**Introduction**

There are two major automobile exposures for which individuals seek protection. First, people want to be protected against their liability in case they injure someone or damage someone else’s property through the use of their automobile. Second, people want protection for damage to their own automobile in case the auto is damaged in an accident or suffers other types of damage, such as fire or theft.

Because the homeowners form specifically excludes auto exposures, they must be covered separately, through a policy called the personal auto policy (PAP). Because the PAP contains property and liability coverage, it is considered a package policy. In this course, we’ll study the 2005 personal auto policy issued by ISO.

**Organization and Eligibility**

The personal auto policy consists of a declarations page and a policy form. The policy form contains four separate coverages, each with its own insuring agreement, exclusions, and conditions. They are as follows:

* Part A—liability coverage
* Part B—medical payments coverage
* Part C—uninsured motorists coverage
* Part D—coverage for damage to your auto (physical damage)

Many personal auto policies are written to include all of the available coverages, but the insured does not have to purchase each one. Part A—liability coverage may be written alone or with any of the other coverages. Medical payments coverage, Part B, is optional, but it may only be written if the policy includes liability coverage. Part C—uninsured motorists coverage may only be written in conjunction with liability coverage and is subject to other laws that vary from state to state. It is mandatory in some states; in others the insured may reject the coverage in writing. Either or both of the coverages under Part D (collision and other than collision) may be written alone or with liability coverage.

The personal auto policy can be issued to an individual or a married couple residing in the same household.

**Definitions**

The definitions section of the personal auto policy defines certain key terms used in the policy. These terms help clarify the intent of various coverages and conditions, as you will see throughout this unit.

The policy uses the words you and your to refer to the named insured shown in the declarations and the insured’s spouse. The spouse must reside in the same household as the insured. However, if a separation occurs during the policy period or before the effective date of the policy, the spouse is still considered an insured for the least of:

* 90 days;
* the effective date of a new policy listing the spouse as a named insured; or
* the end of the policy period.

A family member is any person related to the named insured who is a resident of the insured’s household. This includes those related by blood, marriage, or adoption and includes a ward or foster child.

Bodily injury means bodily harm, sickness, or disease, including death, that results from any of these.

Occupying means:

* in a vehicle;
* upon a vehicle; or
* getting into, onto, out of, or off of a vehicle.

Property damage means physical injury to, destruction of, or loss of use of tangible property.

The named insured’s covered auto includes the following:

* Any vehicle listed in the declarations. Vehicles eligible to be listed include private passenger autos, which are four-wheel motor vehicles and pickup trucks and vans that are under a certain weight and are not used for business purposes. (Farming and ranching are not considered businesses.) The vehicles must be owned or leased under a long-term contract of six months or more.
* Any private passenger auto, pickup, or van the named insured acquires during the policy period.
* Any trailer owned by the named insured. This includes farm wagons or implements while towed by a vehicle listed in the declarations.
* Any auto or trailer not owned by the named insured that is being used as a temporary substitute for a vehicle shown in the declarations that is out of use because of breakdown, repair, servicing, loss, or destruction.

## Newly Acquired Autos

Earlier, we said that newly acquired autos qualify as covered autos. Coverage for newly acquired autos applies as follows.

For Liability, Medical Payments, and Uninsured Motorists Coverage

If the newly acquired auto replaces one listed in the declarations, the new auto automatically has the broadest coverage provided for any vehicle already listed in the declarations.

If the new auto does not replace one that is already insured, the insured must request coverage within 14 days after acquiring the auto.

For Physical Damage Coverage

For physical damage coverage, it doesn’t matter if the new auto is a replacement or additional auto. If the insured already has at least one vehicle insured for physical damage under the policy, coverage begins on the date the auto is acquired as long as the insured requests coverage within 14 days after acquiring the auto. The new auto will then automatically have the broadest coverage provided for any vehicle already listed in the declarations.

