

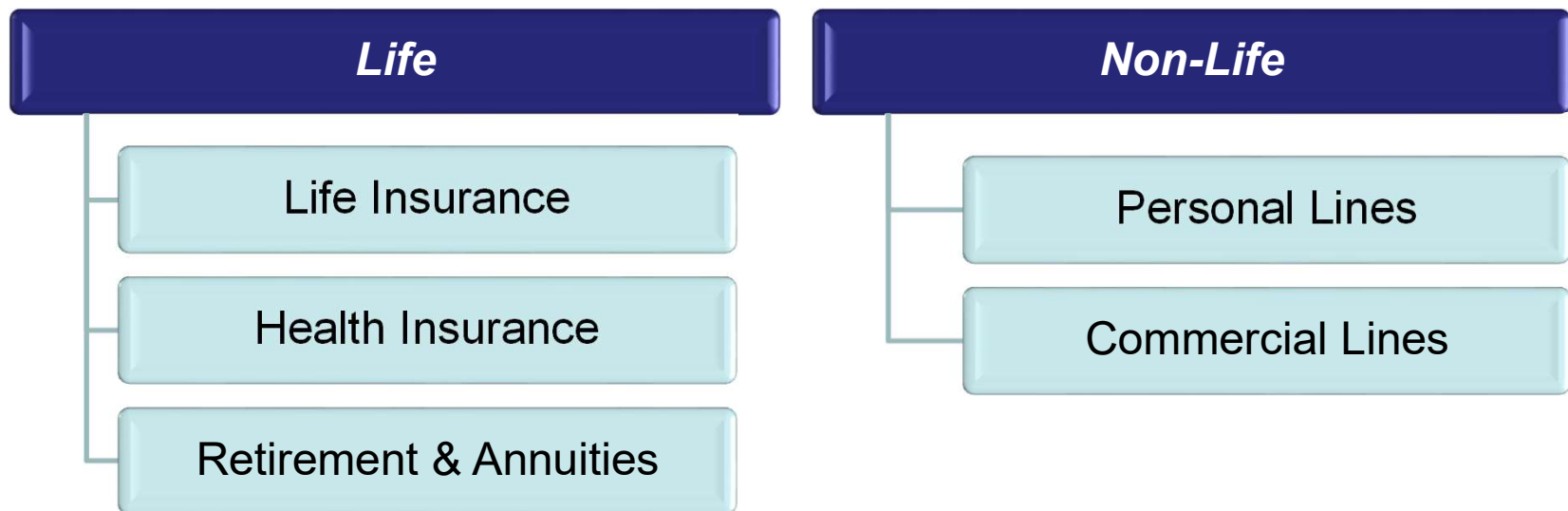
Personal Auto Insurance

Functional Training
Insurance Practice



Insurance @ a glance

Insurance – is a contract for transferring risk from a person, business or organization to an insurance company that agrees, in exchange for a premium, to pay for losses through an accumulation of premium. Types of Insurance –



