IDELIC

6 WAYS TO Mitigate Risk, Reduce Insurance, & Avoid a Nuclear Verdict

WHITEPAPER

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Introduction

The commercial auto insurance market is broken. The high, recurring cost of premiums as part of a fleet's Total Cost of Risk has risen by double digits each year for the past three years. Even worse, some face the challenge of getting coverage altogether, resulting in enormous costs and even total shutdown after a crash.

It's not just fleets who have been hurt by the insurance market, either. In 2019, the commercial auto insurance industry had a "combined ratio" of 109.4%, which is the sum of claim-related losses and general business costs divided by total revenue. Put simply, if an insurance company's combined ratio is 109.4% for a year, then for every $1.00 of revenue they brought in, they paid out just over $1.09 in claims-related losses, meaning they were not profitable for that year.

In a negative sign for the trucking insurance industry, 2019 was the ninth year in a row its combined ratio exceeded 100%. **In other words, commercial auto insurance can potentially be unprofitable for everyone involved.**

Fortunately, this doesn't have to be the case. There are actionable steps fleets can take to reduce the cost of their insurance premiums and provide a safe harbor for insurers who wish to invest in reliable, low-risk fleets.

This whitepaper will discuss:

COST

How insurance companies price fleet coverage

GROWTH

Why they've seen astonishing growth over the past decade

IMPROVEMENT

The steps fleets can take to improve their safety

Where Fleet Insurance Costs Come From

To understand where insurance costs come from, one has to understand what insurance premiums pay for. Every fleet is required to carry Commercial General Liability and Primary Auto Liability insurance, which together cover the cost of a crash and legal fees if a third-party takes action against a fleet.

Though it varies depending on the specific insurance package a fleet has purchased, standard coverage for these insurance types includes:

Bodily Injury & Property Damage (3rd party)

Vehicle Physical Damage (1st party)

Medical expenses

Investigation costs

Attorney fees

Settlement costs

Damages after a court ruling

Insurers price premiums by predicting the amount of money they will pay in order to cover the bodily injury and property damages incurred by the fleet over a period of time. The fleet that outperforms the insurance company prediction—obtaining a lower crash rate and experiencing less severe crashes on average—immediately saves within their deductible layer and **positions itself for lower premiums at renewal.**

The Cost of Crashes and Legal Fees

Crashes Are Common and Costly

In the 2017 edition of the FMCSA's Large Truck and Bus Crash Facts report, the agency found that over 450,000 large truck crashes occurred in 2017, and almost a quarter (23%) of those crashes resulted in an injury.

According to a report from the Bureau of Labor Statistics in 2016, 885 fatalities occur for every 100,000 drivers, making transportation one of the most dangerous industries for work-related deaths.

These crashes are incredibly costly, which is a major contributing factor to the high price of insurance premiums and a fleet's Total Cost of Risk. The American Transportation Research Institute (ATRI) found that fatal crashes cost just short of $5 million, and non-fatal crashes with an injury average about $270,000 per incident. This does not include other incurred costs like medical expenses, recruiting new or temporary drivers, and blows to a fleet's productivity and reputation. Summed up, high insurance costs pay for the high crash-related damages, and crashes are unfortunately common and costly.

450,000
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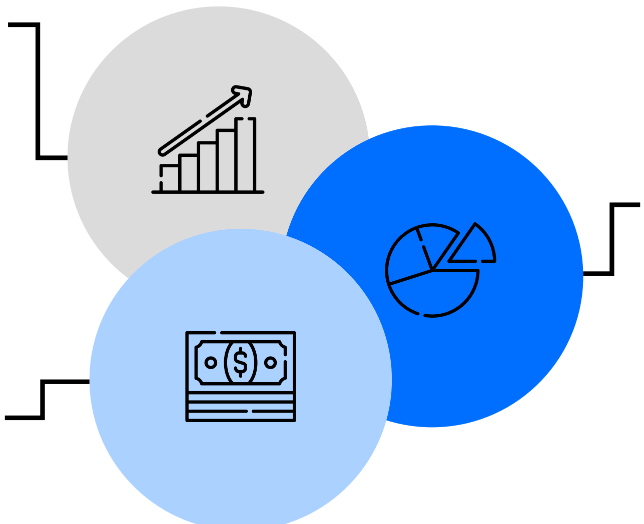

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Legal Fees Are Rising Because Nuclear Verdicts Are Too

The connection between Nuclear Verdicts and insurance premiums cannot be understated. Because insurance plans cover legal fees, any increase in Nuclear Verdicts or their average payouts will result in rising insurance costs.

