In It for the Long Haul

The market for trucking insurance, like most other insurance markets, has taken a hard left turn since 2001. Under the circumstances, it is best to know and understand what underwriters are looking for when sifting through insurance applications. Knowing what looks favorable, what looks bad and what looks just plain ugly, can be the ticket to affordable quality coverage.

One thing that has remained fairly constant over the years is the importance underwriters place on a company's financial shape. Motivated in part by concerns about the capacity of insureds to pay high deductibles, underwriters prefer to see solid financial strength. But there are other reasons too. The consensus among underwriters is that there is a correlation between financial strength and stability, and attention to detail. In other words, if you have the financial resources to pay employees more and put more into the upkeep of your fleet, you will experience fewer problems leading to fewer accidents or other types of covered claims.

It is a simple concept, but one that is complicated by some of the facts of life. Depending on your company's size and structure, your financial goals might not be in sync with what underwriters expect to see. For example, if you choose a Subchapter S corporate structure, your goal might be to show as little profit as possible - a possible red flag to an underwriter. A financial statement is a snapshot and your accountant, preferably a CPA, is not only your photographer, but your stylist as well. Look to them for recommendations about balancing your financial goals, tax strategies and the need to present your company in the best possible light.

Because financial analysis of trucking companies can be tricky, there is a company that provides the service to underwriters. Formed as a subsidiary of a Manhattan based truck insurance defense law firm in the 1970s, it uses a select grouping of key financial indicators to rate companies on a six-point scale from "Satisfactory" to "Unsatisfactory." This system is not that different from the ratings companies, such as AM Best give insurers.

How do they get financial information for trucking companies? For large, public companies like Old Dominion, this data is readily available from public financial disclosures. For privately held companies, it often comes through voluntary disclosures from trucking firms who are aware of the need to provide such data to secure coverage.

Whether you provide the financial data to your agent, the carrier, or to a third party, the quality of the financial information is as important as the quantity. A CPA audited financial statement is costly, but the best source of data because it is viewed as the most credible. An alternative to the audited statement is a CPA compilation, which follows a less rigorous standard, but is the next best thing to an audited statement. For underwriting purposes, the most important elements of the financial statement are the income statement and balance sheet. If you have no other alternative, your most recent tax return should have all the elements needed for the review.

Besides financial statements, providing complete details on your loss history is important. This might not always be easy, especially if you have been insured with a company no longer in business or that has exited the marketplace. Ask your agent for help in securing these loss runs or determining alternative formats to provide accurate information.

Insurers are also swayed by loyalty. Underwriters may reject a submission out of principle if the trucking firm has been shopping for the best price each year and continually moving around from one insurer to the next. Exceptions are granted for the obvious forced move, i.e., insurers exiting the marketplace.

Besides the above, insurers look for good safety and loss control programs, tight control of owner-operators, if applicable, and a well-maintained fleet of trucks with experienced drivers (with clean driving records). These are the elements that will invariably get you to the finish line safely and in record time year after year.