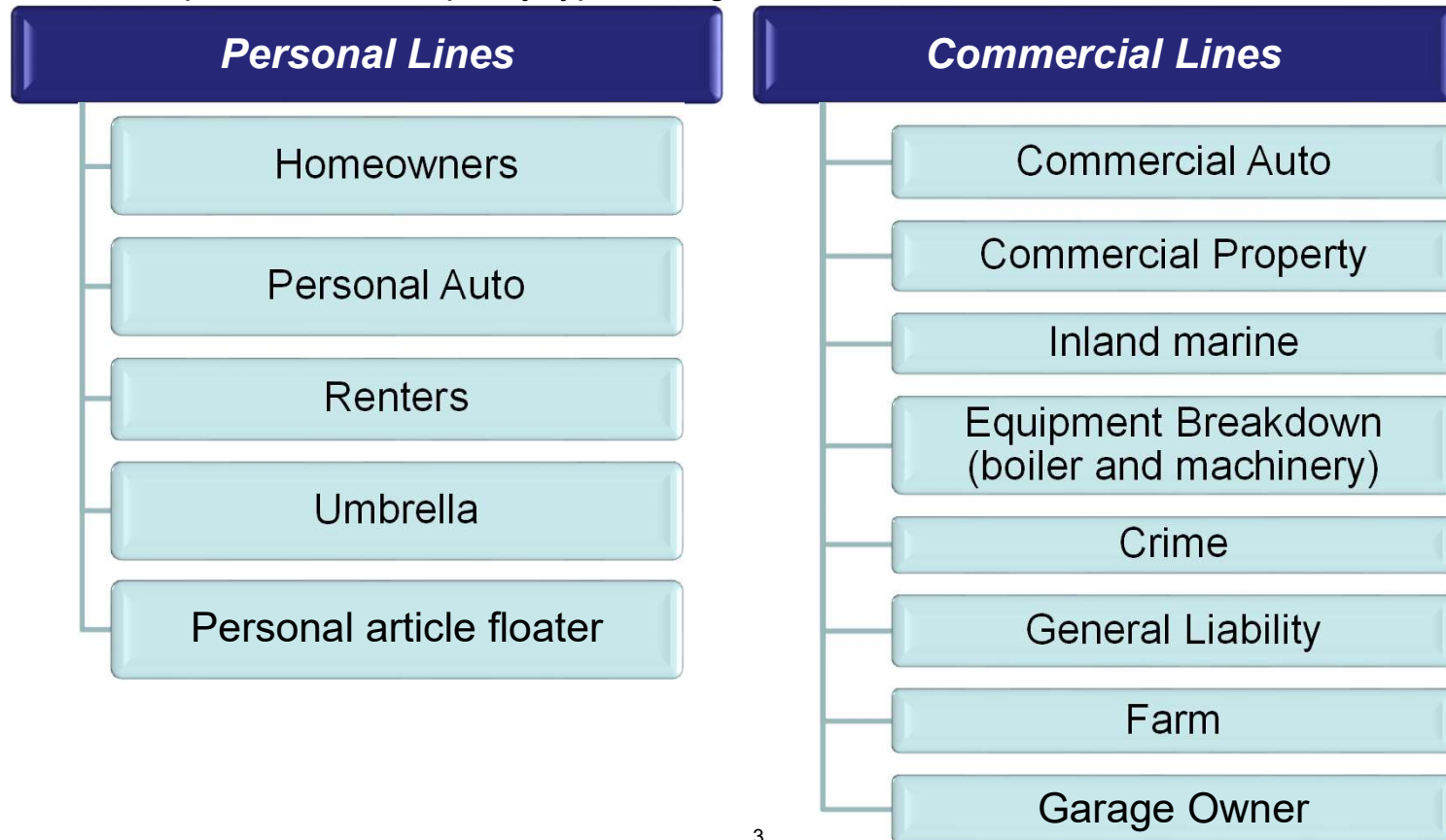


Non-Life Insurance

Non-Life Insurance, also known as General Insurance or P&C (Property & Casualty) Insurance protects the policy holders against financial loss due to the following:

- Loss or damage to their property and
- Liability loss due to injury / property loss to third party arising out of operation of the insured property

Some of the examples of Non Life policy types are given below:



