

Module 5

Commercial Auto Insurance, Part II

**Commercial Auto
Insurance, Part II**

**Module 5
Chapter 5**

1

1

Objectives

- ☐ Obj I: Auto Dealers Coverage Form: Section I
- ☐ Obj II: Auto Dealers Coverage Form: Sections II and III
- ☐ Obj III: Auto Dealers Coverage Form: Common Endorsements
- ☐ Obj V: Motor Carrier Coverage Form
- ☐ Obj VI: Commercial Auto Endorsements

2

2

**Auto Dealers Coverage
Form: Section I**

Objective I

3

3

Auto Dealers Coverage Form

- ❑ ADCF is only available to franchised and non-franchised auto and trailer dealers.
 - ❑ Section I – Covered Autos.
 - ❑ Bodily injury/property damage coverage.
 - ❑ Garagekeepers coverage.
 - ❑ Physical damage coverage.
 - ❑ Section II – General Liability.
 - ❑ Sec. III – Acts, Errors or Omissions Liability.
 - ❑ Section IV – Conditions.
 - ❑ Section V – Definitions.

4

4

Covered Auto Designation Symbols

- ❑ Covered autos under ADCF are designated in the same manner as in the BACF.
 - ❑ Symbols 21-29 are parallel to symbols 1-9 of BACF.
 - ❑ Symbol 30 is garagekeepers coverage.
 - ❑ Symbol 31 is damage coverage for dealers' autos.
- ❑ Definition of auto includes any land vehicle.
 - ❑ Includes both autos and mobile equipment as defined in the BACF.

5

5

Covered Autos Liability Coverage

- ❑ ADCF provides coverage for bodily injury or property damage caused by an accident.
 - ❑ Insured must be legally liable.
 - ❑ Must be the result of ownership, maintenance, or use of covered autos.
 - ❑ Also covers defense costs.
- ❑ The persons insured for covered autos are the same as under the BACF.
 - ❑ Customers are also covered if they have no insurance or if it is less than state minimum.

6

6

Exclusions

- ❑ Most exclusions are similar to BACF.
 - ❑ Intended injury, workers compensation, etc.
- ❑ Unique exclusions to the ADCF:
 - ❑ Leased autos.
 - ❑ Defective products.
 - ❑ Work you performed.
 - ❑ Damage to Impaired Property or Property Not Physically Damaged.
 - ❑ Products recall.

7

7

Garagekeepers Coverage

- ❑ Auto dealers have potential liability for damage to customers' autos in their care, custody, or control.
- ❑ Under garagekeepers coverage, the insurer will pay damages the insured must legally pay.
 - ❑ Insured must be legally liable.
 - ❑ Applies to losses while the insured is repairing the customer's auto.
 - ❑ Also covers legal defense costs.

8

8

Garagekeepers Coverage

- ❑ Exclusions to garagekeepers coverage:
 - ❑ Contractual obligations.
 - ❑ Theft – theft caused by the insured, employees, or stockholders.
 - ❑ Defective parts.
 - ❑ Faulty work.
 - ❑ Electronic equipment – loss to electronic equipment that is not permanently installed.
 - ❑ War.

9

9

Garagekeepers Coverage

- ❑ Garagekeepers coverage can be modified to apply on a direct coverage basis instead of a legal liability basis.
 - ❑ Insured is covered even if not legally liable.
- ❑ Direct coverage options:
 - ❑ Excess insurance – primary insurance when insured is legally liable; excess insurance when insured is not legally liable.
 - ❑ Primary insurance – primary insurance regardless of whether insured is legally liable.

10

10

Physical Damage Coverage

- ❑ Physical damage insurance on dealers' autos is usually arranged by using symbol 31 in Item Two of the Auto Dealers Declarations.
 - ❑ Includes any autos and the interests in these autos described in the Declarations.
- ❑ Table indicates physical damage coverage (collision, comprehensive, etc.) for:
 - ❑ Types of autos – new, used, owned autos.
 - ❑ Interests covered – your interest only, your interest and interest of creditor, etc.

