

# Dialogue

Preferred  
Dealer  
Protection

Cost Control Through Loss Control

## Loss Data: Where Does The Money Go?

Each year your dealership pays thousands of dollars in insurance premiums for fire, liability, physical damage, and workers compensation. Add these costs to health insurance and the total will likely be your third or fourth largest business expense, according to NADA . It's "just in case" or "sleep better at night" money: You pay thousands in premiums, which allows insurance companies to pay millions in losses.

So where does the money go? Let's review one large loss as an example. A dealership decided to save a few dollars by having an employee install a new fan in the customer bathroom. He wired in the new fan "free of charge." The fan ran for a couple of years until it burnt out, shorted, heated up and ignited the building.



According to the fire investigator, there was no doubt that the wiring was done incorrectly and therefore the fan never shut off. Although the dealer saved a few dollars by not hiring an electrician, the loss was \$1.2 million and burned down his service department. The dealer's premium was \$56,000, so it would take over 20 years to pay for the loss at that rate—assuming he never had another loss and zero interest.

PDP analyzed our Dealer Program losses of \$100,000 and over to see if there was a pattern. The results were surprising: 40% of the dollars paid out for large losses went to cover liability from vehicle collision claims, while 32% came from property losses such as fire and wind damage. The next category was premises claims, meaning mainly slip-and-falls, at 8%.

These three categories make up 80% of severe losses in the garage liability category.

In the workers compensation category, slip-and-fall claims proved to be the most frequent cause of loss and the most expensive, followed by injuries due to vehicle accidents as the second most costly. These two categories account for 60% of all workers compensation claims.

It then stands to reason that dealers need to focus on reducing vehicle collisions, slip-and-fall claims, and fire exposures. Premiums are based on exposures and prior loss history, so it pays to reduce both as much as possible.

Losses can run to over a million dollars for one incident. One such claim could bankrupt a dealership; that's why dealerships purchase insurance. The money is pooled so that if one of the contributors has a large claim everyone pitches in, so to speak, to cover the large claim.

So where does the money go? The answer is: Most of it goes to pay claims, some of it covers expenses and salaries, and if the insurance company is lucky it will have made a profit five years after the policy expires.

Keep in mind that if a company doesn't charge enough premium, it may not be around to pay the claim later on—and the dealership will find itself in the insurance business.

As one claim adjuster stated, "No one ever asks if they paid the cheapest premium when there is a large loss; they only want to know that it's covered."

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# Street Smart

## Road Rage

According to the Department of Transportation (DOT), aggressive driving may be the cause of 50% of all vehicle crashes. More drivers today are concerned about road rage than about drunk drivers on the road. In one incident, a driver thought the pickup truck behind him was following too close and threw a bottle out the window at 70 MPH. The bottle hit the windshield, causing that driver to lose control; a major accident resulted, involving several vehicles. All because the driver thought the vehicle was too close.

A study by AAA noted that you can not profile aggressive drivers: “Hundreds of aggressive drivers ...have snapped ...successful men and women with no known histories of crime, violence, or alcohol or drug abuse.” They are often described by family, friends and neighbors as “a nice person”, a “wonderful father,” or someone who “must have been provoked.”

Often these tragic incidents start with trivial events such as being cut off, following too close, playing the radio too loud, flashing the high beams, driving too slow, blocking traffic in an intersection, talking on the phone, or someone giving the finger. Minor accidents have turned into murder because “they hit my car.”

Those charged with committing acts of road rage often admit they were



already upset about something else — such as conflicts related to their job, problems with a relationship, or the physical pain of an injury.

Since we are prone to react when someone threatens our space, cuts us off, or takes our right of way, we should think ahead of time about how to respond before we find ourselves in an aggravating driving situation while in a foul mood or difficult personal circumstances. We all have a responsibility to drive safely and control our emotions. It is important to remember that every driver (including you) is armed with a lethal weapon—their vehicle.

As drivers we also need to do our best not to set off some unbalanced or over-emotional person. Be courteous and consider the rights of other motorists, even when others don't.

A few more tips:  
Give others the benefit of the doubt and assume their acts were not intentional.