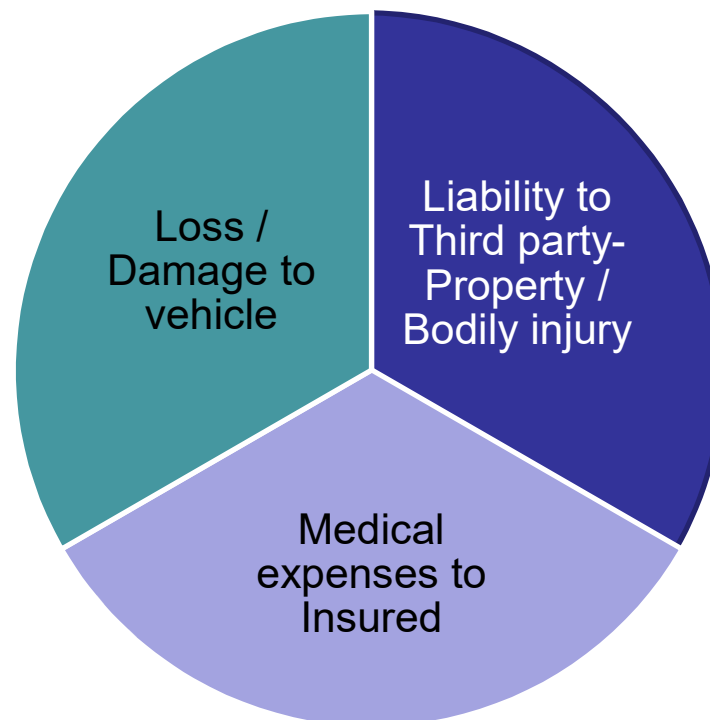


Personal Auto Insurance Policy (PAP)

Personal Auto Insurance Policy caters to the insurance needs of individuals owning motorized vehicles.

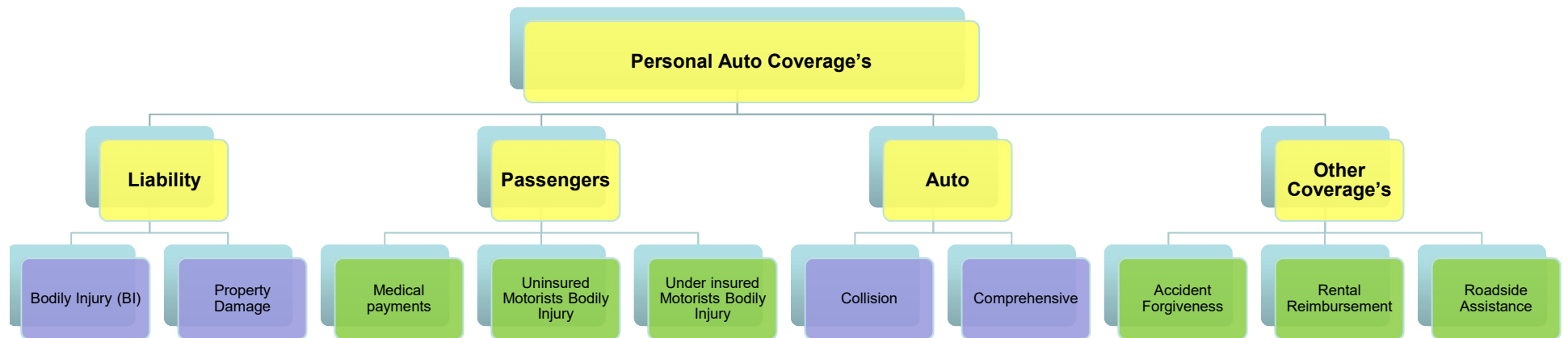
It is designed to cover risk of financial liability and the loss of a motor vehicle the owner may face if their vehicle is involved in an accident/ collision.

Protection under a PAP





Coverage's





Part A – Liability Coverages

Bodily Injury

This coverage applies to injuries that the policyholder and family members listed on the policy cause to someone else. These individuals are also covered when driving other peoples' cars with permission. As motorists in serious accidents may be sued for large amounts, drivers can opt to buy more than the state-required minimum to protect personal assets such as homes and savings.

Property Damage

This coverage pays for damage policyholders (or someone driving the car with their permission) may cause to someone else's property. Usually, this means damage to someone else's car, but it also includes damage to lamp posts, telephone poles, fences, buildings or other structures hit in an accident



Coverage's

Part B– Medical Expenses Coverages

Medical Payments / Personal Injury Protection (PIP)

This coverage pays for the treatment of injuries to the driver and passengers of the policyholder's car. At its broadest, PIP can cover medical payments, lost wages and the cost of replacing services normally performed by someone injured in an auto accident. It may also cover funeral costs.



