Cover Whale - VP, Strategy at LuckyTruck

Interview conducted on January 12, 2023

Topics

Trucking Insurance, Incumbents, Insurtech Start-ups, Underwriting, ELDs, Customer Experience, Claims Handling, Premiums

Summary

During a conversation between a Tegus Client and the VP of Strategy at LuckyTruck, they discussed LuckyTruck's partnership with MGAs and carriers in the commercial trucking insurance space. LuckyTruck offers a fully digital end-to-end motor truck cargo product and services the 1 to 20 space, specializing in trucking insurance. The conversation touched on the profitability of carriers in the trucking industry, the use of ELD data in underwriting, and the differentiation between incumbents in the trucking insurance market. The VP also discussed the start-ups that LuckyTruck partners with, including Cover Whale, Koffie, Nirvana, and HDVI, and the factors that LuckyTruck looks at when providing quotes to customers. The conversation also touched on the use of safety and monitoring technology, claims handling, and what key things they would look for when evaluating players in Insurtech.

Expert Details

VP, Strategy at LuckyTruck.

VP, Strategy at LuckyTruck. Expert is responsible for reviewing market research, project management, and strategic initiatives.

Q: Please rank your familiarity with each of the following trucking insurance providers on a scale of 1-5 (1- never heard of company; 2- heard of company; 3- evaluated offering but do not distribute; 4- formerly distributed; 5- currently distribute).
Koffie:
Cover Whale:
Nirvana:
Progressive:
Others (please list):
A: Koffie: 3
Cover Whale: 5
Nirvana: 3
Progressive: 5
Others (please specify): BHHC - 5, Lancer - 5

Q: Are you responsible for selling commercial insurance to the transportation market? What market segments do you focus on (SMB, mid-market, enterprise)?
A: Yes, SMB

Q: Can you speak to the competitive landscape, market size, differentiation, pricing, and loss ratios for commercial trucking insurance?
A: Yes, more so distribution related and less underwriting/pricing related

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Tegus Client

Thank you for taking the time to speak with me today about commercial trucking insurance. It would be great to start with maybe just like super quick background on you, what your company does, what your team does.

VP, Strategy at LuckyTruck

Sure. So I'm the VP of Strategy here at LuckyTruck. So kind of one of the largest pillars of my role is I'm also the head of partnerships and manage the relationships with both MGAs and carriers. So MGAs would be like Cover Whale, Koffie, Nirvana. Carriers would be like Progressive, Berkshire Hathaway Homestate Companies, BHHC, Lancer, Sentry. Those are kind of some of the major MGAs and carriers specifically in the transportation trucking space.

Other than that, I handle kind of strategic initiatives and like investor messaging, things like that. But I actually came over to LuckyTruck a little over a year ago from our largest investor, SiriusPoint, where I was on the strategy and corporate development team and actually co-led the seed investment into LuckyTruck. But I spent my whole career kind of in the commercial insurance space. So prior to SiriusPoint, I worked at a large Swiss insurance carrier called Zurich, where I was on the corporate strategy team there.

Tegus Client

Yes. So it would be great if you could dive in a little bit more about exactly how LuckyTruck is partnering with MGAs and the carriers.

VP, Strategy at LuckyTruck

Yes. So to your point about the value chain. So there's obviously the customer. We are the retail agent. So we are the one that is interfacing with the customer at purchase, advisory and purchase, servicing over the policy term as well as cancellation, renewal, et cetera. So we are really the front line and that layer between the customer and everyone else.

Behind us, it's either an MGA where there's a set of carriers behind them or we have a direct relationship with a carrier. So we can be appointed by MGAs, who are underwriting and processing on behalf of their panel of carriers. Or we have direct access to carriers like BHHC or Progressive and are selling products to the customers and advising customers on the trade-off between price and coverage and service that each carrier or MGA is able to offer.

Tegus Client

So essentially, you're acting as a distributor. Is that the right way to think about it?

VP, Strategy at LuckyTruck

Exactly. We are essentially the distribution layer for the value chain. And we're an Insurtech, and we do things a little bit differently than incumbents. But yes, I mean, kind of the simplest way to boil it down is we are the distribution engine for commercial auto/trucking insurance.

Tegus Client

Okay. And I kind of was digging around on your website and I noticed you have the credit card offering as well. How does that tie into your offering?

VP, Strategy at LuckyTruck

Yes. So kind of like Phase one of the development and growth of LuckyTruck was creating a purchase and management process for truckers that took away the complexity, the legal ease, the days or weeks of waiting for something to be processed or active and to be able to give customers an experience in an easy-to-use digital platform, where they can purchase and manage their insurance and do so in a matter of minutes, self-serve or in under 24 hours, where it could take days for an incumbent to process the same thing.

