Session No. 667

The Hidden Fleet – Managing Non-owned Auto Exposures within the US and Globally

Nancy Bendickson, CDS, CSP, ARM, ALCM
Senior Consultant—Casualty Risk Control
Aon Global Risk Consulting
Minneapolis, MN

Introduction

The nature of fleet safety operations is changing with more drivers operating personally owned vehicles on company business. Liability exposures also exist for business travelers who operate rental vehicles. These types of vehicle operations represent the "hidden fleet."

The insurance companies define this exposure as "non-owned automobile" and corporations would obtain insurance policies for the liability associated with non-owned automobile operation. The majority of corporate fleet safety policies address fleet operational exposures related to drivers of company owned or leased vehicles. In my experience, I have found that corporate fleet policies do not include in-depth operational controls for personally owned vehicles used for company business and rental car drivers.

In order to establish strategic initiatives for the non-owned vehicle exposure, your organization needs to quantify the magnitude of the risk. Has your organization defined who is a routine driver? Who is accountable for managing fleet safety within an organization that has multiple business units? Who does driver screening? Will fleet safety be handled in centralized or decentralized manner? Can you identify high risk drivers? Have procedures been implemented to manage the high risk drivers? How do you manage fleet operations when you have global vehicle operations?

My presentation will provide the attendee with an increased understanding about non-owned automobile exposures, outline fleet program operational metrics that increase the effectiveness of the fleet programs ability to address the "hidden fleet". In addition, I will introduce the concepts of Motor Vehicle Risk Reduction Metrics that can be applied to vehicle operations within the United States or on a Global basis.

Key Learning Outcomes from this presentation include:

- Increase understanding about non-owned automobile exposures
- Provide attendee with fleet program evaluation ideas to enhance fleet policies to better address the "hidden fleet"
- Identify roadblocks in identifying risks and establishing accountability

- Introduction to risk reduction metrics for fleet safety

Issues Presented by Non-Owned Autos

The issues presented by non-owned auto usage include: lack of control over vehicle selection or condition, selection of drivers, insurance coverage levels for personally owned vehicle used on company business or volunteer drivers, increased chances for being sued by third-party in the event of a crash, or a business traveler that rents vehicles.

Let's discuss ways that personally owned vehicles are used for business purposes. Situations occur in your organization where employees operate their personally owned vehicles; e.g., an employee goes to the post office to pick up mail or pick up food for meetings; clients are visited by employees in personally owned autos; and employees who travel between multiple sites for their employer or to an airport.

How do we know if the employee has insurance on the vehicle? Is the registration current for vehicle? What kind of driving record does the employee have? Do they know defensive driving principles? What is the condition of the vehicle? Is it suitable for job? Have you as the employer performed trip planning in order to identify routes with fewest driving hazards and whether the driving task can be performed in a realistic timetable?

Business travelers present another exposure. These drivers rent vehicles on a routine basis. What controls do you have in place for driver screening, driver selection, and incident reporting? Do these drivers get instruction about safety processes such as becoming familiar with vehicle controls before leaving rental company lot (adjusting mirrors/seats/climate controls before they start driving), defensive driving, cell phone use limitations, or seatbelt use? Does your organization have exposure to drivers renting a vehicle in a foreign country? If yes, what training have you provided that driver about driving rules/regulations in that country?

Vehicle crash frequency is an issue across the globe. Motor vehicle crashes are the leading cause of deaths in the U.S. workplace and contribute substantially to fatalities in other industrialized nations.

That is why it is critical for organizations to take action and begin developing fleet safety management systems for the "hidden fleet".

Definitions

The following definitions are important to understand for the purposes of this presentation:

"Non-owned Automobiles" - Any vehicle that is not owned, borrowed, or leased by the insured, and which is used primarily for a business purpose.

"Non-owned and Hired Automobile Liability": Hired auto liability coverage will pay for damages to a third party, on behalf of your company, if you cause an crash or an injury to someone while you are driving a rented car or "non-owned" vehicle for business.

“Regular Occasional Driver” those drivers reimbursed more than six times per year for business use. Based on definition provided in ANSI Z15.1-2006 in Appendix C- “Sample Driver Owned/Leased Vehicles Used for Business Purposes Policy”

Risk Exposure Identification

In a recent edition of the Road Safe, an on-line fleet safety newsletter contained this article “A Grey Matter in Fleet Safety”. The article discusses two studies done by Arval, a fleet management provider. A study done in UK in 2007 by Arval found that one in four vehicles being driven on business was a non-owned vehicle or “grey vehicle,” the term given to this type of vehicle in the study. However 83% of businesses had no procedures in place to verify that the non-owned vehicle had been regularly maintained, and more than 50% of businesses did not check to see if the non-owned vehicle had business insurance coverage. This survey was first reported in Road Safe Autumn 2007.

Exhibit 1. Photo from Road Safe Summer 2008 depicting “Grey Vehicle Fleet.”

