TECHNOLOGY, TRUCKING LIABILITY, AND CAPTIVES

Written By Karrie Hyatt

New technology for the trucking sector poised to make a sea change in how fleets operate and how their insurance is priced. While the commercial auto liability (CAL) sector has been languishing in the traditional marketplace, new technology is still years away from making a difference in that insurance segment. But for captives, they are flexible enough to incorporate the cost-saving technology for trucking fleets into their underwriting processes more quickly.

In a report on CAL, released by Fitch last August, the ratings company reported that direct written premiums were up by 13%. This segment of insurance market has been rising for the better part of a decade. While carriers have increased their rates, it has not been enough to cover their losses. According to Fitch, between 2009 and 2018, the average paid loss per closed claim increased 47%. An increase in the severity of claims—with average paid losses going from $9,200 in 2009 to $13,500 in 2018—has suppressed any gains from the increased premiums. The report indicated that positive changes in this segment were not likely to be seen before 2021, if that early.

According to Todd Reiser, vice president of the transportation practice at Lockton, the reason CAL has been underperforming for so long is due to a combination of factors. "[There has been] too much insurance capacity in the marketplace that was underpriced; medical cost inflation and higher vehicle replacement/repair costs; underwriters that were too slow to react to increase in claim costs and verdicts; an increase in distracted driving; a tort system out of control and a seed change in the social justice perspective."

For trucking companies, premium rate increases have ranged from single digits to double digits or more. While the insurance market has been underperforming, the trucking industry itself is facing mounting problems. From deteriorating infrastructure and more vehicles on the road than ever before to rising medical costs to high driver turnover and distracted driving, these factors are also contributing to the dramatic rise in insurance costs.

For captives operating in the trucking sector, their pricing has not been affected by the volatility of the open market, but their fleets are still subject to problems facing any trucking company. The captive sector has provided capacity to the CAL market and has shown that it is a worthwhile alternative to the traditional insurance market. Especially when adopting new technologies.

NEW TECHNOLOGIES INCREASING SAFETY AND REDUCING CLAIMS

As claims become more costly to insurers in the trucking industry, technology is playing a role reducing incidents that result in claims. Technology that has become available over the last few years helps drivers avoid some of the biggest issues that plague the industry—overwork, collisions, and inexperience.

In 2017, the Department of Transportation mandated that all commercial trucking vehicles be equipped electronic logging devices (ELD), with full implementation due at the end of last year. These telemetric data devices track driver hours of service and prevent violations of legal working hours and the illegal revising of driver's logs. The devices also help a driver more efficiently communicate with the home office as part of their regular duty and in the event of an incident. For drivers, ELDs have been shown to reduce paperwork, automate workflow, and help to facilitate inspections. An ELD will alert drivers to time-sensitive events such as breaks or driving limits and helps to build a driver's safety record. The devices also operate as a "black box" in the event of an incident capturing both driver and vehicle behavior for easier post-incident reconstruction. ELDs are also being used by insurers to help underwriters make actuarial determinations.

