nearly doubled from about 5% in 2019 to 10% in 2021.
- Ten-year return on net worth for liability coverage was about -2% in 2021, its lowest point in at least 18 years.
- Loss performance for liability coverage, as measured by loss and allocated loss adjustment expense ratios, improved by 13% since 2017, including continued improvement in the first half of 2022.
- Insurers did not report any clear difference in underwriting actions—such as issuance of new and renewal policies, or changes in limits, deductibles, and pricing—before and after the law took effect.

Premium

- Premium volume for the admitted market and the surplus lines market continues to grow annually by double-digit percentages.
- Rates have increased by almost 45% since 2017, averaging about 6% per year.
- Average liability premium for all vehicle types increased by 50% from 2017 to 2021, averaging about 11% per year. Average liability premium for the first half of 2022 is about the same as the 2021 average.
- For truckers' risks that regularly travel long distances, average liability premium increased significantly from 2017 to 2021, then dropped in the first half of 2022 to a value lower than in 2019.

Deductibles and limits

- In recent years, between 10% and 17% of commercial auto risks have used liability deductibles.
- While use of liability deductibles has increased overall, use for truckers' risks that regularly travel long distances is negligible.
- For TTT risks, there was a shift away from the smallest and largest deductibles. For non-TTT risks, there was some evidence of a shift away from the higher deductibles in favor of lower deductibles.
- The median liability limit has consistently been \$1 million for all vehicle types, and there does not appear to be a major shift toward higher or lower limits.

Commercial auto basics

Coverage

Commercial auto insurance includes the following coverages:

Mandatory liability

- **Bodily injury:** Pays when the insured is at fault in an auto accident and causes bodily injury to others.
- **Property damage:** Pays when the insured is at fault in an auto accident and causes damage to someone else's property.

Optional liability

- **Personal injury protection (PIP) and medical payments:** Pays medical expenses for the insured and occupants of the insured's vehicle for injuries caused by an auto accident.
- **Uninsured or underinsured motorist (UM/UIM):** Pays for the insured's injuries and damages if caused by an auto accident with an uninsured or underinsured driver.

Physical damage

- **Collision:** Pays to repair or replace the insured's auto if damaged in an auto accident.
- **Comprehensive:** Pays to repair or replace the insured's auto if stolen, damaged from weather, and other non-collision causes.

Policies

There are three main types of commercial auto policies:

- **Business auto:** Covers most types of commercial vehicles.
- **Motor carrier:** Covers truckers and can include coverage for cargo.
- **Auto dealers:** Covers auto dealerships and includes general liability coverage.

Vehicle types

Commercial autos are generally categorized into six vehicle types:

- **Trucks/Tractors/Trailers (TTT):** Trucks, including pickups, panel and van types, truck-tractors, trailers, and semi-trailers.
- **Private passenger:** Four-wheel auto of the private passenger or station wagon type; includes pickups, vans, and SUVs.
- **Garage risks:** Auto dealers, service stations, parking facilities, and garages.
- **Public autos:** Vehicles used for public transportation, such as taxicabs, limousines, buses (including school and church buses), and van pools.
- **Special autos:** Vehicles used for special purposes and miscellaneous-type vehicles, such as ambulance services, fire department, and law enforcement.
- **Non-owned autos:** Hired autos and employers' non-ownership liability for employee-owned autos used in the course of business.

Regulatory environment

Rates and forms

State law requires that rates be adequate, based on sound actuarial principles, and reasonably related to expected loss, and that they not be excessive or based on the insured's race, creed, color, ethnicity, or national origin.

Admitted insurers must file their commercial auto rates with TDI. An insurer may use its filed rates on or after the date the rate is filed. TDI does not approve commercial auto rates, but TDI's actuaries review rate filings for compliance with state law and actuarial standards. Beginning September 1, 2021, under [SB 1367](#), insurers are no longer required to submit rate filings for certain large risks.

Policy forms are subject to prior approval unless used for large risks. Most commercial auto insurers use forms authored by the Insurance Services Office, Inc. (ISO), an insurance advisory organization. Otherwise, insurers use proprietary forms they have filed for approval. TDI makes sure all forms comply with applicable rules and laws and forms are not unfair.

Commercial auto insurance requirements

The [Transportation Code](#) sets the minimum amounts of motor vehicle liability insurance coverage (often referred to as minimum limits of 30/60/25) required to establish financial responsibility at:

- \$30,000 for bodily injury to or death of one person in one accident.
- \$60,000 for bodily injury to or death of two or more persons in one accident.
- \$25,000 for damage to or destruction of property of others in one accident.

Other requirements:

- The Insurance Code requires [UM/UIM](#) and [PIP](#) coverage unless rejected by the insured.
- The Transportation Code requires certain insurance coverage to register a commercial vehicle with the Department of Motor Vehicles. The [requirements](#) vary by weight, size, cargo, and vehicle type.
- For vehicles that qualify under the Federal Motor Carrier Safety Administration (FMCSA), there are [minimum FMCSA requirements](#) for interstate motor carriers.

Insurance options

Insureds who can't find adequate coverage in the admitted insurance market have these options:

- **Texas Auto Insurance Plan Association (TAIPA):** Provides minimum limits of 30/60/25 only, along with UM/UIM and PIP. Applicants don't qualify for TAIPA if they need coverage required by any law other than Transportation Code Chapter 601; truckers also are ineligible. The volume of commercial auto premium written in TAIPA is insignificant.
- **Surplus lines insurers:** Specialty insurers covering unique risks that admitted insurers can't or won't insure. They do not submit rate and form filings with TDI but are regulated for solvency by their domiciliary state.
- **Excess liability insurance:** Provides additional coverage that exceeds the limits of a base commercial auto policy or self-insured retention. Rate and form filings for this coverage were no longer required as of September 2021.
- **Risk retention groups (RRG):** Member-owned self-insurance pools covering liability only for a group with similar risk. They do not submit rate and form filings with TDI but are regulated for solvency by their domiciliary state. RRG market share is about 1%.

Pricing

Insurers use many different rating plans that can vary significantly. A procedure to rate liability coverage for the TTT vehicle type usually involves:

- Classifying a risk based on vehicle size and business use.
- Considering the type of industry, such as truckers, manufacturers, and contractors.
- Determining territory or zone based on radius of operations.
 - **Non-zone-rated:** Lightweight trucks (and associated trailers), plus vehicles that do not regularly operate beyond a 200-mile radius.
 - **Zone-rated:** Heavier vehicles that regularly operate beyond a 200-mile radius.
- Adjusting for selected limits, deductibles, and fleet size.
- Incorporating other rating modifications, such as proprietary rating variables, experience rating, schedule rating, retrospective rating, and discounts or surcharges.
- Adding the cost to cover insurers' operational expenses.

The rating procedure for the public auto vehicle type is similar, but use type and seating capacity are considered instead of size, business use, and industry. Use type for public autos includes taxicabs, school and church buses, and van pools.

Rating procedures for auto physical damage coverage and the other vehicle types—private passenger autos, garage risks, special autos, and non-owned autos—vary and include considerations such as payroll, cost of hire, number of employees, and specialty coverages.

Market conditions

Premium volume in the Texas admitted market and surplus lines market continues to grow annually by double-digit percentages. The surplus lines market share in Texas also has trended up recently – nearly doubling from about 5% in 2019 to 10% in 2021.

Texas direct written commercial auto premium

Year	Admitted insurers (in millions)	Change	U.S. surplus lines (in millions)	Change	U.S. surplus lines market share
2017	\$ 3,335	-	\$ 164	-	5%
2018	3,911	17%	231	41%	6%
2019	4,387	12%	251	9%	5%
2020	4,488	2%	384	53%	8%
2021	5,297	18%	590	54%	10%

Source: National Association of Insurance Commissioners (NAIC) Competition Database Reports; excludes non-U.S. surplus lines insurers.

The top 10 groups write over half the commercial auto premium in Texas. Progressive continues to grow as the top writer, increasing its market share from 17.6% in 2018 to 25.1% in 2021. Progressive is also the top writer countrywide, with a 16% market share. The top 10 groups in Texas are similar to the top 10 groups countrywide.

