

HOW MUCH LIABILITY INSURANCE IS RIGHT FOR YOUR TRUCKING FLEET?

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September 5, 2010

The Federal Motor Carrier Safety Regulations require that commercial trucks carry a liability insurance policy of a certain minimum amount, in most cases \$1 million. But, is this minimum coverage right for your trucking fleet? If the minimum is not right for your fleet, how much liability insurance coverage should you have?

There is no one answer that covers all trucking fleets. The requisite amount of insurance is different for a single owner-operator than it is for a fleet of several hundred trucks. Nonetheless, there are common factors that every trucking company should consider in determining the amount of liability insurance coverage that it needs.

The factors that you should consider are:

- Past claims history. You should look at your past claims history over a ten year period. If you are unfamiliar with the claims history, or do not remember the specifics, ask your insurance broker or carrier. As with financial investing, past performance is no guarantee of future results, but it does provide a base of information on which to build.
- Nature and scope of risks. For trucking companies, the primary liability risk is an accident involving third parties. An accident can take the form of anything from a minor injury to a single third party to a multiple car pile-up with numerous serious injuries and deaths. Virtually every trucking company faces these potential risks. A worst-case scenario (involving multiple vehicles and multiple serious injuries and deaths) could involve claims of \$10,000,000 or more.
- Company assets. Generally speaking, the greater the assets of a company that would be subject to execution, the more insurance coverage that company should have. By way of example, lets assume that one of your trucks is involved in an accident in which two people are killed. We will further assume that each of the claims is valued at \$3,000,000, that your company has the minimum \$1,000,000 in insurance coverage, and that your company owns assets of \$5,000,000. Under this scenario, if your company was found liable for the accident, \$5,000,000 of your company's assets (over and above the insurance policy) would be subject to being executed upon by a plaintiff in a lawsuit. If your company does not have enough liability insurance to cover a catastrophic accident (\$10,000,000 or more), it should at least have enough insurance coverage to protect the assets of the company.
- Consider the jurisdiction(s) in which you do business. The jurisdiction in which you do business affects your liability exposure. For instance, Maryland has a cap on damages for pain and suffering. Pennsylvania does not. If you are a trucking company doing business exclusively in the state of Maryland, your liability coverage requirements would be less than if you do business in multiple states, or even just do business in Pennsylvania. Check with your attorney concerning your liability exposure in the jurisdictions in which you conduct business.
- Your comfort level with risk. Ultimately, the amount of insurance coverage that your company should have, in excess of the minimum amount, depends upon your company's comfort level with assuming risk. If you want to make sure that all of your company's assets are protected and that you have enough insurance coverage for even a worst-case accident, you should have a significant amount of insurance coverage above the minimum required by law. Some companies are more comfortable assuming some risk in the event of an accident, and therefore are willing to trade that risk in return for lower insurance premiums. The bottom line is that you should be aware of the

factors involved in determining the appropriate amount of insurance coverage when determining your level of comfort with that risk.

There is no one answer for all trucking companies to the question of how much insurance coverage is necessary. The above factors should be considered by all companies in reaching that conclusion. You should also work with your insurance broker and insurance counsel to help determine the appropriate level of insurance coverage that is right for your company.

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