11

11

Physical Damage Premiums

- ❑ Premiums are calculated on the basis of the total value of covered autos.
- ❑ Nonreporting approach – applicable rates are applied to the policy limits.
 - ❑ Simplifies rating.
 - ❑ Causes problems for dealers whose inventory values fluctuate substantially.
- ❑ Coverage formula:
 - ❑
$$\text{Coverage} = \frac{\text{Limit of Insurance}}{\text{Value of Autos at Time of Loss}} \times \text{Loss}$$

12

12

Physical Damage Premiums

- Reporting approach – insurer calculates premiums based on actual value of autos.
 - Reported monthly or quarterly.
 - Premium is charged at beginning of policy period, and adjusted at the end.
 - Coverage formula:
 - Coverage = $\frac{\text{Amount Reported on Last Report}}{\text{Value of Autos at Time of Report}} \times \text{Loss}$

13

13

Physical Damage Exclusions

- Physical damage coverage is subject to BACF's physical damage exclusions, plus:
 - Autos Leased or Rented to Others – exclusion doesn't apply to customer whose auto is left with insured for repair.
 - False Pretense – parting with a covered auto as the result of a scheme or acquiring an auto from a seller who does not have legal title.
 - Profits – excludes expected profits of the named insured.

14

14

Physical Damage Exclusions

- Physical damage exclusions also include:
 - Loss at Unnamed Locations – excludes loss occurring over 45 days after insured begins using the unnamed locations.
 - Driveaway Collision Exclusion – excludes coverage if auto is being driven more than 50 miles to its destination.
 - Endorsement exists to provide coverage.
 - Collision of Transporting Conveyance – eliminates coverage for loss by collision of any vehicle transporting the covered auto.

15

15

Deductibles

- ❑ Garagekeepers and physical damage deductibles:
 - ❑ Collision deductible – deductible applies separately to each auto.
 - ❑ Comprehensive deductible – deductible applies separately to each auto, with a maximum deductible for all loss due to one event.
 - ❑ Can apply to all causes of loss, or just to theft, mischief, or vandalism.
 - ❑ Specified causes of loss coverage – same options as comprehensive deductible.

16

16

Practice

- ❑ Susie left her car at the dealership for service. While her car was being brought around for her to pick it up, an employee drove too close to the garage wall and knocked off one of the auto's side-view mirrors. The dealership agrees to repair the damage. Which coverage will apply to this claim?
 - ❑ A. Auto Dealers General Liability Coverage.
 - ❑ B. Physical Damage Coverage.
 - ❑ C. Garagekeepers Coverage.
 - ❑ D. Covered Autos Liability Coverage.

17

17

Practice

- ❑ Super Autos has a standard Auto Dealers Coverage Form (ADCF) policy with the following coverages:
 - ❑ Liability limit - \$1,000,000.
 - ❑ Direct Primary Garagekeepers Coverage (Symbol 30) - \$50,000 limit - \$500 deductible.
 - ❑ Physical Damage Coverage (Symbol 31) - no coverage.
- ❑ A mechanic in the dealership's shop caused \$1,500 in damage to a customer's car, and two days later a storm caused \$20,000 damage to the 20 dealer's cars on the lot. What amount would be paid by the ADCF?
 - ❑ A. \$1,000.
 - ❑ B. \$1,500.
 - ❑ C. \$21,000.
 - ❑ D. \$21,500.

18

18

**Auto Dealers Coverage
Form: Sections II and III**

Objective II

19

19

Section II Coverage

- ❑ The ADCF provides coverage for auto dealers' business operations.
 - ❑ Section II provides general liability coverage.
 - ❑ Similar to CGL coverage.
- ❑ Major coverages under Section II:
 - ❑ Bodily injury and property damage liability.
 - ❑ Personal and advertising injury liability.
 - ❑ Locations and operations medical payments.
- ❑ Also a subsection for supplementary payments.

20

20

Bodily Injury

- ❑ Bodily injury and property damage liability coverage pays damages caused by an accident.
 - ❑ Must result from named insured's auto dealer operations other than ownership, use, or maintenance of autos.
- ❑ Exclusions are similar to those in CGL.
 - ❑ Watercraft exclusion does not apply while the watercraft is ashore on dealer's premises.
 - ❑ Watercraft and aircraft exclusion does not apply to liability assumed under contract.