If the insured does not already have physical damage coverage on an auto, coverage must be requested within 4 days after acquiring the auto. If a loss occurs in the time before the insured requests coverage, a $500 deductible applies.

If an insured requests coverage after any of the reporting periods specified in the policy have elapsed, coverage begins at the time coverage is requested. This is true for additional and replacement autos.

Suppose Jose sells his small pickup truck and buys a new sports car. The pickup truck had full coverage under a personal auto policy. Because the sports car is a replacement for the pickup, it automatically has liability coverage under the personal auto policy.

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## Part A Liability Coverage

## Coverage

Part A—liability coverage covers damages for bodily injury or property damage that an insured becomes legally responsible for because of an auto accident.

There are several important concepts here. First, the policy only protects those who are considered insureds. We’ll look at who is an insured under Part A of the policy in a moment. Second, coverage applies only to damages for which the insured is legally responsible. Finally, the damages must involve bodily injury or property damage and result from an auto accident.

The policy promises to settle or defend any claim or suit asking for such damages and promises to pay any defense costs incurred by the company. However, the duty to settle or defend ends when the limit of liability has been exhausted. Defense costs are paid in addition to the limit of insurance. There is no duty to settle or defend claims for BI or PD that are not covered under the policy.

**Who Is an Insured**

Now let’s look at who is considered an insured under Part A of the personal auto policy. Although there are some exceptions we’ll cover later, in general the policy considers the following to be insureds:

* The named insured and members of the insured’s family while using any auto
* Anyone using the insured’s car with the insured’s permission or the reasonable belief that he is entitled to do so
* Other people or organizations to the extent that they share liability with an insured
* Other persons or organizations for their liability arising out of an accident involving any auto or trailer used by the insured or a family member (does not apply if the auto or trailer is owned by the person or organization in question)

Let’s take a closer look at each of these groups.

The named insured, the insured’s spouse, or any family member is an insured for the ownership, maintenance, or use of any auto or trailer. Suppose the named insured’s 16-year-old son borrows a neighbor’s car and causes an accident. The son is considered an insured for liability coverage under the named insured’s personal auto policy.

Any person using the named insured’s covered auto with the insured’s permission or the reasonable belief that he is entitled to do so is also covered for liability insurance. For instance, a neighbor would be insured under the policy if he had an accident while driving the named insured’s car but would not be covered under the named insured’s policy while driving his own vehicle.

The policy also insures any person or organization who is legally responsible for the acts or omissions of anyone insured under Part A of the policy that result in an auto accident involving a covered auto. This is an example of vicarious liability.

In addition, the policy insures any person or organization who is legally responsible for the acts or omissions of a named insured or family member that result in an accident involving any auto or trailer. The person or organization is not covered, however, if it owns or hires the auto or trailer.

Here’s an example: Dave is on his way to a business luncheon in his own car when he hits Randall’s car. Because Dave was on company business when the accident occurred, Randall sues Dave and his employer, Rock Oil, for damages. Under these circumstances, Dave’s personal auto policy also covers Rock Oil’s liability.

If Dave were driving a company-owned car when the accident occurred, his personal auto policy would not cover Rock Oil’s liability. No coverage applies when the organization owns or rents the vehicle involved in the accident.

**Supplementary Payments**

Like other liability policies, the liability portion of the personal auto policy contains a supplementary payments section. Amounts paid under this section do not reduce the policy limit. Supplementary payments include:

* up to $250 for the cost of bail bonds;
* premiums on appeal bonds or bonds to release attachments; (in case u get arrested—pays for bail bonds for getting out).
* postjudgment interest (prejudgment interest is included as part of the liability limit);
* up to $200 per day for loss of earnings because of attendance at hearings or trials at the company’s request; and
* other reasonable expenses incurred by the insured at the company’s request.

