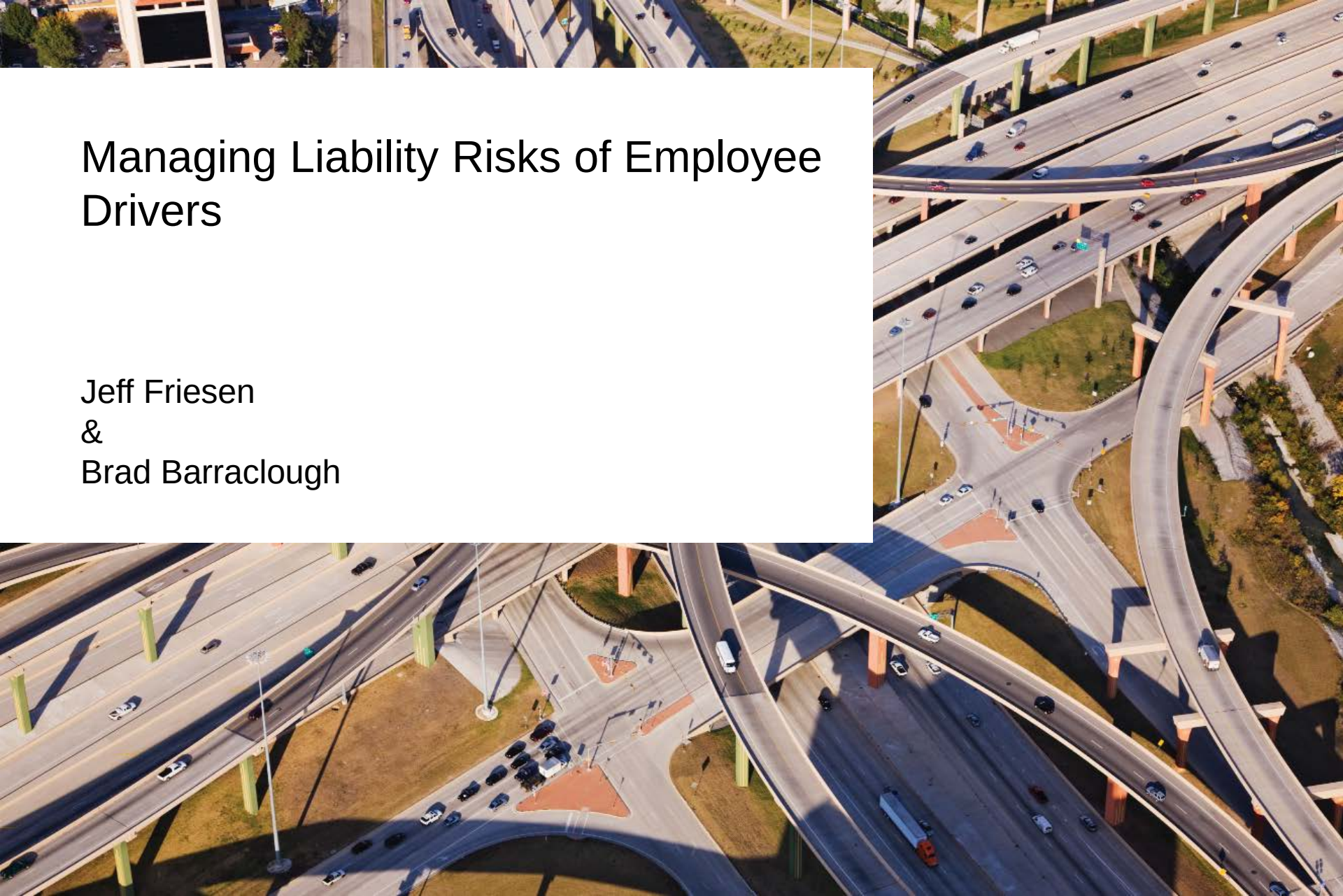


Managing Liability Risks of Employee Drivers

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&
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The State Of The Auto Market & What We Can Do About It

Fleet Safety of Course!