21

21

Bodily Injury

- Additional bodily injury exclusions:
 - Defective products – comparable to Damage to Your Product exclusion in the CGL.
 - Work you performed – comparable to Damage to Your Work exclusion in the CGL.
 - Damage to impaired property or property not physically damaged.
 - Products recall.
 - Pollution – broad exclusion for any loss or claim related to pollution.

22

22

Personal and Advertising Injury

- Personal and advertising injury insuring agreement coverage is similar to CGL.
 - However, coverage is limited to offenses arising out of auto dealer operations.
- Important exclusions related to auto dealers:
 - Quality or Performance of Goods – Failure to Conform to Statements.
 - Wrong Description of Prices – applies to injury resulting from incorrect statement of prices in advertisements.

23

23

Medical Payments

- ADCF provides coverage for medical expenses related to bodily injury.
 - Accident must be on dealer's premises.
 - Expenses must reported within one year.
 - No fault coverage.
- Covered medical expenses:
 - First aid at time of accident.
 - Necessary medical, including prosthetics.
 - Ambulance, hospital, professional nursing, and funeral services.

24

24

Medical Payments

- ❑ Exclusions are similar to CGL:
 - ❑ Injury covered by workers compensation.
 - ❑ Person hired to perform work for any insured.
 - ❑ Tenant of any insured.
 - ❑ Injury resulting from athletic activities.
- ❑ Injury sustained away from insured's premises is also excluded from coverage.
 - ❑ Unlike CGL.

25

25

General Liability Limits

- ❑ The ADCF's general liability limits are similar to limits for the CGL.
 - ❑ Names may differ between the two forms.
- ❑ Limits provisions unique to the ADCF:
 - ❑ Damages payable under limits for Section II are not payable under Sections I or III.
 - ❑ A \$500 deductible applies to the damages payable resulting from work the insured has performed on the auto.

26

26

Section III Coverage

- ❑ Section III covers acts, errors, or omissions arising out of auto dealer operations.
 - ❑ Act must be committed in the coverage territory and during the policy period.
- ❑ Acts, errors, or omissions include:
 - ❑ Failure to comply with regulations regarding the disclosure of credit terms or accurate odometer mileage.
 - ❑ A defect in title.
 - ❑ Insured's actions as an insurance agent.

27

27

Section III Exclusions

- ❑ Section III exclusions:
 - ❑ Criminal, fraudulent, malicious, dishonest, or intentional acts by an insured.
 - ❑ Bodily injury, property damage, or personal and advertising injury.
 - ❑ Damages based on the gaining of any profit to which any insured was not entitled.
 - ❑ Liability assumed by the insured in contract or an agreement.
 - ❑ Criminal fines or penalties, punitive damages, and demands for equitable relief.

28

28

Section III Exclusions

- ❑ Section III exclusions:
 - ❑ The failure of products or services to conform with any statement of quality or performance.
 - ❑ Recording and distribution of material or information in violation of law.
 - ❑ Damages arising out of any act that violates a person's civil rights.
 - ❑ Damages resulting from the bankruptcy of any insurance company in which the insured obtained insurance for a customer.

29

29

Practice

- ❑ Section II of the Auto Dealers Coverage Form (ADCF) would provide coverage for:
 - ❑ A. Expenses related to autos recalled due to faulty transmissions.
 - ❑ B. Losses resulting from hail damage to new autos on the dealer's lot.
 - ❑ C. Damage to a customer's auto occurring after it hit a tree as a result of improper brake repair by the dealer.
 - ❑ D. Pollution losses resulting from the improper disposal of fluids used in servicing autos.

30

30

**Auto Dealers Coverage
Form: Common
Endorsements**

Objective III

31

31

ADCF Endorsements

- ❑ The following endorsements are available with the ADCF:
 - ❑ Broad Form Products Coverage.
 - ❑ Dealers Driveaway Collision Coverage.
 - ❑ False Pretense Coverage.
 - ❑ Customer Complaint Legal Defense Coverage.