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**Exclusions**

There are a number of important exclusions that help define coverage under the liability section of the personal auto policy. Excluded are:

* BI or PD caused intentionally by the insured;
* damage to property owned or being transported by the insured;
* damage to property rented to, used by, or in the care of the insured;
* BI to an insured’s employees (these losses are covered under workers’ compensation);
* liability arising out of an insured’s ownership or operation of a vehicle used as a public or livery conveyance, such as a taxi (this exclusion does not apply to a share-the-expense carpool);
* liability arising while the insured auto is being used in an auto business;
* use of a vehicle without permission (does not apply to family members using covered autos owned by the insured);
* BI or PD for which an insured is covered under a nuclear energy liability policy;
* motorized vehicles with fewer than four wheels or designed for use off public roads (does not apply to nonowned golf carts);
* vehicles other than covered autos owned by the named insured or furnished for the named insured’s regular use;
* vehicles other than covered autos that are owned by family members or furnished for their regular use (does not apply to the named insured); and
* vehicles used in prearranged racing or speed contests.

**Limits of Liability**

The Part A limit of liability is the most the company will pay for all damages resulting from any one auto accident, regardless of the number of insureds, claims filed, vehicles or premiums listed in the declarations, or vehicles involved in the accident.

Liability coverage is provided on a split limits basis. The limits are usually expressed as a series of three numbers, such as 25/50/25. This means that the policy will pay:

* $25,000 per person for bodily injury;
* $50,000 per accident for bodily injury; and
* $25,000 per accident for property damage. (how much you can compensate if ur car gets into d accident)

The policy also states that a person cannot collect duplicate payments for a loss that is covered under Part A and another coverage in the personal auto policy or under any underinsured motorists coverage provided by the policy. (You’ll learn about underinsured motorists coverage later in this unit.)

Assume the named insured’s personal auto policy has limits of 100/300/100 for Part A. After an accident, there is a $250,000 judgment against him for injuries to one person. In this case, the policy will pay $100,000 (the policy limit for BI to one person).

## Financial Responsibility

An important provision under Part A of the personal auto policy deals with financial responsibility laws.

Almost all states have financial responsibility laws that require each driver to prove that he can pay for bodily injury or property damage liability losses arising out of auto accidents. A driver normally meets this requirement by purchasing an auto insurance policy with limits of liability that meet the limits required by that state’s law.

This provision states that the insurance company can certify the policy as proof of future financial responsibility. When it does, the policy will automatically reflect any changes in the state’s financial responsibility laws.

## Out-of-State Coverage

Vehicles are usually driven in more than one state, and the personal auto policy provides for such situations. The out-of-state coverage provision modifies the personal auto policy to meet other states’ financial responsibility requirements and other state laws concerning out-of-state drivers when the covered auto is being driven in that state.

## Other Insurance

The other insurance clause for liability coverage states that the company will pay only its share of a loss that is also covered by other insurance. The company’s share is the proportion that its policy limit bears to the total of all applicable limits. However, any insurance the company provides for a vehicle that is not owned by the insured, including vehicles used as temporary substitute autos, will be considered excess to other insurance.

Suppose the named insured has an accident in her car and is liable for damages of $60,000. She has a personal auto policy with a $50,000 single liability limit and other applicable liability insurance of $25,000. The personal auto policy would pay $40,000 for this loss (50,000 ÷ 75,000 × 60,000 = 40,000).

**Part B Medical Payments Coverage**

**Coverage, Who Is an Insured**

Part B—medical payments coverage provides protection for the named insured, family members, and passengers in the named insured’s auto for injuries received in an accident, regardless of who was at fault. It is not a form of liability coverage for injuries sustained by passengers in another auto involved in an accident with the insured.

Part B covers reasonable expenses for necessary medical and funeral services incurred within three years of the date of the accident.

Insureds for medical payments coverage include:

* the named insured and any family member
  + while occupying a motor vehicle designed for use on public roads or a trailer, or
  + when struck by a vehicle designed for use on public roads or a trailer; and
* any other person while occupying the named insured’s covered auto.