Check your own attitude at the door and remind yourself that the same rules of ethics apply to you on the road as

well as off. Some normally non-aggressive people feel empowered behind the wheel and become a danger to themselves and others while driving.

Avoid driving while you are angry, upset or tired.

Take a break if you feel yourself getting stressed out by the traffic.

Avoid conflict on the road. It is not worth the emotions, the risks, or worse. You may be dead right.

Drive to arrive.

### Driving You Crazy

Which cities have the most aggressive drivers? According to an AutoVantage survey, keep a watch on your blood pressure when you drive in these metro areas:

- Miami
- New York
- Boston
- Los Angeles
- Washington, DC

On the positive side, these cities get the green light for courtesy:

- Portland, Oregon
- Pittsburgh
- Seattle
- St. Louis
- Dallas/Ft. Worth

# Did You Hear...

## On Tape

Portland, Oregon. Normally when we break the law we don't want anyone to know, we don't want to get caught and certainly don't want to incriminate ourselves, right?

Stan decided to film himself speeding down the Interstate. During this

really dumb stunt he was pulled over by police for speeding. Instead of getting the hint that speeding is not a good idea he posted the video showing he was driving in excess of 140 MPH.

The video posted on YouTube was confiscated by the authorities to be

used as evidence against him. By the way, this is Stan's third speeding offense in a year. Some kids never grow up.

What can we say?

# Claim Summaries

Many claims are understandable but there are some that are simply inexcusable, since they are easily avoided. Take a look at these and see if you agree.

## New Car?

This scenario tops our list: a customer buys a brand-new vehicle and later on learns that their vehicle was involved in an accident, prior to purchase. And these vehicles can be pricey: The latest two claims we handled were for a Cadillac SRX and a Toyota Camry XLE.

Surely, these vehicles were inspected when taken into inventory.

Surely, after the vehicle was damaged during a test drive (or during a flood or whatever), a repair order was created.

Surely, the damage was flagged in the Inventory Management System 'damaged vehicle' to alert anyone involved with the sale of that vehicle.

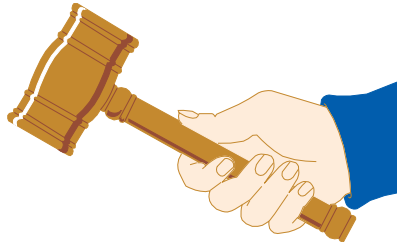
Ideally, someone took a photo of the damage and placed it in the vehicle file or deal jacket.

How is it that we "forget" to inform potential buyers of the damage to brand new vehicles?

Once the vehicles are repaired, these losses become liability claims, not physical damage losses—and can be expensive. You may recall the BMW claim a few years ago where a lawyer who purchased a damaged vehicle won a \$4 million lawsuit.

Please, no more undisclosed damaged new vehicle claims. Flag the vehicle as damaged and have the buyer sign an acknowledgement that they were notified of the incident. Loss Control Note: If a vehicle's damage is extensive, some dealers wholesale the car rather than risk selling it as new.

## Oh No, Not Another One!



## Sell A Car and Then Pay For It

Yes, each year customers purchase vehicles that dealers end up paying for! When dealers don't file the lien information properly and unscrupulous customers learn they have a clear title, they stop paying. Then the lien holder can't collect ... so they demand that the dealership cover the outstanding balance. What a deal!

As with the other claims on this list, this one is simple to prevent. Require staff to fill out all the paperwork carefully. Then have a detail-oriented person double-check the documents before they are sent out.

## Lot Of Collisions

Don't drivers watch where they're going? The answer is, not always. Right now we are handling a claim involving a 14-year-old vehicle. The car was damaged as the technician backed it out of the garage—after the work was finished. The dealership then had to provide a new quarter panel and paint touchup. The customer then complained that the new paint does not match the rest of the car, and insisted that the entire vehicle be repainted.

## What's That Noise Cost?

Then there are accident claims resulting from carelessness all around. Here's one sad incident: The parts

truck driver was heading down the road and heard something bouncing around in the back of the truck.

Turning around to find the cause of the noise, he drove into oncoming traffic.

Two vehicles managed to swerve out of the way, but one flipped in a ditch on the side of the road, causing serious neck injury to an older driver and totaling the vehicle.

