4 – PAP: Physical Damage, Duties, Endorsements

**1- Part D – Coverage for Damage to Your Auto**

The most expensive investment for many people, aside from their residence, is their automobile. Insurance is a way to protect that investment.

Physical damage coverages – there are 4 kinds:

Comprehensive – pays for loss to covered auto or its equipment from any cause not excluded, except collision or overturn.

Specified causes of loss – provides named peril coverage.

Collision – covers loss to a covered auto or its equipment by collision with another object or by overturn;

Towing – provides coverage for towing and labor performed at the place of disablement

**Insuring Agreement**

In the Part D insuring agreement, the insurer promises to pay for any direct and accidental loss to “your covered auto” or a “non-owned auto” as defined in the PAP, minus the deductible shown on the PAP Declarations page. Direct and accidental losses to an auto fall into two categories: collision losses and other than collision (OTC) losses.

**Collision Coverage**

The PAP declarations indicate whether a named insured has bought collision coverage for a specified auto as well as the amount of the premium for that coverage. Collision is defined in the PAP as the upset or or impact of “your covered auto” or a “non-owned auto with another vehicle or object**. Includes overturn**

Collision losses are paid regardless of fault:

* If Frank is responsible for an accident that damages his car, his collision coverage will pay for any physical damage to his own car, minus any deductible that applies.
* **If the driver of another car causes the accident that damages Frank’s car, Frank can collect either from the other driver or from his own insurer. If Frank collects from his own insurer, his insurer has the right to recover payment from the driver who caused the accident. This recovery is referred to as subrogation**

If two or more autos that have collision coverage under the same policy are damaged in the same collision, only the highest deductible applies.

**Other Than Collision Coverage**

Similar to collision coverage, other than collision (OTC) coverage is effective only if the declarations indicate that it is provided for that auto. The distinction between collision coverage and OTC coverage is relevant: many motorists purchase only OTC coverage because it is less expensive than collision. Also, the OTC coverage often has a lower deductible than that of collision coverage.

OTC coverage insurers auto physical damage losses that are not caused by collision and are not specifically excluded in the policy. This coverage was previously referred to as “comprehensive”, and many insurance professionals still use that label. The term was changed because “comprehensive implies coverage for everything; however, like virtually all other coverages, OTC coverage is subject to exclusions. While collision is specifically defined in the PAP, OTC is not. However, the policy does list certain causes of loss that are considered OTC:

* 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

The causes of loss covered by OTC are not limited to hose specifically listed. Any “direct and accidental loss” that is not due to collision and is not specifically excluded would be covered as an OTC loss.

Two points about OTC are especially important. First, colliding with a bird or animal is an OTC loss. Sch a loss therefore subject to the OTC deductible, which is usually lower than the collision deductible. Second, if glass breakage is caused by a collision, the insured can elect to have the glass breakage covered as part of the collision loss. As a result, the deductible for collisions would also appl to the glass breakage. Avoiding both deductible applying to the one single loss.

**Non-owned Autos**

The Part D coverage also apply too a “non-owned auto”. If you borrow a car that belongs to a friend, any physical damage coverage that applies to your vehicle also applies to the borrowed vehicle. Your coverage would be excess over any physical damage on the borrowed car.

**An insured can occasionally drive a rented or borrowed auto, and the insured’s physical damage insurance will cover the vehicle. However, if the insured regularly drives a rented or borrowed vehicle, or if one is made available for the insured’s regular use, the insured’s coverage does not apply.** The determining factor is not how frequently you drive a non-owned auto, but whether the non-owned auto is made available for your regular use.

The definition of non-owned auto also includes any auto or trailer that is being used as a temporary substitute for a covered auto or trailer that is out of normal use because of breakdown, repair, servicing, loss, or destruction.

If a non-owned auto is damaged by a covered cause of loss, the PAP provides the broadest coverage applicable to any covered auto shown in the declarations.