2021 top commercial auto groups in Texas by market share

Group name	Market share	Cumulative market share	Direct written premium (in millions)	2020 rank	2019 rank
Progressive	25.1%	25.1%	\$ 1,298	1	1
Berkshire Hathaway	4.8%	29.9%	248	5	3
Travelers	4.7%	34.6%	243	2	2
Old Republic	3.6%	38.2%	184	4	5
Liberty Mutual	3.4%	41.6%	176	3	4
Nationwide Corp	2.9%	44.4%	149	7	9
WR Berkley Corp	2.9%	47.3%	148	9	11
Zurich Insurance	2.6%	49.9%	135	6	7
Chubb Ltd	2.4%	52.3%	124	8	-
State Farm	2.4%	54.7%	123	14	6

Source: [TDI's Annual Legislative Report on Market Conditions](#); excludes surplus lines insurers.

The Texas surplus lines market has grown by double-digit percentages each year, with U.S. insurers writing the bulk of this market and U.S. surplus lines growth outpacing non-U.S. surplus lines insurers. It is worth noting that non-U.S. surplus lines insurers write mostly auto physical damage coverage, while U.S. surplus lines insurers have been writing more liability coverage in recent years.

Texas surplus lines direct written commercial auto premium

Year	U.S. (in millions)	Change	Non-U.S. (in millions)	Change	Total U.S. & non-U.S. (in millions)	Change	% U.S.
2017	208	-	117	-	325	-	64%
2018	236	14%	136	16%	372	15%	63%
2019	305	29%	119	-12%	424	14%	72%
2020	430	41%	98	-18%	528	24%	81%
2021	565	31%	112	14%	677	28%	83%
2022*	659	17%	112	-1%	771	14%	86%

Source: Surplus Lines Stamping Office of Texas (SLTX) data.

Note: Year is based on the date the transaction was reported to the SLTX.

* 2022 values are estimates using data through September 14, 2022, annualized using prior years' reporting patterns.

Competition

The information in this section is from the National Association of Insurance Commissioners (NAIC) Competition Database Report, which provides reference measures that serve as a starting point for examining the competitiveness of state insurance markets. These measures include market concentration, market growth, availability, and profitability.

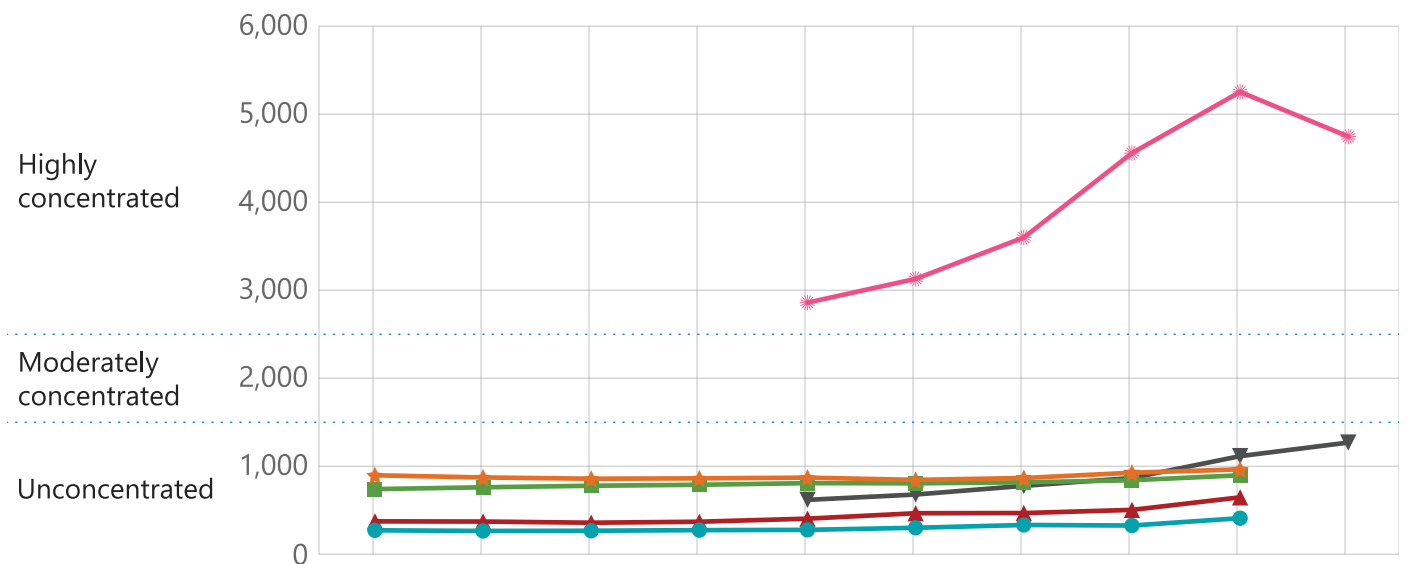
To provide some overall market perspective, this section compares Texas liability measures with countrywide commercial auto liability and personal auto liability. Note that these measures include U.S. surplus lines insurers.

Market concentration

The Herfindahl-Hirschman Index (HHI) measures market concentration or competition between firms. The lower the HHI, the more competitive the market. The personal and commercial auto markets are considered unconcentrated because their HHIs are below 1,500, meaning these markets are competitive.

The Texas TTT market is trending toward higher concentration but is still considered unconcentrated. Within TTT, truckers are highly concentrated and are becoming less competitive. A few insurers write the bulk of this business. In fact, the statistical plan data shows that in 2021, 10 insurer groups wrote about 93% of the total truckers' premium.

Herfindahl-Hirschman Index



Vehicle type	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022*
● U.S. commercial auto	277	270	272	279	282	305	336	330	411	N/A
▲ TX commercial auto	376	374	361	372	406	466	468	503	642	N/A
■ U.S. personal auto	733	753	770	781	799	797	808	831	886	N/A
★ TX personal auto	886	862	848	852	860	835	856	914	952	N/A
▼ TX TTT	-	-	-	-	614	673	769	856	1,098	1,248
✱ TX truckers	-	-	-	-	2,797	3,060	3,518	4,452	5,129	4,635

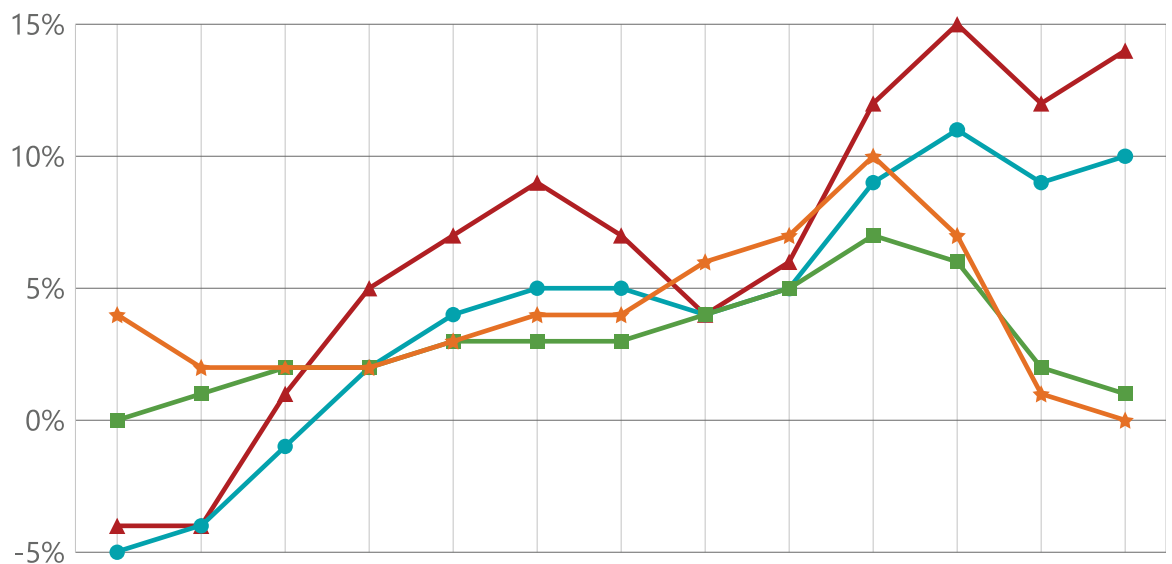
* Data is through June 2022 and was only available for Texas TTT and truckers.

Market growth

Market growth is measured as direct written premium growth for the past three years. Market growth can be a measure of competition, indicating when new consumers enter the market or when existing consumers purchase additional coverage, but increasing premium rates can also cause premium to increase.

