The Economic Benefits of Safety: A Discussion Paper

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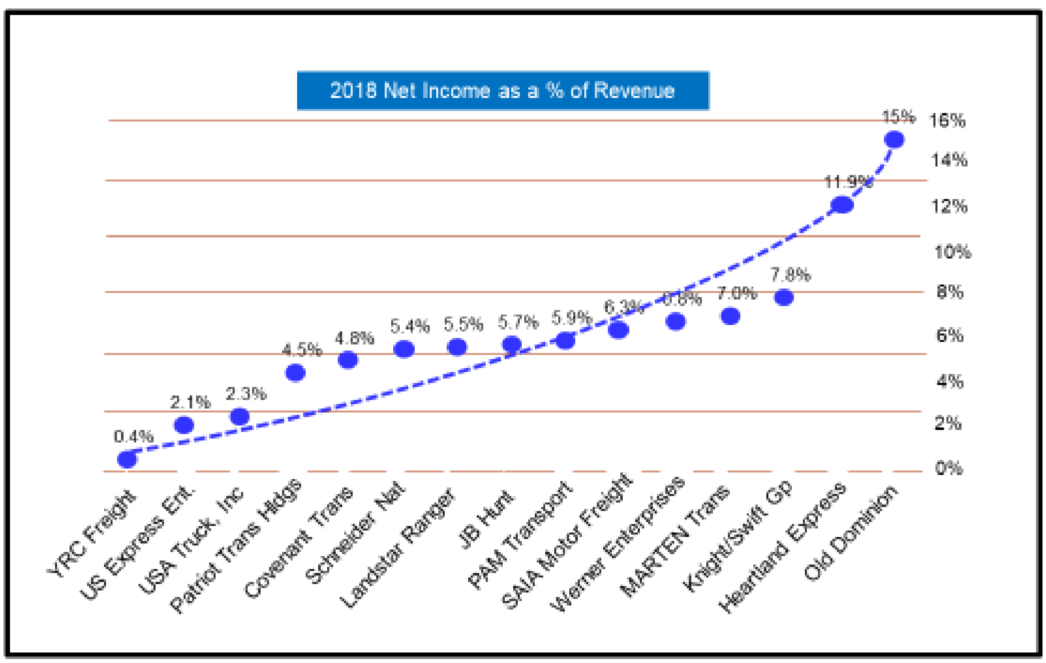
During a Webinar on Developing a Safety Culture presented by Don Osterberg[1], Don made the following comment: ***"Safety can be viewed through both a moral lens and an economic lens. In the end, the view is the same."***

The recently released study on the Impact of Nuclear Verdicts on the trucking industry points out that the industry is facing some huge headwinds this year and next as insurance carriers adjust premiums to accommodate these huge financial awards. To mitigate the coming increases in premiums, and in some cases to even get a renewal, Michael Nischan (VP EPIC Insurance Brokers) recommended that companies become **obsessed with safety**[2]. That raises concern that costs are going to increase as the industry adopts new safety technologies.

The goal of this paper is to illustrate in quantitative terms that the feared increases in costs related to safety will instead, result in improved profitability. The first step in our analysis was to gather



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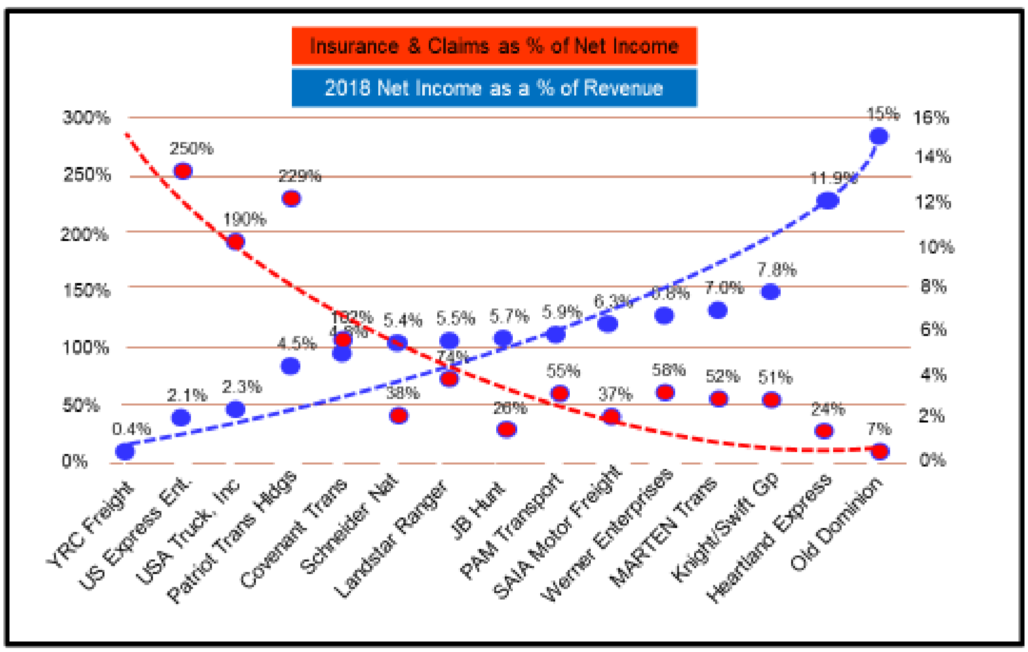
[1] Don Osterberg quoted from a Blog eBook published by SmartDrive and used in a Webinar on March 21, 2020 www.smartdrive.net/selling-safety-to-executives