Suppose the named insured ran a red light while driving his covered auto and hit another vehicle. The occupants of the car he hit were badly injured. The named insured, his daughter, and two of his daughter’s friends were in the insured’s auto and were also injured. Medical payments coverage would pay the medical bills for the named insured, his daughter, and her friends. It would not cover the medical bills of the other car’s occupants.

## Exclusions

Medical payments coverage is subject to some of the same exclusions as liability coverage. There is no coverage for injuries:

* sustained while occupying a motor vehicle with fewer than four wheels;
* sustained while using a covered auto as a public or livery conveyance;
* that would be covered under workers’ compensation;
* sustained while occupying an uninsured auto owned by the insured or furnished for his regular use;
* sustained while occupying an uninsured auto owned by a family member or furnished for the family member’s regular use (does not apply to the named insured);
* sustained while the insured is occupying a vehicle without the reasonable belief that he is entitled to do so (does not apply to family members using covered autos owned by the insured);
* sustained while occupying a vehicle that is being used in the insured’s business;
* caused by war or nuclear hazard;
* sustained while occupying a vehicle located for use as a residence or premises; or
* sustained during prearranged racing or speed contests.

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## Limits of Liability, Other Insurance

Medical payments coverage has a single limit of liability that applies to all injuries sustained by each person injured in any one accident. Typical limits are $1,000, $2,000, $5,000, or $10,000.

A person cannot collect duplicate payments for a loss that is covered under Part B and another coverage in the personal auto policy or under any underinsured motorists coverage provided by the policy.

The other insurance condition for medical payments coverage is identical to the one for liability coverage.

## Part C Uninsured Motorists Coverage

## Coverage

Part C of the personal auto policy provides uninsured motorists (UM) coverage. In most states, this coverage indemnifies the insured for bodily injury only as a result of an accident with a legally liable uninsured motorist. Only compensatory damages are covered; punitive damages are specifically excluded.

Some states offer property damage coverage in addition to bodily injury coverage. This is provided by adding an endorsement to the policy.

Before the insured can be indemnified under Part C, four conditions must be met.

* The loss must be caused by an auto accident and involve bodily injury (in most states).
* The loss must be sustained by an insured.
* The insured must be legally entitled to recover for BI damages.
* The other vehicle must meet the definition of an uninsured vehicle.

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[Personal Auto Insurance](https://aicc.kfeducation.com/online/courseviewer/pdins/INS_PD/690) - Part C Uninsured Motorists Coverage

## Definition of Uninsured Motor Vehicle

The policy defines an uninsured motor vehicle as one that:

* has no liability coverage at the time of the accident;
* has liability coverage but not enough to meet the state’s financial responsibility requirement;
* is operated by a hit-and-run driver who cannot be identified who strikes an insured or a family member, the insured’s covered auto, or any auto occupied by the insured or a family member; or
* has invalid liability coverage at the time of the accident because the insurer is insolvent or denies coverage.

This definition does not apply to a vehicle or equipment that is:

* owned by or furnished or available for the regular use of the insured or any family member;
* owned or operated by a self-insurer, except for an insolvent self-insurer;
* owned by a government unit or agency;
* operated on rails or crawler treads;
* designed for use off public roads; or
* located for use as a residence or premises.

Take Note

Earlier, you learned that the out-of-state coverage provision automatically amends the policy limit to conform with other states’ financial responsibility laws. Because of this provision, the part of the definition referencing policies with inadequate limits rarely applies to drivers insured under a personal auto policy. However, not all policies include an out-of-state coverage provision. This part of the definition is intended to protect insureds involved in accidents with drivers insured by such policies.Keep in mind that for the purpose of this course (including related exam questions) we will ignore the impact of the out-of-state coverage provision on the definition of an uninsured motorist.

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## Who Is Insured

Insureds for uninsured motorists coverage include:

* the named insured and family members;
* anyone occupying the named insured’s covered auto; and
* any person entitled to recover damages because of BI caused by an uninsured motorist to the named insured, family members, or passengers in the covered auto.

