

Loss Prevention

Please route to:

- Dealer principal
- General manager
- F&I manager
- Sales manager
- Service manager
- Office manager

Completed operations and product liability risks:

How to avoid the \$1 million dollar brake job

"A customer brought their car into our service department for a brake job. This customer was a "waiter," so we pushed the job through pretty quick. The technician finished the job; the customer paid the cashier and drove off. That car was going over 60 mph when the wheel fell off, the vehicle went out of control and crashed. It was a terrible accident. Attorneys for the family contacted us the very next day."

You may not want to believe that a simple tire rotation or brake job could cost your dealership or service and repair business in excess of \$1 million dollars, but the fact is it can. These incidents happen every year and the stories are familiar. Are you a high-end import dealer? If a technician or someone in your "quick-lube" department forgets to put oil back into an engine, how much will it cost to replace it? Does \$10,000 sound close? It is important to protect yourself from both catastrophic and nuisance claims. Catastrophic claims can put you out of business and nuisance claims reduce profits. Both can tarnish a hard-earned good reputation that took years to build. Zurich offers the following suggestions to protect your dealership or service and repair business against

completed operations and product liability exposures:

- Require all service and repair orders to be signed by the customer.

This is especially critical if the service writer recommends preventive maintenance or manufacturer's scheduled service and the customer declines to have it done.
- Establish a quality control program in the service department.
- Require third-party (service writer, QC manager) inspection upon completion of service work.
- Ensure the quality and safety of service work is thoroughly evaluated, especially when critical automotive safety components are involved.
- Require technicians to be qualified to perform assigned work, including completing factory and ASE training.

In addition, there are other less obvious completed operations or product liability exposures your business should consider. The used car industry is becoming extremely complicated, and consumer protection laws hold the dealer to a higher standard than ever before. If your business "guarantees" used cars, or advertises a "100 point inspection,"

you should know as much as possible about the vehicle being sold. Here are some additional suggestions to protect your business and assets against less obvious exposures:

- Use a title search company to verify the vehicle's history, including:
 - mileage
 - salvage title
 - unusual usage - police, taxi or emergency vehicle.
- Require the customer to complete a "Customer title disclosure and trade-in certification" or "Sellers disclosure" form.
- Thoroughly inspect the vehicle and look for evidence of odometer tampering, replacement or rollback.
- Appraisers must be diligent in evaluating trade-ins, and determining prior damage.
- Conduct a comprehensive safety inspection of all trade-in vehicles to include:
 - brakes
 - air bags
 - exhaust system
 - steering & suspension systems
 - other critical components

Don't forget those subcontractors your business uses to modify new and used vehicles. Customizing vans and pick-up trucks, installing stereo systems, alarm systems or any other electrical devices are not a problem until something happens. If the customer's car or house catches fire, they will come back to talk with your business first. If the subcontractor isn't properly insured, guess who's responsible?

Here are more tips to help protect your business when choosing business partners:

- Use subcontractors/vendors with extensive experience (years in business) in their field and a good track record.
- Require certificates of insurance for workers' compensation, auto, general liability and product liability coverage.
- Policy limits for subcontractors and vendors should be similar to your own.
- Your business should be listed as an additional insured on subcontractors' insurance policies.
- Never install, use or re-sell used parts or supplies, i.e. tires, airbags, steel, aluminum or other custom wheels, etc.

Dealerships and service and repair businesses are not immune to product liability and completed operations claims. These losses can ruin a business quickly with a huge legal judgement, or more slowly with a bad reputation. If you'd like more help evaluating this business exposure, or if you have any additional questions or comments, contact your local Zurich account executive or contact our Risk Engineering Department at 800-821-7803.

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