



GarageGuys Tech Service Bulletin 041408

What IS My Garage LIABILITY Insurance Premium Based Upon?

(As if Insurance wasn't complicated enough. Read through this article keeping in mind that $RATE \times EXPOSURE = PREMIUM$. It will help you put together some of the concepts here.)

Most insurance companies subscribe to an outside rating organization (generally ISO—but there are others) to help them set the rates they charge. For the purposes of this bulletin, let's just call the rate-making organization ISO because it is the one most carriers rely upon. Interestingly, this same organization (ISO) creates the legal forms which make up your policy as well.

Why do insurance companies let this third-party set the rates and create the legal forms? For many reasons but mainly because most insurance companies don't have enough in-house experience or expertise to reliably set rates for every single class of business that they may be called upon to insure. So carriers pool their loss information together and allow ISO to determine both the proper rate AND the proper way to charge it.

So, the first lesson is that almost any insurance company has the rates and the legal forms to sell a garage policy even though most do not.

And here is where it gets a bit murky. ISO constantly updates its rates and forms—sometimes a few times a year and insurance companies don't necessarily use the latest set of rates—or forms. Different carriers that insure garages may be using that are as new as today or as old as 5 or even 10 years and anywhere in between. And if you think that the older rates must be cheaper—read on.

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To complicate it further (hey, I warned you!), ISO periodically changes the EXPOSURE the rates are based upon in order to attempt to better estimate the chances of having a loss. For example over the last 30 years the following have been used at various times as the basis of Garage Insurance premiums: Receipts, Gallons (for gas stations), Square Footage, and Payroll (limited to \$100 per week per employee or actual with no limitation). You can better understand what the rate-makers were trying to do if you think about how difficult it can be to try to figure out whether a garage with more square footage, higher receipts or more payroll is more likely to generate a claim. Does a service station which sells \$1MM gallons a year generate more liability claims than one selling more? Or Less?

We have no idea. I would venture to say that neither do most insurance companies. And ISO (and most insurance companies) have cycled through this process several times over the years first using and then abandoning and then using again these various rating bases.

Second Lesson: There is no "set price" for insurance—even if there IS a central rate-making organization

OK, let's keep going. How difficult do you think it would be to collect accurate information regarding the sales, receipts, gallons sold or payroll at a cash business? Correct answer—nearly impossible.

And for extra credit, once the insurance company or agent has set the premium on sales, payroll or gallons, what are the chances that an auditor coming into the facility AFTER the policy has expired will have any luck at determining what that number was retrospectively? Correct answer—slim and none. However many carriers continue to insist upon the annual liability audit even though it is universally hated by facility owners, is not mandated by any law and has never been shown to improve the accuracy of risk assessment as it applies to garages.

If you think that garage insurance is uniquely complicated, think again—most of what you have read here is applicable to many different types of businesses.

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At **GarageGuys**, we currently have carriers offering to provide insurance on EACH of the various methods described above as well as a few with their own proprietary methodologies.

If all of your business is “on the books” and a carrier that insists upon auditing happens to offer the best deal—we are pleased to offer it to you. On the other hand, if the thought of spending the time on and anticipating the results of an audit (even if it is just an “insurance” audit), we will have options for you there as well.

We will probably also have some innovative ways to look at your insurance program separate and aside from what we have just discussed.

And in keeping with our concept of having the right tool for the job, we can help you to get YOUR insurance policy purring like a kitten.

Best Regards,

A handwritten signature in black ink that reads "Keith Friedlander". The signature is written in a cursive style with a horizontal line underneath the name.

Keith Friedlander
President

GarageGuys—Insurance For Your Shop

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