

Garagekeeper's Coverage: What Happens When You Damage Your Customer's Cars

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Physical damage to a customer's vehicle occurs. Do you know how or if your shop's commercial insurance company is going to pay the claim?

Assuming that the shop owner has purchased the Garagekeeper's insurance option of the commercial garage insurance contract, was coverage purchased on a "legal liability" or "direct" basis.

Better to confront this question now, rather than after damage to a customer's auto has occurred.

Many shop owners are surprised to find out, unfortunately for some after the fact, that Garagekeeper's coverage can be limited.

BACKGROUND OF COVERAGE

An owner of an automobile repair shop who keeps customers' automobiles for storage or repair can be legally liable (regardless of signs to the contrary posted throughout the premises) for loss or damage caused by failure to exercise the care required of a bailee.

Strictly speaking, the bailment created between the garage operator and the customer is for mutual benefit where, according to Black's Law Dictionary, "the parties contemplate some price or compensation in return for benefits flowing from the bailment." Once the bailee must exercise ordinary or due care to safeguard the automobile. The need for coverage for damage to the customers' autos in the care of the garage is satisfied by the purchasing garagekeepers coverage (section II of the garage coverage policy).

Most of the shop's customers have automobile physical damage insurance on their own cars and that insurance will respond to damage wherever the car is located and regardless of who may be responsible for it.

However, when a customer's car is damaged or destroyed while at the garage the customer is apt to expect the shop to restore their auto, as is generally expected if customers' property is damaged by another bailee such as a dry cleaner, watch repair or appliance repair shop.

Getting back to our first paragraph's focus, it is important for the garage owner to understand that the standard garagekeepers coverage responds only when the insured is found to be legally liable for damages. There is no provision for "goodwill"

payments (paying for damages simply to maintain good customer relations).

Legally liable means that coverage for damage to your customer's property would be provided subject to a court of law's enforcement of your obligation or responsibility to indemnify your customer. That makes for mad customers and bad reputations.

INSURING CUSTOMER'S CARS PROPERLY

There is a way for the garage business to buy back "goodwill" coverage. The garage contract offers the insured the option of Direct coverage, termed "direct" basis, for the garagekeepers exposures. If the shop chooses that option, garagekeepers coverage applies without regard to the legal liability of the insured and functions like a bailee's customer contract.

Then, the "direct" coverage option of garagekeepers coverage, the shop has the choice to purchase "direct-primary:" or "direct-excess" insurance.

If the direct-primary option is selected, the garagekeepers premium is increased (very minimally in today's insurance market) and coverage for damage to a customer's car is provided automatically, whether or not the customer carries any of his own insurance. If the direct-excess option is chosen, the insured's garagekeepers premium is increased (slightly, again) and coverage for damage to a customer's car will be provided over and above the recovery the customer makes from his/her own insurance company.

One recent example: a ten-employee shop with an average of 20 vehicles under service changed their garagekeepers coverage from "legal liability" to "direct-primary" for about \$120 in annual premium; well worth the headache removal and potential self-insured event—for are all cases going to pass the "legally liable" test?

As you can see, this is a topic worth investigating. Maybe it is time to pull the commercial insurance policy out and start asking questions?

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