



# THE IMPACT OF CSA ON YOUR INSURANCE PROGRAM

**JOHN SIMMS**  
VICE PRESIDENT

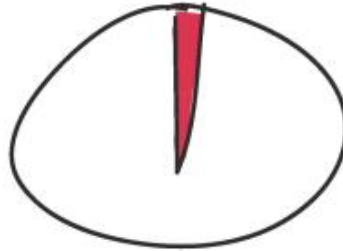
# CSA

The biggest **CHANGE** facing the trucking industry since deregulation



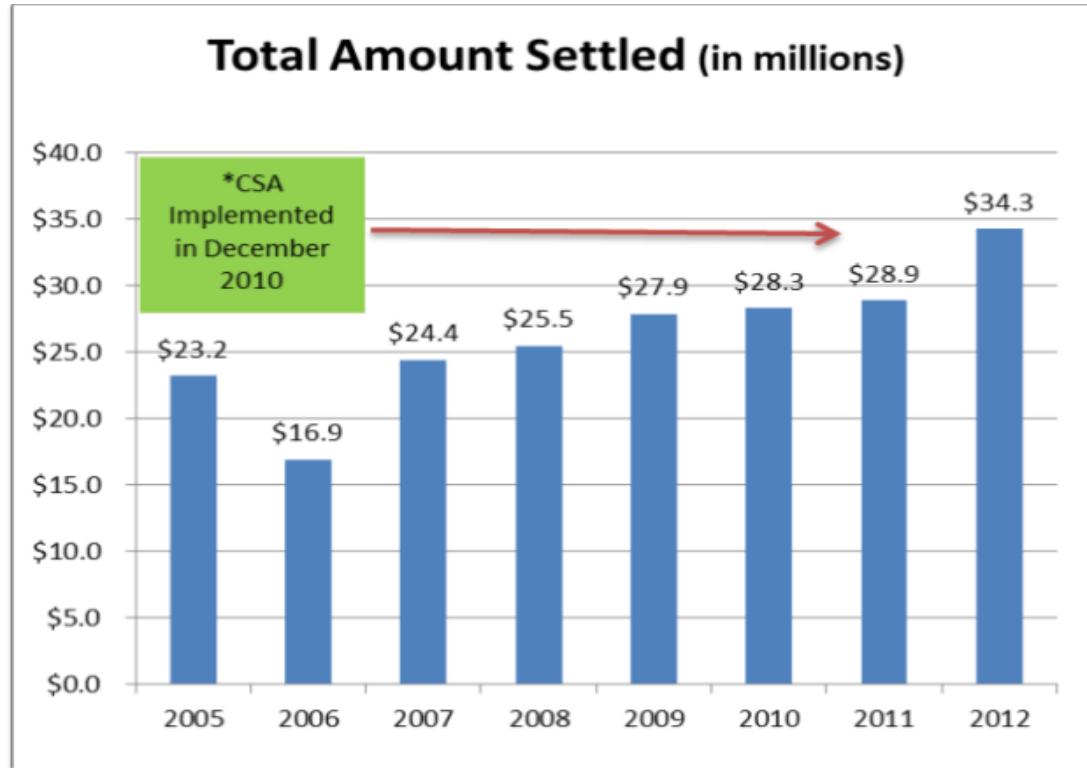
# Current State of Industry

Profit Margins are RAZOR thin  
You gotta be Sharp



hni.com

# The Financial Impact of CSA



*Since CSA was released, fines to motor carriers have exploded by 28%.*

CSA

# DISCUSSION TOPICS

1. The Current Marketplace
2. The Insurance Question
3. The Wicked Problems
4. How have we managed risk before CSA?
5. The Reality Check
6. How does CSA change the game?
7. How we manage risk going forward?



# THE INSURANCE MARKETPLACE [Current State]



# According to Transport Topics

“Talk is out there that agents are telling carriers that the market is hardening,”

“There’s a firming of the market now. We’re seeing increases of 5% or more on premium rates across the board, year-over-year, on auto liability if you’re doing ‘OK’ on your losses,”

“It could be 15% to 20% if you’re not ‘OK’ on claims. For workers’ comp it’s more like 8%,”



# Transport Topics



“There have been some incredible verdicts in trucking, even though the majority of the U.S. is doing better. One million dollars gets shot around today as if it were nothing.”

“The amount of total claims paid goes up even as accident trends continue to drop”

“While an accident involving a truck can be tragic, to some, it offers a payday. Each and every lawsuit raises the insurance premiums....”

