

IT'S A NEW YEAR!

As I'm preparing this article for the HIADA January Newsletter, it is mid-December and my agency ...as your operations probably are...is caught up in the Holiday rush-to-be-ready mode. Whether it is preparing for the office Christmas party or just the hustle and bustle of this time of year, business minds are scattered in December. Sure, Texas Independent Auto Dealers are among the retailers hoping to benefit from the 'giving' season and are working feverishly toward that goal. I also know the Season demands you and your employees to make time for families and friends.

I'm here to say: "That's a good thing!" Balance in life is important and I, for one, sometimes lose sight of that, so bring on the eggnog, the noisy Holiday parties, the serene Christmas Eve, the grandkids at Christmas' dawn and midnight New Year's Eve promises. I'm ready to multi-task!

Of course, as you are reading this, the end-of-the-year hubbub is part of the past. We are standing at 2012's starting gate and January through March is historically Texas Independent Auto Dealers' busiest quarter of the year. Inventories have been built to their maximum in preparation for the income-tax-refund onslaught, and that's what I want to talk about this month, avoiding coinsurance penalties.

Recently, I visited with a dealer who had doubled his inventory from \$250,000 to \$500,000. His garage liability policy had a mid-August effective date, and I asked him where was the endorsement increasing his coverage. Our exchange went something like this:

Dealer: *"Oh, I haven't had time to even call my agent. I may do that this month."*

Me: *"Do you realize your policy has a 100% coinsurance clause? That requires insurance to 100% of inventory to avoid coinsurance penalties."*

Dealer: *"I'm not worried about that. I'll get it all covered before we hit the bad weather season."*

Me: *"Do you have a lien holder?"*

Dealer: *"Yes, but my line of credit is only \$250,000. That's all they require. I'm okay there."*

Me: *"Well, you are okay until you have a loss, even a single car loss."*

Dealer: *"What? The most I have invested in any one of these cars is \$22,000. Math might not be my best subject, but I do know that \$250,000 is enough to cover \$22,000."*

Me: *“I’m afraid the insurance company will use a different math if one of those \$22,000 vehicles is stolen.”*

Dealer: *“What do you mean?”*

Me: *“Your policy includes a 100% coinsurance clause which means you must insure your inventory for \$500,000 to avoid any coinsurance penalty. You have \$250,000 in coverage, so based on the contract, you have chosen to insure your physical damage risk at 50% of any possible loss.”*

Dealer: *“That doesn’t make sense to me. Give me an example.”*

Me: *“The \$22,000 vehicle is stolen. It is insured for \$11,000, less the deductible which your policy shows as \$2,500 for theft. So, you collect \$8,500 instead of \$19,500. If that vehicle is included in your line-of-credit, you owe the bank \$22,000 and you have a check in hand for \$8,500.”*

Dealer: *“I don’t think that’s ever really been explained to me before. Of course, I haven’t been able to get enough cars to make any difference in the last few years. I’ll get with my agent today.”*

All physical damage policies include some sort of coinsurance clause applicable to the insured’s inventory, and most require insurance to 100% of value. There are some Lloyds markets with 80% coinsurance clauses and a few stateside insurers requiring 90%. Take a look at your insurance policy to see what it requires, and what the consequence is for not adhering to the contract agreement. Every dealership is unique. You may be in a position to take a risk, while someone else may not. You may have several locations and inventory can be more equitably assigned, while someone else doesn’t have that luxury.

My point is: Be sure your agent is fully aware of your specific situation, so he/she can adequately counsel as to the best solution for you.

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Okay, where did I put that cup of hot chocolate? Talk to you next month.

Happy New Year!!

Please call, e-mail or fax to me your insurance questions and concerns. This column belongs to you and it is a pleasure to work with and for you. annmullen@mulleninsurance.com; amullen@mulleninsurance.com; or www.mulleninsurance.com.

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