

## TABLE OF CONTENTS

### PERSONAL AUTO COVERAGE

<b>I. ANALYSIS OF PERSONAL AUTOMOBILE INSURANCE</b>	<b>1</b>
<b>INTRODUCTION</b>	<b>1</b>
<b>INSURANCE PRINCIPLES</b>	<b>2</b>
RISK, PERILS AND HAZARDS	2
<b>II. LEGAL CONCEPTS OF INSURANCE</b>	<b>6</b>
Contributory Negligence	8
Comparative Negligence	9
Last Clear Chance	9
Contracts	10
(1) Agreement.	10
(2) Competent Parties.	10
(3) Consideration.	11
(4) Legal Purposes.	11
Insurance Contracts	11
Conditional Contracts.	11
Contracts of Adhesion.	11
Aleatory Contracts.	11
Unilateral Contracts.	11
Contracts of Utmost Good Faith.	11
Contracts of Indemnity.	12
<b>III. THE LAW AND AUTOMOBILE INSURANCE</b>	<b>15</b>
Contributory Negligence – Automobile:	15
Comparative Negligence – Automobile:	15
Guest Statutes:	15
Vicarious Liability:	15
Compulsory Insurance:	16
Financial Responsibility Laws:	16
Uninsured Motorists Coverage:	16
“Standard” and “Basic” coverages.	16
NO-FAULT AUTOMOBILE INSURANCE	17
NON-STANDARD AUTOMOBILE INSURANCE	20
Substandard Automobile Insurance Companies	20
Assigned Risk Plans.	20
Other Plans.	20
<b>IV. POLICY CONSTRUCTION</b>	<b>24</b>
POLICY DECLARATIONS	26
<b>AGREEMENT</b>	<b>29</b>
<b>DEFINITIONS</b>	<b>29</b>

<b>V. LIABILITY COVERAGE</b>	<b>37</b>
<b>Insuring agreement</b>	<b>37</b>
<b>Supplementary Payments</b>	<b>39</b>
<b>Exclusions</b>	<b>42</b>
<b>Limits of liability</b>	<b>48</b>
<b>Out of state coverage</b>	<b>49</b>
<b>Financial responsibility</b>	<b>49</b>
<b>Other insurance</b>	<b>49</b>
<b>VI. MEDICAL PAYMENTS COVERAGE</b>	<b>54</b>
Insuring agreement	54
Exclusions	54
Limits of liability	55
MEDICAL PAYMENTS COVERAGE	57
NON-STACKED OPTION COVERAGE	58
Other insurance	60
<b>UNINSURED MOTORISTS COVERAGE</b>	<b>60</b>
Insuring agreement	60
Exclusions	62
Limits of liability	63
Other insurance	64
Arbitration	65
UNDERINSURED MOTORISTS COVERAGE	67
<b>VII. COVERAGE FOR DAMAGE TO YOUR AUTOMOBILE</b>	<b>71</b>
INSURING AGREEMENT	71
Transportation expenses	74
Exclusions	74
Limit of liability	78
Payment of loss	79
Other sources of recovery	79
Appraisal	80
<b>VIII. DUTIES AFTER AN ACCIDENT OR LOSS</b>	<b>83</b>
<b>IX. GENERAL PROVISIONS</b>	<b>87</b>
Bankruptcy	87
Changes	87
Fraud	88
LEGAL ACTION AGAINST THE INSURANCE COMPANY	88
RIGHT TO RECOVER PAYMENT	89
Policy period and territory	90
Termination	90

Transfer of interest	93
Two or more auto policies	93
<b>X. ENDORSEMENTS &amp; BASE PREMIUMS</b>	<b>101</b>
MISCELLANEOUS TYPE VEHICLES	101
EXTENDED TRANSPORTATION EXPENSES	101
EXTENDED NONOWNER COVERAGE	101
UNDERINSURED MOTORIST COVERAGE	102
AUDIO, VISUAL AND DATA ELECTRONIC EQUIPMENT AND MEDIA	102
TOWING AND LABOR COSTS	103
<b>XI. PREMIUMS</b>	<b>116</b>
Basic Factors in Auto Rating	117
Age.	117
Sex.	117
Geography.	117
Marital Status.	117
Other Factors.	118
Driver Education:	118
Student Discounts.	118
Multiple Car Discounts.	118
Merit Ratings.	118
Installment Payments	118
RATING INFORMATION	119
PRINCIPAL COMPONENTS OF APPLICABLE CLASSIFICATIONS	119
RATING PROCEDURES AND FUNCTIONS	121
<b>XII. PERSONAL AUTO INSURANCE RATING MANUAL INFORMATION</b>	<b>126</b>
Rating Manual LIABILITY COVERAGE ONLY	133
5. SAFE DRIVER INSURANCE PLAN (SDIP)	138
6. MODEL YEAR/AGE GROUPS FOR COMPREHENSIVE AND COLLISION COVERAGES	143
7. MINIMUM PREMIUM RULE	144
8. POLICY PERIOD	144
9. CHANGES	145
10. CANCELLATION	146
11. WHOLE DOLLAR PREMIUM	150
12. RULES FOR DETERMINING PHYSICAL DAMAGE BASE RATES FOR SYMBOLS NOT DISPLAYED ON STATE RATE SHEETS	150
13. SUSPENSION	150
14. MISCELLANEOUS COVERAGES	151
15. CERTIFIED RISKS - FINANCIAL RESPONSIBILITY LAWS	156
16. NAMED NON-OWNER POLICY	157
17. EXTENDED NON-OWNED LIABILITY COVERAGE	157
18. INCREASED LIMITS	158
19. MISCELLANEOUS TYPES	159
E. Dune Buggies	162
F. Golf Cart	162
H. Electric Autos	163
I. Classic Autos	163
20. RATING TERRITORIES	164
GLOSSARY OF AUTOMOBILE INSURANCE TERMS	167

# I. ANALYSIS OF PERSONAL AUTOMOBILE INSURANCE

## INTRODUCTION

This text is furnished solely by C.E.I.S. as a reference to be used in Continuing Education. It is to be used as educational material only and it is not intended to provide advice, legal or professional. The readers of this text must consult their own legal advisor for legal advice on any information contained herein.

Because Personal Automobile insurance is a rapidly changing area, the latest available information on this subject is contained in this text; however, due to legislation, legal situations or industry practice, the information contained in this text may change or become obsolete. This text should never be used as an original source of authority on any legal matters.

Any laws and regulations that are referenced in this text have been edited and summarized for purposes of brevity and clarity.

Any names used in this text are fictional and have no relationship to any person, living or deceased.

The Insurance Agent may be familiar with the old adage “Life Insurance is sold, Property and Casualty Insurance is bought.” Automobile Insurance is certainly “bought,” and in many jurisdictions it is not only bought, a vehicle may not be licensed until proof of insurance can be established. Because Auto insurance is so important, many states now require “Uninsured Motorists” coverage which provides coverage if an automobile that is not insured is involved in a claim. Even with such legislation there are a large number of automobiles on the roads which are uninsured.

Automobile Insurance is written as simplistic as possible so that the policyholder can understand the provisions. Unfortunately the percentage of insured’s who actually understand their policy is miniscule and most policyholders do not bother to read their policy until time of claim. Even then, they prefer to contact their agent to interpret their policy. There are so many ways that claims can arise that an agent must be well versed not only in the policy language, but also in basic insurance principles. It would be impossible for an agent to know how automobile insurance operates in the millions of circumstances involving an automobile in some fashion, so an agent must continually research and study not only Automobile Insurance, but all areas of insurance that may have some relativity.

An Automobile insurance policy does not simply state: “If you have an accident with your automobile, we (the insurance company) will fix your car.” Not only does the policy pay for repairs, it must also indemnify for damages to others’ automobiles or property, and by doing so it becomes not only a service contract, but also a liability policy. If injuries to another occur, it provides medical coverage. In some states, certain types of automobile insurance coverage are mandatory, and other types are optional.

Automobile Insurance cannot prevent accidents involving automobiles, but it is designed to protect the financial interest in the automobile, protect against legal liability and to provide medical coverage for those injured. Of course not all possible expenses or losses will be covered as an automobile insurance policy has limitations and exclusions, but it will save most policyholders from severe financial losses as the result of an automobile accident.

Please note that examples of various provisions and situations that may arise regarding Personal Automobile Insurance will be presented as “CUSTOMER APPLICATION” and will be boxed. The names and locations used in these “APPLICATIONS” are fictitious; however the situations have appeared in actual practice. There are voluminous case studies of situations involving automobile insurance, but further examples of the application of the policy provisions is outside the scope and purpose of this text.

Study questions appear at the end of various sections in multiple – choice questions. The answers to the multiple choices appear at the end of the text.

A GLOSSARY of commonly used insurance terms in this text appears at the end of the text, just before the “answers.” For those not familiar with the insurance terminology, a review of the GLOSSARY prior to reading the text may be in order.

## INSURANCE PRINCIPLES

A complete dissertation on the Principles of Insurance is beyond the scope of this text, but the reiteration of certain principles is pertinent to the information in this text.

## RISK, PERILS AND HAZARDS

Risk has a variety of meanings, depending upon the usage. It has been used to represent “insured,” “exposure,” and a variety of other things. For the purpose of this discussion, it will be defined as the “chance of financial loss.” The principal purpose of insurance is to protect an insured against financial loss which is accidentally created by a specific cause(s).

Loss is generally defined as the value of an asset owned by the insured being reduced, and the financial consequences thereof. Losses are considered as either direct or indirect which is best defined using examples. An automobile involved in an accident which “totals” the insured auto, is a *direct* loss. The insured must rent or lease a car until his car can be replaced; such expenses are considered as *indirect*.

In addition to Risk, closely associated are Perils and Hazards. While these terms are frequently confused, basically Perils are the cause(s) of loss, while Hazards are anything that increases the frequency or severity of a loss. As examples, with an Auto Policy the theft of an auto is a *Peril*; leaving the key in the ignition and the door unlocked while parked on a city street at night could be considered as a *Hazard*.

Most insurance courses consider three types of hazards: physical, moral and morale:

A physical risk is a tangible risk, i.e. it can be felt, or touched or seen. An auto parked in a garage filled with gasoline-soaked rags would be an example of a physical risk.

A moral risk is a little more difficult to describe, as it is so subjective. Inspection companies are a primary source of information of moral risks. It must be kept in mind that an insurance policy is a contract and is executed in good faith. If a person has a reputation for less than honest dealings, such as being a known drug dealer or has been bankrupt several times, it is doubtful that they would be welcomed as an insured.

Morale hazards involve the attitude of the insured. If an individual has the attitude that they can drive carelessly because they are insured, they would not be considered prime prospects for auto insurance. A review of their Motor Vehicle records could indicate their lack of care.

**CONSUMER APPLICATION**

Bruce Bentley is a highly successful attorney, married with 3 children, all in college. He buys a new car every year, alternating between the 4 cars in the family. He lives in an upper-income area and is a member of the local Country Club.

Bruce's brother owns a local insurance agency, and finally convinces Bruce to change his auto policy to a company represented by Bruce's brother. The new insurer orders an inspection report and discovers that Bruce had been trying to get a private pilot's license but the instructor considered him too reckless in handling an airplane, and has refused to give him a license.

The new company's underwriting department felt that the Morale hazards here were too great, as if he is reckless in handling airplanes, he would have an inclination to be reckless in his driving ability. An underwriter may not accept Bruce, even though his driving record has only two tickets for minor infractions over the past 5 years.

Related to this discussion are the Insurable Interest rules. In Property and Casualty insurance the basic rule is that the policyholder must have an insurable interest in the property at the time of the loss. In auto insurance, the question of Insurable Interest may arise in the situation of a leased vehicle, but generally this is covered by insurance regulations. Also, a previous owner may not assign their insurance to the new owner.

**CONSUMER APPLICATION**

Roger sells his 1995 Ford pickup to Ralph. Ralph is leaving on a trip and will be pulling a trailer with the pickup, but he doesn't have time to obtain new insurance. Ralph agrees to assign his insurance to Ralph until he returns. The title has already been transferred.

If Ralph has an accident, Roger's insurance would not cover the results of the accident. Practically, Ralph could probably have gotten a binder for auto insurance from an agent that handles any of his other insurance (such as another car, etc.).

**CONSUMER APPLICATION**

Roy and Betty apply to Automobile Insurance Co. (AIC) for insurance on their two cars, a 1997 Ford Taurus and a 1993 Subaru. AIC reviewed their applications to determine whether they would accept Roy and Betty as policyholders.

Both cars appear to be acceptable, with both cars having low mileage. The Ford is driven by Roy to and from work, a one way distance of 8 miles. Betty uses the Subaru for household errands to take the children wherever they need to go. They are both garaged. Roy had a speeding ticket 5 years ago, 15 miles over the speed limit. Betty has never had a ticket. Betty was driving a previous auto when a neighbor backed into her car, but she was not held liable and there was no traffic citation issued.

Roy and Betty are “average” family parents, active in School and church activities. Roy is considered as a rather conservative individual as he is a quiet-spoken Public Accountant. Betty is not known to drink. Roy will have a beer on occasion with the neighborhood friends, but has never been seen intoxicated. They live in a two-story home in an upper-middle income neighborhood. There are no particular problems in the neighborhood.

They would be considered as meeting the criteria for insurance by AIC.



## STUDY QUESTIONS

1. Life Insurance is \_\_\_\_\_; Property & Casualty Insurance is \_\_\_\_\_.
  - A. sold, bought
  - B. bought, sold
  - C. expensive, inexpensive
  - D. always available, rarely available
2. In many states, automobile insurance is
  - A. mandatory before a drivers license is issued.
  - B. mandatory before a vehicle may be licensed.
  - C. never mandatory.
  - D. automatically issued to everyone who has a drivers license.
3. If a policyholder does not understand their insurance policies, they usually
  - A. throw them away.
  - B. write the insurance company for clarification.
  - C. read it until they do understand it.
  - D. call their agent for interpretation
4. An automobile insurance policy is not only a service contract, it is also a
  - A. repair and replace contract.
  - B. life insurance policy.
  - C. Liability and Medical Coverage policy.
  - D. sales contract.
5. An automobile insurance policy is designed to
  - A. protect against legal liability.

- B. allow consumers to purchase more expensive automobiles.
  - C. repair personal automobiles when they have mechanical problems.
  - D. supplement other liability insurance policies.
6. Risk can be defined as
- A. the value of an asset being reduced.
  - B. causes of loss.
  - C. chance of financial loss.
  - D. a hazard.
7. Loss is generally defined as
- A. chance of financial loss.
  - B. asset value being reduced & the financial consequences thereof.
  - C. anything that increases the frequency of loss.
  - D. a situation or complication reimbursed for damage by insurance.
8. Perils are
- A. anything that increases the frequency of a loss.
  - B. anything that increases the severity of a loss.
  - C. the result(s) of loss.
  - D. the cause(s) of loss.
9. A physical risk is a
- A. a tangible risk.
  - B. an intangible risk.
  - C. a moral risk.
  - D. a situation where there is injury to a person.
10. A moral risk is
- A. a subjective risk and difficult to describe.
  - B. a hazard involving the attitude of the insured.
  - C. something that can be felt or touched.
  - D. a situation where there has been damage to a school or church.

