3 – Personal Auto Policy: Liability, Med Pay, And UM Coverage

**1 - Overview of the Personal Auto Policy**

The Pap is designed to insure private passenger autos – vehicles such as cars, vans, station wagons, and sport utility vehicles designed primarily for use on public roads – as well as pickup trucks and full-size vans.

The pap consists of six sections:

* Part A – Liability Coverage
* Part B – Medical Payments Coverage
* Part C – Uninsured Motorists Coverage
* Part D – Damage to Your Auto Coverage
* Part E – Insured Duties Following and Accident or Loss
* Part F – General Provisions

**Declarations**

**The Declarations page includes general information, such as name and mailing address of the insurer and the named insured, the policy period; and the name and address of the producer, if applicable. It may also include a description of covered autos, limits of liability, premium and rating information, and any endorsements added to the policy**.

**Agreements and Definitions**

**The Agreement and Definitions page of the PAP includes a general agreement stating that the insurer is providing the coverage subject to payment of premium and to the terms of the policy. The definitions section uses simple-to-understand language to define important words and phrases that are used throughout the policy**.

**Overview of Coverages**

The Pap coverages may be summarized in this fashion:

* **Part A – Liability Coverage protects the insured against claims or law suits for bodily injury or property damage arising out of operation of an auto**.
* Part B – Medical payments Coverage compensates for reasonable and necessary medical and funeral expenses because of bodily injury to the insured caused by an auto accident.
* Part C – Uninsured Motorists Coverage pays damages if an insured is injured by an uninsured motorist, a hit-and-run driver, or a driver whose insurer is insolvent.
* **Part D – Coverage for Damage to Your Auto compensates for physical damage to a covered auto and to certain non-owned autos. Also referred to as physical damage coverage, Part D includes other than collision and collision coverages. Some insureds elect not to include physical damage coverage on their policies.**
* Part E – Duties After and Accident or Loss outlines the duties required of an insured after an accident or a loss, such as requirements for notifying the insurer of the details of any losses that happen.
* Part F – General Provisions contains information such as how changes to the policy can be made, provisions for cancellation and termination of the policy, and descriptions of the policy period and territory.

**Endorsements**

In addition to the PAP coverage form, the policy also includes state-specific endorsements. These endorsements are usually used to adapt the PAP to state-specific laws and regulations applying to auto insurance. Endorsements are also available to provide additional coverages that are desired by some policyholders but are not purchased by all policy holders.

**2 – Declarations**

Most insurance policies contain a declarations page that provides basic information about the parties involved and the specific coverage provides

**Insurer**

The Declarations page shows the name of the insurer providing the coverage. If an agency or brokerage sold the policy, its name and contact information may also be included.

**Named Insured**

The Declarations page shows the name and mailing address of the policyholder or named insured. Named insured – A person, corporation, partnership, or other entity identified as an insured party in an insurance policy’s declarations page. The named insured can be an individual, a married couple, or other parties. This is the party that is responsible for premium payments, can request cancellation of the policy, and receives any notices issued by the insurer.

**Policy Period**

**The policy period is the time during which the policy provides coverage. The policy period starts at 12:01 a.m. standard time at the address of the policyholder on the date the policy becomes effective and ends at 12:01 a.m. standard time on the date the policy expires.** The policy period is usually 6 months or one year.

**Description of Insured Autos**

**The Declarations page identifies each of the autos and trailers specifically insured under the policy. This description usually includes each vehicles year, make, model and vehicle identification number (VIN). It may also include body type, annual mileage, use of vehicle, date of purchase, or other information about each vehicle**.

**Schedule of Coverage**

This schedule indicates the coverages and limits that apply to each listed auto, along with the premium for each. If Part D -Coverage for Damage to Your Auto Applies, the deductibles are also shown separately for other than collision coverage and for collision coverage.

**Applicable Endorsements**

The Declarations page also lists any endorsement that are attached to the policy. For example, if the policyholder owns a snowmobile that is covered under the policy, the snowmobile endorsement would be listed along with the premium for the coverage.

