



# Why Manage Your Insurance Costs?

By Mike Benmoschè

Many carwash operators are painfully aware that the past few years have not been kind to the industry. Poor weather conditions, increased gas prices and higher energy costs are just a few of the obstacles affecting the bottom line. This means that a closer look at expenses becomes more necessary for survival than ever before.

Insurance is one of those expenditures that can be reviewed to ensure you are paying the least amount of money without sacrificing the important coverages you need to protect your assets. Seeking alternate solutions by comparing with other insurance companies is one option. This article will explore another idea that will give you more control of your premium dollar.

Claims management has proven to be one of the most effective ways to improve your ability to manage your insurance expenses. With the proper implementation of this process operators can not only save money, but at the same time provide a safer environment for their customers and employees.

Although each operation is unique there are several common aspects of an effective claims management plan. The following will highlight some of the key similarities that should be addressed to generate the best long-term results in relation to your insurance costs.

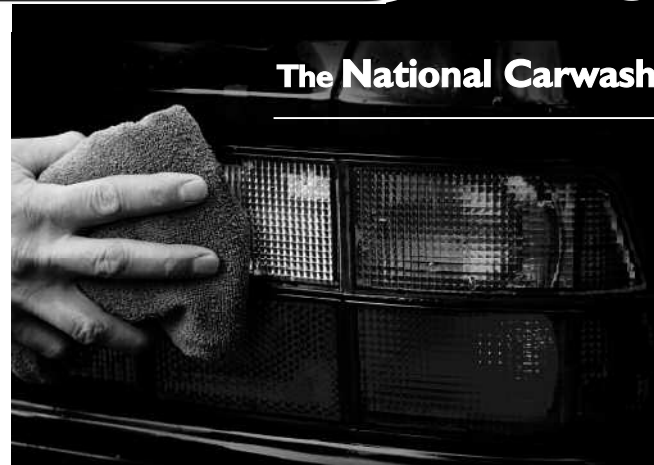
One of the first considerations should include a frequent review of your claims activity. Most of this information is available from your insurance company. You are legally entitled to receive an updated list of claims by requesting, in writing, a written report from your carrier. In most states you will receive a copy within 20 days of receipt of your letter. Your agent will be happy to help you obtain this information. Your review process should include all incidents as well as those you may have paid in lieu of submitting a claim to your insurance company. It is important to look at all losses so that you can determine any patterns that stand out. In analyzing the company reports you should direct your attention to both incurred losses as well as paid losses. Incurred losses represent the sum of claims paid plus the amount held in reserve. A reserve is money set aside by the insurance company to pay for anticipated costs from a claim that has not yet been fully settled. These reserves can often be large and are considered as paid losses when viewed by other insurance companies in terms in both pricing and acceptability. A Claims Analyst from one of the countries leading insurers said that just because a claim sounds modest when it's first reported, doesn't mean it's going to stay that way. While we like to think we do a pretty good job in containing and defending them, even the best

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claims departments will admit that some claims simply get worse over time. For example, a back strain can fail to heal, and can become a slipped disc that requires tens of thousands of dollars in surgical care. It's a good idea for a commercial policyholder to keep in touch with his agent and monitor what the insurance company has placed 'in reserve' on the policyholder's claims. An increase in a reserve will tell the policyholder that the insurance company sees the claim worsening. When we make that assessment, we're more often right than wrong, but we're not all-knowing and can benefit from the policyholder's input. The policyholder is out in the community and often knows more about the injured party than we do. Perhaps the guy who claims to have a permanent back injury is dancing under the limbo stick every night at the local bar. If that guy gets away with fraud, the policyholder can often end up paying for it just as much as the insurance companies. So it's to everyone's benefit for the policyholder to keep in touch with his reserves and offer his local insight where he can.