**ANSWERS TO STUDY QUESTIONS**

1A 2B 3D 4C 5A 6C 7B 8D 9A 10A



## II. LEGAL CONCEPTS OF INSURANCE

There are almost as many variations of the definitions of insurance as there are texts on insurance. Black's Law Dictionary states that Insurance is "A contract whereby, for a stipulated consideration one party undertakes to compensate the other for loss on a specified subject by specified perils." Another legal definition is "a contract whereby one undertakes to indemnify another against loss, damage, or liability arising from an unknown or contingent event, and is applicable only to some contingency or act to occur in the future."

A more practical definition offered by some insurance textbooks calls insurance, "...a device for the reduction of uncertainty of one party, called the insured, through the transfer of particular risk to another party, called the insurer, who offers a restoration, at least in part, of economic losses suffered by the insured."

Insurance, by its very nature, is closely tied to the legal system. From the beginning of insurance, regulators realized that there were huge financial losses at risk, and the transfer of the risk was done by contract which was a "promise" to perform by the insurance company on behalf of their insured. In respect to liability insurance which is included in an automobile policy, the concept of negligence is introduced as a court must determine whether one's action is (are) reasonable and prudent.

There are two types of legal wrongs, civil and criminal. Generally speaking, Insurance does not cover criminal acts except in certain specified situations which are not of interest in the discussion of automobile insurance. An insured that was greatly exceeding the speed limit could be involved in vehicular homicide (criminal) and sued for medical bills of the victim (civil).

There are two types of civil wrongs: torts and breach of contract. Courts will provide a remedy in the form of action for damages for Torts. Torts can be sub-divided into three sections:

1. Activities which create strict liability which result if harm to others even if the activities are not determined to be negligent, or there is no intent to create harm.
2. Intentional Torts, such as libel and slander, copyright infringement, etc.
3. Unintentional Torts, such as negligence.

### **CONSUMER APPLICATION**

(1) A farmer who is burning off his field near a subdivision of homes creates strict liability. If the flames are carried by the wind into the subdivision and several homes burn down, the farmer can be held liable for the damage, even though he had been legally burning off his field.

(2) Some liabilities are created by legislation. A prime example is Workers Compensation. If the Jones Construction Company requires Green to climb on roofs with loose tiles, and because of a loose tile, Green falls and suffers injuries; the Jones Construction Company is legislated to liability with fault.

Reminder: If a Tort has occurred, Tort law provides protection against violations of certain rights. The main rights involving automobile insurance would be undue interference with an economic right or advantage, bodily injury, and property damage.

As remedies for these actions, there are three legal remedies:

1. The court can grant an injunction (seldom applicable to auto insurance).
2. The court can award monetary damages.
3. The court can require restitution.

Keep in mind that the insurance policy assumes certain liabilities of the policyholder, therefore the insurance company may have to (1) make the monetary award on behalf of its policyholder, or (2) provide restitution on behalf of its policyholder.

Money damages are usually compensatory, i.e. it compensates for a monetary loss which is reasonably related to the extent of the injury involved. Nominal damages may be awarded if there is little or no actual damages involved. Punitive damages may be awarded which are punitive in nature and frequently have no relationship to the compensatory damages. Most insurance policies do not cover Punitive damages as insurers have almost universally maintained that one cannot transfer an intentional or negligent act (the basis for most Punitive damage awards) to a third party.

#### **CONSUMER APPLICATION**

Smith drives his car into the back of a van waiting for a signal light to change. The occupant of the car, Mrs. Brandt, suffered cuts on her arm which required several stitches. The van was determined to be unsalvageable. Mrs. Brandt sued Smith and asked for damages in the amount of \$50,000 for loss of earnings and pain and suffering, the replacement of her year-old van with another van identical but new, and she further asked for \$1,000,000 punitive damages.

It was determined at trial that Mrs. Brandt was a school teacher and lost only one week of work because she complained of the pain. Otherwise she could have returned to work the next day.

It was discovered that the van had been owned by a company who used it for delivery, and it had 50,000 miles on it although it was just a little over a year old.

Smith's policy would pay compensatory damages such as the actual medical costs for the cuts to Mrs. Brandt, the replacement value of a similar van with 50,000 miles, and it would not pay for punitive damages. Since there was no evidence to show that Smith was excessively negligent, punitive damages were not awarded. Loss of income would be provided under the policy for the amount of money that she would have earned had she been at work that week. As a practical matter, it is doubtful that any insurance company would argue about the length of time she had taken from work.

People are entitled to the enjoyment of their own property and any rights arising from the ownership of that property. Conversion is an intentional tort against the owner's right to enjoy his/her personal property (such as an automobile). An intentional tort, because of the fact that it was "intentional", makes the "perpetrator" have a high degree of blame.

There are also activities which by law create liability by the perpetrator, regardless of fault. These “no-fault” activities include actions such as a “reasonable” activity in an “unreasonable setting.” An example would be parking a truck loaded with explosives in a heavily populated area. Workers Compensation is an excellent example of “no-fault” activity created by law, as the employer is responsible for injuries to workers on-the-job, regardless of what the employer has done, or not done.

Negligence – an “Unintentional Tort” – is defined by the “prudent – man rule:” “the omission to do something which a reasonable man, guided by the considerations which ordinarily regulate the conduct of human affairs, would do; or doing something which a reasonable and prudent man would not do.” There must be a legal duty to use care in one’s activities; there must be a failure to exercise such care; and there must be some resulting damage or injury. Obviously, within our frame of reference regarding Personal Automobile Insurance, negligence can be assumed by an insurer.

### **CONSUMER APPLICATION**

An interesting study in Negligence involves Bill Peterson, age 55, a Boy Scout leader. Last weekend, Bill took 4 boys on a camping trip to the Mountains, where they camped out, hiked, and in general, had a great time. They left Monday night, later than Bill really wanted as everyone was tired, but he gave in to the pleas of the Scouts who seemed to have endless energy.

As they were driving home, Bill felt sleepy, and since he had to be at work the next day, he allowed a 16-year old boy who had just received his license, to drive while he took a nap in the back seat.

They reached the outskirts of Atlanta and soon found themselves in heavy traffic which included many party-goers on their way home. The boy had never driven in traffic before, and when he woke Bill in concern, Bill just told him he had to learn at some time or other. Soon after, the boy found himself in so much traffic that he panicked, and when he tried to leave the freeway, he turned into an entrance lane to the freeway by error. Seat belts and air bags saved the two front seat passengers, but they were seriously injured. Bill and the other 2 boys suffered less serious injuries. To determine if Bill was negligent, the question as to the “prudent-man” rule arose, i.e. would a prudent man have allowed a 16 year-old inexperienced driver to drive under the conditions that arose?

Bill was the scoutmaster, the adult, so there was a legal duty to exercise the maximum care. There was obviously a failure to exercise such care. There was resulting damage and injury.

Negligence is divided into Contributory Negligence, Comparative Negligence and the “Last Clear Chance” concept.

### **CONTRIBUTORY NEGLIGENCE**

In the determination of negligence, the last consideration is whether the person who was injured or damaged was negligent. The reasoning is that the guilty party must pay, and the injured party, if innocent of the actions, should not pay. Basically, the theory is that if each party is somewhat negligent, each party must bear its own share of the injury. This is determined by

law in many jurisdictions. An example would be an automobile accident where one party made an illegal turn in front of a speeding vehicle. Under this concept, and by law in many places, each person would pay for their own damages as they both were responsible.

### **CONSUMER APPLICATION**

Mary was driving home late at night, on a boulevard that was lighted by street lights so she was not aware that she had not turned on her headlights. Bronson ran a stoplight in his Ford pickup and hit the side of Mary's car, causing Mary to be hospitalized and her car to be totally demolished.

Bronson was obviously at fault as he ran a stop light. At the trial, he insisted that he did not see the car because Mary's headlights were not on and the street lights did not provide sufficient illumination.

The jury would find that Mary had contributed to the accident, and in a Contributory Negligence state, Mary would pay for her own damages, and Bronson would pay for his damages.

### **COMPARATIVE NEGLIGENCE**

The major difficulty in Contributory Negligence is that in many cases the contributions of one party may be small, but the injuries to that party may be large. The Comparative Negligence concept attempts to assess the responsibilities of each party by determining the responsibilities of each. This concept has been adopted in several jurisdictions because of the fairness of the results. However, it creates certain responsibilities on the judge and jury to establish the percentages of negligence.

### **CONSUMER APPLICATION**

Using the circumstances as stated above, if Bronson was found to be more negligent than Mary, but she had contributed to the accident by not having her headlights on, any award given to her would be lessened by the percentage that the jury found that she had contributed to the accident. If she was found to have contributed 25% of the negligence, the \$100,000 award would be lowered to \$75,000 that Bronson would have to pay.

### **LAST CLEAR CHANCE**

"Last Clear Chance" concept is used primarily as a defense against contributory negligence by a plaintiff, if the defendant had an opportunity to avoid an accident but did not do so. By not avoiding the accident, then the defendant's failure to take the proper action supersedes the allegation of contributory negligence.

### **CONSUMER APPLICATION**

An automobile breaks down at night on a heavily traveled highway. The operator puts on the emergency flashing lights, and places an emergency reflector from an emergency kit in the trunk of the car, several feet at the rear of the auto. Another automobile driver ignores all of the warning lights and the reflectors and crashes into the stalled auto. The driver is said to have had the last clear chance to avoid the accident and since it was the primary cause of the accident, it overrides the contributory negligent actions of the driver of the stalled auto.

### **CONSUMER APPLICATION**

A 4-lane highway is being repaired and the lanes are marked and traffic cones are so placed that all traffic merges to the right. A driver continues in the right lane and then goes around two of the cones and turns his car into a space between cars in the right lane. While there was adequate room to enter the lane, the driver obviously was negligent in avoiding the traffic signals and cones. The driver of the car that would have been in that space but now is behind the entering car decides that since he is driving a big pickup with a steel pipe front bumper, he is going to “teach that driver a lesson.” He speeds up before the entering auto has completely entered the space, causing considerable damage to the auto, but very little to the pickup. The driver of the pickup had the “last clear chance” to avoid the accident, even though the driver of the automobile had negligently entered the space (which the pickup driver felt was his).

### **CONTRACTS**

The law of contracts specifically applies in insurance as the insurance contract (policy) is the very basis of insurance. The laws of Contracts are extensive and voluminous, most of which are beyond the scope of this text. Certain elements of contract law should be learned and repeated on a regular basis as many questions regarding insurance can be answered and explained to the satisfaction of a policyholder or applicant, if the laws of contract are invoked.

#### **Contracts are composed of four elements:**

**(1) *Agreement.***

One party has to make an offer and the other party must accept it. The offer must specifically express the intent to make an agreement in terms that may be so construed, and they must be communicated to the other party. These terms are accepted if transmitted to the person to whom the offer is made, the terms are unconditional and definite, and the terms are transmitted to the person making the offer. An insurance agent is normally considered as a solicitor of the offer, and the offer is the insurance application. A policy is considered as an acceptance. In some types of insurance, the agent has binding authority, and in others they do not have the authority (usually in life and health insurance).

**(2) *Competent Parties.***

A party to a contract may be considered as incompetent if they are a minor, insane, under the influence of alcohol or drugs, or possibly a corporation (considered by law as an “artificial person”) which doesn’t have the authority to enter into such a contract. By law, many incompetents are given the opportunity to extract themselves from a contract if it was entered

into while they were incompetent. In nearly all situations involving insurance, the policy may be cancelled by the insured by law. Even if the insured is found by a court to be incompetent without the knowledge of the insurer, the law usually allows a full return of premium to the insured.

**(3) *Consideration.***

Consideration is whatever one person asks another to do in return for the promise offered under the contract. Insurance consideration is the payment of premium or the promise to pay a premium at a specified later date. In some insurance policies, pre-payment of premiums is required. Life insurance coverage will not be effective until the full first premium is paid, however in Property & Liability insurance pre-payment is not usually required, but the insured has an obligation to pay the premium as soon as coverage commences.

**(4) *Legal Purposes.***

Insurance contracts must involve a legal subject matter and this is usually not a serious problem. However, articles that may not be legally possessed may not be insured. For instance a vehicle used for illegal purposes cannot be insured under an automobile insurance policy.

**INSURANCE CONTRACTS**

Insurance contracts have certain unique features in addition to the qualifications listed above. These features are discussed below, but a more detailed discussion or explanations are beyond the scope of this text.

***Conditional Contracts.***

Insurance policies are dependent upon an uncertain event. Under most other contracts, the contracts are based upon some acts being performed. In insurance, the acts may never occur and therefore are considered as “conditional.”

***Contracts of Adhesion.***

The normal contract can be added to or subtracted from, but an insurance contract is a “take-it-or-leave-it” type of offer. In other words, the insured must adhere to the agreements of the contract; hence it is a contract of “adhesion.”

***Aleatory Contracts.***

A typical contract involves items of similar value, e.g. an automobile is purchased for a stated amount, which approximates the value of the automobile. An insurance contract consideration, conversely, is usually uneven. Rarely does the consideration of both parties become equal. The Aleatory concept is that the contract is dependent upon an uncertain event.

***Unilateral Contracts.***

Only one party in an insurance contract makes an enforceable promise. The policyholder pays a premium; the other party makes a unilateral promise.

***Contracts of Utmost Good Faith.***

Insurance contracts by their very nature are considered as a contract of utmost good faith. The applicant must disclose all material facts, and the insurer must deal with its clients in complete honesty and good faith.

***Contracts of Indemnity.***

Insurance contracts are contracts of indemnity by which the injured party is compensated for the losses suffered by means of a financial settlement.

**CONSUMER APPLICATION**

The insurance policy on Roy and Betty was issued, covering the Ford and the Subaru. Six months after issue, Roy was involved in an accident on the freeway which resulted in a judgment against Roy in the amount of \$250,000, the limits of his insurance policy.

His insurance policy is “Conditional”; the conditions being the liability that he incurred would be paid by the insurance company.

The policy is a contract of “Adhesion” as Roy accepted the policy as issued by AIC.

The policy is an “Aleatory” contract as the \$100,000 it paid on Roy’s behalf is completely out of proportion to the premiums that he had paid.

The policy is “Unilateral”, as AIC had promised to pay under stipulated circumstances and basically all Roy had to do was to pay the premiums.

Roy had disclosed all material facts when he applied for insurance, so AIC exercised their responsibilities in good faith.

Roy was compensated for the losses suffered from the accident by means of a financial settlement; therefore the policy was also a contract of Indemnity.



**STUDY QUESTIONS**

1. According to all legal definitions, insurance is
  - A. a gentleman’s agreement.
  - B. a legal-defined artificial person.
  - C. a contract.
  - D. a Ponzi scheme.
  
2. There are two types of legal wrongs,
  - A. moral and morale.
  - B. civil and criminal.
  - C. intentional and unintentional.
  - D. Tort and Malfeasance.

3. A “Tort” is a
  - A. a legal procedure to limit liability.
  - B. a dessert served at a deli.
  - C. a criminal act.
  - D. a civil wrong
  
4. When a court may (1) grant an injunction, (2) award monetary damages, or (3) require restitution, these choices provide
  - A. alternatives for criminal acts only.
  - B. legal remedies for Torts.
  - C. reasons for appellate decisions.
  - D. for appeal in a civil suit.
  
