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Rising Insurance Rates for Motor Carriers: *Understanding Premium Increases and How to Manage Risk*

Insurance costs for motor carriers have been consistently increasing over the past few years. Facing higher losses and claim payouts, insurance carriers have raised premiums to cover costs. Some carriers have exited the trucking insurance industry altogether, decreasing competition and further increasing costs for business owners. Rising premiums combined with unpredictable freight rates, costly parts and repairs, and higher wages for drivers are threatening many trucking companies' already thin profit margins. Data from the Federal Motor Carrier Safety Administration (FMCSA) reports that more than 35,000 carriers closed their doors in fiscal year 2023.

There are many factors that affect the calculation of insurance premiums. Litigation trends, claim frequency, and high equipment costs have all contributed to the trucking industry's escalating insurance rates, but there are strategies that companies can use to help improve their ratings and control their insurance costs. By adopting a holistic approach to risk management and consistently evaluating their practices, trucking companies can positively impact their loss performance records and safety scores, metrics which all factor into the calculation of insurance premiums.

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The Rise of Trucking Insurance Rates

Why have trucking insurance costs increased so drastically? The simple explanation is that insurance carriers are losing money, experiencing losses in excess of collected premiums. This trend has caused insurance rates to increase by over 50% in the past decade. For some motor carriers with fleets of less than 100 powered units, or with loss ratios that exceeded carrier expectations, costs have doubled. Industry claims performance has been affected by incident severity, increasing medical payouts, and legal issues. During the COVID-19 pandemic and the years after, record numbers of new motor carriers entered the market, contributing to an increasing number of incidents and claims. Claim severity has also risen, however, leading to much higher payouts and driving insurance carriers to raise premium rates.

According to the American Transportation Research Institute (ATRI), equipment costs have increased by more than 100% in the past decade from $0.163 per mile to $0.331 per mile. While trucking equipment has begun to incorporate more technology and better safety features, most of the increase in cost is likely due to supply chain challenges and other economic factors. New trucks have become more expensive, with many costing upwards of $250,000 per vehicle. The price of third-party passenger vehicles has also risen. As equipment and vehicle costs have increased, repair and replacement costs have risen correspondingly.

Medical claim payouts have also experienced a significant jump in costs that outpaces the rate of health care inflation. In the report "Roadblock: The Trucking Litigation Problem and How to Fix It," the U.S. Chamber of Commerce's Institute for Legal Reform describes litigation practices that aim to inflate medical claim costs with incentivized claimant attorneys, relationships between medical providers, attorneys, and litigation funders, and hired "runners" that advertise legal services at the scene of auto accidents.

These practices have recognizably impacted payouts on nuclear verdicts, defined as exceedingly high payouts of over $10 million, but they have also affected verdicts with less than $1 million in damages that were predicted to be much lower. In a small verdict study, ATRI found that the most significant driver of medical claim costs below $1 million were common injuries received in accidents, such as soft tissue injuries or whiplash, that can vary widely in degrees of severity and treatment and are susceptible to insurance fraud attempts. This has created an environment where insurance carriers are quick to settle claims at perceived "low-dollar amounts" in fear of high damages being awarded in a courtroom.

Legal issues impacting motor carrier insurance trends are not limited to plaintiffs' bar tactics. Emotional trial strategies, comparative negligence judgments, social inflation, attorney advertisement, third-party litigation funding, and state tort reform issues are also contributing to the sharp increase in verdict amounts. Average verdict sizes have risen from less than $5 million in the decade preceding 2018 to over $20 million in the years since.

This has pushed the insurance carriers that remain in the trucking insurance marketplace to implement much more thorough underwriting processes that aim to evaluate the likelihood of motor carrier accidents, with a focus on accident frequencies. Claims history, including both frequency and severity, remains the primary metric for developing premium expectations for carriers. However, litigation trends have forced carriers to put much more scrutiny on accident frequency to avoid potential large losses. Predicting claims costs has become more challenging as every accident has the potential to incur large payouts, although many carriers have been searching for other ways to improve their evaluation capabilities.

