

## **Construction Vehicle Classification Can Affect Your Wallet**

Several factors influence how much a contractor pays for business auto insurance. The amount of insurance bought, the firm's loss history, employees' driving records, the condition of the vehicles, deductible levels - all of these have a major effect on the policy premium. However, the way the insurance company classifies the vehicles also impacts the premium in very significant ways.

Under the rating rules for business auto insurance, insurance companies use three factors to classify a vehicle: Its gross vehicle weight, how the business uses it, and the normal radius of its operation. The size classifications are:

- Light - 0 to 10,000 pounds gross vehicle weight;
- Medium - between 10,000 and 20,000 pounds;
- Heavy - between 20,000 and 45,000 pounds;
- Extra-heavy - More than 45,000 pounds.

The heavier a vehicle, the higher its premium due to the increased potential for severe losses.

The use classifications relevant to contractors are:

- Service - Vehicles used to transport the business' personnel, tools, equipment and supplies to or from a job location. Only vehicles that the business parks at job locations for most of the working day or uses to transport supervisors between job locations get the service classification.
- Commercial - Construction vehicles that are not eligible for the service classification.

Service vehicles, because they are parked for most of the day, qualify for a lower premium than do commercial vehicles.

The radius classifications are:

- Local - Not regularly operated beyond a 50-mile radius from where the business garages them;
- Intermediate - Operated within a radius of between 50 and 200 miles;
- Long Distance - Operated within a radius of more than 200 miles.

The larger the radius, the more miles the vehicle is likely to be driven and the higher the premium.

The rules also contemplate the type of contractor that uses the vehicle, though the rating factors tend not to vary greatly from one type to another.

The rating rules have charts showing the mathematical factors that apply for different combinations of size, use and radius. The insurance company multiplies these factors by its basic premium for the vehicle. For example, the factor for liability insurance for a light service vehicle (a pickup truck) with a local radius might be 1.0. The company will take the basic premium for a truck (for example, \$500) and multiply it by 1.0.

Conversely, the factor for a heavy commercial vehicle (a dump truck) with a local radius might be 1.50. Multiplying this factor by the \$500 basic premium produces a premium \$250 higher. This vehicle is on the road more than the pickup and has the potential to cause more severe injuries and damage in an accident, so the premium is higher.

Different factors apply to the premiums for comprehensive and collision coverages, and the effect may be the opposite of that for liability coverage. For example, the factor for the pickup truck might be 1.0 but the factor for the dump truck might be only 0.80. This is because a heavier vehicle should be able to withstand a crash better and sustain less damage than the lighter one. The rules base comp and collision premiums on the original cost of the vehicle, so the dump truck's higher initial value will offset the lower factor to some extent.

It is important that a business provide accurate information about its use of a vehicle to the insurance company. Vehicles that spend most of the day on the job site should get the lower-rated service classification. Insurance companies can verify a vehicle's weight through independent sources and its radius by examining lists of work on hand, but they will rely on information from their agents for the use classification. The business that gives its insurance agent detailed information about all its operations is a business that will pay a premium that accurately reflects its loss potential.