

Insurance Insider Reveals Little Known Secrets Every Auto Shop Owner Must Know

## **5 Dirty Little Secrets of Auto Repair Insurance**

### How Many of These Dangerous Mistakes Are You Making?

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I guess we could say that purchasing insurance for your auto repair business is one of life's "necessary evils"...nobody seems to like it, but you gotta have it. Let's face it you want to protect your investment should there be a loss. It is easy to sometimes think we would be better off without it or to attempt to cut corners and save a few bucks.

**However, when it comes to protecting your financial well-being  
and most likely your future retirement, nothing is more important  
than having the best protection for your money. Nothing!**

Protecting your home and auto are important. Fires and accidents do happen. Life Insurance and Long Term Care Insurance are critical components of anybody's financial plan.

But, for your financial protection you need a rock solid business insurance policy! This special free consumer report will help clarify some of the fine print that is contained in insurance policies and give you some tips to get the best deal on your commercial insurance.

### **Coverage Gaps of Garage Insurance**

Over the years I've seen many business owners purchase standard insurance policies and just assume that they have the proper protection because...well, because they paid for insurance. And, insurance is insurance, right. Let me give you a few real life examples and then you decide if you have the proper protection.

## **Dirty Secret #1: Faulty Workmanship**

Mrs. Jones took her car to Fred's Repair Shop where they installed a new water pump. One week later a red warning light came on. Rather than stopping Mrs. Jones continued driving until the car suddenly ground to a halt. It was determined that the new water pump had been improperly installed causing the engine to overheat. Unfortunately, the engine was damaged and ultimately needed to be replaced at a cost of about \$3,000.

After submitting the claim to their insurance company, Fred's Repair Shop was upset to find that the insurance company denied the claim. They were advised that the garage insurance policy that they had purchased did not cover such a mishap. Why? Because the policy contained an exclusion which denied property damage for "faulty work". Are you covered in the event of a loss such as this?

## **Dirty Secret #2: Defective Products**

Al's Garage installed a new engine in Mr. Johnson's 1998 Mercedes. The following week while on a cross country trip the engine caught fire and destroyed the entire vehicle. It was determined that there was a defective part in the new engine. Mr. Johnson wanted to be reimbursed for the value of the vehicle including the cost of the defective engine.

When Al's Garage reported the loss to the insurance company they were informed that there was no coverage for the defective engine. Why? Because their policy contained a Defective Products Exclusion. In part the exclusion says "Property Damage due to any of the insured's products because of damage caused by a defect in the product or any part of it is not covered." Are you covered?

You are probably asking yourself if *your* policy covers such things. Coverage for these kinds of losses will vary depending upon a given insurer's interpretation of the *faulty work* and *defective products* exclusions in the garage liability policy. One approach is that there is no coverage for anything done on the repair order. There also is no coverage for the installed parts, or labor. Plus, no coverage is provided for damage to anything that the installed parts touch. However, there are many interpretations to the workmanship and faulty products clauses, and sometimes people will disagree with the interpretation of some insurance companies. These examples are given to aid in understanding the kinds of damage the garage policy form does not intend to cover. Would your insurance company cover these losses? Some companies are better than others and there are remedies to these exclusions. You should have a representative capable of representing YOU in the event of a loss such as these and not simply an agent of an insurance company.

## Dirty Secret #3: Boat Repairs

### Scenario #1

A number of years ago people were boating across a large freshwater lake in Wisconsin. The boat was being used for the first time since having its fiberglass hull repaired. The boat dealer had referred the boat owner to an *auto body* shop that had experience in fiberglass body repairs. Upon full throttle the boat began to vibrate and then suddenly shattered like broken glass. No one survived the accident.

Claims were presented to the owner of the body shop which had done the fiberglass hull repairs. The body shop was advised there was no coverage for the boat accident.

