Some Problems related to Fleet Insurances

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Notion

- Fleet insurance is a kind of insurance contract that concerns a number of vehicles.

- Legal nature
- Group insurance?
- (Sachinbegriff)?

Benefits to Fleet

- Identifies risky drivers and alerts them to their problematic driving patterns
- Improves fuel efficiency
- Improves vehicle maintenance, due to fewer incidents and less aggressive driving
- Rewards safe driving
- Crash & Rollover notification, resulting in assistance and event containment
- Lower premiums
- Reduces collision and improves customer satisfaction due to timely delivery

Benefits to Insurer

- Improves risk management
- Reduces losing portfolios
- Lowers claims losses
- Reduces claims handling costs and time management
- Enhances insight and understanding of customers
- Increases customer satisfaction and retention loyalty
- Elevates reputation and brand

Premium

- In large fleets (generally) only 3-5% of the drivers
- The identification of these drivers is important to enable the fleet to reduce offenses (harsh acceleration, hard breaking while turning, over-speeding, lane-zigzagging etc.) that can lead to accidents.
- This will have a positive impact in reducing the premium.

Premium

- Insurance premium can change if the use of the **vehicle** or the type of cover changes.
- At each renewal the insurance premium may change (even if the policyholder’s personal or business circumstances have not changed.
- Premiums are affected by:
  - the cost of claims paid to other customers;
  - the cost of claims expected to be paid in the future;
  - other commercial factors;
  - any changes in government taxes or charges;
  - expenses of doing business.

Various factors affecting the premium

- Type of Cover (comprehensive cover or restricted cover i.e. only liability)
- Type of vehicle (low or high risk vehicle)
- Deductible (low deductibles increase premium)
- Vehicle use (if the use is highly risky higher premium)
- Radius of operation (low premium if the radius of operation is small)
- Insured amount (the more it goes up the more high premium)
- Postcode

Various factors affecting the premium

- Claims experience
- Occupation
- İntermediary fees
- Endorsements

Deductible

- Make, model, type of vehicle; modifications made to the vehicle
- Age, driving experience of the drivers
- Insured amount
- Where and how the vehicle is used
- Claims history of the policyholder
- Where the vehicles are garaged

Stop loss agreements in Turkey

- Vehicles bought by means of bank loan
- To secure the loan: pledge over vehicles
- Right of pledge extending to insurance money (indemnity)
- Therefore bank requires insurance be taken out for vehicles
- In the framework contract often a stop loss agreement
- Why? Because fleet insurance is not beneficial to insurers. The fleet owner has its own repair shop. Insurance is needed only to satisfy the bank…..

How fleet insurance contracts are drafted in Turkey? Motor Own Damage Insurance

- Free tariff system
- For example:
- Net MOD premium: 8%o (eight per thousand)
- Net catastrophic premium: 1,3%o (one point five per thousand)

MOD Loss/premium ratio

- MOD Loss/premium ratio:

  (Losses paid + reserves for reported but not yet paid claims)
  less
  [(realised recourses income + expected recourses income) + (sauvetage)]
  /
  Earned MOD premium

- "Losses" comprise also the adjuster fees and other expenses.

Benefit sharing

- If at the end of the insurance period MOD loss/premium ratio is less than 95%, the difference between that lesser ratio and 95% shall be paid to the Policyholder.
- When the loss/premium ratio reaches 95%, loss payments shall be stopped.
- If by the agreement of the parties, the loss payments are not stopped at the level of 95%, additional premium shall be paid by the policyholder so that the loss/premium ratio is pulled back to 95%.

Scenario I (Additional Premium)

- Sum insured : 3.122.417.447
- Premium ratio : 0,008
- Net premium : 24.979.340
- Loss/premium ratio limit : 95%
- Losses incurred : 24.000.000
- Loss/premium ratio : 0,96079
- Additional Premium : 283.818
- Premium earned at the end of the insurance period : 25.263.158

Scenario II (Premium to be returned)

- Sum insured : 3.122.417.447
- Premium ratio : 0,008
- Net premium : 24.979.340
- Loss/premium ratio limit : 95%
- Losses incurred : 20.000.000
- Loss/premium ratio : 0,8333
- Premium to be returned : 3.926.708
- Premium earned at the end of the insurance period : 21.052.632

Catastrophic risks

- For catastrophic risks there is a special regime.
- Earthquake, hail, landslide, floods, storm, volcanic eruption, cyclone, lightning
- For repairing the losses cited above, the policyholder is requested to work with repair shops with which the insurer has special agreements.
- Otherwise (if the vehicle is repaired elsewhere) the price list of repair shops having special agreements with the insurer shall apply.
- Cover for catastrophic risks are not subject to stop loss (loss/premium ratio limit) or benefit sharing.