**Deductible**

**Deductibles require the insured to share covered losses with the insurer. Part D requires deductible for 3 reasons:**

* **To reduce small claims**
* **To hold down premiums**
* **To encourage insureds to be careful in protection their cars against damage or theft**

**Transportation Expenses**

**Part D also provides an additional coverage known as transportation expenses. Following a covered physical damage loss to a covered auto, the insurer will reimburse the insured for temporary transportation expenses, such as auto rental fees or taxi fares, up to $20 per day, to a maximum of $600 for each covered loss. The same limits apply to a non-owned auto when the insured is legally responsible to the auto owner for the owner’s transportation expenses. A non-owned rental car is also subject to the transportation expense limits when the car’s owner claims a loss of income because the car cannot be rented while it is being repaired and the named insured is legally responsible for the renter’s loss of income.**

**Transportation expenses are not subject to a dollar amount deductible. However, they are subject to a waiting period, which is essentially a deductible stated in time rather than in dollars. While a 48 hour waiting period applies to total theft losses under the OTC coverage, a 24 hour waiting period applies to loss by other perils under both collision and OTC.**

Because stolen cars often require repairs after they are recovered, transportation expense extend until the time the stolen auto is returned to use (or the insurer pays for the auto).

**Exclusions**

**Public or Livery Conveyance**

Physical damage insurance does not apply while the vehicle is used as a public or livery conveyance, such as a taxi or a bus. This includes any period of time the vehicle is being used by any person who is logged into a transportation network platform. This expense does not apply to a share-the expense car pool.

**Wear and Tear, Freezing, Breakdown, and Road Damage to Tires**

This exclusion eliminates coverage for losses that either occur inevitable or can often be prevented by regular maintenance or the exercise of care. The exclusion does not apply if the damage results from the total theft of a covered auto or non-owned auto.

An illustration of how the policy language of “due and confined to” applies, consider an electrical failure resulting from a short-circuit. The electrical failure causes a fire, destroying the car. The ensuing loss to the car would be covered, and the exclusion would be confined to the electrical component.

**Radioactive Contamination or War**

**Electronic Equipment**

Loss to any electronic equipment that reproduces, receives, or transmits audio, visual, or date signals is excluded. This includes radios and stereo, tape decks, compact disk systems, navigation systems, internet access systems, personal computers, video entertainment systems, telephones, television, two way mobile radios, scanners, and citizens band radios **unless permanently install in “your covered auto”.**

**Media and Accessories** – tapes, records, discs and other media used with sound video or date equipment.

**Government destruction or Confiscation**

**Trailer, Camper Body, or Motor Home**

If the policy contains an appropriate endorsement, a trailer, camper, or motor home may be shown in the declarations as a covered auto. Physical damage loss to a trailer, camper, or motor home that is not shown in the declarations is excluded. However, the exclusion does not apply to a non-owned trailer.

**Non-Owned Auto Used Without Reasonable belief of Being Entitled**

**Radar and Laser Detection Equipment**

**Customizing Equipment**

Many pickup trucks and vans are customized with special equipment, such as furniture, bars, or murals. Part D excludes loss to any custom furnishings or equipment in or on any pickup or van. However, if a covered auto is a pickup, the customized equipment exclusion does not apply to a cap (a hard cover over the bed of a pickup), or a bedliner.

**Non-Owned Auto Used in Garage Business**

**Racing**

**Rental Vehicles**

If an insured’s PAP provides physical damage coverage for an owned auto, the policy also provides physical damage coverage for non-owned vehicle including rental vehicles. However, the exclusion states that the PAP will not pay for loss to, or loss of use of, a rental auto if the rental agreement includes a damage waiver or if applicable state law precludes the rental company from recovering from the insured for the loss.

Auto rental companies usually offer their customers a damage waiver at substantial extra cost. If purchased, this waiver eliminates or substantially reduces the individual’s financial obligation to the rental company for damage to the car in an auto accident. Credit car companies often provide this benefit as well if the rental is purchased with their credit card.

**Personal Vehicle Sharing Program**

**Limit of Liability**

The insurer’s limit of liability for a physical damage loss to a covered auto is the lower of either the actual cash value (ACV) or the amount necessary to repair or replace the property with other property of like kind and quality. In determining the ACV, and adjustment is made for depreciation and physical condition of the damaged property.

