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We've learned a few things over the years ….. and a lot recently ….

Since 1938 Forge Insurance, formerly Amalgamated Casualty, has learned a few things about commercial auto insurance that ring as true today as they have for decades. And while times have changed the fundamentals of insuring automobiles for physical damage and liability remain the same. What has changed are the economic climate, business trends, and legal environments we all work and live in today.

As hard as it may be for policyholders to believe, specialty insurers like Forge refer to have lower loss frequency and severity of claims that translate to more stability and better premiums for small business. Forge wants its small business customers to remain independent and thrive. We all win together.

Forge's specialty auto insurance underwriting experience and historical data combined with an in-depth study of commercial auto insurance by Forge's reinsurance partner, Guy Carpenter, provide a macro-overview of trends affecting public and small commercial auto insurance policyholders.

The major factors driving insurance premiums paid by policyholders remain constant over time. They are the actual value of physical damage claims, medical costs, judgements, settlements, and awards plus the expenditures by us to defend and settle liability claims.

Forge manages costs associated with claims closely. These costs include what we pay for physical damage to policyholder vehicles, medical payments, expenses for in-house claim services, outside expert witnesses and legal defense counsel necessary to meet policy obligations. Claim costs are incurred even when there is no payment, judgement, award, or settlement against our policyholder. Ultimately, we want to control small business costs and protect reputations with in-house, hands-on claim handling for policyholders.

What has changed over time and is contributing to rising premiums are things no insurer can control. These are a sign of our times and include medical and social inflation, the litigious nature of society, growing use of litigation funding by claimants, supply chain issues with delays and increased costs of parts and service.

Add to these trends there are more factors insurers cannot control that affect the business operations of small business. Some worth noting include increased values of vehicles insured, the complexity of cars and trucks to repair, the cost of and availability of quality auto service professionals for dealers and repair shops, the expanded time needed to make repairs which are driving a significant increase in replacement vehicle rental costs. These uncontrollable costs affect us all.

And, if these factors are not enough there are more vehicle related items impacting small businesses and their vehicles. Costs to buy replacement vehicles and routine vehicle maintenance costs have increased for business customers impacting their cash flow and profitability. When their costs rise, they must increase prices for their customers or reduce their profitability. Neither are good outcomes. These are things we care about too as Forge wants our customers to grow and enjoy sustainable success.

Not unexpected, a driver's experience has always been a decisive factor in underwriting and pricing decisions. Businesses that have drivers with better driving records tend to be better insureds. Yes, random losses do occur but managing the risks proves valuable. Our experiences tell us that experienced drivers with good driving records make for better insurance customers over the long term.

The geographic location by state including urban and rural garaging of cars and trucks, congested urban roadways and interstates affect us in the insurance business and ultimately small business operating costs.

Even though Forge has expanded into small commercial auto, the commitment to public auto (*taxi, sedans for hire and limousine*) business remains. Here is where we learned a few things that have helped us expand into commercial auto where the vehicle is a "*tool of the business*" and not "*the business*." Our decades of loss data lead us to a logical conclusion.

Historically, Forge has experienced loss frequency that is higher for taxis than sedans for hire and both are higher than limousines. Taxis are on the road constantly. Black sedans are on the road but, for example, often sit curbside while their customers are in meetings or when they wait at airports. Limos are used less frequently for events and often sit on owner's lots for periods of time when not in use. Fast forward to the Forge insurance model for small commercial auto where we focus on businesses that have vehicles on the road less.

You might wonder why lower mileage and on road use contribute to lower loss potential. According to national statistics, mileage is up. The net result maybe we should expect losses to follow as the road exposure returns to pre-Covid levels. Time will tell if this conclusion is correct. You can see why we target businesses where the vehicles are "*tools of the business".*

In 2022, we expanded adding small commercial auto insurance based on what we learned in public auto over decades. Our expanded eligible classes are commercial vehicles that are a "tool of the business" and not the "business itself". And while not 100% true, much of our small business are vehicle fleets of 9 or fewer trucks and autos. This Forge pivot includes adding niches like artisan contractors who drive commercial vehicles to job sites where they often remain during the day. What we seek to insure are commercial vehicles under 20,000 pounds that are not constantly on the road. We don't insure Uber or LYFT vehicles nor do we insure long-haul or LTL trucking, delivery services, dump trucks, tow trucks, other similar vehicles that "*are the business*" or large road and service trucks.

We know that fleets with hired drivers tend to be less attractive insurance risks than owner operator vehicles. Intuitively and logically, this makes sense as owners have a different interest in ownership of their vehicles and the reputations of their businesses. That said, if well managed with correspondingly thoughtful underwriting, fleets can be excellent customers. At Forge, we look at fleets individually not as a "class" of business. We seek characteristics that help us insure them. That is the specialty nature of our business.

Forge is not in the "worst 10 states" measured by historical loss ratios outlined in the Guy Carpenter report except for a few legacy accounts. Forge underwriting appetite focuses on states that, according to industry data, are more favorable. Again, our goal is sustainable, cost effective and stable insurance for our policyholders and for our producers.

Another difficult decision was to exit or reduce customer count in selected states where the legal and claim climate were unsustainable except for the very best risks. Like any specialty insurer we want our time, effort and resources spent with producers and customers in territories where we can provide value to the insurance ecosystem. That is a big goal and one that producer(s) and policyholders can appreciate if they want stability, continuity of coverage and fair pricing over time.

Unfortunately for all, most of the macro environmental issues discussed are outside the control of Forge or any other commercial auto insurer.

You can be assured that Forge will continue to look for ways to simplify, create efficiency and manage exposures to loss the best way we know how, and we will always be aware of the business and insurance needs of small business customers.

Lastly, for those of you who are interested in the full 2023 Commercial Auto Analysis please contact marketing@forgeinsurance.com.

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