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Minimum Financial Responsibility Requirements: What are the Real Costs?

According to FMCSA, there are approximately 288,000 general freight carriers subject to federal liability insurance requirements operating more than 2.8 million power units[1] - 246,000 of those carriers are subject to the $750,000 liability insurance minimum requirement.[2] 98% of those carriers have liability insurance policies of at least $1 million due to current market demands. The average annual premium for most small trucking companies ranges between $11,000 and $20,000.

Raising the insurance minimums will not impact the mega-carriers who are advocating for this increase. However, it will greatly affect small businesses and owner-operators who are vital to the trucking industry and among the safest drivers on the road. OOIDA's average member has twenty years of experience and over 2 million accident-free miles. Raising insurance premiums will actual detract from safety as small businesses will not be able to compete.

Without a complex analysis of risk exposure and capitalization, it is difficult to calculate how much an increase in financial responsibility requirements will affect the industry. Basic research and conservative estimates show that just a 5% increase in premiums per power unit will add approximately $1.5 billion to $2.8 billion in costs to the trucking industry. Other estimates point to premiums increasing by as much as a factor of four – to $20,000 or more per truck.

It is doubtful that insurers have enough capacity to provide coverage at higher minimums. David Golden, senior director of commercial lines for the Property Casualty Insurers Association of America states, "Insurance capacity is finite. There is only so much capacity out there… The free market does a good job of determining the appropriate level of insurance and the appropriate rates, and does this regardless of the financial responsibility requirements that the government sets.[3]"

Although the minimum liability rates have not changed since 1980, 99.9% of the damages associated with truck accidents fall under existing liability requirements. A FMCSA commissioned report released by the John A. Volpe Transportation Center concluded that "most crashes result in small costs: and the average is around $18,000,[4]" which is well below the current required minimum. Volpe noted, "The average cost of a crash has increased in the past 30 years**,** but it has been more than offset by a reduction in crash frequency.[5]" Volpe found that "truck-involved fatalities have dropped by 44 percent

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[1] Hymel et al., *Financial Responsibility Requirements for Commercial Motor Vehicles,* Volpe (Nov 2012), pg. 26.

[2] The remaining carriers are subject to higher regulatory insurance requirements of $1,000,000-$5,000,000 due to the type of freight that they haul (oil, hazardous materials).

[3] A.D. Postal, "Debate Rages Over Minimum Insurance Standards," Property Casualty 360

[4] *Financial Responsibility Requirements for Commercial Motor Vehicles*, pg. 20

[5] Ibid., pg. 16

since 1980 while VMT has increased by 180 percent and the number of registered trucks has increased by 30 percent.[6]"

Premium rate increase	Average premium per power unit	Total premium cost†	Increase in premium cost	Average premium per power unit	Total premium cost†	Increase in premium cost
Baseline	$10,781	$30,537,484,368	$ -	$20,111	$56,964,970,608	$ -
5%	$11,320	$32,064,358,586	$1,526,874,218	$21,117	$59,813,219,138	$2,848,248,530
10%	$11,859	$33,591,232,805	$3,053,748,437	$22,122	$62,661,467,669	$5,696,497,061
20%	$12,937	$36,644,981,242	$6,107,496,874	$24,133	$68,357,964,730	$11,392,994,122
30%	$14,015	$39,698,729,678	$9,161,245,310	$26,144	$74,054,461,790	$17,089,491,182
40%	$15,093	$42,752,478,115	$12,214,993,747	$28,155	$79,750,958,851	$22,785,988,243
50%	$16,172	$45,806,226,552	$15,268,742,184	$30,167	$85,447,455,912	$28,482,485,304

† Based on 2,832,528 power units

Because only 0.06 percent of crashes actually exceed the current minimum requirements, proponents of increasing the minimums often cite rising medical costs as a rationale. However, Congress did not point to inflation as any sort of basis for setting or calculating financial responsibility requirements. Section 30 of the Motor Carrier Act specifically highlights the need to consider the impact of financial responsibility requirements on "the safety of motor vehicle transportation, the economic condition of the motor carrier industry (including, but not limited to, small and minority motor carriers and independent owner-operators), and the ability of the insurance industry to provide the designated coverage." (Sec. 30, PL 96-296, 94 Stat. 822).

Raising insurance premiums will not address the less than 1% of accidents where the damages exceed existing levels. Allowing an Agency charged with the task of safety to control insurance premiums will actually cause highways to become less safe as many small business will be driven from the trucking industry altogether. Ultimately, Volpe's report found the following:

> **(1)** The actual number of crashes and the costs of those crashes that exceed present limits are unknown. **(2)** There is no right answer. **(3)** Crashes are rare events. **(4)** Other insurance or assets often cover the few crashes exceeding the minimum limits. **(5)** The costs of crashes has increased but it has been more than offset by a reduction in crash frequency. **(6)** The average cost of a claim is $18,000. **(7)** There is no way to set an upward bound liability because some crashes will always fall outside the bounds. **(8)** Any effort to turn costs into dollars may have bias, distortions, omissions, imprecision, and other weaknesses and errors. **(9)** Current strategies to reduce crashes are clearly working judging by the steady decline in crash frequency since 1980. **(10)** There is no certainty that higher liability requirements will cause insurers to be even more diligent. And **(11)** other strategies for reducing crashes may be more effective and at a lower cost.

[6] *Ibid*, pg 15.

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