

The Iceberg Analogy *by Ken Von Forell, Hortica Insurance*

One of the most vivid lessons I remember from my early training as a commercial insurance underwriter was the analogy made between an iceberg and an insured loss.

The instructor drew a picture of an iceberg on the blackboard. Above the water line of the imaginary ocean, a peak of ice stuck up like a small mountain. The illustration then showed that below the water line, the mass of ice was considerably larger than what was visible above the water. An iceberg can have as much as 80-90% of the mass below water.

So how is it that an insured loss is like an iceberg? Many claims that approach catastrophe proportions will result in much greater economic loss than is covered by insurance proceeds.

Let me illustrate. In the event of a catastrophic automobile loss, the amount of liability insurance to protect you from financial loss is only a small portion of the actual "cost" of the event. Therefore the comparison to an iceberg comes into play.

If your employee driver is at fault in an accident, your business will be liable for damage to property, bodily injury to the other driver, loss of use to the vehicle, legal costs if necessary etc. A good insurance policy with adequate limits will pay for all of this protection.

But the "costs" of the accident don't stop there. What about the loss to your own vehicle? Again, insurance will cover the actual cash value of the vehicle. Many times however,

the vehicle has much more utility value than the actual cash value. Immediately you have a "cost" not covered by insurance.

What of the injury to your worker? His or her medical costs will be paid, and a portion of their wages will be protected. But think of the cost involved if you have to hire someone new to handle the job while your trained and experienced employee is off the job. You may have to take on the duties yourself. That diminishes your ability to run your business, make sales, manage other aspects of the operations, etc. More costs not covered by insurance.

One former customer I am familiar with had to contend with a criminal investigation regarding how the vehicles in his fleet were maintained. Critical management time was necessary to answer depositions, to consult with criminal lawyers, to search company records etc. These

activities can have a significant cost associated with them.

So why purchase insurance? One major reason is that with the purchase

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of a business insurance policy from a quality business insurance provider, you get support services that are designed to mitigate the very type of costs I have pointed out.

A great deal of insurance company service expense is for loss control or safety activities. Insurance companies provide training materials for almost any business activity: from driving automobiles, to safe lifting, to the safe driving of fork lift trucks.

Loss control materials and training are designed to limit or eliminate the impact of the loss. If the overall size of the iceberg is reduced through proper safety procedures, the hidden costs of any loss will naturally be reduced.

It is human nature to think "it won't happen to me". Maybe that is why business owners who have had a close call, or who have experienced a catastrophic loss are the ones who are most likely to adhere strictly to safety plans and programs.

Loss control materials, safety plans, training materials, incentive plans etc. are readily available from your commercial insurance provider. In-depth and industry specific loss control plans for your business can be obtained from some insurance companies that specialize in this area.

The protection of your business is one of your most important duties as an owner. Purchasing proper insurance protection and paying attention to loss control and safety issues will truly help you control all of the "costs" of a possible loss, and protect your ship from running into any icebergs.

For all you last minute procrastinators... you know who you are!

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