Part C – Uninsured and Underinsured Motorist Coverage

Uninsured Motorist Coverage

- *Most States require licensed drivers to have atleast minimum auto insurance coverages.*
- *But in most states, as per statistics there are about 13.5% to 14.5% of drivers driving without insurance.*
- *Uninsured Motorist Coverage will cover insured if they suffer injuries from Uninsured Motorist which is defined as*
 - *Drivers without Insurance*
 - *Drivers less than minimum State requirement*
 - *Hit and Run accidents*
 - *Drivers insured by insolvent Insurance Companies*

Under-Insured Motorist Coverage

- *If the insured is injured by a person whose has insurance but not enough to cover your damages, then one would not get any more from that person and their Insurance Company*
- *To overcome this, insured can opt for Under-Insured Motorist Coverage Endorsement*
- *Any deficiency of compensation for injuries caused by someone with inadequate insurance to cover the losses can be collected from their own insurance company*



Part D – Coverage for Auto Damage

Collision

- *This covers any damage caused by a Collision with another vehicle or object*
- *Example : Insured vehicle hit against a tree, telephone pole or damage caused by potholes. Collision with deer or any animal are covered under Comprehensive and not under this coverage.*
- *This coverage usually will have deductible*

Other than Collision or Comprehensive

- *This coverage reimburse the insured for loss due to theft or damage due to other than collision.*
- *Comprehensive events like fire, falling objects, missiles, flood etc.*
- *This coverage also has a separate deductible but there are some damages like glass portion of the coverage without deductible*



Optional Coverage

Rental Reimbursement

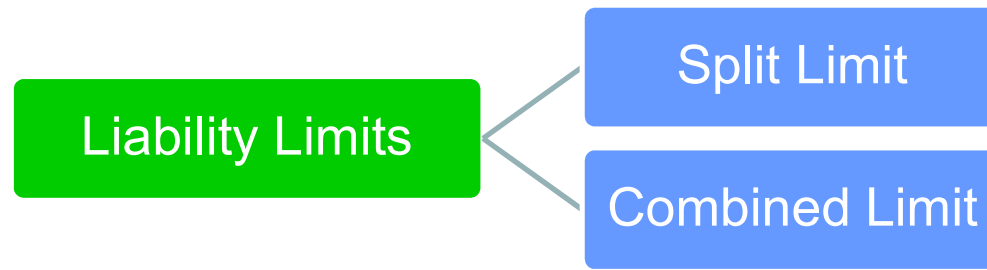
- *Rental reimbursement coverage helps you pay for transportation expenses, such as a rental car or public transportation fare, while your own vehicle is being repaired after a covered insurance claim*
- *Example : If you have collision coverage and you're in a car accident, that is typically considered a covered loss. Your rental reimbursement coverage may help pay for transportation expenses while your vehicle is in the repair shop after the collision.*
- *This coverage usually will have deductible*
- *Rental reimbursement coverage typically has a daily limit, and a maximum number of days it can be used*

Road side Assistance

- *The emergency road side assistance coverages provides if the insured vehicle breaks down or becomes disabled. Following reasonable expenses are payable*
 - *Mechanical labor at the breakdown site (up to one hour).*
 - *Towing to the nearest repair location if the covered vehicle is not drivable.*
 - *Towing if the covered car is stuck on or immediately next to a public road.*
 - *Delivery of gas, oil, battery, or change of tire (but not the cost of these or similar items) necessary to return a covered vehicle back to driving condition.*
 - *Locksmith labor to unlock a covered car if its key is lost, stolen, or locked inside the car (up to one hour).*