And just to give some proof points around that. So like for motor truck cargo, which is one of the kind of three core lines of business for truckers, an incumbent agent is asking 125 questions, whereas we are able to ask 11 to get them a quote. And we're able to offer them an instant quote and instant bind because we partnered with Great American, which is one of our carriers, to create a fully digital end-to-end motor truck cargo product.

So actually, a customer could go on to our website, enter in some information. We pull some third-party data as well and get a quote, bind and purchase without any agent intervention. And so we're on a spectrum depending on the carrier and the lines of business, ranging from semi-automated or slight improvement over an incumbent all the way to like industry-leading, fully digital product that like no other agent has.

Tegus Client

And what portion of the market are you guys typically working with? Are these like owner operators? Are they mid-market? Like how many sort of trucks on average do your customers have?

VP, Strategy at LuckyTruck

Yes. So kind of across geography, number of trucks, stage of business range, truck type, et cetera, our core customer. We're national so we're live in over 45 states. The average number of trucks is at around two to three at the moment. We service kind of the 1 to 20 space, but with an average of two to three.

Stage of business is both new venture and existing ventures. And our book is predominantly long haul, but we do some short haul and last mile. And then our core customer is a truck tractor, but we also service box truck, hot shot, dump trucks. And we're getting into some adjacent, I'd say, segments like tow trucks as well.

Tegus Client

Got it. And I guess we don't normally ask this question, but normally, some people we're talking to didn't come from the investment side. So like I'm sure you saw a lot of different businesses from your vantage point at SiriusPoint. What excited you particularly about LuckyTruck?

VP, Strategy at LuckyTruck

Yes. So if you look at businesses like CoverWallet or Embroker, which are similarly titled like Insurtech digital agencies, they try to boil the ocean, in my opinion, and are trying to offer E&O and BOP and cyber to multiple customer segments.

And really, the thesis for our founder, Devin, was he saw that trucking was being handled by these kind of generalist digital agencies. But trucking is so unique and so laborious to process and purchase and manage that he was like, I think that there needs to be a digital platform that is specifically tailored to helping truckers purchase and manage insurance, which also comes along with having agents that are not generalists, having agents that are specialists in trucking.

Because not only will a carrier not even look at you if you're not a trucking specialist because it is such a kind of hairy line of business to underwrite and they want your agents to be pre-underwriting the customers and matchmaking and having our platform and/or agent match make the best risk to kind of who has the perfect appetite for that customer. But you really kind of need that full stack of specialization in trucking to have that really game-changing product. And so from the investment side, kind of generally, what I like is, one, this is a distribution layer. So this is nonrisk-bearing.

So let's say things go sideways. Because you can obviously tell the loss performance of your short tail lines like auto physical damage. But MGAs or carriers, especially new entrants, may be able to say, “hey, we have an industry-leading 40% loss ratio”. But if they've been in business for two years, yes, that means that there's three to four years more of development for those long-tail lines. And their IBNR, which they think is going to be x, is actually two or three times that after full development over probably a two- to five-year time horizon.

So at a macro level, it was a nonrisk-bearing business. But then kind of more specifically, I thought there was a deep competitive moat in terms of the tech stack that was already built out, the in-house expertise and some of the partnerships that were kind of forming or people had. There was inbound interest, and that's really where I came over to pick those up and start to execute on some of those partnerships. And again, it's really about kind of the need for specialization in trucking because it's so unique as a segment.

Tegus Client

Got it. And it sounds like you guys do have agents. So you're not betting on disintermediation of agents. It's just there's like you can self-serve and bind online if you want to, but you also have agents that can advise your customers?

VP, Strategy at LuckyTruck

Yes. And really what is driving across the spectrum, like a fully manual to fully digital, is again, it's a really hard segment to underwrite. And so a lot of carriers are wary to give up the pen to like a black box underwriter and not have human review and not have upfront agent review and an underwriter review.

So as I said, we have a fully digital motor truck cargo product, but that was because Great American was like, “hey, we're comfortable with writing $100 million of business fully digitally as long as it fits this box and customers get kicked out if they don't fit that box and as well because it's a simpler line of business to write without any agent intervention”.

So I would say kind of on the more manual end, what we've done is automate and streamline a lot of internal agent processes as well as a lot of customer-facing processes. So when there's a line of business or a class of business that cannot be written digitally, the agent is still not asking 100 questions. He's not putting in data three different times into three different systems. So it's a bit of a combination of streamlining internal processes for our internal agents as well as streamlining the process for anything that is customer-facing.