32

32

Broad Form Products Coverage

- ❑ The Broad Form Products Coverage endorsement can be used to delete ADCF defective products exclusion.
 - ❑ Covers liability for property damage to the insured's products resulting from defects.
 - ❑ Subject to a \$500 deductible.
- ❑ Insurer that pays to replace a defective product may be able to obtain a subrogation recovery from the manufacturer.

33

33

Dealers Driveaway Collision Coverage

- ❑ The Dealers Driveaway Collision Coverage endorsement covers damage to an auto being driven to a destination more than 50 miles away.
 - ❑ Requires insured to include, in its reports of values, a statement of the point of origin and destination for delivery trips over 50 miles.
- ❑ ADCF's physical damage coverage does not cover trips over 50 miles.

34

34

False Pretense Coverage

- ❑ The False Pretense Coverage endorsement deletes the false pretense exclusion.
 - ❑ Covers losses if someone causes the insured to voluntarily part with a covered auto by false pretenses.
 - ❑ Covers losses if the insured acquires an auto from a seller who did not have legal title.
- ❑ The endorsement excludes any loss that results from the failure of a bank or another drawee to pay funds for any reason.

35

35

Customer Complaint Legal Defense

- ❑ The Customer Complaint Legal Defense Coverage endorsement provides coverage for legal defense costs.
 - ❑ Must result from complaints or suits related to the sale, service, or repair of an auto.
 - ❑ Does not provide coverage for damages or awards, only.
- ❑ Coverage is subject to the limits of insurance shown in the declarations.

36

36

Customer Complaint Legal Defense

- ❑ Excludes defense costs for following complaints:
 - ❑ Accidents.
 - ❑ Personal and advertising injury.
 - ❑ Acts, errors, or omissions.
 - ❑ Loss to an auto while the insured is attending, servicing, repairing, parking, or storing it.
 - ❑ Criminal, fraudulent, or intentional acts.
 - ❑ Product recall.
 - ❑ Any obligation under a warranty or mechanical breakdown agreement.

37

37

Practice

- ❑ Sunshine Auto Sales accepts a trade-in from a customer buying a truck. The auto dealer later discovers that the customer did not have legal title to the trade-in auto. Which of the following endorsements would provide the auto dealer with coverage for this loss?
 - ❑ A. Customer Complaint Legal Defense Coverage endorsement.
 - ❑ B. False Pretense Coverage endorsement.
 - ❑ C. Broad Forms Coverage endorsement.
 - ❑ D. Dealers Driveaway Collision Coverage endorsement.

38

38

Motor Carrier Coverage Form

Objective V

39

39

Motor Carrier Coverage Form

- ❑ The Motor Carrier Coverage Form insures organizations providing transportation by auto.
 - ❑ Symbols 61-68 are similar to BACF 1-8.
- ❑ Symbol comparison:
 - ❑ Any auto: BACF = 1, ADCF = 21, MCCF = 61.
 - ❑ Owned autos only: 2, 22, 62.
 - ❑ Nonowned autos only: 9, 29, 71.
 - ❑ Mobile equipment: 19, covered, 79.
- ❑ MCCF also includes trailer coverage (69, 70).

40

40

Motor Carrier Coverage Form

- ❑ The Motor Carrier Coverage Form differs from the BACF in these areas:
 - ❑ Eligibility.
 - ❑ Motor carriers' use of owner-operators.
 - ❑ Coverage for owner-operators.
 - ❑ Trailer interchange coverage.
 - ❑ Trailer interchange exclusion.
 - ❑ MCS 90 endorsement.

41

41

Eligibility

- ❑ Any motor carrier is eligible for the Motor Carrier Coverage Form.
 - ❑ Motor carrier includes any person or organization providing transportation by auto in the furtherance of a commercial enterprise.
- ❑ Includes companies that use autos to transport:
 - ❑ Property of others as carriers for hire.
 - ❑ Their own property.
 - ❑ Persons.