“With the looming driver shortage and the long-reaching effects of CSA scores, carriers will struggle to insure existing and rookie drivers, and the need for tort reform has never been greater.”





# MARKET TRENDS

## 3 categories companies are put in to:

1. Good Carrier with good loss ratios and one or less CSA alerts
2. Carriers with two or more alerts are ineligible risks for a number of underwriters, regardless of loss ratio or years they have been with that insurance company
3. Carriers with poor loss ratios and two or more alerts can be facing radical rate increases or even difficulty finding coverage period (Pool)



# MARKET TRENDS

## The Marketplace has Shifted

- Underwriters are now focused on **PROFITABILITY**, not growth
- Many **LOW PRICE** underwriters have found new careers and left the marketplace
- Underwriters want it **ALL** – skeptical to write standalone business
- **CSA SCORES** dominate the conversation



# AVERAGE CARRIER COST PER MILE

|  | 2008           | 2009           | 2010           | 2011           |
|--|----------------|----------------|----------------|----------------|
| <i>Vehicle-based</i>                           |                |                |                |                |
| Fuel & Oil Costs                               | \$0.633        | \$0.405        | \$0.486        | \$0.590        |
| Truck/Trailer Lease<br>or Purchase<br>Payments | \$0.213        | \$0.257        | \$0.184        | \$0.189        |
| Repair &<br>Maintenance                        | \$0.103        | \$0.123        | \$0.124        | \$0.152        |
| <b>Truck<br/>Insurance<br/>Premiums</b>        | <b>\$0.055</b> | <b>\$0.054</b> | <b>\$0.059</b> | <b>\$0.067</b> |
| Permits and<br>Licenses                        | \$0.016        | \$0.029        | \$0.040        | \$0.038        |
| Tires  | \$0.030        | \$0.029        | \$0.035        | \$0.042        |
| Tolls  | \$0.024        | \$0.024        | \$0.012        | \$0.017        |
| <i>Driver-based</i>                            |                |                |                |                |
| Driver Wages                                   | \$0.435        | \$0.403        | \$0.446        | \$0.460        |
| Driver Benefits                                | \$0.144        | \$0.128        | \$0.162        | \$0.151        |
| <b>TOTAL</b>                                   | <b>\$1.653</b> | <b>\$1.451</b> | <b>\$1.548</b> | <b>\$1.706</b> |



# MOTOR CARRIER COST TRENDS

|  | 2008-2009 Change | 2009-2010 Change | 2010-2011 Change |
|--|------------------|------------------|------------------|
| <i>Vehicle-based</i>                     |                  |                  |                  |
| Fuel & Oil Costs                         | -36%             | 20%              | 21%              |
| Truck/Trailer Lease or Purchase Payments | 21%              | -28%             | 2%               |
| Repair & Maintenance                     | 19%              | 1%               | 22%              |
| <b>Truck Insurance Premiums</b>          | <b>-3%</b>       | <b>9%</b>        | <b>14%</b>       |
| Permits and Licenses                     | 84%              | 39%              | -4%              |
| Tires                                    | -5%              | 24%              | 18%              |
| Tolls                                    | 3%               | -49%             | 39%              |
| <i>Driver-based</i>                      |                  |                  |                  |
| Driver Wages                             | -7%              | 11%              | 3%               |
| Driver Benefits                          | -11%             | 26%              | -6%              |
| <b>TOTAL</b>                             | <b>-12%</b>      | <b>7%</b>        | <b>10%</b>       |



# THE INSURANCE QUESTION



# HOW HAS CSA IMPACTED INSURANCE AND UNDERWRITERS ?



## **3 AREAS: Where CSA has had an impact on motor carriers' insurance programs**

1. The underwriting and pricing of your exposures
2. Policy forms are getting skinny
3. A potential Increase in your exposure to loss



How Underwriters think:

- How are you managing your RISK?
- What are your results?



