

BUSINESS-AUTO INSURANCE: *RIISING COSTS AND INCREASED CLAIMS VOLUME POSE NEW CHALLENGES*

By Rick Weden

For many tree care company owners, when evaluating their insurance portfolios, workers' compensation has historically been the primary cause for concern. We now are seeing many tree care company owners shifting their attention to business-automobile insurance, and for good reason. The costs are going up, in some cases considerably.

In recent months, I'm sure many of you have noticed – and possibly gone into some form of shock upon learning – what your new business-auto insurance costs will be for your upcoming policy renewal. If you haven't experienced this yet, you might want to prepare yourself; business-auto insurance rates across the entire insurance industry for most insured businesses that own and operate autos are on the rise. While some insurers are making smaller increases, others are asking for drastic increases on business-automobile insurance rates.

What is causing premium increases?

Many factors are driving these increases. To begin with, over the past decade or so, the business-auto insurance marketplace had been extremely competitive, with many insurers offering extremely competitive rates in an effort to attract new clients and aggressively grow their individual business-auto segments. They did this because at the time, business-auto insurance had been historically profitable for them. Beginning about five years ago, things started to change, including increased use of hand-held devices by drivers and increased pressure on the driver workforce to be more productive. These factors contributed to a significant increase in auto accidents and in the size of claims payouts.

Changes in available workforce have resulted in a greatly reduced number of



The weight and size of equipment and vehicles used in tree care increase the chance of significant damage when accidents do occur. Driver screening and training can help defend against losses. Photo by Jackie@flickr.com.

qualified and experienced drivers. Add to this the rapid advances in automobile technology, resulting in escalated repair costs and repair times. All the while, there still exists the ever-ongoing volume of large awards to plaintiffs injured in auto accidents. Beyond these are a host of other contributing factors, including economic- and climate-related changes.

How are insurers responding?

The combination of depressed rates and the drastic increase in claims payouts has left many insurers in an upside-down position financially with business-auto insurance, whereby they are not collecting enough in premiums to cover the volume of claims payouts.

When insurers find themselves in these

kinds of situations, they always take action. Along with rate increases, their action also typically involves deployment of more detailed and stricter underwriting standards. This includes closer review and evaluation of individual driver records and taking a closer examination of prior claims activity and the causes of claims. Insurers are now also looking at an insured company's past DOT records, paying closer attention to vehicle owners who may have increased levels of certain DOT violations. Many insurers are drawing a correlation between DOT-violation frequency and claims activity.

With respect to driver records, insurers are taking a firm stance on policy holders who employ drivers with certain violations. As an example, upon learning of

drivers who have OUI (operating under the influence) or frequency of other moving violations, an insurer may choose to exclude those drivers from the policy coverage. In other words, any claims caused by that driver while operating any company vehicles will not be covered under the business-auto policy. In other cases, some insurance companies are taking a harder stance and not renewing some policies altogether. Along with these measures come premium (insurance-cost) increases.

What can the tree care company owner do?

Along with preparing for potential premium increases, taking steps to prevent future claims – and thwarting off future cost increases – is a wise approach.

If you have not done so already, consider implementing an internal MVR (Motor Vehicle Record) program and establish criteria of what are acceptable driving records for all drivers within your company. Your insurance agent or insurance company can assist you in establishing what is and is not acceptable for employee driving records. Under your MVR program, all new hires must obtain and present their driving records to you as a condition of employment. Explain to them in advance, both verbally and in writing, that the content of their driving record is a condition of employment and may impact hiring or drive-permission decisions.

One also should run driving records on existing employees to verify that their records continue to be favorable. It is also important to remember that one's driving record is protected under privacy laws, so be sure to cover all bases with proper advance disclosure so as to properly comply with any applicable privacy laws that may apply in the state(s) you operate in.

Road test all new hires as well as any employee who may have been in a motor-vehicle accident involving a company vehicle. Road tests should be comprehensive, address all facets of vehicle operation and conducted using the types of vehicles the employee will operate. Pay close attention to younger drivers who may have only three or so years of driving experience, particularly when their use of heavier vehicles, such as bucket trucks and other heavy vehicles, is con-

templated.

The road test also should include verification that the driver possesses the skills needed to properly back up all types of trailered equipment, including chippers, equipment trailers, chip trailers, etc. Also verify the driver's skill in properly attaching and detaching all trailered equipment, as well as safe and proper procedures of loading and unloading of equipment from trailers. One should designate one employee to handle all road tests, and all test results should be kept on record. There are a number of good road-test forms available online and from other sources.