In the United States, we see the trend towards greater use of employee owned vehicles being used for company business. The costs associated with maintaining a company owned fleet have increased and many organizations do not want to be in the business of managing company owned vehicles. Organizations must realize that even though the vehicle is not owned by the company – vehicle operations can still present a liability exposure to the organization.

This occurs through a term called negligent entrustment. When it comes to your organization’s vehicle program, negligent entrustment is best defined as “entrusting or maintaining an employee in a position that requires driving without ensuring the individual has a valid driver’s license or that the driver is qualified to operate a vehicle.”

When a crash occurs, the employee’s automobile liability policy would offer the first line of coverage for the incident. The limits of liability on most personal automobile insurance policies are $300,000 or less. If the damages exceed this level, then the organization’s policy would be involved. That is why it is prudent for organization to implement a system to validate whether the driver has an insurance policy in force and mandate minimum levels of insurance. A certificate of insurance needs to be obtained when a driver is first hired and annually thereafter.

Other fleet safety measures that need to be adopted for this personally owned vehicle exposure include: periodic inspections, verification that preventative maintenance is being performed, motor vehicle record checks, and periodic ride days to observe the driver behind-the-wheel.

Business travelers rent vehicles while traveling for the organization. Have you applied basic fleet safety measures for these drivers? Your organization should begin requiring those drivers that meet the definition of "regular occasional driver" to give consent for obtaining motor vehicle records. These records should be obtained at the point in time where the driver is defined as a "regular occasional driver" and annually thereafter. In addition, business travelers must be given guidance on defensive driving, limitations on cell-phone use, adhering to traffic laws, wearing a seatbelt, and committing to taking time to familiarize themselves with the rental vehicle before leaving the rental car parking lot.

If you have job classes within your organization that require use of personally owned vehicles for business and business travel; the job description should identify that driving is an essential function. This will bring fleet safety into the hiring process.

Quantifying risk exposures for the hidden fleet is necessary to begin understanding the scope of exposure. If your organization is global, this can present some challenges. There will be many different business units responsible for managing the fleet. Identifying the number and types of vehicles across many different countries is challenging. You will need to recognize that insurance is not standardized for global operations. As a fleet coordinator, you will need to start identifying who can assist you in your information quest.

A survey is one method that can be used to gather information about the types of vehicles being used—passenger cars, motorcycles, trucks, mileage/kilometers driven, how vehicles are being used, maintenance practices, inspection procedures, company owned vs. employee owned, and fleet safety management controls in effect.

In many countries, reliable sources for motor vehicle records don't exist. With my previous employer, we had a fleet operation in Latin America. This business unit developed a driver certification process that included a six hour driver training course, written test, and a road test. Drivers were recertified every 2 years.

Many of the fleet policies I have audited in the U.S., state that motorcycles are not allowed to be used for business driving. Applying this same type of policy will be a challenge on a global basis, as motorcycles are a very common form of transportation in Africa, Asia, and Latin America.

Where can you begin finding the data to determine who are your "regular occasional drivers" in your organization? The ANSI/ASSE Z-15.1 2006 "Safe Practices for Motor Vehicle Operators" provided the threshold for the "regular occasional driver" as a driver who is reimbursed more than six times per year for business use. Your organization can determine the threshold based on miles per year or reimbursement levels. How do you find this information? My suggestion is your Travel and Expense accounting department. Information on drivers who get reimbursed for business mileage is tracked in this department. In addition, information on rental car operators should be available from this department too.

Fleet Safety Policies

Your fleet safety policy needs to include control measures for the “hidden fleet”. Begin by reviewing your existing policy to identify revisions needed to assure that non-owned vehicle driver and business traveler are included in driver qualification. Next add a section that addresses policies on non-company owned vehicles used for business. Examples of what to address in this policy includes: outlining levels of insurance required, proof of insurance, review proof of vehicle registration, and require drivers to maintain their vehicle used on company business. Finally, apply the safe driving practices and procedures that have been developed for company owned vehicles to your non-owned vehicle operators.

In addition to the fleet policy, it makes sense to develop a driver orientation process for the non-owned vehicle operator and business traveler. Your organization could require that the driver take an on-line driving class, review a brochure highlighting basic defensive driving rules and company expectations for drivers; or conduct a hands-on meeting with drivers. These activities will allow the driver to understand the importance of adhering to safe driving practices and demonstrate the support that the organization has towards fleet safety.

Driver training can be accomplished through outside driving courses offered via classroom or on- line. It is recommended that drivers be required to take some form of defensive driving course within the first month or quarter of being assigned to driving duties. Refresher training is critical to maintaining awareness of defensive driving principles. Awareness can be achieved through periodic communications about fleet safety via newsletters, email messages or your company website.