**Lienholder**

Whether it is owned or leased, a vehicle may be financed through a bank, savings and loan association, credit union, or other organization that holds the title to the vehicle until the loan is paid. In such a case the name of the lender, loss payee, or lienholder is usually shown on the Declarations page.

**Garage Location**

If an insured auto will be kept garaged primarily at a location other than the insured’s mailing address stated on the Declarations page, that separate location will also be listed in the declarations. **This location is where the auto is principally parked overnight.**

**Rating information**

**The rating class for the vehicle and any applicable credits and discounts may be shown. Some insurers offer premium discounts if, for example, multiple cars are insured under the policy, the insured has passed a driver training or defensive driving course or has a good academic record or grade, or the insured vehicle has passive restraints or anti-theft devices**.

**Signature**

The signature of an authorized legal representative of the insurer is usually shown at the bottom of the Declarations page. Also included is the countersignature date, which is the date when the policy was signed by the authorized legal representative.

**3 – Definitions**

Most insurance policies include a separate definitions section that explains both common terms and less frequently used insurance-specific wording to assist policyholders in understanding the coverage they have purchased.

**When a word or phrase that is included in the definitions section is used elsewhere in the policy, it is shown in quotations marks. This punctuation indicates that specific definitions apply to these terms throughout the entire policy. The definitions are written in simple language designed to be easily understood by individuals who may not be familiar with insurance terminology**.

The definitions section of the PAP defines these words and phrases:

* **You and your – the words “you” and “your” refer to the named insured shown on the Declarations page. “you” and “your” also include an unnamed spouse of the named insured – provided that the spouse is a resident of the same household. When an unnamed spouse of the named insured moves out of the household but remains married to the insured, the spouse is considered “you” for another ninety days or until the policy expires – whichever comes first. Coverage ceases if that spouse is named on another policy**.
* We, us and our – refer to the insurer providing insurance under the contract.
* **Leased vehicles – This definition clarifies what the policy includes when it refers to an owned auto. A leased private passenger auto, pickup, or van is deemed to be an owned auto if it is leased under a written agreement for a continuous period of at least six months**.
* Bodily injury – Bodily injury is bodily harm, sickness, or disease, including death. This phrase is referred to in Part A – Liability Coverage, Part B – Medical Payments Coverage as well as Par C – Uninsured Motorists coverage.
* **Business – Business includes a trade, a profession or an occupation. The definition of this term is important in understanding exclusions that apply to the coverage parts in the PAP**.
* **Family member** – **A family member is a person who is related to the named insured or spouse by blood, marriage, or adoption and who resides in the named insured’s household. This definition also includes a ward or a foster child. This definition is important under the PAP, which is designed to provide coverage for the named insured and other family members**.
* **Occupying** – Occupying is defined as in, upon, getting in, on out or off.
* **Property damage** – property damage is physical injury to, destruction of, or loss of use of tangible property.
* **Trailer** – A trailer is a vehicle designed to be pulled by a private passenger auto, pickup, or a van.

“your Covered auto” is one of two terms included in the definitions that have more detailed definitions than the other defined terms.

* Any vehicle shown in the declarations
* A newly acquired auto
* Any trailer you own
* A temporary substitute auto or trailer

“Newly acquired auto” the other detailed definition includes any of two types of vehicles that become an owned vehicle during the policy period

* A private passenger auto.
* A pickup or van for which no other insurance policy provides coverage. to be covered the newly acquired autos, pickups and vans must have a Gross Vehicle Weight (GVW) Rating or 10,000 pounds or less. They also must not be used for the delivery or transportation of goods and materials unless such use is incidental to the business of installing, maintaining, or repairing furnishing or equipment or is for farming or ranching.

For liability, medical payments, uninsured motorists, or any other PAP coverage except the coverage for damage to your auto, a newly acquired auto automatically receives coverage equal to the broadest coverage indicated for any vehicle shown in the declarations. The definition of newly acquired auto includes two stipulations:

* An additional auto is automatically covered for 14 days after the named insured becomes the owner. The insured must request coverage beyond 14 days.
* A replacement auto is covered for the remainder of the policy period, even if the insured does not ask for coverage.

