Lane Shift for Trucking Risk

A shrinking insurance market drives interest in captive solutions for the transportation industry.

By Alex Wright

AP

A steep rise in claims severity forced many insurers to pull out of the commercial automotive market.

Today, there are more vehicles on America's roads than before, driven by a trucking industry that grew exponentially to meet increased consumer demand.

Add in the advanced average age and subsequent deterioration in truckers' health, the increased use of cell phones and more highway construction projects, and that resulted in a huge increase in accidents in recent years.

The number of crashes involving large trucks alone climbed by 9 percent between 2011 and 2014, according to the U.S. Transportation Department.

As a result, commercial auto insurance rates spiked, some by as much as 30 percent in 2016, and they are expected to climb further this year.

Fitch also reported last year that the commercial auto sector is a "chronically underperforming segment" due to overly aggressive pricing and a steep rise in claims severity, prompting many insurers to pull out of the market.

All of these factors, when added to already tight margins and other economic pressures including driver costs, forced many trucking firms and companies with large vehicle fleets to turn to captives to spread their risks and reduce insurance costs.

Captives also provide access to ancillary lines of coverage and limits, return of underwriting profits, improved risk management practices and the ability to manage marketplace fluctuations.

COLLATERAL SQUEEZE

Geoff Welsher, managing director at Marsh, who runs two offshore captives, said that the increased interest in captives for commercial auto insurance is driven by a combination of some insurers pulling out of the market and others increasing rates.

Of most interest, he said, were group captives specializing in trucking companies, which provide a greater level of investment in claims management and loss control than traditional insurance coverage achieves.

Many of these captives also put a larger percentage of their premium toward staff training and employ full-time risk control specialists, he said.

"In a group captive environment, there are all manner of board and safety meetings and benchmarks against which companies can measure themselves," he said.

"Technology plays a large part in safety and loss control for commercial fleets and is becoming more of a factor in the underwriting process."

— *Todd Reiser,* *vice president, Lockton*

Rob Kibbe, executive director of Aon Risk Solutions' transportation practice, said that these kinds of captives appeal most to companies seeking a return on their investment in safety technology.

He added that they also allowed owners to control their own rates and achieve greater risk rewards than with traditional coverage.

Todd Reiser, vice president and producer in Lockton's transportation practice, said that the choice of captive depended on a range of factors including fleet size, ownership and corporate structure, tax considerations, credit capacity, estate planning and the number of owner-operators within the fleet.

"Single-parent captives allow for tax benefits, estate planning solutions, more efficient use of capital and the ability to write certain coverages in the captive independent of insurance market conditions," he said.

"Risk retention groups and group captives, on the other hand, allow the members to share in certain risks, purchase reinsurance and potentially

SUMMARY

- ***Commercial auto insurance rates*** spiked by as much as 30 percent in 2016.
- ***Brokers report a sharp uptick*** in captive formations among trucking firm clients.
- ***Technology advances*** are helping firms rein in the frequency and severity of claims.

limit the collateral obligations of traditional insurance."

Chad Kunkel, executive vice president of group captives, North America at Artex, which manages more than 20 group captives or program solutions in the U.S., said that group captives are best suited to transportation companies wanting to lower their risk management costs.

"Good prospects for group captives are financially sound companies with above-average loss experience, good risk management practices and premiums beginning at $250,000 for workers' compensation, general liability and auto lines of coverage," he said.

"Group captives also offer another benefit — group purchasing power — which helps lower the overall cost of insurance for each member."

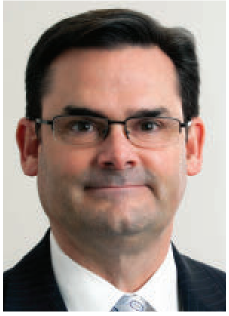
Gary Osborne, president of USA Risk Group, said that RRGs are the most popular forms of captive because they allow owners to write insurance in all 50 states while only having to form in one.

Self-insurance also helps firms to reduce their collateral requirements and thus free up capital to invest in other parts of the business, he said.

INCREASED INTEREST

Such is their popularity, Kibbe said, that Aon almost doubled the number of captive formations in 2016 from the previous year and is continuing to see interest.

