

The Case for Captives: Commercial Trucking Finds Alternative Risk Financing



ONE CASE, ONE BILLION

In August 2021, a Florida jury awarded damages above \$1 billion in a wrongful death case involving a crash that killed one person. While the case is unprecedented, it illustrates the atmosphere contributing to a hard insurance market for commercial trucking operations. Another verdict in 2020 awarded \$411 million, and such awards are becoming more commonplace. That reality puts extensive pressure on insurance carriers, evidenced by one of the hardest overall insurance markets in recent history.

For commercial trucking, the market is stratified by geography, operation fleet size and business longevity. As a result, the premiums within the commercial trucking industry vary widely. How widely? Depending on the risk portfolio and carrier, rates can range from \$6,500 and surpass \$20,000 per unit.

In a market where reputation is a fleeting, elusive creature, larger established operations conduct business in the same space as underdeveloped operations with inexperienced risk management programs. One million limits for a seasoned company are colored by another company's reputation, accident frequency and less-than-stellar record. As a result, markets harden and coverage becomes tougher to obtain.

THE PERFECT STORM

As verdicts climb higher and coverage becomes more difficult to locate, commercial trucking firms are left with a dilemma – how to protect the operation without piecing together an insurance plan or worse, going without adequate coverage? The answer is the captive insurance market.

The popularity of today's captive market is the result of the hard market in most lines of business. The reason is simple. By combining both risks and benefits in one facility, companies in a captive, specifically a risk retention group, will pay premiums into a collective reserve and spread the risks among all the members. The captive is owned by its insureds and gives companies the ability to fund at a consistent rate, essentially earmarking premiums for future claims.

SOLUTIONS TO THE PERFECT STORM

Yet not every risk retention group is created equal. Some poorly run groups have required regulatory oversight or faced insolvency due to deceptive management practices and poor underwriting standards, coupled with significant payouts. For a commercial trucking firm looking to find coverage, it can be a tough road to travel.



Fortunately, there are some things to look for and things to avoid to help your operation locate the best captive solution. Start by looking at:

- Well-funded, supportive captives with strong underwriting standards emphasizing good risk portfolios and claims history
- The established risk management programs
- The dedicated claims administration resources
- The total “cost” of coverage
- Avoiding captives laden with additional fees in addition to premiums

Some groups will charge extra fees to get the funding they need to maintain operations, indicating that a risk retention group may not have a solid footing. Consider these points when looking for the right captive: How much is the premium? How much is the capital charge to become a member of the risk retention group?

LOOK FOR EXPERT ASSISTANCE

In a market that continues to be under pressure from nuclear verdicts, large settlements, and overall coverage tightening, protecting your commercial trucking operations can be challenging. However, there are alternatives to the traditional insurance market. Given your particular risk portfolio and your loss history, a captive may be the right solution.

Navigate the captive market with a broker that has specialized knowledge of the field. NFP works with captive entities and commercial trucking clients to place risks within a solution that best fits the client’s needs. Not all captives fit all risks. We consider the domicile, the regional regulations that best suits the business and reinsurance partners more amenable to the portfolio of risk.

The captive is selected based on the size of your operations and the coverage you need. Plus, we ensure that claims support is in place. When claims happen, clients need to know that the best people are handling their particular claims.

NFP’s captive and commercial trucking experts can guide you through the options available to you. Getting answers to your captive questions could put your operations on a more solid and protected footing going forward.

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