

Module 4

Commercial Auto Insurance, Part I

Commercial Auto Insurance, Part I

Module 4 Chapter 4

1

1

Learning Objectives

- ☐ Obj I – Overview of Commercial Auto Insurance
- ☐ Obj II – BACF Covered Autos
- ☐ Obj III – BACF Liability Coverage
- ☐ Obj IV – BACF Physical Damage Coverage
- ☐ Obj V – BACF Conditions
- ☐ Obj VII – Rating Commercial Auto Insurance

2

2

Overview of Commercial Auto Insurance

Objective I

3

3

Liability Loss Exposures

- ❑ Commercial autos create liability, property, and personal loss exposures.
 - ❑ Can result from the ownership, maintenance, and use of autos.
- ❑ Most organizations are subject to auto liability loss exposure.
 - ❑ Liability can arise from the use of owned, hired, or borrowed autos.
 - ❑ Doctrine of respondeat superior – places liability on the employer.

4

4

Liability Loss Exposures

- ❑ An organization can become liable to others because of autos it does not own.
 - ❑ Hired autos – hiring organization can be held legally liable for injury that results from the vehicle's operation.
 - ❑ Borrowed autos – organization that borrows an auto from another can be held liable.
 - ❑ Employers nonownership liability – if an employee uses their own auto for their job duties, employer is exposed to liability.

5

5

Liability Loss Exposures

- ❑ Any business that services customers' autos can become liable for damage to cars temporarily left in its custody.
 - ❑ Bailee loss exposures.
 - ❑ Auto dealers can purchase garagekeepers coverage.
 - ❑ Insures auto while in custody of auto dealer.

6

6

Property Loss Exposures

- ❑ Any organization that has a financial interest in one or more autos is exposed to loss if those vehicles are damaged or destroyed.
 - ❑ Decrease in or loss of the autos' value.
 - ❑ Loss of use of the auto.
- ❑ Auto physical damage insurance covers damage to or destruction of a covered auto.
 - ❑ Since autos are mobile, they are susceptible to additional perils, such as collision, overturn, and theft.

7

7

Personal Loss Exposures

- ❑ Personal loss exposures include financial loss resulting from injury, sickness, or death.
 - ❑ Anyone who could suffer injury in an auto accident has a personal loss exposure.
- ❑ Various commercial auto policies cover personal loss exposures.
 - ❑ Auto medical payments coverage.
 - ❑ Personal injury protection (PIP) coverage.
 - ❑ Uninsured motorists coverage.

8

8

Commercial Auto Coverage Part

- ❑ A commercial auto coverage part includes declarations, coverage forms, and endorsements.
 - ❑ Can be included in a commercial package policy or issued as a monoline policy.
- ❑ Commercial auto declarations forms include various schedules for recording applicable coverages, covered autos, applicable limits, etc.

9

9

Commercial Auto Coverage Part

- ❑ Insurers use the Business Auto Coverage Form to insure the auto loss exposures of businesses.
 - ❑ Not used for motor carriers or auto dealers.
 - ❑ BACF provides liability insurance, and may also insure physical damage to autos.
- ❑ Auto dealers are eligible for the Auto Dealers Coverage Form.
 - ❑ Provides the equivalent of general liability and auto insurance in a single form.
 - ❑ Includes garagekeepers coverage.

10

10

Practice

- ❑ If an employee is using his or her own automobile while performing job duties, the employer can become exposed to liability, which is referred to as:
 - ❑ A. Bailee liability.
 - ❑ B. Res Ipsa Loquitur.
 - ❑ C. Employers nonownership liability.
 - ❑ D. Strict liability.

11

11

BACF Covered Autos**Objective II**

12

12

Coverage Symbols

- Coverage symbols are used to indicate the autos to which each coverage applies.
 - 10 coverage symbols.
 - Appropriate symbols are entered beside each coverage in the Schedule of Coverages.

