Keep on Trucking

Insurance coverage can be hard to obtain and expensive for an independent trucker

By Mark Goodman

More than two million truckers take to the roads each year, transporting goods throughout the United States in a variety of vehicles. From 10,000-pound, six-wheeled pick-ups to 20,000-pound, ten-wheeled box trucks and all the way up to 80,000-pound, 60-foot 18-wheeled semi-trailers, these truckers provide a valuable service to the economy. More often than not in today's world, these truckers are independent contractors and the road is anything but easy for them.

While some companies employ truckers as full-salaried employees, a great number prefer to keep them as independent contractors for a variety of reasons – from cost to liability to management. Whatever their status, it's clear that truckers are a valuable strategic partner to transportation-focused companies. But when truckers have independent contractor status, that partnership includes a number of important issues, most notably insurance, liability and coverage.

Insurance solutions for truckers

Insurance coverage is typically hard to obtain and can be expensive for an independent trucker. Because it is so important to liability and freight management, companies with a stable of independent truckers often get involved in the insurance decisions and options.

First and foremost, a company and its truckers must agree to a standard of quality insurance with reasonable terms. Beyond this understanding, a company can work with its truckers to either direct them to good products or help them create win-win insurance situations. Two solutions many companies explore are Risk Purchasing Groups and Affinity Marketed Insurance.

Risk Purchasing Groups

In theory, a group of independent truckers could join together to buy insurance. However, state insurance laws have very specific and strict rules about what constitutes "permitted" groups for insurance purchasing. These laws tend to limit insurers' ability to issue property and casualty insurance under a single group policy.

But in a Risk Purchasing Group, or RPG, a group of insurance buyers can band together to purchase liability insurance from an insurance company. Under a federal law called the Liability Risk Act of 1986, RPGs are a legal way for individual groups like truckers to secure insurance.

Most importantly for independent truckers, RPG members are not required to provide capital contributions, making this entity a cost-effective way to buy insurance.

continued on page 23

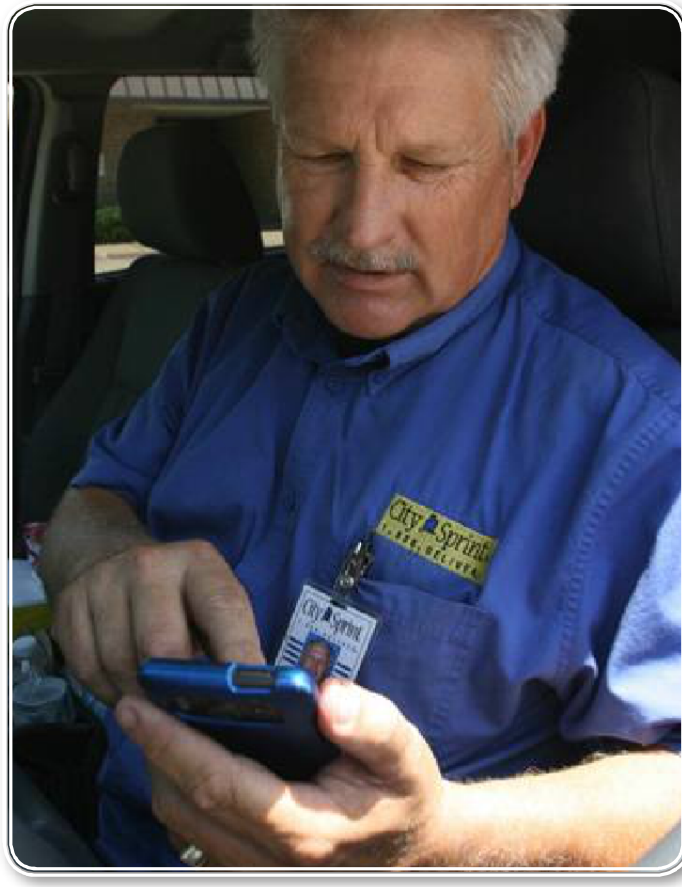
Truckers: Employees or Independent Contractors?

With some exceptions, manufacturers and distributors no longer want to incur the cost, hassle and risk of owning and operating their own trucks and of employing the drivers and delivery personnel who run those vehicles. While no one method may be best, here are some examples of how various companies handle their trucking supply issues:

YRC Worldwide: Formed through the consolidation of Yellow Freight, Roadway and other larger trucking firms, YRC operates fleets of owned or leased trucks. YRC provides less-than-truck- load (LTL) freight services principally through drivers it hires as employees.

Coyote Logistics: As a middle man between shippers and truckers, this Chicago-based company uses a technology platform and a small army of people to connect those who want to ship product to owner- operators looking for loads. Truckers are not Coyote's employees but are required to provide proof of liability insurance that names the company as an additional insured.

Snap-On Tools: This venerable manufacturer and distributor of tools and equipment uses a franchise model to sell and deliver its tools on branded trucks owned (or leased) and operated by independent franchisees who use the trucks as mobile stores.



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Continued from page 19

For many companies, helping truckers form an RPG provides a competitive advantage for attracting and retaining the best suppliers. An RPG could be formed and controlled by a transportation company. In this scenario, the company would not have any financial obligations to the RPG and would not be an insured. Instead, the company's benefit would be in both facilitating the group and in quality control over the type of insurance offered to the trucker members.

As a side note, RPGs are allowed for liability insurance but not property coverage for trucker members.

Affinity Marketed Programs

Affinity programs are another means for independent truckers to secure affordable, quality insurance. In these programs, insurance is "branded" with a sponsor's name and a number of reputable associations currently provide these types of resources. As with RPGs, a company or third-party logistics firm could structure and sponsor an affinity marketed insurance program – affinity insurance programs are allowed to provide both liability and property insurance coverage. However, these affinity programs are not "group" programs as with RPGs. Instead, insurance would be provided under individual policies for individual truckers, a factor that can affect rates upward. One interesting aspect to affinity programs is if there is a company sponsor in some instances royalty or other payments can accrue.

These are just two of the better-known approaches to providing insurance to independent truckers. They are starting points for companies who are savvy enough to develop programs to retain their supplier relationships. With turnover at an all-time high within the trucking industry, they just might be another way that companies can keep on trucking.

About the Author

Mark Goodman is a partner in Freeborn & Peters transportation law group where he focuses on Insurance Transactional and Regulatory matters. He has three decades of experience advising clients including the insurance industry on corporate, regulatory and transactional matters. Mark also advises non-traditional sellers of insurance on insurance programs, including trade associations, retailers, banks and savings associations, and leasing and financing companies.•