# Underwriters & Pricing

## How Underwriters Think

- Determined to utilize all available information to decide whether to insure a risk and what the pricing should be.
- **CSA (PUBLIC DATA)** brings a new source of information that is always of great interest and can be more heavily weighted than it should be in the selection and pricing of a risk.
- Result – CSA Data is receiving intense scrutiny by underwriters and now plays a disproportionately large role in the consideration and pricing of your risk.
  - Underwriters believe that CSA Data can help forecast future losses
  - Underwriters believe that the data from CSA can impact significantly financial outcome of liability claims



# Underwriters & Pricing

## The Pitfalls of Public Data

### CSA Shortcomings

- CSA remains a work in progress
- It can be a moving target
- The link between CSA/SMS scores and accidents remains cloudy
- Source data can have errors
- Roadside enforcement can be inconsistent



# Underwriters & Pricing

## The Pitfalls of Public Data

### *How Information Can Be Misinterpreted to Hurt You*

- Many simply don't understand the methodology of CSA & SMS
- CSA/SMS is one of many tools used by underwriters
- Make sure yours understands your numbers
- Be prepared to explain your numbers to them
- If you have active alerts, what is your improvement plan?
  - Be specific
  - Show you mean business
- Bad public numbers can impede a vigorous claims defense



# Underwriters & Pricing

## The Underwriter's Job Responsibility

- Collect and examine pertinent information
- Select the motor carriers that fit the desired profile
- Match pricing to the exposure
- Deliver an underwriting profit to the insurance company



# Underwriters & Pricing

## Attitudes in Today's Insurance Market

- **Result** – If an underwriter has to offer a lower price than they are comfortable with, they'll be increasingly selective in risks they write. *(Some seeing as many as 600 submissions/month!)*
- They use CSA information as a valuable tool to help them accomplish this.
  - Positive CSA scores & trends can help justify low pricing
  - Negative CSA scores & trends can make it very difficult for an underwriter to come up with the most competitive pricing.