Coverages	Covered Autos
Liability	1
Personal Injury Protection	5
Physical Damage Comprehensive	7,8

13

13

Coverage Symbols

- Coverage symbols of BACF:
 - Symbol 1 – Any Auto – autos owned by the insured, autos the insured hires or borrows, and other nonowned autos used for business.
 - Symbol 2 – Owned Autos Only – autos owned by the named insured.
 - Excludes hired, borrowed, nonowned.
 - Symbol 3 – Owned Private Passenger Autos Only – owned private passenger autos.
 - Excludes buses and trucks.

14

14

Coverage Symbols

- Coverage symbols of BACF:
 - Symbol 4 – Owned Autos Other Than Private Passenger Autos Only – owned autos except private passenger autos.
 - Symbol 5 – Owned Autos Subject to No-Fault – entered only on PIP line of coverage table.
 - Provides PIP coverage only for those autos required by law to have it.

15

15

Coverage Symbols

- ❑ Coverage symbols of BACF:
 - ❑ Symbol 6 – Owned Autos Subject to a Compulsory Uninsured Motorists Law – used for uninsured motorists coverage only.
 - ❑ Autos required by law to have uninsured motorists coverage.
 - ❑ Symbol 7 – Specifically Described Autos – autos specifically described in the policy.
 - ❑ Symbol 8 – Hired Autos Only – autos leased, hired, rented, or borrowed by the insured.

16

16

Coverage Symbols

- ❑ Coverage symbols of BACF:
 - ❑ Symbol 9 – Nonowned Autos Only – autos not owned, leased, hired, or borrowed while such autos are used in the insured's business.
 - ❑ Used only for liability coverage.
 - ❑ Symbol 19 – Mobile Equipment Subject to Compulsory or Financial Responsibility or Other Motor Vehicle Insurance Law Only – land motor vehicles that would meet the definition of mobile equipment if they were not subject to a motor vehicle insurance law.

17

17

Newly Acquired Autos

- ❑ If any of symbols 1 through 6, or 19, is shown for a coverage, that coverage applies to vehicles of the type indicated by the symbol if such vehicles are acquired during the policy term.
- ❑ Coverage for newly acquired vehicles of the type indicated by the symbol is automatic.
 - ❑ No requirement that the insurer be notified of the acquisition.

18

18

Other Covered Items

- ❑ If the BACF provides liability insurance, trailers with a load capacity of 2,000 pounds or less are covered automatically for liability insurance.
 - ❑ Mobile equipment is automatically covered for liability while being carried or towed by an auto that has liability coverage.
- ❑ Auto used as a temporary substitute for a covered auto is also covered for liability.
 - ❑ Covered auto must be out of service due to breakdown, repair, service, or destruction.

19

19

Practice

- ❑ Under the Business Auto Coverage Form (BACF), Coverage Symbol 19 is used to provide:
 - ❑ A. Coverage for mobile equipment that is subject to financial responsibility laws.
 - ❑ B. Medical expense coverage for autos not owned by the insured.
 - ❑ C. Liability coverage for owned autos, other than private passenger autos.
 - ❑ D. Personal injury protection for those automobiles required by law to have it.

20

20

Practice

- ❑ Jay, the owner of Jay's Industrial Services, was driving a vehicle insured by an unendorsed Business Auto Coverage Form (BACF). He was using the vehicle to pull a trailer with a 1,000 pound load capacity, when he had an accident. Will the BACF provide liability coverage for this accident?
 - ❑ A. No, because the policy was unendorsed.
 - ❑ B. No, because trailers are specifically excluded from coverage.
 - ❑ C. Yes, because the trailer is covered automatically.
 - ❑ D. Yes, because Jay was driving the vehicle.

