

Competition Lowering Insurance Rates Providers Broadening Coverage

By Daniel P. Bearth, Senior Features Writer

Increased competition is driving down insurance rates and forcing providers to offer broader coverage to transportation firms, according to interviews with industry specialists and new surveys. Insurers also are seeking new ways to package their offerings to cover a growing list of transportation and logistics services.

"There are insurers selling policies that are incredibly broad," said Don Hannon, a product development specialist for Canal Insurance Co. in Greenville, S.C. "No one knows if they will be profitable. These are policies with virtually no exclusions." Canal recently amended its motor cargo coverage policy to include loading and unloading, as well as unattended trailers. It also raised some policy limits for certain high-value commodities, such as electronics and pharmaceuticals.

"When prices go down, coverage gets broader," said John Love, president of W.E. Love and Associates, Burlington, N.C. "When prices go up, coverage goes down." Love estimates that 90% of policy renewals in the past year have featured expanded coverage limits as insurers seek to retain trucking customers.

Insurance rates have been declining for several years, but new surveys indicate that competition has intensified recently as more insurers have entered the market. Three out of four insurance brokers and underwriters surveyed by NIP Group Inc., Woodbridge, N.J., said premiums charged for trucking policies continued to decline in the fourth quarter of 2009 and were "intensifying" after earlier surveys had suggested a firming of insurance rates. Results of the latest survey were released in late February. "Fierce competition for premium volume is driving rates lower," said Richard Augustyn, CEO of NIP Group. "The momentum behind this trend appears to be very strong."

Overall commercial property and casualty premiums fell about 6% in the third and fourth quarters of 2009, according to a market index survey published by the Council of Insurance Agents & Brokers. Council President Ken Crerar said policyholders are "putting the squeeze on" to get the best terms and rates from insurers, who are "chasing market share in a still-weak economy." "We don't expect to see pricing turn upward until demand picks up and capacity diminishes," he said.

While rates are falling, coverage is expanding. "It means you are less likely to find yourself in a situation where a claim is being denied due to restrictive policy conditions," said Paul Haley, senior vice president of USI Southwest Insurance Brokers, Dallas. New policies also are becoming available to protect companies against legal liabilities from the actions of employees, such as theft or sexual harassment, he said.

The soft insurance market is allowing fleets to negotiate better deals. One insurer, for example, agreed to amend its liability policies to include the cost of a replacement vehicle with no increase in premium, said Ed Fox, a product line manager for Lexington Insurance Co., a unit of global underwriter Chartis Inc., the property casualty arm of AIG that was rebranded in 2009.

The prospect of lower premiums gives motor carriers the option of securing more coverage for the same rate or paring back coverage and pocketing even more savings, Fox said. "What we see today is that people are willing to take larger deductibles," he said.

Many carriers have been able to negotiate reductions in collateral requirements and lower minimum premium payments, said Todd Reiser, vice president of transportation practice for insurance broker Lockton Inc., Kansas City, Mo. "A lot of companies' exposures have decreased because they are driving fewer miles, or they have a smaller payroll and fewer power units," Reiser said.

Insurers also are seeking new ways to package their offerings to cover a growing array of transportation services. "As truckers try to do more for their customers, they take on more exposure," said Sam Rizzitelli, a

transportation manager for Travelers Inland Marine, a division of The Travelers Cos. "Insurance needs to match these exposures as much as possible."

Cargo insurance policies, for example, historically were designed to protect motor carriers while goods were in transit. "As soon as the goods stopped, that's when the coverage ended," Rizzitelli said. Standard truck cargo policies do not generally cover goods that are stored in a warehouse or left unattended at a truck stop or loading dock, Rizzitelli said. Liability policies also might limit coverage to trucks that operate within a certain geographic region. However, since 2007, Travelers has offered a single policy form that provides coverage for both transportation and logistics activities. "Policies need to be adjusted to keep up with changes in the transportation industry," Rizzitelli said.

As carriers move further into freight management, they face new and different risks. Carriers may be held liable for lost sales or extraordinary expenses, for instance, if a shipment does not arrive on time or is lost or damaged. A major issue of concern for insurers is how to cover the activity of brokers and third-party logistics companies. "A lot of liability shifting is going on," said Scott Light, president of Hub Transportation Insurance Services, a unit of Hub International Ltd., Chicago. "Firms don't want responsibility, so they set up a brokerage to get outside of what the law requires."

While federal regulations require motor carriers and freight forwarders to carry liability and cargo insurance, freight brokerage firms are required to post only a \$10,000 surety bond.

Brokerage firms have a duty, however, to verify that the carriers they select are properly insured, said Ronald Usem, a Minneapolis lawyer who specializes in transportation law.

In a recent lawsuit filed in Texas, Usem said, a brokerage firm was held responsible for the loss of a load of perfume because the tractor-trailer carrying the product was stolen in Florida but wasn't listed on the carrier's policy.

"The broker had agreed to ensure the carrier's coverage," Usem said.

"In the fast-moving world of freight brokering," he said, "it is often a practical impossibility to examine the exclusion pages of a carrier's in-surance policy to assure that all his trucks, as well as the particular commodities being transported, are covered.

"In such instances, contingent cargo insurance with a rider or an endorsement for high-value shipments may be the practical solution," Usem said.

Regardless of the type of company, they all need some form of insurance to protect its vital capabilities, said Lisa Gelsomino, president of Avalon Risk Management Inc., Elk Grove Village, Ill.

"Logistics companies may offer trucking and warehousing services, even though they don't directly own the assets," Gelsomino said. "We look at how you hold yourself out to the public. How you advertise could make you liable."

Some shippers will insist that logistics companies and freight carriers are responsible for freight damages, even if a shipper is at fault and despite the fact that such "hold-harmless" clauses are illegal in many states, Gelsomino said.

"Everyone is looking at costs. Shippers have different interests, and if they are packing their own cargo, they need their own policy," she said.

Large shippers are likely to carry their own cargo insurance policy, but smaller shippers will rely on logistics service providers to provide coverage, Gelsomino said.