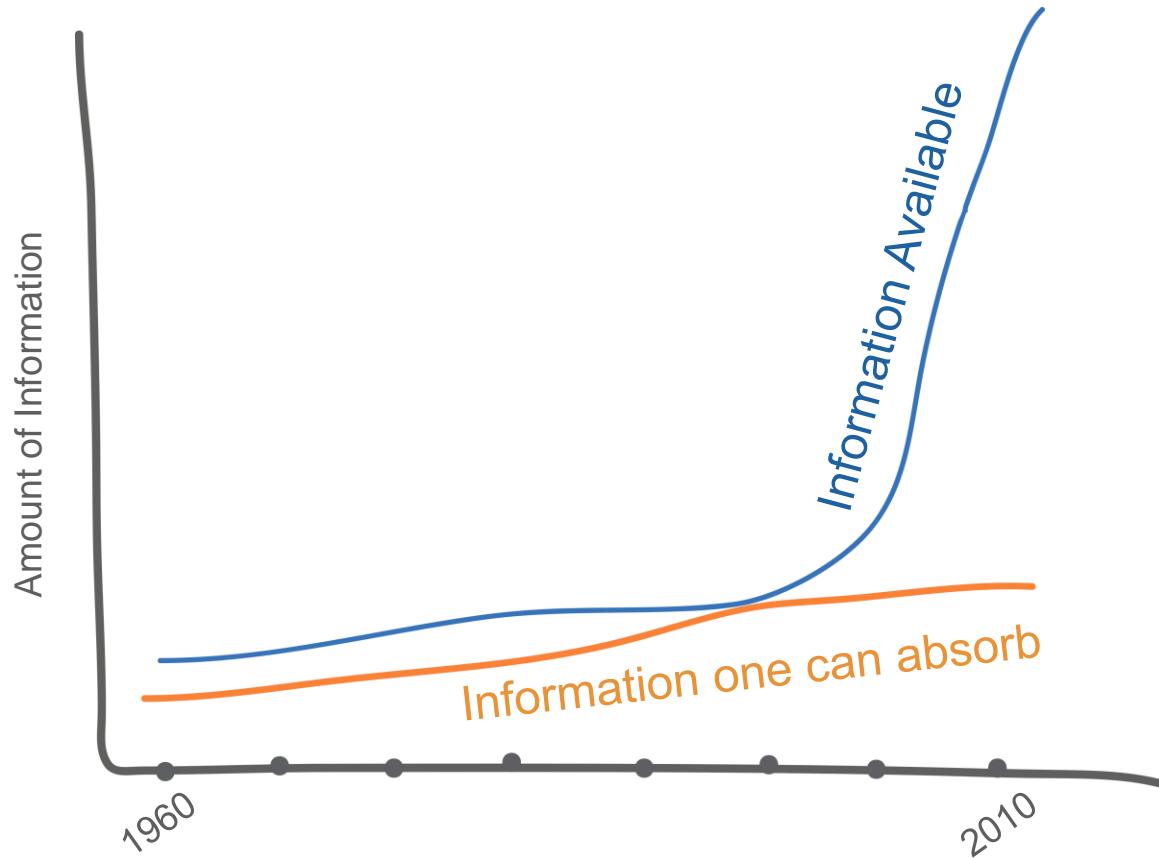
# Underwriting & Pricing

*“I was hoping you might be able to speak to a possible improvement strategy to XXX's CSA scores. I took a quick look today and the four key areas are well above the alert threshold w/ unsafe driving being at 100%. I just trying to gather as much information as possible before determining if we can proceed in offering a competitive program.”*

**-Cargo Insurance Underwriter**



# Information Overload



Motor carriers are **struggling** with  
**3 Wicked Risk  
Problems**





## ■ THE WICKED PROBLEMS

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# 1 Dealing with Compliance Risk\* driven by CSA

\* [ Dirty Secret: It's not about compliance]



## ■ THE WICKED PROBLEMS

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# 2 Better managing and improving Driver Performance

## ■ THE WICKED PROBLEMS

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3 Identifying and predicting accidents and high risk profiles

How have we managed **RISK** in

**THE PRE-CSA**  
**ERA?**



# LAGGING

← indicator

Safe Stat

Large Loss

Insurance Renewals

Compliance Audit

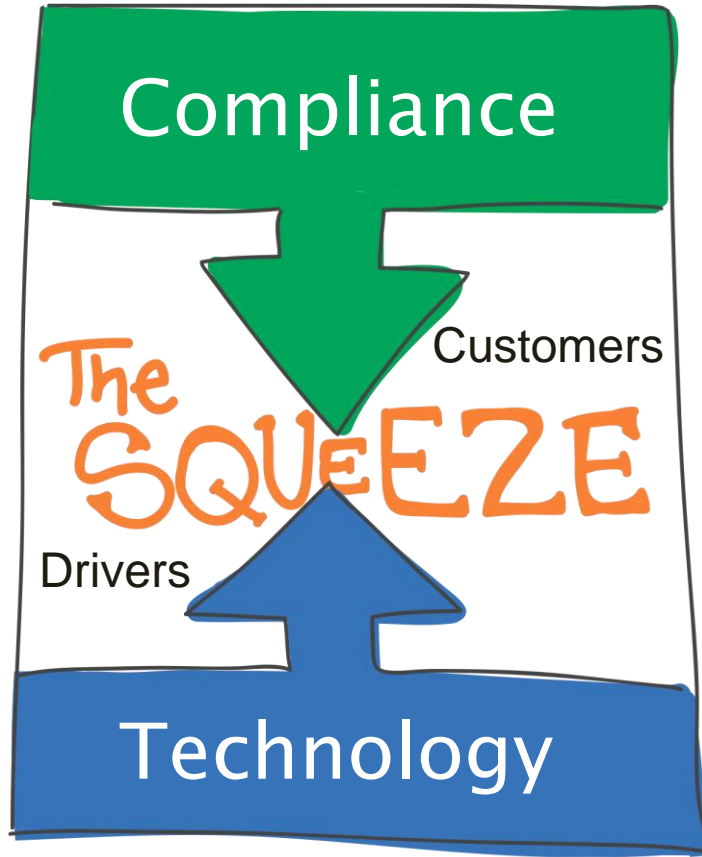
# Below the **waterline**



Safety and Ops are not collaborating

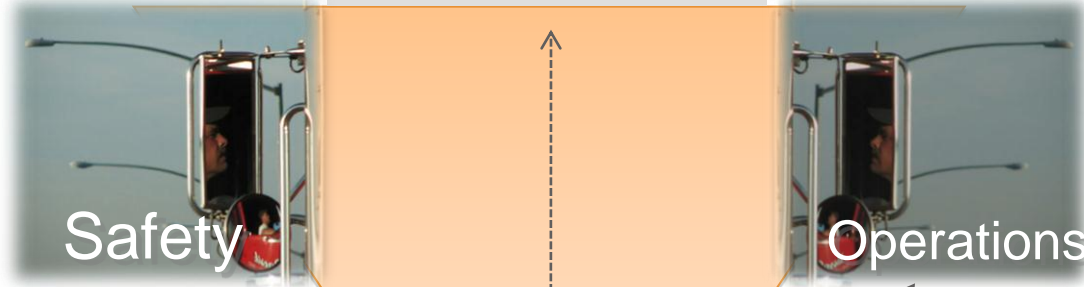
Conflicting goals create challenges drivers can't  
decipher

