

## Motor insurance premiums increase at rapid rate for fleets

Motor insurance premiums are increasing at a rapid rate, not just for fleets with substantial losses, but also, to some degree, for fleets with an excellent claims history. So says TCOPlus, part of the Fleet Business Unit at Fleet Logistics, which offers advice for countering the rises.

There are three main drivers behind the increase in the total cost of insurance, says TCOPlus.

1. **Capital requirements:** the immediate trigger for the premium increases are the Solvency 2 regulations. Solvency2 is the insurance equivalent of Basl2 and requires insurers to maintain 50%-100% more capital in low yield assets. To maintain their return on equity, insurers must either increase premiums must or reduce the motor insurance business line.
2. **Costs of bodily injury:** life expectancy is increasing and therefore costs have to increase in recognition of the fact that a person may need lifelong care and support due to a car accident related injury. Advances in medical science mean more treatment options which also increases the costs of bodily injury claims.
3. **More complicated car technology:** with alternative power trains and more advanced computers, the cost of spare parts is increasing, as well as the cost of equipment to perform repairs. Also, the cost of labor has increased due to training and expertise requirements that are specific to individual makes and models.

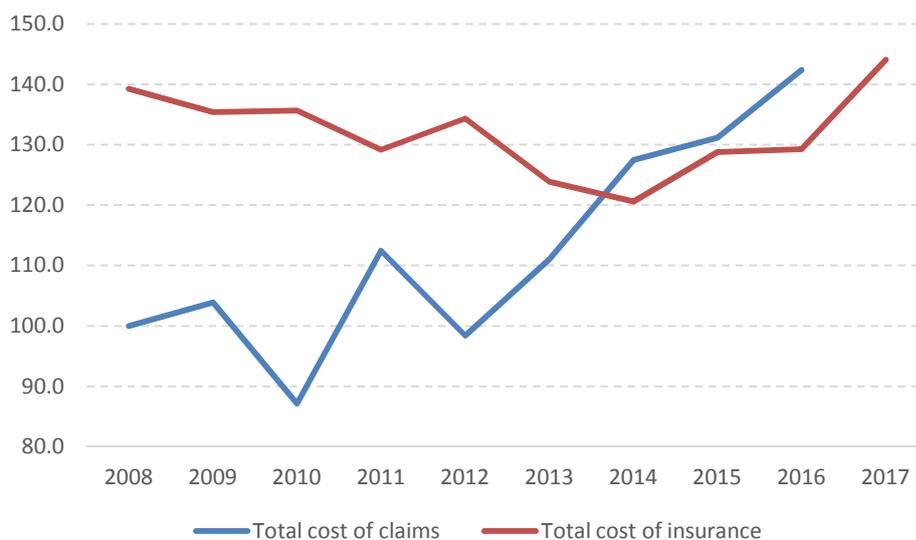
These long term trends have led to significant premium increases and are expected to continue to rise beyond 2017.

Headlines announcing sharp rises in insurance premiums began to appear around the middle of last year. In one country, premium increases were the highest ever recorded; an increase of 5% in a single month in another country and annual increases up to 30% in a third country.

Our benchmark database enables us to track the development of the total cost of claims and total cost of insurance over time per country, aimed specifically at the business segment. We have seen an increasing trend in the total cost of insurance, with individual companies receiving premium increases up to 100%. The increases vary per country but in general we see an increase in excess of 10%.

The 10 year trend in the graph below shows a steady increase in total cost of claims, while insurers only began to adjust for this from around 2015. This suggests further premium increases can still be expected.

Graph: multi year trend total cost of claims and total cost of insurance



- **Sample:** 500.000 vehicles used for business purposes in Europe.
- **Total cost of claims:** total financial cost of the claim, regardless of who pays for the claim (either fleet owner as deductible, insurer under the policy or reinsurer in case of catastrophic events).
- **Total cost of insurance:** total financial cost of insurance to the fleet owner, regardless of how the insurance is structured. Total cost of insurance includes deductibles paid, taxes, broker fee, insurance premium, stop loss contribution

As the trends that caused these premium increases are not likely to diminish, we expect that premiums will continue to rise and that a price war is much less likely to happen.

We have come across a wide range of measures that are generally considered to be effective in reducing cost of claims. However, we have found that not all of these measures are successful for fleet owners in practice.

- **Big data:** With the internet and smartphones, the ability to collect data about risk profiles, accidents has been increased exponentially. However, this information is in most cases not actively used by suppliers or insurers to better understand the root causes of accidents and to implement policies to prevent or reduce claims costs.
- **Safety programs:** Employers and suppliers increasingly have implemented health and safety programs, while telematics are now commonly used in commercial haulage companies. However, privacy and data protection concerns are still considered a major hurdle for the adoption of programs.
- **Driver assistance:** Vehicles are increasingly equipped with driver assistance tools – ABS, parking sensors etc. However, there is no clear evidence that these lead to lower claims costs!

We have worked with many fleet owners in more than 30 countries with fleet sizes ranging from 500 -50,000 vehicles across very diverse industries. What we discovered was that the companies with the lowest claims costs shared the following characteristics.

#### Characteristics of fleets with lower premiums

- **Awareness of the trends driving premium increases:** which allows the company to perform an insurance tender in a timely manner and lock in a premium levels for a multi-year period or move to self-insurance in case premium reach a unacceptable level

- A clear insight into the current situation and, in particular, how claims, premiums and terms compare versus benchmark of peers.
- The correct adoption of cost reduction initiatives: the most successful cost reduction exercises are strongly supported at senior executive level and are integrated in the day-today practice of the business, and ultimately are linked to the overall performance evaluation of staff.

#### Our solutions

TCOPlus and FleetVision work together with FleetInsurancePlus, an expert in international fleet insurance, and can offer:

- Benchmarking of total cost of claims and total cost of insurance to understand the financial threat or opportunity. Our benchmark database covers 30 countries and included in excess of 3m claims and vehicles. This enables our clients to get an objective insight how their claims and premiums compare to the market.
- Alternative risk finance structure to reduce frictional costs and overheads from a market average of 45% to a best practice level of 20% of the total cost of insurance. We support clients in unbundling insurance from a lease contract, implementation of own-damage self insurance, captive programs and alternative structures such as stop loss or high deductible structures.
- Dashboard reporting: our reporting tools integrate data from all suppliers and countries and present the information in a standardized, supplier independent manner. This reporting provides full transparency and control to ensure the total cost of insurance stays in line with the expected costs
- Driver awareness program: in partnership with Fleet&DriverCare we provide integrated safety programs aimed to involve drivers in the cost of insurance. These programs consist of communication campaigns, driver assessment and online training, a driver

assistance app and personal communication to drivers regarding performance against a benchmark of their peers.

For further information regarding the above or our advisory services please contact: Bart Vanham, TCOPlus, at email: [bvanham@tcoplus.com](mailto:bvanham@tcoplus.com) or call +31623441547

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