The definition of newly acquired autos is different for damage to your auto (physical damage) coverage than for the PAP coverages. This is because some insureds drop physical damage coverage on older vehicles with a reduced value, but they might need the coverage when purchasing a new vehicle.

* An insured who carries collision coverage or other than collision (OTC) coverage on at least one auto receives automatic coverage on a newly acquired auto for 14 days.
* An insured who does not carry collision or other than collision coverage on a least one auto received automatic physical damage coverage on a newly acquired auto for 4 days, subject to a $500 deductible.

**4 – Part A – Liability**

Because the financial consequences of automobile liability loss are potentially far greater than any damage that could occur to an insured’s auto, the Personal Auto Policy’s Part A – Liability coverage offers particularly valuable protection for the insured.

The Personal Auto Policy (PAP), form the Insurance Services Office, Inc. (ISO), consist of a Declarations page, definitions, and 6 separate parts.

**Insuring Agreement**

The Part A Insuring Agreement states the insurer’s duty to pay damages and defense costs and defines the persons and organizations insured under Part A.

**Damages and Defense Costs Covered**

In the insuring Agreement, the insurer agrees to pay damages for bodily injury or property damage for which an insured is legally responsible because of an auto accident. Damages may include both compensatory damages (payment awarded by a court to reimburse a victim for actual harm) and punitive, or exemplary, damages. The policy limit(s) applicable to this coverage can be expressed either on split-limits basis (separate coverage limits that allow one limit for bodily injury to each person; a second, usually higher, limit for bodily injury to all persons in each accident; a third limit for all property damage in each accident) or a single-limits basis (one coverage limit that applies to all damages arising from bodily injury or property damage or both resulting from a single accident).

Because prejudgment interest is considered to be part of the award for damages, it is subject to the applicable limit of liability for Part A. Assume an insured who is held legally liable for bodily injury with $100K limit. If found legally liable and ordered to pay a $50,000 judgment, plus $5K in pre-judgement interest, the policy would pay the full $55K. If the judgment was for $95,000 and the pre-judgement interest was $10,000 the policy will only pay up to the $100,000 limit of liability.

**In addition to agreeing to pay damages for which the insured is legally liable, subject to policy limits, the insurer also agrees to defend the insured and pay all legal costs the insured may incur in a liability suit – even if the combined costs exceed the limit of liability. In other words, the insurer is obligated to pay defense costs in addition to the policy limits**.

**Persons and Organizations Insured**

As stated in the Insuring Agreement, Part A of the PAP provides liability coverage for four classes of persons or organizations: the named insured and family members, any person using the named insureds covered auto, any person or organization legally responsible for the acts of a covered person while using a covered auto, and any person or organization legally responsible for the named insured’s or family member’s use of any automobile or trailer.

A family member is a person who is related to the named insured or spouse by blood, marriage, or adoption and who resides in the named insured’s household. This definition also includes a ward or a foster child. In addition, children who are temporarily away from home, such as attending college, are still covered under their parent’s policy. The insureds are protected, now only while driving covered autos, but when operating borrowed autos, rented vehicles or any other auto, subject to the policy exclusions.

Any person using the named insureds covered auto is also covered under Part A.

Part A also covers any person or organization legally responsible for the act of a covered person while using a covered auto; for example, while driving this car to the post office to pick up a package for his employer, he negligently injures a person. If the victim sues the employer, the employer is also covered under the PAP (because he is a covered person while driving his car, and the employer is responsible for his actions as an employee).

**Supplementary Payments**

Part A of the PAP contains a provision for payment of certain expenses that are considered to be supplementary payments (in addition to the liability limits).

* **Cost of bail bonds – the insurer agrees to pay up to $250 for the cost of bail bonds required because of an accident that results in bodily injury or property damage covered by the policy**
* Premiums on appeal bonds and bonds to release attachments – an insured ordered to pay a court-awarded judgment can appeal that decision to a higher court. An appeal bond guarantees that, if the appeal is lost, the insured will pay the original judgment and the cost of the appeal. During legal proceeding, the plaintiff may place an attachment (seize property) on the insured’s property, such as a vehicle. A release of attachment bond guarantees that the insured will pay any judgment, thereby permitting a release of the attachment on the insured’s property.
* Interest accruing after a judgment – interest that accrues after a judgement (called post judgment interest) is also paid as a supplementary payment
* Loss of earning because of attendance at trials – the insurer will pay up to $200 per day for an insured’s loss of earning
* Other reasonable expenses incurred at the insurer’s request – for purposes of defending a lawsuit.