In 2010, the FMCSA released their Compliance, Safety and Accountability (CSA) program in an effort to improve highway safety. Motor carriers' CSA scores are recorded in the FMCSA Safety Measurement System (SMS) along with Behavior Analysis and Safety Improvement Categories (BASIC) scores. While the advent of CSA and BASIC scores have provided opportunities for companies to evaluate their over-the-road performance, violations, and crash history, insurance companies also use these scores as another predictive tool in their underwriting processes. SMS data is publicly available and can be used against a motor carrier in their insurance renewal process which can translate into higher insurance costs. Several notable insurance carriers refuse to provide quotes for motor carriers with conditional safety ratings or BASIC score alerts, and many others assign premium increases of $500 to $2,000 per BASIC alert per powered unit.

The Impact on Small and Medium Trucking Companies

As insurance premiums continue to rise 5% to 10% per year, small and medium-sized trucking companies are disproportionately affected. According to the American Trucking Association,

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companies with less than 20 powered units represent 97.4% of motor carriers doing business today. Trucking industry demographics collected by ATRI show 18% higher average insurance costs per mile for motor carriers with less than 26 trucks compared to their counterparts with 26 to 100 powered units, and 28% higher insurance costs than companies with 250+ powered units.

This disparity is due to companies meeting minimum premium and performance thresholds at the 25 to 50 powered unit mark and breaking out of the traditional insurance marketplace into non-traditional risk financing programs like group captives or high-deductible programs. While these programs might incur some up-front costs and downside risks, many companies can experience a share of their premium profitability if historical claim performance trends indicate acceptable loss ratios.

It is also notable that motor carriers based in the Northeast and Southwest pay significantly higher insurance rates than the rest of the country, with companies in these regions paying 10% to 20% more on a cost per mile basis. Much of this is likely attributed to regional incident frequencies and the cost of claims in these regions.

As the 5-year loss performance record remains the primary driver behind insurance rates, it is important to understand that most carriers target loss ratios below 40% for their insureds. This means that for every $100,000 in insurance costs, the annualized average losses remain below $40,000. This can be extremely challenging for smaller motor carriers as trucking claims tend to be large, and a single claim can have a tremendous impact on loss performance. Conversely, an operation with fewer trucks is easier to control and less likely overall to experience a claim.

Strategies to Manage Risk

When motor carriers seek to improve their loss performance and reduce premiums, it is important to remember that insurance costs are not the only financial consideration to keep in mind when discussing the total cost of risk in the trucking industry. Insurance and safety professionals, as well as a growing number of business owners, have long understood that the costs of managing risk within their organization start before a driver opens the door to their cab. Driver training, safety technology, modern equipment, leadership talent, and driver compensation are controllable front-end investments that business owners make to reduce their unexpected costs of risk.

When claims happen, additional expenses like deductibles, clean-up fees, fines, litigation expenses, and anticipated premium increases add onto the base insurance premium rate. When evaluating the total cost of risk for any operation, it is best to take a holistic approach to known and controllable expenses. These front-end investments make a direct impact on unknown and uncontrollable expenses of claims and renewal cycles. Motor carriers with poor safety cultures or loss performance can end up paying two to three times higher insurance premiums, which significantly impacts profitability. When it comes to managing insurance costs, the primary conversation should be around loss mitigation.

Effective loss mitigation begins with the driver hiring process. Motor carriers should develop an understanding of what makes a good driver and seek to hire qualified and responsible individuals. During the hiring process, applicants should undergo a complete driver qualification file review, an on-the-road test, and an interview which covers FMCSA mandates and company expectations. If a company's prospective drivers are regularly denied by their insurance carrier, the organization's hiring practices should be reviewed and improved.

Driver training programs are the next step in risk management. The right training may look different for each trucking company, but regular training and performance reviews are essential components of successful programs. Telematics solutions with forward-facing cameras enable leadership to engage with drivers and identify training opportunities. By reviewing footage, teams can use real world situations to discuss how drivers should respond to specific situations, correct risky behaviors, and prevent poor claims outcomes. Recordings provide valuable records for insurance companies and attorneys in the case of claims, which is particularly relevant in the 70% of accidents involving trucks that are due to third parties.

