



Acme Courier vs. Godzilla:

Protecting Your Business Against Monster Loss



by Peter Schlactus, CIC, AAI

It was too good to be true but even I — a hardened, doom-and-gloom insurance man who's seen it all — even I was beginning to think it wouldn't happen ... couldn't happen.

But, of course, in the end it did.

For a long time I had not heard of a courier-related accident involving more than a million dollars in damages.

I was beginning to wonder if the insurance industry's stock advice — to protect your business with about as much liability insurance as your annual revenues — was really appropriate.

Since regular liability insurance policies provide no more than one million dollars in protection, businesses are advised to obtain what is known as Umbrella Liability Insurance once their revenues approach one million dollars annually.

These Umbrella policies, which cover your liability and legal costs in excess of one million dollars, are considerably less expensive than primary insurance. Still, they certainly are not free. For companies already struggling with the high cost of insurance, is catastrophic liability protection really necessary?

Then I heard about a settlement of nearly \$3 million in 1998 involving an accident that killed a mother out jogging with her baby.

In a moment my false security vanished.

Who had I been kidding? With so many vehicles on the road making time-sensitive deliveries, couriers account for thousands of accidents each year. It was only a matter of time before the monster struck.

Snapshot of the Monster

It happened so quickly. The mother was jogging on the side of the road, pushing her baby ahead of her in a modern "stroller." She saw IT approach, saw IT advance into the intersection, saw IT turn left. She began to cross. She *did not* see IT realize that IT had gone the wrong way. She did not see IT veer back — right into her path.

The monster can materialize anywhere, at any time, without warning or mercy. In contrast to the little gremlins that cause frequent but relatively minor damage, the monster is much more difficult to analyze, contain and control. All it takes is one attack to darken the skies for years to come.

The most striking characteristic of the monster is its unpredictable nature. Consider our tragic example of the jogging mother. First, it took place in a state not known for awarding multi-million-dollar damages. Yet the size of the settlement speaks for itself.

Second, the woman died. While horrible, a fatality normally results in a *lower* payment than a critical injury requiring expensive and prolonged medical treatment. Yet in this case, costs skyrocketed anyway.

Third, as bad as it was, the loss could have been much worse. The baby, after all, was unharmed.

What if the accident occurred at a busy intersection, or involved a school bus or a vehicle carrying a family?

'Regular' Insurance Isn't Enough

Most reputable courier companies carry "primary" insurance limits of one million dollars for both auto and general liability. These primary insurance policies will not provide much protection against a monster, however. They run out of ammunition at one million dollars. Worse, they can lay down

their arms and run ... as when an insurance company agrees early on to pay out its limit, thereby releasing itself from having to pay further for your legal defense.

Either way, without additional help, you may be left footing the bill for your defense, as well as some monster damages.

Umbrella Liability Insurance

To protect your business against catastrophic claims, you may need more protection. This normally requires an Umbrella or Excess Liability policy.

The name Umbrella is fitting. An umbrella provides an additional layer of protection against rain and wind. Similarly, the standard Umbrella or Excess policy provides an additional layer of insurance protection above your primary policy's one million dollar limit.

Both Excess and Umbrella policies usually "follow form." This means that their coverage follows that of your primary insurance and provides the same protection.

The main difference between an Umbrella policy and an Excess policy is the scope of liability covered. An Excess policy covers one type of liability only — such as auto liability. This usually is not what customers want you to have, and gives you less value for your money.

A true Umbrella policy covers at least three separate types of liability: auto liability, general liability, and employers liability (which is part of your workers compensation protection). It is like having three (or more) excess policies in one!

In addition, Umbrella policies protect you against some unusual losses that may not be covered at all by your primary insurance.

For example, you may send someone abroad and that person may injure someone else. When your company is sued, you may find that your primary insurance does not cover accidents outside of the USA or Canada. Umbrella policies usually contain no such exclusion. Therefore, subject to a special deductible (retention), you'd be covered.

Of course, no insurance covers everything. Even a giant-killer like the broad-shouldered Umbrella Liability Policy has limitations. Certain specialized areas of liability often are not covered. These include pollution, employment practices (i.e. discrimination and harassment), business errors and cargo.

Policies from different companies can provide quite different benefits, terms and conditions, so review your policy with your broker. Beware of policies from unlicensed carriers — which are sometimes the cheapest but also may contain more limitations in the fine print.

That said, Umbrella policies do offer a lot of protection for your money. An additional million dollars of insurance may cost only five to 15 percent of what you pay for your primary liability insurance. Higher limits are available at even lower rates.

Farewell to the Monster

Monster claims can happen. Indeed, in the courier industry they will happen with absolute certainty, if also with utter unpredictability.

While you can reduce your risk of falling victim to the monster by trying to control the accidents you have, all it really takes is one encounter to bring your business down.

Umbrella Liability Insurance is a cost-effective means of shielding your business from the full ravages of the monster. It is also a valuable selling tool that lets you show your customers that you invest in protecting them from the worst.

For those who wonder why shippers should be concerned, consider our original example of the jogging mother, where not only the delivery company — but also the shipper — was sued by the victim.

The worse the accident, the greater are the chances of everyone getting dragged in.

Deciding how best to protect yourself against the monster depends on your attitude toward risk. A five million dollar Umbrella policy, after all, still leaves you exposed to a ten million dollar catastrophic loss.

Where do you draw the line?

The insurance industry's stock advice — to more or less match your liability limit to your annual revenues — is only a rough guide. Few would counsel you to do nothing because you cannot protect yourself perfectly.

No one is completely safe from the monster. But, as with most predators, the weak are in much greater peril. **CM**

Peter Schlactus, an Accredited Advisor in Insurance and Certified Insurance Counselor, is Co-President of KBS International Corp., which provides exclusive insurance programs and risk management services to over two hundred courier companies nationwide. Contact him at 888-KBS-4321 or via e-mail at <KBSINT@BANET.NET>.

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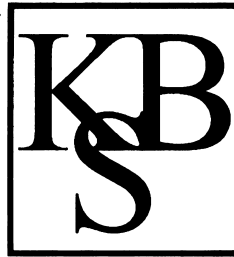
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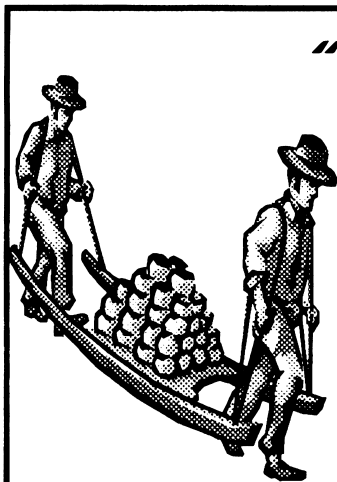
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