### Scenario #2

Mr. Evans had been disappointed in the tune-up work done by his boat dealer the previous summer so he decided to have the boat tuned up by Pete's Auto Service, which he had used for years to have his cars serviced. Shortly after the boat tune-up was completed, he took his rig for a spin on the water. While returning back to dock the area on the stern where the inboard-outboard driving mechanism was located sank into the water. Because the seals around the mechanism had been damaged when some oil was spilled on them during servicing they did not hold the water out, and the boat sank.

Mr. Evans' Insurance Company subrogated (demanded reimbursement) from the auto repair garage. Pete's Auto Service was told there was no coverage.

### Scenario #3

Andy's Garage that normally deals in automobile and light truck repair agreed to tune up the engine on Mr. Miller's boat. Due to the size of the boat they stored it in the side yard. Later that night the boat was stolen and Mr. Miller put a claim into his own insurance company. After paying Mr. Miller the insurance company made a subrogation claim against Andy's Garage. Upon forwarding the claim to their insurance company, Andy's Garage was informed that it had no coverage for the loss of the boat.

Do you understand why there was no coverage in the above scenarios? Would you have been covered?

## Dirty Secret # 4: Garagekeepers Legal Liability

Rod's Auto Service insurance package included garagekeepers legal liability. Garagekeepers liability is physical damage coverage for damages to customer's auto's left at the shop for repair. The two coverage's are: 1) Comprehensive Coverage—damage from any cause except the customer's auto's collision with another object or the customer's auto overturn. 2) Collision Coverage—damage caused by the customer's auto collision with another object or the customer's auto's overturn.

Over a three-day weekend the garage was broken into resulting in the theft of a customers BMW. The long time customer looked to Rod's Auto Service to replace the car. However, Rod's insurance company denied the claim. Why? Unfortunately, garagekeepers *legal liability* coverage will only respond for legally determined liability. In other words, the garage must be found negligent. Since Rods Auto Service had working alarms, fences and lights in place it was determined that they were not legally liable. Would your insurance have paid the claim?

## Dirty Secret #5: Pollution Liability

As a generator of hazardous waste, all garage operations have significant pollution liability exposures. EPA regulations and court decisions have made the handling, transportation, and disposal of any waste or pollutants a cradle to grave exposure. Even though you use an EPA-approved transporter, you still have exposures on site, including ruptured above-ground tanks, accidental flushing of pollutants down a drain or any threat of accidental pollution damage to another party. Further, you are still responsible for pollutants you generate even after they leave your premises. Governmental laws regarding environmental pollution create serious exposures for your business and can be catastrophic. How much would your company pay for the following claims?

### Scenario #1

A full service garage routinely fills and stores on-site barrels of waste such as used petroleum products, solvents and paint. Approximately every six months the waste is loaded onto trucks by a forklift and disposed at an EPA approved facility. One day when loading a truck five barrels slipped off the forklift and saturated the ground with waste motor oil, and solvents. The garage site was bordered on one side by an industrial park and on the other side by a trailer park.

EPA officials determined that the potential for exposure to contaminants existed through ingestion or direct contact with the contaminated groundwater and soil. Consequently, clean-up included excavating the contaminated soil and hauling it to an approved facility for cleaning. The garage also sued by 40 people in the trailer park for property damage and bodily injury. The garage's costs, including claim settlements, totaled \$1,000,000 dollars.

**Scenario #2:**

A waste hauler hired by a service station to carry used motor oil overturns and spills its cargo into a stream. As the waste originator, the service station is required to contribute to the cleanup costs. Costs to settle the claim was \$600,000.

**Scenario #3:**

A solvent recycling facility, used by a body shop, is the source of contamination to a down gradient potable aquifer. As the generator of the waste, the body shop is designated a responsible party by the local environmental regulatory agency. The body shop's contribution to settle the claim was \$340,000.

**Scenario #4**

An auto body shop's truck was involved in an automobile accident while transporting five 30 gallon drums of paint. The truck overturned and two of the five drums spilled paint onto the roadway entering a storm drain. The cost of the clean up was \$50,000.

**Conclusion**

If you think any situation similar to what happened in these examples above could happen to you, then you need to be dealing with an expert that can answer your questions with confidence. For solutions, answers, or a review please contact:

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