Limits



- **Split Limits** are more common in US. With split limits, three separate dollar amounts apply to each accident for Liability coverage.
- The first limit is a per person limit: the maximum amount that will be paid to any one injured person in an accident.
- The second limit is a per occurrence limit: the maximum amount that will be paid to all injured persons in that accident.
- The third limit is a per occurrence limit that applies to property damage claims; this is the maximum amount that the insurer will pay for damage to other cars or property resulting from the accident.
- Example: Auto Insurance Liability Coverage Limit : \$ 100/300/100
This would mean \$ 100,000 per person, \$ 300,000 per occurrence (accident) and \$100,000 for property damage liability. In a claim, say, five claimants are injured each claiming \$75,000, the total amount claimed will be \$ 375,000. Although individual claim amount is within the per person limit, the total injury claim amount exceeds the per accident limit of 300,000. Therefore, Policy will pay 300,000 and Insured will have to bear the remaining \$75000
- **Combined single limit** simply states a single dollar limit that applies to any combination of bodily injury and property damage liability claims
- Example:
An auto policy would state a max limit of \$300,000 for all Liability losses arising out of an accident that may involve injury to one or more persons and damage to third party (claimant) vehicle or other property.



Premium Rating Factors

Policy Data

- * Policy Term
- * Multiple vehicles
- * Multiple policies
- * Limits opted
- * Deductibles
- * Prior Losses

Driver

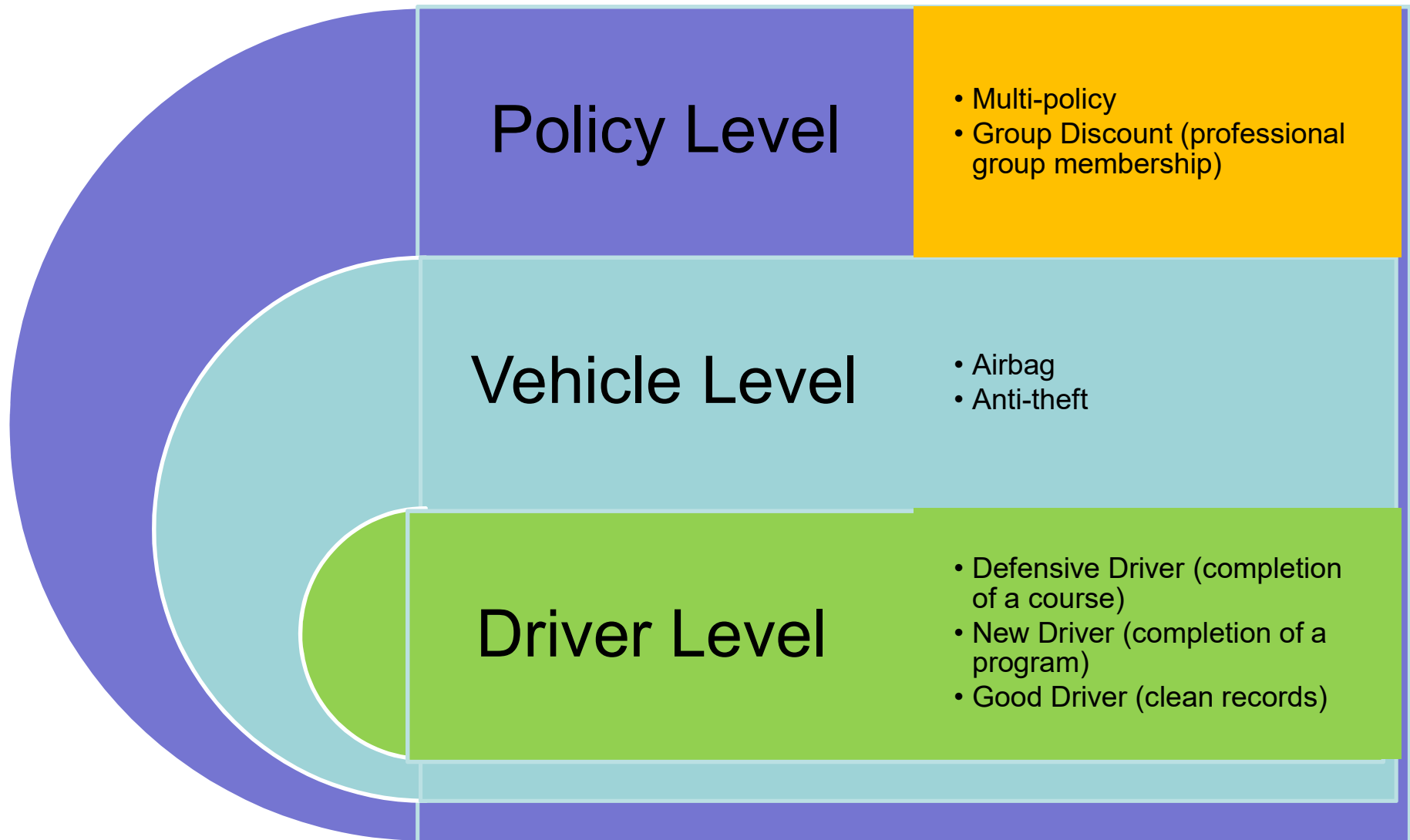
- * Age
- * Gender
- * Marital Status
- * * Driver Education credits / Training
- * Driving / Accident History
- * Credit Score