21

21

BACF Liability Coverage

Objective III

22

22

Insuring Agreement

- ❑ Insurer duties in the insuring agreement:
 - ❑ Duty to pay damages.
 - ❑ Duty to pay pollution costs.
 - ❑ Duty to defend the insured.
- ❑ The insurer's Duty to Pay Damages indicates the insurer will pay amounts an insured owes due to an accident with a covered auto.
 - ❑ Bodily injury.
 - ❑ Property damage.

23

23

Insuring Agreement

- ❑ The Duty to Pay "Covered Pollution Cost or Expense" portion of the insuring agreement indicates the BACF covers certain pollution costs and expenses.
 - ❑ Must result from the escape of fuel or fluids needed for the normal running of the auto.
 - ❑ Must be caused by an accident and must result from the ownership, maintenance, or use of a covered auto.

24

24

Insuring Agreement

- ❑ The Duty to Defend portion of the insuring agreement indicates the insurer has the right and the duty to defend any insured.
 - ❑ Defense against any claim alleging damages that would be covered under the policy.
 - ❑ Claim only needs to allege damages that would be covered.
- ❑ Duty to defend ends when the insurer has paid its applicable policy limit in full or partial settlement of the claim.

25

25

Who Is an Insured

- ❑ The named insured is an insured for any covered auto.
 - ❑ Others are also insureds when using a covered auto.
- ❑ Those not considered an insured:
 - ❑ Owner from whom the insured hires or borrows a covered auto.
 - ❑ Employee if the covered auto is owned by the employee or a member of the employee's household.

26

26

Who Is an Insured

- ❑ Those not considered an insured:
 - ❑ Person using a covered auto while working in the business of selling, servicing, or parking.
 - ❑ An individual not working for the insured who moves property to or from a covered auto.
 - ❑ A partner or LLC member of the named insured using a covered auto owned by that partner.

27

27

Coverage Extensions

- ❑ BACF supplementary liability payments:
 - ❑ All expenses incurred by the insurer.
 - ❑ Up to \$2,000 for the cost of bail bonds.
 - ❑ Cost of bonds to release attachments.
 - ❑ Reasonable expenses incurred by the insured.
 - ❑ Court costs taxed against the insured.
 - ❑ Post-judgment interest.
- ❑ Paid in addition to the limit of insurance.

28

28

Coverage Extensions

- ❑ Coverage under the BACF is extended to include out-of-state coverage.
 - ❑ If the auto is outside the state it is licensed, the limit of insurance is increased to the minimum required by the other state.
 - ❑ If the other state requires a different type of coverage, the policy will provide that coverage automatically.

29

29

Exclusions

- ❑ BACF exclusions include:
 - ❑ Expected or Intended Injury and Contractual Liability.
 - ❑ Workers Compensation and Related Exclusions – generally eliminates coverage for injury to employees.
 - ❑ Care, Custody, or Control – eliminates coverage for property owned by the insured or in the care, custody, or control of the insured.

30

30

Exclusions

- BACF exclusions include:
 - Handling of Property – eliminates coverage for bodily injury or property damage resulting from the handling of property.
 - Does not apply to accidents that occur while property is being moved into a covered auto, or from a covered auto.
 - Operations – eliminates coverage for the operation of several specified types of equipment attached to covered autos.

31

31

Exclusions

- BACF exclusions include:
 - Completed Operations – no coverage for completed operations performed with the insured's autos.
 - Pollution – eliminates coverage for the discharge of any pollutants being transported or stored in a covered auto.
 - War.
 - Racing.

32

32

Limit of Insurance

- BACF liability coverage is subject to a combined single limit of insurance.
 - Applicable to all bodily injury, property damage, and covered pollution cost or expense arising from a single accident.
- The single limit is the maximum amount the insurer will pay for all claims.
 - Regardless of the number of vehicles, drivers, or claimants involved.