High risk drivers are identified by crash history, observations, and citations identified through motor vehicle record or driver abstracts. Your fleet policy should establish a point system that will define when action will be taken and outline that at certain point levels the remedial action to take. Sample wording for high risk driver is provided below:

- **Potential High Risk Drivers –** If a Driver Abstract check reveals a current employee does not possess (within the company’s sole discretion), a responsible, safety-conscious driving record or has received five to eight points or recorded four motor vehicle related incidents within a 36 month period, the company may reassign the employee to another position on either a temporary or permanent basis. The company may also require the employee to attend and successfully complete a driving education and/or counseling course. Table 1 outlines an example of a motor vehicle point system.

Table 1

Sample Motor Vehicle Point Chart

Formatted Table

Motor Vehicle Offense or Property Vehicle Damage	**Loss of Company Related Driving Privileges**	**5-8 Points in a 36 Month Period** (Must have consultation and successfully complete defensive driving course)
Serious Offense – 9 points		
• Driving Under the Influence of Controlled Substance **While on a Business Trip**	X	
• Driving with Revoked or Suspended License	X	
• Careless & Reckless Driving	X	
• Leaving Scene of Crash	X	
• Use of Vehicle in Commission of Crime	X	
• Assault, Manslaughter or Homicide While Operating a Vehicle	X	
Moderate Offense – 7 points		
• Driving Under the Influence of a Controlled Substance **While on Non-business Trip**		X
Moderate Offense – 3 points		
• Failure to Yield		X
• Stop Light Infraction		X
• Improper Lane Change		X
• Centerline Infraction		X
• Speed Limit Violation		X
• School Bus Violation		X
Non-Moving Traffic – 1 point		
• Seatbelt Infraction		X
• Parking Violation		X
• Faulty Equipment		X
• Reprimands, Ride Along Observations Unacceptable		X
Miscellaneous Incidents*		
• Less than $2,000 in incident costs – 1 point		X
• $2,001 or greater in incident costs – 3 points		X
• Failure to Report Citation/Incident – 5 points		X
• 4th Company Incident – Potential Termination	X	X

* Includes property, vehicle and bodily injury claims

Establishing Motor Vehicle Risk Reduction Metrics

I wanted to introduce the concept of risk reduction metrics for your motor vehicle operation. These can be applied to your entire fleet – both company owned vehicles and non-owned vehicles. Identifying metrics for fleet safety is especially important when your organization involves multiple business units and national or global operations.

In my opinion, a vehicle safety champion needs to be indentified for a business unit. This is a part time position that would be the point of contact on fleet safety initiatives that are initiated by your Corporate Environmental, Health, and Safety (EHS) department and be responsible for coordinating fleet safety within the business unit. Activities of the fleet safety coordinator could include: attending periodic conference calls, distributing fleet safety information, gathering fleet crash statistics and preparing a quarterly report.

Accountabilities for fleet safety must start and be endorsed by top management and be communicated throughout the organization.

Metrics for motor vehicle risk reduction will vary per your organization. Proactive measures could include:

1. Assigning a vehicle safety champion to a business unit or country
2. Establishing a Motor Vehicle Safety Task Force with representation from geographic regions and business units with significant fleet exposures
3. Establishing a driver coaching system with goal of annual ride day for all drivers of company owned vehicles and regular occasional drivers
4. Establishing a scorecard for motor vehicle safety activities
5. Establish goals for incidents per million miles and benchmarking standards,

To implement these metrics through your EHS staff or fleet departments you will need the support from operations, sales, human resources, training, insurance / risk management and transportation departments responsible for fleet purchasing/leasing. This will increase the success of your motor vehicle risk reduction metrics. Make an evaluation of the current status of your fleet safety program and then outline the requirements that will be needed to implement the risk reduction metrics – i.e., behavior based driver coaching materials and training materials. This will improve the launch of your risk reduction metrics and assure that you have critical elements within your existing policies to support the motor vehicle safety risk reduction metrics.

Conclusion

My presentation has addressed the issues associated with non-owned automobile exposures. I have described non-owned automobile exposures, outlined fleet program operational metrics that will provide the basis for an effective, sustainable fleet safety program. I have introduced the concept of establishing Motor Vehicle Risk Reduction Metrics that can be applied to vehicle operations within the United States or on a Global basis.

The hidden fleet must not be forgotten when developing and implementing fleet safety programs. They present a very real exposure to your organization in terms of costs associated with motor vehicle related injuries, third-party liability losses, and productivity losses due to motor vehicle crashes. Demonstrate your organizations support for pro-active fleet safety management practices by establishing the same fleet safety policies for your hidden fleet.

Bibliography

Road Safe Summer 2008. *A Grey Area of Fleet Safety* (retrieved January 12, 2009). (http://www.roadsafe.com/magazine/2008summer/grey.htm)

Car Insurance.com. *Insurance Terms* (retrieved February 5, 2009), (http://www.roadsafe.com/magazine/2008summer/grey.htm)

American National Standard (ANSI) *ANSI/ASSE Z15.1-2006 Safe Practices for Motor Vehicle Operations.*

XYZ Passenger Fleet Policy written by Nancy Bendickson, Senior Consultant, Aon Risk Consulting, April, 2006.