Examples include a parent who is entitled to recover for medical expenses incurred by a child or a spouse who is entitled to damages for loss of consortium (loss of a spouse’s services).

## Exclusions

Part C does not cover losses:

* for BI sustained by an insured while occupying or when struck by an auto that is owned by the insured but not insured for uninsured motorists coverage under the policy;
* for BI sustained by a family member while occupying or when struck by an auto owned by the named insured that has primary uninsured motorists coverage under another policy;
* that are settled without the insurer’s consent if the settlement prejudices the insurer’s right to subrogate against the uninsured driver;
* that occur when the auto is being used as a public or livery conveyance; or
* that occur while the insured is using an auto without the reasonable belief that he is entitled to do so (does not apply to family members using covered autos owned by the insured).

In some states, workers’ compensation insurers and disability insurers may have the right to subrogate against a third party who has caused an injury. In the case of an injury caused by an uninsured motorist, this right could extend to making a claim under the injured party’s uninsured motorists coverage. Such claims are specifically prohibited by the policy.

## Limit of Liability

The limit of liability provision for Part C is similar to the one used for Part A. It also states that the insurance company will not:

* make duplicate payments for losses that were paid by or on behalf of the person who was responsible for the accident; or
* pay any part of a loss that could be covered under a workers’ compensation or disability benefits law.

**Other Insurance**

The other insurance provision for uninsured motorists coverage is similar to the ones used for Parts A and B. One important difference is that the amount that the insured can be paid is limited to the highest single policy limit for uninsured motorists coverage. This prevents stacking coverage—adding the limits of coverage available to provide a higher coverage limit

Suppose Imelda has two personal auto policies, both with a $200,000 limit of liability for uninsured motorists coverage. She is involved in a serious accident with an uninsured driver and incurs $350,000 in medical expenses. The maximum amount she could collect under both policies for this loss is $200,000.

## Arbitration

Part C provides specific provisions on arbitration that come in to play when the insured and the insurance company do not agree whether the insured is entitled to uninsured motorists coverage or the amount of damages. This provision operates much like the arbitration clauses we discussed earlier.

## Part D Coverage for Damage to Your Auto

## Coverage

The liability section of the personal auto policy excludes damage to property owned by, rented to, used by, or in the care of the insured. Such coverage is provided under the Personal Auto policy by Part D—coverage for damage to your auto, commonly known as physical damage coverage.

Physical damage coverage pays for direct and accidental loss to the named insured’s covered auto or any nonowned auto against loss caused by:

* collision; or
* other than collision (sometimes referred to as OTC or comprehensive).

It does not cover any personal property in the vehicle.

Together, these two coverages provide what amounts to open peril coverage for damage to the named insured’s auto. The named insured may purchase collision coverage only, other than collision coverage only, or both. Coverage may also vary by car. But only coverages for which a premium is shown in the declarations will apply.

In general, collision is defined as the impact of an auto covered by the policy with another object or vehicle, or the upset of a vehicle.

Other than collision coverage pays almost every other type of direct, accidental loss to the vehicle that is not specifically excluded by the policy. These perils are specifically listed in the policy as being other than collision losses:

* Missiles or falling objects
* Fire
* Theft or larceny
* Explosion or earthquake
* Windstorm
* Hail, water, or flood
* Malicious mischief or vandalism
* Riot or civil commotion
* Contact with a bird or animal
* Breakage of glass

If glass breakage is caused by collision, the insured has the option of having it treated as a collision loss. This eliminates a double deductible when glass breakage and other collision damage occur in the same accident.

If the named insured has a covered loss in a nonowned auto, the broadest coverage that applies to any of the insured’s covered autos will apply to the nonowned auto. A nonowned auto is any private passenger auto, pickup truck, trailer, or van not owned by or available for the regular use of the named insured or a family member, such as a short-term rental car. Under physical damage coverage only, a temporary substitute auto is considered a nonowned auto instead of a covered auto.