While the growth pattern in Texas was similar to countrywide for both commercial auto and personal auto, market growth was higher in Texas than countrywide in most years. Within Texas, starting in about 2018, commercial auto market growth began to outpace personal auto; it continued increasing except in 2020.

Direct written premium growth



Liability type	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
● U.S. commercial auto	-5%	-4%	-1%	2%	4%	5%	5%	4%	5%	9%	11%	9%	10%
▲ TX commercial auto	-4%	-4%	1%	5%	7%	9%	7%	4%	6%	12%	15%	12%	14%
■ U.S. personal auto	0%	1%	2%	2%	3%	3%	3%	4%	5%	7%	6%	2%	1%
★ TX personal auto	4%	2%	2%	2%	3%	4%	4%	6%	7%	10%	7%	1%	0%

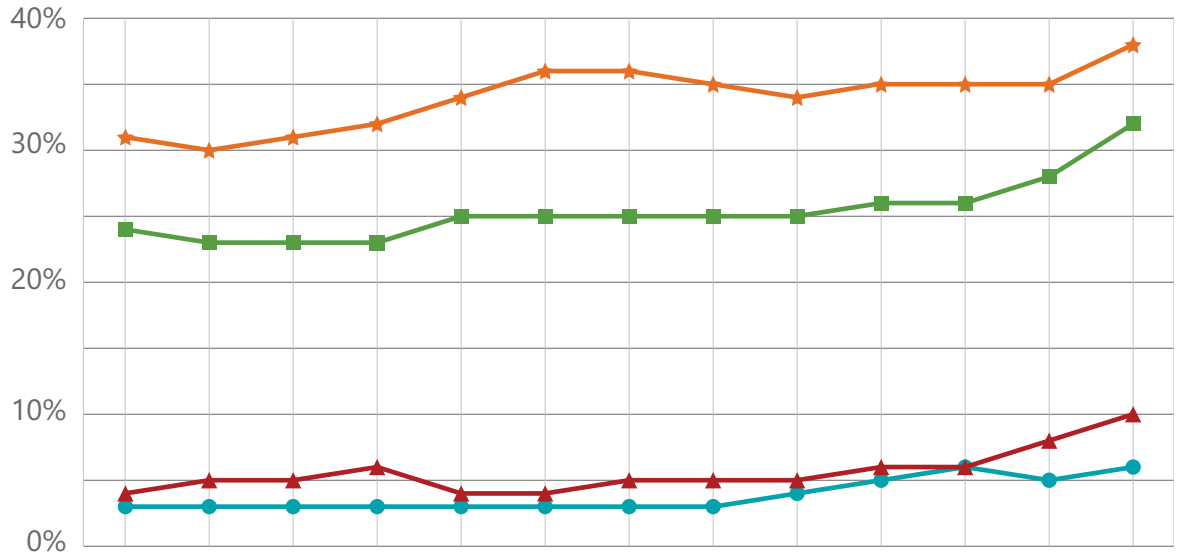
Note: Rolling three-year market growth, annualized.

Availability

Growth in the surplus lines market can be an indicator of coverage availability by reflecting decreasing availability of coverage in the admitted market. Surplus lines data is not relevant for personal auto, so this measure is compared to general liability insurance.

While surplus lines market share has been trending up for commercial auto in Texas, reaching 10% in 2021, it remains below Texas general liability market share, which was 38% in 2021. Surplus lines market share is greater in Texas than countrywide for both lines of business.

Surplus lines market share



Liability type	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
● U.S. commercial auto	3%	3%	3%	3%	3%	3%	3%	3%	4%	5%	6%	5%	6%
▲ TX commercial auto	4%	5%	5%	6%	4%	4%	5%	5%	5%	6%	6%	8%	10%
■ U.S. general liability	24%	23%	23%	23%	25%	25%	25%	25%	25%	26%	26%	28%	32%
★ TX general liability	31%	30%	31%	32%	34%	36%	36%	35%	34%	35%	35%	35%	38%

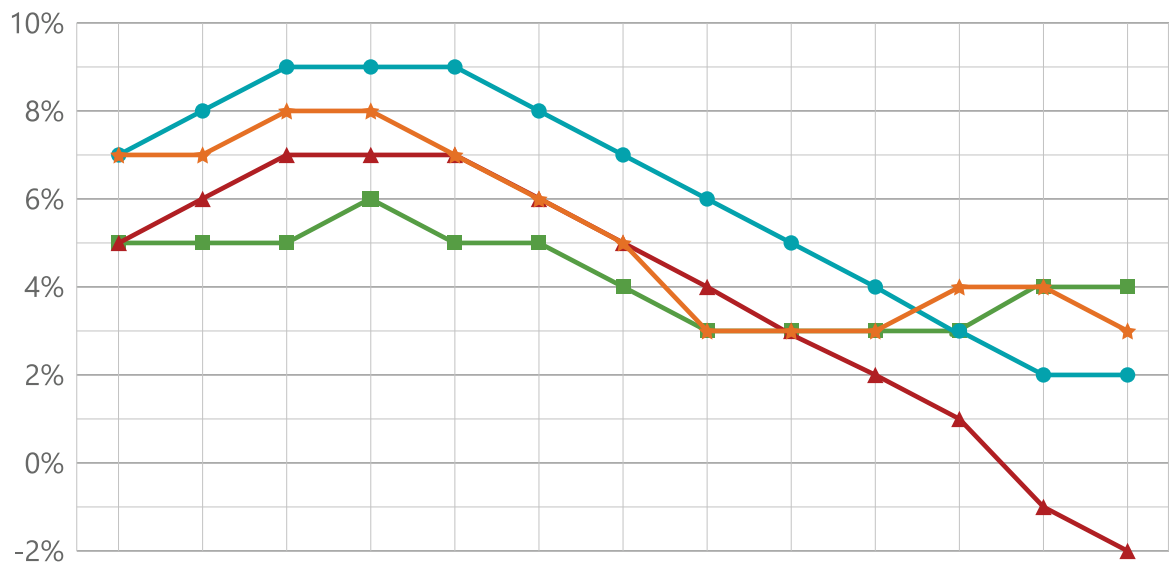
Profitability

Return on net worth is a measure of profitability that estimates profits earned in a particular market in relation to the net worth committed to that market. It is calculated as the ratio of net income after taxes to net worth and indicates the return on equity. The NAIC uses the average return over a 10-year period because the results for a single year can be highly variable.

Commercial auto profitability in Texas peaked in 2013 at 7.4%, decreasing every year since then, and was -2.3% in 2021. In contrast, personal auto in Texas dropped from a high of about 7.7% in 2012 to an average of 3.3% since 2016.

Commercial and personal auto trends in Texas are similar to countrywide trends. Texas commercial auto profitability was consistently a few percentage points lower than countrywide, but it started to diverge more in 2018 and turned unprofitable in 2020 while other markets remained profitable.

Return on net worth



Liability type	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
● U.S. commercial auto	7%	8%	9%	9%	9%	8%	7%	6%	5%	4%	3%	2%	2%
▲ TX commercial auto	5%	6%	7%	7%	7%	6%	5%	4%	3%	2%	1%	-1%	-2%
■ U.S. personal auto	5%	5%	5%	6%	5%	5%	4%	3%	3%	3%	3%	4%	4%
★ TX personal auto	7%	7%	8%	8%	7%	6%	5%	3%	3%	3%	4%	4%	3%

