Prioritizing Fleet Risk Management to Improve your ROI and Mission Completion

This whitepaper is a follow-up to our Fleet Risk 360 finding done in partnership with Fleet Forum in 2014

For many nonprofits, fleet is the second highest expense line of their organization after salaries, but this expense line does not always receive the attention it needs. Changing this dynamic can have positive repercussions on a financial, operational, and reputational level, with a significant return on investment for the organization. As fleet is mission critical to nonprofit organizations for delivering programs, fleet solution should be a top priority, of which managing risk is an important component.

There are many elements, however, to a risk management approach and certainly one size does not fit all. There is an increasing trend in larger organization towards self-insurance to not only minimize premium costs, but also volatility. Self-insurance is usually mixed within a hybrid model that addresses needs across different types of financial risk with an ultimate goal of saving money for the organization.

The goal of this whitepaper (a follow-up to the Fleet Risk 360 Findings) is to highlight areas that require significant consideration when looking to improve fleet risk management and reduce overall costs and initiate an internal review on these key questions:

- How should an organization centralize fleet management processes and procedures and risk management (i.e. insurance) from field office level?
- Should an organization consider self-insurance?
- What are the operational hurdles to self-insurance from claims management to beyond?

Consider Centralizing Fleet Management Processes and Procedures

Many fleets had traditionally looked at a decentralized approach to fleets generally. Operational procedures, maintenance, and insurance were all managed at the field office level. Some offices have strong driver policies in place, standardized maintenance schedules in place, and quality insurance coverage policies with experienced local carriers. At the other end of the spectrum, there might be a field office in a high risk country, where local insurance markets are nascent, and maintenance and driver management are an afterthought.

"Generally if fleet costs (procurement, operational, and maintenance) are over 20% of overall budgetary costs and/or the organization has over 100 vehicles, it should start thinking about what pieces of the fleet puzzle to centralize for better economies of scale," explained Smita Malik, Assistant Vice President of Programs and Special Risks.

One piece of this is safe vehicles and safe drivers. While this paper is not meant to be a comprehensive view on these topics, fleet operational processes will have a large implication on total program costs and essentially the insurability of a program.

Essential elements of a safe vehicle program include:

- Repairs & maintenance
- Right vehicle for the tasks performed& standardization of makes and models
- Appropriate equipment affixed within/ upon the vehicles, including communication devices and GPS tracking and racks/ towing equipment.

Many fleets audited by Clements Worldwide, often in poorest areas, have fleets with an average age of 7-10 years with some vehicles over 10 years. This presents a true safety risk and will affect insurance plans as physical damage coverage should not be included for these vehicles – some organizations may now be paying to insure items of little or no value. Similarly vehicles with GPS tracking will offer lower premium options for theft.

Essential elements of a safe driver program include:

- Driver training for on & off road, evasive driving, and by vehicle type
- Permitted uses such as hours of operations, including no night or weekend driving, and permitted & prohibited passenger/cargo
- Policy enforcement including 1 strike policy for intoxicated driving and no "bonuses" for no claims
- General first aid training

A personal accident cover is really a necessity if an organization frequently drives customers in its vehicles, so driver policies will have an effect on coverage types. Alternatively, improving policy enforcement, such as hours of operation for vehicles, may reduce the severity and frequency of claims, which will affect premium in a full insurance option or necessary reserves in a self-insurance option.

Risk management will live alongside other policies for safe vehicle and driver management. After you begin to centralize some of these policies and get a better benchmark of performance, an organization should outline its fleet risks and look at the variety of fleet risk mitigation strategies available to determine if there are better ways to manage financial security.

What is Self-Insurance vs. Full Coverage?

In the typical full coverage insurance model, a company transfers risks for events that could have negative financial impacts if they occur. The company pays a premium for a certain amount of coverage from a third party based on a well-defined set of what is covered, i.e. included vs. excluded, and there is a defined operational policy as to how to submit claims to this third party, how those claims will be adjudicated, and how reimbursement will occur.

Self-insurance is another risk management tool, in which a calculated amount of money is set aside by the organization itself to compensate for the potential future loss. Self-insurance is possible for any insurable risk, meaning a risk that is predictable and measurable enough in the aggregate to be able to estimate the amount that needs to be set aside to pay for future uncertain losses. This methodology requires a well-defined set of what is covered and how claims can be made and paid.

“An important first distinction is that self-insurance definitely does not mean no insurance,” explained Malik. “A comprehensive operational process is required if a company pursues a self-insurance option.”

After reviewing different types of insurance financial risk from this white paper, you will be more equipped to address some of the operational requirements of a self-insurance arrangement.

