

"Your Insurance Survival Kit"

This article was adapted from Mr. Schlactus' seminar at this year's MCAA Convention.

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hen I first began my insurance career, I felt that my job was to take the "hassle" of insurance away from busy business owners. "Your business is delivery, mine is insurance," I would say. I soon came to realize, however, that it was far better to educate and coach, rather than shield you from this critical aspect of your business, which is making sure that what you do doesn't lead to disaster for others or yourself



The risks you take are many and the best solutions available are not the standard, off-the-shelf kind. Each executive is different in how much risk you feel is wise to take, and each of your companies are different, sometimes strikingly so. Despite the clever advertising you may see, there is no one magic solution or program. There are only choices, some of them tough ones, and only *you* can make them. You might as well make the best, most educated decisions possible. So as an insurance professional my role should be to help you to make sound choices without spending too much time away from your core business.

Below I have attempted to start the process by providing you with six checklists on essential insurance topics, each with six key points:

1. 6 Rules for Reducing Risk
2. 6 Essential Insurance Coverages
3. 6 Common Mistakes
4. 6 Ways to Save
5. 6 Sales Strategies using Insurance
6. 6 Overlooked Coverages

The focus on the number six is not entirely random. Studies show people can readily absorb six pieces of information at a time. In addition; I proposed to my wife at the well-known New York City restaurant, Top



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of the Sixes, and could not resist the opportunity for a tie-in!

6 Rules for Reducing Risk:

It is important to remember that you can reduce your business risks dramatically without spending a

- Monitor MVRs
- Monthly (Mandatory) Meetings
- Safety Incentives
- V.I.P. Treatment
- Daily Data Dump
- Disaster Planning

dime on insurance. The benefits of what we in the insurance industry call "loss control practices" include fewer and less disruptive losses, lower insurance costs over time, and a greater sense of security and control. The first point serves as a reminder that a thorough screening of personnel during the hiring process and periodically thereafter can be one of the most effective ways to reduce losses. Many forms of screening exist, but it is no accident that insurance companies put so much stock in Motor Vehicle Reports (MVR's). Statistics show that they provide a surprisingly accurate prediction of what is to come once you put a courier on the road.

Active management participation in promoting safety is also critical, as the next two points illustrate. Of course the design and content of these initiatives needs to be well thought-out, but you should avoid delegating safety issues to low-level staff or a company handbook.

V.I.P. treatment refers to your cargo. Not all packages are the same, nor should they receive the same treatment. An order to move a box of sensitive computer equipment, medical supplies, or bank checks should trigger special procedures designed to protect this cargo from theft, dam-

age, or other loss. Having the procedures in place ahead of time makes all the difference in implementation. Finally, many courier executives downplay the importance of their offices. After all, the value of your equipment is often relatively low and the chance of a fire seems remote. Yet within the last few weeks alone couriers I work with in San Francisco, New York, and Chicago have all experienced office emergencies resulting from power outages, mechanical failures, and hazardous fumes. Conscientious data backup and disaster planning spared two. You don't want to be the third, who reported operations were "limping along."

6 Essential Insurance Coverages

Make sure you have all these bases covered. In the first two cases you will be protected in case others

- Auto Liability
- Cargo
- Workers Comp.
- General Liability
- "Bonding"
- Office Property

get hurt and you are responsible. The second two coverages protect against loss to your customers' property where you may be responsible. The third two items provide assistance when your own property or people are damaged or injured.

Some people think "Comprehensive General Liability" alone can cover most losses. Unfortunately "CGL" policies specifically exclude auto-related liability and liability for property of others in your care. Hence the need for auto and cargo insurance. Likewise, cargo policies always exclude loss due to dishonesty on the part of you or your agents, creating

the need for 'Bonding,' which is really just "dishonesty insurance."

Office Property insurance, as discussed earlier, is often dismissed as not very important. Still, all three of those courier owners mentioned earlier were thankful that they had adequate property insurance in place.