[2] Michael Nischan as quoted by Jennifer Smith in the Wall Street Journal, January 15, 2020 www.epicbrokers.com

published financial data from publicly traded trucking companies in the US. The companies used in the analysis have trucking as their core activity. There are some companies in the sample that have other revenue streams (multi-modal for example) but for the purpose of this analysis the main activity is transportation, and the primary costs for claims and insurance are related to the trucking activity.

The chart above, drawn from 2018 annual reports, shows the companies in our sample arranged by Net Income as a percentage of Revenue increasing from left to right.

We then examined the cost of claims and insurance premiums for each company in the sample taking the costs from their annual reports. (Note that the items contained in this expense category may vary between companies.) Since insurance & claims cost is a small cost in comparison to fuel and salaries, the insurance and claims costs were compared to net income. Thus, the authors calculated and plotted the insurance and claims cost as a percentage of net income. Plotted on the same chart, the results are as follows:



Frankly, the authors were surprised by the consistency of the data that shows a strong inverse correlation between the two trend lines. We expected that variability in fuel and salary costs would mask this inverse correlation.

We then examined the operations of a selected group of bulk haulers operating in the South West, that are all certified for hazmat loads. Since these are private companies, we do not have access to financial records however, each company reports crashes to Federal Motor Carriers Safety Association (FMCSA) and provides other data such as number of tractors and mileage completed annually. These data are public, but we have chosen to respect the privacy of the companies by not disclosing names.

First, we needed a metric by which to compare crash statistics across different trucking companies. To help in the process, we pulled data from the FMCSA Safer System which "provides a concise record of a trucking company's identification, size, cargo, inspection and out-of-service summary, crash data and safety rating (if any)". We had crash data but needed a way to 'normalize' the crash data so we could compare companies to the same standard. FMCSA uses a benchmark of 'per 100 Million miles' reported by a company, to present its data. Using reported mileage and crash data we could also use this standard to calculate the number of crashes expected for each 100Mm driven for each company. The 'crashes per 100Mm' is also representative of the relative safety risk for a company.

There is significant variability in the data. The best among the peer group has a crash record that is about half of the average, whereas the worst company has a crash record that is 4.4 times the best performer.

FMCSA Safer System	Crashes reported to FMCSA for 24 months prior to: 07/22/20209						MCS-150 Form		Crashes per
Companies	Power Units	Drivers	Fatal	Injury	Tow	24 mo Total	Milage	Year	100Mm
Company A	271	340	0	4	14	18	**32,261,383**	**2018**	28
Company B	129	101	1	3	7	11	9,000,000	2018	61
Company C	92	84	0	5	11	16	6,477,479	2018	123
Company D	311	274	1	4	21	26	20,024,643	2019	64
Company E	250	283	0	3	15	18	22,586,477	2018	40
	1053	**1082**	**2**	**18**	**68**	**88**	**90,349,982**		**49**

The authors then studied the web site of the best performing company. We found that the best performer has each tractor equipped with collision mitigation braking, lane wander alerting, roll stability control and video cameras. Their drivers are rewarded with safety bonuses tied to driving performance. If all the companies in the peer group would adopt the safety technologies and management oversight of the peer best company, the peer group would have saved themselves 38 crashes in the reported period. Is there any doubt that the savings from the 38 crashes that would be avoided would more than pay for the costs of safety systems added to 750 tractors?

