Safety Culture Solution

By Kevin Cunningham

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The entire business market is feeling the impact of commercial auto insurance cost increases. Crane and heavy-haul trucking owners have felt the sting of double-digit rate increases.

Commercial insurers are either increasing rates significantly or pulling out of some markets.

This problem has been brewing for several years across the entire U.S. insurance market, and it will take a concerted safety effort to change this current market disruption.

Compound Causes

One factor contributing to the problem is that more drivers are on the road, thanks to the rebounding economy. More drivers means more miles driven. Combining that with distracted drivers and "nuclear" (unreasonably and unpredictably high) verdicts in court cases adds up to troubling trends in commercial auto insurance.

Insurers have posted net underwriting losses in commercial auto for six straight years, according to a recent A.M. Best report. Without underwriting profits, insurance companies must either increase rates or stop serving unprofitable markets.

The Source of the Problem

Until a few years ago, insurance companies and large self-insured fleet operators had a pretty good handle on commercial auto claims and the cost of heavy vehicle crashes.

Claim frequency and severity were fairly predictable. Calculating damages and costs from bodily injuries was fairly straightforward.

That made insuring heavy commercial vehicles profitable, so insurers were not afraid of severe exposure as long as claim experience was predictable and premium rates were sufficient to pay claims and still make a profit.

In the past few years, however, a series of huge and unexpected judgements against commercial vehicle policyholders have upended old calculations and are hurting heavy commercial auto insurance, which includes coverage for big trucks.

One large reason for the recent disruption in commercial auto insurance is a change in strategy by attorneys representing people injured in big-rig-related crashes.

Until recently, damages from such cases came mostly as (relatively) easy to calculate compensatory damages: payments for medical bills, lost wages, pain and suffering, etc.

More recently, however, lawsuits include allegations that open the possibility for millions of dollars in punitive damages to be heaped on top of any compensatory award. Punitive damages can be a real wild card, with "sky's the limit" verdicts.

News headlines and 24/7 streaming about serious truck crashes, also contribute to the problem. According to a recent *Wall Street Journal* article, a burst of high-profile accidents has brought what the WSJ calls "nuclear" verdicts, which have awarded plaintiffs tens or even hundreds of millions of dollars.

To determine insurance premiums, underwriters look at both the potential cost of accidents (severity) and how often they happen (frequency).

Unfortunately for everyone, the frequency of commercial vehicle accidents is also on the rise, due in part to more commercial vehicles being on the road, but also due to distracted driving, and other factors.

A third factor that is helping premiums skyrocket is that fewer insurers will cover heavy commercial motor vehicles. Several major insurance carriers have stopped writing insurance for heavy commercial motor vehicles because of conditions in today's market. Less competition among insurance providers tends to keep premiums higher.

Additionally, the recent low interest rates are reducing insurance companies' investment income, so they cannot reduce premiums and stay profitable.

A.M. Best noted that the calendar year combined ratio in commercial auto increased sizably over 10 years, from 94% in 2007, to 110.4% in 2016.

Best also found that the loss and loss-adjustment expense ratio rose 27% over the same ten years.

Preliminary 2017 statistics show that truck insurers had a 120% loss ratio. That means that for every $1.00 of premium an insurer wrote, losses cost it $1.20.

Five Factors

These five factors have created the perfect storm that's driving the current auto insurance increases:

1. Increases in the severity of losses
2. Increases in the frequency of loss
3. Fewer competing underwriters
4. Increases in year-over-year loss adjustment expense
5. Low investment income

The result of this "perfect storm" of problems is causing double digit auto rate increases in most construction-related segments, and even larger rate increases for pure heavy-haul transport operators over the past few years, with no end in sight.

Turnaround

Transportation experts agree that something has to change for the commercial auto insurance market turn around.

Improvements in safety management offer the best hope for bringing back affordability.

We've all seen the recent explosion to embrace the "telematics movement."

Some insurance providers are offering free introductory products to convince vehicle owners to buy their technology. Other insurance providers are hawking telematics as the ultimate solution to improve fleet safety (and therefore reduce premiums) because they believe big-rig drivers will operate more safely if Big Brother is looking over their shoulders.

Certain telematics systems may have a place in commercial auto, however I believe strongly that human factors are much more effective for finding solutions to today's commercial auto challenges.

Many initiatives now in the works involve using telematics to help change the negative underwriting results that are driving the shortage of competition and rate increases.