Note: Rolling 10-year average return on net worth

Rates and average premiums

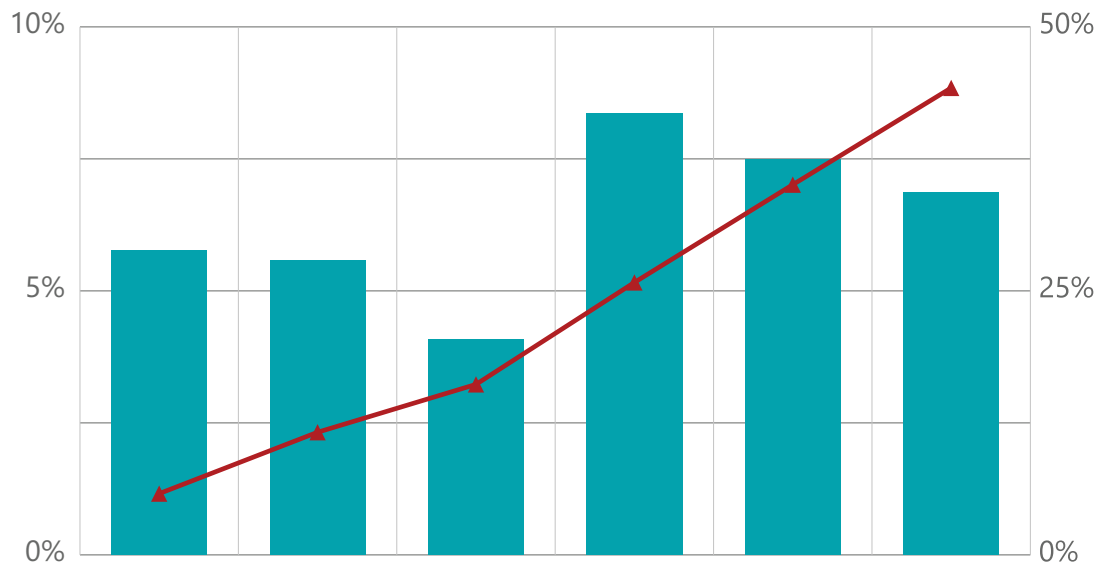
Rates

TDI received about 150 commercial auto rate filings annually since 2017 that resulted in an overall rate change. Nearly all these filings were for rate increases, and the average filed rate change was 10.2%. Each filing could include rate changes for some or all vehicle types and coverages.

Some insurers submit multiple rate filings each year and others submit less than annually. Filings often include changes to rates for only some risks or vehicle types, not to all rates. For these reasons, the average rate change for all commercial auto insurers, weighted by premium volume, gives a better understanding of what is happening in the overall market by including all insurers, not just those that made a rate filing.

The weighted average rate change in the chart below shows that commercial auto rates have increased by 44.8% since 2017, averaging about 6.4% per year.

Weighted average statewide rate change



Rate change	2017	2018	2019	2020	2021	2022
● Weighted average	5.8%	5.6%	4.1%	8.4%	7.5%	6.9%
▲ Cumulative rate change	5.8%	11.7%	16.3%	26.1%	35.5%	44.8%

Source: Weighted average of rate changes from rate filings submitted to TDI by effective year. 2022 is a preliminary estimate using data through August 31, 2022.

Exposures

This information gives some perspective for the sections that follow. All results in these sections are calculated using statistical plan data through June 30, 2022, for mandatory liability coverages reported on a car-year exposure basis.

A car-year means the number of years a vehicle is insured. For example, two vehicles, each insured for three years, would yield an exposure of six car-years. About 81% of the liability data uses this exposure base. Other exposure bases include cost of hire, payroll, and number of employees.

Most (86%) of the reported car-year liability exposures in 2021 were for TTT risks. Within TTT, the car-year liability exposures are mostly for truckers (28%), contractors (28%), and "not otherwise specified" (36%). The car-year liability exposures for the remaining industries are minimal (8%).

"Not otherwise specified" includes logging and lumbering; automobiles hauling explosives; and all other, including moving vans. Remaining industries includes manufacturers, food delivery, specialized delivery, farmers, and dump trucks.

Average premiums

Average premium reflects the final premium charged by insurers and includes loss costs and expenses, as well as adjustments for experience rating, schedule rating, discounts, and other rating modifications. Keep in mind that each average premium value is indeed an average; there will be risks that have much higher or much lower average premium than is shown in the charts.

For each group of risks, average premium is calculated by dividing total earned premium by total earned exposure count. For TTT risks, earned exposure for trailers was set to zero, but premium for trailers was included as reported. In effect, this means that the average premiums represent the typical premium for a single truck or truck-tractor, plus the typical premium for any associated trailers.

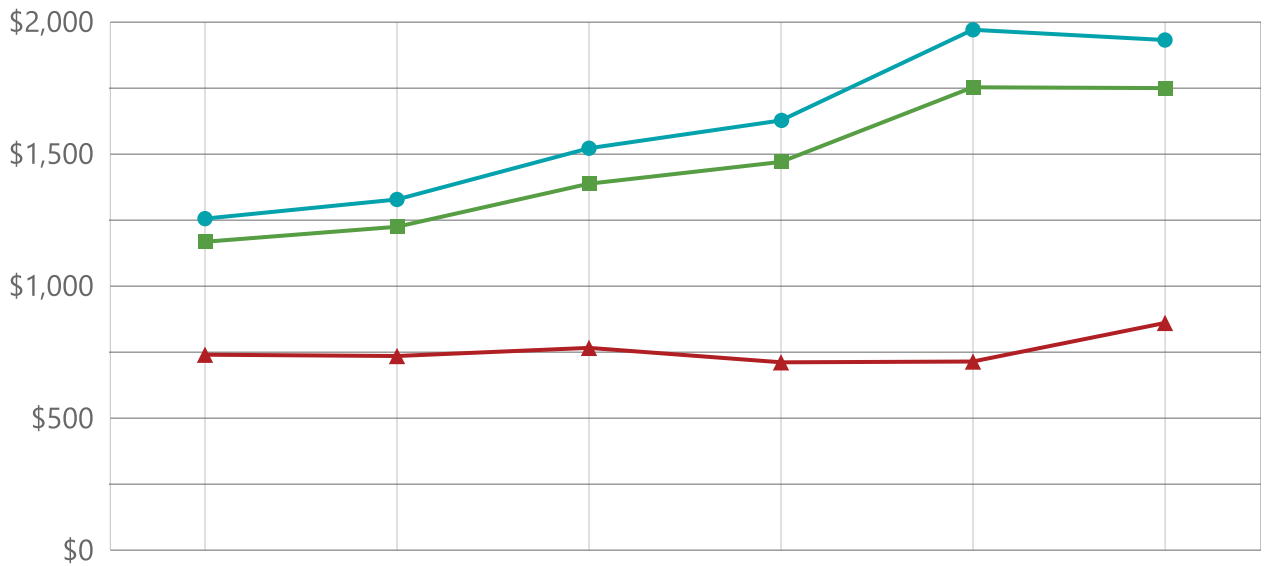
Average premiums are affected by many different factors. For instance, if an insurer were to increase its rates across the board, that would tend to result in higher average premiums. But average premium could also be affected by changes in the characteristics of exposures an insurer writes. For instance, if an insurer charges higher rates for heavy vehicles than for lighter vehicles, and if there has been a trend toward lighter vehicles in recent years, this would have a downward effect on average premium.

Other factors that can influence average premium include insureds' selection of deductibles and policy limits, changes in the portion of insureds who elect to purchase premium-bearing endorsements, and changes in average schedule rating modification factors.

Average liability premium for all vehicle types increased by 50% from 2017 to 2021, averaging about 11% per year. Average liability premium for the first half of 2022 is about the same as the 2021 average. TTT average liability premium trended the same, increasing by 57% and holding steady in the first half of 2022.

Non-TTT average premium saw little change overall from 2017 to 2021, then jumped by 21% in the first half of 2022.