This loss could have been avoided had the load had been properly secured in the bed of the truck ... or had the driver simply pulled off the road to investigate the noise. The hospital bill alone is over \$10,000 and the claim is reserved for \$20,000—and that's not including the totaled vehicle. Expensive delivery.

## Sorry About That!

Another loss we can surely avoid is shutting the door on a customer's hand. Yes, I know we are trying to close the deal but closing the door is counter-productive, as the buyer may no longer be able to sign the required paperwork to purchase the vehicle. Please pay attention!

## Dramatic Finish

Here carelessness takes center stage: After a test drive, the salesperson forgot to put the vehicle in park and so it drifted into the showroom. The shattering glass created all kinds of excitement, the glass frame fell on a couple of vehicles, and employees were scared half to death (fortunately with no serious injuries). The customer, however, was no longer interested in that particular vehicle.

If you think of any other inexcusable claims please let us know!

## Power Out? Power Outage Coverage

**H**urricane Irene created havoc over a large portion of the eastern United States and the damage was so widespread that large areas were left without electrical power for a week or more. Some dealers were surprised by the standard power outage exclusion. PDP's Commercial insurance policy provides business income (business interruption) insurance coverage, which applies to the power outage exposure. When the power disruption occurs on your premises from a covered cause of loss such as wind knocking over a tree on a power line, coverage is included up to \$25,000 in expenses. However, if a tree falls on the power line a few blocks away, cutting power to the dealership off premises, there is no coverage under the standard policy. The good news is that disruption for loss of power, phone service, and even water can be insured in most states by buying out this exclusion.

The costs of renting a power generator large enough to supply power to your entire dealership and



the fuel to run it are expensive. And, as many businesses discovered in the last storm, it was too difficult to find a generator with adequate power.

Dealers that did have the coverage found 72 hours to be too long a time period to wait to get back into business. You may want to consider reducing your waiting period if you need to get back in business sooner than three days with more of the expense covered. Shorter waiting periods may be available for an additional premium.

From a loss control perspective: Keep in mind how your waiting period (deductible) affects your

Emergency Response Plan.

Trim trees in the area if possible and contact the power company if you're concerned about a particular exposure such as a large dead tree near the power lines.

Set up a contingency contract to have a generator delivered, if it's needed to meet your power needs.

Here's another option: Instead of buying additional coverage, purchase a large generator. You could be the only dealer in the area able to replace customers' damaged vehicles and serve hot coffee too! A dealership group could purchase a large portable generator (stored on a trailer), ready for the next storm that blows through.

Keep in mind, though, that both generator and trailer need to be maintained so they are ready for the next emergency. (Bonus: If you don't need the generator during the next storm, you could rent it to another business or FEMA.)

## For the Health of It

**D**id you know that more employees are injured off the job than while at work?

According to a National Safety Council (NSC) comparison between on-the-job and off-the-job incidents, three times as many injuries occur off the job. Although these injuries are not covered by workers compensation insurance, they still have an adverse effect on productivity with your employee off work, and the injury is often covered under the employer health insurance program.

Therefore, the NSC encourages employers promote safety beyond the workplace.

For example, a dealership employee was cleaning his home's gutters one weekend, fell off a ladder and never returned to work. Another employee was seriously injured in a vehicle collision while returning from vacation and was out for months; he admitted he was not paying attention on the long drive home. A few safety tips may have prevented both accidents.

Some ideas:

- Sponsoring a Defensive Driving Course has benefits beyond the job. We have cited accident statistics many times, such as more than 40,000 vehicle related fatalities and 2.8 million vehicle collisions

each year.

- One dealership group has certified over 200 of its employees in Cardiopulmonary Resuscitation (CPR). The skill proved to be a critical on-the-job asset when an employee needed CPR. The organization is credited with saving three lives in the local community in the past two years, resulting in a commendation from the mayor.

For more ideas on encouraging employees to be safe around the clock, check The National Safety Council website ([www.nsc.org](http://www.nsc.org)).

# Why Won't My Insurance Pay the Claim?

If it involves an elderly person, it may be because the government is holding up payment. It's not just a dealership issue: businesses of all kinds are starting to face problems with liability claims involving Medicare.

