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Tow Truck Market Gets Hit Hard as Carriers Exit Market

Tow truck drivers operate in a dangerous world. Every day they face angry drivers while repossessing vehicles, dangerous driving and road conditions, near misses while operating heavy equipment, and close calls on U.S. freeways while hitching up wrecked vehicles.

These are just a few of the reasons why the tow truck market is in a state of emergency, says one broker specializing in this class. Another reason: a crumbling insurance market with fewer and fewer carriers willing to write the business.

Chip Thompson, president and CEO of American Transportation Insurance Group (ATIG), has never seen the insurance market for tow trucks this bad since opening the doors of his specialty agency in 2001.

“I’ve never seen anything like what I’ve seen happen in the last six months,” said Thompson, whose book of towing and repossession business nears \$20 million in premium. He’s been specializing in the higher risk transportation market, particularly in the garage, towing, trucking and repossession markets, on a nationwide basis since 2001.

“Right now, we are working three times as hard just to keep the risks that we have on the books.” The P/C industry’s competitive environment is not the problem, Thompson adds. The insurance market is so difficult for tow trucks some are forced to close shop. “We are losing one out of every four customers and we are not losing them to other agents. They are shutting down,” he said.

Mike House, vice president, producer, broker for USG Insurance Services Inc. in Canonsburg, Pa., agrees.

“Towing is a very difficult market right now,” House said. “None of my markets will write a towing operation and schedule a tow truck for auto liability or physical damage.” House said his markets will write the garage liability but won’t touch the scheduled auto for the tow truck. “It is a very difficult market and I’m hearing a lot of companies are pulling out.”

The tow truck insurance market has been hit with myriad factors leading to its current state of disrepair, according to Thompson. From reinsurance drying up to the commercial auto market exploding, combined with the ever-increasing costs of litigation and health care, tow truck firms are facing heavy obstacles and it’s only just begun.

Most of the U.S. commercial auto insurance market has had a tough time in recent years and tow truck operators are no exception.

The commercial auto market as a whole has posted underwriting losses for five consecutive years and has evolved into the most chronically underperforming product segment for U.S. property/casualty insurers, according to Fitch Ratings.

“It’s the perfect storm for garage and commercial auto in the last six months and I don’t see it letting up anytime soon,” Thompson said.

Shock Wave

The biggest shock wave hit the industry in September 2016 when Progressive pulled the plug on the towing sector nationwide, Thompson said.

“That was the bellwether for everything else that followed after that,” he said. “In the last 18 months, we’ve lost eight to nine carriers in this space and it’s a small field anyway.”

Some carriers made a profit and exited, some carriers lost money and exited, and some decided they didn’t want to write the class of business anymore, Thompson said. “It’s gone all ends of the spectrum.”

Progressive’s exit shut down any hope of new carriers coming into the space as well. “When Progressive shut it down that shut everybody else down,” Thompson said.

“It seemed as if the carriers that were entertaining coming into the market thought, ‘If Progressive is going the other way why are we going toward it?’ Progressive is very technologically savvy,” Thompson said. “They understand the rates per the ZIP code per the risk per the street. They are pretty good at what they do and if they can’t make money on towing who can?”

Progressive hasn’t gone so far as to leave current policyholders empty-handed, but will not be taking on new accounts.

“We’re not currently taking on new towing business, however, we continue to insure our existing customers,” Brett Stalnaker, Progressive’s commercial auto product manager told Insurance Journal.

Stalnaker says the insurer will return to the towing segment in the future. “In order to be more accurately priced, we’re making some small changes to our program, including introducing new segmentation and fully expect to continue insuring new tow truck business at some point in the near future,” he said.

The current state of the market for tow trucks hit very hard and very fast, Thompson said.

“Normally I would think there would be 20 percent or 30 percent increases (in difficult times) but we are seeing 100 percent to 150 percent increases on accounts with no claims,” he said.

“Anyone in the commercial auto space right now, if they haven’t gotten hit, they are going to be hit with a sledge hammer in the first two quarters of this year.”

Cost Drivers

Continuing challenges in commercial auto liability range from distracted driving to increased miles driven and vehicles on the road to higher vehicle repair costs and rising severity in liability claims. Tow trucks are no exception.

“Commercial auto in general is not going to catch a break for the next several years,” Thompson said. Most everything that’s commercial auto from trucking to dump trucks to garage risks is difficult. “Any place now where there is a human being touching an auto is warfare.”

For tow trucks, it’s rear-end collisions that are “bringing insurance companies to their knees,” Thompson said.

“Drivers are going too fast and are distracted,” Thompson said. “When you are driving a heavy commercial vehicle, like a tow truck, and you hit a car with three or four people in it, all of those people have neck and back injuries, you total their car, you will have \$30,000 worth of damage to your tow truck, and it’s just a rear-end collision, which theoretically is preventable.”

Right now, Thompson and ATIG are doing damage control and just trying to keep their current clients insured. “We are working three times as hard to keep the risks that we have but there’s a lot of angry people right now. We are catching it from all sides.”

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MGAs, other brokers, and the few insurers left in the space are swamped. “We are trying to hold our clients’ hands through this and explain what’s going on.”

Thompson has even had to turn away new business. “People are calling up panicked, they are in tears because they are going to lose their business. They expire in two days and their premium tripled but you can’t help them,” he said. “I’m at the mercy of the MGAs/brokers/insurers and they only have so much manpower. Everyone is on edge.”

Managing Risk

The only thing towing companies can do is to manage their risk, Thompson said.

“I’ve got guys that are now putting cameras inside the trucks both facing outward and inward and if they catch their drivers eating or talking on the phone or texting, there is zero tolerance. They are fired,” he said.

He doesn’t expect the insurance market for towing to bounce back anytime soon either. “It will be a long time before insurers react to improved risk management in firms.”

For now, focus on driver training, he said. “I can’t specify that enough. And settle more claims out of pocket if you can legally. And if you have insurance right now, and it’s semi affordable, then protect it with your life.”