Driver managers and trainers don't have time to  
mentor



# CSA

The Third Master



Safety

Operations

**THE DRIVER  
VIEW**





“A **CONFUSED** Mind says **NO!**”

# THE REALITY CHECK



# THE REALITY CHECK

Select a BASIC below to view details

BASICs Overview  
(Based on a 24-month record ending October 26, 2012)

|                                     | PERFORMANCE |                |               |
|-------------------------------------|-------------|----------------|---------------|
|                                     | On-Road     | Investigation  | BASICs Status |
| Unsafe Driving                      | 98.7%       |                |               |
| Fatigued Driving (Hours-of-Service) | 99.8%       |                |               |
| Driver Fitness                      | 99.4%       |                |               |
| Controlled Substances and Alcohol   | 13.9%       |                |               |
| Vehicle Maintenance                 | 92.3%       |                |               |
| Cargo-Related                       | Not Public  | Not Public     | Not Public    |
| Crash Indicator                     | Not Public  | Not Applicable | Not Public    |

\*USE OF SMS DATA/INFORMATION

History

For more information on the BASICs Overview please visit our [Information Center](#)


















**Conditional  
Safety Rating**

# THE REALITY CHECK

Select a BASIC below to view details

## BASICs Overview

(Based on a 24-month record ending October 26, 2012)

|   | PERFORMANCE |   |   |
|---|-------------|---|---|
|   | On-Road     | Investigation   | BASICs Status   |
|  Unsafe Driving                      | 89.1%       |  |  |
|  Fatigued Driving (Hours-of-Service) | 95.1%       |  |  |
|  Driver Fitness                      | 58.7%       |  |  |
|  Controlled Substances and Alcohol   | 26.8%       |  |  |
|  Vehicle Maintenance                 | 80.8%       |  |  |
|  Cargo-Related                       | Not Public  | Not Public  | Not Public  |
|  Crash Indicator                     | Not Public  | Not Applicable  | Not Public  |

USE OF SMS DATA/INFORMATION


















**Satisfactory  
Safety Rating**

# THE REALITY CHECK


Select a BASIC below to view details

## BASICs Overview

(Based on a 24-month record ending October 26, 2012)

|   | PERFORMANCE   |   | BASICs Status   |
|---|---------------|---|---|
|   | On-Road       | Investigation   |   |
|  Unsafe Driving                      | 42.4%         |  |  |
|  Fatigued Driving (Hours-of-Service) | 23.1%         |  |  |
|  Driver Fitness                      | No Violations |  |  |
|  Controlled Substances and Alcohol   | No Violations |  |  |
|  Vehicle Maintenance                 | 5.2%          |  |  |
|  Cargo-Related                       | Not Public    | Not Public  | Not Public  |
|  Crash Indicator                     | Not Public    | Not Applicable  | Not Public  |