**Exclusions**

As with most insurance policies, the Part A – Insuring Agreement describes broad coverage that is narrowed by exclusions. PAP liability coverage is subject to several exclusions.

**Intentional Injury**

The PAP does not provide liability coverage for an insured who intentionally causes bodily injury or property damage.

**Property Owned or Transported**

Liability coverage does not apply to damage to property owned or being transported by an insured. (homeowners)

**Property Rented to, Used by, or in the Care of the Insured**

Liability for property rented to, used by, or in the care of the insured is not covered under the PAP. (homeowners)

**Bodily Injury to an Employee of an Insured**

**The liability coverage also excludes bodily injury to an employee of an insured who is injured during the course of employment. Compensation for the employee’s injury is usually provided under a worker’s compensation law. However, injury to a domestic employee injured in the course of employment is covered if workers compensation benefits are not required or are unavailable for that employee**.

**Public or Livery Conveyance**

A public or livery conveyance is one that is indiscriminately offered to the public usually to carry people or property for a fee), such as a taxi or a bus. This exclusion also applies to any period of time the vehicle is being used by an insured who is logged into a transportation network platform as a driver, whether or not passengers are in the vehicle.

**Garage Business Use**

**Liability insurance does not apply to any insured while employed or engaged in the business of selling, repairing, servicing, storing, or parking vehicles designed for use mainly on public highways. The intent is to exclude a loss exposure that should be covered by a commercial auto policy, such as a garage policy purchased by the owner of the business**.

The garage business exclusion does not apply to the insured’s covered auto when it is being driven by the named insured; a family member; or any partner, agent, or employee of the named insured or a family member. Example, a mechanic injures someone while driving his covered auto (rather than a customer’s auto).

**Other Business Use**

Liability coverage does not apply to any vehicle other than a private passenger auto, a pickup, a van, or a trailer (while it is being used with a covered vehicle) that is maintained or used in any business other than farming or ranching. The intent is to exclude liability coverage for commercial vehicles and trucks used in a business.

**Vehicle Used Without Reasonable Belief of Being Entitled**

If an insured uses a vehicle without reasonable belief that he or she is entitled to do so, the liability coverage does not apply. This does not apply when another family member (as defined) uses the owned auto, for insurance purposes it is assumed that a family member has permission to use another family member’s car.

**Nuclear Energy Liability Losses**

The PAP excludes coverage of liability for bodily injury or property damage caused by an insured who is also covered by a nuclear energy liability policy. For example, if an individual accidentally drives his vehicle into a nuclear energy facility, causing a release of harmful radiation, he could potentially be considered an insured under that facility’s nuclear energy liability policy and be covered for damage claimed by other parties.

**Vehicles with Fewer than Four Wheels or Designed for Off-Road Use**

Liability arising out of the ownership, maintenance, or use of any vehicle that has fewer than four wheels is excluded. Also excluded is liability coverage for any vehicle that is designed mainly for use off public roads, other than a non-owned golf car, a vehicle being used by insured in a medical emergency or a trailer.

Coverage for motorcycles, mopeds, and motor scooters, can be covered by adding an endorsement to the PAP.

**Other Vehicles Owned by Insured or Available for Insured’s Regular Use**

Any vehicle, other than a covered auto, owned by the named insured or made available for the named insured’s regular use is also excluded. An insured can drive another person’s auto on an occasional, as opposed to regular, basis and still have coverage under his or her own policy. If the non-owned auto is furnished for the insured’s regular use, the insured’s liability coverage does not apply.

The intent of this exclusion is to encourage customers to accurately disclose the number of vehicles they own or regularly operate.

**Vehicles Owned by or Available For Family Member’s Regular Use** – Similar to above

**Racing** – Liability does not apply to any vehicle that is located inside a racing facility for the purpose of racing

**Personal Vehicle Sharing** – similar to rental car companies. Vehicle sharing programs manage the sharing of privately owned private passenger vehicles for use by those enrolled n the program.

