

# COMMERCIAL AUTO



## LIFE IN THE FAST LANE

As the economy picks up speed, commercial auto insurance is shifting into high gear

**HAVE YOU** ever wondered how you can buy fresh raspberries in Colorado in the middle of December or Idaho potatoes in coastal Florida? Most likely, it's thanks to the trucking industry.

The trucking industry is the backbone of the US economy. At one time or another, almost everything has to be transported – whether across town, across the country

or around the globe. And according to the American Trucking Association, nearly 70% of all the freight tonnage moved in the US goes on trucks.

Last year, the US trucking industry generated \$700.4 billion, according to the latest edition of American Trucking Trends, making 2014 the first year in history the industry topped \$700 billion in total

revenue. And it is expected to grow another 21% in the next 10 years.

Simply put – without trucks, America stops. And so does our economy. But without appropriate insurance coverage, those trucks aren't going anywhere.

### Focus on the wheels

The insurance needs of the trucking industry are served by the commercial auto insurance sector, which can be broken down into three different segments of insureds that are all using vehicles for business purposes. For-hire trucking is by far the biggest piece



### TOP CARRIERS FOR COMMERCIAL FREIGHT TRUCKING

- Progressive
- Great West
- Northland Insurance Company

of the pie, representing more than half of the commercial auto marketplace and moving 9.2 billion tons of freight annually, requiring nearly 3 million heavy-duty Class 8 trucks and more than 3 million truck drivers, according to the ATA.

The remainder of the commercial auto sector is composed of public transportation (businesses that carry people rather than freight – anything from a taxi to a limousine to a bus or airport courtesy van) and business auto (individuals who are using their automobile for business but not freight-carrying purposes, such as contractors).

Key insurance products serving the sector “tend to really focus on the wheels,” says Lou Welch, vice president of the motor carrier group at Scottsdale Insurance Company, part of Nationwide, and the nation’s fourth

largest commercial auto insurance carrier. “The basic coverages are the auto liability – physical damage to the vehicle and damage to the cargo – and general liability as well, for vehicles that are not necessarily just freight for hire – tow trucks and boom trucks, for example – where the truck is also a piece of equipment.”

that they are falling very much into that higher risk category,” Welch says. “Results on the new venture kinds of accounts are significantly worse than more experienced kinds of accounts. They are finding it much more difficult to find an insurer that really wants to handle them at an attractive price, and they are getting pushed to other markets that want to specialize in the higher risk account.”

Complicating matters, the federal government has tightened up its requirements for commercial driver qualifications just as there’s been a spike in

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Welch sees the commercial auto marketplace going in a couple of different directions. “You have a number of insurance carriers that are fairly specialized and have developed predictive analytics to zero in on exactly the type of risks that they are looking for – it’s a competitive marketplace for these preferred or lower-risk accounts. What you wind up with on the other end are the carriers looking for the stressed or higher-risk, high-priced types of accounts that have kind of gotten shunned by the bigger carriers.”

As more and more new ventures enter into the marketplace, “a lot of us are finding

demand, ultimately leading to a shortage of qualified drivers. The ATA pegs the current shortage at roughly 25,000, and says it’s due to a multitude of reasons, ranging from demographic and regulatory factors to workplace hazards and the fact that over-the-road truck driving jobs can take drivers away from home for lengthy periods of time.

“It’s a significant issue,” Welch says. “Pretty much everyone in the commercial auto sector is facing the question of, ‘Where do I find drivers that meet the government standards and that my insurance carrier will be enthused about underwriting?’”

William Johnson Jr., vice president of underwriting at Pennsylvania Lumbermens Mutual Insurance Company, agrees. “In certain areas, you just can’t find drivers,” he says, adding that retaining experienced drivers is also becoming an issue as they get wooed away by higher-paying gigs at competing companies. “[Keeping

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## WHAT DOES COMMERCIAL AUTO INSURANCE COVER?

Basically, commercial automobile insurance provides the same major coverages private individuals purchase (usually at higher limits)... however, there are many add-ons more suited for commercial driving, such as coverage for:



**Employees**, including fellow employee coverage and broadened and blanket policies that protect additional employees or clients



**Equipment**, including loading and unloading goods



**Business**, which protects your assets in the event of a lawsuit

Source: Department of Motor Vehicles

personnel] is a concern of all our types of risk.”