To properly monitor your results my recommendation is to order loss runs quarterly or at the very least semi-annually. Too often, most customers wait until the end of the policy term which could have a negative impact in at least two ways. First, many operators are aware that the insurance

company will pay claims that are entirely unjustified. This can have a serious impact on both your renewal pricing and acceptability.

By monitoring your losses and catching a claim in its early stages you have the opportunity to eliminate the arbitrary payout of these claims. Identifying these losses more timely will allow your account to be judged on a more accurate basis. Another benefit of actively reviewing your claims reports is managing your property damage deductible expense. When a claim is paid to a third party the total payout includes the deductible. It is often eight to 12 months after the claimant receives his money before you are charged the deductible. Let's assume that you have a \$1,000 deductible and have had three erroneous losses within the past year. Under this scenario you could receive a surprise bill for \$3,000. Without the advantage of monitoring loss runs you lose the opportunity to eliminate the costs that could result from erroneous claims. This entire expense might have been averted if they were discovered early enough to be successfully controverted.

Ideally, to achieve the most optimal results you really should be monitoring these claims on a monthly basis. This should be nothing more than regular monthly follow ups on all incidences reported to the insurance company. The claim

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reports would then serve as a double check to ensure those you sought to exclude were indeed denied.

Another important consideration in managing your claims should include timely reporting. It's a good risk management practice to report any potential claim to your insurance company as soon as you know about it. Some people hesitate to report small incidents because they hope they'll "go away," or they fear that alerting the customer to the presence of insurance will make her more demanding and thus more expensive. But statistics show that hesitation actually increases the cost of claims, particularly for carwashes and garages. A claims manager for another major national insurance company explains it this way. "If a policyholder hesitates to report a group of 10 known claims, it is true that one of them might indeed 'go away.' But in the days or weeks that he holds onto those claims, the other nine get more expensive, and the growth in the cost of those nine claims usually more than consumes the savings from the tenth. We see this phenomenon a lot with carwashes and garages. "When we hear about a claim weeks after the accident, we have a much harder time defending it. Witnesses can disappear, and cars can start to rust and prevent us from telling old damage from new. Statistics bear this out. Ordinarily you'd expect promptly-reported claims to be more expensive than late-reported claims because people tend to report heavy damage right away. But in Garagekeepers' insurance, we see the reverse. Claims that are reported within a week of their occurrence cost us an average of \$1,706, but claims reported in the second week cost us an average of \$1,750." In addition to being a good cost-containment move, timely reporting of claims is a legal requirement under your insurance policy as well. If you hesitate to report a claim you run a risk that the insurance company may refuse to pay it.

Your claims management strategy also needs to have a procedure to adequately document all accidents. This should include the use of daily check lists, accident reports, pictures and logs. All records should be made available to your insurance claims representatives. The more documentation you supply the better chances the company will have to effectively settle your claim.

Risk avoidance and self insurance is yet another important part of a claims management plan. Some examples of this might include using signage to mitigate your liability. i.e. Identify safe places to walk, post hours of operation and note the use of alarms and surveillance. You should consider making more frequent deposits or if feasible using a security service to reduce the robbery exposure. It is important to agree to use higher deductibles even if you don't obtain significant rate reduction as it tells the insurance companies that you are not treating them as a maintenance contract. They are there for the catastrophic claim and this supports that concept. It will often help improve the marketability of your account within the insurance community.

The most important part of the whole process in claims management is training your management staff and providina

they are fully supported by you. Not only should they be held accountable, but you as well. As in any effective plan implementing a consistent strategy, monitoring it regularly and making those responsible accountable is essential to ensuring it's success.

This is a long-term commitment and requires your full attention and support. But, as the master card commercial would say, "The results are priceless." ■

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Mike Benmoschè

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By Ray Justice



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*Ray Justice, a former carwash owner in western New York, now operates a free creative thinking and decision making website w which he is using to publish a poetry book due out this Fall. You can reach him at rav@discovervaquestions.com.*



Ray Justice