TRANSPORTATION

State of the Hired & Non-Owned Auto Liability Market in 2025

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As we enter 2025, one of the questions we have been recently asked by clients is "What will happen with the hired and non-owned auto liability rates?" Based on commercial auto rates for 2023 (the worst commercial auto year on record) and what was seen during the first half of 2024 (still losing money), we are predicting the rate increases we have witnessed over the last 12 years are going to continue this year.

On another note, several insurers have entered into the hired and non-owned auto liability market in recent years. Many brokers have touted these new markets as more friendly and understanding of your industry and with that comes lower pricing. As the old adage goes, "If it is too good to be true, it probably is."

We have reviewed quotes from the competition where coverage limitations and restrictions were never explained. We noted some restrictions that may actually cause a breach of contract with your customers. In some cases, the quotes were accompanied by a full policy coverage form, which is long and complicated, leaving you to decipher the exact terms and conditions of coverage.

The past 5 years have been very difficult for most businesses in the transportation sector as insurance costs have continued to escalate year after year. During the pandemic, revenues exceeded their estimates so while insurance costs did continue to escalate, it was a tolerable situation for businesses. Post pandemic, the shippers are pressuring everyone to get back to pre-pandemic pricing, even though insurance and other costs continue to rise.

Unfortunately, the factors that have adversely affected the insurance rates for your industry haven't changed over that time, and if anything, they have continued to increase. These factors include:

- Driver behavior issues such as distracted driving, excessive speeding, and other negative infractions which often result in higher insurance costs
- Social inflation when claims costs increase faster than economic inflation including increased medical and repair costs, litigation, and nuclear verdicts
- Eroding infrastructure
- Shortage of good, qualified drivers

We have always made it a point to tell clients and prospects what they need to hear, not just what they want to hear. True to our company name, we are risk advisers; not salespeople. We are agnostic to the insurance market and want you to have options to consider – but we want you to fully understand the options, because the devil is in the details, and it can help or hurt your business.

Important Coverage and Underwriting Issues to Understand Before Making Insurance Program Changes

The following examples are issues pertaining to hired and non-owned auto oriented, as this line of coverage is typically a large portion of the overall premium.

Annual Aggregate Auto Liability

This limits the total amount that will be paid in claims for the policy year. Most auto liability policies do not have an aggregate limit. Commercial auto in the transportation industry would typically have a $1,000,000 limit per accident/occurrence with no annual aggregate. This means that you could have numerous claims in one policy term, up to $1,000,000 each. If there was a $1,000,000 aggregate, once the policy pays that amount you would have no more coverage for that term. By capping the total claims at $1,000,000, the insurance carrier has much lower risk, hence a lower premium.

It should also be noted that utilizing an annual aggregate could affect your contractual obligation to your shippers, i.e. you provided them with evidence of auto liability insurance with a $1,000,000 limit. If you have claims during the policy term that erode the aggregate, the remaining limit could be less than the agreement with your shipper.

Finally, having an aggregate limit on your primary auto liability policy makes it more difficult and expensive to obtain Excess/Umbrella limits since the Excess/Umbrella carrier is taking on more risk.

Defense Expense Within the Limits

Typically, commercial auto liability policies provide defense expenses outside the policy limits which means that the stated limit per occurrence/accident is reserved for damages. If defense costs are within the policy limits, it erodes the amount available to pay for the injury or damage that occurred. There are a couple of basic problems with this approach:

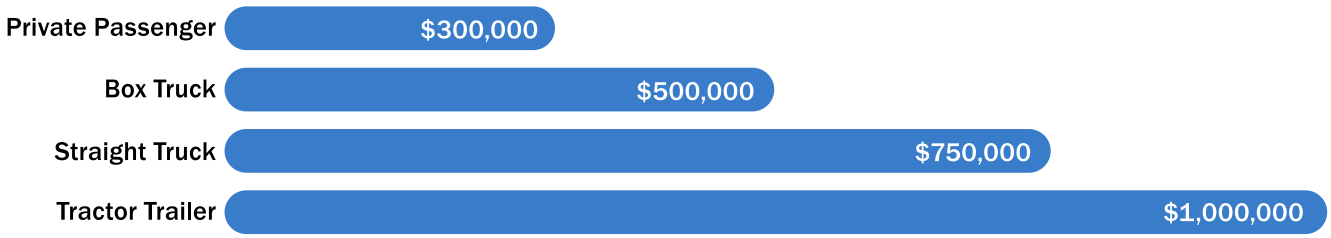
- Defense costs can be substantial. If these costs reach the policy limit, there is nothing left to pay the claim. Your defense would end and remaining defense and claim costs would be your responsibility.
- Having both defense within the limits and an annual aggregate, will hasten hitting the aggregate limit, leaving you with the remaining exposure.