Tegus Client

Okay. And where were your customers? It sounds like some of them are new outfits. But the ones that are not, were they buying from like a Reliance or another sort of industry-specific brokerage previously? Or where were they buying?

VP, Strategy at LuckyTruck

Yes. So this is a really fragmented segment. I believe the statistic is no trucking brokerage has more than 1% market share. And so I think it's a lot of local mom-and-pop shops that maybe do trucking but don't specialize in it. Reliance probably deals more so with the middle market and large kind of fleet accounts. And obviously, as we get kind of beyond or lower than middle market, automation and technology kind of drive more value because it's a lot more transactional and the customer operates more like a consumer than they do a business.

We say that we're B2B with our customers really acting like a B2C. So kind of what we're able to offer is really appreciated and valued by that one to 10-unit customer more so than probably like a high-touch 300-truck fleet customer. I don't know if you all have kind of seen the segmentation of the market, but about 90% of U.S. truckers are under six units. So our kind of business model aligns with the majority of the market.

Tegus Client

Okay. Before we move on to some of the specific upstarts, the line in general, obviously, has been rough and unprofitable for a long time. And it seems like a lot of the incumbents are trying to sort of offload their books. Can you talk a little bit about sort of the opportunity here relative to what may seem like just a bad like sort of top-level macro trend?

VP, Strategy at LuckyTruck

Yes. So that's interesting you say that because for the carriers that we work with or for the carriers that are kind of in our realm that we're chatting with in terms of having a future relationship, et cetera, they only do trucking or have like a deep vertical within trucking. For kind of what you said, I have an example because actually, when I worked at Zurich, they had just exited transportation.

So they were, from what I can tell, a carrier that did not have a deep expertise and probably was getting hosed in terms of the loss ratio. But for carriers like Progressive, BHHC, Lancer, they have the underwriting rigor and the data behind it to be able to effectively kind of underwrite the segment. So I actually haven't seen very many carriers getting out of the space for those that we work with.

Tegus Client

Okay. And the folks that you just mentioned, are they able to be profitable because they're bundling? Or are you guys like selling GL and BOP to these small businesses in addition to the actual sort of commercial trucking itself?

VP, Strategy at LuckyTruck

No. They're able to be profitable solely on the trucking lines. And it's really about underwriting rigor. Like they update their appetite guides. But like we have very strict appetite guides. And so it's essentially like a matchmaking algorithm in our platform and our agents heads. Like they work together of given that this customer is three trucks in this state, this many years in business, they have a clean driving record, this is their credit score. They would be the best fit for BHHC, and we'll quote them with them and a few other carriers.

And we'll get back a $45,000 quote from Progressive and we'll get back a $30,000 quote from BHHC. And obviously, they weight rating factors differently and that's what's driving difference in price. But they're able to do so profitably because we're handing them a customer that matches their appetite, where they know that they can profitably underwrite that customer.

Tegus Client

Okay. And we'll sort of use this question maybe to transition into some of the sort of newer MGA upstarts in the space. But are the incumbents using ELD data as part of their underwriting process?

VP, Strategy at LuckyTruck

So interestingly, the incumbents are not too hung up on ELDs. Like most of them don't require an ELD. Progressive gives a discount for having one upfront and then gives a larger discount if you share a number of months of data with them. But unlike the MGAs, which, to my knowledge, all require an ELD or a specific ELD from a specific vendor, the incumbents really aren't right now too concerned with ELD data from what I've seen. I think it's a plus for them, but it's not a major factor in their underwriting decision.

And that really could be because one of the kind of like differentiators for these incumbents and kind of one of the reasons that commercial insurance carriers in general often are 50- to 100-year old enterprises is because they have that 50 to 100 years of data to run kind of rating models on and be able to underwrite more profitably than an upstart, which kind of needs an edge to be able to underwrite to the same profitability as those incumbents.

And unless like there are some proprietary data set that an upstart is able to gain access to from the start that would be statistically significant in a rating model, it would be hard for them to kind of have some sort of edge over incumbents from the start. But that's why they're using ELDs so that they can start to collect all this additional data and either do kind of active risk mitigation or be able to more accurately price risk at renewal.

Tegus Client

Got it. And in this line, what is sort of average loss ratio and what is excellent loss ratio?

VP, Strategy at LuckyTruck

So I would say like 65-plus is average loss ratio. I am less tuned in to loss ratios because I'm on the distribution side more so than the underwriting side. So I don't really see that many data points. However, I will say that I think some of the MGAs quote like a 30% to 40% loss ratio.

