

# MANAGING RISK WITHIN THE CAR RENTAL INDUSTRY

KANE'S CEO, **STEPHEN MAY**, EXPLORES SOME OF THE UNIQUE RISKS FACED BY THE CAR RENTAL INDUSTRY AND OFFERS ADVICE ON HOW IT CAN EMPLOY SOPHISTICATED RISK MANAGEMENT TECHNIQUES TO MITIGATE THESE

For the car rental industry, controlling costs and optimising efficiencies, while leveraging technology to meet customer demands, are crucial to gaining that competitive advantage in today's market. Those that are willing to innovate across the entire fleet management process and provide further operational efficiencies will survive and the more they can control and manage risks the more they will prosper."

These words from Patrick Sheedy, media and PR director for the Institute of Transport Management (ITM), sum up the key issues that are facing car rental companies today. Speaking at the launch of the ITM's research report into the automotive and fleet services industry and its accompanying "Roll of Honour" last year, Sheedy added that savings can be made in the long term by improving risk management performance, "which will have a beneficial effect on a company's claims record, which, in turn, will reduce insurance costs – usually the second-largest cost associated with operating a rental business."

Of course, risk management is not just

about saving insurance costs. One of the key risks that the major international car rental companies face is that an incident could result in loss of reputation. They have put significant investment and effort into establishing their brands. Recent history has shown in various areas that an "ethical transgression" can severely impact brand with severe consequences on demand – and share price. Strategies to protect brands have to be high on the risk manager's list including a fast and effective way of containing and minimising damage.

Patrick Smith, director of risk (EMEA and Asia-Pacific) and European claims management at Hertz Europe Ltd, adds: "There is financial risk in operating globally and ours is a very transactional business. Obviously, there are significant operational risks and counter party risks to be assessed managed and mitigated."

Car rental companies' service is dependant upon many others; after all, they don't make the cars on which their businesses depend. While the motor production industry has been hit harder than most in the current recession, large

buyers such as rental companies have most likely benefited from the ability to negotiate favourable deals.

However, this opportunity is offset by a risk. The life of a rental car is relatively short and companies need to sell on vehicles once they reach a certain mileage. As with new cars, the prices of nearly-new and used rental cars have been hit by the recession. The secret for companies here is to make sure that fleet purchase cost reductions offset and hopefully exceed the back-end sale losses.

Another major potential risk for rental companies is credit card fraud. This is a sector that centres around credit card payments. Inevitably, companies accumulate a lot of financially sensitive data and they have to ensure that client information is handled with the strictest care to minimise risk. Comments Smith: "The risks of making sure you know who your customer is, that your customer is who they say they are and the risk involved in managing a significant raft of customer data are all additional to simply managing the fleet."

As well as the inherent risks of a large fleet in different countries where different legislation and regulation apply, companies have additional risks compared to other multinational organisations in that their fleet is used by drivers who are not part of their company. They can't take advantage of driver training programmes to improve their claims experience.

However, here the downside is balanced by the upside. Those other companies are pretty much stuck with the employee drivers they have. Car rental companies have the option to change their strategies in terms of whom they want to have as customers – which works fine with individual renters, but could be limited when it comes to their corporate clients.

But there are some ways that rental car companies' risk managers can mitigate driver risk. Technology is the answer. Offering, for example, multi language "SatNav" not only provides a service and meets customers' increasingly demanding expectations, but also reduces their risk of accidents.

**"MOTOR LIABILITY RISK HAS TO BE THE BIGGEST CONCERN – AND INSURANCE COST – FOR RENTAL COMPANIES"**

## \* MANAGING RISK

- \* Track reputational issues and be prepared to move fast to protect brand
- \* Ensure that effective systems to deal with credit card fraud and data protection are in place
- \* Keep abreast of national regulation – new rules are coming in all of the time
- \* Understand your fleet claims and losses so that you can make strategic decisions on refining your customer base and the need for risk transfer
- \* Take advantage of technological developments to improve driver safety and minimise your risk
- \* Consider whether a captive insurer could be cost effective





Technology also comes into its own with the growth of car-share schemes adopted by some rental companies. The key problem is that the vehicles concerned are not parked on company premises. Risk control here revolves around technology that allows remote securing and releasing the vehicle.

