

GARAGE INSURANCE: The Basics
How to make garage risks a part of your agency portfolio.

By Jim Krotki, CPCU

An often overlooked source of commercial insurance prospects is garage business. Some agents are intimidated by these risks because they don't understand the exposures and coverage written to address them. It's almost like being in a country where you don't speak the language. What exactly is Garagekeepers Liability, Dealer Open Lot or False Pretense Coverage? Or, even more confusing, what is the difference between legal liability, direct excess and direct primary?

We will attempt to address these questions and many other concerns that agents encounter in the garage market with simple and straightforward language that even a novice can understand.

First we will break down the garage policy into its major coverage areas and analyze the various components. Examples will be provided to illustrate the coverage need and how to satisfy that need.

There are two types of garage policy forms, the dealer form and the repairer form. Sometimes they are referred to as "hazard 1" and "hazard 2" respectively. The dealer form is broader and covers owned and non-owned auto exposures. The repairer form primarily is designed for non-owned auto exposures.

GARAGE LIABILITY

Garage liability pays all sums that the insured is legally liable to pay, for bodily injury or property damage covered under the policy, caused by an accident and resulting from garage operations. This coverage actually has three parts.

1. The first part (auto liability) involves garage operations with covered autos. An example of auto liability would be a case where an employee of the insured garage accidentally strikes and injures a pedestrian while test driving a customer's vehicle. In this case the auto liability part of the policy responds up to the policy limit to pay for the injuries to the pedestrian. If a similar future accident occurs the full auto liability limit will again be available even if the full policy limit was paid for the first loss. The only limit on this coverage part is the per occurrence limit.
2. The second (other than auto liability) covers bodily injury or property damage as a result of garage operations, other than auto, which is

very similar to premises/operations and products/completed operations on a general liability policy. To illustrate this, let's say a slip & fall accident occurs on the insured garage premises and a customer is injured. The "other than auto" part of the liability coverage will respond up to the policy per occurrence limit.

3. The third is an aggregate limit for the policy. The aggregate only applies to "other than auto" liability and not to the liability for covered autos. Any payment made to the injured party in item 2 above would be subtracted from the policy aggregate amount for the remainder of the policy period. So any subsequent loss that occurs under the "other than auto" liability will always be subject to the per occurrence limit and then the policy aggregate limit available whichever is less. Once those limits are exhausted, the policy will no longer pay. There are provisions in most policies which will pay defense and some miscellaneous costs over and above the policy limits.

GARAGEKEEPERS LIABILITY

Garagekeepers liability was created to provide coverage for property of others which is in the care, custody and control of the insured. Normally there is an exclusion on the general liability policy for such property but since it is customary to leave vehicles with the repair shop while they are being serviced, coverage was needed to protect the vehicle owner from loss while repairs were being made. It was also necessary to protect the garage owner from financial loss if a customer's vehicle incurred accidental damage to autos in his/her care.

There are two components that make up physical damage coverage under the garagekeepers liability coverage.

1. The first is physical damage other than collision which can either be specified perils or comprehensive coverage.
2. The second component is collision.

Each of these is subject to a specific deductible which is paid by the insured in the event of a loss.

- Specified Perils provides coverage for fire, lightning, explosion, theft, windstorm, hail, earthquake, flood, mischief, vandalism,

sinking, burning, and collision or derailment of conveyance transporting the covered auto.

- Comprehensive provides coverage for any cause of loss to a covered auto except collision or overturn.
- Collision provides coverage for a covered auto's overturn or collision with another object.

There are three levels of liability coverage provided by the Garagekeepers Liability policy that are commonly used today. They are legal liability, direct excess & direct primary.

1. Legal liability is the type you will find most often. It simply provides coverage for physical damage to customer vehicles in the insured's care where the insured is legally liable. As long as the insured exercises prudence and due diligence while the car is in his care he may never have a loss under this coverage. If he is negligent in any way this coverage will respond.
2. Direct excess provides coverage for physical damage to a customer's vehicle in the insured's care regardless of negligence, in excess of any insurance that the vehicle owner may have in place.
3. Direct primary coverage provides for physical damage to a customer's vehicle in the insured's care regardless of negligence. Because coverage is primary it is the first line of coverage in the event of a loss.