Establish a formal, internal accident-reporting procedure for your driver workforce that specifically details what information is to be gathered in the event an accident has occurred. This should include sufficient information on all third parties (other drivers) and vehicles involved in any accidents, including owner's name, address, contact information and all vehicle information and plate number. Obtain driver's-license information and insurance information. Photos should be taken of all vehicles involved in the accident. Along with photos of damaged portions of vehicles, one should take photos of the entire vehicle as well.

Report all claims promptly to your insurer. All auto claims should be reported to your insurer the day of the accident, regardless of fault and amount of damage. Insurers do not like late reporting of claims, as in certain situations, particularly when other vehicles are involved, late reporting can put your insurance company at a disadvantage. Also, insurance companies hate hearing firsthand from a third party about accidents involving their insured vehicle.

Consider the idea of self-insuring certain claims. There are some claims that a business owner, if they choose to do so, can self-insure without any future risk of consequence. For example, this includes physical-damage claims on your own vehicles in cases where the damage was between your vehicle and another object that is not owned or controlled by a third party. As an example, while parking one of your bucket trucks in your yard, your driver accidentally backs the truck into a concrete abutment and does damage to the vehicle.

Since the damage was restricted to your vehicle, there were no injuries of any kind and the repair costs were such that you can financially manage them, you may elect to handle the repair costs "in house," thereby avoiding a claim on your record with your insurance company.

It is extremely important that you always report any claims that involve third parties, such as damage to other vehicles or property or possibly involving personal injury. These kinds of claims can result in third-party legal action, and failing to report these to your insurer on a timely basis can, as noted previously, aggravate your insurer and perhaps put them at a disadvantage.

If you have not done so already, review your current vehicle-maintenance procedures to be sure your fleet always is running safely per DOT regulations.

Talk to your insurance provider. Even if your current auto-insurance policy is not scheduled to renew for some months, it may be a good idea to reach out to your insurance provider now and ask them if they can give you any forecast on what to expect for cost increases on your next renewal. If you have had some claims, or perhaps some questionable employee driving records or DOT violations, discuss them with your insurer and see if perhaps they can offer some loss-control advice to help you improve the situation. Many insurers are willing to help their policy holders in these situations, and they tend to look more favorably on an insured who expresses a strong interest in making positive changes.

Light trucks vs. heavy (bucket, crane or log) trucks

Be aware of potential changes in your vehicle fleet. For example, if you are a small but growing company that until recently had been operating with only a handful of light trucks, and you are contemplating purchasing that first bucket truck, log-loading truck or perhaps a crane, you may want to check with your insurance provider to be sure they are willing to insure these kinds of vehicles, and, if so, at what cost. Some insurers, while comfortable insuring light-truck fleets, may reject a request to insure a bucket truck or other heavy vehicle, asking their insured to in-

sure the vehicle through another insurance company.

Situations like these can lead to other problems. Having two separate auto policies with separate insurance companies on each can pose coverage implications to other policies you may have, such as an umbrella policy. Furthermore, often the premiums charged for these separate policies can be extremely high. Probably the best course of action when one finds oneself in this situation is to seek another insurer who is willing to insure all owned vehicles, including the heavier units.

Drivers with tough driving records who "must drive"

Situations where a company has an employed driver whose driving responsibilities are critical to the day-to-day operation, yet the driver possesses a less-than-favorable driving record, are not uncommon. Problematic in these situations is when the insurance company wants to exclude the driver from the policy coverage,

or possibly not insure the fleet altogether. These scenarios can easily lead us back to the situation noted above with heavy vehicles, where the only option is to have a separate policy.

In some situations, one might be able to make a case to one's insurer with reasons why the operator in question is not as large a risk as their driving record may indicate. A good example might be an operator with an OUI violation on their record, but no other violations of any kind. The OUI violation obviously stands out as serious in the eyes of any insurer, but there may be special circumstances surrounding the driver and the violation where a case can be made to the insurer to allow the operator to drive, possibly with some conditions. This depends on the situation and, of course, the insurer.

Conclusion

There is no question the new environment resulting from the changes in business-auto insurance is posing new challenges to many tree care company owners. The

adoption of new internal procedures designed to improve auto-loss ratios and control insurance costs involve care and considerable thought and evaluation. They often involve what can be difficult personal decisions for a business owner to make that not only involve relations with employees and insurance providers, but also add costs and time. But one must never lose sight of the goals for overall employee safety, safety toward others on public roadways and, lastly, reductions in insurance costs.

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