Average liability premiums by vehicle type



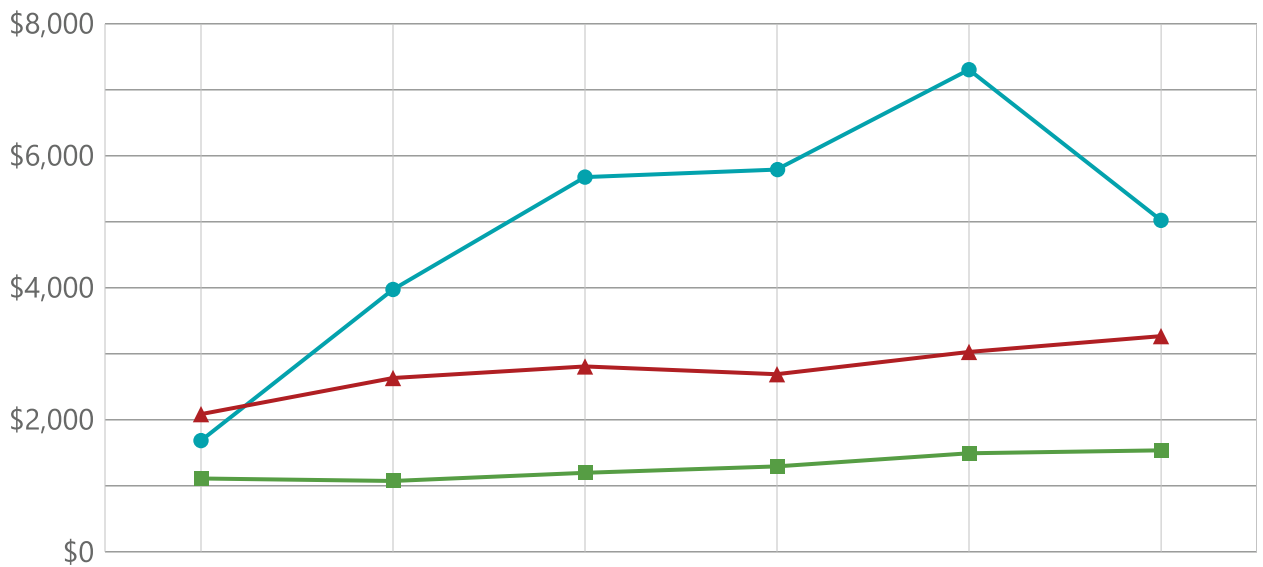
Vehicle type	2017	2018	2019	2020	2021	2022
● TTT	\$ 1,257	\$ 1,330	\$ 1,525	\$ 1,631	\$ 1,976	\$ 1,937
▲ Non-TTT	739	734	765	710	713	860
■ All vehicles	1,169	1,226	1,390	1,473	1,757	1,754

Starting in 2018, average liability premium for zone-rated truckers far exceeded that for non-zone-rated truckers. The difference grew each year until the first half of 2022 when there was a large drop in the average liability premium for zone-rated truckers.

Average liability premium for zone-rated truckers climbed rapidly from 2017 to 2021, increasing by over 300%, then dropped in the first half of 2022 to a value lower than in 2019. In contrast, the average liability premium for non-zone-rated truckers exhibited a steady increase, averaging 10% per year, with a total increase of 58% from 2017 to 2022.

The average liability premium for non-trucker TTT risks also steadily increased each year, with a total increase of 40% from 2017 to 2022.

TTT average liability premiums by industry



Industry	2017	2018	2019	2020	2021	2022
● Zone-rated truckers	\$ 1,662	\$ 3,975	\$ 5,695	\$ 5,810	\$ 7,339	\$ 5,033
▲ Non-zone-rated truckers	2,067	2,620	2,797	2,678	3,019	3,261
■ Non-trucker TTT risks	1,082	1,044	1,169	1,267	1,468	1,513

Deductibles and limits

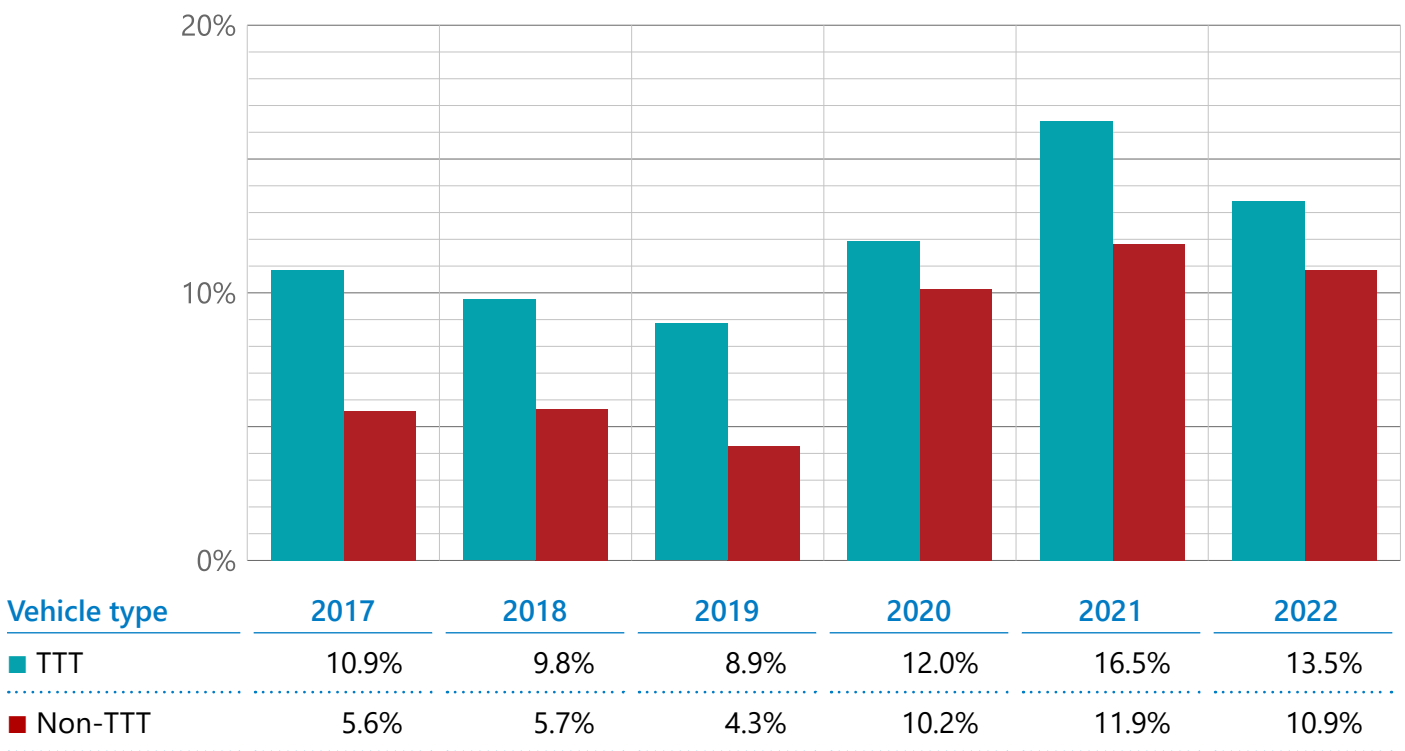
Deductibles

For physical damage coverage, the deductible amount is withheld from the payment to the insured. In contrast, for liability coverage, the insurer typically pays the claimant (third party) in full and then seeks reimbursement for the liability deductible amount from the insured.

Insureds might choose higher liability deductibles to save on premium costs and out-of-pocket costs if they can, so increases in the use or size of deductibles could indicate that insureds are increasing deductibles in response to increased premium costs. The trade-off is a higher retained risk.

