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**WHY BUYING AN INSURANCE POLICY
 WON'T SAVE THIS BUSINESS OWNER**



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This photo was taken after Hurricane Sandy hit New York City on October 29, 2012.

The taxi business owner probably thought he had all his bases covered. After all, he bought an insurance policy for his taxis.

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Need Help?

Margaret Boomer
[386-246-2616](tel:386-246-2616)
Margaret@eastcoastinsuror.com
 Ormond Office
[386-677-4787](tel:386-677-4787)
info@eastcoastinsurors.com

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What he did was exactly what most people do. They buy a policy. Isn't that enough?

The taxi owner even went a step further. The President had issued an emergency order basically shutting NY City down. The taxi owner realized that there would be no business for him, so he had all his taxis come back to his fenced lot for security to protect his property from damage by vandals, etc.

Normally, that would be a pretty good idea and a step in the direction of what we call Risk Management. As John Steinbeck said in "Of Mice and Men", "The best laid plans of mice and men often go awry".

So, the taxi owner knew that vandals might attack his vehicles, if they were parked outside of his fenced lot. To prevent this kind of damage he brought them all back to his lot.

He did not think about the potential of flood at his lot. It probably had never flooded at his lot before.

But then it did.

You may be asking, "What's the big deal? Doesn't the taxi owner have coverage under his auto policy for flooding"?

Most likely, the answer is yes. If the policy has Comprehensive coverage, then the vehicles would have coverage for flood.

So, why worry?

Well, I count 74 taxis in the photo. If you assume the taxis might cost \$25,000 each to replace, that's a loss of over \$3,800,000. So, the taxi owner gets \$3,800,000 and goes and gets 74 new taxis and he's back in business.

But is that all?

Yes, he will get his taxis replaced, but what about his **loss of income**?

- Request an Auto ID Card
- Request a Change on your Policy
- Report a Claim to Us
- Report a Claim direct to your insurance company
- Send us Pictures (Excellent Claims)
- Get Help on the Road (Towing, Truck, Hospital, Police, Gas, Food)

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I'm guessing that each taxi has to gross \$1,000 per day in NYC. How long do you think it will before the taxi owner will get his new taxis?



If it takes:

14 days- Loss of income = \$1,036,000 (\$1,000/day x 74 taxis x 14 days)

30 days- Loss of income = \$2,220,000

60 days- Loss of income = \$4,440,000

After 60 days, the taxi owners loss of income exceeds the cost to replace all his taxis! Wow, the meter is running!!

What about his drivers? Do you think they can wait 14 days or more? Do you think he might lose some to competitors? Do you think he can pay the very best to hang around when he has no income coming in?

The catastrophic potential for the taxi owner is that there is often no coverage available for this loss of income.

Most business owners make the whole focus of the protection of their business the price of the policy or policies they buy.

Imagine if instead of asking "how much is my policy?", the taxi owner had asked "can you help me think of ways to eliminate my risks and if I can't eliminate them, how can I reduce or manage them"?

If he had asked the latter question, he might have heard, "In a time of hurricanes or tropical storms, flooding often occurs. Why don't you consider letting your drivers take their taxis home? You might lose a few to drivers who get crazy or to vandals or flooding in their areas, but you're probably not going to lose 74 in one day".

Many of the risks you face are uninsurable or cost so much as to make them uninsurable. What are you doing to address them since you can't insure them?

Our original question was isn't buying a policy enough to protect your business?



What do you think?



**MY DEALER BUDDY SAYS:
"I DON'T HAVE TO INSURE ALL MY INVENTORY BECAUSE
ALL THE CARS WON'T BE DAMAGED AT THE SAME TIME"**

Have you heard other dealers talk about insuring their inventory for less than 100% of the actual amount of inventory they have on hand? We hear it all the time. If you are insuring for less than 100% of your inventory, please read on.

Dealers physical damage is also known as Comprehensive and Collision or Dealers Open Lot coverage. This coverage protects your primary business asset - the vehicles your dealership owns. When covering inventory, you should always insure 100% to value. I know, I know. You're thinking, "That's just the insurance company wanting more money".