\*USE OF SMS DATA/INFORMATION

 History

**Satisfactory  
Safety Rating**

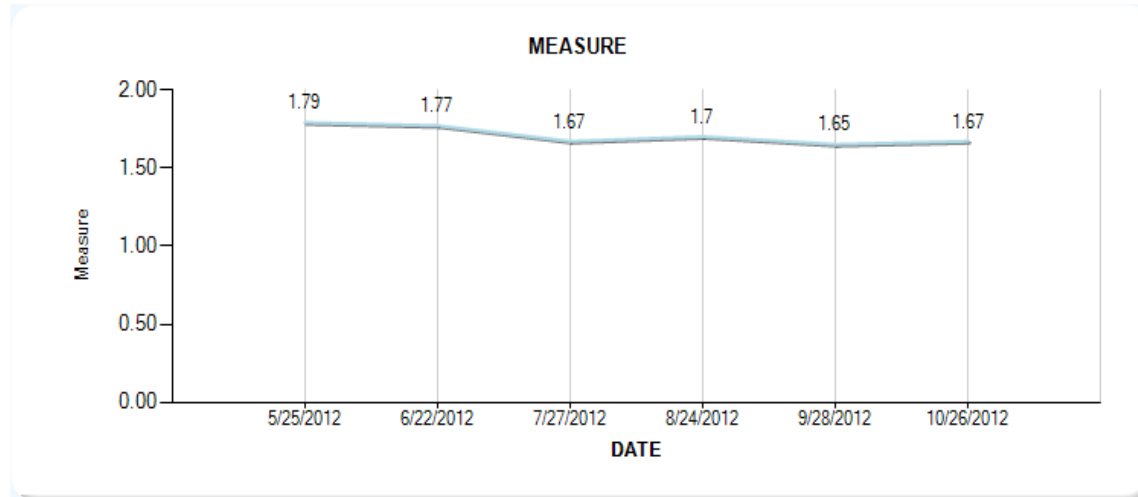


# THE REALITY CHECK

The Carrier Measurement History report displays the most current month's Carrier Safety Measurement results followed by the last five monthly runs. You can also choose to view Quarterly or Semi Annual reports.

Select report view:

Monthly



# THE REALITY CHECK



The Federal Motor Carrier Safety Administration has in the works a proposed Safety Fitness Determination rule that Administrator Anne Ferro says will be made public in the second half of 2013.

52% of large fleets  
are Unfit

# THE REALITY CHECK

## SAFETY FITNESS DETERMINATION (SFD) CRITERIA

|                    | 1<br>Unsafe Driving                             | 2<br>Fatigued Driving    | 3<br>Driver Fitness                               | 4<br>Controlled Substances | 5<br>Vehicle Maintenance | 6<br>Cargo Securement    | 7<br>Crash               |
|--------------------|---|--------------------------|---|----------------------------|--------------------------|--------------------------|--------------------------|
| FIT<br>(No risk)   | Below threshold (60-65%)                        | Below threshold (60-65%) | Below threshold (75-80%)                          | Below threshold (75-80%)   | Below threshold (75-80%) | Below threshold (75-80%) | Below threshold (60-65%) |
| UNFIT<br>(At risk) | Equal or above threshold for EITHER BASIC (1-2) |                          | Equal or above threshold for any TWO BASICS (3-6) |                            |                          |                          |                          |
| MARGINAL           |   |                          | Equal or above threshold for any ONE BASIC        |                            |                          |                          |                          |





ace insurance



CHARTIS



SENTRY INSURANCE



ZURICH



STARR COMPANIES  
GLOBAL INSURANCE & INVESTMENTS



## Underwriter A

If an account has **3 or more deficient scores**, they are going to **decline without further review**.

If an account has **2 deficient scores**, they are willing to look at it provided that the loss control visit goes well, but the rate will be higher than an account that has one or none.



## Underwriter B

While they do not have written guidelines, they use the “**common sense**” **approach**. If a risk has bad CSA scores but they are trending in the right direction, they will continue to look at it.

However, if they have more than 1 or 2 deficient scores and are trending in the wrong direction, they are going to pass on the account.



## Underwriter C

Again, no written guidelines, but **if an account has 3 or more, they must have favorable trends and an excellent safety management plan** in place to reduce their scores.



## Underwriter D

It is **up to the underwriter** to determine whether or not an account will be entered into their system for rating. So, if the underwriter determines that the account has deficiencies and is trending negatively, he/she can decline the account without going any further.

If an underwriter determines that they should take a closer look at the account, their predictive modeling system **utilizes the CSA scores to “predict” how the account will perform**, and then adjust the rate from there. So, if an account has a lot of driver issues, or a lot of brake/tire issues, the rate will be significantly impacted or corporate will disallow a quote.



## Underwriter E

3 or more will cause them to decline.

- If they have 2, they are willing to look at it provided the loss control visit is favorable, however, the rate will be higher.
- Additionally, a company's **unsafe driving** basic has the highest affect on the rating of a company. **Underwriter E's** actuary department puts the heaviest weighting on this category.
- This Insurance Company is on a quest to be the top insurer in the trucking industry, their companies have an average CSA score in the unsafe category in the 20<sup>th</sup> percentile.