5. Punitive damages
  - A. are compensatory damages.
  - B. are usually not covered under Personal Auto Insurance policies.
  - C. are awarded to compensate for a monetary loss related to the injury.
  - D. are damages awarded to a person who has wrongfully punished.
  
6. An intentional Tort against the owner of a car to enjoy the car, is called
  - A. negligence.
  - B. contributory negligence.
  - C. conversion.
  - D. malfeasance.
  
7. Under an auto policy, Negligence
  - A. can be assumed by an insurance company.
  - B. is never assumed by an insurance company.
  - C. is a No-Fault activity.
  - D. refers to the activities of a driver other than the insured.
  
8. The theory that if each party is somewhat negligent, each party must bear its own share of the injury is called
  - A. Contributory negligence.
  - B. Last Clear Chance.
  - C. Compensatory negligence.
  - D. Partial Negligence.
  
9. If a defendant had an opportunity to avoid an accident, even if he was “in the right”, but if he did not do so, and his inaction is used as a defense against negligence, this is called
  - A. Comparative negligence.
  - B. Contributory negligence.
  - C. Last Clear Chance.
  - D. Partial negligence.

10 An Aleatory Contract is

- A. one that must be adhered to on a take-it-or-leave-it basis.
- B. one that is based upon an uncertain event.
- C. a contract of indemnity.
- D. a unilateral agreement.

**ANSWERS TO STUDY QUESTIONS**

1C 2B 3D 4B 5B 6C 7A 8A 9C 10B



### **III. THE LAW AND AUTOMOBILE INSURANCE**

Ever since the invention of the automobile, there have been laws enacted that specifically address the problems of automobile ownership or operating a motor vehicle. Local ordinances were enacted when the automobile first was used to any extent, ranging from the operation of a vehicle when near horses or horse-drawn vehicles, to who would be qualified to operate such a vehicle and the areas within which automobiles were allowed to operate. Negligence became a factor as horse-owners considered the automobile owners negligent if their horses bolted at the sight and sound of the vehicles. These laws and countless others that have been enacted created a new category of negligence and they place (d) specific obligations and responsibilities on the owners and operators of automobiles. These particular laws and regulations fall into the following categories, some of which have been discussed in general terms earlier and some applicable only to owner/operator of automobiles.

#### **CONTRIBUTORY NEGLIGENCE – AUTOMOBILE:**

This has been discussed earlier, but in specific application to automobiles, when an automobile accident occurs, under this concept, each party must bear its own damages. These rules presently exist in approximately 12 states.

#### **COMPARATIVE NEGLIGENCE – AUTOMOBILE:**

This rule is in force in the majority of the states and specifically address Comparative Negligence as it affects automobile accidents. Basically the recovery of the plaintiff is decreased by the percentage of negligence contributed to the accident by the plaintiff.

#### **GUEST STATUTES:**

These laws regarding automobiles have been repealed in most states and are in force only in a very few states at this time. These statutes modify the level of care that a driver owes to a passenger (guest) in his/her automobile. Common law states a guest must be accorded reasonable or ordinary care, but these statutes reduced the amount of care to “gross negligence”, or “wanton or willful misconduct”, etc. Because of the Guest Statutes, it became very difficult for a passenger in an automobile to recover damages from the driver of an automobile or to take any other legal action. (Note: This does not apply to Taxi drivers or other commercial vehicles)

#### **VICARIOUS LIABILITY:**

In the states that have this law or regulation, vicarious liability usually pertains to incidents where the owner of a vehicle is not in the automobile when a loss occurs, but is nevertheless held responsible for the action of the driver if the driver has the owner’s permission to operate the automobile. A similar type of statute is in force in some states, and involves the operation of motor vehicles by minors. If they become involved in an accident, their parents can be held liable for any damages. Some states require the parents to accept these restrictions and actually sign for the license for their child.

### **CONSUMER APPLICATION**

Frank asked his secretary if she would take his clothes to the cleaners when she went to lunch as he had forgotten to do so when he came to work, and he had luncheon plans. Do to the fact that there were several articles of clothing, Frank asked his secretary to take his car. On the way to the cleaners, his secretary ran a stop sign and caused damage to another car.

Frank would be considered liable under “Vicarious Liability” statutes and his insurance company would become involved.

### **COMPULSORY INSURANCE:**

In certain states (Massachusetts was the first) drivers must carry liability insurance to protect the general public. Only a couple of states followed the lead of Massachusetts because the law is so difficult to enforce. Drivers may cancel their insurance, out-of-state drivers do not have to comply with the law, and there are always a sizeable number of drivers who simply ignore the law. Several states have enacted compulsory No-Fault laws (discussed later in this text), and most states have enacted Financial Responsibility laws instead of Compulsory Insurance laws.

### **FINANCIAL RESPONSIBILITY LAWS:**

These statutes require that each driver be financially responsible when they operate a motor vehicle. Contrasted to Compulsory Insurance, financial responsibility can be shown after an accident, and it can be demonstrated by an insurance policy, a deposit with the Department of insurance or a Surety Bond, depending upon the states. The required liability varies by state, ranging from \$10,000/\$20,000 Bodily Injury (BI) and \$5,000 Property Damage (10/20/5) to \$50/100/25 (Alaska). If a driver cannot show financial responsibility after an accident, they may lose their license and possibly lose their license for their automobile. Unfortunately, in that case, the injured party may not receive anything even though the injuring party would suffer.

### **UNINSURED MOTORISTS COVERAGE:**

Many states require Uninsured Motorists Coverage with all automobile insurance policies. This results in the insured's insurance company covering an uninsured motorist at the time of an accident. Unfortunately, the result is that the insured is paying an insurance premium for an uninsured person, but since the premium for this coverage is not excessive, the results seem to counteract any costs to the insured's.

### **“STANDARD” AND “BASIC” COVERAGES.**

Some states (New Jersey in particular) provide two types of personal automobile insurance: Standard – which provides a wide variety of coverage options, many not available in the Basic plan; and Basic – a low cost policy that provides a minimum of benefits. For instance, Bodily Injury is an optional coverage on Basic, with a limit of \$10,000 for all persons, per accident, and is a required coverage for Standard policies. Property Damage Liability is required for both policies. For Medical Expense Coverage (New Jersey, for instance, is a No-Fault state) the limit for Standard policies is \$250,000, but only \$15,000 per person per accident for Basic. Further, the Standard policy offers Income Continuation, Death and Funeral benefits, and

Uninsured Motorists Coverage. For further information on these coverage's, if applicable in your states, please refer to the wording of the policies issued in that state, or contact the applicable Department of Insurance. Since this arrangement is available only in one or two states, further discussion is not provided in this text.

## **NO-FAULT AUTOMOBILE INSURANCE**

“No-fault” automobile insurance has gained in popularity in recent years as it addresses many of the problems that have evolved from traditional automobile insurance. On the surface it would create more problems than it solves, for instance, someone is always “at fault” in any accident (except for acts of God, such as lightning striking a car, etc.) and therefore, someone always has to pay. However, the problems of traditional automobile insurance far outweigh any philosophical difficulties with “No-Fault.”

Our society is mobile, and regulations as to financial responsibility vary from state-to-state. This also creates the problems of having a court case in one state when one of the parties resides in another. The courts are notoriously overcrowded so it takes time to set a court date, and by that time, witnesses may have died or moved and their present location is unknown, and even the memories of those witnesses available can fade with time.

Because of the complexity of pursuing a court remedy, attorneys generally work on a contingency basis, and by the time that the case has been settled, most of the available funds have gone to the attorneys for their fees and expenses, leaving the injured party with only a fraction of the financial loss they suffered. Obviously trial lawyers are not great proponents of No-Fault laws.

From a consumer viewpoint, it makes sense for their insurance company to make payment for any losses the insured suffers, regardless of who is at fault. This reduces the number of court cases substantially, thereby reducing the court costs and attorney fees. Courts would be less crowded and there should be more money available to pay all injured parties.

In order for this concept to work properly, this must be considered as an “exclusive” remedy, i.e. an injured party does not get to pick-and-choose as to whether to accept the insurer's settlement or go to court. This means that an insured signs away some of their rights.

Another problem to be solved is that there are two types of losses – economic and non-economic. Economic losses are such things as auto repair or replacement, medical costs, property repair, etc., which are factors that can be established by a dollar amount. Non-economic losses are such items as “pain and suffering”, inconvenience, loss of consortium (services of a spouse), etc. No-Fault does not address the non-economic losses and a person cannot sue for non-economic losses.

In order to keep down expenses, small losses fall outside of No-Fault legislation. For instance, there may be a “threshold” of \$500 for medical costs before the No-Fault would pay.

Some states do not use a monetary threshold, but can be limited to such things as disfigurement or dismemberment, or other injuries of this type and severity, regardless of any dollar amount.

Since a “pure” No-Fault law would completely eliminate any tort liability as all parties would collect from their insurers and there would be no need for either party to prove negligence, either Comparative or Contributory, there are no “pure” No-Fault states.

Actual or “Modified” No-Fault laws do not eliminate liability lawsuits, but do restrict them to those cases where injuries are determined by the threshold. Generally, lawsuits are permitted if losses exceed the minimum required by the state statutes. For instance, the state may require \$10,000 minimum for medical expense and loss of income. If the medical expenses and/or loss of income exceed \$10,000, the injured party could sue for any amount (excess) larger than \$10,000.

Most No-Fault plans do not cover property damage liability because property damage claims are usually considerably less than personal injury claims, are more easily determinable by dollar amount immediately, and there usually is no “pain and suffering.” Also, since most people carry collision insurance, the repairs to their automobile are taken care of anyway so the collision insurance would eliminate the need for an insured to go to court to get their own automobile insured.

(How to read liability limits below: First number is bodily injury maximum for one person involved in an accident. Second number is bodily injury liability maximum for all injuries in one accident. Third number is property damage liability maximum for one accident)

### AUTO LIABILITY INSURANCE MINIMUM LEVELS OF REQUIRED

STATE	LIABILITY LIMITS (\$000)	NO-FAULT LAWS	STATE	LIABILITY LIMITS (\$000)	NO-FAULT LAWS?
ALABAMA	20/40/10	NO	NEBRASKA	25/50/25	NO
ALASKA	50/100/25	NO	NEVADA	15/30/10	NO
ARIZONA	15/30/10	NO	NEW HAMPSH	25/50/25	NO
ARKANSAS	25/50/15	NO	NEW JERSEY	15/30/5	YES
CALIFORNIA	15/30/5	NO	NEW MEXICO	25/50/10	NO
COLORADO	25/50/15	YES	NEW YORK	25/50/10	YES
CONNECTICUT	20/40/10	NO	NO.CAROLINA	25/50/15	NO
DELAWARE	15/30/10	NO	NO.DAKOTA	25/50/25	YES
D.C.	25/50/10	NO	OHIO	12.5/25/7.5	NO
FLORIDA	10/20/10	YES	OKLAHOMA	10/20/10	NO
GEORGIA	15/30/10	NO	OREGON	25/50/10	NO
HAWAII	20/40/10	YES	PENNSYLVAN	15/30/5	YES
IDAHO	25/50/15	NO	RHODE ISLAND	25/50/25	NO
ILLINOIS	20/40/15	NO	SO CAROLINA	15/30/5	NO
INDIANA	25/50/10	NO	SO DAKOTA	25/50/25	NO
IOWA	20/40/15	NO	TENNESSEE	20/50/10	NO
KANSAS	25/50/10	YES	TEXAS	20/40/15	NO
KENTUCKY	25/50/10	YES	UTAH	25/50/15	YES
LOUISIANA	10/20/10	NO	VERMONT	25/50/10	NO
MAINE	50/100/25	NO	VIRGINIA	25/50/20	NO
MARYLAND	20/40/10	NO	WASHINGTON,	25/50/10	NO
MASSACHUSET	20/40/10	YES	WEST VIRGINIA	20/40/10	NO
MICHIGAN	20/40/10	YES	WISCONSIN	25/50/10	NO
MINNESOTA	30/60/10	YES	WYOMING	25/50/20	NO
MISSISSIPPI	10/20/05	NO			
MISSOURI	25/50/10	NO			

#### CONSUMER APPLICATION

Mort lives in a “No-Fault” state. He carries a Personal Auto Policy on his Cadillac with liability limits of \$100/\$200/\$50. The state has a threshold for medical expense of \$500, with a minimum of \$10,000 for medical expense and loss of income.

Mort’s car was struck in the rear by George’s car causing considerable damage to Mort’s auto and injuring Mort’s shoulder where it was forced tightly against the shoulder belt.

George’s insurance paid for damages to Mort’s automobile. George paid \$500 deductible on medical expenses for Mort, and Mort’s insurer then paid for Mort’s medical expenses. (As a practical matter, in most states, few policyholders will ask for a deductible). If medical expenses exceed \$10,000, George’s PAP will start paying the medical expenses.

## NON-STANDARD AUTOMOBILE INSURANCE

All states now either require that all automobiles be insured by their owners, or encourage insurance as the best and most practical way to comply with the laws (some states allow self-insurance). Driving is a privilege awarded by the government, however the insurance companies must either decide who can or cannot drive, or offer insurance coverage to all licensed drivers. Therefore, the insurance industry has made available insurance which is adequate to comply with any minimum-requirement compulsory insurance laws. This is accomplished through either of two methods:

### *Substandard Automobile Insurance Companies*

Certain "Specialty" insurance companies offer insurance at rate considerably higher than those offered by "standard" automobile insurance insurers. Some of these rates may be 150% to 200% of the standard rates. Many times the rates are a function of the number of traffic violation points and are an alternative to auto insurance policies. While most states have "Assigned Risk Plans" (see discussion below) at times the rates charged for Assigned Risk policies are higher than those charged by a Substandard Automobile Insurance company.

### *Assigned Risk Plans.*

Since most states have financial responsibility laws (where auto insurance is required) and/or No-fault insurance laws, insurance must be available if these laws are to work. Therefore, special plans have been established in every state.

When an applicant for auto insurance has been rejected by two or more insurers, the application is then submitted to the Assigned Risk Plan Manager. If the applicant meets the requirements of the Assigned Risk Pool, the applicant is then assigned to an insurer licensed to do business in that state. The insurer must accept that risk and issue a policy. Licensed insurance companies "take turns" in accepting such risks as assigned to them (hence, "Assigned Risks").

Participation can be denied only in extreme cases, such as narcotics dealers, habitual alcoholics, etc. Surcharges are assigned to the established rates, and can be as much as 200%.

Usually, the assignment is normally for a three-year period and at the end of that period of time the insured can return to a "standard" insurance company. Assigned Risk policies usually provide full coverage, with a limit on the amount of liability, but some states provide only minimum limits as provided by that state's laws.

### *Other Plans.*

There are two other plans to provide automobile insurance for those who have a difficult time purchasing it in the usual market. These plans were devised as so many insured considered it a "social stigma" to be assigned to the Assigned Risk Pool. The difference between the two is principally that of the methods of administration.

### Joint Underwriting Associations.

Premiums, expenses and losses of the substandard insured are pooled and shared by all of the participating insurers. There is a limited number of servicing insurance companies for this business who adjust claims and provide all other services needed for plans of this type.

### Reinsurance Facilities

Each insurer must provide coverage under this plan, for every licensed driver that applies. If they do not meet the insurer's underwriting criteria, the application is transferred to the reinsurance facility, and the premiums, expenses and losses are shared by all insurers who participate in the reinsurance plan.