**Limit of Liability**

Most PAPs are written on a split-limits basis, with the three types of limits stated in this order:

* Bodily injury to each person
* Bodily injury to all persons in each accident
* Property damage in each accident

The PAP states that the limits of liability for the policy will not be increased, regardless of the number of insured persons, claims made, vehicles or premiums shown, or vehicles involved in an auto accident. The most any claimant can recover for one accident is the applicable limit(s) state in the declarations.

The limit of liability provision also states that no one is entitled to receive duplicate payments for the same elements of loss under Part A – Liability, Part B – Medical Payments and Part C – Uninsured Motorists Coverage, or any underinsured motorist coverage provide by the policy.

**Out of State Coverage**

The PAP contains an Out of State Coverage provision that applies when an auto accident occurs in a stat other than the one in which the covered auto is principally garaged. **IF the accident occurs in a state than has a financial responsibility law or a similar law that requires higher liability limits than the limits in the declarations, the PAP automatically provides the higher required limits for that accident**

**Financial Responsibility**

Many states’ laws require insureds to demonstrate proof of financial responsibility after an accident or traffic violation has occurred. Under these laws, the PAP can be used to demonstrate proof of financial responsibility.

**Other Insurance**

The other insurance provision of Part A addresses situation in which more than one auto policy covers a liability claim.

If the insured has other applicable liability insurance on an owned vehicle, the insurer pays only its pro rata share of the loss. The insurer’s share is the proportion of the loss that the limit of liability bears to the total of all applicable limits.

* 2 PAP policies Policy A: $100,000 and Policy B: $50,000 total damages $60,000
* Policy A $100,000 / $150,000 (total insurance available) X $60,000 loss = $40,000
* Policy B $50,000 / $150,000 (total insurance available) X $60 loss = $20,000

**If other liability insurance is available on a non-owned vehicle, including any vehicle used as a temporary substitute for a covered auto the PAP coverage is excess over any other collectible insurance. Example, Ken borrows a car from Patti. Ken has a PAP with $100/$300/$50 and Pattie has $50/$100/$25. Ken injures another motorist and must pay $60,000 in damages. Patti’s insurance is primary, and Ken’s is Excess**.

Case Study – George and Sam go to a party, George will not consume any alcohol and drive both home safe. Sam is drunk and wants to drive, George does not allow him to. George drives and gets in an accident. Sam sues George $110,000 in damages. During 4 years $20,000 prejudgment interest accumulates and $15,000 attorney fees charged to defend George.

Determination of Amounts Payable:

Of the $110,000 damages plus $20,000 prejudgment Interest:

* Sam’s PAP is primary and will pay $25,000 to Sam
* George’s PAP is excess and will pay $100,000 to Sam
* George will personally pay $5,000 to Sam

Of the $15,000 defense attorney fees for George:

* Sam’s PAP is primary and will pay $15,000

**6 - Part B Medical Payments Coverage**

Part B – Medical Payments Coverage of the PAP provides auto accident medical coverage up to a limited amount without requiring a determination of fault.

**Insuring Agreement**

**The Part B Insuring Agreement states the insurer’s promise to pay reasonable and necessary medical and funeral expenses incurred by an insured because of bodily injury caused by an accident. The insurer agrees to pay only those expenses incurred for services rendered within three years from the date of the accident**.

* **The named insured and “family members” (as defined in the PAP) – These individuals are covered for their medical expenses if they are injured while occupying a motor vehicle or as a pedestrian when struck by a motor vehicle designed for use mainly on public roads**.
* **Any other person while occupying a covered auto**

**Exclusions**

Motorized Vehicles with Fewer than Four Wheels

Public or Livery Conveyance

Vehicles Used as a Residence or Premises

Injury During the Course of Employment

**Other vehicles owned by Insured or Available for Insured’s regular Use – This exclusion has an important exception: it does not apply to the named insured and spouse. For example, assume that John, who lives with his parents, owns a car and insurers it under a policy separate from the policy that insurers his parents’ vehicles. The parents are injured while riding in John’s car. Their medical expenses are covered under their own PAP (as excess over any medical payments coverage in the son’s policy).**