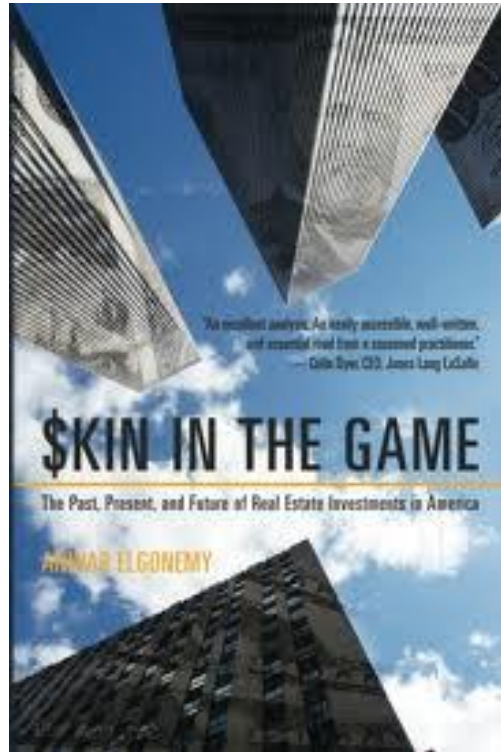


## Underwriter F

While they have no specific guidelines for CSA, their rating program does take the Unsafe, Fatigue, and Fitness categories into account when pricing an account. If the scores are high and they are **trending in the wrong direction, more than likely the account will be declined.** If they are high but trending in the right direction, they will take a closer look at it, but the price will be higher.

If the ISS-D rating is high, it's generally an indication that something is going to happen (in their experience, those with the higher ISS-D scores are the ones that have more losses), so that comes into play as well.





CSA is forcing  
Companies to take  
on **HIGHER  
DEDECTABLE**  
Programs /  
**CREATIVE RISK  
RETENTION**  
Programs




















## Select a BASIC below to view details

BASICs Overview

**What Does This Mean?**

(Based on a 24-month record ending November 16, 2012)

### PERFORMANCE

|   | On-Road    | Investigation   | = | BASICs Status   |
|---|------------|---|---|---|
|  Unsafe Driving                      | 100%       |  | = |  |
|  Hours-of-Service (HOS) Compliance   | 93.2%      |  | = |  |
|  Driver Fitness                      | 73.2%      |  | = |  |
|  Controlled Substances and Alcohol   | 23.2%      |  | = |  |
|  Vehicle Maintenance                 | 85.6%      |  | = |  |
|  Hazardous Materials (HM) Compliance | Not Public | Not Public  | = | Not Public  |
|  Crash Indicator                     | Not Public | Not Applicable  | = | Not Public  |

\*USE OF SMS DATA/INFORMATION

**Workers Compensation** is also affected by CSA Results!

# Workers Compensation is also affected by CSA Results!

## UNSAFE DRIVING

| Violation    | Description  | # Total Violations | # OOS Violations | Violation Weight |
|--------------|--|--------------------|------------------|------------------|
| 392.1B       | Failing to use seat belt while operating CMV                               | 31                 | 0                | 7                |
| 392.22(a)    | Failing to use hazard warning flashers                                     | 1                  | 0                | 1                |
| 392.2C       | Failure to obey traffic control device                                     | 20                 | 0                | 5                |
| 392.2FC      | Following too close  | 14                 | 0                | 5                |
| 392.2LC      | Improper lane change   | 8                  | 0                | 5                |
| 392.2LV      | Lane Restriction violation   | 11                 | 0                | 3                |
| 392.2PK      | Unlawfully parking and/or leaving vehicle in the roadway                   | 5                  | 0                | 1                |
| 392.2S       | Speeding   | 7                  | 0                | 1                |
| 392.2S       | Speeding   | 3                  | 0                | 5                |
| 392.2-SLLS2  | State/Local Laws - Speeding 6-10 miles per hour over the speed limit       | 39                 | 0                | 4                |
| 392.2-SLLS3  | State/Local Laws - Speeding 11-14 miles per hour over the speed limit      | 19                 | 0                | 7                |
| 392.2-SLLS4  | State/Local Laws - Speeding 15 or more miles per hour over the speed limit | 9                  | 0                | 10               |
| 392.2-SLLSWZ | State/Local Laws - Speeding work/construction zone                         | 9                  | 0                | 10               |
| 392.2Y       | Failure to yield right of way  | 1                  | 0                | 5                |

## Captive 101

Captive Insurance Companies are using CSA Scores as part of their admittance procedures.

High CSA scores in such a program could add a potential financial burden on membership when used to settle claims.

Remember your group is only as strong as your weakest member's CSA Scores!




