As for Workers Compensation, this much-maligned and resented policy should be seen for what it is -- the only legal barrier against lawsuits from and unlimited liability to injured employees and contractors claiming to have employee status. Obviously cost is a concern (see below). But in the words of the Texas Insurance Department, couriers who 'go bare' also risk a "high cost," including "the immediate sale of their business" by a federal bankruptcy judge in order to pay damages to an injured worker. Fines and legal costs are also potential problems.

6 Common Mistakes

It is hard not to make mistakes when it comes to setting up insurance for a delivery company. Standard insurance products were simply not designed for your type of business. Even truckers' policies miss the mark. Without special adjustments or wholesale revisions you risk paying too much and having your claims, especially the large ones, go unpaid.

You can also pay too little. How is this possible? Many insurance policies, not just workers compensation, are subject to audits where premiums

- Ask about Audits
- Bogus Bonding
- Cookie-Cutter Cargo
- Master Policy Mess
- Relying on Relationship
- Warehouse's False Security

are adjusted at the end of the policy term. If accurate data and classifica-

tions are not used at the beginning, you may wind up staring at a huge tab later on. This is not extortion: the insurance policies are clear and the carriers are within their rights. In fact, they can legitimately charge you for the past three years!

Remember, audits are not the problem -- surprise audits are. Properly understood and handled, audits can bring you savings and refunds. Yet unexpected audits are perhaps the number-one reason courier owners seek me out for assistance. Make sure your agent fully understands and explains the audit potential of every policy you buy.

The next two subjects and the last illustrate that off-the-shelf policies often leave yawning gaps in your protection. Sometimes couriers pay for insurance that in practice provides no protection at all. Cargo, bonding, and warehouse policies are especially tricky because there are no standard policy forms; each company uses its own forms and builds in special restrictions. Well over 50% of unpaid courier claims come from these three coverages alone.

A Master Policy is a standard auto insurance product that covers a company and its drivers on the same policy. It holds out the false promise of a comprehensive solution to your auto insurance needs. Now all of your drivers' accidents, however minor, find their way onto your company's insurance record and affect your rates for three to five years. Soon you may have difficulty finding affordable insurance. One Colorado courier couldn't get insurance at all and had to make radical changes. Master policies also force all of your drivers to pay for more expensive commercial insurance. If the policy only covers them on-the-job, drivers must also purchase personal insurance. If it covers them beyond work, their weekend accidents also affect your record. All in all, Master Auto policies are good for only one party: the agent, who earns a large commission.

One piece of good news: a couple of insurance companies have begun

to offer what amounts to "group" auto insurance for drivers. Since you do not receive protection, your insurance record is not affected. Meanwhile the drivers benefit from discounted commercial coverage. This is not a Master Policy.

Taking into account the above pitfalls, it is no wonder that couriers often turn to an insurance agent they know well to take care of them. Indeed, you should strive to have a close and trusting relationship with your insurance advisor.

Keep in mind, however, that the couriers who made all of the mistakes above were generally using good, well-intentioned, local insurance agents -- often personal friends. Even experienced brokers will make mistakes without specialized knowledge of the field. When it comes to your insurance, demand both a good working relationship and special expertise.

6 Ways to Save

Given the high place insurance occupies on most courier companies' expense sheets, it is crucial to know how and where to economize. Of course the answers will differ somewhat for each company depending on your particular operations, financial condition, and attitudes toward risk.

I find that the less a business owner knows about insurance, the more fixated he or she becomes on savings. Why? An uneducated consumer has difficulty distinguishing quality and value and so naturally focuses on what is understood: price. You probably experience the same thing in marketing your business. True value comes at a price and you can always find someone willing to sell empty promises.

Indeed, in insurance, promises are all you get at the time of purchase, and perhaps for years thereafter.

How do you save without sacrificing value, then? Raising deductibles to your highest acceptable levels is a good strategy. When you consider administrative and legal costs, small claims are relatively more costly for insurance companies to process. Therefore they offer significant savings for customers willing to absorb small losses, themselves. Also, you can easily weigh the costs and benefits of raising deductibles.