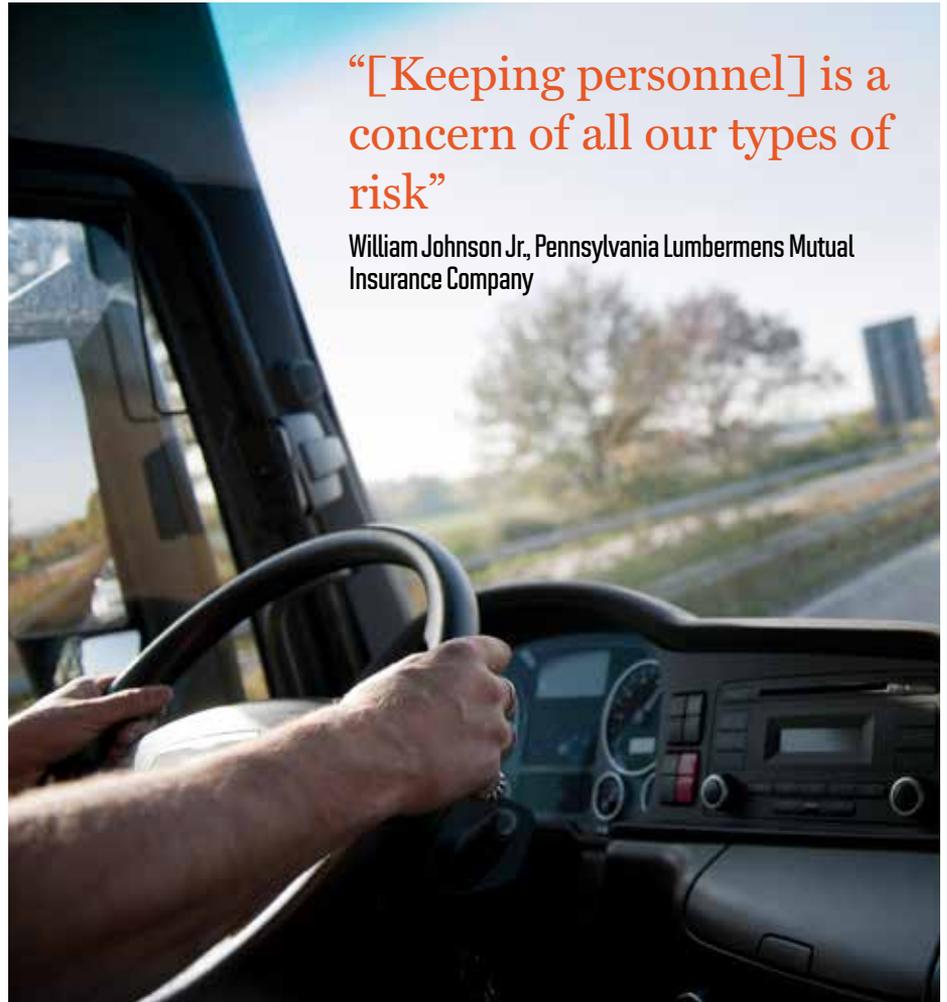
### Age of automation

Welch is amazed at how much the commercial auto sector has changed over the course of his career. “Thirty-five years ago we were rolling policies through a typewriter – it was very much a process of individual underwriters looking at risk characteristics, whereas today, so much of that decision-making has become automated,” he says.

In the near future, Welch predicts, the pricing of a policy may very well come down to in-vehicle telematics devices – so drivers who don’t use their vehicles as much, for example, won’t pay as much premium.

“That type of thing will become more and more utilized in terms of determining final pricing on commercial insurance,” he says.

Telematics also can measure risky maneuvers as they happen, relaying that data to a central web portal where it can be stored and analyzed. The Hartford’s FleetAhead program and Liberty Mutual’s Onboard Advisor, for example, are both capable of



“[Keeping personnel] is a concern of all our types of risk”

William Johnson Jr., Pennsylvania Lumbermens Mutual Insurance Company

measuring speeding over the posted limit, excessive acceleration, aggressive braking, cornering, lane changing and at-risk behavior relative to surrounding traffic. The Hartford touts its program as “Preventive maintenance for your drivers, peace of mind for your fleet and risk managers, and more security for your bottom line.”