The insurer’s maximum obligation for electronic equipment that reproduces, receives, or transmits audio, visual, or data signals and that is permanently installed but not in the locations used by the original manufacturer of the auto, is limited to $1,000. Max amount paid for physical damage to non-owned trailer is $1,500.

**Payment of Loss**

The insurer has the option of paying for the loss in money or repairing or replacing the damaged or stolen property. Payment for loss includes the applicable sales tax for the damaged or stolen property.

**No Benefit to Bailee**

The No Benefit to Bailee provision states that the policy will not benefit, either directly or indirectly, any bailee (a person who assumes custody of the property of others for business purposes). If your vehicle was parked in XYZ parking garage and was damaged due to negligence, you receive prompt recovery, XYZ does not benefit.

**Other Sources of Recovery**

If a loss is covered by sources of recovery other than the PAP, the PAP insurer will pay only its share of the loss: The proportion that its limit of liability bears to the total applicable limits.

Any physical damage coverage provided by the PAP for non-owned auto is excess over any other collectible source of recovery.

**Appraisal**

In the event of a disagreement n the amount of loss, either party may demand an appraisal of the loss.

**3 – Part E – Duties After an Accident or Loss**

The Personal Auto Policy (PAP) contains a section outlining several important duties with which the insured must comply in order for the policy to provide coverage.

**\*\* Before an insurer is obligated to pay for an accident or loss covered under the PAP the insured must comply with certain requirements. The insurer has no obligation to provide coverage if the insured’s failure to comply with these requirements is prejudicial to the insurer (that is, if the insured’s actin is detrimental to the insurer)**.

**Part E – Duties After an Accident or Loss**

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| --- | --- | --- |
| **General Duties** | **Additional duties for UM Coverage** | **Additional Duties for Physical Damage Coverage** |
| **Provide prompt notice to the insurer** | **Notify police if a hit-and-run driver was involved in the loss** | **Take reasonable steps to prevent further loss** |
| **Cooperate with the insurer** | **Submit legal papers to the insurer** | **Notify police if the covered auto is stolen** |
| **Submit legal papers to the insurer** |  | **Permit inspection and appraisal of the damaged property** |
| **Submit to a physical exam if requested** |  |  |
| **Agree to examination under oath** |  |  |
| **Authorize release of pertinent medical records to the insurer** |  |  |
| **Submit a proof of loss** |  |  |

**Notification should include how, when, and where the accident or loss happened. The notice should also include the names and addresses of any witnesses and injured persons and witnesses**.

**4 - Part F – General Provisions**

Part F – General Provisions is the final part of the Personal Auto Policy (PAP). It contains general provisions and conditions that apply to the entire policy. These conditions include items that specify aspects of PAP coverage, such as how the insurer handles changes in the policy or policy cancellations.

**Bankruptcy of Insured**

**The provision states that if the insured declares bankruptcy or becomes insolvent, the insurer is not relieved of any obligations under the policy**.

**Changes in the Policy**

This provision indicates that the policy contains all the insuring agreements between the named insured and the insurer. The terms of the policy cannot be changed or waived except by an endorsement issued by the insurer. If a change requires a premium adjustment, the adjustment is made in accordance with the manual rules of the insurer. **Changes during the policy term that can result in a premium increase or decrease include changes in these elements:**

* **The number, type, or use of insured vehicles**
* **The operators using insured vehicles**
* **The place of principal garaging of insured vehicles**
* **The coverage provided, deductibles, or limits of liability**

Liberalization clause, automatically provides broadened coverage under some conditions. If the insurer makes a change to the PAP that broadens its coverage without additional premium, the change automatically applies to the insured’s existing policy on the date the revision is effective in the insured’s state.

**Fraud**

**This provision says that no coverage exists for any insured who make fraudulent statements or engages in fraudulent conduct in connection with any accident or loss for which a claim is made**.