42

42

Motor Carriers' Use of Owner-Operators

- ❑ Owner-operators are individuals who lease themselves and their trucks to motor carriers.
 - ❑ Written lease agreement exists.
 - ❑ Lease can include hold-harmless agreement.
- ❑ Liability for the owner-operator's negligence can be imputed (charged) to the motor carrier.
 - ❑ If owner-operator is held to have been acting within the terms of the lease.

43

43

Coverage for Owner-Operators

- ❑ MCCF automatically covers owners and lessors of autos hired by the insured.
 - ❑ Not the case with the BACF.
- ❑ The owner from whom the insured hires a trailer is an insured while the trailer is:
 - ❑ Connected to a power unit that is a covered auto.
 - ❑ Not connected to a power unit but is being used exclusively in the insured's business.

44

44

Insurance for Nontrucking Use

- ❑ Many owner-operators buy auto liability insurance only for nontrucking use of their rigs.
 - ❑ Lower premium than with full coverage.
 - ❑ Trucking use is typically covered by MCCF.
- ❑ Nontrucking use coverage is obtained by purchasing a BACF with a Truckers-Insurance for Non-Trucking Use (IFNTU) endorsement.
 - ❑ Major problem with IFNTU is that the MCCF does not provide insured status to an owner-operator if hold-harmless agreement exists.

45

45

Trailer Interchange Coverage

- ❑ A trailer interchange agreement is a contract.
 - ❑ Two motor carriers swap trailers and indemnify each other for any damage.
 - ❑ A motor carrier can purchase trailer interchange coverage to cover damages.
- ❑ Symbol 69 in MCCF is marked next to any of these coverages:
 - ❑ Trailer interchange comprehensive.
 - ❑ Trailer interchange collision.
 - ❑ Trailer interchange specified causes of loss.

46

46

Trailer Interchange Exclusion

- ❑ MCCF physical damage coverage excludes loss to an auto while in someone else's possession under a written trailer interchange agreement.
 - ❑ This is different than BACF.
- ❑ This exclusion can be removed for an additional premium.
 - ❑ Symbol 70 should be marked beside the chosen physical damage coverages.

47

47

MCS 90 Endorsement

- ❑ The MCS 90 endorsement is required of any carrier subject to the Motor Carrier Act of 1980.
 - ❑ Pays for damages resulting from negligence in the operation or use of any vehicle subject to the Act.
- ❑ Act requires minimum liability limits for:
 - ❑ Certain trucks used to transport certain hazardous cargoes in bulk.
 - ❑ Trucks for hire used for interstate transportation of any type of material.

48

48

Practice

- ❑ Which one of the following represents a difference between the Motor Carrier Coverage Form (MCCF) and the Business Auto Coverage Form (BACF)?
 - ❑ A. The BACF provides liability and property damage coverage, while the MCCF only provides liability coverage.
 - ❑ B. The BACF contains a trailer interchange exclusion that is not found in the MCCF.
 - ❑ C. The MCCF automatically covers owners and lessors of autos hired by the insured, while this is not the case with the BACF.
 - ❑ D. The MCS 90 endorsement is available for the BACF, but is not available for the MCCF.

49

49

Commercial Auto Endorsements

Objective VI

50

50

Rental Reimbursement Coverage

- ❑ Endorsement pays the cost to rent a temporary substitute auto.
 - ❑ Covered auto must be damaged by a covered cause of loss.
 - ❑ Daily limit and a maximum limit are selected by the insured and shown in the declarations.
- ❑ Reimbursement ends at lesser of:
 - ❑ Days required to repair or replace the auto.
 - ❑ Days shown in the schedule of the endorsement.

51

51

Stated Amount Insurance

- Endorsement limits insurer's liability for physical damage loss to the least of:
 - Actual cash value of the property at the time of the loss.
 - Cost of repairing or replacing the property with other property of like kind and quality.
 - Limit of insurance (stated amount) shown in the endorsement's schedule.
- Endorsement is mainly used on high-value, specialized vehicles whose cost may increase.

