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THE NEW MILLENNIUM:

**"ESCALATING" CHANGES IN THE
TRANSPORTATION INSURANCE
INDUSTRY.**

WE KNOW THAT YOU ARE HEARING ABOUT THE CHANGES IN THE INSURANCE INDUSTRY AND THE IMPACT THOSE CHANGES MIGHT HAVE IN COMING YEARS TO THE CONSUMER. WE WOULD LIKE YOU TO KNOW THAT WE PLAN TO BE HERE FOR YOU DURING THE TIGHTENING MARKET, JUST AS WE HAVE BEEN HERE FOR YOU FOR THE PAST 40 YEARS. INSTEAD OF DWELLING ON THE HEARSAY OF THE HARD MARKET THAT IS THE TALK OF THE INDUSTRY TRADES, WE THOUGHT SOME FACTS MIGHT BE AN APPROPRIATE METHOD OF ENLIGHTENING YOU, OUR CUSTOMERS AND FRIENDS, AS TO WHAT IS HAPPENING AND WHERE IT SEEMS TO BE GOING.

MANY CHANGES HAVE BEEN HAPPENING WITHIN THE INSURANCE INDUSTRY TO HELP CONTROL PRICING IN THIS NEW GENERATION. MANAGED CARE WAS INTRODUCED INTO THE WORKERS COMPENSATION PORTFOLIO AND THAT ALONG WITH SOURCE REVIEWS HAVE HELPED MANY UNDERWRITERS MAINTAIN CONTROL OF THEIR CLAIMS THEREBY ALLOWING THEM TO PRICE

THE EXPOSURE COMPETITIVELY. THERE ARE STILL SEVERAL COMPANIES WILLING TO GIVE GOOD RATES AND DISCOUNTS ON WORKERS COMPENSATION IN THIS MARKET.

MERGERS AND ACQUISITIONS DURING 1999 BROUGHT STRENGTH TO SOME COMPANIES THAT WERE HAVING PROBLEMS. ACE BOUGHT CIGNA WHO HAD BEEN HAVING RATING PROBLEMS IN THE PAST. CIGNA TRANSFERRED POOR PERFORMING BUSINESS FROM ONE UNIT TO ANOTHER, CAUSING THAT UNIT TO BE DOWNGRADED AND THE OTHER COMPANIES TO REMAIN "A" RATED. THIS PLAN OF ACTION HAS CAUSED AIG TO SUE CIGNA OVER ITS BUSINESS PLAN. IT WILL BE YEARS BEFORE THIS IS SETTLED IN THE COURTS.

A TREND THAT IS LOOKED UPON FAVORABLY BY SOME IN THE INSURANCE INDUSTRY IS A MERGER WITH A FINANCIAL INSTITUTION SUCH AS THE MERGER OF CITYCORP AND TRAVELERS. DUE TO THE RESULTS OF THE INSURANCE INDUSTRY OF LATE, THE FINANCIAL INSTITUTIONS ARE NOT AS INTERESTED IN MERGERS OF THIS TYPE AS THEY ONCE WERE.

SOME COMPANIES RESULTS WERE SO POOR IN 1999 THAT THEY LOST THEIR "A" EXCELLENT RATING FROM A.M. BEST. SINCE MANY BUYERS BASE AT LEAST PART OF THEIR DECISION ON BEST'S RATING, THE LOSS OF RATING IMPACTS

THAT COMPANY'S ABILITY TO ATTRACT NEW BUSINESS. AS A RESULT OF THIS PRACTICE A NUMBER OF ALLIANCES BETWEEN COMPANIES HAVE TAKEN PLACE. THESE ALLIANCES ENABLE ONE CARRIER TO REINSURE ANOTHER CARRIER 100% AND ALTHOUGH YOU BUY FROM COMPANY "A" YOU GET COMPANY "B" ISSUING THE POLICY. AS YOU MIGHT IMAGINE THIS IS NOT THE ANSWER TO THE PROBLEM, AND IN FACT THE PROBLEM IS MADE WORSE UNLESS THERE IS A CHANGE IN THE UNDERWRITING PHILOSOPHY THAT CAUSED COMPANY "A" TO HAVE PROBLEMS IN THE FIRST PLACE.

THE LAW FIRM OF SCHINDELL, FARMAN AND LIPSUS IN THEIR REVIEW OF 1999 REPORT THAT FOR NUMBER OF YEARS THE MOTOR CARRIER INSURORS HAVE BEEN CAUGHT IN AN UNCOMFORTABLE SQUEEZE. THE RATES WERE TOO LOW, LOSSES KEPT RISING AND COMBINED RATIOS CLIMBED WELL OVER 100% WHILE NEW TRUCK INSURORS AND NEW TRUCKING PROGRAMS CONSTANTLY APPEARED.

