

HOW TO REDUCE RISK BY IMPLIMENTING DEDUCTIBLE BUYBACK

Presented By | **Ben Droessler**, *VP Independent Contractor Risk*

TODAY'S PRESENTER



Ben Droessler

VP Independent Contractor Risk

bdroessler@cottinghambutler.com

WEBINAR KEY POINT

Guarantee Payment of Owner Operator Lease Damage Deductibles by Implementing Deductible Buyback Insurance Program

1. How to Contractually Transfer Risk to Owner Operators via Operating Agreement
2. How to secure that transferred risk with Deductible Buyback Insurance (which Owner Operators pay for)
3. Review Scenarios & Case Studies of Motor Carriers who Successfully Implemented Deductible Buyback

These recommendations are not to be construed as legal advice. Consult your attorney before making any contractual changes.

TRANSFER MORE RISK FROM MOTOR CARRIER TO OWNER OPERATORS

Via wording in Owner Operator Lease Agreement, hold Owner Operators responsible for first \$1,000 to \$15,000 of:

1. Cargo Damage
2. Motor Carrier Owned Trailer Damage
3. Other Third Party Liability (Auto Liability or General Liability)

Sample Contract Wording

CONTRACTOR shall be liable for, and CARRIER shall charge back to CONTRACTOR, the first \$_____ of each cargo claim, COMPANY owned trailer damage claim, or any other third party liability claim.

HOW TO SECURE RISK TRANSFERRED TO OWNER OPERATOR

Offer Owner Operator 2 Options to Secure Transferred Risk

1. Escrow

- Require Owner Operator fund **ENTIRE AMOUNT** of possible chargeback **UP FRONT** when lease agreement is signed
- Very specific rules/laws to follow CFR 376.12(k): pay quarterly interest, return within 45 days, etc.

2. Deductible Buyback Insurance

- Owner Operator pays small weekly premium to cover all or most of the chargeback
- Offer Owner Operator purchase through Motor Carrier settlement deduct program or provide evidence of coverage
- Covers chargeback from day 1, which minimizes owner operator bad debt
- When claim happens, motor carrier gets check from insurance company
- Owner Operator can include truck and owned trailer deductibles

DEDUCTIBLE BUYBACK CLAIM SCENARIO

Claim Scenario – Owner Operator rolls truck and trailer, taking out a guard rail, his second week leased. Operating agreement holds OO responsible for first \$2,000 of damage to company owned trailer, \$2,000 of cargo damage, and \$2,000 for auto liability (guard rail).

Deductible Buyback Policy Structure

Per Claim Aggregate.....	\$6,000
Company Owned Trailer Limit.....	\$2,000
Cargo Limit.....	\$2,000
Auto Liability Limit.....	\$2,000
Owner Operator Retained Amount....	\$500

Chargeback Collection

\$2,000 Trailer + \$2,000 Cargo + \$2,000 AL = \$6,000
Owner Operator Chargeback

\$500 Paid by
OO

**\$5,500 Deductible Buyback Claim Payment to
Motor Carrier**

DEDUCTIBLE BUYBACK CASE STUDY #1

Situation

- 180 Owner Operator Flatbed Trucking Company
- Motor Carrier owned trailers use expensive rollback tarping system
- Motor Carrier requires Owner Operator to pay for first \$2,500 of cargo damage, \$1,000 of trailer damage, and \$1,000 of other third party damage

DEDUCTIBLE BUYBACK CASE STUDY #1

Problems

- Owner Operators frequently damage tarping system & cargo
- Damages usually under Motor Carrier Cargo and Physical Damage policy deductibles
- Owner Operators don't have money to pay Motor Carrier for damages
- Owner Operators leave or Motor Carrier has to work out payment plan

DEDUCTIBLE BUYBACK CASE STUDY #1

Solution

- Deductible Buyback insurance program implemented to secure cargo, trailer, and third party damage chargebacks with \$100 retained amount
- Owner Operators can include \$1,000 truck physical damage deductible

In just 1 year, Motor Carrier recovers \$19,261 from Deductible Buyback policies, Owner Operators recover \$7,750 in truck physical damage deductibles

DEDUCTIBLE BUYBACK CASE STUDY #2

Situation

- 700 Truck Lease Purchase Operator Program with High Turnover Rate
- Motor Carrier requires Owner Operator to pay for first \$2,000 of cargo damage, \$2,000 of trailer damage, and \$2,000 of other third party damage
- Related Lease Purchase company holds Owner Operator responsible for \$500 Tractor Physical Damage Deductible

DEDUCTIBLE BUYBACK CASE STUDY #2

Problems

- Lease Purchase Operators abandon vehicles or quit and turn in trucks with unreported damages
- When Owner Operators also cause damage to cargo, trailer or third party, Motor Carrier and Lease Purchase company fight to collect respective deductibles from Owner Operator

DEDUCTIBLE BUYBACK CASE STUDY #2

Solution

- Deductible Buyback insurance program implemented to secure cargo, trailer, third party damages, AND Lease Purchase Truck deductible of \$500

Motor Carrier and Lease Purchase company recover \$2,817,731 from Deductible Buyback policies over 5 years

IN SUMMARY

Guarantee Payment of Owner Operator Lease Damage Deductibles by Implementing Deductible Buyback Insurance

1. Set Limits to match damage chargeback in Operating Agreement, now would be a good time to increase chargeback amounts!!!
***Premiums are about \$2 per week per \$1,000 of limits purchased
2. Motor Carrier selects Owner Operator retained amount: \$100, \$500, \$1,000
3. Require Owner Operator to either:
 - a) Fund escrow to 100% of damage chargeback
 - b) Purchase Deductible Buyback

QUESTIONS?



Ben Droessler

VP Independent Contractor Risk

bdroessler@cottinghambutler.com