### **CONSUMER APPLICATION**

Patrick is a 19 year-old student who has had 3 speeding tickets over the past 3 years, which is not enough to suspend his license under state laws. His father gave him a 1997 TransAm for graduation. Patrick's father had been able to keep him under a family policy covering 3 other autos in the family, but when Patrick left for college with his new TransAm, the insurance company refused to accept him under their standard policies.

Patrick's father appealed to the agent that handled all of his insurance, who suggested a sub-standard insurance company; however the premiums for the TransAm would be almost as high as standard coverage on the other 3 cars. Further checking revealed that the Assigned Risk would be a little more expensive.

Since the sub-standard auto company would accept Patrick with his present driving record, and he would not have the stigma of "Assigned Risk", they elected to apply with the sub-standard company.

If Patrick picks up another ticket, he would probably have to be covered by the Assigned Risk Pool, whether he likes it or not.



### **STUDY QUESTIONS**

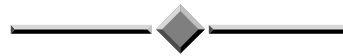
1. Contributory Negligence as it relates to Auto Insurance,
  - A. presently exist in all 50 states.
  - B. exists only in the contiguous 48 states.
  - C. only exists in about a dozen states.
  - D. is no longer in existence in the U.S.
2. When the recovery of the plaintiff is decreased by the percentage of negligence contributed to the accident by the plaintiff, this is called
  - A. Contributory Negligence.
  - B. Comparative Negligence.
  - C. Compulsory Negligence.
  - D. Partial Negligence.

3. A statute that modifies the level of care that a driver owed to a passenger in an auto, is
  - A. called a "Guest Statute."
  - B. Comparative Modified Negligence.
  - C. a common-law statute.
  - D. a Specified Liability statute.
  
4. A strong argument for No-Fault insurance is that
  - A. consumers like the idea of their insurer to make payment for any losses the insured suffers, regardless of who is at fault.
  - B. contributory Negligence is too complicated and expensive.
  - C. the premiums are lower than those policies that are not in a No-Fault state.
  - D. commissions are much higher for the agent in No-Fault states.
  
5. There are two types of losses in insurance,
  - A. Monetary and Emotional.
  - B. No-Fault and Fault.
  - C. Contributory and Comparative.
  - D. Economic and Non-economic.
  
6. In a "No-Fault State", small losses
  - A. are subject to a "threshold."
  - B. are paid the same as large losses.
  - C. are paid by supplementary insurance.
  - D. are absorbed by the insured.
  
7. Most No-Fault plans do not cover
  - A. Personal Injury claims.
  - B. Property Damage claims
  - C. Medical Expense provisions.
  - D. Collision.
  
8. Specialty insurers that offer coverage to those that may not be able to obtain automobile insurance elsewhere, offer policies that
  - A. have the same premium as the "standard" policies.
  - B. are considerably higher than "standard" policies.
  - C. are considerably lower than "standard" policies.
  - D. only cover Personal Injury and Property Damage.

9. In most states, when an applicant for auto insurance has been rejected by two or more insurers, his application is then submitted to
- A. a Specialty insurance company.
  - B. an Assigned Risk.
  - C. the Insurance Department.
  - D. the largest (by premium) insurer in the state.
10. When premiums, expenses and losses of the substandard insured's are pooled and shared by all of the participating insurers, this arrangement is called a
- A. Reinsurance Facility.
  - B. Joint Underwriting Association.
  - C. Assigned Risk Plan.
  - D. Declination Pool.

### **ANSWERS TO STUDY QUESTIONS**

1C 2B 3A 4A 5D 6A 7B 8B 9B 10B



## IV. POLICY CONSTRUCTION

Historically, consumers objected to the wording in automobile insurance policies as they were not familiar with technical terms used. In addition, they often felt (and frequently stated) that insurance policies were loaded with “fine print” that only the insurance company could interpret and were used primarily to avoid paying claims.

Over 20 years ago, the Insurance Service Office introduced a new and simplified automobile insurance policy with simpler language that was much more “consumer friendly.” However, this form and the wording were not adopted immediately as some states had specific laws that had to be changed to accommodate the new wording. Perhaps the most important objection was that certain policy wording was already interpreted by the courts and by tradition, so any change would mean that the courts would have to again interpret the meanings of the new terminology. Unfortunately for the insurance companies, any new interpretation would invariably be more favorable to the insured than to the insurance company.

After 10 years, the “model” policy has been adopted in nearly all states and the plan has remained basically the same and will be used as the example in this text.

Even though there has been, and will continue to be, concerted effort to make Automobile Insurance Policies (and most other insurance policies) easily understood by the consumers, there still remains confusion as to the meaning of the words and phrases used in the contract. The principal reason for the difficulty in making policies more consumer-friendly is that a policy is, after all, a legal contract with all of the ramifications, so care must be taken in the wording so that the actual intent is voiced. With the Legal Departments of insurance companies contributing to the wording, in addition to the wording required by the Insurance Departments because of law or regulations, there exists a wide variety of wordings.

While the wording varies considerably, the intent of the various phrases and words used in the policies remain practically the same. The arrangement of the coverage’s are relatively standard, with the Liability coverage following a Definition of Terms, and appearing prior to such items as Uninsured Motorists Coverage, and items regarding physical damage, etc. In addition, in those cases where No-Fault policies are required, the wording is quite different in those areas of the policy affected. When a state becomes a “No-Fault State”, it has been common practice for an insurer to amend existing policies by Endorsements, resulting in a more-confused document that is extremely difficult, if not impossible, for the layperson to interpret. These policies consist of many statements amending, adding to, or deleting various sections of the original policy, and where coverage’s or procedures have been added, the policyholder must continually refer to previous sections in the policy.

In order to eliminate as much confusion as possible, this text will discuss the provisions of the Personal Automobile Policy with emphasis on intent and coverage, and with more easily understood format. Many insurance texts state a “typical” provision as it would appear in the policy in its most technical and confusing form, and then explain in “common English” what the

wording means. This text will explain the various parts of a typical policy based upon the Standard form devised by the Insurance Service Office and used nearly universally as the basis for Personal Automobile Policies. Other features outside of this Standard policy form will be discussed in a similar manner. Therefore, if a particular policy is being analyzed, while the wording may vary between policies, the interpretation of the words and phrases may be more easily understood.

The Personal Automobile Policy has six sections (Also known as “Parts”) plus the Declarations, Agreement, and Definitions sections which are included at the beginning of the policy, which are added by the insurance company. The Endorsements which add to or change provisions in the policy may be found either in the beginning of the policy, or at the end of the policy.

The six sections (Parts) are:

<b>Part</b>	<b>Coverage</b>
<b>A.</b>	<b>Liability</b>
<b>B.</b>	<b>Medical Payments</b>
<b>C.</b>	<b>Uninsured Motorists Coverage</b>
<b>D.</b>	<b>Damage to the Insured Automobile</b>
<b>E.</b>	<b>Duties of the Policyholder After an Accident/Loss</b>
<b>F.</b>	<b>General Provisions.</b>

## POLICY DECLARATIONS

The Declaration Page identifies the policy number, the parties to the agreement, and other considerations, such as the identification of the vehicle(s) insured, name and address of the named insured, time coverage, what coverage's and limitations are provided, etc. Basically, it identifies "who", "what" and "where" in specifics.

Many Policy Declarations include a Summary of information so that the policyholder can see what cars are covered, and what the premiums are. The following is a sample of an Auto Policy Declarations, with a Summary which covers two automobiles owned by drivers over age 65. The formats vary from company to company, but the information contained is rather consistent.

### Auto Policy Declarations Summary

#### NAMED INSURED(S)

John Q Brown  
5757 Purple Drive (941) 333-3333  
Sarasota FL 34200-3456

#### POLICY NUMBER

0 61 033326 04/04

#### POLICY PERIOD

Apr. 4, 1999 to Oct. 4, 1999 at 12:01 am

#### DRIVER(S) LISTED

Anna John

#### DRIVER(S) EXCLUDED

None

#### VEHICLES COVERED

1. 93 Subaru Legacy
2. 95 Toyota Camry

#### VEHICLE ID NUMBER LIENHOLDER

4S3BJ6338P9957903	None
4T1 SK1 2EXSU575604	None

#### Total Premium

Premium for 93 Subaru Legacy \$303.10

Premium for 95 Toyota Camry \$281.10

TOTAL

\$584.20

Your total premium reflects a combined discount of \$242.00

Your Policy Effective Date is Apr. 4, 1999

Typically where there are multiple automobiles, there are two pages of information.

AUTOMOBILE NUMBER ONE			
Policy Number: 0 61033326 04/04		Your Agent: Charles F Schulz (941) 555-5555	
Policy Effective Date: Apr. 4, 1999			
COVERAGE FOR VEHICLE # 1			
1993 Subaru Legacy			
COVERAGE	LIMITS	DEDUCTIBLE	PREMIUM
Automobile Liability Insurance			
• Bodily Injury	\$300,000 each person	Not Applicable	\$72.90
	\$300,000 each occurrence		
• Property Damage	\$ 50,000 each occurrence	Not Applicable	\$45.10
Personal Injury Protection			\$36.00
Aggregate Total		\$ 10,000 each person	
Income loss does not apply to insured or any dependent resident relative			
Uninsured Motorists Insurance	\$300,000 each person	Not Applicable	\$30.90
for Bodily Injury	\$300,000 each accident		
Uninsured Motorists Insurance limits of insured vehicles may be stacked			
Automobile Medical Payments	\$5,000 each person	Not Applicable	\$12.00
Auto Collision Insurance	Actual Cash Value	\$200	\$80.00
Auto Comprehensive Insurance	Actual Cash Value	\$100	\$26.20
Total Premium for 93 Subaru Legacy			\$303.10
DISCOUNTS: Your premium for this vehicle reflects the following discounts:			
Multiple Car	\$50.00	Passive Restraint	\$10.00
55 and Retired	\$24.00	Multiple Policy	\$12.00
Antilock Brakes	\$10.00		

RATING INFORMATION This vehicle is driven over 7,500 miles per year, for pleasure, retired adult, good driver rate, and one accident surcharge waived

Policy Number: 0 63332926 04/04  
Policy Effective Date: Apr. 4, 1999

Your Agent: Charles F. Schulz (941) 555-5555

COVERAGE FOR VEHICLE # 2  
1995 Toyota Camry

COVERAGE	LIMITS	DEDUCTIBLE	PREMIUM
Automobile Liability Insurance			
• Bodily Injury	\$300,000 each person \$300,000 each occurrence	Not Applicable	\$61.90
• Property Damage	\$50,000 each occurrence	Not Applicable	\$39.10
Personal Injury Protection	\$0		\$28.00
Aggregate Total	\$10,000 each person		
Income loss does not apply to insured or any dependent resident relative			
Uninsured Motorists Insurance for Bodily Injury	\$300,000 each person \$300,000 each accident	Not Applicable	\$30.90
Uninsured Motorists Insurance limits of insured vehicles may be stacked			
Automobile Medical Payments	\$5,000 each person	Not Applicable	\$10.00
Auto Collision Insurance	Actual Cash Value	\$200	\$79.00
Auto Comprehensive Insurance	Actual Cash Value	\$100	\$32.20
Total Premium for 95 Toyota Camry			\$281.10

DISCOUNTS Your premium for this vehicle reflects the following discounts:  
Multiple Car \$42.00                      Passive Restraint \$12.00  
55 and Retired \$23.00                      Premier Plus \$59.00

RATING INFORMATION This vehicle is driven over 7,500 miles per year, for pleasure, retired adult, good driver rate



## AGREEMENT

As with any other contract, the wording is preceded by a statement(s) which simply state that the services will be performed (by the insurance company) as shown in the policy, as long as the (premiums are paid). This may be simple, but it accomplishes two purposes: (1) it identifies the premium as the consideration given by the insured and the promises as consideration of the insurance company; and (2) it incorporates all of the subsequent terms of the policy by referring to them specifically.

*In return for payment of the premium and subject to all the terms of this policy, we agree with you as follows:*

## DEFINITIONS

Policies contain a “Definition” section, which defines the terms used in the policy, with particular emphasis on how they apply to what is required of the insurer and the insured.

Many, if not most, insurers use the “first person” tense in writing the policy, whereby the insured(s) is/are referred to as “you”, and “your.” Conversely, the insurer is referred to as “we”, “us”, and “our”, etc. Contrary to rumor, “Ya’ll” or “us’n” are not used in the policies.

Some companies will always put certain important terms in quotations marks (“named insured”, “named vehicle”, etc.) Other companies may use a **boldface** print for the same purpose.

It is imperative that the object (private passenger automobile) be defined so that there is no question as to what is insured. In most policies, a private passenger car is an auto (“car” and “auto” and “automobile” may be used interchangeably in this text) which is owned by the insured(s) or leased for a period of at least 6 months under a written lease. “Borrowing” a brother-in-law’s car, even with his permission, and keeping it for a period of time, does not necessarily mean that that car is insured under the insured’s PAP policy (except by Endorsement). Also, this paragraph establishes the status of a leased car – a minimum lease of 6 months is standard in order for it to be treated as an owned vehicle.

When the term “bodily injury” (a.k.a. BI) is discussed, as it is in many places, it refers to actual harm to the physical body (not mental), sickness, disease or death which occurs as the result of a situation covered by the policy.

A “Business” includes such things as a trade (carpenter, plumber, etc.), profession or occupation, broadening the definition considerably from common usage.

Since the policy, in several places, includes or excludes “Family Members”, they are defined as any person related to the insured by blood, by marriage or by adoption who resides in

your household. This does not include a brother-in-law if he still lives with his mother. A ward or foster child is included in the definition of a member of the family.

Certain coverage's apply while the insured is "occupying" the vehicle. "Occupying" means that the insured is either in the vehicle, is getting into the vehicle, is upon the vehicle (tractor or motorcycle come to mind), or in the process of getting out or off of the vehicle.

Property Damage means actual physical injury to property, the destruction of the property, or the loss of the use of tangible property as a result of situation covered by the policy. "Tangible" property means actual property that one can see or touch.

Frequently policyholders will tow a trailer without even considering whether the trailer is also covered under their automobile policy. For the purposes of insurance, a "trailer" is a vehicle which is designed to be pulled by a private automobile, pickup or van. It can also pertain to a farm wagon or farm implement while being towed by the insured vehicle(s). A "Fifth-Wheel" trailer, i.e. a trailer which rests partially on the bed of a pickup truck. They are so large that they cannot be pulled by a car, but since they are pulled by a pickup, and a pickup is considered as a passenger car in the policy, they will be covered under the PAP.

Most policies use the terms "covered auto", "covered vehicle", etc., so it is necessary to define what is meant by "covered" auto, etc. Policies are rather explicit as to what is covered, but basically a covered auto is the vehicle(s) that is shown in the Declarations. While this is obvious, the question arises frequently as to newly acquired vehicles. The requirements are such that they need further explanation:

Personal Automobile Insurance Policies are designed to cover individually owned private passenger automobiles, pickups or vans, with a Gross Vehicle Weight of less than 10,000 pounds. They are to be used for "personal" usage, and if they are used for delivery or transporting goods and materials, such usage must be incidental to your "business" (see discussion of "business" above), and incidental to installing, maintaining or repairing furnishings or equipment. Of course, because of the nature of the work, farming and ranching usage is allowed. The language of this section makes it clear that only those private passenger vehicles are to be included in a Personal Automobile Policy.