However, I would be skeptical for two reasons. One, because as I kind of said earlier, they are not fully baked in terms of the kind of longer tail lines. And as an investor, you'd have to get kind of a third-party actuarial firm to vet the methodology because where there's wiggle room as in like loss ratios are comprised of three components, the one that they "guess" is IBNR. And your IBNR they say it's at 10% now, it actually could develop to be 60%, and then the total loss ratio is actually 100%. And then you're losing money unless you're making it up on your investment income.

Tegus Client

And so I understand that tail risk, say I own a few trucks. I buy insurance for this year. Something happens or doesn't and I buy again for next year. But is the tail risk like that there's some lawsuit for something that happened this year and it just takes however long to play out in court and you're just not fully aware yet if it becomes one of these nuclear verdicts or something?

VP, Strategy at LuckyTruck

Yes. So it's the length of time it takes to play out in court as well as any damage done to like personnel in another vehicle. Like let's say they get hit. They think they're fine. A year later, there's like a medical exam and they're able to tie back some sort of current application with that accident. And there's different kind of ways to structure insurance, but those are kind of some of the considerations for a longer tail line for things to come up two to three to four to five years later.

Tegus Client

Got it. And like if you were trying to get an early sense of how that might play out, can you use claims filed as a proxy or incidence as a proxy? Or are you don't know because of that sort of second example that you gave?

VP, Strategy at LuckyTruck

I would say you really don't know because kind of the three components of the loss ratio are the incurred, the kind of open claims and then the IBNR. So incurred, you know for a fact to what's contributing to your losses, kind of your case reserves or your open claims of like it's the adjuster of what they believe is going to be the ultimate outcome of the claim. And then the IBNR is you're relying on the actuarial firm or the internal actuaries and their methodology to be predicting the IBNR that's going to be the ultimate loss ratio.

Tegus Client

Got it. Before just focusing on some of these new MGA players, like you kind of touched on all the incumbents briefly, but could you take us through each of them and kind of what their specialty is or what their focus is or differentiator within trucking insurances?

VP, Strategy at LuckyTruck

Yes. I would say at a high level, to the customer, especially, there is almost no differentiation besides price. And truckers are extremely price-sensitive because it is a capital-intensive, low-margin industry, and every $1 to them is very important. Every $1 saved to them is very important. And so to the customer, maybe there's some discounts like having an ELD with Progressive or, I don't know, like some sort of roadside assistance program that they offer for additional fee. But to a customer, all of the incumbents are really the same. It's just based off of price and if there's any sort of coverage gap.

Like our agents, kind of in their advisory role are doing a thing like, “hey, this quote is $20,000, this quote is $25,000. However, you will be underinsured at this $20,000 package, so you really should go with the $25,000”. That's up to the customer to make the decision of which to purchase. But price is really the biggest differentiator for the customer. They barely even know the names of their insurers. They really just know our name.

Whereas I think there's a lot of room for differentiation in the middle market to kind of national account space that just isn't present in the like one to 10-unit trucking space. And so like Progressive, in terms of your question around like what do they specialize in, progressive writes pretty much everything. They're like BMS in the market. I think they have something crazy like 50% to 60% market share.

They do everything from new venture to existing venture, although their pricing is only really competitive for new ventures or kind of early upstart trucking companies. As a company is able to show that they've been in business for three to four years, have pretty clean loss records, things like that, then they're able to get very competitive quotes from companies like Northland or BHHC, where they kind of focus more so on higher-end risks.

So people usually graduate if they make it because a lot of truckers actually cancel or go out of business because it's such a hard space to be successful in. So a lot of people we see, especially our customers, will graduate them from Progressive as their first or second year in business to something like BHHC or Lancer, companies like that.

Tegus Client

So to summarize that, Progressive is the incumbent that's taking on basically all types of risk and is able to be competitive upfront. But then you've got BHHC, Lancer, Northland I think was the other one you mentioned, that tend to be more selective with their risk and like will only take businesses that have demonstrated data points for a number of years.

VP, Strategy at LuckyTruck

Yes. I mean BHHC does new venture as well, but there's a tighter box.

Tegus Client

Got it. And they're essentially operating across kind of enterprise size. Like are they addressing both the long tail as well as some of those larger fleets, mid-market trucking businesses?

VP, Strategy at LuckyTruck

So no, there's actually a pretty clean break between those that focus on the like nonfleet and fleet. Like then if you're getting into the fleet space, there are carriers like AIG or I think Chubb. They write some fleet. And I mean, I think Northland does fleet as well, but there are some carriers that are really competitive and hyper-focused on the nonfleet space and then those that focus on the fleet space.

Tegus Client

Got it. And then maybe moving now to like start-ups. Could you walk us through the ones that are on your radar, the ones that LuckyTruck partners with? And again, going through the exercise of strength and weakness of each would be great.