Vehicles Owned by or Available for Family Member’s Regular Use

**Vehicle Occupied without Reasonable Belief of Being Entitled** - If an insured sustains an injury while using a vehicle without reasonable belief that he or she is entitled to do so, medical payments coverage does not apply. Taking his mother’s car while she was sleeping and having made a previous promise that he would not drive would appear to place Sam within the application of this exclusion and preclude coverage for his injuries in this accident. **However, the medical payments exclusion does not apply to a family member who uses an owned auto of the named insured. For insurance purposes, it is assumed that a family member has permission to use another family member’s car**. Therefore, Sam’s medical expenses should be covered by his mother’s PAP within the limits of her policy.

**Vehicles Used in the Business of an Insured** – Coverage is excluded for bodily injury sustained by an insured while occupying a vehicle used in the insured’s business. **However, this exclusion doe not apply to a private passenger auto, a pickup or van, or a trailer used with these vehicles**. The intent underlying this provision is to exclude coverage for vehicles that should be insured under a commercial auto policy.

Bodily Injury from Nuclear Weapons or War

Nuclear Radiation

Racing

Personal Vehicle sharing Program

**Limit of Liability**

The limit of insurance for medical payments coverage is stated in the declarations. This limit, typically between $1,000 and $10,000, is the maximum amount that will be paid to each injured person in a single accident, regardless of the number of insured persons, claims made, vehicles or premiums shown on the policy, or vehicles involved in the auto accident.

**Other Insurance**

If the medical payments coverage of more than one insurance policy applies to a claim, each insurer pays its pro rata share based on the proportion that its limit of liability bears to the total of applicable limits.

**With respect to a non-owned vehicle or a vehicle while used as a temporary substitute for the insured’s covered auto, medical payments coverage under a PAP is excess over any other collectible auto insurance that pays medical or funeral expenses**.

**8 – Part C – Uninsured Motorists Coverage**

Part C - Uninsured Motorist (UM) Coverage of the PAP is intended to compensate an insured and the insured’s family members for injuries caused by an at-fault uninsured motorist, a hit-and-run driver, or a driver whose insurer is insolvent. The UM provision in the PAP are usually modified or completely replaced by state-specific endorsements because each state’s UM law may require unique provisions.

**Insuring Agreement**

In the Part C – Insuring Agreement, the insurer agrees to pay compensatory damages that the insured person is legally entitled to recover from the owner or operator of an uninsured motor vehicle because of bodily injury caused by an accident. Such compensatory damages could include medical expenses, rehabilitation expense, lost wages, and other losses resulting from the insured’s bodily injury. Because the insuring agreement limits coverage to compensatory damages, punitive, or exemplary, damages (which are meant to punish a driver for a reckless, malicious, or deceitful act) are not covered.

UM coverage applies only if the uninsured motorist is legally responsible for the accident.

**Insured Persons**

Three classes o persons are considered insureds under UM Coverage

* The named insured and family members
* Any other person occupying a covered auto
* Any person legally entitled to recover damages because of bodily injury to a person described in the preceding two paragraphs – for example a surviving spouse

**Uninsured Motor Vehicles**

**Part C specifies the types of vehicles that are considered uninsured motor vehicles. An uninsured motor vehicle is a land motor vehicle or trailer of any type that meets any of these criteria:**

* **No bodily injury liability insurance or bond apples to the vehicle at the time of the accident**
* **A bodily injury or liability bond is in force, but the limit for bodily injury liability is less than the minimum amount required by the financial responsibility law in the state where the named insured’s covered auto is principally garaged.**
* **The vehicle is a hit-and-run vehicle, whose operator or owner cannot be identified, that hits (a) the named insured or any family member, (b) a vehicle that the named insured or any family member is occupying, or (c) the named insured’s covered auto.**
* **A bodily injury liability policy or bond apples at the time of the accident, but the insurance or bonding company (a) denies coverage or (b) is or becomes insolvent**.