There are frequently a couple of "caveats" regarding replacement vehicles and additional vehicles acquired. If a covered auto is replaced by another auto, the policyholder has 30 days to notify the insurer if additional coverage is required, or if the coverage is to continue on the same basis. If an additional vehicle is acquired, the additional vehicle will have the broadest coverage of any vehicle previously insured.

Not only does the policy cover a "covered" auto, it also covers any auto or trailer owned by the policyholder(s) used as a temporary vehicle while the covered vehicle is not able to be used because it has broken-down or is lost, destroyed, or in the state of repair or servicing.

## **DEFINITIONS**

- A. Throughout this policy, “you” and “your” refer to:
1. The “named insured” shown In the Declarations; and
  2. The spouse if a resident of the same household
- B. “We,” “us” and “our” refer to the Company providing this insurance.
- C. For purposes of this policy, a private passenger type auto shall be deemed to be owned by a person if leased:
1. Under a written agreement to that person; and
  2. For a continuous period of at least 6 months. Other words and phrases are defined. They are in quotation marks when used.
- D. Bodily injury means bodily harm, sickness or disease including death that results.
- E. “Business” includes trade, profession or occupation.
- F. “Family member” means a person related to you by blood, marriage or adoption who is a resident of your household. This includes a ward or foster child.
- G. Occupying means in, upon, getting in, on, out or off.
- H. “Property damage” means physical injury to, destruction of or, loss of use of tangible property.
- I. Trailer means a vehicle designed to be pulled by a:
1. Private passenger auto; or
  2. Pickup or van.
- It also means a farm wagon or farm implement while towed by a vehicle listed above.
- J. “Your covered auto” means:
1. Any vehicle shown In the Declarations.
  2. Any of the following types of vehicles on the date you become the owner:
    - a. a private passenger auto, or
    - b. a pickup or van that:
      - (1) Has a Gross, Vehicle Weight of less than 10,000 lbs.; and
      - (2) Is not used for the delivery or transportation of goods and materials unless such use is:
        - (a) Incidental to your “business” of installing, maintaining or repairing furnishings or equipment; or
        - (b) For farming or ranching.
- This provision (J.2.) applies only if-
- a. you acquire the vehicle during the policy period;
  - b. you ask us to insure it within 30 days after you become the owner; and
  - c. with respect to a pickup or Van, no other Insurance policy provides coverage for that vehicle.
- If the vehicle you acquire replaces one shown In the Declarations, it will have the same coverage as the vehicle it replaced. You must ask us to insure a replacement vehicle within 30 days only if you wish to add or continue Coverage for Damage to Your Auto.
- If the vehicle you acquire is in addition to any shown in the Declarations, it will have the broadest coverage we now provide for any vehicle shown in the Declarations.
3. Any “trailer” you own,

4. Any auto or “trailer” you do not own while used as a temporary substitute for any other vehicle described in this definition which is out of normal use because of its:

- a. breakdown; d. loss; or
- b. repair; e. destruction
- c. servicing;

*This provision (J.4.) does not apply to Coverage for Damage to Your Auto.*

The following chart shows a summary of the applicability of Personal Automobile Policy insurance based upon the type of vehicle and ownership

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**ELIGIBILITY OF PERSONAL AUTOMOBILE POLICY BY TYPES AND USES OF VEHICLES**

PAP – Personal Automobile Policy

BAP – Business Automobile Policy

PAP (E) – Personal Auto Policy modified by Endorsement

Type of Vehicle	Individual & Husband/Wife	2 or 2+ Relatives	Other
<u>Private Passenger Auto</u>	PAP	PAP (E)	BAP
Pickup / Van			
Not used in Business	PAP	BAP	BAP
Used in Business (not farming)	BAP	BAP	BAP
Used in Farm business	PAP	PAP (E)	BAP
<u>Trailer, designed for Private Passenger Use, used with any of above</u>	PAP	PAP (E)	BAP
Miscellaneous Types of Vehicles			
All-Terrain (ATV)			
Campers			
Dune buggies			
Go-carts			
Mopeds			
Motor Bikes			
Motor Homes			
Motorscooters			
Motorcycles			
Snowmobiles			
<u>Similar vehicles</u>	PAP (E)	PAP (E)	BAP
<u>All Vehicles not listed above</u>	BAP	BAP	BAP

**CONSUMER APPLICATION**

Joe Murphy was married and has 2 children. They were all insured under his Personal Auto Policy. Joe and Mary divorced and Mary took one of the covered automobiles with her. Marilyn attends Georgia Tech 9 months a year and comes home during the summer and works. She is still dependent upon Joe. Their son, Joe Jr., entered the Marines and is now stationed in Korea.

Joe would still be covered under his policy, as would his car. Mary would not and her car would not be a "covered automobile." Marilyn would be covered as she is a dependent child and is still a household member. Joe Jr. would not be covered as he is no longer a resident member of the household.

**CONSUMER APPLICATION**

Pearl is struck by a hit-and-run driver, breaking her left leg. She would be covered under a PAP bodily injury provision.

Buster was driving on an isolated road at night and ran into a tree that had fallen across the road. He struck his head on the windshield and died 10 days later of a blood clot on the brain. This is also considered as a bodily injury.

**CONSUMER APPLICATION**

Michael takes his girlfriend to the drive-in movie. Michael puts lawn chairs in the back of his pickup, which he then backs into the parking space. Another auto at the drive-in strikes the pickup, injuring Michael and his girlfriend. For purposes of the PAP, they are both considered as "occupying" the vehicle.

Sarah has just put groceries into her van, and starting to enter the van by the back door when the van is struck by a car going by, breaking several bones of Sarah and putting her into the hospital for an extended period of time. She would be considered as "occupying" the vehicle under the PAP.

However, if Sarah is struck by a car while she is walking from the store to her van, she would not be considered as "occupying" the van.

**CONSUMER APPLICATION**

Alberta Jacobs backs out of her driveway and hits her neighbor's mailbox, breaking the post. As she is talking to her neighbor about it, one of her children hits a baseball over the fence that puts a dent into the hood of her neighbor's car. She files a claim under the property damage provision of her PAP.

Her policy would pay for the damage to the post, but not to the auto.

### **CONSUMER APPLICATION**

Sam and Bertha are retired and decided on the spur of the moment to purchase a 32-foot Motor home and to travel to Arizona for the winter. They had had their automobile covered under a PAP and felt that they had 30 days in which to notify their insurer that they were adding a new vehicle to the policy. On the way to Arizona, Sam backed into another Motor home in a RV park, causing several thousand dollars in damage. Sam's PAP probably would not cover the Motor home as it possibly would weigh more than 10,000 pounds, and it is not designed to be pulled by an auto, pickup or van. However, if Sam would have endorsed the policy for a miscellaneous Type Vehicle coverage, Motor homes are specifically covered. (See Endorsement section)

### **CONSUMER APPLICATION**

Brian Jacobs owns three vans that he uses for deliveries of small packages in his courier service. His vans would not be covered under a PAP.

However, his neighbor Jake is a plumber, and on occasion will take a dishwasher or hot water heater to a job site in his pickup. Other than those few occasions, the pickup is used to take him to and from work and for personal use. His pickup would be covered under a PAP as the business usage of his vehicle is only incidental to his business.



### **STUDY QUESTIONS**

1. The Declaration Page(s) of a Personal Automobile Insurance policy
  - A. always appears at the end of the policy form.
  - B. is part of the application for insurance.
  - C. describes the pertinent specific information on the persons and automobiles covered under the policy, including limits.
  - D. lists (declares) the exclusions under that particular policy.
2. In order to comply with state regulations, many insurers amend their policies to meet the new requirements by
  - A. Amendment.
  - B. Correction.
  - C. Endorsement.
  - D. attaching a letter of Explanation.
3. In a Personal Automobile Policy (PAP), a private passenger car is an auto that is \_\_\_\_\_ or \_\_\_\_\_ by the insured.
  - A. owned, leased
  - B. borrowed, driven
  - C. driven, garaged
  - D. driven, loaned

4. Bodily Injury (BI) means
  - A. disability or mental disorder.
  - B. actual harm to the physical body, sickness, disease or death.
  - C. inability to operate a motor vehicle, regardless of cause.
  - D. damage to the body of the automobile.
  
5. According to definitions in a PAP, which of the following is NOT occupying a vehicle?
  - A. getting into a vehicle
  - B. pushing a vehicle
  - C. exiting a vehicle
  - D. starting a vehicle from the drivers seat.
  
6. According to definitions in a PAP, a “covered auto” must not
  - A. weigh more than 10,000 pounds.
  - B. be a pickup or a van.
  - C. be privately owned.
  - D. have more or less than 4 wheels.
  
7. If a covered automobile on a PAP is garaged because of mechanical difficulties, a rented automobile
  - A. would not be covered under the policy.
  - B. will be covered under the policy.
  - C. would be covered under the policy for only 24 hours.
  - D. could be obtained but only from a list of approved auto rental companies.
  
8. Under the Definitions in the auto policy, which of the following is not a “Family Member.”
  - A. A daughter over the age of 21 living with the insured.
  - B. A sibling of the insured who lives with their own family next door.
  - C. An adopted child living with the insured.
  - D. The single brother of the wife who lives with the insured and his wife.
  
9. Which of the following trailers is not insured under personal auto insurance?
  - A. A horse trailer pulled by a pickup insured under the policy.
  - B. A camping trailer pulled by a station wagon insured under the policy.
  - C. A boat trailer pulled by a SUV insured under the policy.
  - D. A hay baler pulled by a tractor.

10. John lives on a farm. He owns a station wagon used for personal pleasure with occasional trips to an animal auction; a pickup which is used to haul hay and other farm items and which is used to take John and/or children to town and school functions when the station wagon is not available; a John Deere tractor which is used to pull plows and other farming equipment; and a combine that he drives from farm to farm doing contracting combining in the Fall. Which of these vehicles, if any, would be covered under a Personal Auto policy?
- A. The station wagon, the pickup and the tractor.
  - B. The station wagon only.
  - C. The pickup, the station wagon and the combine.
  - D. The station wagon and the pickup only.

### STUDY QUESTION ANSWERS

1C 2C 3A 4B 5B 6A 7B 8B 9D 10D



## V. LIABILITY COVERAGE

Liability Coverage is typically the next section, and is often referred to as “Part A” of a personal automobile policy.

### INSURING AGREEMENT

As the policy contains an “Agreement” clause, it also contains the insuring agreement for the liability coverage. This Agreement states that the insurance company will pay for damages for any bodily injury or property damage, including any interest awarded against any insured(s) prior to any trial for which any insured(s) becomes liable because of an automobile accident. The term “accident” means something that happened at a specific time and at a specific place.

The insurer always reserve the right to settle or defend any claim or damage suit, as they “deem appropriate”, including defense costs incurred by the insurer. Of course they will pay any judgment against the insured(s) up to the limits of the insurer’s liability, but they will not pay for any suit or judgment not covered by the policy. The insurance company’s obligations to defend any suit terminates when it has paid out damages to the limit specified in the contract. Certain salient points to remember in this respect:

If an insured is involved in a multiple car accident, for example, and his policy limits have been met in settling suits with two of the individuals involved, but two other individuals who were also involved, file suit, the liability limits have been met under the policy and the insurer is under no obligation to defend the insured in any of the subsequent suits - provided, of course, that the suits were all related to the same accident.

Defense costs (attorney’s fees, filing fees, witness expenses, etc.) are in addition to the limits of liability, as they are *costs*, and not *damages*.

Prejudgment interest (i.e. the interest on the amount awarded by the court for damages. If an award of \$100,000, for example, is given to an injured person for damages suffered on January 15<sup>th</sup>, and the judgment is not given until January of the following year, the court then assumes a rate of interest that the injured party may have received on the \$100,000 during this period of time. Therefore, in this example, if interest is awarded at \$7,000, the total award (would be \$107,000) is considered as damages and is therefore, part of the liability payment.

The “insured(s)” are defined as the insured or any family member, or any person using the insured (covered) auto. When a person or organization, other than the insured or family member, is involved, the liability is only for the legal responsibility for acts or omissions of the insured or family member. Of course, if the “other” person or organization hires the insured vehicle or trailer, that provision does not apply. A more specific definition of ‘insured’ would be:

1. An “Insured” would be the named insured, a spouse resident in the same household, or any “family member” resident in the same household who owns, maintains or uses any auto or trailer.
2. An “insured” is any person outside the household who uses a vehicle covered under the policy.
3. A person who is not a resident of the household would be an “insured” if they are found legally responsible for the driving of a regular insured (i.e. legally responsible for the operation of a motor vehicle by the named insured), while that regular insured (named insured) is using one of the vehicles listed on the Declarations page of the policy.
4. An “outsider” would be an “insured if”
  - (a) There is an accident, and
  - (b) A named insured is driving the listed vehicle and is responsible for the accident, and
  - (c) The “outsider” is found to be legally responsible for the acts of the named insured, and
  - (d) The outsider does not own nor is he renting the vehicle involved in the accident.

You may notice that the some definitions change from section to section. For instance, the definition of “insured” has one meaning in this Liability section, but it has a different meaning in the Medical Payments section. “You” and “Family Member” remain constant, however.

### **CONSUMER APPLICATION**

James works for the Consolidated Printing Company as a printer. His car is insured as a private passenger vehicle under his PAP. Friday one of their best customers called and needed a rush job on 20,000 flyers for the weekend. James was able to get the flyers printed, but their delivery van was gone for the day and would not return until Monday. One of the Salesmen, Ben, offered to deliver the order, but he had no transportation as he rode in a carpool. James tossed Ben his car keys and they loaded the order in the trunk.

On the way to make the delivery, Ben, who was not used to driving a “stick-shift”, put on the brakes without engaging the clutch, and the momentum carried him through a red-light and into a passenger car, injuring the driver and a passenger.

The injured party was the wife and daughter of an attorney, who, upon hearing that Ben was on a delivery, initiated a lawsuit against both Ben and Consolidated Printing.

Under the provisions of James PAP, both Ben and Consolidated Printing would be covered by his policy.

## *PART A - LIABILITY COVERAGE*

### ***INSURING AGREEMENT***

*A. We will pay damages for “bodily injury” or “property damage”, or which any insured becomes legally responsible because of an auto accident. Damages include prejudgment interest awarded against the “insured”. We will settle or defend, as we consider appropriate, any claim or suit, or asking for these damages. In addition to our limit of liability, we will pay all defense costs we incur. Our duty to settle or defend ends when our limit of liability for this coverage has been exhausted. We have no duty to defend any suit or settle any claim for “bodily injury;” or “property damage” not covered under this policy.*

*B. “Insured” as used in this Part means:*

- 1. You or any “family member” for the ownership, maintenance or use, of any auto or “trailer.”*
- 2. Any person using your “covered auto.”*
- 3. Or “your covered auto,” any person or organization but only with respect to legal responsibility for acts or omissions of a person for whom coverage is afforded under this Part.*
- 4. For any auto or “trailer,” other than “your covered auto,” any other person or organization but only with respect to legal responsibility for acts or omissions or you or any “family member” for whom coverage is afforded under this Part. This provision (B.4.) applies only if the person or organization does not own or hire the auto or “trailer.”*

## **SUPPLEMENTARY PAYMENTS**

Policies also provide coverage for other situations, other than those shown above. Some of those which are frequently offered are:

1. If an accident results in bodily injury or property damage, and the insured must purchase a bail bond that is required of the accident and any related traffic violations, the policy will pay an amount – frequently \$250 – for cost of the bond.
2. If the insurer is defending a suit, and it becomes necessary to obtain an appeal bond(s), the policy will pay for the premiums on the bonds.
3. If interest is due on a judgment defended by the insurance company, the policy will also pay that interest, but only up to the limit of liability of the policy.
4. If an insured is required to attend trial at the request of the insurer, the policy will normally pay an amount – such as \$50 per day – to the insured for loss of his/her earnings.
5. Any other reasonable expenses incurred by the insured(s) at the request of the insurer.