Both the frequency and severity of Nuclear Verdicts have increased by an astonishing amount. From 2012 to 2019, the number of cases with **verdicts over $1 million increased by 335%** compared to the six years prior. Since 2010, the average size of a **crash-related verdict has increased by 967%**. Insurance costs have risen by double digits every year for the past three years in no small part because court costs have risen by triple digits over that same time.

How Fleets Can Beat Industry Trends

- **Go Above and Beyond Compliance**
- **Make Safety Culture Visibly a Top Priority**
- **Organize and Analyze Data**
- **Increase Retention**
- **Hire Smart**
- **Invest in Technology**

Actionable Ways to Reduce Insurance Costs

Because insurance premiums directly relate to a fleet's safety and their chance of suffering a Nuclear Verdict, taking actions to improve the former and reduce the latter are essential to obtaining a fair rate. The following are **six steps fleets can take to accomplish both:**

01. Go Above and Beyond Compliance

With Nuclear Verdicts driving the increase in industry-wide insurance premiums, **reducing liability must play a central role in any cost reduction strategy.**

Nuclear Verdicts occur when a plaintiff's attorney convinces a jury that a defending fleet committed negligence before a crash.

Most people assume that abiding by compliance requirements is enough to meet the standard of "reasonable care" and prevent a claim of negligence, but that is no longer the case. Increasingly, plaintiff's attorneys are arguing that industry standards, a fleet's own safety handbook, and the policies a fleet lists on their website, are the standards a jury should judge a fleet's safety on, rather than their adherence to minimum government compliance requirements. As these are often more stringent than the bare minimum of compliance, **simply being DOT compliant is no longer enough.**

The only way for a fleet to protect itself from this strategy is to be so safe in their procedure, technology, and outcomes that they are defining the "industry standards" all others are judged on.

In practice, this means fleets need to identify the compliance standards that apply to them and set a commitment to go above and beyond them.

As an example, if a fleet is a hazardous materials carrier, the intervention threshold for their crash indicator BASIC is 60%. To be an industry leader in safety, and thereby protect themselves from the "industry standards" argument, they can set their fleet's internal intervention threshold to 40%, and conduct reviews, process improvements, and training so they never come near it.

Prove Above and Beyond Compliance

Once a fleet has set a heightened standard for their compliance, it’s crucial they share this information with their insurance carrier to prove they are going above and beyond.

When a fleet is transparent with their internal processes, as well as their successes and failures, insurers are likely to see them as a reliable, trustworthy partner they can do business with. Even better, by sharing their plans for improvement in key compliance, risk, and safety areas, fleets can show insurers that they are not only committed to going above and beyond compliance, but that they are in the process of doing so.

Insurance prices directly relate to a fleet’s safety record and potential liability. By bulletproofing their operations from claims of negligence and demonstrating to insurance carriers that they won’t be the fleet that costs them millions in court, fleets can unlock a favorable rate.

02. Make Safety Culture Visibly a Top Priority

While it’s important to meet operational needs and ensure fast load times, if a fleet wants to unlock a fair insurance rate, they must make safety an essential and valued part of their operations process, which is the essence of a strong safety culture.

A strong safety culture is one in which every member of a fleet understands that safety is part of their job and that safety takes precedence over marginal efficiency improvements or any one load. **In practice, this means that safety should be on everyone’s mind, all the time.**

5 Verified Ways to Build a Safety Culture

01 Driver Input

Consider driver input when designing safety practices. By listening to drivers and empowering them to speak freely, they are much more likely to participate in the overall culture of their fleet.

Example: Listen to a driver when they have an idea for improving their inspection process.

02 Structured Channels for Discussion

A regular, organized way for drivers to give feedback encourages them to make suggestions based on their on-the-ground experience, improving fleet practices and keeping safety top-of-mind. Some tools to do this include driver surveys, weekly check-ins, and regular fleet meetups.