52

52

Uninsured and Underinsured Motorist

- Uninsured and Underinsured Motorist coverage is available through endorsement.
 - UM – covers occupants of a covered auto or pedestrians injured by a motorist who does not have bodily injury liability insurance.
 - In some states, property damage to a covered auto is also covered.
 - UIM – covers situations in which at-fault motorist has inadequate insurance.
- UM and UIM provisions differ by state.

53

53

Uninsured and Underinsured Motorist

- Reasons organization purchase coverage:
 - Workers comp. benefits do not always pay all of an employee's damages.
 - Employees may be injured by while driving a company auto for personal use.
 - Does not qualify for workers comp.
 - Organization may transport customers who are not covered by workers comp.
 - Insured may be a sole proprietor who has chosen not to be covered by workers comp.

54

54

Personal Injury Protection

- ❑ PIP typically provides first-party benefits for medical expenses, loss of income, loss of services, and funeral expenses.
 - ❑ Pays regardless of which party was at fault in the accident.
 - ❑ Coverages differs by state.
- ❑ None of the ISO commercial auto coverage forms contain coverage provisions for PIP.
 - ❑ In states where no-fault insurance applies, an endorsement adds coverage to the policy.

55

55

Auto Medical Payments Coverage

- ❑ Endorsement provides a prompt source of medical expense reimbursement for the insured and other persons injured in auto accidents.
 - ❑ No-fault coverage.
 - ❑ Subject to a relatively low limit of insurance.
- ❑ Many organizations purchase this coverage on autos furnished to executives or key employees.
 - ❑ Also purchased on autos used to transport customers.

56

56

Employees as Insureds

- ❑ Endorsement includes employees as insureds while using their own autos on insured's behalf.
 - ❑ Covers autos the insured does not own, hire, or borrow in their business.
 - ❑ Provides liability coverage only, not physical damage.
- ❑ Endorsement applies to BACF and MCCF.
 - ❑ ADCF automatically provides this coverage for the named insured's employees.

57

57

Employee Hired Autos

- Endorsement considers an employee an insured while operating a rental car in their name.
 - Must be rented with the named insured's permission.
 - Provides liability and physical damage coverage.
- Employee is covered only while performing duties related to named insured's business.
 - Employee renting a car for personal use is not covered under the endorsement.

58

58

Individual Named Insured

- Amends BACF or MCCF to provide Personal Auto Policy coverage to a named insured and family members.
 - Applicable to sole proprietors.
- Coverages provided:
 - Liability – coverage extended to resident relatives.
 - Physical damage – coverage extended to non-owned autos.

59

59

Drive Other Car – Broadened Coverage

- Endorsement provides liability insurance for individuals using cars they do not own.
 - Also provides spouse coverage.
 - Additional coverages are available for an increased premium.
- Could be appropriate for individuals driving company cars that do not have their own car.

60

60

Business Interruption Coverage

- ❑ Endorsement covers the loss of business income when a covered vehicle is damaged.
 - ❑ Must result from a covered cause of loss.
- ❑ Can be written for business income and extra expense, or for business income only.
 - ❑ Also contains an Extended Business Income additional coverage.
- ❑ The schedule requires a description of the insured's business activities that are dependent on the scheduled property.

61

61

Livery Passenger Conveyance Exclusion

- ❑ Endorsement explicitly excludes coverage for any covered auto while it is being used as a public or livery conveyance for passengers.
 - ❑ Exclusion applies whenever a transportation network driver is logged in to TNC platform.
- ❑ On-Demand Delivery Services Exclusion endorsement excludes coverage for insureds logged in to a delivery network platform.

62

62

Practice

- ❑ Xavier is provided with a company car by Klass Corporation, where he is a top executive. Since he does not own a car of his own big enough for his extended family, he would like to borrow his neighbor's SUV for a family vacation. Klass Corporation can provide coverage for Xavier and his family when he borrows his neighbor's SUV by adding which of the following endorsements to their Business Auto Coverage Form (BACF)?
 - ❑ A. Uninsured Motorists Coverage.
 - ❑ B. Employee Hired Autos.
 - ❑ C. Employees as Insureds.
 - ❑ D. Drive Other Car—Broadened Coverage for Named Individuals.

63

63