Vehicle

- * Vehicle Type
- * Usage – Business / Farm/ Pleasure
- * Garaging location
- * High Value vehicle



Applicable Discounts & Credits





Tier Rating

- Auto insurers consider different factors to determine the risk and the likelihood of an accident or loss occurrence. Factors include Driving history, credit score, past losses, vehicle type, coverage limits, age, gender, marital status etc. They then, group policy holders with similar exposure and assign a rate. This is called Tiering / Tier Rating.
- Drivers with favorable risk characteristics will be placed in low rated tier and drivers with poor risk characteristics will be placed in high rated tier
- Tier systems vary greatly from insurer to insurer



UW Considerations

1. Credit Report

Why do insurers use credit?

Insurance companies use financial history along with other factors (such as years of driving experience or claims history) to properly classify an insured according to his/her potential risk. Studies have shown a correlation between a consumer's financial history and his/her future insurance loss potential. Thus, insurance companies believe the use of credit helps to underwrite an applicant at a cost that reflects *their* specific risk.

What information is in a credit report?

- Identifying Information – Name, Current and Previous Addresses, Social Security Number, Date of Birth
- Credit History – History of satisfying obligations to retail stores, banks, finance companies and mortgage companies
- Public Records – Judgments, Foreclosures, Bankruptcies, Collections, Tax Liens, Garnishments
- Inquiries – Identifies credit grantors or other authorized parties that have received a copy of the consumer's credit report, typically during the past 2 years. Also, lists companies who received consumer information for the purpose of offering credit or other promotions.

3. Three Credit Bureaus – Experian, Equifax and Trans-Union

Organizations like Lexis Nexis, Acxiom and the above credit bureaus gather and maintain public records and provide Credit reports on individuals and business. Lexis Nexis provides a unique service of a combined report from all three credit bureaus.



UW Considerations

2. MVR – Motor Vehicle Report

- This report is issued by Dept of Motor Vehicles or by Third party Database like Lexis Nexis on the Driving history and License details of the driver. Driving history includes any sort of violation (major /minor), citations, accidents for the past few years (depending upon State requirement). Insurers obtain this report during new policy issuance and renewals to rate the policy
- Disclosed – As part of the application process, a person buying Auto Insurance fills in the details of Driving incidents for the past 3 years or so along with license details. This means 'Disclosed Report'.
- Discovered – While issuing a new policy or during renewal, Insurance Carriers also obtain MVR report from external sources through automated interfacing with such systems. It provides all the incidents – major, minor, citations & non-moving for a time period that are recorded. This data discovered affects the Premium Rating.

3. **SR-22:** It is a form that is a proof stating that one has financial responsibility for the stated amount. Form SR-22 has to be filed with State and be carried by a person for a specified period of time (say 3 years) if he /she has

- Has been convicted of a DUI (Driving Under Influence)
- Failed to maintain Auto insurance coverage
- Committed serious driving related violation

Insurance carriers provide coverage to such a person usually at a higher rate of premium and offers to file SR-22 with the State on his/her behalf, by charging a fee.