Over time, Welch predicts, the technology will have a meaningful impact on shaping driver and operational behavior.

“If I have an employee who drives a little over the speed limit, and my insurance rate goes up, I’m going to have a problem with that. And consequently it will translate to

changed behavior,” he says.

### On the upswing

The commercial automobile insurance segment was hard-hit by the Great Recession and has been slow to claw its way back to overall profitability.

In 2013, Fitch Ratings issued a special report, “Commercial Auto Insurance Market Update: Underwriting Losses Accumulate,” finding that commercial automobile insurance segment of the US property/casualty insurance industry had experienced its third consecutive year of underwriting losses – a function of “multiple years of

significant price deterioration prior to 2011, combined with an erosion of underwriting standards to retain business in the economic downturn of 2008-2009.”

The report found that increases in claims severity have also hit the sector hard. However, Fitch reported, there was significant underwriting gain for 2013 – the market’s best year since 2007. As economic conditions have picked up following the Great Recession, so has the demand for goods to be hauled from one place to another. That means there is also a lot of fresh demand in the insurance marketplace for commercial auto products, as new players enter the for-hire trucking business and established players expand their operations.

The key to succeeding in the sector as a retail agent, Welch says, is to find a way to specialize in something, “whether it’s hazardous material haulers, moving and storage haulers, dumping and road materials haulers, freight carriers – whatever it happens to be. The best way to create a competitive advantage for yourself is to select a segment and become expert in that segment so you become the place where people want to go to get their business covered.”

Pennsylvania Lumbermens Mutual Insurance Company has done exactly that. The company focuses solely on the wood niche – delivering commercial insurance products (including commercial auto coverage) to the lumber, woodworking and building material industries through an open brokerage arrangement with brokers across the country.

PLM writes everything from personal vehicles to light, medium and heavy trucks, and “a lot of extra-heavy tractor trailers to carry product,” Johnson says. “We are not a generalist. We know this business and what makes it tick. When the building industry thrives, we thrive. And we are seeing a rebound. Commercial auto is a large and

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Lou Welch, Scottsdale Insurance Company

important segment of our book.”

Not surprisingly, “there is more and more competition today than 10-12 years ago,” Johnson says. Ultimately, he says, customer service is the key to retention in such a climate.

As such, risk management is a big part of what PLM offers to its clients. The company works closely with insureds to minimize losses in its top three areas of claim frequencies – accidents having to do with loading and unloading, accidents stemming from hitting stationary objects, and single-vehicle accidents.

“When their losses start to improve, it’s harder for them to move their insurance to a different company,” Johnson says.

But ultimately, the proof is in the pudding of a covered loss. “Our customers don’t realize the service they get until they have a loss,” Johnson says, “and then they say, ‘This company stepped up to the plate for us.’” ■

## INSURANCE IN THE UBER ERA

A hot topic in the commercial automobile insurance sector right now is the appearance of ridesharing services such as Uber, Sidecar and Lyft, and the debate over who will pay if something goes wrong during a trip or while a driver is on his or her way to pick up a passenger.

Ridesharing companies have often said their drivers’ personal insurance policies should cover the claims, while the insurance industry has taken the stand that personal car policies won’t provide coverage and that drivers should buy (more expensive) commercial insurance in order to be covered when they’re driving for hire – and maybe even when they’re not. In some cases, insurance policies have been canceled when carriers find out an insured works as a rideshare driver.

After a year or so of limbo and legal squabbles, Policy Genius reports that there are now several new insurance products being created in certain states to address the coverage needs of rideshare drivers.

- **Metromile**, available for Uber drivers in California, Illinois and Washington, offers per-mile insurance (meaning that the more you drive, the more you pay) with a special dongle that tracks how far you travel.
- **Geico** has developed a product for rideshare drivers in Virginia and Maryland that is cheaper than other commercial auto insurance policies.
- **Progressive** offers a pilot program for Lyft drivers in the form of an affordable commercial auto insurance policy with rates adjusted based on the mileage driven as a rideshare driver.
- **USAA’s** new rideshare insurance, available for drivers in Colorado and Texas, extends a driver’s existing personal policy for an additional fee of \$6 to \$8 per month.