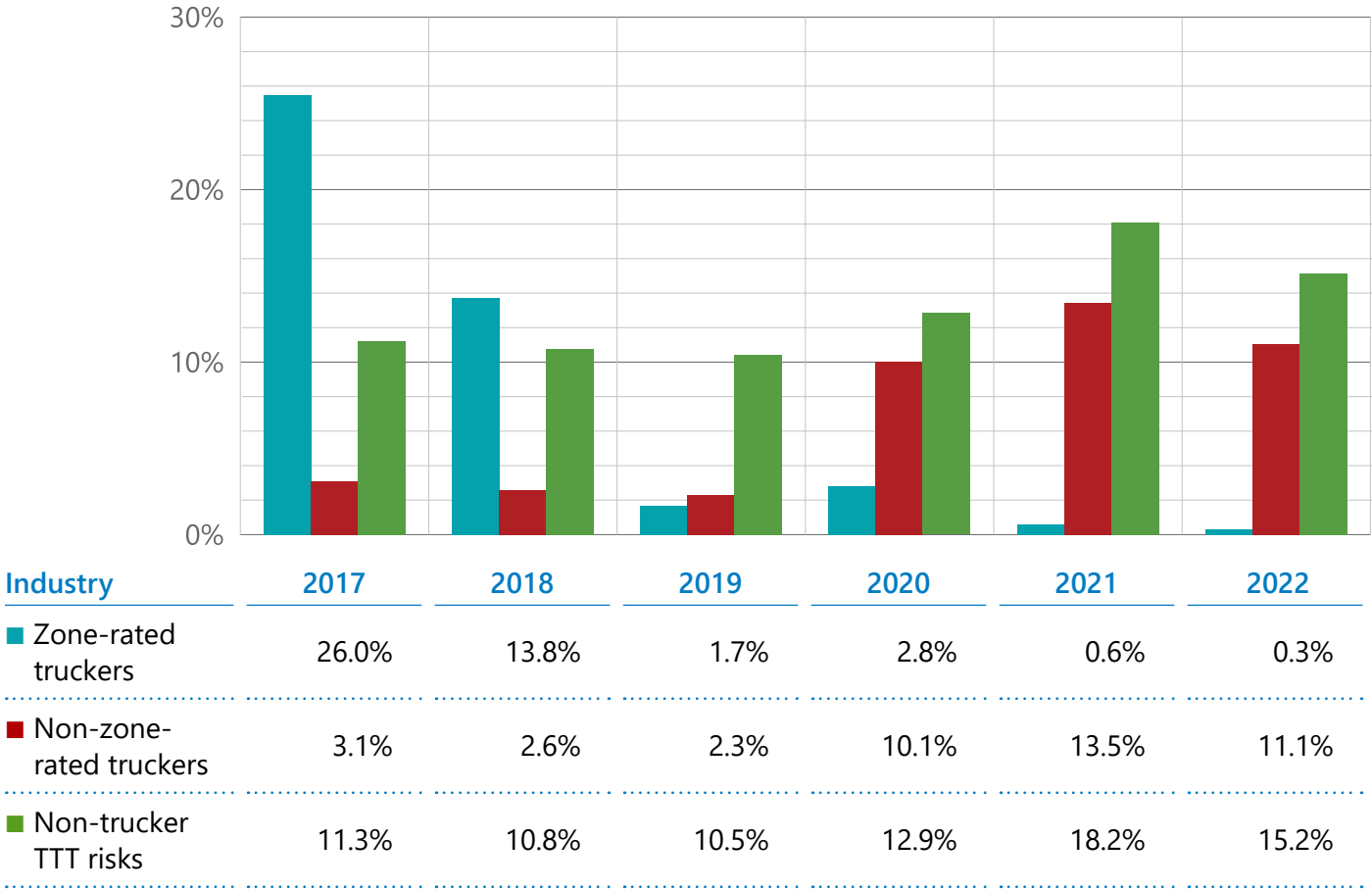
Since 2017, the use of liability deductibles increased by about 24% for TTT risks and almost doubled for non-TTT risks from about 6% to almost 11%. In recent years, between 10% and 17% of commercial auto risks have used liability deductibles.

Percent of exposures with liability deductibles by vehicle type



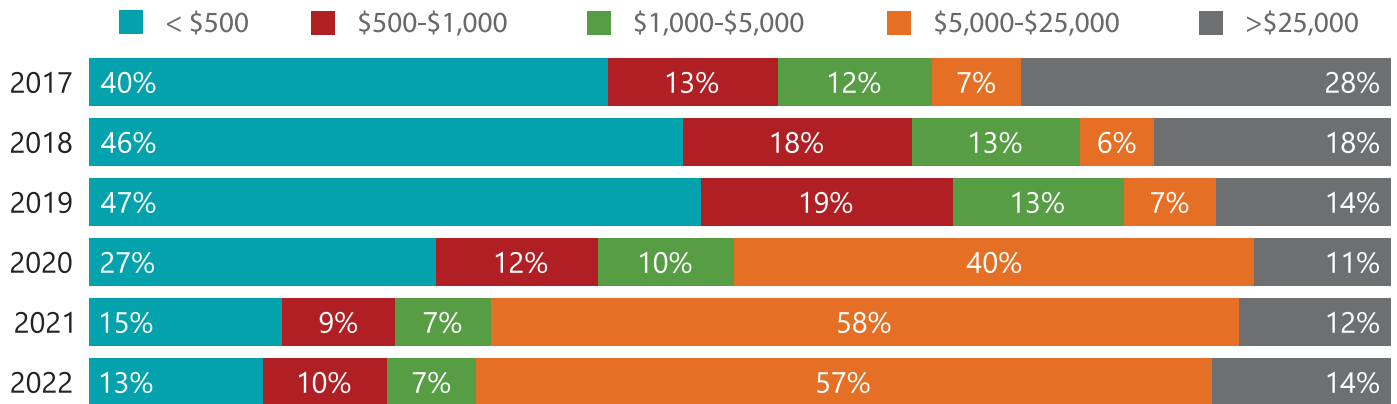
Within TTT, zone-rated truckers' use started at 26% in 2017 and was negligible in 2021 and 2022, while non-zone-rated truckers' use started at about 3% and was about 11% in 2022. Non-trucker TTT risks increased their use of liability deductibles by 35% since 2017.

Percent of TTT exposures with liability deductibles by industry

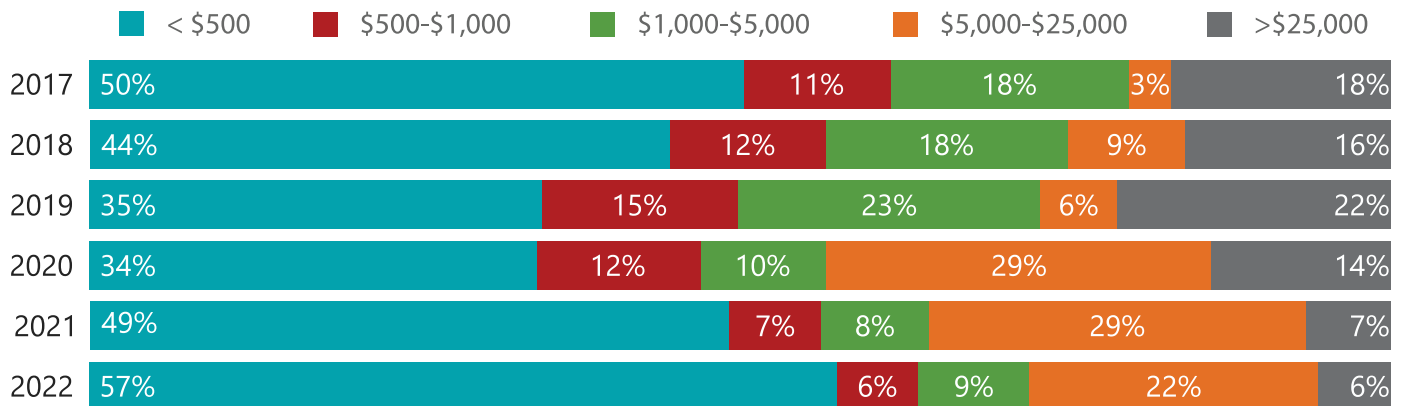


There was an expansion in liability deductibles for all vehicle types in the \$5,000 to \$25,000 range. For TTT risks, there was a shift away from the smallest and largest deductibles. For non-TTT risks, there was some evidence of a shift away from the higher deductibles in favor of lower deductibles.

TTT deductible distributions for risks with liability deductibles



Non-TTT deductible distributions for risks with liability deductibles



For zone-rated truckers, the data was too volatile to draw any conclusions about long-term trends, likely because the proportion of risks with liability deductibles was small in recent years.

For non-zone-rated truckers, the data appeared more stable and showed a shift away from deductibles less than \$5,000 toward deductibles in the \$5,000 to \$20,000 range.

For non-trucker TTT risks, the data showed a shift away from the lowest deductibles toward deductibles in the \$5,000 to \$75,000 range.

Limits

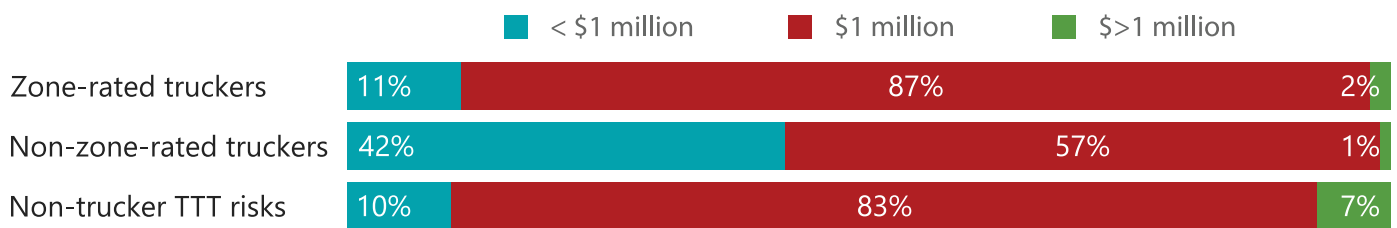
Increasing policy limits will increase premium costs, whereas decreasing limits will decrease premium. A trend toward lower limits could indicate that insureds are trying to lower their premium in response to increased premium costs. However, this approach may be constrained by contractual, statutory, or regulatory requirements regarding minimum limits.