Transfer of Financial Risk

Liability Coverage

While an organization needs to consider each country where it operates, it is a safe to assume that most countries require local liability coverage, purchased via local carriers. With liability coverage, licensed drivers are covered for liability resulting from bodily injury and/or property damage to others. Often, third party liability insurance coverage policies purchased through local providers do not provide an adequate level of coverage for organizations. That means in case of an accident where there is liability exposure, basic local currency coverage most likely will be insufficient to settle all claims. To eliminate such a potential gap in coverage, supplemental excess liability insurance may add to peace of mind.

Even when companies are looking at self-insurance, liability, particularly excess liability, is maintained in full service mode. Since it often includes bodily injury to others, there is a lot of variability in frequency and size of claims, and the amounts of payments could become very large, making it difficult to fund for in reserves.

Comprehensive Physical Damage

A physical damage insurance coverage policy can provide coverage for all vehicles in an organization’s fleet, including motorcycles, trucks and SUVs. This protection extends to physical damage, regardless of whether the vehicle was

in a collision or was parked when the damage was sustained, and protects against theft, collision, glass breakage and other physical perils for the vehicle. In a full insurance model, deductible are usually included to cover small losses, which typically results in lower premiums.

All vehicles should be insured for any physical damage exceeding their true value, or the local resale value. Therefore, the total cost of insuring your fleet with full insurance is based on the overall monetary value of your fleet. The same will be true for political violence coverage below, which directly relates to the monetary value of the fleet asset.

As highlighted above, however, many nonprofits maintain vehicles that have been depreciated beyond their useful life. These vehicles should not be insured for physical damage as it essentially makes no financial sense to pay these premiums, but they will still need liability coverage. If an accident occurs these should be posted for sale as-is. Given that a vehicle has effectively a value of $0, any amount earned would be a benefit.

When an organization considers self-insurance, it is typically for physical damage. Due to the size of the portfolio of vehicles and the volatility of countries, this arrangement could be more cost-effective than traditional insurance over multiple years, when claims activity could ebb and flow between years affecting insurance premiums.

Political Violence Cover

The coverages highlighted here typically have exclusions to cover high risk perils such as war & civil war, terrorism, strikes, riots, civil commotion, and insurrection, etc. Insurance coverage policies can be extended to cover these risks which typically have a high frequency of large losses, such as a multi-vehicle abandonment if war escalates in an area.

Personal Accident Cover

A Personal accident insurance coverage policy provides financial support should an unforeseen event involving a vehicle result in death or disability to employees, third party passengers, or drivers. It provides a no fault accidental death and dismemberment benefit to anyone in the vehicle, including staff, partners, or third party local nationals. As referenced above under driver policies, if vehicles are authorized to be used to drive others, including customers, an organization should consider a personal accident cover. Similar to liability coverage, given the volatility of frequency and size of claims, this type of coverage would typically be maintained as a full service insurance coverage policy.

The most important thing to remember is that the goal of any of these risk management transfer mechanisms is to protect the firm from unforeseen losses at the most efficient cost. The by-product of many risk management tools is that they can provide valuable information to help lower the severity and frequency of unforeseen events, which have a compounding positive financial benefit.

Why Self-Insure& Operational Implications

First and foremost, in order to be compliant with all local laws and to register vehicles within the various countries where an organization operates, all minimum compulsory insurance requirements must be maintained.

Ultimately the reason for self-insurance is to save an organization money on fleet risk management overall. “In order to make that determination, an organization needs to consider the premium costs vs reserves that would be necessary for self-insurance and all the operational costs to determine the optimal method for that individual organization,” explains Malik.

As described above, an organization with a self-insurance plan would put together a set of terms and conditions as to what would be covered and set-up a pool of shared funds to cover those expenses. Implementing a self-insurance program requires significant organizational commitment. The organization needs to develop insurance coverage policy parameters, educate others throughout the organization on these parameters, and then adjudicate claims prudently. Field offices need to be compliant with the program in order for it to be successful.

Common Terms & Conditions, Oversight, and Building Claims History

To build the claims history, an organization should standardize coverage for physical damage claims, whether insurance is sourced at the field level or centrally. A coverage outline should include documenting determinations around what causes of loss are covered, excluded, positions towards wear and tear, etc.

All insurance coverage policies should be reviewed centrally before renewed and copies of insurance coverage policies should be maintained at HQ to ensure no gaps in coverage. All claims should also be submitted to HQ and a database of all losses should be included. The organization should not award “no claims” bonuses to staff or drivers. Even the smallest claims should be reported to build the claims database to determine actual losses over a defined period. At the end of this period, the organization should have a better subset of data to explore self-insurance.