Example: Scheduled bi-weekly Driver Manager touch-base meetings.

03 Safety Awards

Safety awards programs have been shown in multiple studies to be effective at improving safety outcomes, so fleets should implement some form of systematized public commendation for their safest drivers.

Example: Awarding drivers who have no preventable accidents each quarter.

04 Top-Down Safety Messages

When executives demonstrate that safety is important to them, drivers are more likely to see safety as an essential part of their job. Safety messages are particularly effective when they travel down the chain of command from top leadership, through department managers, through front-line managers, and to drivers.

Example: Daily messages through dispatch that include a safety message for the driver, such as proper chaining procedures for flatbed cargo.

05 Simplify Safety Messages

Safety messages that are clear and simple are significantly more likely to be understood by drivers. Fleets should issue safety messages that are clear in meaning, correct on substance, and that address their specific needs.

Example: Focus each safety message on one topic and give specific advice, rather than broader, conceptual messages.

03. Organize and Analyze Data

Data management is particularly important for insurance companies. As a business, insurance is based on estimating the probability of an event occurring and then quoting an insurance seeker a premium price based on that probability. **The more data an insurer has, the more accurately it can price its premiums.**

Since the introduction of CSA scores, the implementation of the ELD mandate, the proliferation of camera use, and the wide availability of safety software, there is exponentially more data available to insurers than ever before. **Now that this data is accessible, insurers are using it.**

Beating CSA Scores with Data Management

CSA scores are the primary form of publicly available data on a fleet, so they have taken on an important role in the insurance industry. Without access to a fleet's internal data, CSA scores are often the best approximation of a fleet's safety available to insurers.

This reliance on CSA scores is a source of great inefficiency in the industry. The infractions that contribute to a fleet's scores only reflect noncompliance instances that have been reported by DOT authorities. DOT authorities can only observe so many violations, so these scores misrepresent the true safety of a fleet. **If an insurer primarily analyzes CSA scores, they're ignoring a massive proportion of the relevant driver data** available to them.

Fleets have access to more refined data on their safety practices than CSA scores provide, and can thus prove they are safer than their scores indicate by sharing their data with insurers.

The same goes for fleets with positive CSA scores who want to show that they stand out even among other safe fleets. If a fleet can prove that their drivers are safer than those at other fleets with similar CSA scores—for example, by showing that they have significantly fewer telematics incidents—they can receive truly competitive pricing.

Beating CSA Scores with Data Management

However, simply having access to refined data isn't enough. **To give accurate context to their data, fleets need to organize it.**

To demonstrate the true measure of their safety, fleets can't simply hand an insurer a spreadsheet of telematics incidents and expect them to see their safety in a different light. By bringing all their data into a single platform and analyzing it for trends, fleets can benchmark themselves and give context to each telematics incident that insurers don't normally see.

If fleets are able to organize and analyze their data in a way that helps them demonstrate they're safer than their CSA scores imply, they are much more likely to receive a fair rate.

As an example, a fleet may have low CSA scores, but if they can make a convincing and definitive case that their safety metrics have been trending upward over time, they can persuade an insurance company to price them as if they had a better score because they are on track to reach one soon.

04. Increase Retention

For insurers, long tenure bands are important because they correlate with reduced risk of experiencing a crash. Long tenure bands are often used as a proxy for safety culture and the effectiveness of a fleet's operations.

