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MITIGATING RISING AUTO INSURANCE RATES

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Make no mistake, automobile insurance rates have been increasing over the past few years and seem to be picking up steam. Average rate increases, even for policyholders with relatively good loss histories, have been around 5%-7%. For those with greater loss activity, the increases have been in the double digits¹.

Insurers have been blaming deteriorating results with [combined ratios](#) (a measure of insurer profitability) well over 100. The causes are many, but the trend is primarily due to increases in activity thanks to a healthy economy, higher costs of fixing autos and medical costs for injuries, and distracted driving due to electronic devices. This trend is predicted to continue into the foreseeable future.

Contractors feel this pinch particularly hard due to the necessary vehicle fleets that many must maintain to support their operations and function. In many cases, that includes the use and operation of heavy vehicles. Therefore, the cost of insuring a contractor's fleet can become a significant expense. To mitigate the impact of the increasing rates, contractors should consider a number of strategies:

ACCIDENT PREVENTION

The best way to reduce insurance costs is to proactively avoid losses. Fleet operational policies should be reviewed and updated to include guidelines on phone usage and personal usage of vehicles, if applicable. Since a majority of accidents tend to involve either reversing or following too closely, driver training in those areas should be emphasized. Most auto carriers offer training materials, often online, that policy holders can review and put to use. In addition, it is very important to check the motor vehicle registrations (MVR) of all those assigned to drive vehicles, both at time of hiring and at least annually thereafter. Your carrier or broker team can provide you with industry standards that you can apply when evaluating an MVR for acceptability.

CONSIDER TELEMATICS

The adoption of [telematics](#) for use in company vehicles can help provide feedback to managers on vehicle usage, and act as deterrence against bad driving habits, such as speeding or hard braking. It can also provide notification of vehicle usage during non-business hours, if that is against company policies. All of these steps can help

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reduce the frequency of vehicles accidents and promote better driver behavior. Further, underwriters will often provide discounts on pricing for use of telematics.

The use of forward facing cameras, particularly in larger vehicles, can provide much needed documentation of the actual events involved in a loss, and create a much more effective defense against unwarranted claims made against drivers. In addition, accidents and close calls can be more effectively investigated.



REVIEW COVERAGE STRUCTURE

Higher deductibles should be considered by contractors with high losses, but even that often doesn't provide much significant relief unless coupled with significant retentions. Self-insuring certain coverages is another avenue to explore. Removing physical damage coverage for company vehicles, either entirely or based on class or age of the vehicle, can also save on costs. Removing the optional [medical payments](#) coverage can also garner some savings.

Uninsured Motorist (UIM) coverage, while nice to have due to the many uninsured and underinsured drivers out there, can be a liability in cases where injured workers make a

claim against the driver of the vehicle using the company's UIM policy to do so. In addition, workers' compensation carriers can subrogate against the UIM coverage for monies paid out to your employee. While this can reduce the impact of a vehicle claim to your workers' compensation [experience modification rate](#) (EMR), it does have a negative impact on the auto policy's loss history. Contractors should carefully consider of the pros and cons of UIM coverage before making the decision.

CONSIDER PERSONAL AUTO USE

During this period of high auto insurance costs, it may be beneficial to consider providing auto allowances for private vehicles to conduct company business rather than providing company-owned automobiles. While this certainly does not apply to jobs requiring specially equipped or heavy work vehicles of some sort, it definitely can apply to supervisors, or other similar roles. In the event of an accident, it's important that those using their personal vehicles also maintain some minimum level of personal auto insurance that would act as the primary insurer, with the company policy providing excess coverage. Additionally, group excess policies could be used as a company benefit for groups of managers and/or supervisors on top of the auto policies.

There is no one single solution to the challenge of managing higher insurance costs for automobiles. The market has always been cyclical and, while there is no reliable forecast as to when auto rates may start to decrease, taking the time to review and make changes can help companies weather the current hard pricing environment that we are in. Call an experienced risk manager or insurance broker for assistance in these evaluations.

References and Resources

1. Why Auto Insurance Rates Are Likely to Increase in 2019, <https://www.valuepenguin.com/auto-insurance-rate-increase-2019>