While liability claims must still be submitted locally to maximize returns on insurance coverage policies, all liability claims should also be sent to HQ for addition to the database and potentially for coverage under the excess liability insurance coverage policy. Companies should review local insurance coverage policies to determine the best deductibles and coverage limits for an excess liability policy. Many companies often don’t know their local liability limits and set a threshold for their excess liability policy that is too high. For example, the excess liability policy may have a deductible of $50,000 for each claim, but some local insurance coverage policy limits are much smaller, creating a potential gap in coverage. In this case, or if there is no local policy requirements, drop-down provisions may be required.

Furthermore, any salvage possible on total loss or written-off vehicles from age, should also be included in the database. These can be auctioned off and ultimately they should be part of the total budget package.

A good fleet management IT system, such as Fleet Wave or Kerridge, will provide an additional layer of oversight to understand overall costs and potential claims. These systems will provide visibility to fleet usage locally, maintenance, accidents, etc. which is all important to an overall fleet management strategy.

Claims Management

Good claims management review at a central level in a full insurance program can be instrumental to providing insight on procedures around claims management in a self-insurance environment. Self-insurance options exist on how to handle claims – via outsourcing to a third party claims manager or to develop internally of the necessary skill sets. Even if the organization chooses to outsource actual claims management, it will need to create an internal department to manage the self-insurance program and should expect some growing pains in the first years.

The claims processes will comply with published terms and conditions, so it is clear why a particular claim was approved or denied. This will help to run the program in a disciplined and cost-effective manner. Claim notice documentation must be developed and distributed to the field offices, which will explain how to submit claims including supporting documentation that will be required for a claim (including proof of loss and related evidence such as photos, police reports, etc.), and timeframe for adjudication and payment. Guidance on treatment of salvage and fast repairs is also necessary. Training will be a critical component to rolling out claims management procedures.

If the process is outsourced to a third party, escalation procedures should still be put in place for escalations with substantial losses above an agreed upon threshold or losses with liability that may or may not be covered by a fully insured excess liability insurance coverage policy.

Calculating a Reserve

“Typically organizations will set aside claims for 2 average years of claims,” explains Malik. “Organizations need to understand that claims history to build reserves, and that is a complicated process.” Analyzing locations of vehicles, peer data, and any existing claims data built can help to build up a reserve calculation.

Another approach to gain data would be to utilize traditional insurance through a third party for a period of up to three years, as described above. “This will help build a claims history under proposed coverage parameters,” explained Malik. “This may differ from previous experience with local carriers and non-centralized procedures.”

“Moving to central insurance from local insurance coverage policies may feel expensive at first,” continued Malik. “So this is why we work with organizations to think through the progression from full insurance, to self-insuring some elements of the business, and then to using the data for self-improvement and cost control. A CFO is going to want to see this plan to know that the ultimate goal is cost containment or reduction.”

Sources of Funding

Many organizations will question how to build up a claims reserve given typical funding constraints at a nonprofit. Although this is a challenge, it needs to be balanced against the actual costs seen each year.

Generally funding can come from two sources: chargebacks to field offices and corporate resources.

A chargeback model can charge a per-vehicle cost with costs ranging at low ends for motorcycles and mopeds, to cars and SUVs, and then the highest costs for lorries or trucks. Alternatively, a percentage rate could be charged, based on the vehicle category. The important factor is ensuring enough premium is collected per vehicle and that the field offices are fairly contributing to the insurance fund. Overfunding on the front-end would permit the organization to adjust rates downward after a period. As a claim history is built over time, different charges may apply based on a standard risk registry for a country, i.e. high risk countries pay a higher risk premium.

Depending on the organizational culture, an organization may decide that some of the reserves need to come from a corporate fund up-front to build the reserves in a way that is not too onerous on the field offices. If this is required, it really should only be allowed as an extremely short-term solution until the chargeback model can be fully implemented.

Catastrophic Stop Losses, Excess Liability Coverage, and High Risk Vehicles in High Risk Areas

As stated above, there may be certain risks that are less routine. Keeping reserves to account for these risks may be cost prohibitive due to the volatile nature of the losses.

Stop Loss

Catastrophic stop loss insurance is a backstop insurance coverage policy that can be structured in various ways to put financial caps on exposure. Some of the options for stop loss insurance coverage policies include:

- A political violence only insurance coverage policy which will protect against war, terrorism, strikes, riots, civil commotion with subsequent looting, etc. These perils tend to cause catastrophic loss.
- A political risk insurance coverage policy to protect against confiscation, forced abandonment, expropriation, nationalization, etc. When these events occur, they tend to impact multiple vehicles and hence represent catastrophic loss.
- The stop loss can be set as a limit threshold for an annual aggregate over which the stop loss policy responds to any physical damage or political violence claim.
- Alternatively, it can be set as a limit threshold per event. If a claim crosses the per event limit, then the stop loss is triggered.