An insurer could also lower the limits it is willing to write to save on claim costs in a rising claim cost environment. As with higher deductibles, the trade-off for the insured is a higher retained risk.

The median liability limit has consistently been \$1 million for all vehicle types. About 80% of TTT premium and 70% of non-TTT premium is from risks with a \$1 million limit. There does not appear to be a major shift toward higher or lower limits.

For TTT risks, there has been minimal change in the distribution of risks above and below the \$1 million limit. Only a small portion of TTT risks have limits above \$1 million.

TTT six-year average proportion of premium by limit



Loss performance

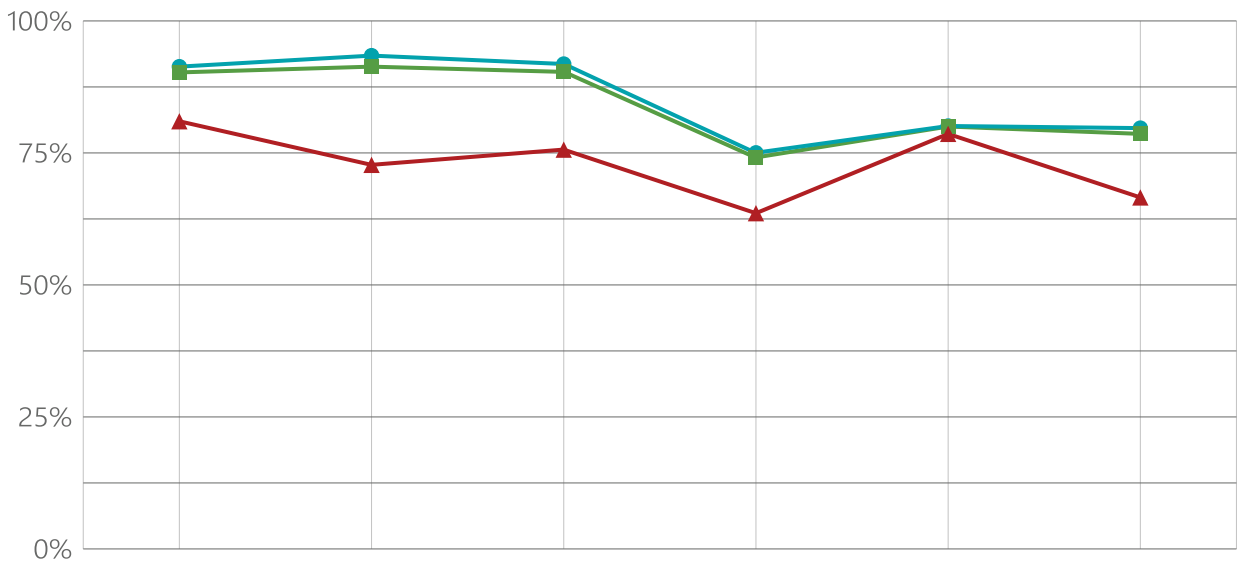
The loss and allocated loss adjustment expense (ALAE) ratio is the portion of premium used to pay claim costs. This ratio does not include other expenses, such as administrative overhead, commissions, taxes, licenses, and fees, which can be significant.

A loss and ALAE ratio of 80% means that for every dollar collected, 80 cents is used to pay claim costs, leaving the remaining 20% to cover operating expenses, commissions, taxes, etc.

High or increasing loss and ALAE ratios generally indicate poor loss performance and often lead to insurers raising rates, which causes higher premium costs. On the other hand, low or decreasing loss and ALAE ratios show good or improved loss performance and may lead to rate stabilization or decreased premium costs.

The liability loss and ALAE ratio for all vehicle types decreased by 13% since 2017. The liability loss and ALAE ratio for TTT risks was about 12 percentage points higher than non-TTT risks during this time. In the first half of 2022, the liability loss and ALAE ratio was 79.7% for TTT risks and 66.5% for non-TTT risks, which reflects continued improvement in loss performance.

Liability loss and ALAE ratio by vehicle type



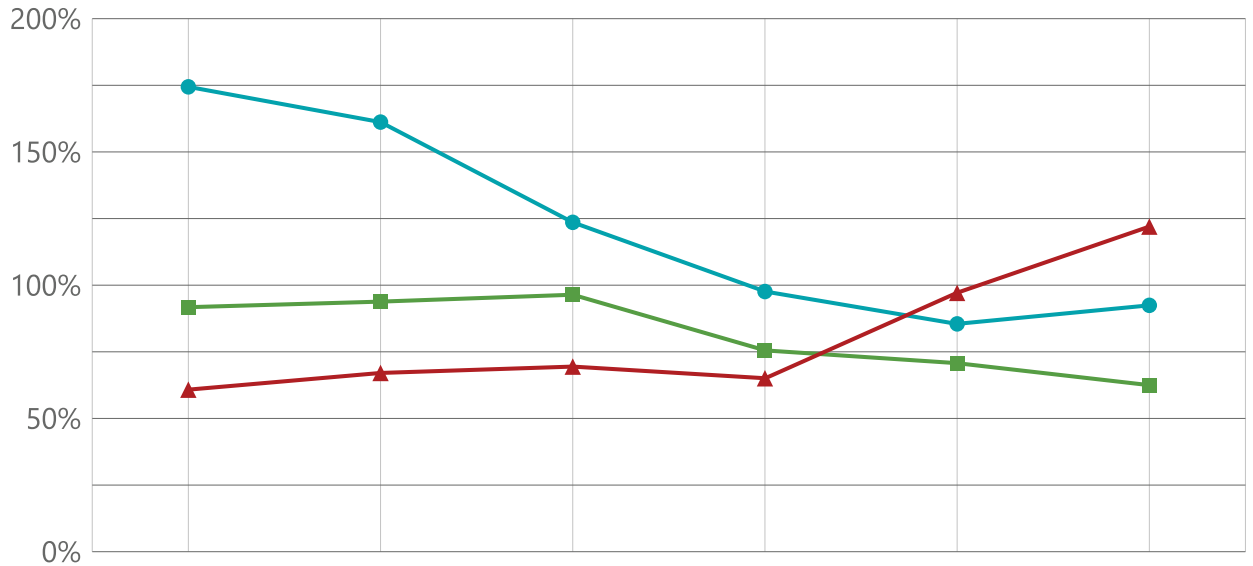
Vehicle type	2017	2018	2019	2020	2021	2022
● TTT	91.4%	93.5%	91.9%	75.0%	80.1%	79.7%
▲ Non-TTT	81.0%	72.7%	75.6%	63.5%	78.6%	66.5%
■ All vehicles	90.3%	91.4%	90.4%	74.1%	80.0%	78.6%

Note: In this chart and the next, accident-year losses and ALAE were developed to ultimate using the methods and assumptions described in the technical appendix.

TTT risks each trended differently:

- The zone-rated truckers' liability loss and ALAE ratio decreased by 47% since 2017 to about 92% in the first half of 2022.
- The non-zone-rated truckers' liability loss and ALAE ratio was steady through 2020, averaging 65%, then increased sharply in 2021 and again in the first half of 2022 to about 122%.
- The non-trucker liability loss and ALAE ratio decreased 32% since 2017 to about 62% in the first half of 2022.

TTT liability loss and ALAE ratio by industry



Industry	2017	2018	2019	2020	2021	2022
● Zone-rated truckers	174.8%	161.5%	123.7%	97.6%	85.4%	92.4%
▲ Non-zone-rated truckers	60.6%	66.9%	69.3%	64.9%	97.1%	122.1%
■ Non-trucker TTT risks	91.7%	93.8%	96.4%	75.4%	70.6%	62.3%

Underwriting practices and survey

To evaluate market actions beyond what the data shows, TDI in June 2022 surveyed insurers for information about their underwriting practices.

Survey participants included the largest insurer groups based on 2021 commercial auto written or earned premium and trucker earned premium. Additional groups were chosen to represent small to mid-size insurers. The survey was sent to 18 insurer groups and two unaffiliated insurers, including U.S. surplus lines insurers. It covered about 135 companies, representing 60% of 2021 direct written premium.

The survey asked about underwriting actions taken before and after the passage of HB 19, including issuance of new and renewal policies; changes in maximum limits and minimum deductibles; and changes in underwriting guidelines, pricing, and rate actions.