You can see how this helps to minimize risk for the insurance carrier, thus generating lower premiums.

Various Cost Reducing Restrictions

There are several ways to reduce insurance premiums which may or may not be right for you. Below is information you need to consider when selecting coverage.

- Some policies will pay only on an excess basis above the limits required of the delivery driver. This may be based on the type of vehicle, GVW, or other criteria, such as:



  If the driver doesn't carry the required limit or if their insurance denies a claim, this places a substantial burden on you.

- Certain policies may have a mandatory self-insured retention or deductible. You may be able to eliminate or reduce such clauses for an additional premium.

- Short-term rental vehicles are not always included for coverage. Most of the carriers offering lower priced options specifically exclude rental units. If you utilize them, make sure you have adequate coverage. You may be able to obtain primary auto liability from the rental company, but your Excess/Umbrella coverage may not extend over the rental company coverage.

- A fully (100%) earned premium means there would be no refund if the policy is cancelled. This also makes it difficult to arrange installments or premium financing options.

- If the policy is auditable, learn if there is a minimum premium. If you are in a growth mode, additional premium due to the policy being auditable can be a significant unexpected expense at the final audit. If business is down, the minimum premium may apply and you would not be entitled to an audit refund. There may be "pay as you go" options which can be great from a cash flow perspective, but again check to see if there is a minimum premium.

- Learn if the insurance carrier will be able to provide Federal (FMCSA) or state motor carrier filings. This is critical as some insurance carriers will not do the filings based solely on HNOA coverage. If you have company owned/leased vehicles and insure those with a different insurance carrier, most insurers will not knowingly make the filings. We have seen situations where the owned/leased vehicles are insured by Progressive who did the filings — without knowing about the hired and non-owned auto liability exposure. When they become aware of this they will likely cancel the filings and may also cancel the policy.

- There may be a number of restrictive underwriting requirements that can be ominous and generate exclusions resulting in uncovered claims. These include:
  - Review of all MVR's every six months
  - Drivers with two or more moving violations in the most recent 36-month period
  - More than one accident in a period of 12 months regardless of fault
  - Operating a vehicle with a suspended license
  - Reckless operation
  - DUI / controlled substance conviction
  - Speeding in excess of 25mph over the limit

In conclusion, these are just few examples of what we have encountered. They may be used initially by the insurance carrier in the underwriting approval process, or they could be used as coverage conditions — so be careful. You may have a driver with a valid license and an acceptable MVR when they were initially contracted. Later on, the driver could incur violations and/or have a suspended license without your knowledge. If the driver is then involved in an accident and the additional violation/suspension is discovered, the claim may not be covered.

Risk Strategies can access all the markets currently offering coverage to your industry. In addition to the robust products we have offered for decades, we can access the lower priced options. The lower cost options will have limitations and restrictions that will be fully disclosed, so you can make informed decisions about your insurance coverage. This is the advantage of working with an experienced risk adviser versus just a salesperson.

Want to learn more?

ABOUT RISK STRATEGIES

Risk Strategies is the 9th largest privately held U.S. brokerage firm offering comprehensive risk management advice, insurance and reinsurance placement for property & casualty, employee benefits, private client services, as well as consulting services and financial & wealth solutions. With more than 30 specialty practices, Risk Strategies serves commercial companies, nonprofits, public entities, and individuals, and has access to all major insurance markets. Risk Strategies has over 200 offices including Atlanta, Boston, Charlotte, Chicago, Dallas, Grand Cayman, Kansas City, Los Angeles, Miami, Montreal, Nashville, New York City, Philadelphia, San Francisco, Toronto, and Washington, DC.