4. **Incident History** – Some carriers deny coverage if there are 3 or more major accidents/violations in the previous three years

5. Premium payment history



Endorsements

The coverage of the standard policy can be added/ deleted / modified by endorsements to meet policyholder's specific needs. Following are common endorsements relevant to any Personal Auto policy:

1. Named Non-Owner
2. Additional Custom Equipment coverage
3. Auto Loan/Lease Payoff Loss Settlement
4. Uninsured Motorist Property Damage
5. Vacation Liability (appl for Motor Homes/Travel trailers)
6. Travel Trailer Endorsement
7. Replacement cost of Personal Effects



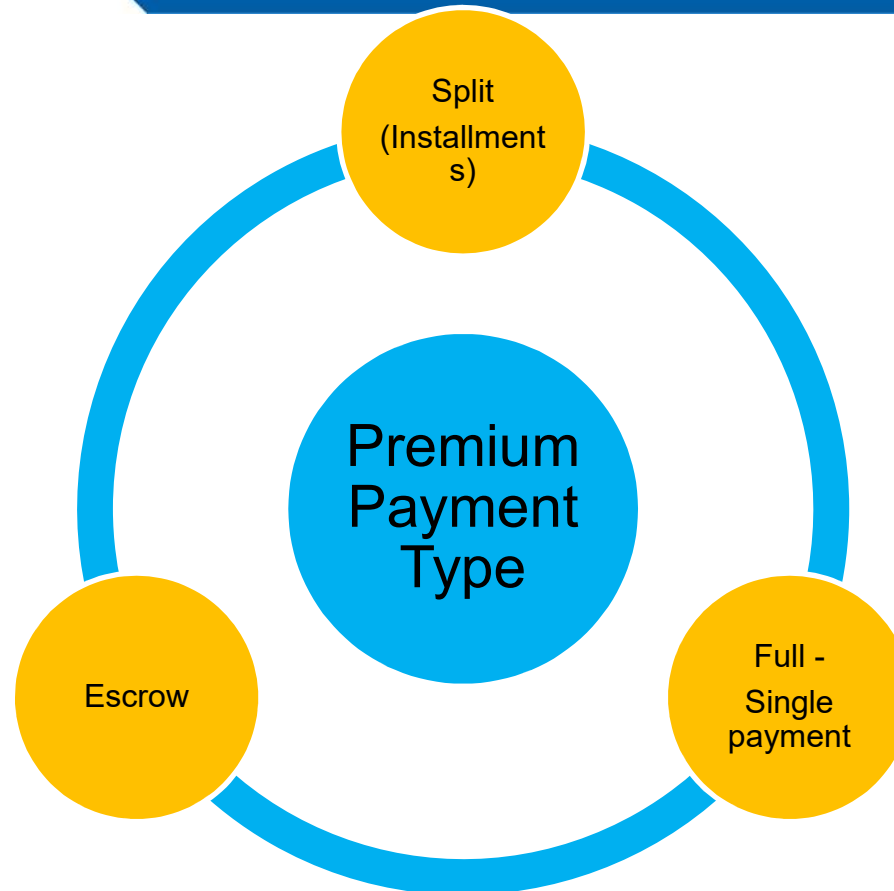
Prints

Common Output documents for Personal Auto Policy (varies by State)

1	Dec Page – Contains the parties to be insured, vehicle, driver, period of insurance, premium, coverage, Terms and forms list attaching to the policy
2	Invoice
3	Privacy Notice –Declaration by Carrier on the protection of consumer information
4	Fair Credit Reporting – Declaration by Insurance Carrier that the consumer reports are used for the purpose of underwriting of insurance with the consent of the consumer.
5	Legal Statement
6	Customer Notification Letter – This letter consists of the Credit Report, Motor vehicle Report and past losses (CLUE) as received from different organizations
7	Description of Coverages
8	Uninsured/Underinsured Selection/Rejection Form – Option to include the coverage
9	Driver Exclusion Form – In case a Driver is listed in the policy but coverage not required, this forms needs to be completed and attached part of the policy
10	Vehicle ID Cards
11	Coverage selection / rejection form
12	Adverse UW Decision Form



Premium Payment Types



- While all payment types are familiar to you, a few words on Escrow is worth mentioning— Usually in the case of Property purchases where a Trust account is held by a third party (other than Mortgagee) in the borrower's name to pay obligations such as property taxes and insurance premiums until the loan is repaid.



