CANADIAN TRUCKS MOVING IN GROUPS

Captive Insight spoke with Nick Leighton, Managing Director of Atlas Insurance Management and Rob Logan, Principal of BIS Risk Solutions, a Canadian wholesale insurance brokerage firm that specialises in designing alternative risk transfer insurance programs primarily for the trucking industry.

How did the captive programs develop?

Captives have been around in one form or another for decades in Canada. The impetus for the group captive activity for trucking was started by the hard market that came following the attacks on September 11th. At that time, truckers were facing triple digit rate increases or no insurance options whatsoever. As captive service providers grew in experience, their captive programme's offerings evolved to provide many different value points above and beyond the knee-jerk answer to the market circumstances we saw back in 2002. Group captives are growing, gaining in strength and are here to stay.

We began with a core group of members that established the first group captive. With 25 members now insured we can cherry pick the participants, and that lead to the creation of a second captive that just deals with one agency and their clients. The third captive is for smaller fleets that don't have the risk premium to join the other captives.

How did BIS get involved with the Canadian Trucking Captive arena?

I have been blessed with a diverse background in insurance during the first 18 years of the company side of my career. This gave me a sound understanding of claims handling, underwriting, actuarial and finance. During my tenure at AIG, market circumstances were ripe for group captive development in the trucking industry and I happened to be at the right place, at the right time.

What is the current state of the Canadian Trucking insurance market?

The past two years have been nothing short of a roller coaster thanks in part to the prolonged soft market. We are seeing a cooling off period by the more traditional trucking players such as Zurich and Northbridge. Meanwhile there has been a plethora of new entrants, mainly the large standard market players, dipping their toes in this specialty. The traditional markets are looking only for "rate", while the new players are aggressive on pricing. Price seems to trump astute risk selection processes. We have seen many instances where money is left on the table on marginal risks and more baffling, insurers walking away from high quality risks due a "need for rate". A lot of what I see just leaves me scratching my head.

Why is trucking well suited for the captive programme model?

The absence of privately insured worker's compensation in Canada eliminates many industries as candidates for group captives as a form of alternative risk transfer. Trucking is perfectly suited. It has a frequency of claims as well as the potential for severity. In addition there tends to be large concentrations of premium in relatively small companies. Trucking companies are mainly multigenerational family owned businesses with flat management models, red tape is lacking and decisions can be made quickly. It is a capital intensive/low margin industry. To succeed in trucking one must have good business acumen and strong knowledge of finance with a great comfort for risk. The reality is that good truckers are good business people which allow them to quickly learn and understand the intricacies of insurance.

How do the "no fault" rules affect the captives?

There are two components to "no fault" that are often confused and used interchangeably. Truckers get the short end of the stick on both.

The first is Direct Compensation for Physical Damage (DCPD). In Canada there are five provinces who have adopted DCPD legislation which in short means that regardless of fault each insurer pays for its own customer's physical damage. The goal behind the legislation was to eliminate the back office transferring of money between insurers. In the absence of DCPD, on a macro scale, one could argue that RSA for example owes Northbridge the same as Northbridge owes RSA so why bother going through the administrative cost of shuffling all the funds back and forth between them. On a micro scale, however, transport trucks tend to be much more valuable than passenger cars. If an at fault car causes the total loss of a transport, the trucker's insurer has to pay out more than the car's insurer. Further I would argue that professional truck drivers cause fewer collisions than their amateur private passenger brethren. There is an imbalance in DCPD that boils down to heavier insurance rates for truckers.

The second and more sinister component to "no fault" is called loss transfer. This blight of insurance is so far only seen in Ontario. All provinces have some degree of "no fault" medical and disability benefits built into their policies. These are paid to injured motor vehicle accident victims regardless of fault. The benefits are quite rich in Ontario. The general wisdom of loss transfer is that a heavy vehicle will cause a greater degree of injury to the occupant of a private passenger vehicle than that which would have been sustained if the person's vehicle was struck by another private passenger vehicle. Loss transfer is designed to level this inequity. Any "no fault" benefits in excess of $2,500 paid by the insurer of private passenger cars are "transferred" to the insurer of the at fault heavy vehicle. These incidents are almost always accompanied by tort claims against the truckers. Here truckers are put in a position of paying for disability and medical treatment which is being used as evidence in the case against them on the tort side of the matter. The whole concept is unfair to truckers and creates imbalanced costs that find their way into premium.

Where do claims fit in?

Having begun my career in the claims side of the business I am sad to have watched its decline. On its worst day, claims have evolved into a formula driven, call centre process. Overall the industry has failed to invest in claims expertise nor has it held itself accountable to balanced performance measures. The best choice for captives is to unbundle claims handling from its fronting carrier. A captive's claims service provider is integral to the overall captive business plan - as a true claims department ought to be. This means being held accountable to loss development targets and expense control that is balanced against indemnity trends. Above all this, claims handlers must develop rapport with clients and be there in their time of need with an in depth knowledge of the client's business, its goals and the experience needed to help them feel tucked in.

How has the instability of the global economy affected trucking captives in Canada?

The roller coaster analogy is fitting here too. The par dollar of 2008 brought a decline in exports to the US. This reduced the demand for trucking and decreased freight rates. The subsequent drop in the value of the Canadian dollar has improved exports, but Canadian manufacturing has not kept pace. The general consensus among our clients is that there is plenty of work but the freight rates have not bounced back. Add yo-yoing fuel prices, the huge issue of labour shortages and stiffening regulations into the mix and one can see that trucking is a tough business. The group captive model has demonstrated its promise of stable pricing. This eliminates that one headache from a trucker's business and gives them a step up on their competition.

What were some of the major challenges you encountered in developing group captives for trucking?

Following the 2002 hard market, it took the programme a few years to get started. By then the market had softened and the urgent need for an alternative to traditional insurance had subsided. Trucking insurance tends to be sold by a force of niche independent brokers with close relationships with their clients. Moving to a captive was perceived by some as losing client control and a threat to their commissions. This coupled with effective negative campaigns by the leading trucking insurance companies, made for an uphill climb in spite of the fact that we had built a better model.

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What does the future hold?

We have only begun to imagine the effects of technology on the trucking industry and its impact on insurance. Dash cams, telematics, blind spot monitors and electronic logs will be mere waypoints on the road to dramatic changes to the industry. The driverless truck is more than 10 but less than 20 years away. What that means for insurance is anybody's guess. Elimination of frequency? Very few but major losses? Types of claims we have not imagined?

What are the key ingredients to a great captive?

Strong central leadership is the main component. We have observed that there is a culture of committee decision making in many captives. We do not understand this. A captive's shareholders, as in any other business, should appoint a board and experienced management. Management should be given authority and ample opportunity to do what is right for the business. In a committee structure, shareholders may confuse themselves into or deliberately wear their "insurance buyer hat" when advancing views on the direction the captive should take. This could lead to major issues. Combine strong management with good accounting, integrated claims handling, collaborative risk control and a plugged in insurance partner and you have the whole package.

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