COVERED AUTO SYMBOLS

Below you will find a table that includes the covered auto symbols appearing in garage policies. These symbols can be found on the declarations page of the garage policy next to each coverage line. The symbols apply only to the specific lines of coverage to which they are assigned.

Symbol		Description Of Covered Auto Symbols
21	Any Auto	
22	Owned Autos Only	Only those autos you own (and for Liability Coverage any trailers you don't own while attached to power units you own). This includes those autos you acquire ownership of after the policy begins.
23	Owned Private Passenger Autos Only	Only the private passenger autos you own. This includes those private passenger autos you acquire ownership of after the policy begins.

24	Owned Autos Other Than Private Passenger Autos Only	Only those autos you own that are not of the private passenger type (and for Liability Coverage any trailers you don't own while attached to power units you own). This includes those autos not of the private passenger type you acquire ownership of after the policy begins.
25	Owned Autos Subject to No-Fault	Only those autos you own that are required to have No-Fault benefits in the state where they are licensed or principally garaged. This includes those autos you acquire ownership of after the policy begins provided they are required to have No-Fault benefits in the states they are licensed or principally garaged.
26	Owned Autos Subject To A Compulsory Uninsured Motorist Law	Only those autos you own that because of the law in the state where they are licensed or principally garaged are required to have and cannot reject Uninsured Motorist Coverage. This includes those autos you acquire ownership of after the policy begins provided they are subject to the same state uninsured motorists requirement.
27	Specifically Described Vehicles	Only those autos described in Item Seven of the Non-Dealers' and Trailer Dealers' Supplementary Schedule for which a premium charge is shown (and for Liability Coverage any trailers you don't own while attached to a power unit described in Item Seven or Item Nine).
28	Hired Autos Only	Only those autos you lease, hire, rent or borrow. This does not include any auto you lease, hire, rent or borrow from any of your employees, partners, (if you are a partnership), members (if you are a limited liability company), or members of their households.
29	Non-Owned Autos Used In Your Garage Business	Any auto you do not own, lease, hire, rent or borrow used in connection with your garage business described in the Declarations. This includes autos owned by your employees, partners, (if you are a partnership), members, (if you are a limited liability company), or members of their households while used in your garage business.
30	Autos Left With You For Service, Repair, Storage Or Safekeeping	Any customer's land motor vehicle, trailer or semi-trailer while left with you for service, repair, storage or safekeeping. Customers include your employees, and members of their households who pay for services performed.

31	Dealers Autos And Autos Held For Sale By Non-Dealers Or Trailer Dealers (Physical Damage Only)	Any autos and the interests in these autos described in Item Seven of the Dealers' Supplementary Schedule of Item Nine of the Non-Dealers' and Trailer Dealers' Supplementary Schedule.
----	---	---

DEALERS OPEN LOT

Dealers Open Lot provides physical damage coverage protection to an insured's covered autos (inventory). Covered autos are typically private passenger vehicles, RV Units, autos held on consignment and other autos that are in the insured's possession to be held for sale. Here it is critical to insure to 100% of the inventory value to avoid possible coinsurance penalties in the event of a loss. This coverage will usually consist of a lot limit (value of all vehicles on the lot combined) and a per vehicle limit (maximum value of any one vehicle). This coverage is also subject to a deductible which can be selected by the insured. Just like Garagekeepers Liability, there are two parts to Dealer Open Lot Coverage.

- 1. Other than Collision damage which can be either Specified Perils or Comprehensive Coverage.**
- 2. Collision Coverage.**

You can find these terms defined earlier in this text under the Garagekeepers Liability section.

OTHER COVERAGE OPTIONS

Here are some of the more common coverage options offered in conjunction with garage policies.

- Medical Payments – Auto**
- Medical payments – Premises**
- Uninsured Motorist**
- Underinsured Motorist**
- Additional Insured Endorsement**
- Personal Injury Protection (PIP)**
- Broad Form Products**
- Broadened Endorsement**

- **Personal Injury & Advertising Liability**
- **Damage To Rented Premises**
- **Drive Away Radius Extension**
- **Waiver Of Subrogation**
- **False Pretense**
- **Dealer E & O**
- **Hired Auto**
- **Garagekeepers In Tow**

This will conclude part one of our series of white papers on garage insurance. Part two will address the various optional coverages that are available and where they fit in to the big picture.