PARKER SMITH & FEEK

COMMERCIAL INSURANCE
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RISK ANALYSIS: COMPANY-OWNED VEHICLES VS. AUTO ALLOWANCE

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The commercial automobile insurance market continues to harden due to rising medical costs, a shortage of experienced drivers, distracted driving, and increases in non-owned & hired auto exposures. Unprecedented jury awards, social inflation, and third-party litigation financing have moved motor vehicle losses from #6 in 2018 to #3 on the National Law Journal top 10 list of the largest 100 verdicts in 2019. On average, clients continue to see annual premium increases anywhere from 10%-20%. Underwriters take deeper dives into financials, raise deductibles, and lower limits on primary and excess policies. This analysis includes thoroughly reviewing all of a client's fleet safety procedures emphasizing motor vehicle record reviews for each employee who either has a company vehicle or who may drive their personal automobile for business purposes. Carriers will penalize those who do not have good fleet and driver controls even further than the average 10%-20% increase.

This trend has forced many clients to seriously evaluate whether or not they should continue providing company-owned vehicles for employees or to switch to an automobile allowance. To assist companies with this analysis, the chart on the following pages provides a list of each approach's pros and cons.

Either of these options is still heavily dependent on your internal risk management controls. Your Parker, Smith & Feek team has many resources available to assist you with developing and implementing the preferred controls that carriers will favorably view to continue to get the best rates possible. Please be sure to reach out to your team if you need assistance.

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Company-owned Vehicles vs Auto Allowance Risk Analysis

	PROVIDING COMPANY-OWNED VEHICLES		PROVIDING AUTO ALLOWANCE	
Primary Auto Liability Exposure	👎	Client has primary auto liability exposure when providing company-owned vehicles.	👍	Employee has primary auto liability exposure when using personal owned auto.
Excess Auto Liability Exposure	👎	Client responsible for excess liability if claim/loss exceeds client's primary auto liability limits.	👎	Client responsible for excess liability if claim/loss exceeds employees primary liability benefits. Coverage restricted to situations where the non-owned vehicle is being used in connection with client's business only.
Physical Damage Exposure (Comprehensive/ Collision)	👎	Client responsible for physical damage including insurance deductibles to owned vehicles.	👍	Employee responsible for physical damage including insurance deductibles to owned vehicle.
Workers' Compensation Exposure	👎	Increased exposure - client exposed to injuries while traveling to/from work. As client is self-insured this is a significant exposure.	👍	No exposure for injuries while traveling to/from work when utilizing a personally owned vehicle.
Carpooling	👎	Liability to injury for passengers in client-owned vehicle.	👍	No exposure for injuries while traveling to/from work when utilizing a personally owned vehicle.
Insurance Premiums	👎	Hardening insurance market. As this continues to occur, costs for commercial insurance may rise to a point making it difficult to make a business case for continuing to have a business fleet.	👍	Reduced Insurance premiums as primary liability and physical damage transferred to employee.
Administration	👎	Fleet management requires the administrative management of vehicle selection, insurance, registration, fuel, ongoing maintenance, resale, etc.	👎	Administration required for tracking insurance coverage to ensure adequate limits and appropriate business use endorsement provided.
Maintenance and Care	👍	Control of owned vehicles to set requirements for safe operation and maintenance. Able to utilize tools like fleet analytics to effectively enforce fleet safety rules.	👎	Without standards firmly in place, the type condition and age of car, there may be a potential for the employee receiving the allowance to use a sub-standard or unsafe vehicle.

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	PROVIDING COMPANY-OWNED VEHICLES		PROVIDING AUTO ALLOWANCE	
Driver Controls		Drivers who risk losing their rights to operate a company-owned vehicle or understand the liability impact to their employers may be motivated to be more cautious while driving.		There are typically no minimum driving requirements for granting an employee a vehicle allowance.
Personal Use Exposure		Even with restricted personal use of fleet vehicles, personal use exposure remains unavoidable, especially when a personal or family emergency makes such use necessary. The exposure to fleet vehicle accidents is even greater if family members drive the vehicles on an unauthorized basis.		No personal use exposure for non-owned vehicles.
Reputation and Branding		Corporate logo is a billboard to the community and a bad driver or drivers can damage the company brand.		No exposure to company brand.
Attracting and Retaining Staff		Often a benefit or perk provided by your competition.		Not providing a company vehicle may expose employer to a competitive disadvantage to attract and retain employees.

**Either Option – Driver background checks should be performed on an annual basis to ensure the driver is worthy of driving for company business.*