Hired & Non-Owned Auto Exposures

The first step in the Risk Management Process is Identification of Exposures. Every fraternity and sorority has significant claims exposure to losses that may arise from the use of Hired or Non-Owned Autos. Exposures exist whenever an auto is used “on the business” of the fraternity at any level.

Hired & Non-Owned Auto Exposures include:
1) Undergraduates transporting people to or from fraternity activities
2) Designated Driver, Sober Driver, or Safe Ride programs
3) National Board Members, Staff or Volunteers using their auto on fraternity business
4) Rental of vans or other specialty vehicles (i.e. R.V.’s) to provide group transportation.

The second step in the Risk Management process, Analysis, shows that in the area of Hired & Non-Owned auto both the financial and human element exposures are very significant. The Surgeon General’s 2007 report on prevention and reduction of underage drinking highlights the more than significant human element Hired & Non-Owned auto exposures as follows:

- 80% of college students drink
- 40% engage in Binge Drinking that is greatest between the ages of 18 to 21
- Alcohol is the leading contributor to death or injuries for people under 21
- 1,700 of the 5,000 annual alcohol deaths for those under 21 are college students (34%)
- Motor Vehicle crashes are the cause of about 650 college student deaths annually
- 45% of vehicle deaths are to persons other than the drunk driver

Claims Analysis:  Hired & Non-Owned Auto Losses
1990 to 2010 .............................................. 100 claims identified
27 claims produced losses of: .................... $25,835,167
Average loss: ............................................ $965,858

We conservatively estimate that between 1990 and 2010, the Total Losses from All Fraternity Hired & Non-Owned Auto Claims exceeds $40 Million or an Average Annual Cost of $2 Million.

While not alone, almost without exception underage drinking is identified as the single largest contributor to Hired & Non-Owned auto claims.

Other significant claim factors include:
1) The driver of the vehicle was inexperienced and unfamiliar with the operation of the vehicle (especially apparent in claims involving Vans or R.V. type vehicles)
2) Driver fatigue is significant in cases of longer travel distances
3) Even if the driver is sober, vehicle overcrowding and distractions caused by the passengers increase exposures
4) Almost without exception, the driver’s or vehicle owner’s insurance limits were quickly exhausted. While it is certainly unfair, the courts frequently make the sponsoring organization and their insurer the insurance company of last resort when the insurance of the vehicle operator or owner are inadequate to pay the entire amount of injury and damages that arose from the accident.

“An Alcohol on Campus report states that on an annual basis more than 2.1 million college students are cited for drunk driving on an annual basis.”
Cost Analysis:

To operate profitability insurance companies seek to have an **overall Loss Ratio** (Premiums Paid vs. Claims Paid Out) of between 50%-60%.

**Example:**
Thus an insurance company would seek to recover the cost of a $1,000,000 claim by collecting future premiums in the area of $1,666,000 to $2,000,000.

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<tr>
<th>Hired &amp; Non-Owned Auto Losses</th>
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<td><strong>For a 3,000 Member Fraternity this represents:</strong></td>
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<tr>
<td><strong>Cost Per Member:</strong> ................. $555 to $666 Annually</td>
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<td><strong>Even if future premium cost is amortized over three policy years:</strong></td>
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<td><strong>Cost Per Member:</strong> ................. $185 to $222 Annually</td>
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<td>This actually understates the cost impact because if the fraternity carries excess liability insurance that cost will also increase proportionally as the cost of the basic or primary coverage increases.</td>
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**RISK MANAGEMENT RECOMMENDATIONS**

James R. Favor & Company offers the following risk management recommendations to assist you in reducing your exposure and the adverse financial impact of Hired & Non-Owned Auto claims:

Increase the **Educational Programming** to your chapters about the serious responsibilities and claims potential that Hired & Non-Owned Auto exposures present. Your programming should stress the following areas:

1) Even if they are using their car “on the business” of the fraternity, the member’s personal auto insurance is primary.  
2) The fraternity’s insurance does not provide the members with any protection for any claims that arise from the use of their auto.  
3) State Financial Responsibility Laws do not limit the member’s liability.  
4) Auto liability judgments against them are usually not dischargeable in bankruptcy and could adversely personally impact them financially for many years.  
5) Advise them to secure auto insurance coverage for Liability, Uninsured and Underinsured Motorists coverage of at least $300,000. (Increased limits of coverage are relatively inexpensive when compared to the personal liability for inadequate insurance).  
6) The importance of only undertaking driving responsibilities in a responsible and safe manner.

Establish as part of your organization’s Risk Management Policy a “Public Transportation Only” policy. The public transportation only policy should state that public transportation (i.e. busses, cabs, limo services) must be used when transportation is necessary for fraternity events or activities and that the use of leased or rented vehicles operated by members to provide transportation is prohibited.

Prohibit the use of or participation in any “Safe Driver”, “Sober Driver”, or “Designated Driver” programs. While these are certainly well intended as loss controls they are not being properly executed and thus resulting in significant claims that are difficult to defend.

**THE FAVOR ADVANTAGE CORNER**

Final Thoughts...

“To further mitigate the potential impact of a large Hired & Non-Owned Auto claim adversely impacting your national insurance program’s overall claim experience, reduce the limit of the Hired & Non-Owned Auto insurance coverage available to Chapters to $100,000.”

- Jim Favor, President