# THE REALITY CHECK

Select a BASIC below to view details

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|  Crash Indicator                     | Not Public  | Not Applicable  | Not Public  |

USE OF SMS DATA/INFORMATION


















**Satisfactory  
Safety Rating**

# THE REALITY CHECK


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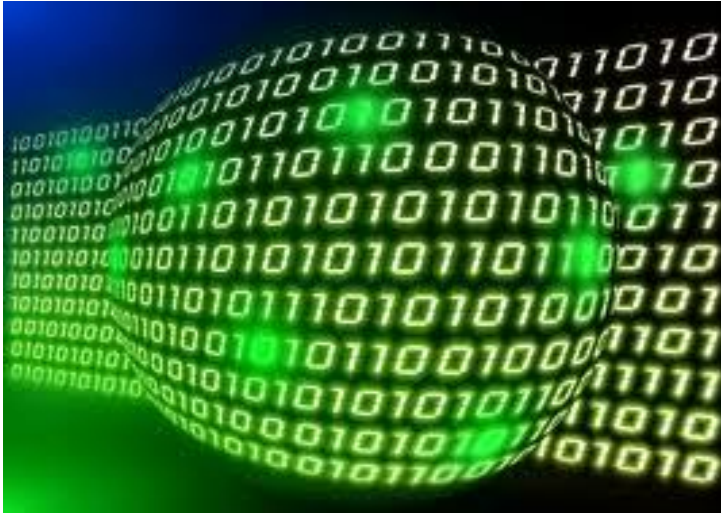
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\*USE OF SMS DATA/INFORMATION

 History

**Satisfactory  
Safety Rating**





## FUTURE TECHNOLOGY

Insurance Companies are looking at changing their predictive modeling system so that it will have stops in place that will prevent an underwriter from quoting an account with a certain number of deficiencies in CSA or negative trends

# THE CSA GAME CHANGER

More **Complexity**

New **Measurements** to worry about

Yet another “thing” to **Manage**





## The Dirty Secret:

CSA is [-] about compliance and [+] about:

- Transparency
- Accountability
- Speed of information



How will we manage **RISK** in

**THE** **FUTURE** ?



# Creating sustainability and performance beyond CSA



The 3 keys

# MANAGING RISK GOING FORWARD

## *Creating a Safety Culture*

- Effective Mitigation Must Involve the Entire Organization
- Responsibilities/Expectations Must be Clearly Defined
- All Must Be Accountable
- A Culture of Responsibility Must Begin at the Top
- Give Staff the Tools to Succeed
- Provide Ongoing Training to Foster Continuous Improvement
- Recognize Good Effort and Results



# MANAGING RISK GOING FORWARD

## Getting Operations Personnel Involved

- *Distractions are a major cause of serious accidents*
- Operations personnel are critical to success
- Driver Managers have the most contact with drivers
- They know what's inside the driver's head
- Most important link between company and drivers
- Teach all personnel how to listen to drivers
- Once the safety department is involved, it's too late



# MANAGING RISK GOING FORWARD

## *Hot Buttons for Operations Personnel*

- Talk of family problems
- Money problems
- Unexplained irritability
- Compliance issues
- Performance issues



# MANAGING RISK GOING FORWARD

## *Use What You Learn From Drivers*

- Trust your gut feeling
- Don't think a driver problem is not YOUR problem
- Know when you need to spend a little extra time with a driver
- Don't forget the family issues at home
- Create an infrastructure to address driver issues



# MANAGING RISK GOING FORWARD

## *Effectively Improving Public Data*

- Starts with the Hiring/Contracting Process
- Monitor Safety Management System Data
  - Roadside inspection reports
  - Recordable accidents
  - Carrier profile information
- Challenge Roadside Inspection Write-ups When Warranted
- Maintain a Good Working Relationship With Local DOT



# MY FINAL THOUGHTS

Use CSA as a catalyst to create:

- Transparency
- Accountability
- Speed of information





# PREDICTION

Pricing will continue to rise as Underwriters chase profit. While soft pricing continue to be driven by excess capital, eventually the current lower rates for the best carriers will rise, driven by CSA data and the need to drive profit.



# MY FINAL THOUGHTS

Now is the time to examine your Relationship with your Current Insurance Broker:

- Does your Broker have the **Resources** to help you improve your organization?
- Does your Broker have the proper **Relationships** with the Insurance Underwriting Community?
- Can your Broker **Represent** your company and tell your Story?



# CHANGE THE GAME

Make sure your **Insurance**, Risk Management and Legal teams are made up of dedicated trucking specialists who are committed to keeping up with industry changes.



Q  
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# THE IMPACT OF CSA ON YOUR INSURANCE PROGRAM

**JOHN SIMMS**  
VICE PRESIDENT