Excess Liability

Excess auto liability or subsidiary third party liability coverage would particularly address if there were accidents with a loss of life. Predicting the payout of such an event is difficult, making it challenging to plan for with reserves. Therefore, many companies will choose to leave their fleet liability insurance coverage policy, just like other corporate liability insurance coverage policies, fully insured. This can be purchased as a group cover sitting over all locations/vehicles with drop-down provisions with differences in conditions or limits coverage, as highlighted above.

Finally, vehicles carrying valuable cargo in high risk areas will present a unique risk. As an organization considers distributing risk across field offices, it will be hard to balance these risks, perhaps of bringing food to refugees in a war zone like Syria, against any other risks. Therefore, certain classes of vehicles such as armored vehicles or ambulances may require either special consideration or full insurance.

Loss Minimization

One of the key reasons to commit to an improved fleet insurance program, whether it be via self-insurance or full insurance, is so that you can review and manage claims for trends that could be avoided in the future to lower losses. The goal is to not only reduce the incidence of claims, but also the severity of claims. As a result, regular reporting and review with the risk management team should be carried out to develop risk mitigation recommendations. Mitigating risks from an operational perspective reduces costs, plain and simple. Reports should capture claim frequency, severity, covered vs uncovered losses, trends and concentration of risk with triangulation of the geographic origin of claims, types of losses, and the period of time in which they occur. Through this strategic approach, you will be able to identify patterns and trends that could potentially reduce the incidence of claims and their severity. The work upfront to create the procedures and reporting can be costly, but will save the organization much more in the future.

Over time risk management practices will ensure the soundness of the financial reserves set aside and can create a risk culture throughout a nonprofit's fleet operations at all organizational levels. Although many organizations may believe that certain issues, such as driver training, are a key element of loss, they may find that the data tells a different story. As every organization is different, only that organization's claim data can assist it in managing forward to lower costs.

Conclusion

Many other elements of fleet management may play into the overall success of an organization's risk management plans, such as fleet disposal, fleet tracking, and maintenance processes and expenses. Insuring risk is just one part of a comprehensive fleet plan.

As stated in the introduction, deciding to re-evaluate a fleet risk management strategy for organizations has many components and can be very complex. By reviewing this white paper, you will be equipped to determine the full scope and key areas of consideration for your organization and determine the best approach to these challenges. See Appendix A for the basic data collection requirements when performing a fleet risk management assessment. If you wish to participate in a workshop at Fleet Forum to conduct an initial, basic risk assessment, please collect this data and bring it to the interactive workshop.

About Clements Worldwide

Clements Worldwide is a leading insurance provider for expatriates and international organizations. Founded in 1947, Clements offers international car, property, term life, health, specialty and high-risk insurance in over 170 countries. With offices in Washington, D.C., London, and Dubai, Clements delivers comprehensive coverage, superior customer service, and unparalleled claims response. To learn more and quote online, visit www.clements.com.

Appendix A - Data Collection Required for Initial Fleet Management Risk Assessment

a. Complete Vehicle List based on location - make, model, year, value, armored, seating capacity, VIN number, registration / plate number

b. Logistics on garaging location: locations/ cities, security parameters and procedures at each facility, number of vehicles at each location/ site and maximum number allowed at each location/ site

c. Loss details/ claims with as much specificity as possible including dollar amounts and age of vehicles for at least past 3 years claims: damage, total losses, theft, fatalities , injuries

d. Any procedures regarding vehicle age: are vehicles older than 5 years phased out, how are older vehicles amortized from a finance perspective, are older vehicles insured

e. Armored vehicles: are there any armored vehicles in the fleet and are there any special procedures for their security/ management

f. GPS tracking: what % of vehicles have GPS tracking; what are any management policies regarding which vehicles to install GPS tracking

g. Additional details on injuries and fatalities: any information on any injuries or fatalities associated with the fleet including passengers, drivers and third parties

Notes

Global Headquarters
One Thomas Cir, NW 8th Floor
Washington, DC 20005
P: +1.800.872.0067 or +1.202.872.0060

London, UK
40 Lime Street
London, UK EC3M 7AW
P: +44 (0) 33 0099 0104

Dubai, UAE
The Gate Precinct
Building 3 - DIFC
Level 5, Office 509
PO Box 30613
P: +971 (0)4 375 4758

www.clements.com
info@clements.com