**SUPPLEMENTARY PAYMENTS**

*In addition to our limit of liability, we will pay on behalf of an “Insured”:*

- 1. Up to \$250 for the cost of bail bonds required because of an accident including related traffic law violations, the accident must result in “bodily injury” or “Property Damage” covered under this policy.*
- 2. Premiums on Appeal bonds and bonds to release attachments in any suit we defend.*
- 3. Interest accruing after a judgment is entered in any suit we defend. Our duty to pay interest ends when we offer to pay that part of the judgment which does not exceed our limit of liability for this coverage.*
- 4. Up to \$50 a day for loss of earnings but not other income, because of attendance at hearings or trials at our request.*

**CONSUMER APPLICATION**

Rob Cearsy has a PAP with Automobile Insurance Company, with limits of 25/50/10, the minimum required by state law. Rob ran a red light was struck another car driven by Smith. Smith’s car careened into another car driven by Brown. The result of the accident was that 5 persons were injured, and 3 automobiles were heavily damaged, including Rob’s car. The Bodily Injury Liability and Property Damage Liability payments would be as follows:

<u>Bodily Injury Payments</u>		<u>Property Damage Payments</u>	
John Smith	\$30,000	Smith’s car	\$12,000
Mary Smith	30,000		
Jonathan Smith	5,000		
Wilfred Brown	15,000	Brown’s car	8,000
Pamela Brown	10,000		
<hr/>		<hr/>	
Total	\$90,000		\$20,000

The limits chosen by Rob indicates that AIC will pay \$25,000 per person, and \$50,000 per accident for Bodily Injury. Therefore, \$40,000 of the Bodily Injury payments will have to be paid by Rob personally.

His Property Damage limit is \$10,000 so Rob will have to pay \$10,000 personally.

If John and Mary Smith are the most severely injured, under typical adjusting rules, \$25,000 may be awarded to John Smith, and \$25,000 to Mary Smith, which is the maximum AIC will pay for any one accident. Rob is personally liable for the \$5,000 for each of the Smith’s, and the \$25,000 for the Brown’s.

In respect to Property damage to Smith’s and Brown’s cars, if the adjuster pays for the Smith’s car first, then Rob would have to pay the extra \$2,000 on Smith’s car, and the full \$8,000 on the Brown’s car.

Injuries to Rob and to his automobile are covered under a separate section and are not subject to these limits.

### **CONSUMER APPLICATION**

Charles is a City employee and drives a city owned truck in his job. Charles drove the truck home for lunch one day, and on the way, he hit an ice patch on the road, losing control of the truck, striking a van owned by a local Florist. The driver of the van was injured and hospitalized.

The attorney for the van driver sued the City for damages and also sued Charles personally. Charles referred the matter to his PAP insurance company. The insurer informed Charles that he would not be covered under the PAP as that type of vehicle is not included in the PAP provision.

### **CONSUMER APPLICATION**

Mel Harrison borrows his brother's (John) pickup to bring home some trees from the local nursery. His neighbor, Henry, accompanies him to the nursery. At this point, Mel is responsible for the safe operation of the pickup.

While loading the trees into the pickup, Mel strains his back and is unable to drive home. He asks Henry to drive. Henry, however, has never driven a pickup and coming down a hill, he loses control of the pickup and skids into a van containing 2 adults and 3 children. They are all seriously injured, including Mel and Henry.

Henry, Mel and John all report the accident to their respective insurance companies.

John's policy, as owner of the truck, will cover him as owner of the vehicle.

Mel was responsible for the truck, even though he was not driving at the time of the accident. However, Mel was responsible for Henry driving the truck.

Henry is primarily responsible as he was the driver.

All three are sued for their part in the accident with the following results:

Based upon the wording of the PAP, John is not an "insured" under Henry's PAP because he owns the truck. Mel is not excluded as an "insured" because he doesn't own the truck and he did not "hire" it from his brother, but was merely borrowing the truck with John's permission. Under the terms of the PAP, Mel would be an "insured" as he is considered as "any other person" who is using the vehicle for which he is responsible for its safe operation. Even though he was not driving at the time, he should have been aware that Henry had never driven a pickup before, particularly a loaded pickup, and he should have made sure that Henry was driving carefully. Because he did not, he has "legal liability for acts or omissions of (the permitted driver) for which coverage is afforded under this policy." (Typical wording for this provision) Since Henry is covered for liability as a named insured under his own policy, Mel becomes a temporary "insured" for this one accident only under John's policy.

### **CONSUMER APPLICATION**

Ron Hooper, an insured of AIC, is involved in an accident in which there is no clear indication as to who is responsible. Before the dispute can be settled, the other party sues Ron. AIC defends Ron in the trial, but Ron loses the case. AIC decides to appeal the case, but because of the appeal, Ron must post an appeal bond. AIC cannot issue the bond, but they will pay the premium for the appeal bond. Further, if any of Ron's property was attached (withheld) as evidence in the trial, AIC will pay the premium for any bond which may be required to release that property so that Ron can use it.

(Continued on next page)

(Continued from previous page) Ron is found as the negligent party in the appeal and the judge awards monetary damages to the other party, including interest that accrued during the appeal process. AIC will pay the interest awarded.

If AIC agrees to settle the claim but Ron wants to continue the appeal process, AIC will not be responsible for any additional interest awarded.

## EXCLUSIONS

“Exclusions” are often considered as the most frustrating portion of any policy for a policyholder or for an agent after a claim has been denied. As one policyholder put it:

“I was driving along, minding my own business, and had a wreck. I wasn’t worried as I had been paying premiums to my insurance company for many years and had yet to get anything back from them. But when I asked them to pay for damages to my car and to the car of the guy I hit – they pulled out enough “exclusions” to keep a country lawyer busy for a month.” Stories such as this are heard by everyone and any agent who represents his company and his clients on a professional basis, must know the exclusions well enough to explain them to his policyholders, not only at time of accident, but also at time of sale.

Typical Liability Exclusions would read as follows

*A. We will not provide Liability Coverage for any person:*

- 1. Who intentionally causes “bodily injury” or “property damage?”*
- 2. For “property damage” to property owned or being transported by that person.*
- 3. For “property damage” to property:*
  - a. rented to;*
  - b. used by; or*
  - c. in the care of that person*

*This exclusion (A.3.) does not apply to “property damage” to a residence or private garage.*

- 4. For “bodily injury” to an employee of that person during the course of employment.*

*This exclusion (A.4) does not apply to “bodily injury” to a domestic employee unless workers’ compensation benefits are required or available for that domestic employee.*
- 5. For that person’s liability arising out of the ownership or operation of a vehicle while it is being used as a public or livery conveyance. This exclusion (A.5.) does not apply to a share-the-expense car pools.*
- 6. While employed or otherwise engaged in the “business” of:*
  - a. selling;*
  - b. repairing;*
  - c. servicing;*
  - d. storing; or*
  - e. parking*

*Vehicles designed for use mainly on public highways. This includes road testing and delivery. This exclusion (A.6.) does not apply to the ownership, maintenance or use of "your covered auto" by:*

- a. you;*
- b. any "family member; or*
- c. Any partner, agent or employee of you or any "family member."*
- 7. Maintaining or using any vehicle while that person is employed or otherwise engaged in any "business" (other than farming or ranching) not described in Exclusion A.6. This exclusion (A.7.) does not apply to the maintenance or use of a:*
  - a. private passenger auto;*
  - b. pickup or van that you own; or*
  - c. "Trailer" used with a vehicle described in a. or b. above.*
- 8. Using a vehicle without a reasonable belief that that person is entitled to do so.*
- 9. For "bodily injury" or "property damage" for which that person:*
  - a. is an insured under a nuclear energy liability policy; or*
  - b. Would be an insured under a nuclear energy liability policy, but for its termination upon exhaustion of its limit of liability.*

*A nuclear energy liability policy is a policy issued by any of the following or their successors:*

- a. American Nuclear Insurers;*
  - b. Mutual Atomic Energy Liability Underwriters; or*
  - c. Nuclear Insurance Association of Canada.*
- B. We do not provide Liability Coverage for the ownership, maintenance or use of:*
- 1. Any motorized vehicle having fewer than four wheels.*
  - 2. Any vehicle, other than "your covered auto" which is:*
    - a. owned by you; or*
    - b. Furnished or available for your regular use.*
  - 3. Any vehicle, other than "your covered auto," which is:*
    - a. owned by any "family member;" or*
    - b. Furnished or available for the regular use of a "family member."*

*However, this exclusion (B.3.) does not apply to you while you are maintaining r "occupying" any vehicle which is:*

- a. owned by a "family member;" or*
- b. Furnished or available for the regular use of a "family member."*

At this point, the "Exclusions" pertain only to the Liability Coverage. Each type of coverage has its own exclusions peculiar to that section.

Actually, exclusions are normally a product of common sense. The Insuring Agreement section tells what is insured, so anything other than that shown is not insured. But since many people have their own interpretation of almost any word or phrase, this section is needed.

Exclusions simply identify types of losses that are not covered by the policy and accomplish four broad purposes:

- To clarify the intent of coverage.
- To remove coverage's for losses which should be covered by other forms of insurance.
- To remove coverage for losses which result from above-average risk factors which are not anticipated in average rates and premiums are usually available at an extra charge.
- To remove coverage for catastrophic losses which are generally not insurance.

Obviously, the insurance company will not provide liability coverage for anyone who intentionally causes bodily injury or property damage. There was a movie about a man who had remodeled a pickup into a heavily armored vehicle, and then deliberately ran down those who ran traffic lights or otherwise broke traffic laws, and punished them with his truck. Even though he never technically broke a law, this policy would not cover such behavior. Further, the policy will not pay for property damage to property owned by or being transported by the person who intentionally causes bodily injury or property damage, including property rented to or used by that person, except for property damage to a residence or private garage if the insured is liable for damage.

#### **CONSUMER APPLICATION**

Pamela has an "Irish Temper" according to her boyfriend, Bob. Pamela and Bob got into a heated argument as to who is to be invited to their wedding and Pamela rushed out of the house and jumped into her car. However, Bob's car was parked so that his car partially blocked the driveway. Pamela deliberately ran her car into Bob's front fender, causing more than \$3,000 of damage to the car. Pamela had liability of \$100,000 on her policy.

Her policy would not pay for these damages as they were intentional.

The policy will not provide liability coverage for any bodily injury to an employee of the policyholder during the course of employment. This does not apply to domestic employees unless they are required by law to have or be eligible for Workers Compensation. Obviously, a PAP is not intended to be a substitute for Workers Compensation.

Obviously, since this is a "Personal" automobile insurance policy, it does not cover any liability arising out of the ownership or operation of the auto while it is being used as a public or livery conveyance – in other words, as a limousine for hire, taxi, drayage service, etc. Further, liability coverage is not available while the insured(s) are engaged in selling, repairing, servicing, storing or parking vehicles, except for the "covered" auto usage by the insured(s) or family members or partner, agent, or employee of the insured or family member. This section differentiates between using the vehicle as a vehicle for hire, and that of car-pooling. A taxi is used for making money and a car pool is designed to save money by sharing expenses.

## **CONSUMER APPLICATION**

Walter started a carpool with 3 of his neighbors as they all worked within a 3 block radius of each other in the city. It started with Walter driving every 4<sup>th</sup> day.

One of the riders, Billie, had an older model car, which kept breaking down. All the other car-poolers liked Billie and felt sorry for her, so they decided that she could ride without driving on her day, if she would pay for the gas every fourth day.

Another rider, Hank, changed jobs, and his new job did not have enough parking for his car, so when he drove, he had to park 4 blocks away. During the winter months, he much preferred to ride with one of the other people and leave his car at home. He agreed to pay for the gas on the days that he normally would have driven.

The last rider, Charles, worked with investments and it was important for him to get the early Wall Street Journal and read it before he got to the office. Now that he found himself driving every other day, he felt that the time lost reading on the morning commute was too expensive for him to continue.

The participants all enjoyed riding with Walter, as he had a large newer car and was an excellent driver. They all met with Walter and made an agreement with him that they would each pay him for the gas used. Walter did not like this, as there was considerable wear and tear on his car, and he had to have it serviced frequently, so the cost of gas did not cover his expenses. The riders felt that if they each paid \$3 a day (\$15 a week, approx. \$45 a month), the \$135 a month should cover Walter's expenses. He agreed to this, and they all paid him regularly on the first of each month.

Walter's wife casually asked one evening if his insurance would cover any accident that he may have while he was "car-pooling" his neighbors. Walter called his insurance agent the next morning who informed him that the car-pooling provision would be in question when he started making money for transporting his neighbors. If the money paid to him just covered his expenses, then he would not have to make any changes in his policy. However, if he was making a profit by driving them to work, then he should either (1) charge less so that the money would only cover expenses, or (2) purchase a Business Auto Policy.

The policy will have a liability exclusion that removes coverage for property rented to, used by, or in the care of the person liable for damages. This applies to most types of property, including another automobile borrowed or rented by an insured. (Note: coverage for a rented auto or one that is borrowed may be provided under Part D – the physical damage section)

There will appear exclusions for bodily injury or property damage for any person who is covered under a nuclear energy liability policy.

Liability Coverage is not provided for any motorized vehicle that has less than four wheels (motorcyclists have to get their own insurance or be on endorsement on a PAP).

Liability Coverage is also not provided for any vehicle that is owned by the insured or a family member, other than those previously defined as a "covered auto", even if the auto is owned by the insured or is furnished or available for regular use. This could pertain to automobiles furnished to an insured by his employer which can be used for personal use.

It should be noticed that any vehicles that is owned by the insured but is not listed on the policy, will not be covered. The insured cannot pay for insurance on one vehicle, and expect that all of his vehicles will be covered. For other vehicles furnished – or available for the usage by the insured on a regular basis – there is no coverage. If, for example, an employee has access to his employer’s fleet of cars, the exclusion would stand even if he regularly used the same car. Coverage can be provided by attaching an Extended Non-owned Vehicle Coverage Endorsement.

As a general rule, many, if not most, of the exclusions can be eliminated by proper Endorsement.