Part C also specifies certain vehicles that are not considered to be uninsured motor vehicles:

* It is owned by, or furnished or available for regular use of you or any “family member”
* It is owned or operated by a self-insurer under any applicable motor vehicle law, except a self-insurer which is or becomes insolvent
* It is owned by any governmental unit or agency
* It is operated on rails or crawler treads
* It is designed mainly for use off public roads while not on public roads
* It is located for use as a residence or premises

**Exclusions**

**Owned But Not Insured Vehicle**

This exclusion eliminates UM coverage for bodily injury sustained by an insured while occupying, or when struck by, any motor vehicle that is owned by that insured but not insured for UM under “this Policy” (the PAP under which coverage is being sought). If UM was not purchased under “this policy” on the vehicle that she owns, the PAP would not provide any UM coverage for this accident. If you have not purchased UM coverage on a vehicle you own, UM coverage will not apply under another policy.

**Owned Vehicle with Primary UM Coverage in Other Policy**

If a vehicle owned by the named insured of “this Policy” has primary UM coverage in another policy, and a family member is injured by an uninsured motorist while occupying the vehicle, “this policy” would provide no UM coverage for the family member. If you insure a care you owns and uses in your business under a business auto policy that includes UM, your family member is not covered under the UM under the PAP policy. If your vehicle is covered under a business auto policy. Family member would not be covered for UM while occupying that vehicle.

**Claim Settlement that Prejudices Insurer’s Right of Recovery**

**UM coverage does not apply to a claim that the insured settles without insurer’s consent if such settlement prejudices the insurer’s right to recover payment. In a legal context, “prejudice” means to injure or damage another party’s right. The purpose of this exclusion is to protect the insurer’s right to assert a subrogation action against the party who is legally responsible for the insured’s injuries**.

**Public or Livery Conveyance**

If a person is injured while occupying a covered auto when it is being used as a public or livery conveyance, UM coverage does not apply. Because this exclusion apples only to “your covered auto”, the insured and family members would be covered for UM while occupying a public or livery conveyance that is not “your covered auto”.

**Vehicle Used Without Reasonable Belief of Being Entitled**

UM coverage does not apply to any person who uses a vehicle without a reasonable belief that he or she is entitled to do so. Exclusion contains an exception re family members

**No Benefits to Workers Compensation or Disability Benefits Insurer**

**UM Coverage cannot directly or indirectly benefit any insurer or self-insurer under a workers compensation law or a disability benefits law. If an employee receives workers compensation benefits for an injury involving an uninsured, at-fault drive, the workers compensation insurer could sue the driver or attempt to make a claim under the injured employee’s uninsured motorist coverage. This exclusion prevents the workers compensation insurer from obtaining reimbursement under the injured worker’s UM coverage.**

**Punitive Damages**

UM applies only to compensatory damages, which do not include punitive damages

**Personal Vehicle Sharing Program**

UM coverage does not apply to any insured who sustains an injury while occupying a vehicle enrolled in a personal vehicle sharing program under the terms of a written agreement.

**Limit of Liability**

The minimum amount of UM coverage available under the PAP is set by the financial responsibility or compulsory insurance law of the stat in which the insured auto is principally garaged. Higher limits can be purchased for an additional premium.

**The limit shown are the most that will be paid regardless of the number of insured persons, claims made, vehicles or premiums shown in the declarations, or vehicles involved in the accident. This provision is intended to prevent “stacking” of UM payments under a policy that covers more than one care owned by the named insured. Stacking refers to situations in which the insured maintains that, because the policy covers, and premiums have been paid for, two (or more) vehicles, he or she should collect up to the stated limit multiplied by the number of vehicles**.

**Other Insurance**

If other applicable UM insurance is available under one or more policies these provisions apply to the payment for damages:

* **The total amount paid will be no more than the highest limit of any of the policies that provide coverage**.
* Coverage for an accident involving a vehicle that the name insured does not own, including any vehicle while being used as a temporary or substitute for a covered auto, is provided on an excess basis over any collectible insurance providing coverage on a primary basis.
  + If Louis has UM coverage with limits of $50,000/$100,000 under his PAP ($50 per person and $100 per accident for bodily injury. No property damage limit is given because UM usually does not include property damage). He is injured while riding in Gayle’s car. Gayle has $25,000/$50,000 of UM coverage. If Luis is entitled to $35,000 for bodily injury, Gayle’s UM pays the first $25,000 and Louis’s insurer pays the excess $10,000
  + If “this policy“ and another policy (or policies) provide coverage on a primary basis, each will contribute proportionally.
  + If “this policy” and another policy (or Policies) provide coverage on an excess basis, each policy will contribute proportionally, based on the excess limits each policy provides.