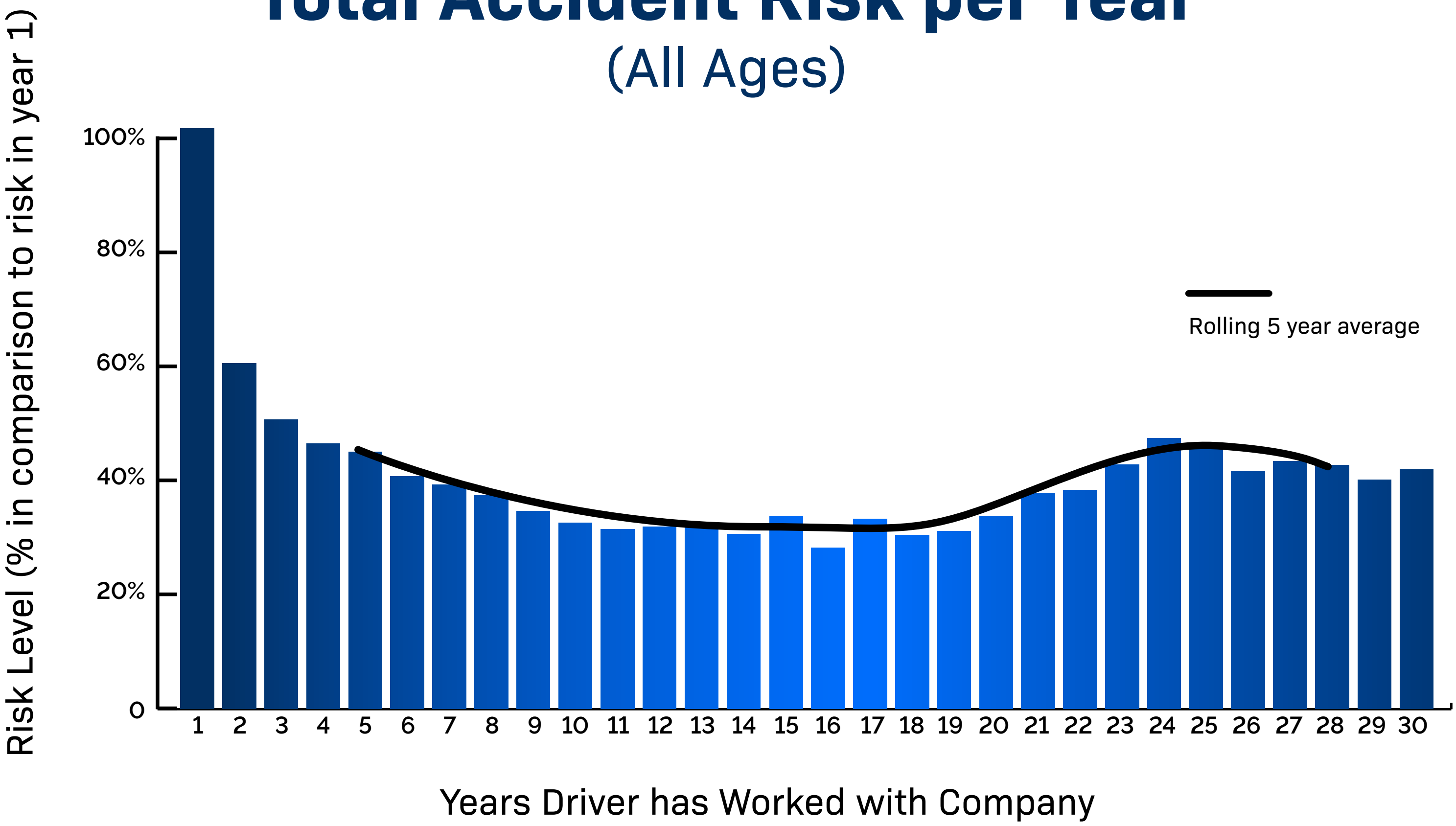
However, tenure can be more than just a signal for low crash-risk. In an analysis performed by Idelic's data scientists using 20+ years of historical driver data, the team discovered that **the vast majority of accident-risk comes from drivers in their first two years of employment with a fleet**.

> "The fleets that handle retention well are involved at every level. It's not just a driver manager who's responsible for someone. Fleets with low turnover stay involved, actively seek feedback, and genuinely care. They don't view Joe Smith as Truck #54. They know Joe Smith. Because of that, those fleets get a lot better results."
>
> - Chris Vogel, SVP at Cottingham & Butler

04. Increase Retention

Total Accident Risk per Year

(All Ages)



Note: "Risk Level" does not indicate the amount of accidents for each year, but rather the level of risk in comparison to year 1.

You'll see that at year two, there is a significant drop in a **driver's risk, meaning drivers are 40% less likely to experience an accident during their second year with a fleet compared to their first**.

