

How Can You Reduce Your Transportation Insurance Costs?

There is more to keeping down insurance costs than just trying to negotiate the best rates. In this interview Robert B. Chernin, Vice President of the Transportation Division of Capacity Coverage, discusses how you can reduce your company's insurance costs.

How is today's economy affecting the insurance industry?

The industry goes through cycles of hard and soft markets, and right now it is clearly a very soft market. That is, it's a buyer's market versus a seller's market. There are a relatively large number of insurance carriers looking to write this class of business and they are competing aggressively on price.

With all of the challenges facing businesses today, why should they shop around for insurance?

Operators have their hands full just trying to maintain operations through this prolonged economic recession. However, it is important to understand that insurance is most likely one of an operator's top three or four business expenses, along with vehicle costs, fuel expense and payroll. And, insurance is really the only one that is truly manageable by aggressively shopping for competing bids from the marketplace.

Vehicle costs and fuel expense – they are what they are. An operator can hedge against fuel, but that can also be detrimental if they bet wrong. As for payroll, if you line up 100 drivers, all 100 will most likely tell you that they are already not being

paid enough, so it is hard to realize any significant savings there. That leaves insurance costs as the only major expense that can be managed and has the potential for significant cost savings to an operation.

With the downturn in the economy affecting every industry, it really does behoove operators to shop now, even more than they have before because insurance is the single largest cost that they can manage or try to reduce directly through their own efforts.

How can a business be sure to get the best rates, the best coverage and best service?

It starts with using a broker who specializes in transportation, and knows their business as well as the markets. The difference between a specialized broker, such as Capacity, and a non-specialized broker or agent can be summed up in three areas: operational knowledge, service, and access/relationships.



First, brokers who do not specialize in Public Auto lack the “nuts and bolts” knowledge of how a transportation company really operates. Ordinary brokers lack a deep understanding of their day-to-day operations. For instance, when it comes to coverage limits, most brokers operate under the assumption that “more is always better.”

A perfect example where, as a transportation specialist, we know that is not always true is Uninsured Motorist (UM) coverage: Most brokers will recommend that an operator carry the same limits for UM as they have on their Auto Liability coverage (usually either \$1.5 or \$5 million).

Now, as a transportation specialist, we know that approach is counter-productive when it comes to revenue vehicles. Having higher Uninsured Motorist limits on revenue vehicles actually allows someone to submit a claim and get paid under our client’s policy for an accident in which they were not at fault.

Can you give an example regarding UM coverage?

OK. To make this clearer, let’s use the following example. A bus is stopped at a traffic light. A second vehicle rear ends the bus causing a passenger on the bus to be injured. The vehicle that caused the accident does not have any insurance. In this example, the injured person can make a claim on the bus company’s insurance policy...so if they have higher UM limits, say \$5 million, then the person who is injured is paid from our client’s policy and it becomes part of their insurance claims record.

It is important to remember that if an operator is at fault in an accident, an injured person can get their claim paid through the Auto Liability coverage...but only IF the operator is at fault. Having Uninsured Motorist limits higher than just the state-required minimum limits really doesn’t make sense for revenue vehicles and can actually be detrimental to an operator’s ability to keep their premiums low.

Just to be clear, we do recommend higher Uninsured Motorist coverage limits on non-revenue vehicles. In the case of non-revenue or service vehicles (or company cars), higher UM limits provides

additional protection for the company owner, or his family, or the key employees who drive these vehicles. In this case we want them to have that additional coverage available to them. The approach to UM coverage is a good example of what can really differentiate a specialized broker from those brokers or agents who do not have an intimate understanding of transportation companies or their insurance needs.

What about service?

The second area where it is better to have a broker who specializes in transportation is in overall service. More often than not, brokers have become “order takers.” They only talk to you around renewal. Once a policy is in place, they do the paperwork, issue Certificates, add and delete vehicles, etc but they do little else. They’re not really proactive in helping an operator manage their exposure throughout the policy year. In addition they cannot help an operator with how to lower or eliminate areas of risk on a long term basis. Here again, their lack of expertise makes it hard for other brokers or agents to work closely with an operator in helping to develop and implement a comprehensive risk management program.

Why is access to and relationships with insurance markets important?

As a specialist, our relationships and access to the markets gives us a better understanding of how to negotiate and how to navigate the different markets and what they are looking for in terms of business. This can make a real difference for our clients. Knowing the types and classes of transportation operations that an insurance company is looking for as well as having a proven history with them is all important. ”

The best result is always a win-win scenario. Our clients get the proper coverage at the lowest premium and the insurance company gets a long term, profitable insured. Knowing how to match and manage those relationships to make sure the transportation company gets the right coverage at the most competitive price is critical to long term price stability in their insurance costs.

What is the difference between an agent and a broker?

As brokers, we don't represent the insurance companies, we represent the insured. Agents, by definition, represent the insurance companies. That's a key distinction that a lot of people don't understand and plays itself out in all sorts of different ways in a competitive renewal process. As a broker and as a specialist, we can bring even more value by effectively negotiating with multiple markets to obtain the best renewal for our clients.

What can businesses do to better manage their insurance costs?

It's all about managing the risk that you transfer to the insurance company. That requires a deep understanding of the industry and more importantly, a proactive approach. We work with our clients to help them understand how to reduce and prevent accidents, and when accidents occur, how to manage them to keep the impact to their insurance premiums to a minimum.

For example, most operators have a general understanding that the claims they have in one year directly affects the pricing in the following years. However most operators generally don't understand the steps they can take and need to take to proactively manage their claims going forward. These include reviewing loss runs and claim reserves on a regular basis, not just when it is time to shop for insurance.

Why is reviewing loss runs important?

Too many operators never review their loss runs (printed accident history), or review them only when their policy is coming up for renewal – when it is too late to address any large or problem claims. An operator needs to clearly understand how the insurance companies view their claims history, both the frequency of claims and the severity, or dollars paid out.

An operator should really order their loss runs every quarter, and closely review their claims. Then, working with their broker, proactively interact with their insurance company's claims depart-

ment to provide them with information which they may not have, understand why reserves (money set aside by the insurance company to pay the claim) are set at that dollar amount, and questioning anything else that looks incorrect or requires more explanation.

It sounds easy, but if done properly actually requires a great deal of time and effort for both the operator and the insurance company.

Why are safety programs important?

An effective driver safety program is critically important to keeping insurance costs low. Vehicles don't have accidents, drivers have accidents. An operator is really no better than the person they put behind the wheel of their vehicle.

Because we specialize in the field, we can work with operators to develop a written safety program and then help them implement it. We can work with them to make sure their drivers are sensitized to safety issues, aware of their role in maintaining safety, and the importance of being able to get insurance at a competitive price. Without insurance (or affordable insurance), a transportation company cannot operate.

At the end of the day keeping insurance costs low or reducing insurance premiums is all about operating safely and keeping accidents to a minimum...and when they do happen, how to proactively manage them. As a broker who specializes in transportation, Capacity has the knowledge and the relationships to help our clients do just that

Robert B. Chernin has 28 years experience in all aspects of Public Transportation Insurance, developing and managing his own insurance and risk management agencies. He is considered one of the true industry experts in the field of Public Auto Insurance.

Contact Robert Chernin at **(802) 776-8039**
or **201-390-4671** (cell)
email: rbc@chernin.com or rbc@capcoverage.com
e-fax # (201)661-7322