2018 Market Outlook: Transportation

Driver and Regulatory Issues May Lead to Bumpy Ride for Transportation Companies

As a leading indicator of the US economy, it is often said that how trucking goes, so does American business. After a choppy 2016, where tonnage was down and business failures were up, 2017 saw a nice rebound in commercial transportation-related activity. Tonnage last year increased as a result of several key factors:

- Construction, driven by catastrophe-related recovery efforts
- Factory output
- Improved inventory levels throughout the supply chain
- Consumer consumption

Heavy equipment orders for power units and trailers increased, with trailer orders up more than 33% from 2016 levels. For 2018 we expect shipping rates to continue to rise and tonnage to be above average to strong. Following are some major issues expected to impact the transportation industry.

Driver Shortage

The commercial driver shortage in the United States is a major issue for the industry. Not only is it a challenge finding qualified drivers, but the rate of driver turnover for many transportation companies is more than 60%. The American Trucking Association estimates that turnover of a single driver can result in a loss of $7,000 to $10,000.

Working closely with risk consultants, trucking companies can obtain and use data to make informed decisions about hiring and retaining drivers. Given that a large percentage of the driver pool is Independent Contractors (ICs), addressing their needs is critically important. Avoiding W2-vs-1099 employment situations and creating “golden handcuff” programs for ICs are highly recommended.

Regulation

The trucking industry faces numerous regulations that are increasing the cost to operate and hurting their bottom line. Carriers will continue to need to navigate through these rules in 2018.

Electronic Logging Device (ELD) mandate – This law requires all interstate motor carriers to have their trucks equipped with electronic logging devices. Proposed hours-of-service rules, limiting how long drivers can operate, can easily be tracked through the ELDs. It has been estimated the new ELD mandate, which went into effect December 2017, could push 2% to 4% of capacity out of the marketplace, exacerbating the driver shortage crisis.

CSA Basic Scores - The Federal Motor Carrier Safety Administration (FMCA) compiles and publishes compliance, safety, accountability (CSA) data that is used to rank and prioritize motor
Carriers need to understand how the regulations mentioned above impact their business and seek expert advice on ways to mitigate the financial impact. An experienced risk consultant with deep industry knowledge can recommend various risk financing strategies to minimize the impact of the regulations on individual businesses.

**Insurance Marketplace**

Last year several more insurance companies exited the trucking marketplace. In addition several truck insurers had their financial strength ratings downgraded or put under negative watch outlook. These industry shifts have impacted over $400 million in premium nationally. Large verdict awards have also caused concern in both primary and excess markets.

In 2018, motor carriers with good loss history are expected to experience 3% to 5% in rate increases; average accounts could see increases of 5% to 10%; and below average performers are likely to see double digit to massive spikes in insurance rates.

Insurance companies are evaluating not only loss runs, but CSA scores and driver quality. The number of commercial driving years an individual has is becoming a critical underwriting criteria.

It is important to find an experienced risk consultant who understands the insurance marketplace and has strong relationships with underwriters to obtain the most favorable rates and broadest coverages.

**What Insureds Can Do**

It is recommended that clients be as proactive as possible so they can clearly articulate to carriers how their specific risk differs from other companies in the same industry. Pre-loss safety and loss control and post-loss claims handling strategies should be revisited and spelled out in market submissions. Clients and their brokers may also need to conduct their own analytics to best assess the risk/reward of their retention levels. The use of data analytics to assess frequency and severity of risks is becoming increasingly common and important—and insureds that present a good risk profile may be able to minimize rate increases. For more information on how USI can help protect your business, contact a USI consultant.

Click to read the 2018 USI Insurance Market Outlook report, which details expectations for 19 coverage areas including new expert insights on specific industry vertical markets.