

MEMORANDUM

TO: Director Ray Farmer

FROM: Joe Cregan/Michael Wise

SUBJ: Examination of Forestry Trucking Insurance Coverage

DATE: December 14, 2017

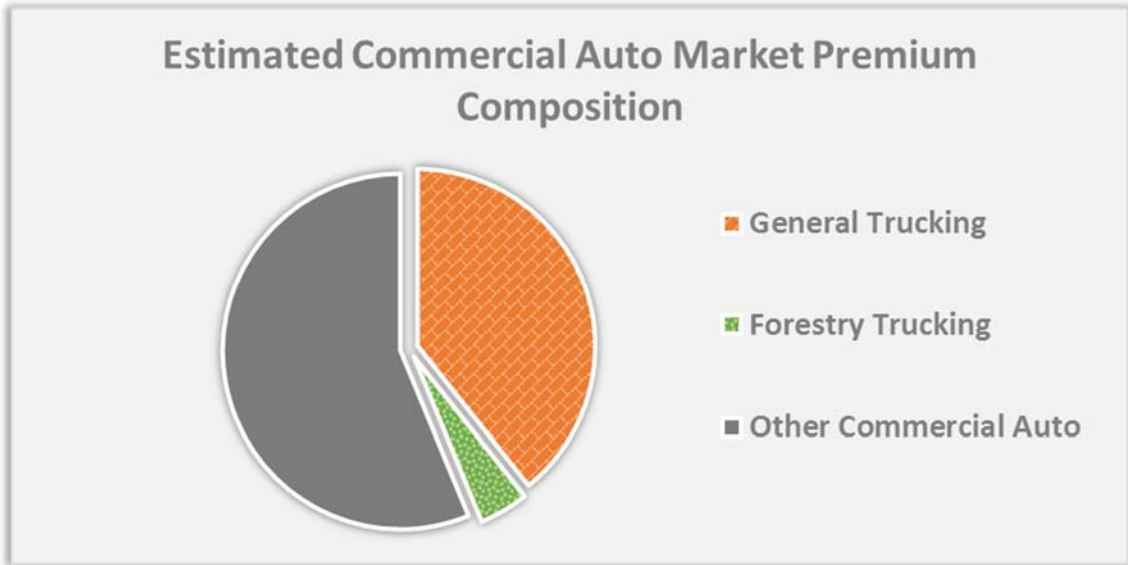
BACKGROUND

This is the report of our work on the project to examine the availability and affordability of commercial automobile insurance for the forestry trucking industry. This project was begun as a result of the meeting that was held on Wednesday, October 4 with Crad Jaynes, Cam Crawford and Rick Todd. Over the past several weeks, we have analyzed data available to us for the commercial automobile market, estimated how much of that business is related to the forestry trucking insurance segment and attempted to identify whether there is a lack of competition or lack of coverage availability for that niche market. We also identified carriers active in the business and interviewed subject matter experts (which were several agents and agencies that specialize in placement of insurance for the forestry trucking industry). We also confidentially interviewed a former executive from a company which has withdrawn from the forestry trucking segment.

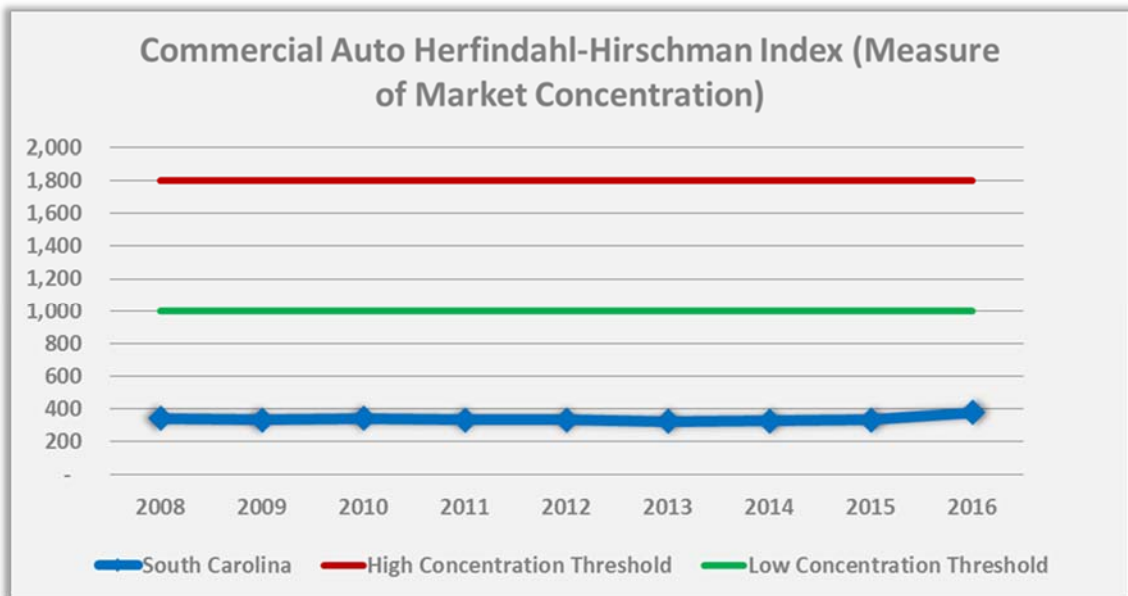
A summary of the work we performed and the issues identified appears below:

I. AVAILABILITY

- It's hard to estimate the premium volume or size of the market for forestry trucking in the state. The best statistics available relate to the overall category of commercial auto. All admitted carriers report their South Carolina commercial auto premiums in the Annual Statement and that "per company" data can then be aggregated and analyzed using just that line of business.
- Insurance for the commercial trucking industry is a subset of the larger, broader category of commercial auto, and forestry trucking is an even smaller subset of the trucking industry. Therefore, there are no precise statistics or data to test in order to identify the size of the forestry trucking market.
- We do know that the overall size of the commercial auto insurance market for South Carolina was nearly \$408 million in 2016, with more than 225 carriers participating. Based on a survey of the largest active commercial auto writers in the state, the Department estimates that general trucking accounts for roughly \$160 million (39.3%) of that total amount while forestry trucking specifically amounts to approximately \$18 million (4.5%).



- There is no shortage of carriers writing commercial auto—more than 100 companies report premiums of at least \$1 million, just in South Carolina. Another 105 carriers report premiums between \$200,000 and \$1 million.
- The NAIC does not consider commercial auto in South Carolina to be a “highly concentrated market” (nor is the market highly concentrated in Georgia, North Carolina or Tennessee—even though those neighboring states each have a substantially higher volume of commercial auto premiums).



- The accumulated statistics and NAIC’s evaluation demonstrate that there is an abundance of carriers willing to write commercial auto in each of the southeastern states, including South Carolina.

- Even though commercial auto is not highly concentrated, we don't have statistics or data which would prove or disprove whether the “subset” for forestry trucking insurance is itself highly concentrated (i.e., uncompetitive because of the dominance of just a few carriers).
- We did a survey of agents who actively place forestry trucking business, and they identified four main or dominant carriers serving the forestry trucking industry: Bituminous Casualty (BITCO), Harco National Insurance Company, Progressive National and several Berkshire Hathaway subsidiaries.
- Also of note, a residual market mechanism, known as the South Carolina Commercial Auto Insurance Plan (CAIP), was created in 1986 but has been underutilized. This lack of participation in the CAIP is another possible indication that a healthy voluntary market exists.
- We conducted a private interview with a withdrawn carrier revealed a number of reasons for its departure from the forestry trucking market including:
 - Poor underwriting results (i.e., losses which were much higher than expected)
 - Much of this business is operated within an individual state (intrastate), so it is not subject to the more stringent federal (interstate) regulations
 - Increasing exposure to inexperienced drivers
 - Several high verdict losses
 - High ratio of drivers to vehicle (i.e., same vehicle operated during all three shifts by different drivers)
 - Aging vehicle fleets
 - Suspect maintenance of vehicles
 - Avoidance of appropriate safety and loss prevention standards
 - A realization that the company lacked the necessary tools to properly underwrite and price risks
 - An unwillingness to subsidize this segment with more profitable lines of business
 - The presence of other competitors with more sophisticated tools to underwrite the risks and the willingness to price them accordingly
- The carrier representative was asked their opinion on whether the carrier would re-enter the market for forestry trucking, or could be encouraged to do so. The response received suggested that possibility was remote, given the magnitude of the losses suffered, in comparison with many other more profitable and successful lines of business.