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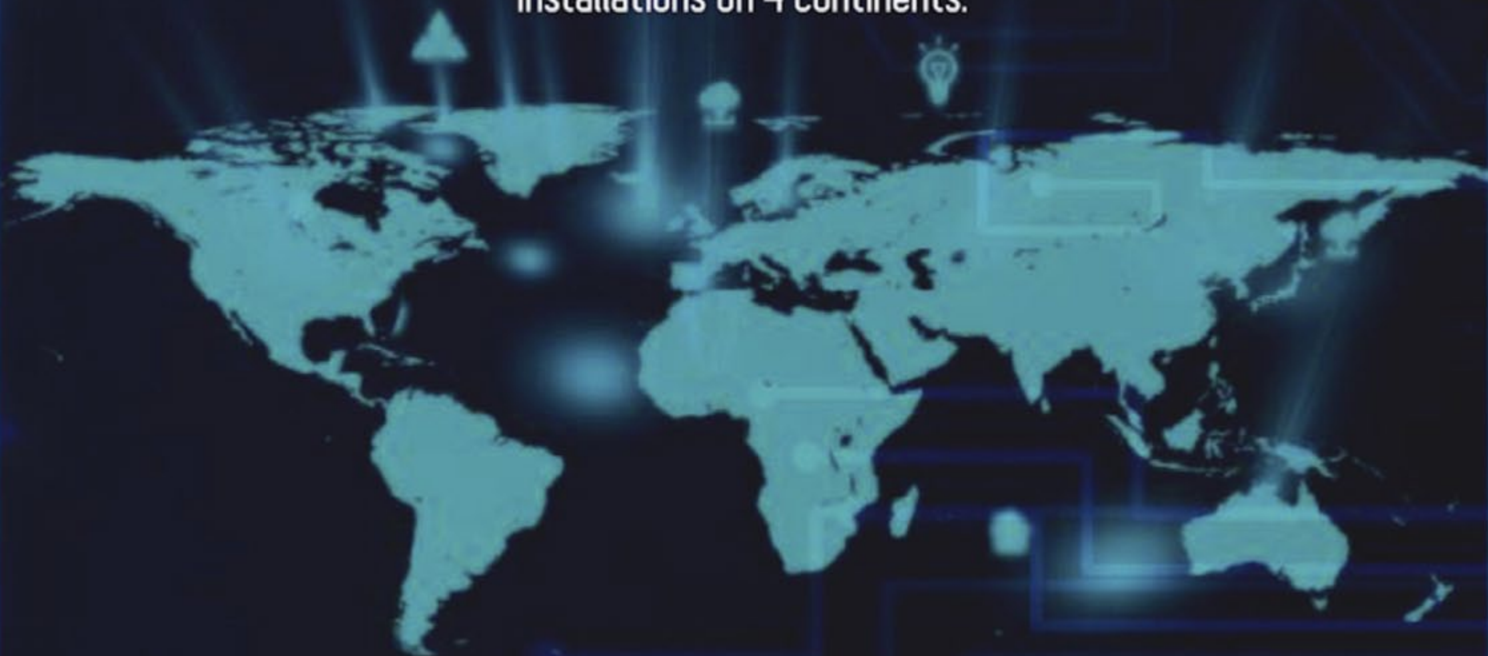

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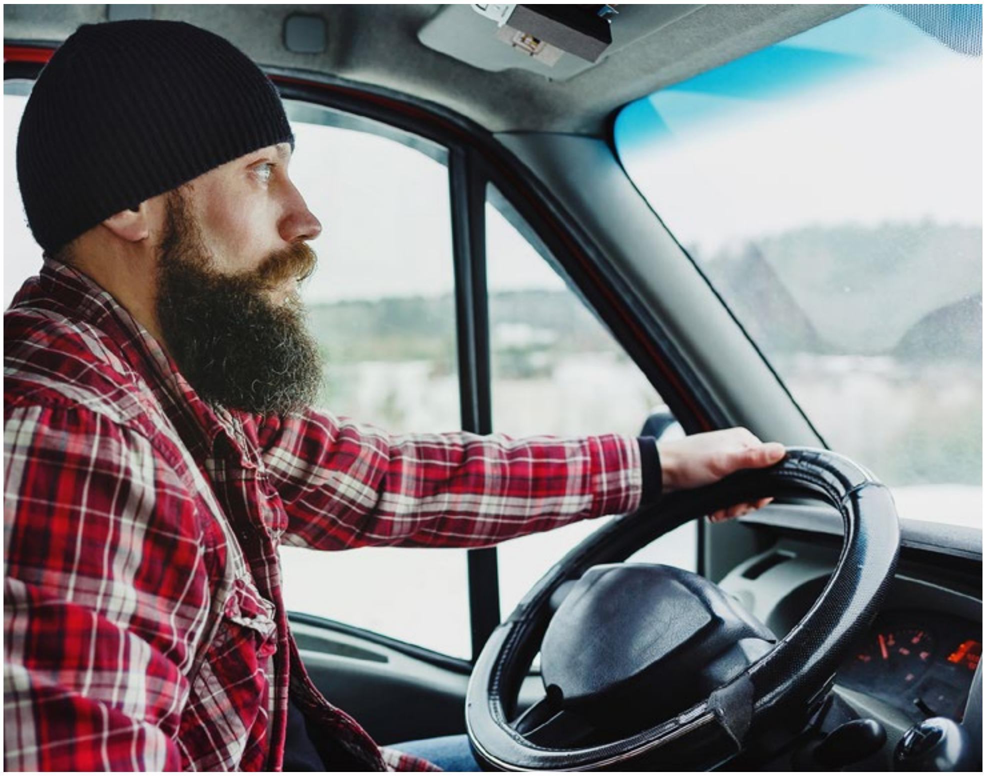

The telemetrics gathered by the devices over the course of a year for a trucking company provides valuable data for insurers. While ELD devices are important in the event of collisions, they can also provide information about unsafe driving and critical events that don't result in an incident. The devices can measure speed, hard braking, lane departures, and other factors that can help trucking companies and insurers see what's going on. For trucking companies, this allows them to take action, such as further driver training, before an incident can occur. For insurers, it helps them to identify at-risk behaviors.