CARRIERS SUCH AS GREAT WEST CASUALTY AND LIBERTY MUTUAL ALONG WITH OTHER WELL KNOWN TRUCK INSURORS WITHDREW FROM THEIR AGGRESSIVE PRICING OF THE PAST FEW YEARS CITING PAST LOSSES AS THE REASON. MANY REINSURANCE CARRIERS PUT TOGETHER PROGRAMS THAT USED ONE OF THEIR OWN COMPANIES AS A FRONTING CARRIER, BUT THOSE TOO HAVE FAILED AT MAKING A PROFIT. MANY REINSURANCE CONTRACTS RENEW IN JANUARY, AND THIS YEAR A NUMBER OF THESE CONTRACTS WERE NOT RENEWED OR WERE RENEWED WITH INCREASED PRICING. A.M. BEST REPORTS THAT FOR 1999 THE DOMESTIC REINSURANCE MARKET SHOWED POSITIVE GROWTH BUT WEAKER EARNINGS. THEY ARE EXPECTED TO REPORT A COMBINED RATIO OF 111% LAST YEAR. THE COMMERCIAL AUTO RESULTS AS REPORTED BY A.M. BEST HAVE BEEN ESCALATING SINCE 1997. BEST REPORTS COMBINED RATIOS OF 110.9% FOR 1997,

113.8% FOR 1998, 115.4% ESTIMATED FOR 1999, AND 119.0% FOR 2000.

MOTOR TRUCK CARGO AND PHYSICAL DAMAGE ARE ALSO IN SERIOUS TROUBLE. THE SHIPPER WANTS TO SHIFT HIS RISK TO THE TRUCKER'S CARGO POLICY. NO LONGER DO THEY WANT TO AGREE TO A RELEASE VALUE, INSTEAD THEY WANT HIGHER LIMITS AND BROADER COVERAGE. ALL THIS WITH COMPETITIVE PRICING HAS HURT THE INLAND MARINE UNDERWRITERS. MANY UNDERWRITERS USE WARRANTIES OR LAZER EXCLUSIONS IN THE POLICY LANGUAGE TO CUT LOSSES.

TAKE AS AN EXAMPLE OF THE PLIGHT OF THE PHYSICAL DAMAGE UNDERWRITER. A CASE IN POINT INVOLVING NEW TRACTORS WITH VALUES OF \$90,000 EACH. IF A FLEET OWNER HAS THIRTY OF THESE UNITS HIS FLEET VALUE IS \$2,700,000. IN 1999 AN UNDERWRITER MIGHT BE FORCED TO INSURE A FLEET THIS SIZE (WITH A GOOD LOSS HISTORY) FOR LESS THAN 1.75%. IF THE UNDERWRITER AGREED TO THIS, HIS ANNUAL PREMIUM IS \$47,250, NEARLY HALF OF THE VALUE OF JUST ONE TRACTOR. IF ONE TRACTOR IS TOTALED, THE UNDERWRITER IS AT A 190% LOSS RATIO. AFTER PAYING THE LOSS, THE UNDERWRITER STILL HAS AN EXPOSURE TO MORE LOSSES OF THE SAME MAGNITUDE, BUT USUALLY CANNOT GET A RATE INCREASE.

THESE FACTS. ON ALL TRUCKING LOSSES INCURRED SINCE 1993 ON THEIR GIVEN BOOK OF BUSINESS, THE AVERAGE LOSS COST PER CLAIM IS \$17,301. OUT OF EVERY 200 TRUCKS INSURED, ONE CLAIM PER YEAR WILL BE \$500,000. OUT OF EVERY 500 TRUCKS INSURED, ONE CLAIM WILL BE \$1,000,000. THE FREQUENCY RATIO OF AN AVERAGE TRUCKLINE WILL BE 25%, WHICH MEANS ONE TRACTOR OUT OF FOUR WILL HAVE A LOSS AVERAGING \$17,301 EVERY YEAR.

THE MARKETS WHICH WE USE ARE CAREFULLY DEVELOPED TO BE EXPERTS IN THE FIELD OF TRUCKING. WE HAVE HAD TO USE MARKETS RECENTLY THAT ARE PRICE DRIVEN, BUT WE MAINTAINED OUR RELATIONSHIP WITH THE PROVEN MARKETS AND GAVE YOU THE CHOICE OF PRICE VERSUS EXPERTISE. OUR AGENCY IS ALWAYS GOING TO BE ABLE TO OFFER YOU A QUALITY PRODUCT AT A FAIR PRICE. OUR PHYSICAL DAMAGE CONTRACTS HAVE BEEN RENEWED AGAIN, WHICH IS AN ACCOMPLISHMENT IN LIGHT OF MANY THAT WERE NOT RENEWED FOR OTHERS. OUR AUTO MARKETS ARE STRONG AND WANT TO WRITE BUSINESS AT FAIR PRICES. RENEWAL BUSINESS WILL BE TREATED WITH THE ENCUMBENT MARKETS AS PRIORITY BUSINESS IF THE LOSSES WERE ACCEPTABLE.

YES, THE MARKET IS BEGINNING TO TURN, YES, BUT WE WILL BE ABLE TO HELP SOFTEN THE IMPACT THROUGH OUR MARKET STRENGTH AND LONG TERM EXPERTISE IN TRUCKING. PLEASE REMEMBER, TRUCKING IS ALL WE DO AT TRANSURE. IN A HARDENING MARKET YOU NEED A SPECIALIST WITH THE RELATIONSHIPS IN PLACE TO HELP YOU MINIMIZE THE IMPACT.

**LAYING A FIRM
FOUNDATION
AS WE GO FORWARD**



WE FEEL WE HAVE DEVELOPED RELATIONSHIPS WITH YOU OVER TIME. WE HAVE ALSO DEVELOPED SIMILAR RELATIONSHIPS WITH UNDERWRITERS. ONE OF OUR UNDERWRITERS, USES THE CONSULTING FIRM OF TOWERES PERRIN WHO QUOTE