Our conclusion is that all of the companies in the sample can reduce their crash frequency to match the best performer if they invest in safety technology, tie bonus rewards to driving behavior, improve training and provide remedial coaching and training as required. Companies that make those changes will find that the costs of the safety systems, training and bonuses are more than offset by the savings in claims and insurance premiums. Thus, as Don noted ***the view from the moral lens and the financial lens is the same.***

Notes:

Growing Insurance Burden Weighs Heavily on Truckers

Some carriers are paying twice as much for liability policies offering half the coverage.

Jennifer Smith WSJ Jan 15, 2020

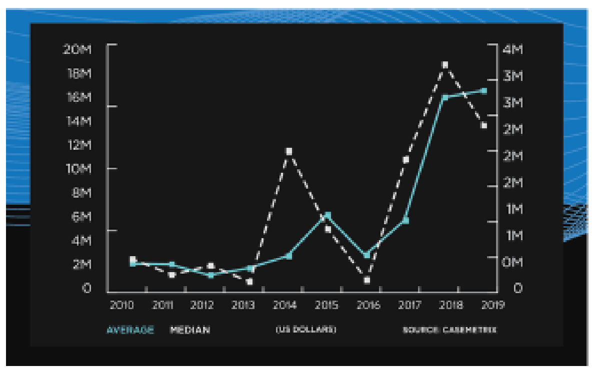
> "It's a brutally tough insurance market right now. There's some real cost headwinds that, absent a price recovery," could weigh on results in the first half of 2020.
>
> James Reed, CEO
> USA Truck Inc.

> "A lot of motor carriers are facing 20% to 30% increases. These are motor carriers that are doing their best. **If you cannot demonstrate that you're obsessed with safety, you may not get renewed**."
>
> Michael Nischan, VP
> Transportation & Logistics Risk Control
> EPIC Insurance Brokers & Consultants

The numbers don't lie: size of legal awards vs. trucking companies is soaring

Freight Waves by John Kingston 11/20/2019

What is really staggering is how much it is up from two years ago. In 2017, that average was just over $7 million. But even that $7 million would have been raising eyebrows back then, according to the CaseMetrix data.



The bottom line: According to the CaseMetrix data, the average verdict against a trucking company in 2012 was about $2.6 million. Now it's more than $17 million.

https://www.freightwaves.com/news/the-numbers-dont-lie-size-of-legal-awards-vs-trucking-companies-is-soaring?utm_campaign=Best%20of%20FreightWaves%20Weekly%20Newsletter&utm_source=hs_email&utm_medium=email&utm_content=80073280&_hsenc=p2ANqtz-9B6oWtlwNJAJ_qMe0C6Un5HH1mCnj3ysvDEBNtG6veOYSU2pH0abka20HShPkvA27qCAAG7ljm-UuOJCuRtlkKJdRm4w&_hsmi=80114873

Wall Street Journal Bemoans 'Nuclear' Trucking Verdicts but Fails to Account for Industry Practices Driving Premium Increases

JEFFREY REIFF

'The Race to the Bottom…'

While arguing that truck accident attorneys who identify and pursue trucking companies with systemic safety failures are to blame for 'nuclear verdicts' has a certain appeal to the general public, such an argument is ultimately specious. This approach to the difficulties facing the trucking and insurance industry is akin to blaming a doctor for identifying coronary artery disease brought on by the individual's poor lifestyle choices including a race to the bottom in dietary choices. Like this hypothetical patient, in the trucking industry, we also see a 'race to the bottom' where unsafe trucking companies ignore safety rules and engage in an array of potentially fraudulent practices to conceal violations.

The difference here is that while a poor diet and lifestyle choices directly affect only the individual who makes them, the actions by chameleon carriers and other unsafe trucking companies also create difficulties for companies that play by the rules. Blaming the trucking accident victims and their counsel who bring potential systemic safety abuses and oversights to light is unlikely to improve the root cause of trucking insurance premium increases: systemic safety failures by trucking companies.

https://www.reifflawfirm.com/wsj-bemoans-nuclear-trucking-verdicts/

Plaintiffs' attorneys: ATRI nuclear verdict report needs reality check

Group contends negligence – not multi-million-dollar verdicts – are causing economic harm to industry

Friday, June 26, 2020

Negligent trucking companies – not nuclear verdicts – are to blame for putting trucking companies out of business, a plaintiff's attorney group (Academy of Truck Accident Attorneys (ATAA)) has warned.

"Nuclear verdicts are the result of nuclear injuries – paralysis, brain damage and death, when the truck company has acted extremely recklessly – sometimes with impunity – and refuse to be accountable. Verdicts aren't strangling the trucking industry. Bad trucking companies are strangling the trucking industry."

https://www.freightwaves.com/news/plaintiffs-attorneys-atri-nuclear-verdict-report-needs-reality-check