Covering your radios for theft is like choosing low-deductible insurance. Individual radios do not cost so much that courier companies cannot afford to absorb the occasional theft out of cash flow. Just make sure that you have enough office insurance to cover a total loss if all the radios are kept together overnight.

Accounts Receivable and Business Income coverage are widely promoted by insurance agents who want to show you that they go beyond the basics. Yet a delivery business like yours should never need this insurance. If your records are backed-up (and the back-up is checked), and if you have a disaster plan so that an office fire will not put you out of business for a week, then these coverages may not be worth the cost.

Uninsured Motorist insurance is another area of potential fat to trim. The coverage mainly provides compensation to employee

drivers who are injured in an accident with an uninsured auto. Owner-operators will have their own policies. Fleet drivers are covered for the same thing under Workers Compensation. Why pay twice?

Here's a big one. In most states you have to provide Workers Compensation to Independent Contractors (IC's), who do not have their own Comp. policy.



- Raise Deductibles
- Radios
- Accounts Receivable/Business Income
- Uninsured Motorist Coverage
- Workers Comp./IC Rules
- See a Specialist

However, in most cases you do not have to pay full premiums. The cost per IC driver may be as little as a third of what you would pay for employees. The myth that Workers Compensation is unaffordable is often just that.

6 Sales Strategies Using Insurance

I have written before about how to get the most out of your insurance investment by using your insurance not merely as a shield, but also as a sword in the competitive arena. The techniques listed above are just some of the options available to you. Integrate insurance into the part of your presentation that addresses your professionalism. Insurance provides good evidence that a customer can appreciate perhaps better than the intricacies of expedited delivery.

Summaries of Insurance or more comprehensive and customized

- Talk About It: Insurance = Professionalism
- Summary of Insurance
- More is Better
- Insurance Portfolio
- Bring in Your Broker
- Challenge the Competition

Portfolios act as valuable sales tools. The best ones show how you have taken care to cover important gaps and risks that your competitors ignore. For example, your bonding may cover contractors where "theirs" does not!

Challenging the competition to match the quality of your protection often exposes their false claims and can cause them embarrassment. Just be sure your position is strong!

Other options include arranging for higher limits, which often involves little cost. In this way you can differentiate yourself from your competi-

tors without resorting to the nuances of coverage.

Finally, you may be lucky enough to have a broker you can bring in with confidence to discuss your insurance program with important customers or prospective customers. Thorny questions can receive prompt and direct answers and your advisor's professionalism enhances that of your own.

6 Overlooked Coverages

Our focus has been on the major types of property and liability insurance of concern to all couriers. Most of your companies would benefit greatly from one or more of the above. 'Malpractice', also called Errors & Omissions coverage, protects you from liability for late or incorrect deliveries - like an important legal filing or half-million dollar bid.

Extra Expense coverage helps

- 'Malpractice'
- Extra Expense
- Benefits
- Disability
- Key Man
- Funded Buy-Sell

keep you in business following a disaster that knocks out your office. If your customers cannot get through, they will try someone else and may never come back.

The other coverages protect you and your important employees from risks that property and liability insurances simply do not address. They could mean the difference between continuing profits and devastating losses, bankruptcy, or even the distressed sale of your business. Ignore them at your own risk.

One Last Word

All these lists of six may have you dizzy by now. So let me synthesize the message to one simple rule. You do not have to memorize all the details of this essay to successfully manage your business's risks and insurance. You merely need to know that the details exist, and that they are important.

- With a little education and a few checklists you can make sure your business is properly protected.

You may wish to carry the checklists with you into your next meeting with your insurance broker. Or you may make a mental note to reexam-

ine one or two areas of particular concern every six months. Or you may delegate - but be careful!

Whatever you decide, remember that if a little knowledge is a dangerous thing, then no knowledge at all is positively disastrous. I wish you the best.

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