Let's assume one of your drivers hits an elderly person who is on Medicare. Insurance companies must now hold up payment until they report and receive an acknowledgment from Medicare. What in the world does Medicare have to do with a liability claim, you ask?

In July of 2009, the Medicare Second Payer (MSP) Act became effective, requiring insurance companies to notify the government about any payments they are planning to make to people on Medicare. This sounds easy enough, just another round of paperwork to satisfy another government agency. But like most things involving government, nothing is easy or expedient.

The MSP Manual has 459 pages and includes liability, disability, and workers compensation insurance. There are 269 pages just for processing claims! Insurers are required to directly report to the Centers for Medicare and Medicaid Services (CMS) or be subject to fines of \$1,000 per day.

The purpose of the MSP Act is to

recoup an estimated \$1.74 billion of inappropriately paid benefits by giving Medicare the right to reimbursement. This however, interferes with the settlement process and adds the risk of future liabilities to insurance companies and the businesses they insure.

All right, we'll say the claim is reported to MSP by the insurance carrier using the online collection screen. What happens next?

For Medicare Beneficiaries, the insurer must protect the Medicare lien and complete a detailed injury report that reflects the relevant scenario below:

**Scenario 1:** The SSN is validated and a Medicare Query has not run yet. It is then OK to issue payment.

**Scenario 2:** The SSN is validated and a Medicare Query has confirmed the claimant is not Medicare eligible. It is then OK to issue payment.

**Scenario 3:** The SSN is validated and a Medicare Query confirms the claimant is "Medicare eligible." The file handler must then complete the Medicare Reporting Detail screen before issuing payment. This requires more fact-gathering and can cause significant delays.

**Scenario 4:** The SSN is not validated

for an accepted reason (e.g., the claimant is a foreign national). The file handler must then ask a manager to issue a Medicare Override.

**Scenario 5:** The SSN is validated and a Medicare Query confirms the claimant is "Medicare eligible" after the file handler has already issued a payment. The file handler must then complete the Medicare Reporting Detail screen.

With all these procedures, it often takes Medicare eight or more weeks to issue an approval. The insurer must hold the claim until it gets that approval or face fines.

## Bottom Line

This statute has a direct impact on every business. If you do run into this situation, the payment will be held up until the insurer gets approval to make payment or settle. In the meantime, you may have to deal with an angry, injured person who is threatening a lawsuit to cover medical bills or out-of-work time. Not a happy scenario for anyone.

The only loss control advice we can provide here is to avoid the situation in the first place. Once a claim is made for a person on Medicare, it must work its way through the bureaucracy. Another reason to ensure your drivers keep safety first!

# Holiday Safety Advisory

As you decorate your facilities for holidays, be careful where you run your electric cords. Too often we see cords laid across driveways and spaces where water accumulates. "After all, it's only for a month or so."

Do not drive over electrical extension cords or place cords in driveways.

A standard electric cord or extension cord is not designed to handle the weight of a vehicle. Driving over them

just a few times damages the wiring.

When this exposure was pointed out at one dealership, the manager said it was the fourth cord they had put across the drive lane to light up the Christmas tree.

After a few days, each cord either wouldn't work any more or would start flipping the circuit breaker. They were fortunate that no one stepped on it and got electrocuted.

If you need to run temporary power, protect the cord so that the vehicle weight does not put pressure on the cord, such as a ramp or place the cord overhead. If power is needed for an extended period (more than a few days), hire an electrician to install an outlet. It is well worth the investment.

And it goes without saying: Do not allow electrical cords to lie in water either.

Think safety...first!



  
**D**uring this special season, all of us at PDP wish you the best during the holidays and in the New Year!



## Preferred Dealer Protection

**PDP** has specialized in the franchised auto dealership business for over 35 years, helping dealers across America manage their risks and exposures. Dealerships are complicated businesses with many risk factors and potential losses. PDP provides insurance coverage from A-rated companies and provides on-site loss control service to work directly with you to address exposures and protect your business.

To find out more about the Preferred Dealer Protection program contact your local independent PDP agent or PDP at:

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