Presentation Overview

- Present market conditions
- What now?
- Developing your fleet safety program
- Implementation in the real world



February 28, 2017 State Farm suffers worst car insurance losses ever

The Bloomington-based giant, by far the largest U.S. auto insurer, incurred \$35.8 billion in claims and loss adjustment expenses. When combined with the costs of running its auto insurance business, State Farm lost \$7 billion for the year in that segment.



State of the market

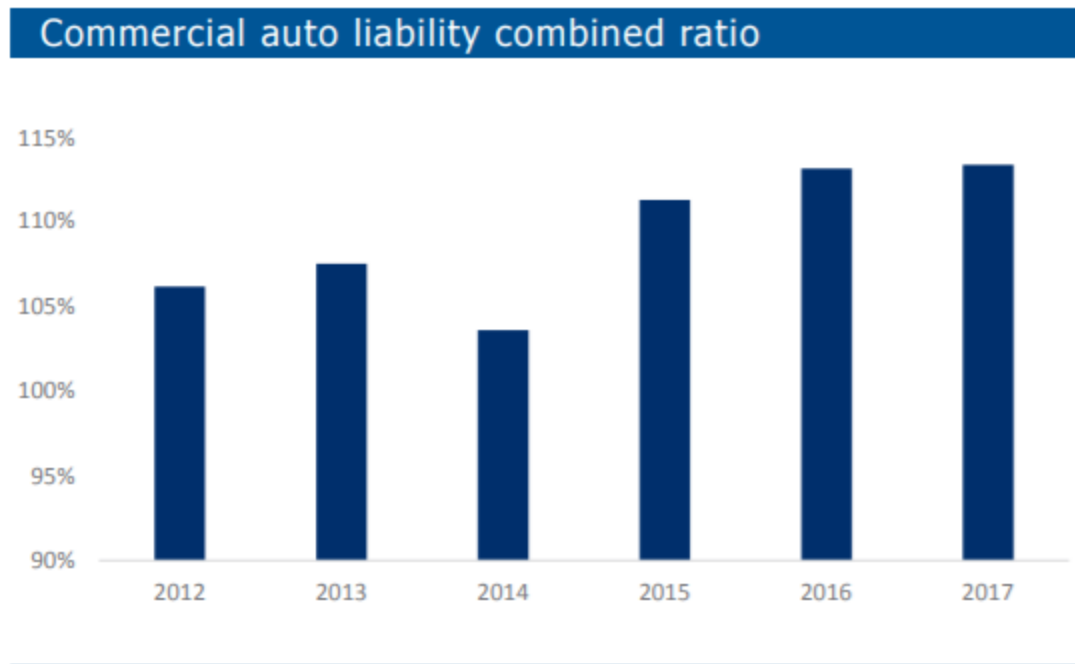
On average, 2018 commercial auto rates have increased by 7.7%. This is now the third year of increase in this sector. Yet, the combined ratios remain stubbornly high.

Source: Business Insurance



State of the market

Re-underwriting commercial auto book



State of the market

Combined ratio definition:

The sum of two ratios, one calculated by dividing incurred losses plus loss adjustment expense (LAE) by earned premiums (the calendar year loss ratio), and the other calculated by dividing all other expenses by either written or earned premiums (i.e., trade basis or statutory basis expense ratio). When applied to a company's overall results, the combined ratio is also referred to as the composite, or statutory, ratio. Used in both insurance and reinsurance, a combined ratio below 100 percent is indicative of an underwriting profit.

Industry Response

The number of mono-line carriers willing to write commercial auto is shrinking. Most companies will only write new auto if it is supported by other, more profitable lines of insurance.



How we got here

Auto insurance is unprofitable industry wide. Underlying causes are:

- **Distracted driving**
- **Higher jury awards, driven in part by third party litigation financing**
- **Medical inflation**
- **Cost to repair up significantly**
- **More vehicles deemed unrepairable**
- **More miles driven**



How we got here

The Business of Litigation Finance Is Booming

Legal Financing is a fairly recent phenomenon, beginning in or around 1997. Lending to plaintiffs began as part of a trend in which banks, hedge funds, and private investors put money into other people's lawsuits.