**Legal Action Against the Insurer**

**No legal action can be brought against the insurer until the insured has fully complied with all of the policy terms.** In addition, **under Part A – Liability Coverage, no legal action can be brought against the insurer unless the insurer agrees in writing that the insured has an obligation to pay damages or the amount of the insurer’s obligation ahs been finally determined by a judgment after a trial**. No person or organization has any right under the policy to involve the insurer in any action to determine the liability of an insured unless all policy conditions have been met.

**Insurer’s Right to Recover Payment**

If you are involved in a accident and your insurer make a loss payment, they are entitled to subrogate against the at fault party to recover its payment. The covered person must do whatever is necessary to enable the insurer to exercise its subrogation rights. You are also not allowed to do anything that would prejudice or impede the insurer’s right of subrogation.

If a person receives a loss payment from an insurer and also recovers damages from another party, that person is required to hold the proceeds of the second recovery in trust for the insurer and to reimburse the insurer to the extent of the insurer’s loss payment.

**Policy Period and Territory**

**The PAP applies only to accidents and losses that occur during the policy period shown on the Declarations page and within the policy territory.**

**The Policy territory includes the US, the US territories and possessions, Puerto Rico, and Canada. The policy also applies to a covered auto while being transported among ports of the US, Puerto Rico or Canada. Coverage does not apply anywhere outside the policy territory**.

**Termination**

The PAP contains a provision that applies to policy termination by either the insured or the insurer. The termination provision consists of four parts. Cancellation, Non-Renewal, Automatic Termination and Other Termination provision. All states have laws that restrict the insurer’s right to cancel or non-renew an auto policy. Whenever state laws and policy provisions conflict, state law supersedes the policy provisions.

**Cancellation**

**Under the cancellation provision, the named insured normally can cancel anytime during the policy period by returning the policy to the insurer or by giving advance written notice of the date the cancellation is to become effective.**

If the policy has been in force for fewer than 60 days and is not a renewal or continuation policy, the insurer can cancel by mailing a cancellation notice to the named insured. The insurer has 60 days to investigate and determine whether a new applicant meets the insurer’s underwriting standards. IF the cancellation is for nonpayment of premium the insurer must give the named insured at least 10 days notice; in all other cases at least 20 days notice must be given.

**After a policy has been in force for 60 days, or if it is a renewal or continuation policy, the insurer can cancel the policy only for one of 3 reasons.**

* **The premium has not been paid**
* **The insured’s drivers license has been suspended or revoked during the policy period (or since the last annual anniversary of the original effective date if the policy is or other than one year).**
* **The policy has been obtained by a material misrepresentation**

**Non-Renewal**

The conditions under which the insurer can non-renew vary according to the length of the policy period

* If the policy is less than 6 months, the insurer has the right to non-renew every 6 months
* If the policy period is 6 months or longer, but less than a year, the insurer has the right to non-renew at the end of the policy period
* F the policy period is one year or longer, the insurer has the right to non-renew at each anniversary of the policy’s original effective date.

**Automatic Termination**

Under the automatic termination provision, if the insurer offers to renew the policy but the named insured does not accept the offer, the policy automatically terminates at the end of the current policy period. Failure to pay the renewal premium means that the named insured has not accepted the insurer’s offer to renew the policy.

**Other Termination Provisions**

The policy contains 3 additional termination provisions:

* The insurer may choose to deliver the cancellation notice rather than mail it. However, proof of mailing is considered sufficient
* If the policy is canceled, the named insured may be entitled to a premium refund. Any premium refund is computed according to the insurer’s manual rules
* The effective date of cancellation is stated in the cancellation notice

**Transfer of Insured’s Interest in the Policy**

This provision stipulates that the named insured’s right and duties under the policy cannot be assigned to another party without the insurer’s written consent.

**Two or More Auto Policies**

**If two or more policies issued to the named insured by the same insurer apply to the same accident, the insurer’s maximum limit of liability is the highest applicable limit of liability under any one policy.** The intent of this provision is to prevent the “stacking” (adding together) of policy limits when two or more auto policies are issued by the same insurer.