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## Transportation Expenses

In addition to collision and other than collision coverage, Part D provides transportation expenses coverage. This coverage pays up to $20 per day, to a maximum of $600, for:

* transportation expenses incurred by the insured because of physical damage losses to the insured’s covered auto; and
* loss of use expenses for which the insured becomes legally responsible because of loss to a nonowned auto.

Transportation expenses will be paid for collision and other than collision losses provided the insured has purchased these coverages.

For transportation expenses arising out of the total theft of the auto, there is a 48-hour waiting period before expenses will be paid. Coverage continues until the auto is returned to use or the company pays for its loss.

For other types of losses, there is a 24-hour waiting period. Coverage is limited to the period reasonably required to repair or replace the auto.

## Exclusions

Part D excludes losses:

* to an auto being used as a public or livery conveyance;
* due and confined to wear and tear, freezing, mechanical or electrical breakdown, or road damage to tires (does not apply when the damage results from the total theft of the auto);
* caused by war or nuclear perils;
* to electronic equipment that reproduces, receives, or transmits audio, visual, or data signals (does not apply to equipment that is permanently installed in the auto);
* to tapes, records, disks, and other media used with the electronic equipment described above;
* due to destruction or confiscation by government or civil authorities (does not apply to the interests of any loss payee in a covered auto);
* to a camper body, trailer, or motor home that is not listed in the declarations. This exclusion also applies to cooking, dining, plumbing, and refrigeration facilities used with these items. This exclusion does not apply to
  + trailers and their facilities and equipment that are not owned by the insured, or
  + trailers, camper bodies, and their facilities and equipment acquired during the policy period if coverage is requested within 14 days after acquisition.

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Part D also excludes losses to:

* a nonowned auto when used by the named insured or family member without a reasonable belief that he is entitled to do so;
* awnings, cabanas, or equipment designed to create additional living space;
* custom furnishings or equipment in a pickup or van (does not apply to caps, covers, or bedliners on pickup trucks);
* radar or laser detection equipment;
* nonowned autos being used by any person engaged in an auto business;
* nonowned autos being used in any business (does not apply to the use of a private passenger auto or trailer by the named insured or family member);
* any auto being used in a prearranged racing or speed contest; and
* an auto rented by the named insured or a family member if the rental agency is prohibited from recovering from the insured or a family member under the provisions of state law or a rental agreement.

## Other Provisions

Physical damage losses are reimbursed for actual cash value or the amount needed to repair or replace the property, whichever is less. If the insured and the insurance company do not agree on the amount that should be paid, the loss may be appraised. If the insurer pays for a loss in money, the payment will include the applicable sales tax for the damaged or stolen property.

The most the policy will pay for loss to a nonowned trailer is $1,500. Coverage for electronic equipment that is permanently installed in an area of the car that is not normally used by the manufacturer for this equipment is limited to $1,000.

Collision and other than collision coverage are usually written with a deductible that applies separately to each occurrence.

In the physical damage part of the personal auto policy, the other insurance condition is called other sources of recovery. It is essentially the same as the other insurance conditions in Part A and Part B, except that it states that the insurer will pay only its share of the loss if any other source of recovery, not just insurance, applies to the loss.

The no benefit to bailee condition states that a bailee cannot benefit from the insurance policy if a loss occurs to the car while it is in the bailee’s possession. Examples of bailees are repair shop owners and employees of parking garages.

## Parts E and F Conditions

## Part E Conditions

Parts E and F of the personal auto policy list conditions that apply to the policy as a whole. Part E—duties after an accident or loss details the duties of insureds following a loss. They are similar to the duties required under other property and liability policies.