For most fleets, the key finding of this analysis is that for roughly the first ten years of a driver's tenure, each additional year with a fleet notably lowers their risk of experiencing an accident.

With driver turnover in 2018 at 89% for large for-hire truckload carriers and 73% for small for-hire truckload fleets, retention is and will continue to be a key metric for insurers.

How to Increase Retention

Fleets seeking to improve driver retention can employ a number of strategies, including:

Retention by Prevention

On average, 20-30% of turnover is involuntary. If a fleet can prevent a crash from occurring in the first place, then they won't have to terminate a driver for their role in the crash. Taking steps to reduce total crashes can also significantly reduce a fleet's turnover.

Improve Drivers' Quality of Life Experience

There are many ways to make a fleet a more hospitable place to work. Employing strategies that make drivers feel appreciated and comfortable at their fleet has been proven to reduce turnover. Most importantly, live up to the promises you made and the expectations you set during the recruiting process.

Provide Financial Security

Paying drivers more per mile or offering retention bonuses increases the likelihood that they'll stay with a fleet for the long haul. For fleets that can't afford to increase pay, improving the financial security of their drivers through other means can have a huge impact on their crash-risk and retention rate.

By increasing retention, fleets signal to insurers that they have a strong safety culture and are at lower risk of a crash than other fleets of their carrier type, which can reduce the premium prices insurers offer them.

05. Hire Smart

From an insurer's perspective, hiring standards are important because fleets that hire safer drivers experience fewer crashes and are less likely to suffer a Nuclear Verdict.

There are two important criteria fleets should consider when setting hiring standards:

01. Years of Experience
02. Clean Driving Record

Years of experience inversely correlates with the likelihood a driver will experience a crash, and hiring drivers with clean records is crucial for limiting liability. These two criteria can address both of the primary causes of insurance payouts, and thus address the root causes of a fleet's Total Cost of Risk.

Years of Experience

Research has established an inverse correlation between years of professional driving experience and a driver's likelihood of experiencing a crash. Fleets that can be more selective with who they hire can expect a reduction in crashes by requiring a minimum number of years of professional driving experience.

In their research published in the Journal of Transportation and Statistics, Kristen Monaco and Emily Williams found that drivers see a large drop in reported crashes after their first year on the road, and see a fluctuating but continuous decline in crashes until bottoming out in years six through eight of experience.

For carriers that don't have the option to be selective with hiring based on years of experience, data-driven onboarding strategies can improve the safety of your new-hires.

While most fleets have a general onboarding plan in place, identifying the specific training needs of a new driver and targeting their training to meet those needs can reduce their expected crash-risk.

Though it can be difficult to determine a driver's needs before working with them, there are technology options available that analyze your pre-hire driver data and identify where a driver needs targeted training, enabling you to run the custom onboarding plan your fleet may need.

Clean Driving Records

In ATRI's 2020 report on Nuclear Verdicts, the authors found that in **100% of cases where a driver's history was used as evidence against a fleet, that fleet lost their case**. Hiring drivers with clean records is essential for reducing liability.

Unfortunately, it's not as easy running an MVR check and confirming a potential hire has no clear indicators of risk. **Fleets have to align their hiring criteria with their retention criteria to reduce their liability.** If a fleet wouldn't retain someone with the record of a driver they've hired, or hire someone with the record of a driver they've retained, then they've created an inconsistency in their employment process, which can be grounds for negligence.

However, there's an important caveat: **Even if a fleet's hiring and retention criteria are the same on paper, failing to manage them as part of a single, greater process will lead to mistakes in their hiring.**

A fleet's pre and post-hire data should be consolidated and organized within a single platform, so inconsistencies are easy for managers to spot. Additionally, **fleets should avoid siloing recruiting, onboarding, and safety managers into teams with disparate data, different agendas, and disconnected communication**. They should all work together to support the fleet's mission by regularly sharing information and interacting with their drivers throughout their drivers' full tenure.

06. Invest in Technology

Insurance companies want to see technology implemented in a fleet that will increase their safety, improve retention, and help them go above and beyond the bare minimum in compliance.