VP, Strategy at LuckyTruck

Yes. So kind of the ones that are on my radar in general are Cover Whale, Koffie, Nirvana, HDVI. I'd say those are the ones that come up most frequently. And Cover Whale is one of our largest partners. And one of the benefits to Cover Whale as opposed to the others is that they're active in triple to quadruple the number of states of everyone else, which means that us as a national agency, we're able to have an effective working relationship with them.

Because if we have 100 customers come in, they could be from 30-plus states. And if one of our partners can't quote those customers, it just doesn't lead to kind of like an effective option for our agents to be quoting. So I'd say all of them kind of have the same thesis of we are requiring ELD and either doing active coaching or collecting more data and improving rates or like adjusting rates at renewal based off of that data.

But to the customer, there's very little differentiation. Like they're not going to be like, “oh, I really want to go with Cover Whale over Nirvana because of like X, Y and Z”. They're like, “what's the price? Do I need an ELD? If it's an ELD, can I keep the one that I already have? Or do I need some other ones?”

So like Cover Whale forces their customers to use Orion cameras, whereas a customer will say, “I'm not giving up my Motive camera. I don't want to go with Cover Whale unless they can really offer me a much cheaper policy”. Where kind of the differentiation starts to come out is in terms of like servicing. And obviously, the customer associates the servicing with us, but sometimes we're just waiting on things to get processed from the carriers or MGAs.

And so they may have a bad experience with an MGA, where something took two weeks to process in terms of getting them back a return premium or there is an issue with a payment and then they say, "I don't want to work with this carrier again. Can you find me someone else?" And so upfront, I would say there's very little differentiation between the MGAs for the customer. However, there are a few differentiating factors for us as an agency in terms of who we want to work with. And I would say kind of the two pillars of that consideration would be their appetite, which covers like types of customers, what states they're active in, how broad their appetite is, et cetera.

And then what's the operational relationship like? Are we able to have more streamlined processes? Are we able to integrate via API? Or is something paper-based or is it portal-based? So I'd say appetite and operations are the two kind of components that we consider when working with an upstart MGA.

Tegus Client

And could you go a layer deeper on that and maybe discuss how do the MGAs compare on those two fronts? So we already talked about coverage and that Cover Whale is in three to four times as many states as the others. But how about on like the operational side or the service side?

VP, Strategy at LuckyTruck

Yes. So we are actually integrated via API with Cover Whale. And so we work both in their portal and via API. And so that's a big positive for us because with them, we're able to do interesting things like have some more customer-facing pieces of the customer journey or some more kind of like customer-facing UI that allows our agents to be advising customers rather than intaking information.

But out of all those MGAs, we really only have a strong relationship with Cover Whale because, again, the others aren't in enough states for it to be relevant for us or they focus on fleet. So I believe HDVI and Nirvana work with 20-plus fleets. And Koffie, I believe, is going down to 5% plus. But right now, it's somewhere around 10% to 15% plus. And so for the majority of our business, Cover Whale is really the only viable option for us as an upstart MGA. So in terms of how Cover Whale differentiates from the others or how they're different from the others, they focus on the like one to 10 space as well. So it's well aligned with our business.

Tegus Client

Got it. Is there a reason for some of those other players to be selective within those bands that you mentioned? Like I'm just trying to understand, one, from a geographic perspective, but also on like the specifics end of the market like why they would favor one segment of the market over another.

VP, Strategy at LuckyTruck

I really think it's about like difficulty of scaling. Like when you're on the risk-bearing end to be licensed in states and to, one, have carriers behind you that are active in those states. Cover Whale has a very diverse carrier panel, whereas I think some of the MGAs are working with one or two carriers. And so when you are limited to one or two carriers, that carrier may only be competitive or even active in a certain number of states, and then you as the MGA need to be licensed in those states. And each state has different regulatory requirements, different tax requirements. Every state added drives up complexity exponentially for your operations.

And so it's very hard to be able to quickly expand into so many states successfully, which Cover Whale seems to have done better than the others. And so maybe they're intentionally making the choice to other players to remain in, I don't know, two to five states and then selectively grow. So there's kind of like a regulatory operational slant to it as well as they may have some sort of competitive pricing for those states specifically. Let's say they work with Carrier A, B or ABC and Carrier ABC loves the Midwest. So they're able to be extremely price-competitive in the Midwest. And so they're like, “hey, we're going to stay here”.

We're going to go deep in the Midwest, reach a certain kind of velocity of annual premium, and then we're going to try to expand into other states. And that allows us to keep our regulatory operational complexity down as well as have that price advantage in that region.