33

33

Practice

- ❑ Which one of the following statements is correct regarding Section II – Covered Autos Liability Coverage of the Business Auto Coverage Form (BACF)?
- ❑ A. Coverage is only provided for bodily injury, but not property damage under this section.
 - ❑ B. The insurer is not obligated to defend the insured if the claim is false or fraudulent.
 - ❑ C. If the employee owns the covered auto, the employee would be considered an insured under the policy.
 - ❑ D. Certain pollution costs are covered, such as those resulting from the escape of fuel.

34

34

BACF Physical Damage Coverage**Objective IV**

35

35

Available Coverages

- ❑ The primary purpose of Section III - Physical Damage coverage is to provide coverage for damage to autos owned by the named insured.
- ❑ Coverage can be provided for hired or borrowed autos as well.
- ❑ Basic types of coverage:
- ❑ Collision.
 - ❑ Comprehensive.
 - ❑ Specified Causes of Loss.

36

36

Available Coverages

- ❑ Collision Coverage insures direct loss or damage to a covered auto caused by collision with another object or by overturn.
 - ❑ Collision is not specifically defined.
 - ❑ Generally means striking with violent impact.
- ❑ Comprehensive Coverage insures any peril except collision, overturn, or excluded perils.
 - ❑ Hitting an animal, falling objects, glass breakage (may be collision).
 - ❑ Generally lower deductible than collision.

37

37

Available Coverages

- ❑ Specified Causes of Loss Coverage covers certain perils.
 - ❑ Less expensive than Comprehensive.
 - ❑ Named-perils coverage.
 - ❑ Fire, lightning, explosion, theft, windstorm, hail, earthquake, flood, mischief, vandalism.
 - ❑ Sinking, burning, collision, or derailment of a conveyance transporting the covered auto.

38

38

Available Coverages

- ❑ Towing Coverage pays for towing and labor costs due to disablement of a passenger auto.
 - ❑ Must be performed at place of disablement.
- ❑ Transportation Expenses is a coverage extension for substitute transportation costs.
 - ❑ Applies when private passenger auto is stolen.
 - ❑ Subject to a daily limit of \$20.
- ❑ Loss of Use Expenses is a coverage extension that pays for loss of use of a rental auto.
 - ❑ Subject to a daily limit of \$20.

39

39

Exclusions

- ❑ Auto physical damage insurance is subject to relatively few exclusions.
 - ❑ Covers earthquake, flood, and water damage.
- ❑ Exclusions include:
 - ❑ Nuclear hazards, war, military action, racing.
 - ❑ Wear and tear, freezing, mechanical failure, and road damage to tires.
 - ❑ Electronic equipment such as tapes, discs, radar detectors, and stereos.

40

40

Limit of Insurance

- ❑ The insurer will pay the lesser of:
 - ❑ Actual cash value at the time of loss.
 - ❑ Cost of repairing or replacing the property.
- ❑ Insurer's payment for each covered auto is reduced by any applicable deductible.
 - ❑ Comprehensive coverage deductible does not apply to loss by fire or lightning.

41

41

Practice

- ❑ Under the Business Auto Coverage Form (BACF) Section III – Physical Damage Coverage, which one of the following causes of loss would be covered under Specified Causes of Loss Coverage?
 - ❑ A. Flat tire.
 - ❑ B. Collision with an animal.
 - ❑ C. Mechanical breakdown.
 - ❑ D. Windstorm.

42

42

**Business Auto Coverage
Form Conditions****Objective V**

43

43

Loss Conditions

- ❑ BACF loss conditions:
 - ❑ Appraisal for Physical Damage Losses – if the parties cannot agree on the amount of a covered loss, either may call for an appraisal.
 - ❑ Each party hires and pays for appraiser.
 - ❑ Umpire hired at shared cost if necessary.
 - ❑ Duties in the Event of an Accident – insured must give prompt notice to the insurer.
 - ❑ Insured must do what is necessary to preserve property from further loss.

