

CO-INSURANCE

What is it?

Few things are more frustrating than getting less than what one thinks they paid for. When we make a deal, whether it is to hire a job done, buy a car, secure insurance or anything else, we assume all parties will keep their ends of the bargain. If you are paying fifty dollars to have a couple of cars washed or detailed, you anticipate that will happen *before* you part with the money. If you are buying a car, you check it out first to be sure you are getting your money's worth. Payment-after-the-fact eliminates a lot of the *buyer beware* dangers that accompany most purchases. Insurance does not lend itself to such a safeguard.

A Texas Independent Auto Dealer's business insurance package often includes dealers open lot and property coverage. Both of these policies contain coinsurance clauses. Property and DOL coinsurance clauses vary from contract to contract, but the ones most dealers will see reflect 80%, 90% or 100% as the required insured amount to assure claim payments without coinsurance penalties.

Let's begin with the 100% coinsurance clause most often included in dealers open lot policies. This clause requires that the automobile inventory be insured to one hundred percent of dealer-cost value to avoid any coinsurance penalty should a claim occur. It's important to understand that *every claim* is subject to all policy conditions, including the coinsurance clause.

I've worked with dealers who came to me wanting to carry enough insurance to cover only higher valued vehicles. Some wanted just enough physical damage coverage for any one loss. Others wanted to cover the furnished autos' value without scheduling specific cars. Some needed to satisfy a lien holder, but didn't want to insure the full inventory. There are solutions to every one of those goals, but ignoring the coinsurance clause will not do the trick.

Let's assume a dealer has \$100,000 in his-cost inventory. He feels he can afford the premium for \$50,000 in DOL protection and knows he can survive with that amount of coverage in the event of a total loss, i.e. a Hurricane Ike catastrophe. With that in mind, he purchases \$50,000

in insurance peace of mind via a physical damage policy that includes a 100% coinsurance clause and \$1,000 per vehicle deductible.

If he doesn't have a claim, everything's great. He saved some money and had some protection. But Murphy's Law and Houston traffic must be considered: his salesman totals a \$25,000 vehicle. Taking for granted that the claim is covered, the physical damage payment will be adjudicated as follows:

Vehicle Value:	\$ 25,000
Less Deductible:	- 1,000
Less Coinsurance Penalty	-12,500
Amount Eligible for Payment	\$ 11,500

In other words, the dealer was insured for fifty percent of *any* loss, not just a total loss. If the contract had required ninety-percent, then the dealer would have needed \$90,000 in coverage to have the claim considered without coinsurance penalty. An eighty percent clause would have required \$80,000 in coverage for same situation.

Before you buy your next dealers open lot policy or commercial property contract, be sure you understand the coinsurance clause, the deductibles and the basis on which claim payments will be made. If the purpose of your DOL policy is to insure only a portion of your inventory, whether it is vehicles valued in excess of a certain number, vehicles that have been floor-planned, whatever, ask for an endorsement to reflect your wishes.

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Based on the feedback I've received, our Insurance Corner is providing answers and welcome information. If I haven't touched on a subject near and dear to your heart, do not hesitate to contact me. annmullen@mulleninsurance.com or www.mulleninsurance.com. I'm eager to receive your feedback, questions and comments. The intent of this column is to serve Texas Independent Automobile dealers, and most especially, HIADA members. Let's make this column work for you.

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