Car rental companies are focusing on helping their customers drive well and mitigating their motor liability and damage costs. To mitigate the cost of damage caused to their own vehicles, they look to a contractual solution, providing products to their customers to limit their liability for damage to the vehicles.


Motor liability risk has to be the biggest concern – and insurance cost – for rental companies. In most countries, insurance is a statutory requirement.

Meeting this requirement cost effectively has led some rental companies to establish their own captive insurer – an

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insurance company which can provide protection for the motor risks, and effectively cuts out two “middle men” (the direct broker and insurer) by accessing the reinsurance market direct. It also cushions the rental company against the historic volatility of the direct insurance sector, which can bounce from hard to soft (or vice versa) mode with tough implications for direct buyers.

Financial, insurance and risk management benefits can be significant. The captive earns interest on its deposits and any excess after claims payment can be remitted back to the parent by way of dividends. There’s also the ability to offer additional revenue generating insurance products to customers.

Further, insurance coverage can be very closely geared to the need of the company and any changes, including expansion into new territories. Essentially, for car rental companies, a captive could put its parent owner in the driving seat. 

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## \* CASE STUDY – HERTZ EUROPE



**Probus Insurance Company Europe Ltd** is the Hertz captive and freedom of services insurer. It is domiciled and regulated in Dublin and was established on January 1, 1997. Probus mainly writes motor vehicle liability insurance, but is also able to handle other classes such as property, general liability, goods in transit, personal accident and parked vehicle risks. The various insurance programmes covers 12 countries – Belgium, Luxembourg, France, Germany, Spain, Italy, Netherlands, the UK, Ireland, the Czech Republic, Slovakia and Switzerland.

Prior to the creation of Probus, Hertz bought compulsory third-party motor insurance in the traditional insurance market. In 1993, the company decided to manage its own claims and created the Hertz Claims Management (HCM) business – a pan European claims service provider dealing, mainly, with third-party liability claims. This gave Hertz direct control over the claims process so that it could analyse claims and costs across countries and locations in a way that produced meaningful information on loss trends and cost distribution. Specifically, as a car rental company whose core business is hiring its vehicles out, Hertz has the critical mass of transactions to be able to predict the volume and cost of third-party claims incidents, by understanding accident frequency and average cost metrics in each territory.

With this knowledge of its claims data and ability to predict cost, it became clear that there was little point in paying an insurer – that had its own profit margins – to fund the cost of claims. And that’s when Probus was established. Hertz effectively established an end-to-end delivery, not only self insuring, but also providing insurance documentation in a compliant way and managing the claims process in each territory of operation.

It was important for governance reasons to keep the entities – Hertz as the customer/policyholder, HCM as the service provider, and Probus as the insurer separate.

Says Patrick Smith: “Our self-insurance strategies and captive structure has been very successful in terms of providing certainty over the cost of the compulsory insurance to the business and making sure that we are relentless in driving the efficiency of the claims process. As we introduce strategies around issues such as counter fraud, the benefits of these initiatives directly bleed into the premium costs and deliver benefit directly to the policyholder – the Hertz business.

“The flexibility that our captive structure brings really enables added ability to provide additional products and services to our customers. This has been telling in a number of examples including the provision of personal accident and personal effects insurance, our car share business ‘Connect by Hertz’ plus mergers and acquisitions.”

Smith says the Hertz strategic model in the US is similar in terms of the company being happy to absorb the liability risk. “Wherever the Hertz operation has a significant volume of business, we will have the loss frequency to provide predictability and this enables our risk appetite and supports our focus on researching ways of managing those risks internally rather than giving them to somebody else to manage at a profit.”

Finally, he stresses that self-insuring through a captive produce influences corporate culture. “It’s all our money. There’s a direct link between risk management and insurance costs. We fully comply with our regulatory duties and are fully and actively focused on the way in which we manage claims, knowing that the value flows back to Hertz and, ultimately, to the benefit of our customers.”