### **EXCLUSIONS**

*A. We do not provide Liability Coverage for any person:*

- 1. Who intentionally uses “bodily injury” or property damage?*
- 2. For “property damage” to property owned or being transported by that person.*
- 3. For “property damage” to property.*
  - a. rented to;*
  - b. used by; or*
  - c. in the care of that person*

*This exclusion (A.3.) does not apply to “property damage” to a residence or private garage.*

- 4. for “bodily injury” to an employee of that person during the course of employment. This exclusion (A.4.) does not apply to “bodily injury” to a domestic employee unless workers compensation benefits are required or available for that domestic employee.*
- 5. for that person's liability arising out of the ownership or operation of a vehicle while it is being used as a public or livery conveyance. This exclusion (A.5.), does not apply to a share the expense car pool.*
- 6. While employed or otherwise engaged in the “business” of*
  - a. selling;*
  - b. repairing;*
  - c. servicing; vehicles designed for use mainly on public highways. This includes road testing and delivery. This exclusion (A.6.) does not apply to the ownership, maintenance or use of your covered auto by:*
    - a. you;*
    - b. any "family member;" or*
    - c. any partner, agent or employee of you or*
  - d. storing; or*
  - e. parking;*

*of your covered auto by:*

- 7. any “family member” maintaining or using any vehicle while that person is employed or otherwise engaged in any “business” (other than farming or ranching) not described in Exclusion A.6. This exclusion (A.7.) does \*not apply to the maintenance or use of a:*
  - a. private passenger auto;*
  - b. pickup or van that you own; or*
  - c. used with a vehicle described in a or b above*

Note: The policy excludes coverage for people in the automotive business as, for instance, a Garage Liability Policy is needed for that purpose.

### **CONSUMER APPLICATION**

Walter's son, Walter Junior, works for the Sunoco Service Station during the summer months. He has his own car and is covered under his father's policy.

The owner of the station knows Walter and his son very well, and on occasion he will trust Junior to deposit the week's receipts in his bank, located a mile from the station. One Friday, Junior was taking the money to the bank when a dog ran in front of his car. He swerved to miss the dog, and temporarily lost control of the car, causing it to run into the side of a Corvette parked near the curb. When Junior reported this to his father, his father read the insurance policy before he called the agent, and was quite disturbed when he discovered in the "exclusions", that since his son was engaged in the "business" of servicing vehicles, he was not covered.

However, his insurance agent assured him that coverage would still exist as it stated that this exclusion did not apply to the use of "your covered vehicle" (Junior's car was listed on the policy) if the use was by a family member.

8. *Using a vehicle without a reasonable belief that that person is entitled to do so.*
9. *For "bodily injury" or "property damage" for which that person:*
  - a. *is an Insured under a nuclear energy liability policy; or*
  - b. *would be an insured under a nuclear energy liability policy but for its termination upon its exhaustion of its limit of liability.*

*A nuclear energy liability policy is a policy issued by any of the following or their successors:*

- a. *American Nuclear Insurers;*
  - b. *Mutual Atomic Energy Liability Underwriters*
  - c. *Nuclear Insurance Association of Canada.*
- B. *We do not provide Liability Coverage for the ownership, maintenance or use of:*
1. *Any motorized vehicle having fewer than four wheels.*
  2. *Any vehicle, other than "your covered auto,"*  
*This is:*
    - a. *owned by you; or*
    - b. *furnished or available for your regular use*
  3. *Any vehicle, other than your covered auto,*  
*This is:*
    - a. *owned by any family member or*
    - b. *furnished or available for the regular use of any "family member"*

*However, this exclusion (B.3.) does not apply to you while you are maintaining or occupying any vehicle which is:*

- a. *owned by a "family member," or*
- b. *furnished or available for the regular use of a "family member"*

### **CONSUMER APPLICATION**

Wayne Jensen does not get along well with his neighbors, mostly because his son and the neighbor's son seemed to always be fighting. The neighbor's son made fun of Wayne's son because of the way that Wayne's son played basketball. When Wayne was backing out of his driveway, he deliberately swerved and ran over the neighbor's son's bicycle.

The neighbor's son jumped on his brother's bicycle and swore at Wayne, who started chasing the child (with his car). The child fell off his bicycle and broke his wrist.

Wayne is arrested for assault with a deadly weapon (his car), and bail is set at \$1,000.

1. Wayne is responsible for the bicycle that he ran over, however his insurance policy will not pay for it as it was a deliberate act of the insured (not an accident).

2. Wayne is responsible for medical costs for the child who broke his wrist. (He would also be responsible for damages if the second bicycle is damaged). Again, his insurance company will not pay for these damages for the same reasons as stated above.

3. Even though the Supplementary Payments section will pay "up to \$250 for the cost of a bail bond...(because of) an accident resulting in bodily injury or property damaged *covered under the policy*," Note the italicized wording – the bodily injury and property damage was not "covered" under the policy, as stated in 1 and 2 above.

### **LIMITS OF LIABILITY**

The policy will explain the Limits of Liability in detail as required or desired, which is simply stated as "the Insurer will not pay more than the maximum amount of liability as shown in the Declarations." This is the maximum that the insurer will pay regardless of how many insured there are, how many claims are made, the number of vehicles or premiums, or the number of vehicles involved in the accident. Further, there are separate limits required by law for bodily injury and property damage, but these amounts combined will not exceed the total limit of liability

- A. *The limit of liability shown in the Declarations for this coverage is our maximum limit of liability for all damages resulting from any one auto accident. This is the most that we will pay regardless of the number of:-*
1. *"Insured's;"*
  2. *Claims made;*
  3. *Vehicles or premiums shown In the Declaration*
- Or*
4. *Vehicles Involved In the auto accident.*
- B. *We will apply the limit of liability to provide any separate limits required by law for bodily injury and property damage liability. However, this provision (B.) will not change our total limit of liability.*

## OUT OF STATE COVERAGE

Since state laws differ, if an auto accident occurs in a state other than the state in which the insured vehicles are garaged, and if the state in which the accident occurred has laws requiring a higher amount for bodily injury or property damage liability, the policy will provide the higher amount. If the state in which an auto accident occurs has laws which require a nonresident to maintain insurance, the policy will provide at least the minimum amounts and types of coverage. However, no one is entitled to duplication of coverage.

### **CONSUMER APPLICATION**

Betty resides in Mississippi and has single limits of \$25,000, satisfying the financial requirements of her home state. She went to visit her sister in Alabama and had an accident. Alabama has 20/40/10, so her liability coverage is automatically expanded to \$40,000 per accident.

### ***OUT OF STATE COVERAGE***

*If an auto accident to which this policy applies occurs in any state or province other than the one in which “your covered auto” is principally garaged, we will interpret your policy for that accident as follows:*

*A. If the state or province has:*

- 1. A financial responsibility or similar law specifying limits of liability for bodily injury or “property damage” higher than the limit shown In the Declarations, your policy will provide the higher specified limit.*
- 2. A compulsory insurance or similar law requiring a nonresident to maintain insurance whenever the nonresident uses a vehicle in that state or province, your policy will provide at least the required minimum amounts and types of coverage.*

*B. No one will be entitled to duplicate payments for the same elements of loss.*

## FINANCIAL RESPONSIBILITY

Some states have financial responsibility laws, so policies will contain a statement stating that this policy will meet the requirements of such law.

### ***FINANCIAL RESPONSIBILITY***

*When this policy is certified as future proof of financial responsibility, this policy shall comply with the law to the extent required.*

## OTHER INSURANCE

The insurer will pay only their share of the loss if there is other liability insurance applicable. The insurer will pay the proportion that the total liability limit bears to the total of all applicable limits. If the vehicle involved is not owned by the insured(s) this policy will be excess over any other “collectible” insurance.

### **OTHER INSURANCE**

*If there is other applicable liability Insurance we will pay only our share of the loss. Our share is the proportion that our limit of liability bears to the total of all applicable limits. However, any insurance we provide for a vehicle you do not own shall be excess over any other collectible Insurance.*

#### **CONSUMER APPLICATION**

Marilyn Dodge owns three vehicles, each insured on individual policies and with different companies. Her brother is an insurance agent and wrote the policies in different companies so that he could keep his license current with all of the insurers. Marilyn had an accident with her '98 Camero, insured with AIC, and was determined to be negligent and responsible for damages as a result of the accident. Marilyn's policy has liability limits of 100/300/50. If another policy covers such contingencies, AIC will pay up to \$100,000 per person, and the other company will pay up to \$100,000 per person, so she has up to \$200,000 total per person limit. If the injuries total \$20,000 in medical bills, each company will pay \$10,000 since each is providing half of the applicable limit.

#### **CONSUMER APPLICATION**

Marilyn borrows her boyfriend's (Bobby) Explorer while her Camero was being repaired. Marilyn has another accident and there were medical bills involved. Bobby's insurance would provide the primary coverage (as Bobby is the owner of the vehicle). However, Marilyn would be covered under the policy also as she was using the Explorer with Bobby's permission. If the medical bills do not exceed the liability limits of Bobby's policy, Marilyn's policy would not be involved.

If the medical bills are greater than the limits of Bobby's policy, then Marilyn's policy would be involved, but only over and above the limits of the other policy. If Bobby's insurance has limits of 50/100/10, and the victim's medical bills totaled \$55,000, Bobby's policy would pay the first \$50,000 and Marilyn's policy would pay the remainder.

#### **CONSUMER APPLICATION**

Sue Palmer is driving to the grocery store with her two children, Mark and David. At a stop light, her attention was drawn by an unruly child, with the results that she drove her car into a Corvette, pushing it into a Toyota pickup.

The driver of the Corvette, Nancy, sprains her back and neck, and suffers head cuts from hitting the windshield. Her medical bills were \$15,000. Nancy's sister, Marie, is a passenger and hurts her back also. Her doctor bills and therapy total, \$8,000. The Corvette is damaged to the amount of \$18,000.

The Toyota pickup is driven by Don, who also hits his head on the windshield and suffers cuts and a concussion, hospitalized overnight for observation, with medical bills of \$2,800. The truck is damaged to \$2,600.

Sue Palmer sprains her wrist and cuts her legs on the steering column. Emergency Rooms costs are \$1,700. Her children are not severely injured, but are checked into the Emergency

Room for a combined cost of \$1,000. Repairs to Sue's auto are \$2,400. (Continued on next page)

(Continued from previous page) Sue carries minimum coverage as required by the financial responsibility laws of her state: 10/20/10.

Expenses would be determined as follows:

	<u>Medical Bills</u>	<u>Property Damage</u>
Nancy	15,000	18,000
Marie	8,000	
Don	2,800	2,600
Sue	1,700	2,400
<u>Mark &amp; David</u>	<u>1,000</u>	
Total	\$28,500	\$23,000

The total of all medical bills is \$28,500. However, since liability coverage is under discussion at this time, expenses and property damage to Sue and her children are not of concern.

The total for all 3 vehicles is \$23,000, but Sue's auto will not be covered under liability coverage. Without Sue's expenses, the above Medical Bills would be \$25,800, and Property Damage is \$20,600.

Sue's liability limits are 10/20/10. The maximum payable under her policy is \$10,000 per person and \$20,000 per accident for bodily injury. The maximum it will pay for Nancy's injuries would be \$10,000, leaving Sue to pay \$5,000.

Marie and Don's medical bills total \$10,800. The maximum that Sue's policy will pay per accident is \$20,000. Since it will pay \$10,000 for Nancy, \$10,000 is left for Marie and Don, leaving \$800 to be paid by Sue.

Sue's insurance company pays total \$20,000, and Sue must pay \$5,800.

The Property Damage limit per accident is \$10,000. If don't truck is repaired first, the insurer will pay the \$2,600 and will give Nancy \$7,400. Sue must pay Nancy \$8,000 and also pay Ron \$2,600 for repairs on his pickup.

## STUDY QUESTIONS

1. Under the Liability provisions of a PAP, an "insured" does NOT include
  - A. a family member residing in the insured's house.
  - B. a neighbor who borrows the car without permission.
  - C. an adopted child who is a licensed driver and still lives at home.
  - D. a wife who has just learned to drive.
2. Under a PAP, if an insured is required to attend trial at the request of the insurer,
  - A. the policy will pay the average daily income of the insured.
  - B. the policy will pay a stipulated amount.
  - C. the policy will not pay for any loss of earnings.
  - D. the court will establish a "per diem", and the insurer will pay 50%.

3. Bill has a PAP covering his new car. While waiting in line for a traffic accident to clear, another driver get impatient and drives on the curb and then suddenly darts in front of Bill. Bill loses his temper, and then rams the car in the back as hard as he can, causing damage to his new car and the other car.
  - A. Bill's insurance will pay for damages only to his car.
  - B. Bill's insurance will not provide liability coverage.
  - C. Bill's insurance will pay only if the other party is injured.
  - D. No insurance is liable as they are both at fault.
  
4. The limits of liability of a PAP establishes a maximum amount that the policy will pay
  - A. for each accident.
  - B. for each insured.
  - C. regardless of how many accidents or insured's there are, or how many claims are made.
  - D. annually.
  
5. John is driving a company car. His employer carries only the minimum coverage required by the state. John carries a PAP with very high limits. If John is involved in an accident and a judgment is rendered which is higher than the limits on the company policy
  - A. the Company's policy will pay the higher amount.
  - B. John's PAP will pay the proportion that the total liability limit bears to the total of all applicable limits.
  - C. John's PAP will pay in excess after the Company's limits have been exhausted.
  - D. John's PAP will not pay anything under the "Duplication of Benefits" provision.
  
6. Bill lives in Mississippi which has a financial responsibility law requiring 10/20/5. He moves to Colorado which has 25/50/15 and immediately has an accident. What will be the limits of his policy at that time.
  - A. 10/20/5
  - B. 25/50/15
  - C. No limits until a new policy has been issued.
  - D. He will automatically be issued a new policy with limits of 25/50/15, and the present claim would be an average between the old limits and the new limits.
  
7. Which of the following occupations is not excluded under a PAP?
  - A. selling of automobiles.
  - B. repairing of automobiles.
  - C. storing of automobiles.
  - D. farming.
  
8. Which of the following vehicles is not covered for Liability under a PAP?
  - A. A pickup used on a farm.
  - B. A Minivan used as a family car.
  - C. A full-sized van configured with passenger seats.
  - D. A motorcycle used to go to and from work.

9. Bruce is a member of a car pool. The members of the car pool have changes so now he must drive twice as far to pick up other carpool members. In order to compensate Bruce for this, they all agree to let Bruce drive every day except Monday and Friday, and to pay Bruce \$5 per passenger each day. Bruce has a PAP on his Minivan. If Bruce has an accident and he is considered liable for damages,
- A. the insurer will probably not pay, as Bruce will be considered as running a "Taxi."
  - B. the insurer will pay, no complications.
  - C. the insurer will cancel his insurance ab initio (void it from the date it was issued).
  - D. every member of the car pool that has insurance, will also be liable and their individual policies will pay a portion of the damages.
10. Jim runs a print shop and has a company van. Recently, while the van was making a delivery, a "Rush" job was finished, but Jim was too busy to take it to the customer, so he told Sam, a printer at his shop, to take his (Jim's) personal car and make the delivery. Sam runs a red light and hits another car. What would the insurer's position be on a liability claim?
- A. The insurance company would not cover this liability.
  - B. Sam's PAP would cover the liability in this situation.
  - C. Jim's PAP will cover the liability damages.
  - D. Jim's insurance company would pay only half of the claim, Sam's insure the rest.

#### **STUDY QUESTION ANSWERS**

1B 2B 3B 4C 5C 6B 7D 8D 9A 10A



## VI. MEDICAL PAYMENTS COVERAGE

### INSURING AGREEMENT

(This section is often called “Part B – Medical Payments Coverage) The Insuring Agreement under this section parallels the preceding sections, except this section makes arrangements to pay reasonable expenses insured for necessary medical and funeral services because of bodily injury caused by an accident and sustained by an insured. Medical Payment coverage is single peril (automobile accident) health insurance coverage for the covered person.

