Be Mindful of The Iceberg Effect

By Mike Benmoschè & Mike Holoboski

The amount of money carriers pay for insurance every year is very high. But, in reality, the non-insured costs of accidents (costs not covered by insurance) are much higher. The amount of money carwashers pay for uninsured or indirect costs of accidents is known as the Iceberg Effect of Accidents.

Above the surface are those items covered by insurance such as, medical bill payments and compensation for lost wages. Unseen, below the surface, are the uninsured costs of accidents that the operator pays every time an accident occurs. The uninsured cost of accidents paid includes such items as time spent by managers and supervisors investigating accidents and completing paperwork, training replacement workers, decreased production, decreased quality of work, equipment repair, decreased employee morale, poor public perception of the company, loss of customers, equipment rental, loss of revenues, etc., all of which affect profitability and impact each employee.

For every $1 paid out in medical bills and lost wages under Workers' Compensation, the uninsured costs can be as high as $5. This is also true for other lines of insurance coverages, such as, Automobile Liability and General Liability coverages. During 1995, one carwash program experienced a total of 187 accidents resulting in losses of $449,823 covered by insurance. The uninsured costs of these accidents not covered by insurance and paid by the collective number of carwashers at that time may be as high as $2,250,000.

To illustrate how accidents affect profits, the chart below shows the sales required to cover the uninsured or indirect costs of accidents. For example, if a company's profit margin is three percent and their annual accident costs are $25,000, a company would have to make sales of $833,000 just to pay for their cost of insured losses. That's a lot of cars to wash just to pay claims.

In times of stiff competition and low profit margins, loss control may contribute more to profits than an organization's best salesperson.

It is necessary for the salesperson of a business to sell an additional $1,667,000 in products to pay the costs of $50,000 in annual losses from injury, illness, damage and theft, assuming an average profit on sales of three percent. The amount of sales required to pay for losses will vary with the profit margin.

Sales Required to Cover Losses

The table below shows the dollars of sales required to pay for different amounts of costs for accident losses, i.e. if an organization's profit margin is 5 percent, it would have to make sales of $500,000 to pay for $25,000 worth of losses. With a one percent margin, $10,000,000 of sales would be necessary to pay for $100,000 of the costs involved with accidents.

The bottom line is, the bottom line. Operators need to track and manage not only claims that are submitted to their insurance company, but just as importantly those they pay themselves. As you can see, controlling these costs can result in substantial savings. ■

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YEARLY COSTS OF ACCIDENTS	– PROFIT MARGIN –				
	1%	2%	3%	4%	5%
$1,000	100,000	50,000	33,000	25,000	20,000
$5,000	500,000	250,000	167,000	125,000	100,000
$10,000	1,000,000	500,000	333,000	250,000	200,000
$25,000	2,500,000	1,250,000	833,000	625,000	500,000
$50,000	5,000,000	2,500,000	1,667,000	1,250,000	1,000,000
$100,000	10,000,000	5,000,000	3,333,000	2,500,000	2,000,000
$200,000	20,000,000	10,000,000	6,666,000	5,000,000	4,000,000
$400,000	40,000,000	20,000,000	13,332,000	10,000,000	8,000,000