For this reason, **some insurers might quote a fleet, but only on the condition that they deploy new technology within a specified timeframe**, such as collision avoidance systems, cameras, driver management software, and more. Insurance companies understand that these technologies are proven solutions for increasing fleet safety, so investing in the right technology before seeking a new quote can improve a fleet's chances of finding a fair rate.

Conclusion

Benefits of Taking Action

Understanding how to improve driver behavior while reducing crashes and violations will have a direct effect on the cost of insurance for a fleet. But beyond that, taking the steps needed to reduce insurance costs can also have a number of related benefits:

Risk Reduction and Cost Efficiency

Technologies that pool all of your data, such as driver management platforms, can reduce the risk of an incident occurring by **giving fleet managers a single place to view the driver data they need and proactively identify at-risk drivers, assign preventative training, and improve safety**.

Improved Safety

By reducing risk with improved processes, refined hiring standards, and the technology available on the market today, **fleets can outperform their safety benchmarks and unlock the insurance cost reductions that come with an excellent safety program**.

Protection Against Claims

Technologies like driver management platforms enable fleets to **log their training, track credential expirations, and implement processes that ensure they can prove their compliance from top to bottom**. Cameras, another technology insurance carriers recommend, give fleets a record of what really happened leading up to a crash.

Avoid a Nuclear Verdict

Many of the steps outlined in this whitepaper will **reduce a fleet's odds of suffering a Nuclear Verdict**. By organizing and analyzing data, elevating safety culture, and improving compliance, fleets lower their chance of being found negligent in court.

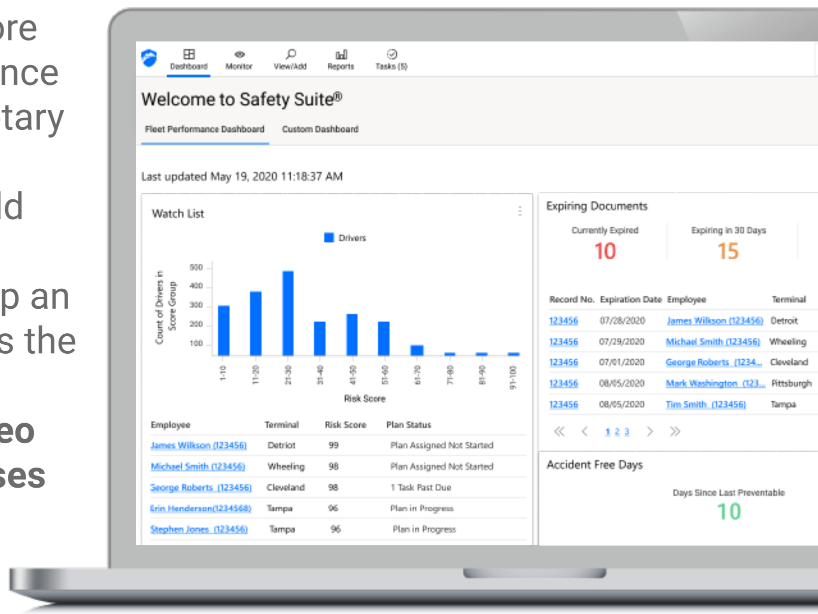
Conclusion

Help Available to Reduce Insurance

Trying to implement these insurance reduction steps might seem difficult, especially when done in a piecemeal approach, but if you answer “yes” to any of the following questions, Idelic may be able to help:

- Is my fleet using disparate systems that make it difficult to analyze our data?
- Do I lack the time and resources to manually implement the steps in this paper?
- Am I concerned my fleet does not have a truly proactive approach to crash reduction?
- Does the threat of rising Nuclear Verdicts keep me up at night?
- Do my CSA scores not reflect the underlying safety of my fleet?

Many fleets have turned to technology like the Idelic Safety Suite® to allow them to spend more time preventing crashes while reducing insurance costs along the way. Safety Suite uses proprietary Artificial Intelligence to organize your data, analyze it for trends, and identify risk that could result in a crash. With Safety Suite, it’s easy to understand the issues your fleet faces, develop an action plan to address them, and easily access the key metrics insurers are looking for when evaluating a fleet’s risk. **Watch a 2-minute video on how you can implement the above processes and reduce your insurance costs here.**



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