Abridgment

Insurance as It Relates to Demand-Responsive Transit

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The effects of the liability and malpractice insurance crisis—the decline in availability of insurance and the premiums that are far greater than seem justified based on historical loss data or than the public can reasonably afford—have been well publicized. The effects of inflation and the broadening concepts of tort liability have been particularly severe in escalating the cost of automobile insurance, and the high cost of medical services and automobile repairs have also increased loss settlements. The public transportation industry is also suffering from these problems and seeking alternatives during this period of economic uncertainty and social change.

The trend toward a ride-sharing system in the taxicab industry could not be more timely. Unfortunately, however, because the concept is relatively new and insurance carriers have been unable to adequately identify the exposure to losses for rating purposes, complete ultimate costs are not readily available. At present, this exposure is being categorized as either bus, limousine, or taxicab, depending on the individual underwriter's viewpoint. It is, however, safe to assume that the exposure to losses should be less than that of taxicab operations for a variety of reasons.

Insurance rates are more affected by accident frequency than by a few selected high-settlement losses. Unlike taxicabs, which have a high frequency of accidents, ride-sharing systems have fewer losses because of

1. Specific trip scheduling,
2. Lower speeds,
3. Limited radius of operation,
4. Fixed-salary drivers (which eliminates the competitive commission-earnings approach of the usual taxicab operator), and
5. Driver employment stability due to the fixed salary.

On the other hand, the higher passenger load factor will affect premiums because of the increased limits of liability required. A precedent for minimum limits of liability has been set by most municipalities for taxis. It is entirely possible that an increased use of ride-sharing operations will require an increase in present liability limits. Although excess-limits coverage can be obtained, the cost factor will not be firmly established until more loss results are available. From the operator's point of view, higher limits will be necessary because of potential catastrophic losses.

The insurance requirements of ride-sharing operations do not differ significantly from those of taxis (with the exception of the instances in which the city or municipality itself owns the vehicles and operates them by a leasing arrangement). For either, the basic insurance coverage recommended is

1. Automobile public liability: (a) The recommended minimum is $1 000 000 and (b) the basis of the premium is either per unit or per passenger distance traveled (with an ultimate adjustment to be based on loss experience).
2. Workmen's compensation: The classification will depend on the state of residence of the employee. Some states require a taxicab classification, and others require a bus or limousine classification (bus or limousine generally has a lower rate). Again, more extensive use of ride-sharing operations will lead to a proper rating base and a consistent classification.

If the municipality owns the vehicles and is not self-insured, the following coverages should be considered: (a) physical damage including collision, comprehensive, fire, and theft and (b) bonds as necessary. If the municipality is self-insured, separate data must be maintained to determine actual claims experience.

Currently, the insurance marketplace for purchasing transportation liability coverages is extremely limited. In California, the assigned risk plan was broadened to include coverage for these vehicles on July 1, 1976. However, this plan has an extremely limited loss experience on which to base a premium structure, and the indications are that the rate-making process will be affected by the development of true-loss data.

In summary, transportation premium costs can be lowered by education and mandated controls. Proper hiring procedures, safety programs, and thorough claims-handling procedures should be emphasized. The current tort liability, injury-fee settlement basis should be opposed, and no-fault insurance will not be a solution until injury settlements and medical treatment for injuries are placed on a scheduled fee basis, similar to workmen's compensation benefits. Other tort reforms under consideration may also provide some relief. By curtailing medical fees and their resultant high injury settlements, insurance costs can be stabilized.