**5 – Common Endorsements to the Personal Auto Policy (PAP)**

Insurance professionals should be aware that, while the PAP provides extensive coverage, additions or modifications may be necessary in some scenarios.

Because the unmodified Insurance Services Office, Inc. (ISO) PAP contains eligibility restrictions, coverage exclusions, and coverage limitations, it does not completely meet every customer’s auto insurance needs. Several policy endorsement provide coverage additions or modifications for customers who have coverage needs beyond the unendorsed PAP.

**Frequently Used Personal Auto Endorsements**

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| --- | --- |
| **Endorsement Name** | **Exposure Covered** |
| **Miscellaneous Type Vehicle Endorsement**  **(PP 03 23 01 5)** | **Covers motor homes, motorcycles, and other vehicles with fewer than four wheels that are designed for off public road use** |
| Snowmobile Endorsement  (PP 03 20 01 05) | Provides coverage for snowmobiles other than vehicles propelled by airplane-type propellers or fans |
| Trailer/Camper Body Coverage (Maximum Limit of Liability  (PP 03 07 01 05) | Covers trailers or camper bodies, including related facilities or equipment |
| **Extended Non-Owned Coverage – *vehicle furnished or available for regular use***  **(PP 03 06 01 05)** | **Provides liability and medical payments coverages for drivers of vehicles furnished or made available for the regular use of the named insured and/or family members** |
| **Named** non-Owner Coverage – for people who do not regularly own or occasionally drive another person’s vehicle  (pp 03 22 01 05) | Provides liability, medical payments, uninsured, and underinsured motorists coverages for drivers who do not own an auto but regularly or occasionally drive another person’s vehicle or rental vehicle. **Coverage applies to the person named only.** |
| Auto Loan/Lease Coverage  (PP 03 35 01 05) | Amends physical damage coverage for leased vehicles or vehicles with outstanding loan amounts to include an unpaid amount due on the lease or loan |
| Limited Mexico Coverage  (PP 03 21 01 05) | Provides excess liability coverage over Mexican auto insurance for an insured who is involved in an accident or loss in Mexico within 25 miles of the US border on a trip of 10 days or less |
| Excess Electronic Equipment Coverage  (PP 03 13 01 05) | Increases the $1,000 limit that applies to electronic equipment installed in the vehicle in locations not intended for that purpose by the auto manufacturer |
| **Coverage for Damage to Your Auto (Maximum Limit of Liability (“stated amount”)**  **(PP 03 08 06 94)** | **Covers each described vehicle for a stated amount of insurance as indicated in the endorsement schedule that applies to collision and OTC losses** |
| Optional Limits Transportation Expenses Coverage  (PP 03 02) | Increases the limit for coverage for Transportation Expenses under Coverage D (physical damage) |
| Towing and Labor Costs Coverage  (PP 03 03) | Covers the towing of a disabled covered or non-owned auto, including costs for labor performed at the place of disablement |

**Miscellaneous Type Vehicle Endorsement**

The unmodified PAP excludes coverage for vehicles that have fewer than 4 wheels and vehicles designed for off-public-road use. The Miscellaneous Type Vehicle endorsement provides coverage for a motor home, a motorcycle, or similar type of vehicle, all terrain vehicle, dune buggy or golf cart, none of which are included in the PAP’s definition of covered auto. The endorsement clarifies the PAP provisions to appl to miscellaneous type vehicle rather than to private passenger vehicles, vans, or pickup trucks.

**An optional passenger hazard exclusion, which excludes liability coverage for bodily injury to any person occupying the covered vehicle, can be activated as part of the endorsement. For example, a motorcycle owner who never carries passengers can elect his exclusion in exchange for a lower premium**.

**Extended non-Owned Coverage – Vehicle Furnished or Available for Regular use**

**The unendorsed PAP excludes liability and medical payments coverage for vehicles furnished or made available for regular use of the named insured and family members. This exclusion can be eliminated by adding the Extended Non-Owned Coverage – Vehicles Furnished or Available for Regular Use endorsement to the PAP.** The endorsement’s coverage applies only to the individual(s) named in the endorsement schedule. However, coverage can be extended to the named individual’s family members.