Let's take a look at an example to find out what really happens when you insure for less than 100%.

When a loss to inventory occurs, the insurance company will ask for the value of your inventory at the time of the loss. You will be asked to produce records to validate your inventory. Let's assume you are insured for \$100,000 and you have \$200,000 in inventory. You have a \$50,000 vehicle stolen. You might say, "Thank goodness I have \$100,000 in coverage. I have a \$1,000 deductible, but I'll get \$49,000 from my insurance company".

Would you be surprised if you got a check for \$24,000?

Most dealers would be upset. Maybe even on the verge of having to close their business because of this \$25,000 uncovered loss. How can this be? I have more than \$50,000 in inventory covered. Why don't I get a check for \$49,000?

Every dealer's policy has a requirement that you insure your inventory to a certain percentage of value. This percentage is almost always 100%.

How does this work?



To determine what you would be paid for your loss, take the amount of insurance you have (your \$100,000 coverage limit) and divide it by the amount of your inventory (in our example, \$200,000). That equals 50%. Then multiply 50% times your loss (\$50,000). The result is \$25,000. Subtract your \$1,000 deductible and you get \$24,000.

Imagine if you had \$300,000 in inventory. Can you figure the amount of your check now?

You're correct. Your check would be for \$15,700. Ouch! Will you still be in business after a \$33,300 uninsured loss? Many dealers would be gone.

Most dealers incorrectly think that if I have my Dealers Open Lot limit equal to the amount of my loss, I will be covered for a loss up to that amount. Because of your policy requirement that you insure your inventory to 100% of value, you now know that you will only get a percentage of your loss. You also now know that the smaller your percentage of coverage to inventory is, the smaller your check will be when you have a loss.

Don't be like your Dealer Buddy. Insure your inventory to 100% of value. **Always.**

DMV Notes

DMV GETS SERIOUS ABOUT DEALERS RENEWING THEIR GARAGE LIABILITY POLICY IN ADVANCE

The Florida DMV has a new procedure in place to send dealerships a reminder notice that they have received a renewal policy. The reminder is to make sure that a dealer is on track to renew their policy before the expiration date. Failure to have insurance will result in a dealer being stopped from doing business by the DMV.

Below is a copy of a notice that has appeared in the Florida Independent Auto Dealer Association magazine to the Independent Dealer.

**DHSMV Will Send Out
Garage Liability Reminders**

Most Garage Liability Insurance Policies do not cover the same period as the dealer's licensing period. To make sure these dealers maintain the required coverage during their licensing period, the Department is lending a hand. They are sending reminder notices to dealers 30 days prior to expiration of their policy that their GLI is about to expire. If Dealers do not comply timely, a request will be forwarded to the Department's General Counsel for further action against their license for failure to maintain required GLI coverage.

The Department encourages dealers to ensure their garage liability insurance policies remain current to protect the status of their dealer's license thus avoiding any halts in their business in the State of Florida.

East Coast Insurors already gets most of our renewal proposals to our dealers 30 days in advance



policy more than 30 days in advance. That should help you avoid even getting this reminder from DMV. Keep reading DealerZone for updates.

REMEMBER: For information regarding anything in our newsletter contact Margaret Boomer at Margaret@eastcoastinsurors.com or [386-246-2616](tel:386-246-2616).

Did You Know?

96.7% of our dealer clients renew with us every year. The only times that dealers usually leave is when they die or go out of business.

Our dealers know that price is important, but they also know insurance is more than just a quote getting the RIGHT coverage for the risks they face and the CORRECT limits of coverage to protect assets.

See you next month,

Steve Hall, President, PWCA, CRIS, PHR
East Coast Insurors, Inc

East Coast Insurors, Inc
801 S. Yonge St Ormond Beach, FL 32174
[386-677-4787](tel:386-677-4787) info@eastcoastinsurors.com www.eastcoastinsurors.com
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