The survey is a starting point to gauge insurers' underwriting actions as the law's impact emerges. Responses show no clear difference in underwriting changes taken before and shortly after the law took effect.

Other results include:

- 70% of respondents submitted rate filings, 75% of them including rate increases. A few of the rate increases were specifically for TTT. No filings mentioned litigation or inflation. A few filings mentioned changes in frequency and severity related to the COVID-19 pandemic.
- While 70% of respondents had nonrenewals, the nonrenewals represented a very small portion (less than 5%) of any group's policies. The main reason given for nonrenewals was "re-underwriting."
- 19% of respondents intentionally reduced or limited the number of new policies issued or stopped issuing new policies. Various reasons were given.
- 13% of respondents tightened underwriting guidelines. The main reason given was increased loss frequency.
- 20% of respondents changed policy provisions. The main reason given was adoption of an ISO filing for form changes. There were no major coverage reductions in this ISO filing.

A copy of the survey follows.

Survey Instructions

“Insurer” means a group of insurance companies writing commercial auto in Texas. Responses should be for the underwriting actions taken within your group. Group responses should be coordinated and provided under one submission. If you do not belong to a group, answers should be for your company. Include both admitted and surplus lines companies in your response and note any actions taken specifically for surplus lines companies.

For each “Yes” answer for the questions below in each section, address the following.

- A. Describe actions taken based on loss and loss adjustment expense experience for commercial auto policies written in Texas. Provide as much detail as possible and include in your answer:
 - Specific changes or actions (e.g., maximum limits changed from \$5M to \$3M, 15 of 109 policies were nonrenewed);
 - Primary and secondary classifications involved or types of business (e.g., dump trucks); and
 - Names of each company within your group taking each action and effective dates of actions.
- B. Provide reasons identified for the actions taken in Item A. Be as specific as possible; do not provide broad statements about deteriorating loss performance or other generalizations.
- C. Please provide additional detail for Items A and B for trucking risks only, if applicable.

Survey

Section I. This section pertains to actions taken from January 1, 2019, to September 1, 2021, the effective date of HB 19.

1. Has the insurer intentionally reduced or limited the number of new policies issued or stopped issuing new policies?

Yes No

2. Has the insurer nonrenewed policies?

Yes No

3. Has the insurer lowered, or otherwise changed, its maximum limits?

Yes No

4. Has the insurer increased, or otherwise changed, its minimum required deductibles?

Yes No

5. Has the insurer tightened, or otherwise changed, its underwriting guidelines for new or renewal business?

Yes No

6. Has the insurer changed policy provisions or use of endorsements to restrict, or otherwise change, coverage? Include TDI file numbers for any applicable filings in your answer.

Yes No

7. Has the insurer taken any rate actions, including changes in schedule rating or discounts given? Include TDI file numbers for any applicable filings in your answer.

Yes No

Section II. This section pertains to actions taken after September 1, 2021, the effective date of HB 19.

8. Has the insurer intentionally reversed, or otherwise changed, actions as described in Question 1 of Section I?

Yes No

9. Has the insurer intentionally reversed, or otherwise changed, actions as described in Question 2 of Section I?

Yes No

10. Has the insurer increased, or otherwise changed, its maximum limits?

Yes No

11. Has the insurer lowered, or otherwise changed, its minimum required deductibles?

Yes No

12. Has the insurer loosened, or otherwise changed, its underwriting guidelines for new or renewal business?

Yes No

13. Has the insurer changed policy provisions or use of endorsements to broaden, or otherwise change, coverage? Include TDI file numbers for any applicable filings in your answer.

Yes No

14. Has the insurer taken any rate actions, including changes in schedule rating or discounts given? Include TDI file numbers for any applicable filings in your answer.

Yes No

Technical appendix

This appendix documents the actuarial methods and assumptions used to calculate ultimate loss and allocated loss adjustment expenses (ALAE) used in the loss and ALAE ratios. It also makes certain disclosures in accordance with actuarial standards of practice.

Loss and ALAE development

- Loss and ALAE liability quarterly data was combined and developed to ultimate using the paid and incurred loss development and Cape Cod methods.
- The data was developed separately for bodily injury (BI), property damage (PD), combined BI and PD with a single limit, and combined BI and PD with a split limit.
- The analysis was done separately for Texas Commercial Lines Statistical Plan data and Commercial Statistical Plan Plus data.
- For loss development factor (LDF) selections:
 - LDFs were primarily based on 8-quarter Olympic averages.
 - In some cases, four-quarter Olympic averages were used to better reflect what appeared to be an emerging trend.
 - Shape-constrained additive modeling was used to smooth out some variation across maturities in the Olympic averages to ensure the selected LDFs would be convex, monotonic, and no less than 1.0. The expectation is that the data contains enough noise that these constraints could reasonably be expected to improve the estimates of the true development patterns.
- For tail factors:
 - To calculate tail factors, it was assumed that the incurred development is fully reflected in the data and that the oldest year's estimates of ultimate loss and ALAE under the paid and incurred approaches should be equal.
 - Tail factors were applied to the paid loss development curves to reflect paid development past 66 months of maturity.
 - The resulting tail factors ranged from 1.00 to 1.09.
- For ultimate selections:
 - For accident quarters with more than 12 months of maturity, the weight was 50% on incurred methods, and 50% on paid methods for both the Cape Cod and loss development approaches.
 - For accident quarters with at most 12 months of maturity, the weight was 80% on incurred methods, and 20% on paid methods for both the Cape Cod and loss development approaches.
- The modified Bornhuetter–Ferguson approach was used to allocate incurred but not reported (IBNR) loss and ALAE to the various segments displayed in the report.

Data

- Loss and ALAE data was at a transactional level of detail while premium data was on a summarized, annual basis. Because the loss development analysis was performed on a quarterly basis, annual premiums had to be allocated to quarters. It was assumed that each year's premiums were uniformly distributed across the quarters, which is unlikely, but should not have a major distorting effect on the results. This assumption affected the modified Bornhuetter–Ferguson IBNR allocation method, as well as the Cape Cod method.
- Insurers report data through one of two statistical plans: the Texas Commercial Lines Statistical Plan (TCLSP) and the Commercial Statistical Plan Plus (CSP+). They report outstanding ALAE under the two plans differently. In the TCLSP, reporting is optional. In the CSP+, it is not optional, but many insurers did not report any outstanding ALAE. This is because insurers include it with outstanding loss values or are unable to report it at a transactional level. There is a risk that the inconsistent reporting of outstanding ALAE could distort the resulting loss and ALAE ratios.
- TDI did not perform an audit of the statistical plan data. A variety of basic reasonability checks as well as exploratory data analysis were performed, and some records that appeared to be inaccurate or that reflected transactions that were outside the scope of the study were eliminated. Study results could be distorted if the data suffers from data quality issues.
- TDI also did not perform data audits or detailed reasonability checks on the following: surplus lines data from the Surplus Lines Stamping Office of Texas, Competition Database Report data from the NAIC, and responses received from insurers to the underwriting survey.

Limitations on applicability of findings

Loss and ALAE ratios should not be used to opine on whether insurance rates are inadequate, excessive, or unfairly discriminatory. The premiums that comprise the denominator of these ratios were not restated to reflect current rate levels. As a result, they do not contemplate the effects of rate changes that may have subsequently been implemented.

In addition, these ratios were not trended to reflect inflationary pressures or other long-term developments. The loss and ALAE ratios can provide a historical view of what happened in the market; however, it is not appropriate to assume that the conditions that existed at the time still exist.

Data sources

Source	Description	Data available	Data exclusions
NAIC	Annual statement filings	Calendar years 2017 - 21	Non-U.S. surplus lines insurers
NAIC	Competition Database Report	Calendar years 2009 – 21 (2021 data is preliminary)	Non-U.S. surplus lines insurers
Statistical plans – data submitted to ISO	TDI’s Texas Commercial Lines Statistical Plan and ISO’s Commercial Lines Statistical Plan Plus	Calendar years 2017 – 21; plus first half of 2022	Surplus lines insurers and risk retention groups (RRGs)
Surplus Lines Stamping Office of Texas	U.S. and non-U.S. surplus lines insurance transactions	Report years 2017 – 21; plus 2022 data through September 14	N/A; for surplus lines only
TDI	Rate filings	Calendar or effective years 2017 – 21; plus 2022 data through August 31	Surplus lines insurers, RRGs, and some large risks



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