Most of the companies entering into captives are either smaller middle market trucking firms joining or forming their own group captives in order to take higher retentions, or large firms looking to reserve properly, said Sean Rider, executive vice president and managing director of consulting and development at Willis Towers Watson.



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Vermont is one of the most popular states for setting up a captive, with more than one-quarter of active captives domiciled there writing some form of auto liability.

In total, Vermont houses six registered risk retention groups, two industrial insured group captives and four "pure" captives for trucking firms.

David Provost, deputy commissioner at Vermont's Captive Insurance Division, said these ranged from auto wholesalers to large trucking companies with their own or several captives, as well as group companies that insure either their members or the association, or those operating as commercial trucking insurance companies for their truckers.

"Some of these larger trucking companies have to post multimillion dollar policies and prove that they have the financial assurance to operate a trucking company, so it's often beneficial for them to do that with a captive," he said.

TECHNOLOGICAL ADVANCES

Safety technology also helps businesses to mitigate these risks by monitoring driver speeds, behavior and work practices.

In recent years, telematics has been one of the most effective ways to improve safety and bring down premiums, typically by 5 percent to 15 percent, according to industry estimates.

While take-up is relatively tepid largely due to budget constraints, with only 30 percent to 40 percent of all commercial and government vehicles fitted with the devices, the fuel, labor and maintenance costs savings can be substantial.

What's more, from December this year, most trucks will be required by federal law to carry electronic monitoring devices to ensure truckers don't exceed limits on time spent behind the wheel.

"The most significant development in the transportation sector has been cameras and monitoring of vehicles' activity," said Daniel Bancroft, transportation practice leader at Willis Towers Watson.

"Studies we have conducted have proven that they can reduce frequency of accidents by up to 50 percent."

Osborne of USA Risk Group said that this was borne out by the National Independent Truckers Insurance Co., which consistently achieved a below 50 percent loss ratio for the last 10 years as a result of using cameras in all of its vehicles.

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Aon's Kibbe said that training has also played a part.

"Clients have been investing heavily in those aspects as well as dealing with driver fatigue, which has helped massively," he said.

Willis Towers Watson's Rider added that middle market trucking firms entering a group captive also had access to more sophisticated loss control safety, engineering and behavioral analysis and services than they would necessarily on their own.

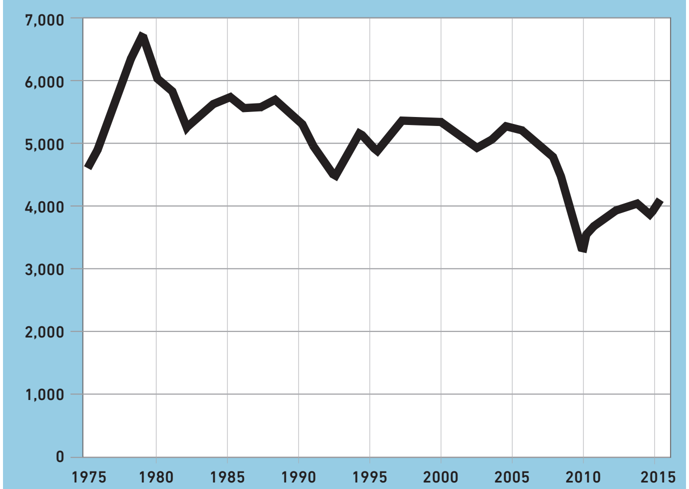
Because a captive's insureds put more resources into loss control and safety, they have had a bigger impact on reducing frequency, leading to better underwriting results, said Lockton's Reiser.

"Technology plays a large part in safety and loss control for commercial fleets and is becoming more of a factor in the underwriting process," he said. &

ALEX WRIGHT is a U.K.-based business journalist. He can be reached at riskletters@lrp.com.

Fatal Crashes Involving Large Trucks

In 2015, 4,311 large trucks and buses were involved in fatal crashes, an 8-percent increase from 2014, according to the U.S. Department of Transportation. The number of large trucks and buses in fatal crashes increased by 26 percent in 2015 from its low of 3,432 in 2009.



Source: U.S. Department of Transportation "Large Truck and Bus Crash Facts 2015," November 2016