Note that under uninsured motorists coverage, the insured is required to notify the police promptly if a hit-and-run driver is involved. Under physical damage coverage, the insured must take reasonable steps after a loss to protect a covered auto and its equipment from further damage. Reasonable expenses required to do so will be reimbursed. In addition, the police must be notified if the car is stolen. Finally, the insurance company must be permitted to inspect or appraise the property before its repair or disposal following a loss.

## Part F Conditions

Part F—general provisions establishes conditions for the coverage and describes the duties and obligations of the insured and insurer.

The policy applies only to accidents and losses that occur during the policy period shown in the declarations and within the policy territory. The coverage territory includes the United States, its territories and possessions, Puerto Rico, and Canada. Covered autos are also insured while being transported between territorial ports.

Legal action against the insurer may not be taken by an insured until all policy terms have been complied with. Under Part A, legal action may not be taken against the insurer until it agrees in writing that an insured has an obligation to pay, or unless the amount of such an obligation has been established by judgment after a trial. No person or organization may take action against the insurer to determine whether an insured is liable for a loss.

Policy terms may not be changed or waived except by written endorsement. Any premium adjustment due to a change will take effect as of the date of change. If the policy form is revised to provide broader coverage without additional charge, all policyholders will automatically and immediately benefit from the broader coverage on the date the change is implemented in their state of residence.

The insurer has subrogation rights under all coverages except physical damage coverage against a person using a covered auto with a reasonable belief of being entitled to do so.

The termination provision describes conditions for cancellation and nonrenewal. The insured may cancel the policy at any time by returning the policy or providing advance written notice of the desired cancellation date. The insurer must provide advance written notice of cancellation or nonrenewal. At least 10 days’ notice must be given if the policy is being canceled for nonpayment of premium or if cancellation occurs during the first 60 days of an initial policy term (a new policy that has not been renewed or continued). At least 20 days’ notice must be given in all other cases.

Once a policy has been in effect for 60 days, or after it has been renewed or continued, the insurer may only cancel for the following reasons:

* Nonpayment of premium
* Material misrepresentation in obtaining the policy
* A regular operator of the vehicle has had his driver’s license suspended or revoked

Nonrenewal requires at least 20 days’ advance notice.

## Personal Auto Policy Endorsements

## Underinsured Motorists Coverage

Earlier, we stated that a vehicle with liability insurance in an amount equal to or greater than the state’s financial responsibility limit is not considered an uninsured vehicle under uninsured motorists coverage. This financial responsibility limit, however, often falls far short of fully reimbursing the insured for a loss. Underinsured motorists coverage fills this gap. In general terms, underinsured motorists coverage pays the difference between the insured’s actual damages for bodily injury and the amount of liability insurance carried by the driver who was at fault, up to the limits of the insured’s underinsured motorists coverage.

Underinsured motorists coverage is subject to state law, being mandatory in some states and optional in others. It is added to the personal auto policy by endorsement.

Suppose the insured, who carries $100,000 of underinsured motorists coverage, is involved in an auto accident. The other driver, who was at fault, carries the state’s required limit of $50,000 of auto liability insurance. The named insured’s damages for bodily injury are $65,000. The insured’s underinsured motorists coverage will pay $15,000 for this loss ($65,000 less the $50,000 limit of the at-fault driver’s liability policy).

## Other Personal Auto Endorsements

Earlier, we stated that a personal auto policy can be issued to an individual or a married couple who live in the same household. When the joint ownership coverage endorsement is attached, the policy can be issued to two or more people who live in the same household or two or more people who are related in another way besides being spouses.

The towing and labor costs endorsement reimburses the insured for the cost of having a vehicle towed. The basic coverage limit is $25 for combined towing and labor costs each time a covered auto is disabled. Higher limits are usually available. Labor must be performed at the place of disablement: work performed after the vehicle is taken to a garage is not covered.

The miscellaneous type vehicle endorsement may be added to the personal auto policy to provide coverage for motorcycles, mopeds, and recreational vehicles such as motor homes and golf carts. (Some companies issue specialized policies to cover these vehicles rather than endorsing the standard policy.)

