# PUT SKIN IN THE GAME TO IMPROVE RISK MANAGEMENT

Tony Mercurio, chief operating officer at National Interstate Insurance, talks to *Captive Review* about how transportation companies can improve their risk management programs by joining a captive insurance program

**Captive Review (CR): How can transportation companies utilise captives for their risk management strategy?**

**Tony Mercurio (TM):** It is no secret that insurance (along with payroll, equipment, and fuel) is one of the top operating costs for transportation companies today. Therefore, it is vital that transportation fleets manage their insurance costs in order to improve their bottom line, and we believe a captive can be one of the best ways to control the cost of risk. By allowing a transportation company to have 'skin in the game' and participate in the risk, a fleet has the opportunity to capitalise on its strong safety record through the potential return of premium and investment income, while insulating itself from the whims of the traditional insurance market. Over time, a well-managed fleet may see a lower cost of risk, more stable premiums and a stronger partnership with its insurance carrier through a captive program.

**CR: What are some of the unique features of National Interstate's captive programs?**

**TM:** At National Interstate, we cater to a wide variety of transportation risks, from small limousine operations and huge trucking fleets, to ambulance operators and propane and fuel haulers, just to name a few. Accordingly, we offer a variety of captive options that cater to the unique insurance and business needs of these different niches. For example, we offer both member-owned and group rental captive options, programs that cater to different transportation segments, and captives for fleets of a certain size. In our rental programs, we offer a unique 'collateral relief' feature that allows a member to offset some of its collateral obligation through the accrual of underwriting profit, and we also have many custom risk management resources specific to the transportation industry.


Written by
**Tony Mercurio**

**Tony Mercurio** is executive vice-president and chief operating officer of National Interstate Corporation. Mercurio joined the company in 1997 and has served in multiple director, officer and managerial capacities throughout his tenure. He holds a B.A. from the University of Mount Union and a M.B.A from Cleveland State University.


Our captive programs are built on the foundation of sharing risk and reward and, as such, we are committed to building a long-term relationship with each and every member. We make sure they thoroughly understand the risk financing dynamics from the very beginning, and we continue to work with them to enhance their loss control and risk management practices. Every captive customer has access to our senior management, as well as the opportunity to network with fellow operators to share best practices. In addition to our consultative approach to risk management, we have special units dedicated to captive service and claims. It is for all these reasons that we have enjoyed customer retention levels well above 95% year after year.

**CR: Speaking of risk management, how is National Interstate Insurance an active partner in instilling risk management best practises?**

**TM:** To assist our captive customers with their safety programs, we provide a consultative approach to risk management by first analysing where their losses are coming from, and then putting the necessary programs in place to minimise their risk exposure. These programs include everything from on-site consultations, to developing a comprehensive safety plan, to establishing a hiring process that distinguishes safe drivers from risky ones. Further, our automated event recorder loyalty program, which helps our customers put video cameras in their vehicles, can identify risk behaviour that leads to driver coaching and training, and can be invaluable evidence when an accident does occur.

**CR: What are the unique challenges in marketing to wheels-based transportation companies and how do you tackle them?**

**TM:** First, many transportation fleets are either unaware of the many benefits captives can offer, or believe only mega-fleets will qualify for them. A fair amount of education and myth-busting is often necessary before a transportation company makes the leap into a captive. Second, many transportation companies operate on very thin margins and hence tend to be extremely cost conscious, viewing

insurance as a commodity that is purchased year to year. The astute insurance buyer knows a captive may be the best long-term approach to controlling, and ultimately reducing, the cost of insurance over time.

**CR: When is a captive solution the right choice?**
TM: When discussing a captive program with a prospective customer we advise them that they need to commit to a lifestyle change, and be willing to buy insurance in a non-transactional way. You cannot sample the captive lifestyle for a year or two – you must be ready to make a long-term commitment and focus on implementing all of the best practises that come with the risk management platform in order to fully utilise all that a captive program can do for you.

**CR: Within the transportation industry are there many insurers that cater to the middle market?**
TM: This segment of the market was largely ignored by the captive industry for a long time, and we were one of the first to focus on it with a variety of programs. A major advantage we bring to the table is a willingness to write programs with lower retention levels compared to our competitors. Depending on the program, we have retentions as low as $50,000 per occurrence. We also offer rental captive options that allow for a much more palatable capitalisation and collateral structure.

**CR: What are the industry niches that you can cover with your ART programs?**
TM: We were founded on passenger transportation business, which includes vehicles such as motor coach, school bus, limousine and transit. Within that industry, we have several group captives and single account options as well. It remains one of our targeted and largest business components.

The truck transportation space is also significant for us, and that can encompass everything from regional haul to fuel and oil haulers and propane distribution, to waste and environmental companies. Again, we have member-owned and rental captives customised for these industries. We also cover crane and rigging and specialised heavy haul and, following our acquisition of Vanliner Insurance, we used our proven model to develop several captive programs tailored specifically for the moving and storage industry. In addition to the broad array of group captive programs that we offer, we can also design individual programs for larger accounts. These programs allow companies who may not fit well into one of the group programs because of size, risk profile or other unique business needs, to have captive programs tailored to their particular situation. In keeping with our niche market philosophy, we are always looking for new underserved industries. For example, earlier this year we announced a new captive solution for ambulance operators.

**CR: That's a very diverse list of businesses with very different risks associated, how do you manage them all effectively?**
TM: The risks in the transportation industry are extremely different and that's why we utilise a homogenous approach as opposed to heterogeneous in terms of captive make-up. It just doesn't make sense to merge bus accounts with propane distributors, for example. We prefer the 'like with like' grouping so related best-in-class companies end up sharing best practices. Further, our product management structure allows us to effectively manage multiple lines of business. We have dedicated product managers that manage each of our over 30 captive products, so the customer always has an expert that understands their industry and the associated challenges.

**CR: Why have captive options been overlooked before now? What has changed to get them recognised?**
TM: The central reason captive structures have often been overlooked is largely because the traditional insurance market has been so soft. As we emerge from this prolonged soft market cycle and commercial insurance rates rise, we believe captive products will become more popular. It's not just about the money, but that is certainly one of the key catalysts.

In addition to the market cycle factor, the average severity levels, specifically on the commercial auto-liability lines, are continuing to increase and the cost of risk isn't getting any cheaper. When that's the case, you want to do what you can to control that cost, and this is where National Interstate comes in with our innovative and unique captive solutions.