

Driving Down Your Expenses Understanding the Cost of Business Automobile Insurance

By DAVID MATOSKY

If your business relies upon and operates commercial vehicles to get your work done, then the expense of keeping those vehicles on the road is probably a significant cost center for your company. But how much do you really know about the factors that impact the cost of your business automobile insurance?

A better understanding of what insurance underwriters look at in determining your premium can lead to lower insurance costs. Even more importantly, you can be confident that your policy is rated to accurately reflect your actual exposures, and therefore provides proper protection for your business.

An insurance underwriter generally relies upon the answers to the following questions when pricing business automobile insurance: What do you drive? Where do you drive? How do you drive? And Who are your drivers? How these questions are answered can have a significant impact on driving down your insurance costs.

The question of 'what do you drive' not only considers the physical characteristics of the vehicle, but how you use the vehicle and what is driven in or on the vehicle. Vehicles are first classified by their gross vehicle weight, or GVW. GVW is usually assigned to a

vehicle by its manufacturer and simply translates into the weight of the vehicle when empty, plus the maximum load it is capable of carrying. Vehicles used to transport people for hire are classified not by their GVW, but rather their seating capacity. A general rule of thumb is that the higher the GVW or seating capacity, the more it will cost to insure said vehicle.

Vehicles are next classified by their predominant use within your business. The standard classes include private-passenger types, service, retail, and commercial. A car that is driven by a salesperson to sell and service clients is a good example of a private-passenger type. A vehicle that is used to transport tools, equipment, and supplies to and from a job site or workplace, or used to service your business, is an example of a service auto.

Any auto used to pick up or deliver property to individual homes or businesses is an example of the retail class. Autos used to transport goods or people are classified as commercial, with further classification, depending upon what they carry, into either 'truckers' or 'public auto classes.'

The question of 'where do you drive?' is answered by your operating radius, measured as the crow flies. Your radius typically originates from your vehicle's

principal place of garaging, but in some cases more weight is given to where your vehicles are customarily operated. For instance, if your vehicles are garaged in Chicopee, but spend most of the day traveling within Boston, you may find your vehicles assigned to the Boston territory, a much higher rated territory than Chicopee.

Private-passenger vehicles typically have no radius restrictions. All other vehicle classes are assigned to either local (50 miles or less), intermediate (51 to 200 miles) or long distance (over 200 miles). While one might think that long distance vehicles are the most expensive to insure, that is not always the case. In some instances, long-distance rates can be very advantageous.

The question of 'how you drive?' is answered by reviewing the loss experience for your fleet. Businesses with few or no losses will receive better rates than those with poor loss experience. Typically businesses with 5 or more vehicles (power units) will be subject to experience rating. A modification formula compares your actual losses to the expected losses of a similar type business, or industry standard. To the extent that your company's experience is better than what is expected, you receive a credit. Conversely, if your experi-

ence exceeds the norm, your premium will be debited. If your policy is subject to experience rating, it is very important that you request a copy of the rating to ensure that it is accurate. Your local independent insurance agent can help you identify potential errors. Inaccurate calculations can cost your business plenty.

Finally, 'who your drivers are' can significantly impact your premium. Pay close attention to your driver selection. A written driver qualification program is a simple, yet very effective way to manage who is allowed to operate your vehicles. Select only the most qualified applicants for positions, and then ensure that your drivers remain eligible to operate your vehicles. A qualified driver is someone who obviously has a valid driver's license and a clean driving record. If an applicant has a history of speeding, accidents, license revocations or worse, it may be just too expensive for your business to risk having them on the road, driving up your insurance costs.

David Matosky is operations director of Chicopee-based First American Insurance Agency, Inc.; www.faiagency.com