

An aerial view of a city street with various telematics icons overlaid, including a car with sensor waves, a speedometer showing 60 km/h, a 100m distance marker, and a car with a Wi-Fi symbol. The background is a blue-tinted aerial photograph of a city street with buildings and traffic.

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A DIVISION OF EPIC

## Telematics for Engineering Firms

*What Are The Insurance Premium Savings?*

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## *What are the Insurance Premium Savings?*

A question often asked by clients considering implementation of telematics technology is how much insurance premium savings they will get upfront to offset the cost of implementation. Unfortunately, the answer is not a simple one and varies by insurer. Most underwriters pricing Commercial Auto Liability and Excess/Umbrella Liability agree that insureds need to demonstrate an improved loss history over time that correlates with the proper use of telematics data before premium credits are considered. This report summarizes insurer positions and provides a guide to the proper implementation and utilization of telematics data to improve loss experience.

Increased frequency and severity of nuclear auto liability verdicts, defined as jury awards in excess of \$10 million, have shaken businesses and insurance companies over the past five years. Even though these claims most often involve trucking and transportation companies, the construction industry is not immune and has seen a significant uptick in auto losses.

In an insurance marketplace that continues to harden particularly for Commercial Auto Liability and Excess/Umbrella Liability, how can engineering firms with both large and small fleets of vehicles differentiate and have more control over current and future cost of insurance? Is telematics the ultimate answer?



## What is Telematics?

Telematics is the integrated use of telecommunications and information processed by computer systems. The increased capacity of telecommunications networks and the raw power of the internet's cloud fueled the adoption of telematics in recent years.

IBISWorld reported that there are 316 Fleet Telematics Systems businesses in the US as of 2021, an increase of 19% from 2020. The number of businesses in the Fleet Telematics Systems industry in the US has grown about 20% per year on average over the five years between 2016 and 2021.

Nationwide's latest Agent Authority survey revealed that four out of ten construction firms are currently utilizing telematics. The overall market size of the fleet telematics systems industry in the US measured in revenue is \$6.6B in 2021 with significant growth expected in the next five years.

Telematic features are expanding and often include the following menu of options to choose:

- GPS fleet tracking
- Equipment and asset tracking
- Electronic logging device (ELD)
- Dashcam
- Dispatch and scheduling
- Proof of delivery
- Roadside assistance

One of the most valuable features is the visibility of vehicles that comes with GPS tracking. Knowing the whereabouts of each vehicle by monitoring the movement and location during business and after hours is a great benefit for engineering firms looking to maximize use of the vehicle fleet. Other important benefits include reduced maintenance and fuel costs, ELD compliance, and use of data to improve employees' driving habits.

## Implementing Telematics: A Client's Perspective

One of our clients recently finished the implementation of telematics on close to 900 vehicles. Their fleet of vehicles drive 32 million miles per year. Understanding that auto liability exposure with a fleet of this size represents the single largest risk exposure the firm faces every day. Consequently, our client asked for our assistance in evaluating telematic options and features to purchase.

Before going through full implementation, our client decided to start a pilot program. A selected group of thirty drivers and vehicles from different regions was chosen. Drivers' behavior started to show improvement about a month after the pilot started. Initially, there were a significant number of alerts due to speeding and harsh braking or acceleration events. Another challenge encountered during the pilot was that most employees were concerned about being tacked after hours when driving company vehicles for personal use.

After four months in the pilot program, our client moved to full implementation and has experienced exceptional results. Speeding, incidents, and harsh braking or acceleration alerts dropped a staggering 90% within a year following the company-wide execution of the program.

A key reason for this success was the consistent enforcement of fleet safety protocols and proper use of the telematics data. Employees now have driving safety scores with financial rewards tied to it, have access to training with individual coaching sessions as often as needed, and understand that driving safely is a core component in their scope of employment.

## **What About Insurers? Telematics and Pricing Considerations**

A key role of an insurance broker is to understand the insurers' underwriting appetite and position on telematics to be able to negotiate the best results on behalf of clients.

Increased frequency and severity of nuclear auto verdicts and social inflation have had a significant impact on auto and excess liability premiums. Commercial auto liability rates have been on the rise for the past five years averaging 10 to 15% annual increases. Not a surprise, but Excess/Umbrella Liability losses started to pile up and significant rate increases began two years ago. According to The Council of Insurance Agents & Brokers Commercial Property & Casualty Market Report Q1 2021, Excess/Umbrella results show an average of 20% rate increases while Auto Liability rate increases were closer to 10%.

We interviewed underwriters of major insurance companies writing Commercial Auto Liability and Excess/Umbrella Liability about their view on telematics. Here are some of the highlights:

*“Telematics definitely makes a difference when I am looking at an auto exposure. I always like to see a fleet safety program in place, but telematics as part of that program is a major plus.”*

*“Telematics only matters if the insured can demonstrate how they are utilizing the telematics with their employees. Reviewing the findings monthly, actively using the data, holding them accountable and having a discipline plan in place. Just simply having telematics in place doesn’t do much in our eyes unless the insured is using it in a meaningful way. We have seen accounts with telematics perform very poorly and some perform very well.”*

*“Telematics are always a positive risk characteristic, and our company does take that into account when we review a risk. The challenge with telematics is whether the risk is actually ‘using’ the data they receive from telematics. We also look to see if the entire company management is fully engaged in using telematics data.”*

*“We are finding that risks will have access to the data, but not actually use it to improve their fleet safety, driver’s list, or maintenance of their vehicles. As a result, we evaluate how the data from telematics is actually implemented when we review a risk.”*

*“Doing telematics on paper is not good enough for getting insurance credit. Data improvement and correlation needs to be shown. Don’t implement use of dashcam until driver behavior is improved.”*

*“Telematics, especially with video recording, can help reduce claim volume in multiple ways. Most accidents are rear end collision or sideswipe/intersection accidents. Fraudulent claims can be reduced, employee driver generally feels the need to pay closer attention, and a dispute over who ran the red light or made a lane change causing an accident can be greatly reduced (if employee is driving properly)”*



## How Can We Help You Implement a Telematics Program?

There are numerous options and vendors selling telematics. Your insurance broker should guide you through each step in the evaluation process including:

- Help you set goals and identify your needs
- Research providers and engage risk control resources available from your broker and insurers
- Demo finalists before selecting the option that best fits your needs
- Select the telematic features you are interested in (GPS tracking, ELD, dashcam, etc.)
- Develop a pilot program before full implementation
- Help your firm differentiate your risk profile from peers in the insurance marketplace.

We recommend that firms with small and large fleet of vehicles consider telematics. If done correctly, we believe the benefits outweigh the challenges of execution of a program and technology cost. A strong return on investment (ROI) should be realized short term after implementation of telematics due to improved fuel economy, reduced vehicle maintenance costs, increased productivity, and enhanced safety.

A cultural shift needs to happen where employees understand that driving safely is a core component of their work. For telematics to be successful, the company leadership needs to be fully engaged, monitor and enforce acceptable performance of employee's driving behaviors, and periodically review the effectiveness of the program.

Telematics is certainly a tool that can help your firm mitigate risk and set you apart for more favorable and stable insurance premiums.

## Other Collision Prevention Technology

Greyling/EPIC signed a partnership agreement with Mobileye, a company that specializes in advanced driver assist systems such as lane departure and forward collision warning. These systems are designed to make a driver better in real-time by preventing collisions. In our experience, the implementation of this technology drastically reduced our client's collision involvement and virtually eliminated at-fault collisions. This product should be considered by firms with fleet size of 20 vehicles or more.

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