Regulatory Reporting

Some of the Regulatory reporting requirements:

- ISO
- LexisNexis
- Medicare
- NMVTIS



Other points to ponder

- Policy term could be annual or semi-annual
- Minimum premium per vehicle: Some Insurers may charge a minimum premium of say \$50 or so on an annual policy to meet the processing charges.
- In a multi vehicle policy, each vehicle must have at least one assigned driver
- Vehicles (other than motor homes) with a gross vehicle weight in excess of 10,000 pounds are generally exempted from PAP
- CLUE - Comprehensive Loss Underwriting Exchange Reports – This report issued is by Lexis Nexis on insurance claims made by the Policy holder for the past few years across carriers, even if the claim is paid or not.
- CARCO – Leading providers of pre-insurance inspection services of vehicles. They confirm inspected vehicles are properly valued and insured. Auto Insurance carriers approach CARCO for the report to prevent insurance fraud. CARCO pre-inspect services lower the risk of insurance for non-existent or salvaged vehicles, prevent claims for pre-existing damages and multiple policy frauds. Inspection report also helps calculating appropriate rate of premium. CARCO uses data from NMVTIS (National Motor Vehicles Title Information System)
- NMVTIS – It is a tool managed by Federal Govt to prevent title fraud and other crimes. Insurance carriers and purchasers looking for used cars access this tool to get the information on Vehicle title. All Insurance carriers and Salvage operators are mandated to report Vehicle Total loss claims to the Govt.
- SIU – Special Investigating Unit



Other points to ponder contd..

- Tiers – A rating system contrary to the older one where a standard rate was applied to all drivers, with a "surcharge" applied to those drivers who got into accidents or high-risk categories. The tiered system does away with surcharges, replacing this with a set of risk ratings, starting with the standard rating, and going progressively higher according to a variety of calculations.
 - What Affects Auto Insurance Tiers - A driver may be placed in a specific level of an auto insurance tier system based on a variety of factors, including what accidents or DUI/DWI convictions are in a driver's history, whether he or she is driving a relatively high risk sports or luxury vehicle and whether the driver is located in what constitutes a high risk area (often an urban area with higher traffic accident statistics).
 - Results of a Tiered System - A tiered auto insurance system means insurers will be using a more precisely defined set of metrics to find out what kind of a risk the driver really represents on the road, rather than judging the risk by one accident
- Filing – Insurers are required to file with Insurance regulator NAIC (National Association of Insurance Commissioner) – any new products, rate changes, Forms and get it approved before launching in the market. This is one of the measures to regulate the insurance business, protect the interests of the insuring community and ensure solvency & fair trade practice. The automated system built by NAIC for the purpose is called SERFF – System for Electronic Rate and Form Filing.
- Rate Capping - Rate stability rules, also known as “rate capping” or “transition rating” rules – When Insurers implement revised rating plans using advanced predictive modeling methods, it can produce significant premium changes for its book of business. Similar disruptions may also occur when a book of business is moved from one insurer to another. To mitigate the impact on policyholders, insurers often propose rating rules or formulas that reduce the magnitude of the premium changes for policyholders.
 - Rate capping involves defining an upper limit and lower limit of rate change. A one-term cap may be introduced to limit policyholder disruption. The cap is usually removed at the next policy renewal
 - Transition rating - A transition plan is another form of rate capping, which may be approved as a transition from one rating plan to another rating plan over a period of time (no more than 3 years).



Q & A



Thanks