The extended nonowned coverage—vehicles furnished or available for regular use endorsement expands the extensive coverage automatically provided under the personal auto policy for the insured and the family while driving cars other than the insured’s covered autos. It eliminates most exclusions applicable to autos that are furnished or available for the regular use of the named insured or family members.

Part D of the personal auto policy pays up to $20 per day to a maximum of $600 for transportation expenses when a covered auto is out of service due to a covered loss. The optional limits transportation expenses coverage endorsement allows the insured to select the daily and maximum limits of coverage provided for transportation and loss of use expenses for scheduled and nonowned autos. The limits selected are shown in the declarations.

The excess electronic equipment endorsement has two purposes. It allows the insured to:

* add coverage for tapes, records, and disks used with electronic media; and
* increase the limit of insurance for electronic equipment that is permanently installed in an area of the auto not normally used for installing this equipment.

The named nonowner coverage endorsement may be issued to someone who does not own an automobile but drives borrowed or rented autos. It might be used to provide coverage for an individual who drives a corporate-owned auto furnished for his use by an employer. Although the individual would have coverage while driving the company car under the company’s auto policy, there would be no coverage for any other auto the insured might regularly or occasionally drive. This endorsement to the personal auto policy provides such coverage. If the insured acquires a private passenger auto, pickup, panel truck, or van during the policy period, the endorsement will automatically cover it for 14 days if no other insurance applies.

**Other Personal Auto Insurance Topics**

**No-Fault Insurance**

You’ve learned that an insured’s auto liability insurance pays only for losses that the insured is legally liable for. But in many cases, this traditional fault system has created a backlog in the courts and excessive costs—all to determine who is at fault.

In an attempt to deal with these problems, some states have adopted no-fault laws. Under these laws, an insured driver is reimbursed by his own insurance company for medical expenses and loss of wages, regardless of who was at fault in the auto accident. Subrogation from the other company is not allowed.

Suppose Samuel’s car crosses the center line and strikes Mohammed’s car head on. If this accident occurred in a state with a pure no-fault law, then Mohammed’s insurance company would reimburse him for the injuries he sustained in the accident and Mohammed would be prevented from suing the other driver who normally would have been declared at fault. With pure no-fault, there is no reimbursement for pain and suffering losses.

But at this time, a pure no-fault plan does not exist in any state. What does exist is a variety of modified no-fault plans that allow one party to sue another if the injuries are severe or if medical expenses exceed a specified amount. For example, one state’s no-fault law provides that one party may sue another for pain and suffering if the medical expenses exceed $2,000 or if there has been death, disfigurement, dismemberment, or a fracture.

To this point, we have not mentioned the impact of no-fault insurance as it relates to physical damage and medical payments coverage. That’s because both of these coverages are already no fault.

No-fault plans are not standardized. If your state has a no-fault law, you need to learn how it works.

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## Assigned Risk Plans

It has become increasingly difficult for some drivers to obtain automobile insurance. This is partly because most of these drivers are not average drivers. Because of poor driving records, most companies will not accept them because their loss experience is much greater than the average driver’s. However, it is in society’s best interest to have all drivers insured so they can live up to their financial responsibilities when accidents do occur.

Assigned risk plans, or automobile insurance plans, are voluntary agreements between insurance companies licensed in a particular state. These companies agree to share the poor risks among themselves. Because these risks are randomly assigned to the participating companies, they are called assigned risks. Each company accepts its share of assigned risk drivers according to the size of the individual insurance company.

In most cases, drivers in the assigned risk plan only have to be issued BI and PD liability coverage in the minimum amount required by state law. In some states, physical damage and medical payments coverage may also be issued.

There are several other methods besides assigned risk plans used to provide insurance for drivers whose records exclude them from obtaining coverage through normal channels. For instance, one state operates its own insurance company to handle such drivers. You should become familiar with the type of plan used in your state.