II. AFFORDABILITY

- As noted above, we don't know if forestry trucking is highly concentrated (i.e., too few carriers); we only know that the larger category of commercial auto is **not** highly concentrated.
- If the forestry trucking market **is in fact highly concentrated**, that would unquestionably have a negative impact on overall affordability.
- In the past three years, it is clear that the rate structure for commercial auto as a whole is rising. The Insurance Services Office (ISO) is a nationally active rating bureau that makes filings on behalf of a substantial portion of the commercial auto insurance industry. In the past two years, the Department’s records reflect there have been two commercial auto rate increases filed by ISO. In 2016, ISO filed an

increase of 7.5% for Trucks, Tractors, and Trailers (TTT) as part of its 9.5% overall commercial auto increase. In its 2017 filing, ISO filed a 24.8% increase for TTT as part of a 10.7% total increase for commercial auto.

- The primary driver behind the higher rates for both commercial and personal auto is increased frequency and severity of auto insurance claims. The severity of claims is largely an indirect consequence of the incorporation of more technology in vehicles. Fender benders that used to result in relatively inexpensive bumper repairs now often require costly repairs or replacements of cameras and sensors. This increases the average cost of a claim and leads to higher insurance premiums.
- Industry statistics also point to the dramatically increased incidence of distracted driver events (i.e., cell phone usage, texting, etc.). This phenomenon affects both frequency and severity of accidents.
- From these ISO rate filing materials, we can reasonably conclude that the insurance industry is requesting the rate increases to counter the increasing loss trends in the Commercial Auto line of business.
- Each of the expert agents we surveyed commented that rising premium rates for forestry trucking were similar to rate increases for commercial trucking as a whole. Each of them also identified a need for the *entire* forestry trucking industry to embrace enhanced loss prevention and driver safety programs as a means to help control the rising rates—or at least to slow the rate of increases.

Multitasking is hazardous to your health.

When you try to do two things at once, your brain is forced to shift focus. See how the likelihood of a car accident increases while performing these common activities.

TEXTING 23X 

Turn your phone off when you get into the car to avoid temptation.

REACHING 9X 

Find a safe place to pull over and pick up a dropped item or something behind you.

READING 4X 

Choose a voice activated GPS to avoid taking your eyes off the road.

GROOMING 3X 

First arrive safely, then check your hair or makeup.

EATING 2X 

Eat *before* you get into the car so you can focus on the road.

1 Driver Distraction in Commercial Vehicle Operations, FMCSA, 2009
2 <http://www.nhtsa.gov/About+NBKTS/Press+Releases/2006/100-Car+Naturalistic+Driving+Study>
3 Ergonomics in Design: The Quarterly of Human Factors Applications, October 2011

III. ALTERNATIVES

- As noted above, each of the industry experts surveyed indicated that there needs to be greater emphasis and adoption of loss control and safety programs throughout the trucking industry, especially in forestry trucking.
- Each expert surveyed cited the influx of younger and less experienced drivers whose rating profiles are nearly always more expensive (or even surcharged) when compared with veteran drivers with good safety

records. All of these experts related anecdotal examples of increased loss exposures due to less experienced and less prepared drivers.

- Several of these industry representatives and two of the agents talked about the worsening civil litigation climate in South Carolina and the need for greater tort reform efforts. However, while these comments suggest important public policy considerations, these matters are beyond the scope of the Department's evaluation of the concerns of the forestry trucking insurance market.
- South Carolina is a leading innovator for captive insurance company formation and the overall use of the captive structure to address "niche" industries and certain underserved markets. It was noted that a new captive was formed—Forestry Insurance Company of the Southeast, which was initially licensed on October 6, 2017 as a special purpose captive. It is hoped that this new market entrant—and possibly other captives with specialized expertise in trucking or forestry trucking business—may serve to increase availability and competition, which would likely improve the health of the market overall.
- Two of the experts surveyed mentioned allowing the commercial auto line (and therefore forestry trucking, which is a subset of commercial auto) to be written on a surplus lines, non-admitted basis. Many other states publish an "export list" which outlines the particular lines of insurance which the regulator has confirmed are available to be "exported." This export list then alerts both the insurance consuming public and the brokers and insurance agents seeking coverage that placement with surplus lines and non-admitted carriers is permissible.
- The suggestion then is for the Department to allow surplus lines carriers to be eligible to write commercial auto insurance risks. This would be done in an effort to increase availability of eligible carriers and therefore enhance competition.
- As a last resort, the CAIP has proven to be a viable alternative for those unable to find commercial auto coverage elsewhere. The parties managing the CAIP were interviewed and uniformly believe the CAIP is underutilized and often serves no more than 12 to 15 customers per year. Consideration needs to be given to efforts to advertise the availability of CAIP to the forestry trucking industry, as a means of uniting those seeking coverage with this available residual market mechanism.