Tegus Client

Got it. Kind of zooming back out to like a more macro level. So again, we talked about like the specific players as well as just kind of how the market is segmented, that 90% of truckers are under six units. Have you guys done any exercise around just like total market size and what the opportunity is as you see it at LuckyTruck? In terms of like total premiums.

VP, Strategy at LuckyTruck

Yes. So for truck tractors specifically, so if you're thinking about long-haul trucker, we're estimating the premiums to be about a $30 billion market. And if you include things like cargo vans, box trucks, hot shot, it's probably a bit closer to like $40 billion to $60 billion in premiums.

Tegus Client

Got it. And so like going back to what you were talking about in terms of how LuckyTruck is evaluating a customer and the quote buying process, we've mentioned that one main factor is like how long they've been in business for. Can you talk through a few of the other factors that you're looking at as you're providing quotes to these companies? I think you mentioned there are 12 questions that you're asking customers.

VP, Strategy at LuckyTruck

That was a reference to specifically getting a motor truck cargo quote. They're 11. We have 11 questions, but that's the specific underwriting questions for Great American. At a more general level, when we're trying to filter is a customer even with an appetite for any of our carriers? It's really about number of years in business, number of trucks, garaging states.

And then we're using their DOT number. We pull in like, I think, over 100 other data points. But honestly, like the largest ones for rating factors are garaging state, years in business and number of trucks. And then obviously, you get into what kind of trucks? What's the driver background check showing for their drivers? That gets a little bit more granular. But at a high level, kind of those three that I mentioned.

When a customer creates a LuckyTruck profile, when they sign up through our platform, they fill out information for their freight, so what they're hauling; their trucks, so what's the like composition of their truck fleet; and then their drivers.

And with those three pieces, we're able to fill like an 80% risk profile to then say, "Hey, you're even worth quoting with one, two and three carriers." So we've kind of taken the like few pieces of information upfront, like years in business, number of trucks in state and then really get into who are your drivers, what are your trucks and what's your freight. And then we're able to have a pretty robust risk profile and then can match to our carriers.

Tegus Client

Okay. And so that's like on the customer side and what you're thinking about when you're underwriting risk. So you mentioned that like the long tail of trucking customers like often don't make it. Like what percentage of policies end up being renewed? And then how do you deal with bad risk upon the renewal cycle?

VP, Strategy at LuckyTruck

So we're not the ones underwriting. I sometimes say we pre-underwrite, and that really means that we're like thinking through who would be a good match for our carriers. But again, we're not risk-bearing in any capacity. We don't do any underwriting. So it's really what our carriers come back to us with what do they think of the risk at renewal.

But I would say it's pretty healthy if your active renewal rate is north of like 70%, 75%. And what I mean by active renewal rate is you're excluding any cancellations from customers going out of business, from carriers doing a midterm cancellation for them nonpaying typically because they go out of business but then don't tell you. So for active renewal rates, a healthy renewal rate would be between 70% and 75%. And that's for a brokerage, not for a carrier. It's likely much lower for a carrier.

Tegus Client
Much lower than 75% annual retention for a carrier?

VP, Strategy at LuckyTruck
Yes. Because there is also the dynamic of us as a broker. Maybe the customer didn't like their experience with a specific carrier so then we place them with another carrier. So we're not losing that business, but then a given carrier is losing that business. And I mean, really, a carrier MGA can kind of do one of two things. They either say you're not eligible for renewal or they jack up the rate to whatever they think is well-priced appropriately for that risk and the customer can say, "I can't pay that," and then they go with a different carrier. So those are kind of the two options a carrier has in trying to get rid of a risk they don't like.

Tegus Client
Yes. And what's the average sort of like annual premium increase in the space?

VP, Strategy at LuckyTruck
So that is really tied to like rate trends. So it's tied to loss trends. But you'll see like, “oh, commercial auto is getting 10 points of rate”, which has been highly needed because the space has been really unprofitable, et cetera. So I actually don't know kind of some of the specific for trucking because that gets a little bit too granular when you're looking at loss and rate data. It usually comes out by like a top line of business like auto or property or things like that. So it's really hard to tell kind of from my vantage point what typical rate increases are like.

But it's also dependent because I think unlike other segments, the nature of the risk changes more often. So either a driver has shown that they now have two full years of a clean driving record that may lead to a much better rate for that driver. Or they get into one accident and all of a sudden, they're trying to get a 15% increase over last year's price.

So there's kind of a lot of factors that go into trucking underwriting. Whereas if you have a standard BOP policy for, I don't know, a shoe store, the rate is like really not going to be affected by many underwriting factors. It's going to be more so affected by the general loss kind of environment for like BOP policies. In a way, like summarizing it, it's very individualized to the risk, whereas there are some other lines of business where they're not really heavily underwriting. And so the rate increase that any given like owner would see would just be what the general environment is seeing, like what all BOP policies are going up by because of loss trends.