44

44

Loss Conditions

- ❑ BACF loss conditions:
 - ❑ Legal Actions Against the Insurer – no legal action can be brought against insurer unless all policy provisions are complied with.
 - ❑ For liability coverage, a court must determine the insured is liable for the loss.
 - ❑ Transfer of Rights Against Others – if insurer pays the loss, it is entitled to take over the insured's right of recovery.

45

45

Loss Conditions

- BACF loss conditions:
 - Loss Payment – Physical Damage Coverages – with damaged or stolen property, the insurer can:
 - Pay to repair or replace the property.
 - Return the property and repair any damage caused by theft.
 - Take over the property and pay its agreed or appraised value.

46

46

General Conditions

- BACF general conditions:
 - Bankruptcy – bankruptcy or insolvency of the insured does not relieve the insurer of any of its obligations under the policy.
 - Concealment, Misrepresentation, or Fraud – coverage is void if any insured intentionally conceals or misrepresents a material fact.
 - Liberalization – if insurer provides more coverage under policy, it becomes effective immediately, not at next renewal.

47

47

General Conditions

- BACF general conditions:
 - Other Insurance – for any covered auto not owned by the insured, coverage is excess.
 - Insurance of auto's owner is primary.
 - Leased, hired, rented, or borrowed autos are deemed to be owned by the insured.
 - Premium Audit – premium is determined by a premium audit and based on actual exposures at the end of the policy period.

48

48

General Conditions

- BACF general conditions:
 - Policy Period, Coverage Territory – coverage territory is U.S., Puerto Rico, and Canada.
 - Worldwide coverage applies to leased, hired, rented, or borrowed private passenger autos for up to 30 days.
 - Two or More Coverage Forms – when loss is covered by two or more policies of the same insurer, the maximum payment is the highest limit under any one policy.

49

49

Practice

- Which one of the following statements is correct regarding the Other Insurance condition of the Business Auto Coverage Form (BACF)?
 - A. For any covered vehicle not owned by the named insured, the BACF and the insurance carried by the owner of the auto are both primary.
 - B. For any covered vehicle not owned by the named insured, the BACF coverage is primary.
 - C. For any covered vehicle not owned by the named insured, the BACF coverage is excess.
 - D. For any covered vehicle not owned by the named insured, BACF coverage does not apply.

50

50

Rating Commercial Auto Insurance**Objective VII**

51

51

Private Passenger Vehicles

- Premiums for private passenger autos are determined using private passenger premium tables.
 - Liability premiums – tables list premiums by rating territory and policy limit.
 - Physical damage premiums – tables list premiums by rating territory, vehicle's original cost new, and deductible.

52

52

Trucks, Tractors, and Trailers

- Trucks, tractors, and trailers are rated by first determining a primary factor, which is based on:
 - Size class – light, medium, heavy, and extra-heavy.
 - Business use – service, retail, or commercial.
 - Radius class – local, intermediate, long.
- After primary factor is determined, the premium is based on whether the vehicle is zone rated.
 - Zone rated – medium and larger size operated beyond 200-mile radius of garaging location.

53

53

Trucks, Tractors, and Trailers

- Non-zone rated premium formula:
 - Premium = Combined Factor x Base Premium
- Determination of factors:
 - Combined Factor = Primary + Secondary Factor
 - Base liability premium – based on policy limit and territory where auto is garaged.
 - Base physical damage premium – based on vehicle's age and cost new.

54

54

Trucks, Tractors, and Trailers

- Zone rated – premium calculation:
 - Premium = Primary Factor x Base Premium
- Determination of factors:
 - Base liability premium – based on zones where vehicle is operated.
 - Base physical damage premium – based on zones where vehicle is operated, cost new, age of vehicle, type of vehicle, and deductible.

55

55

Practice

- Under the Business Auto Coverage Form (BACF), which of the following factors are used in determining the physical damage base premium for zone-rated autos?
 - A. Vehicle's cost new.
 - B. Geographical zones in which the vehicle is operated.
 - C. Age of the vehicle.
 - D. All of the above.

56

56