How we got here

Jury awards continue to trend up:

YEAR	AWARD MEDIAN	PROBABILITY RANGE (2)	AWARD RANGE	AWARD MEAN
2008	\$40,000	\$10,000 – \$225,780	\$1 – \$188,000,000	\$836,978
2009	40,000	9,887 – 207,828	1 – 77,418,670	\$750,392
2010	39,216	10,000 – 200,000	1 – 71,000,000	\$653,898
2011	60,924	12,249 – 343,958	1 – 58,619,989	\$782,912
2012	75,000	19,100 – 356,481	1 – 155,237,000	\$1,097,759
2013	70,000	16,000 – 300,000	1 – 165,972,503	\$1,010,069
2014	75,000	16,412 – 400,000	1 – 172,061,728	\$1,055,480
Overall, 2008-2014	\$50,000	\$11,303 – \$268,402	\$1 – \$188,000,000	\$857,730

How we got here

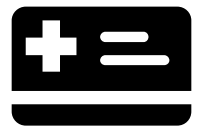
- Rising medical costs.
- In the past ten years, insurance claim costs for bodily injuries increased 42 percent, primarily due to the increase in medical care costs to treat injuries.



How we got here

Distracted Driving:

- Distracted driving accounts for approximately 25% of all motor vehicle crash fatalities.
- In 2015, 391,000 injuries were caused in distracted driving related accidents.
- In that same year, distracted driving was cited as a major factor in 3,477 traffic death.
- 9 people in the U.S. are killed each day as a result of crashes involving a distracted driver, according to the Department of Motor Vehicles.



How we got here

Modern cars simply cost more to repair

- Labor costs are up significantly
- A 2016 bumper has 20% more parts than a similar bumper from 2006
- Parts costs increased by 27% during that same period of time.
- Complexity increases labor time to repair

How we got here

Modern technology has helped make cars safer than ever. Multiple airbags protect occupants and reduce the risk of injuries and deaths in the event of a crash. There's a catch to all this hi-tech safety equipment, however.

While the technology is making cars safer during an accident, they're more likely to be totaled after an accident.

How we got here

More miles. An improved economy translates to business growth, resulting in more vehicles on the road covering more miles. In 2017, the Federal Highway Administration reported estimated cumulative travel to be 2,946.7 billion vehicle miles. Cumulative miles driven have increased by 7.3 percent—nearly 200 billion miles, over the past five years.



So now what do we do?



Best Practices

- **Develop and implement a written fleet safety program.**
- **Applicable to any individual that will operate any vehicle on behalf of the organization. Such as: employees, volunteers, contractors and others.**
- **Union and non-union buy in.**
- **Someone must manage the program**



Key Program Elements

Mandatory seatbelt use by all occupants

Distracted driving policy. Not just cell phones

Personal or non-owned vehicles used within the organization

Authorized Drivers (define who)

- Written criteria (employment practices liability)
- Pre-hire and annual Motor Vehicle Report (MVR)
- DMV automated Record Inquiry Accounts

Key Program Elements

MVR criteria defines what is acceptable and what actions will be taken for unacceptable records

- Serious violations
- Moving violations
- Accidents preventable or non-preventable

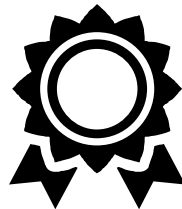
Key Program Elements

Road test

- Formal
- Ride along observations

Driver training

- What makes sense
- More frequent - shorter duration
- Safe driving topics
- Classroom and on the road
- On-line



Key Program Elements

Accident Procedures

- Glovebox kit
- Immediate reporting

Accident Investigations

- Preventable or non-preventable (NSC)
- Corrective action

Using technology, like GPS and telematics, to monitor driver and vehicle activity.

Key Program Elements

Vehicle inspection and maintenance

- Record keeping

Questions?

Fleet Safety:

- **It's good for the employee**
- **It's good for the entity**
- **It's good for your insurance program.**