Tegus Client
Got it. And going back to like the safety and monitoring tech like the ELDs, have you seen any pushback from any of the customers about adopting this already?

VP, Strategy at LuckyTruck
Customers absolutely despise the cameras. Like we have customers say, "I will never have a camera in my truck," so there's kind of three different options. There's an ELD, which is federally mandated if you're doing specific cross-border trucking, but that is not camera-based in any way. It's literally just logging hours, miles, et cetera.

Then there's an outward-facing camera ELD, which some drivers like because it can then absolve them of responsibility when a claim happens where someone says, this truck hit me, whereas the truck driver may not have the camera feed showing the street where it shows that the car actually hit them. And then there's the dual-facing camera ELD, which records the driver and the road and is logging the hours of service, et cetera, et cetera. And really where we get the most pushback is on the inward-facing cameras, although we get pushback in general on cameras.

But they hate the inward-facing cameras because they have this conception that people are sitting in a room looking at screens watching them or like recording them when really the camera like just activates when there is like a hard stop or when someone is speeding or things like that. And so we definitely have hard pushback from customers when the ELD features an inward-facing camera. And sometimes they will go with a higher-priced package to avoid having that inward-facing camera. But it can't be that much higher because, again, I'd probably rank price sensitivity as their most important factor.

Tegus Client

I see. And like some of these newer guys would say, "that's fine, like we don't want that risk then", right? Like if they don't want a camera, it's sort of like we're self-selecting in for better risk. Is that fair, do you think? Or it's just more of a cultural thing that the community is not interested in having these cameras?

VP, Strategy at LuckyTruck

That's a really good question. I think it's a bit of both. Because honestly, a normal ELD would be able to track speeding, which is probably the kind of worst defense. Like obviously, checking your phone is also not great. And the inward-facing cameras track if a driver has fallen asleep or has closed their eyes or looking away from the road. But I'd say a large part of it is also cultural because to them, their cab is also their home. So they're like my wife is sleeping right behind me. My children are in the car. Like I'm changing in the cab of my truck. So to them, it's almost like their second home.

Tegus Client

I mean do you see this as like a significant hindrance to the start-ups? Or is there enough of the market that would be willing to accept this monitoring technology that it's not going to hinder them as they compete with the incumbents?

VP, Strategy at LuckyTruck

Yes. And there's actually two things to dive deeper into here that's really interesting. So when you get to the fleet customers, the fleet customers have a risk manager, and it's a more formalized organization, where the Director of Safety or the Head of Operations says, "You're my employee. You have to have this camera in your truck to deal with it." And so at the fleet end, it's a lot easier to adopt cameras because these are like large organizations with 50 trucks, 100 trucks. And now you have corporate culture and you have a more corporate culture and you have kind of more rules and regulations that each driver has to fit or else they're fired.

When you get down into the nonfleet space, it's more of these mom-and-pops. It's like it's the husband and wife or it's brothers or whatever it may be, and there's no like risk manager to force them to use these cameras. And so that's one kind of consideration in terms of size. But as well, the other consideration is that if you're able to offer a price that is that enticing, then people will go with the camera.

And we do very well with Cover Whale. They're very well priced and they're very competitive in terms of their pricing. And that's where even if we get objections to the cameras, people are like, well, I'm not going to turn down a $15,000 cheaper policy than Progressive. I'm just making it up. But then you kind of get things of people having a T-shirt on their camera for five days. And they get the policy down and then they try to sludge things around.

Tegus Client

I see. one other question before we move on. I know we're getting to time here. But one of the other things that t the Insurtech start-ups would say with regards to the cameras is like how helpful it is for claims mitigation to be able to have the evidence there that says like, actually, it wasn't their fault. Have you seen that? And what role did LuckyTruck play in sort of the back end of all of this in helping your customers manage claims?

VP, Strategy at LuckyTruck

Yes. So claims are something that really squarely sits with the MGA or carrier. Almost no agent is playing a very active role in terms of a claim. No matter what, we are the customer's adviser. And so if they can't get an answer back under expected turnaround times from the carrier, we definitely step in. But we're trying to facilitate the most seamless connection between the customer and the right person within the claims organization of an MGA or carrier or TPA. So we direct the customer to the right person or right organization, and then we follow up on their behalf if something is not going well because that's also our reputation on the line, even though claims are fully out of our control.