Notification of losses

- Notification of losses are possible only until the 45th day that follows the end of the policy period.
- Validity of this clause

Vehicles acquired after the inception of the policy

- For vehicles acquired after the inception of the policy, there will be insurance cover up to the agreed ratio of the (additional) premium.
- “Forgotten vehicles” (i.e. vehicles that are not included in the cover despite eligibility): They may be covered up to a certain number (agreed in the insurance contract).
- Retroactive cover for catastrophic risks.
- The appointment of loss adjusters may be left to the policyholder.
- Damaged vehicles are left to the policyholder only with its consent.

Additional coverages

- Facultative MTPL
- Accident
- Loss of income
- Legal expenses (legal protection)

- New vehicle after a total loss (new value insurance)
- Driver’s personal effects
- Funeral expenses
- Emergency repairs
- Emergency travels
- Emergency accommodation
- Removal of debris
- Vehicle modifications
- Towing and storing
- Hire vehicle after the theft
- Lease payout
- Tyre replacement

MTPL

- No stop loss agreement
- Individual policy for each vehicle independent of the framework contract

Romanian answers

- *1. Q: In respect of MOD contracts, when an insurance is taking out for a fleet (lets say for 1000 trucks) through a single contract is it necessary to issue a separate policy for each truck?*

  A: No need for a single policy for each truck. The policy is having an appendix which is providing all the objects insured on it.

  2. *Q: in respect of MTPL contracts, when a framework contract is entered into for e fleet (lets say for 1000 buses) is it necessary that separate MTPL policies are issued?*
  A: Separate policy for each truck is needed due to legislation provision.

  3. *Q. Are there different rules applicable to fleet contracts in respect of MOD and TPL insurances?*

  A. There are no specific rules for fleet contracts.

Romanian answers

- 4. Q: *Are "stop loss" agreements valid?*

  A: In respect of MTPL such a provision is not valid and there is no practice in this respect.

  In respect of MOD, it is possible to have this kind of provisions in the contract of insurance. In practice the premium is renegotiated in order to avoid the stopping of the loss payments. However stop-loss agreements are possible pursuant to freedom of contract.

Romanian answers

- 5. *Q: Cancelation of the contract upon partial materialization of the risk? (1000 vehicles insured, two are destroyed can the insurer terminate the insurance?)*

  A: For MTPL, due to the fact that there is is in place an independent policy for each vehicle, the contract ends only for that particular vehicle.

  For MOD, when there is a unique policy with an appendix behind it, the policy cannot be terminated if a vehicle is totally/partially destroyed. But if there Is a stop loss clause in the contract the situation will be different.

Romanian answers

- *6. Q: When vehicles are bought with bank credit and pledges are created over the vehicles to secure the loan, will the insurance benefit also to the bank as a matter of law (Is the interest of the bank as pledgee deemed to be covered when the vehicle owner takes out insurance for his own interest)?*

- A: This question is relevant only for MOD insurance. The MTPL cannot benefit to the bank because it is for prejudiced third parties.

- In MOD insurances, the policy will benefit to the Bank in case of total loss. If there is a pledge on the policy no payment is done to the Insured without discussing previously with the Pledgee.

Romanian answers

- *7. Q Where the contract provides that the premium will be paid in instalments, if any subsequent instalment is not paid is the insurer entitled to terminate the entire contract or will the contract will continue to cover the number of vehicles corresponding to the premium paid?*

  A. For MTPL the law allows the Insurer to cancel the policy by respecting a notification period of 30 days. But in practice the Insurers prefer to ask for the premiums and not let the Insured without insurance.

  For MOD there are clauses that trigger the cancelation of the contract if the premiums are not paid in accordance with the contract terms.