Two other technologies, that have been popular in non-commercial vehicles, are poised to make a huge difference in trucking fleets—collision mitigation, or active braking systems, and lane departure warning systems. Active braking systems use sensors placed around the vehicle to monitor other vehicles close by with the ability to detect an impending collision and to automatically apply the brakes. Lane departure warning systems don't automatically stop a driver from drifting out of the lane, but the system does sound and alarm to let the driver know.

Video cameras are also being deployed to help driver safety. Forward facing cameras, or dash cams, have been widely deployed and help companies to determine the circumstances in rear-end collisions. Coming online with more frequency are inside facing cameras that monitor driver behavior. This type of video is used primarily for training purposes but can help defend a driver's actions in the event of an incident.

Still in testing phase is the side-view cameras that could replace side-view mirrors. This is a technology that has been deployed in non-commercial vehicles in Europe and Japan but has only recently begun being considered by the U.S. Federal Transit Agency (FTA). For commercial vehicles, the FTA has approved testing for the MirrorEye camera system by Stoneridge Inc. Cameras provide better optics in inclement weather and in the dark, allowing the driver to see down the sides of the vehicle unimpeded. They also can move with the truck, so that the driver never has a blind spot while operating the vehicle.

With all this new technology becoming available that can help increase driver safety and reduce claims, why aren't more fleets becoming early adopters?

Some of the new technologies may not work for every company. For example, one trucking company, who works their fleet with tandem drivers, found the land departure warning systems would wake the driver not on duty, interrupting their much-needed rest.

Many drivers don't approve of the use of the inside facing camera that monitors their behavior. While the resulting video is important for training purposes, drivers feel like their personal space is being invaded. With driver turnover being so high and experienced drivers in constant demand, some trucking companies will not use inside facing cameras in order to keep their drivers happy.

However, the primary reason that the sector isn't quickly adopting new tech is that it's expensive to introduce new tech into trucking fleets. New technology is expensive and when you need to deploy it among 50 to 100 to 1,000 vehicles or more, it adds up. Then there are additional costs for driver training and maintenance. With this sector of the market having so many issues, insurers aren't in a place that they can offer discounts for adoption of the eventually money-saving technology. With skyrocketing premiums and the burdensome cost of the technology, most trucking companies don't have the capacity to introduce new technology to their fleets and many are being forced out of business.

TRUCKING CAPTIVES ADOPTING NEW TECH

This exciting new technology comes with a hefty price tag, especially since much of it has been introduced in only the last few years. There are very few vendors for each of these technologies, so the pricing hasn't been brought down through competition. The new technology is not affecting insurance premiums for trucking companies in any positive way. Because the tech is new, it can even increase premiums as there is not enough actuarial data that can be used for underwriting yet.

While premiums for captives in the trucking sector hasn't had the volatility of the traditional market, technology is still an expensive component of operations. However, captive insurance companies in this sector have the ability to respond much more quickly when new technology is introduced as opposed to the traditional market which responds more slowly to major changes in the marketplace.

According to Reiser, "Single-Parent and Group Captive insurance options are really risk financing mechanisms that allow for increased flexibility as to how risk is managed or financed. A company who is comfortable in taking on risk through a captive will likely be more comfortable making investments in new technologies."

Unlike the commercial market, currently captives have more capacity for CAL and often have the ability to offer discounts to their owner/members when they onboard new technology. Captives may also be able to help their members invest in new technology through profit-sharing or year-end dividends.

Group captives are made up of companies with similar business models and similar risk. Captives often require their members to follow explicit policies and to use specific technologies. Group captives are known for their propensity for sharing best practices and risk management systems among their members. "One of the advantages of group captives is that you are able to share information among the group, share best practices," said Reiser. "A group member that's having great success with a certain type of technology will want to share that with other members, underwriters, and captive managers."

Trucking captives, in addition to keep the costs of CAL down for their members, are poised to be at the forefront of making use of new technology that will improve safety, reduce claims, and defend drivers after an incident for the trucking industry. ■

Karrie Hyatt is a freelance writer who has been involved in the captive industry for more than ten years. More information about her work can be found at: www.karriehyatt.com.