Tegus Client

Okay. Is there any differentiation on the claims side like claims administration, processing, handling? Are the start-ups doing any better than the incumbents? Or is it relatively undifferentiated there?

VP, Strategy at LuckyTruck

Yes. So it is in terms of after a claim is resolved, what does the customer think of their experience and do they want to renew or not renew with that carrier. Lancer told me that whenever someone has a claim with them, they actually stay because Lancer has such high-quality adjusters.

They are always trying to be customer-first, and they underwrite in a way such that if there is a claim, they can really make the customer whole in an appropriate way. So sometimes you have a great experience. And when there is a claim, the customer wants to stay with the carrier.

Other times there's a claim, they try to make them jump through like all these hoops. They take months to process, and then the customer is still having to pay insurance on something that may be unusable. But because there's no resolution on the claim, there's no kind of documentation needed to get the truck removed from their policy, et cetera.

And so as a whole, I see that when these kind of upstarts, which obviously it's really hard to bill a full claims organization, they use TPAs. If they're using a poorly rated TPA, customers are going to hate the claims experience versus if you're using someone like Progressive or BHHC or Lancer. They tend to have a more positive experience.

Tegus Client

Got it. So most of the upstarts are actually just using a TPA as opposed to doing any sorts of claim administration internally?

VP, Strategy at LuckyTruck

From what I've seen, yes.

Tegus Client

Okay. It sounds like Cover Whale, probably yes. How well have you gotten to know the management teams from each of these? I guess, really, what we're talking about here is Nirvana, Koffie and Cover Whale. And do you sort of see any advantage based on the folks that are running these organizations? I mean, are you like, “hey, if I were to join one of these three, it would be this one because these folks that are running it are the real deal”?

VP, Strategy at LuckyTruck

So I know the entire Cover Whale executive team or, I guess, the legacy one. They have a few new hires. But our founder and their founder are close. I chat with a few of the executives monthly, if not weekly, at Cover Whale just because we're such big partners. The Koffie team, I have like gone out with them a few times at conferences. We got dinner, chatted, et cetera. And then HDVI and Nirvana, just limited interaction so I know them less.

I mean, Cover Whale is really the only one that is at scale, where I think it makes sense for me to join. They actually just hired a Chief Strategy Officer from JPMorgan, Carly. But yes, the others, I think I'd be interested in like hypothetically. It's just really Cover Whale is at scale to be a national kind of force. It's really just what I'm so interested to see is over the next, I don't know, three to five years, what is going to be the actual underwriting results for all these MGAs because all of them are pretty new and will not have like ultimate loss ratios fully developed yet.

Tegus Client

Right. If you were evaluating these players, like what would be the key thing you'd be looking for? Understanding that loss ratio is difficult because it's not fully developed, like is there something else you'd be looking for to determine which one might be a winner?

In Insurtech, it's tough to sort of parse the difference between fast growth due to great product market fit and potentially underpricing the product and growing that way, right, particularly with these long tail exposure lines where you don't know what the loss ratio is going to be. And so what sort of KPIs or things would you want to understand early on to try and get at whether this is something that's sustainable or not?

VP, Strategy at LuckyTruck

So I think I'd split it up between underwriting and like tech and operations as the two areas that I would assess. In terms of underwriting, without being able to know how things are developing, what actions are they able to take midterm or at renewal that will improve their underwriting results going forward? Because one thing that is hard for many carriers is to be able to enact underwriting improvements quickly. Usually, they take multiple years.

And so if these MGAs are able to take action midterm or be able to take this ELD data and way more accurately price the risk at renewal, if they're not actually achieving good underwriting results for the first few years of business that they were writing and now we're seeing it fully developed years later, I think that their book would continue to improve as they're able to make those kind of fast adjustments to their kind of risk assessment.

In terms of like ops and tech, I mean, again, like really important to be relevant, it's really important to achieve scale across the country or at least be like the best in a certain region and then offer agents kind of an amazing experience. Because if you're kind of holding things up for your agent, if you're making errors for your agent, if you're making their lives difficult, you as the MGA are not bearing the brunt of the customer's anger. The agent is. And so at a certain point, they're just going to be fed up with kind of the instability or the errors or things like that.

And they're going to try to make the decision of, should I give up on a well-priced option because it's such a hassle? And our renewal rates are terrible with them because customers don't like their service, don't like their claims process, don't like the errors they're making. And so it's going to be about people who have the tech and the operations in place to give the agent a great experience, which then downstream impacts the customer and is able to take midterm and renewal underwriting actions that actually impact like significantly their results. I'd say really, an MGA is really about making the agent happy. Because if the agent's happy, then the customer's happy.

Tegus Client

Cool. Okay. Well, thank you so much. This is really helpful.