Regarding driver behavior and expectations, it is also important to craft internal policies that reflect enforceable measures and realistic practices. For example, if a certain action is listed as a fireable offense, but a driver commits that action and remains employed and then is involved in an accident, the company will be questioned in court about why the policy was not carried out. Formal written policies must be followed or adapted to meet the company's needs.

Every motor carrier should also have an accident response plan that has been discussed with their drivers, leadership, attorney, and insurance broker. Every member of the crash response team has responsibilities that should

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be clearly defined. Given the current litigation environment, drivers must be prepared in the event of an accident, especially those that involve death or injury. On-scene conduct, information management, a communication plan, collecting evidence, and prioritizing immediate actions for management and ownership are all action items that can, and should be, addressed in advance. These actions require both training and an accountability process to ensure that each member of the team understands their role.

In addition to driver onboarding and training practices, leadership needs to have an intimate understanding of what their FMCSA CSA scores are saying about their company. While staff members may not see these scores often, insurance companies and attorneys do. Poor metrics can negatively impact your insurance premiums. Many brokerages provide reviews and recommendations of CSA scores for trucking clients at no cost, but there are third-party services that can also provide guidance for a fee if a broker is not familiar with the data. Some BASICs are considered more concerning than others by underwriters, and it is important to take action on anything that might reflect negatively on the company via the FMCSA DataQ process. Consistent reviews of inspections and violations will also provide opportunities to reinforce driver expectations.

Alternative Risk Financing Programs

For trucking companies that are paying more than $250,000 in premiums and have good loss performance, alternative risk financing programs may be a viable alternative. There are multiple options, but a well-performing trucking operation can experience a 60% to 70% reduction in insurance costs if they quality for these programs. More and more trucking companies are breaking out of the traditional insurance marketplace due to the cost savings, but it is essential that companies understand the options and how they work.

A group captive, for example, would keep annual expenses more consistent, but place 60% to 70% of your insurance premiums in a loss fund for anticipated claims expenses. The company is essentially pre-funding its losses, and if it performs well, it will get that money back. These programs are competitive to join, however, so a long-term risk mitigation plan is essential. Several group captive programs are just for trucking companies, and are ideally suited for companies with 35 to 200 powered units and good loss performance. High-deductible programs, with deductibles of $250,000 or more, are a little less predictable, but might provide an opportunity for a more efficient use of capital which could enable growth. These types of programs are typically best for companies with premiums in the millions of dollars, as there is the potential for significant downside should the company experience a few losses within the deductible layer.

Long Term Solutions

The most successful trucking companies do not only evaluate their insurance once a year prior to renewal. They understand that they cannot make big changes in their loss history, FMCSA statistics, driver hiring practices, and driver habits overnight. These are the underlying issues that lead to high insurance premiums. Risk management is a continuous process of self-reflection and improvement that requires consistency in all aspects of the company's operations.

There are technology and software tools that can help streamline these processes, and they can have a massive impact on the effectiveness of the program. Depending on the size of the operation, an additional employee may be warranted in order to ensure that these practices receive the attention they deserve. Having employees focused on safety and compliance in the company could be a valuable investment on the front end to prevent unanticipated and uncontrollable expenses on the back end.

There are many legal issues affecting insurance and claims costs. State and federal tort reform is needed to curb current trends in litigation practices and verdict amounts. Staying connected, getting involved, and funding state and national trucking associations is a key component of an efficient trucking insurance marketplace. The Ohio Trucking Association, Pennsylvania Motor Truck Association, American Trucking Association, and the Owner Operator Independent Driver Association are important resources for training, information, and lobbying efforts focused on making the trucking industry run more smoothly.

Finally, working with a knowledgeable brokerage that understands risk control, training, hiring, policy implementation, and claims management is highly recommended. Insurance professionals dedicate a significant amount of time to understanding the ins and outs of the insurance industry as it relates specifically to trucking. Trucking insurance is a specialized segment of the insurance industry and it is useful to work with a professional team that understands how to mitigate claims, handle claims, and reduce insurance costs.

Please contact Henderson Brothers for more information on industry-specific risk management guidance.

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