



# CAPTIVES:

## Tackling the Cost of Towing Insurance

By Maria T. Padilla

**W**ant to see towing company owners grimace? Mention the cost of business insurance. Companies must have it in order to operate – insurance ranks as a towing company’s third highest recurring cost, right up there with equipment and labor – but they don’t control it.

Worse, the towing industry is a business that often gets lumped with other trucking-related operations for insurance purposes, whether or not they have much in common or whether they share similar risks.

“The equipment looks similar, the drivers have commercial driver’s licenses in both cases, and both are regulated by the Department of Transportation,” states an article in [captiveinternational.com](http://captiveinternational.com). “Tow trucks looked like cranes on wheels, and were insured accordingly.”

But there is a price to pay when towing companies are in insurance pools with non-towing companies. They assume the risks of the other companies, including huge payouts that may hijack the cost of insurance.

### Nuclear Verdicts

Currently, the insurance industry has soured on towing and trucking insurance due in large measure to so-called nuclear verdicts requiring extraordinary payouts impacting the costs of towing company premiums.

A lot of nuclear verdicts around the country are scaring companies and increasing costs,” says Peter Walker, director

of specialty transportation at National Interstate Insurance Co. in Richfield, OH. For instance, in 2019 a Georgia trucking company was ordered to pay \$280 million in a tractor-trailer collision that killed five people, according to [judicialhellholes.org](http://judicialhellholes.org), which monitors judges and courts nationwide for “abuses” in the civil justice system as part of the American Tort Reform Foundation.

In another example, Bill Giorgis, owner of Mike’s Wrecker Service in Saginaw, Mich., says the state has been hit with several million-dollar verdicts. “There have been several in Michigan that have gone over \$1 million, and Michigan is a no-fault state where it’s hard to get that here,” explains Giorgis, a member of the United Towing Alliance insurance captive.

Some insurance companies are either exiting the tow insurance market – a common now-you-see-them, now-you-don’t cycle in the towing business – or hiking premiums. For example, Liberty Mutual sold its Trinity Transportation Services towing insurance affiliate in November 2020 after only six years (see related towing insurance story on page 41).

### More Captives Forming

To contain costs and gain control, towing companies are forming insurance captives. In a captive, companies in the same industry band together to insure themselves and lower their risks, in effect forming their own insurance company.

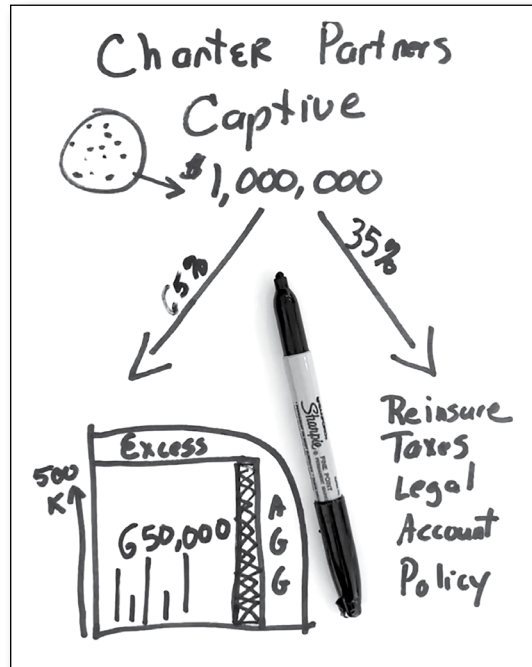
*See Captives on page 37*

**Captives from page 35**

Captives have been around for decades and today there are thousands. They are owned by the policy holders and function for their benefit. The pain and rewards of insurance costs go to the company owners.

In the towing and recovery industry, captives include United Towing Alliance, eMaxx Towing Captive for AAA contractors, and TowCap Premier, among others. TowCap Premier, formed in 2017, is considered the first towing insurance captive, and now has 27 member companies. It works with insurance firm National Interstate Insurance Co.

“There is a lot more movement toward captives across the insurance market,” explains Don Blood of Brown & Brown, Bethlehem, PA, which manages the United Towing Alliance insurance captive, which has about a dozen members. “Premiums are climbing. They have been climbing for a while.” (See the September 2017 issue of *Tow Times* for the article, “Towing Operators Explore Captive Insurance Market.”)



**Don Blood of United Towing Alliance shows how 35 percent of towing insurance premiums goes to administrative and other costs, leaving the remaining 65 percent to pay claims.**

“Many companies say it’s too much work,” Blood says. “They just don’t want to do it.”

“The instability has smart operators searching for new and innovative insurance options to help drive down their costs,” adds Walker.

**Highly Selective**

An important thing to know about towing insurance captives is that they don’t accept just any company. They are looking for towing companies with the best practices. That makes captive insurance groups highly selective. Those companies that pass the test have been scrutinized for their history with revenue, claims, payroll, safety and training practices, among other things.

Blood of United Towing Alliance looks at five years’ worth of data, and the scrutiny doesn’t end there. Some companies find it daunting. First, towing businesses tend to be competitive and don’t like to share data and, second, some companies may not be well organized. Their data may be a mess.