Recently, as the federal mandate for electronic logging devices (ELD's) went into effect, some insurance providers launched usage-based insurance programs in an attempt to provide credits from rising premiums. There are no results yet from this telematics initiative.

It will take time for telematics to show credible data that might affect current conditions in commercial auto insurance.

There are no quick fixes for the problem, but there is something truck owners can do now to get on the road toward lower insurance rates.

The proven way to improve insurance market conditions is to reduce claim frequency and severity. That shows insurers your company is a high-quality risk that has a long-term commitment to safety—a client they can insure profitably over the long haul.

Becoming more attractive to insurance providers involves strong commitment to effective risk management. It may not involve telematics.

Human Factor is Key

Several of us in commercial auto insurance underwriting believe firmly that human-factor risks are the most important places to focus in order to correct the current auto insurance challenges.

Getting back to basics with the fundamental focus on your people's wellbeing as the top priority is the most effective way to drive the behavior changes needed to correct current conditions.

Distracted driving, hours of service, equipment maintenance, speeding, hard braking, proper tire management, seat belt use, cell phone use, substance abuse … all affect current market challenges—and all have one thing in common: your people (not telematics).

When the Federal Motor Carrier Safety Administration (FMCSA) engaged the National Academies of Science (NAS) to find solutions that would improve trucking safety, the NAS' thorough research concluded that effective solutions should focus on human factors. In effect, the NAS said that building a strong safety culture is a company's best way to prevent commercial motor vehicle crashes. We should take that to heart and focus on people first.

This approach is, in effect, a continuous improvement program for safety, a process similar to those many businesses are already using in other areas of their operations.

Building and strengthening your company's safety culture lets you identify improvements needed to educate employees about safety and to train them to work safely each day in the field—to change their behavior.

Programs that transform a company's safety culture involve various steps. One is establishing a defined process for assessing your company's safety climate. That process lets you to get to the heart of your people's behavior.

Statistics show that in organizations that embrace the concept, human-factor learning improves performance and prevents crashes.

Evaluating your company's safety culture lays the foundation for continual improvement in overall organizational business matters that will affect your existing commercial auto situation. Insurance carriers are looking to partner with companies that have long-term quality controls, not short-term quick fixes.

Bottom Line

Although there have always been up and down insurance cycles, quality always prevails in the long run.

Most crane, rigging, and heavy-haul operators we have worked with in the past 20 years run top-quality organizations.

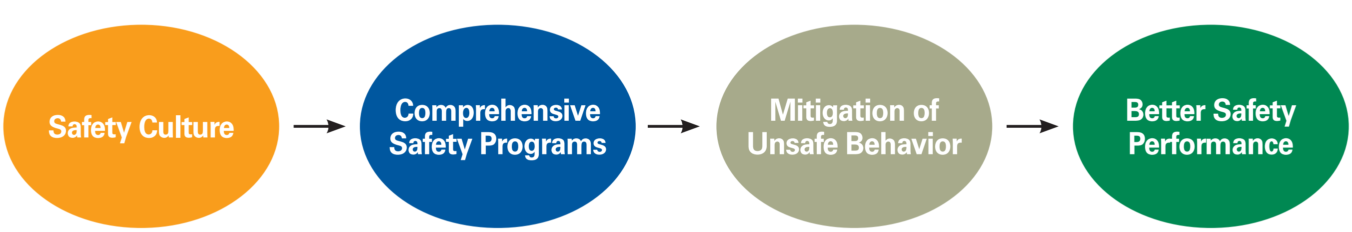
We believe the current disruption in commercial auto insurance will eventually settle down and return to normal.

If you want to minimize the effect of current insurance conditions, consider evaluating the FMCSA research report produced by the National Academy of Sciences. It documents safety culture's role in preventing commercial motor vehicle crashes.

You can get this important document at: http://www.trb.org/publications/blurbs/159031.aspx.

Incorporating the suggestions of this important fleet safety model can help reduce the effects of the current commercial auto insurance market and put your company on the road to the lowest possible premiums over the long haul.

Redstone Underwriters Heavy Iron Division will be providing a series of risk-education tools to support continual fleet safety improvement for the crane, rigging, and specialized transport industries. Feel free to contact us for access to those tools. ■



Building a safety-focused culture is a powerful way to get employees in the habit of working safely. Think of it as a continuous improvement program for safety.