The liability coverage provided by the endorsement is excess over any other applicable insurance on the non-owned vehicle

**Coverage for Damage to Your Auto (Maximum Limit of Liability)**

The Coverage for Damage to Your Auto (Maximum Limit of Liability) endorsement to the PAP allows owners of high-value antique cars or restored show cars to establish the car’s insurable value when the policy is written by inserting a stated amount of insurance in the policy**. Under this endorsement (often called a “stated amount” endorsement), each vehicle is described, and a stated amount of insurance is shown that applies to collision loss and other than collision loss.**

**Even though the endorsement indicates a stated amount of insurance, it may not provide coverage for that amount in the event of a total loss to the vehicle. Rather, the insurer’s maximum limit of liability for a covered loss is limited to the lowest of these values.**

* **The stated amount shown in the schedule or in the declarations**
* **The actual cash value of the stolen or damaged property**
* **The amount necessary to repair or replace the property with other property of like kind and quality**

**If for example, the stated amount of insurance is less than the vehicle’s actual cash value or the amount necessary to repair or replace the property, the stated amount is used as the basis of the loss settlement. However, if the stated amount of insurance is greater than the vehicle’s actual cash value or the amount necessary to repair or replace the property, the lower amount is the basis for payment. In any case, the amount paid is reduced by any applicable deductible**.

**6 – Personal Auto Endorsements for Transportation Network Exposures**

**More and more people are using their personal autos to driver for Transportation network companies (TNC’s). PAP policies are not designed to provide coverage in these situations and typically include a public or livery conveyance exclusion**.

Drivers who use their personal autos on behalf of TNCs face some of the same exposures as other drivers as well as additional exposures associated with driving passengers for hire. Therefore, TNC drivers require liability coverage, medical payments coverage, uninsured/underinsured motorist, and physical damage coverage (collision and comprehensive).

**Many TNCs provide coverage through a commercial auto policy to drivers when they are transporting passengers for that TNC; however, depending on the TNC business policies and state regulations, this coverage may begin at different pint in the TNC transaction (such as only wen passenger is in vehicle, not when in route to pick up passenger). To clarify when coverage under a driver’s PAP ends and to address potential coverage gaps, Insurance Services Office, Inc (ISO) has developed endorsements to the PAP**.

**Public or Livery Conveyance Exclusion Endorsement**

**ISO’s Public or Livery Conveyance Exclusion Endorsement (PP 23 40) reinforces the public or livery conveyance exclusion in the PAP, which excludes coverage when a personal auto is used to transport people for a fee (taxi). Parts A, B, C, and D of the PAP all contain similar exclusions. This endorsement adds a “transportation network platform” definition and explains that the exclusion applies to any period of time the insured has logged into such a platform as a driver, whether or not a passenger is in the vehicle. If a driver logged in to its network to show that he is available to provide rides, his PAP coverage ends**.

**Transportation Network Driver Coverage (No Passenger) Endorsement**

This optional Transportation Network Driver Coverage (No Passenger endorsement (PP 23 41) replaces the public or livery conveyance exclusion in the standard PAP with wording from the Public or Livery Conveyance Exclusion endorsement. It includes an exception that covers share-the-expense car-pooling and operation of an auto without passengers while the driver is logged into a TNC. It also includes a schedule, which names the specific transportation network platform, describes the covered vehicle, and states the applicable coverage and premium.

**Limited Transportation Network Driver Coverage (No Passenger) Endorsement**

**The Limited Transportation Network Driver Coverage (No Passenger) Endorsement (PP 23 45) is similar to the Transportation Network Driver Coverage endorsement; both provide coverage when the insured is logged in to a transportation network platform but has not yet picked up a passenger. The limited version’s coverage ends once the driver accepts a passenger, which occurs before the passenger enters the vehicle. Both versions exclude coverage when a passenger is occupying the vehicle**. This option limits the loss exposure further than the Transportation Network Driver Coverage (No Passenger) endorsement does, so the insurer charges less additional premium