*See Captives on page 39*

**TOOLS that make your job EASIER!**

The advertisement features a collection of tools and equipment arranged on a white background. At the top left is a metal "Fourth Wheel Loader" with a "Roller". Next to it are two black plastic "Shim" blocks, one labeled "3\"Shim" and the other "1.5\"Shim". A "Load Binder" is shown with a chain. A yellow "iBolt" is attached to a yellow strap. A "Tie Rod Coupler" is shown with two metal rings. A pair of yellow "Tie Rod End Pliers" is shown. A yellow "Night Light" is shown at the bottom right. A "BigEasy Kit" is shown at the bottom left. The STECK logo is prominently displayed in the center, with the tagline "Innovative autobody tools and equipment" and the phone number (800) 227-8325 and website www.steckmfg.com.

Thus, large companies with good business practices – top performers – predominate in towing insurance captives, leaving smaller companies behind.

### Come to Save Money, Stay for the Fit

If towing companies initially are attracted to towing insurance captives to save on premiums, they stay for the form and fit.

Companies say the claims process is smoother and easier; after all, payments are coming out of their collective funds. A big reward: excess funds may be disbursed to the companies after claims and expenses are paid at the end of each year, which doesn't happen with traditional insurance.

"When talking about family-run businesses, captives have the opportunity for returns that help the company and family," explains Walker. Plus, the captives earn interest from unused premiums and reserves.

But to maintain the right metrics – to contain the shared costs and risks – peer pressure among towing company owners is high. Companies share information and are expected to be brutally honest about their towing and business practices, including mistakes.

### Tell All

"I bared my soul with my company when my driver got killed, working with OSHA and finding out what went right and what went wrong," says Giorgis, who gives towing safety training seminars based on his experience.

Captives are not just about lower premiums – in fact, an insurance captive may be more expensive at first as it builds cash reserves. And it's not about letting the insurance company handle the rest. For the best experience, companies need to stay engaged.

"You can't abdicate responsibility," says Giorgis. "We've seen that happen before and that's not good."

### Team of Rivals

To make captives work, companies have to overcome rivalries. Two competitors, Jim's Towing Service and Ten-West Towing, based five miles apart in Bakersfield, Calif., helped form the TowCap Premier captive and are now best buddies. They even merged their heavy-duty businesses.

"The experience of launching the captive together transformed the relationship between the old rivals, and since forming the captive they have worked together in other areas," states the [captivesinternational.com](http://captivesinternational.com) article.

Captive insurance experts think joining a captive could be a particularly valuable experience for younger-generation towing operators as they can learn from each other and more experienced members.

In contrast, traditional insurance doesn't do a whole lot to help make towing companies better, and that is a big mistake, insurance captive managers complain.

Says Blood of United Towing Alliance: "It's incumbent upon us as captive managers to help companies be better so that they can win this game. It's about how can you grow your business."



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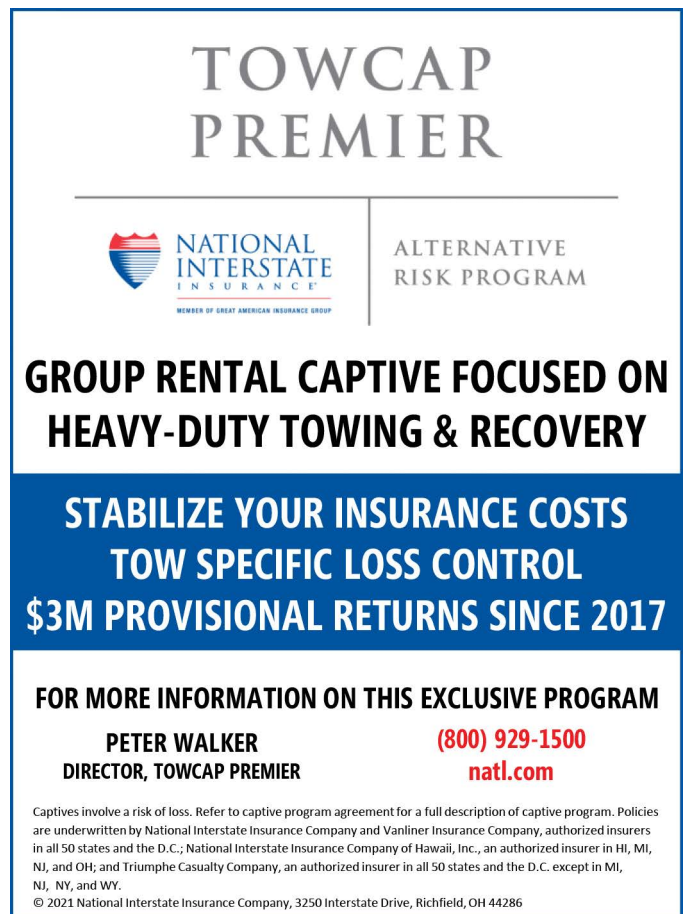
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