**Arbitration**

**If the insurer and the insured cannot agree on whether the insured is entitled to recover damages from an uninsured motorist or the amount of the damages, the dispute can be settled by arbitration. If the amount agreed on in arbitration exceeds the statutory limit, either party can demand the right to a trial within 60 days of the arbitrator’s decision. Otherwise the arbitrator’s decision is binding**.

**9 – UM/UIM Endorsements and State Variations**

In most states, it is possible to supplement uninsured motorists (UM)coverage with underinsured motorists (UIM) coverage to address shortcomings of UM.

UIM coverage is an outgrowth of UM coverage. UIM goes beyond UM coverage. It is important in situations in which a negligent driver is insured for at least the minimum required financial responsibility limits but the policy’s liability limits are insufficient to pay the insured’s damages

**Purpose of Coverage**

**An increasing number of insureds who have UM coverage with higher coverage limits are involved in accidents with at-fault motorist who are insured at or slightly above the minimum state-required limits. Because in such situations the at-fault motorists are insured for at least the minimum state-required limits they are not considered uninsured motorists under UM coverage provisions**. Although a person who has been injured or whose vehicle has been damaged can seek recovery from the negligent motorist, any amount recovered may represent far less than the injured person’s full damages.

**In some states, the Underinsured Motorist Coverage Endorsement (PP 03 11) can be added to the Personal Auto Policy (PAP) to provide coverage as a supplement to the UM coverage in the PAP. In several states, however, insurers use either a state-specific UIM endorsement or a single, state-specific endorsement providing both UM and UIM coverage that replaces the UM coverage of the standard PAP**.

**State Variations**

Regardless of the policy provisions used by an insurer, individual states UM/UIM statues govern who is protected and under what circumstances. Where the insured’s vehicle is registered or principally garaged determines which state’s laws apply.

**Mandatory or Option Coverage**

Some states mandate that UIM coverage be provided on all auto liability policies. Other states allow insureds to reject UI coverage, but typically only if the named insured rejects the coverage in writing.

Mandatory or optional limits for UIM coverage also vary by state. Many states require that the UIM limit equal the UM coverage limit.

**Limits Trigger or Damages Trigger**

Some states UIM endorsement contain a “limits trigger”. Other states endorsements contain a “damage trigger”. A trigger is something that must occur or exist in order for coverage to apply.

**In states that apply the limits trigger, the endorsement applies when the negligent driver carries liability limits below the limits provided by the UIM coverage of the injured party**.

* Tom has an auto policy with $100,000 UIM limit, Lynn has a policy with a single limit of $50,000. Tom’s damages are $60,000. Lynn’s policy will pay $50,000 and Tom’s UIM will cover the remaining $10,000

**In states that apply a damages trigger, the UIM endorsement applies when the negligent driver carries liability insurance limits that are lower than the injured party’s actual damages**.

* Ann has $50,000 UIM, Randy has auto liability with $100,000 limit. Ann’s damages are $150,000. Anne’s UIM coverage is triggered and will pay the remaining $50,000. If Anne’s damages were only $75,000 UIM would not be triggered.

**Stacking**

Another UIM variation among states relates to stacking, which is the application of two or more limits to a single auto accident. Stacking may involve two or more separate policies (inter-policy stacking). The UIM policy limit of one policy would be added to (stacked on) the IM limit of the other policy.

Some states allow inter-policy stacking by endorsement. Others do not.

Stacking can also occur within a single policy that covers more than one vehicle (intra-policy stacking). Some states allow intra-policy stacking by endorsements. In some states, the insured can choose between stacking or non-stacking but must pay a higher premium for a policy that allow stacking.