This section covers the insured or any other person while “occupying” the covered automobile. It covers expenses incurred within 3 years of the date of the accident, and also includes an insured or family member who was a pedestrian struck by a motor vehicle, and covers any other person while occupying the insured vehicle.

Note the three year rule. Many medical expenses resulting from automobile related injuries may be incurred over a long period of time. As an often-quoted example, a child that suffers injury to teeth as the result of an auto accident may have to wait more than one year for the permanent teeth to be grown to the state to where Orthodontia services are necessary. The 3-year is generous as most medical treatments can be completed within that period of time.

#### *INSURING AGREEMENT*

*A. We will pay reasonable expenses incurred for necessary medical and funeral services because of “bodily injury:”*

- 1. Caused by accident; and*
- 2. Sustained by an insured.*

*We will pay only those expenses Incurred within 3 years from the date of the accident.*

*B. “Insured” as used in this Part means:*

- 1. You or any “family member” (a) while occupying; or (b) as a pedestrian when struck by a motor vehicle designed for use mainly on public roads or a trailer of any type.*
- 2. Any other person while, occupying “your covered auto.”*

This definition of “motor vehicle” used in this section can be a large truck or even a bus, however, large machinery, such as mobile cranes, which are not designed to be primarily used on public roads, are excluded.

Also note the inclusion of a “pedestrian” is used only when the named insured or family members are struck by a motor vehicle (only if the covered person is a “pedestrian.”)

### EXCLUSIONS

The exclusions are those included in other sections, such as while occupying a vehicle with less than 4 wheels or used as a residence, used during the course of employment, struck by

owned-but-not-insured-under-this-policy auto, or being used as a business vehicle or livery vehicles, etc.

### *Exclusions*

*We do not provide Medical Payments Coverage for any person for "bodily injury:"*

- 1. Sustained while occupying any motorized vehicle having fewer than four wheels.*
- 2. Sustained while "occupying" your covered auto when it is being used as a public or livery conveyance. This exclusion (2.) does not apply to a share the expense car pool.*
- 3. Sustained while "occupying" any vehicle located for use as a residence or premises.*
- 4. Occurring during the course of employment if workers' compensation benefits are required or available for the "bodily Injury."*
- 5. Sustained while "occupying" or when struck by any vehicle (other than your covered auto) which is:
  - a. owned by you; or*
  - b. furnished or available for your regular use**
- 6. Sustained while "occupying," or when struck by any vehicle (other than your covered auto) which is:
  - a. owned by any "family member" or*
  - b. furnished or available for the regular use of any family member*However, this exclusion (B.) does not apply to you.*
- 7. Sustained while occupying a vehicle without a reasonable belief that that person is entitled to do so.*
- 8. Sustained while "occupying" a vehicle when it is being used in the business of an insured. This exclusion (8.) does not apply to "bodily injury" sustained while "occupying" a:
  - a. private passenger auto;*
  - b. pickup or van that you own; or*
  - c. "trailer" used with a vehicle described in a or b above**
- 9. Caused by or as a consequence of
  - a. discharge of a nuclear weapon (even if accidental);*
  - b. war (declared or undeclared);*
  - c. civil war;*
  - d. insurrection; or*
  - e. rebellion or revolution**
- 10. from or as a consequence of the following, whether controlled or uncontrolled or however caused:
  - a. nuclear reaction;*
  - b. radiation; or*
  - c. radioactive contamination**

### **LIMITS OF LIABILITY**

Payments under the Medical Payments Section of the policy will be coordinated with the benefits payable under the Liability (Part A) or Uninsured Motorists (Part C) of the same policy. Payments under this Medical Payments section will be reduced by any payments will be paid under

Parts A or C. Interestingly, the claimant must promise in writing that any amounts paid under this Part B (Medical Payments) will be credited if any future payment is made under parts A and C.

The specter of “stacking” is prevalent in discussing Medical Payment benefits. “Stacking” is defined as an attempt to collect multiples of the policy limits based on the existence of multiple autos covered, claims made, vehicles involved, etc. Any insurance company is willing to pay full benefits but not multiples of a Medical Payment limit. Note, however, in some states, Uninsured Motorists limits may be stacked by Endorsement (see discussion later in text).

*LIMIT OF LIABILITY*

*A., The limit of liability shown in the Declarations for this coverage is our maximum limit of liability for each person injured in any one Accident. This is the most we will pay regardless of the number of*

- 1. “Insured’s”;*
- 2. Claims made;*
- 3. Vehicles or premiums shown in the Declaration*

*Or*

- 4. Vehicles involved in the accident.*

*B. Any amounts otherwise payable for expenses under this coverage shall be reduced by any amounts paid or payable for the same expenses under Part A or Part C.*

*C. No payment will be made unless the injured person or that person's legal representative agrees in writing that any payment shall be applied toward any settlement or judgment that person receives under Part A or Part C.*



## MEDICAL PAYMENTS COVERAGE

This information indicates who is entitled, and who is not entitled, to receive Medical Payments benefits under a named insured's Personal Automobile Policy. The following assumes that the insured named on the PAP does not own or have furnished to him on a regular basis, any vehicle which is not a "covered auto" as defined in the PAP.

How Injury Occurred	Person Injured		
	Named Person	Relative	Other
1. While occupying named Insured's auto	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
2. As a pedestrian by the named insured's covered automobile.	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
3. While occupying or as a pedestrian by an auto that is <u>not</u> owned by or regularly furnished to a relative.	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
4. While occupying or as a pedestrian by an auto that is owned by or regularly furnished to a relative.	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
5. While occupying a vehicle that has less than 4 wheels.	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
6. Struck by a vehicle with less than 4 wheels, while a pedestrian.	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	

## NON-STACKED OPTION COVERAGE

While it is a fundamental rule in Automobile insurance that “stacking” is not allowed, in some states an Option is offered in conjunction with Uninsured Motorists Coverage. In fact, it can be an automatic coverage which can be removed from the policy by the action of the insured, in which case there is a lower premium given for the reduction in coverage.

As stated in this Coverage “Option”, Uninsured Motorists Coverage provides protection for bodily injury sustained by an insured in an accident caused by an uninsured driver, which includes:

- Drivers with no liability insurance.
- Hit-and-Run drivers.
- Drivers insured by insurance companies that deny coverage.
- Drivers insured by insurance companies that are unable to meet their obligations within 4 years from the date of the accident.
- Drivers other than the insured or a relative residing in the household, excluded from liability coverage under the policy, whose operation of an insured vehicle caused bodily injury to the insured or a relative residing in the household.
- Drivers whose liability limits are less than the amount of the insured’s damages.

The coverage may be selected in an amount equal to the policy limits for Bodily Injury Liability Limits or they may select Uninsured Motorists limits lower than the Bodily Injury Limits, or the coverage may be rejected.

The Option allows the purchase, at a reduced rate, a non-stacked (limited) type of Uninsured Motorists Coverage. Under that form, the Coverage limits will not be added together to pay for damages sustained by the insured in an accident. Therefore, if the policyholder is injured in a vehicle insured under this policy, the Coverage provides the insured with protection only to the extent of the coverage limits shown on the Declarations page for that vehicle. If the insured is injured in someone else’s vehicle, or struck as a pedestrian, the insured may select the highest limits for the coverage on any one vehicle insured under the policy.

If the insured does not elect to purchase the non-stacked coverage, the Coverage limits for each vehicle insured under the policy are added together (stacked) to pay for damages sustained by the insured in an accident. Thus, the coverage limits available to the insured would automatically change during the policy period if the insured increases or decreases the number of autos insured under the policy.

Please note that this is a “reverse” presentation, i.e. the policy provides the Stacking Option unless there is an action to cancel the option by purchasing a “Non-stacking” option.

Additional wording in regards to the Stacking provision is added in the policy which states that regardless of whether the insured chose stacked or non-stacked limits, if bodily injury is sustained in a motor vehicle accident by any person other than the insured or a resident relative, the insurers maximum limit of liability for all damages arising out of bodily injury to any person other than the

insured or the resident relative, is the limit of liability shown on the declarations page applicable to the vehicle the person was occupying at the time of the motor vehicle accident. This is the most the insurance company will pay regardless of the number of claims made, vehicles or persons stated on the declarations page or vehicles involved in the accident.

Damages payable will be reduced by all amounts paid by the owner or operator of the uninsured auto, or anyone else responsible, including all money paid under the BI coverage of this or any other policy. They will also be reduced by all amounts payable under any worker's compensation law, disability benefits law, or similar law, and Auto Medical Payments, or any similar automobile medical payments coverage, or no-fault benefits provided under this or any other auto policy.

If there is other insurance when limits of two or more insured autos may be stacked:

1. If the injured person was in, on, getting into or out of a vehicle which is insured for this coverage under another policy, this coverage will be excess. If more than one policy applies to the accident on a primary basis, the insurer will bear their proportionate share of the damages payable.
2. When limits of two or more insured autos may not be stacked: If the injured person was in, on getting into or out of a vehicle they did not own insured under that particular coverage under another policy, that coverage will be excess. This means that when the injured person is legally entitled to recover damages in excess of the other policy limit, the insurer will pay up to the policy limit, except for damages consisting of pain, suffering, mental anguish, or inconvenience unless contrary to state law or regulation. If more than one policy applies to the accident on a primary basis, the total benefits payable to any one person will not exceed the maximum benefits payable by the policy with the highest limit for uninsured motorist's benefits. The insurer will bear their proportionate share, regardless of how many autos or auto policies may be involved whether written by this insurer or another company.

#### *LIMIT OF LIABILITY*

- A. *The limit of liability shown in the Declarations for this coverage is our maximum limit of liability for each person injured in any one Accident. This is the most we will pay regardless of the number of*
  1. *“Insured’s”;*
  2. *Claims made;*
  3. *Vehicles or premiums shown in the Declaration*

*Or*

  4. *Vehicles involved in the accident.*
- B. *Any amounts otherwise payable for expenses under this coverage shall be reduced by any amounts paid or payable for the same expenses under Part A or Part C.*
- C. *No payment will be made unless the injured person or that person's legal representative agrees in writing that any payment shall be applied toward any settlement or judgment that person receives under Part A or Part C.*

## OTHER INSURANCE

Medical Payment benefits are excess when the insured is operating a non-owned automobile. If a policy that covers a vehicle not owned by the insured does not provide Medical Benefits or if the Medical Benefits are exhausted, then the insured's policy would be primary.

*If there are other applicable auto medical payments Insurance we will pay only our share of the loss. Our share is the proportion that our limit of liability bears to the total of all applicable limits. However, any insurance we provide with respect to a vehicle you do not own shall be excess over any other collectible auto insurance providing payments for medical, or funeral expenses.*

## UNINSURED MOTORISTS COVERAGE

Uninsured Motorist's Coverage (usually referred to as "Part C."), is a result of Financial Responsibility laws requiring motorists to have liability coverage. Part of these laws requires insurance companies to provide coverage for those who are uninsured. Some states allow the insured's to either accept or reject this coverage, and if nothing else, calls it to the attention of the insured.

## INSURING AGREEMENT

The insurer will pay compensatory damages which an insured is legally entitled to recover from the owner or operator of an uninsured motor vehicle because of bodily injury sustained by an insured and caused by an accident. Again, the policy makes it clear that any judgment for damages arising out of a suit brought without the explicit and written consent, is not binding on the insurance company. The insurance company is concerned with protecting its own interests as well as the interests of the insured and therefore, the insurer wishes to have a voice in any decision by their insured to sue the uninsured motorist. It does not necessarily follow, that if an agreement is made between the insured and an injured party with the approval of the insurance company, the insurance company will definitely decline to participate. It is possible that the arrangement propagated by the insured may be superior to any solution available to the insurer, and in that case, the insurer will acquiesce to the settlement.

### **CONSUMER APPLICATION**

Bernard resides in Georgia and has liability limits of 10/20. Roger resides in a neighboring state where the Financial Responsibility laws dictate that minimum liability limits should be 25/50. If Bernard is responsible for an accident involving Roger, Bernard's care would be considered as uninsured for purposes of the Uninsured Motorists law. Further, the accident happens in another state, other than where Bernard and Roger reside. Based upon these assumptions, it would not matter where the accident occurred, as the laws of the state where Roger's vehicle is garaged apply.

An uninsured motor vehicle may also be a “hit-and-run” vehicle which hits the insured or family member, or any vehicle in which the insured or family member is “occupying”, or the auto covered under the policy.

An uninsured motor vehicle can also be a vehicle on which the insured has a bond or policy, but the bonding or insuring company denies coverage or becomes (or is) insolvent.

Other than autos owned &/or operated by the insured(s) or family members, other vehicles not considered “uninsured” are those owned or operated by a self-insurer (except if the self-insurer is insolvent), any government-owned vehicle, vehicles operated on rails or crawler treads, designed mainly for use of public roads (while not on public roads), or such a vehicle that is used as a residence.

A. *We will pay compensatory damages which an Insured is legally entitled to recover from the owner or operator of an uninsured motor vehicle because of “bodily injury”*

1. *Sustained by an “insured” and*
2. *Caused by an accident.*

*The owner's or operator's liability for these damages must arise out of the ownership, maintenance or use of the “uninsured motor vehicle.”*

*Any judgment for damages arising out of a suit brought without our written consent is not binding on us.*

B. *“Insured” as used in this Part means,*

1. *You or any “family member.”*
2. *Any other person “occupying” your covered auto.*
3. *Any person for damages that person is entitled to recover because of “bodily injury” to which this coverage applies sustained by a person described in 1 or 2 above.*

C. *“Uninsured motor vehicle” means a land motor vehicle or trailer of any type:*

1. *To which no bodily injury liability bond or policy applies at the time of the accident.*
2. *To which a bodily injury liability bond or policy applies at the time of the accident. In this case its limit for bodily injury liability must be less than the minimum limit for bodily injury liability specified by the financial responsibility law of the state in which your covered auto is principally garaged.*
3. *Which is a hit and run vehicle whose operator or owner cannot be identified and which hits*
  - a. *you or any “family member;”*
  - b. *a vehicle which you or any “family member “are “occupying;” or*
  - c. *“Your covered auto”*
4. *To which a bodily injury liability bond or policy applies at the time of the accident but the bonding or insuring company;*
  - a. *denies coverage; or*
  - b. *is or becomes insolvent.*

*However, “uninsured motor vehicle” does not include any vehicle or equipment:*

1. *Owned by or furnished or available for the regular use of you or any “family member.”*
2. *Owned or operated by a self insurer under any applicable motor vehicle law, except a self insurer which is or becomes insolvent.*
3. *Owned by any governmental unit or agency.*

4. *Operated on rails or crawler treads.*
5. *Designed mainly for use of public roads while not on public roads.*
6. *While located for use as a residence or premises.*

### **CONSUMER APPLICATION**

Morris caused a traffic accident that injured his best friend Bernie. Morris agreed to take care of Bernie's medical expenses and fix his car, but Bernie said the he had a brother-in-law that was a Doctor who would take care of him for practically nothing, and he wasn't worried about the car as it was an old car. Morris notified his insurer, who at first indicated they would not cover any of the expenses as the arrangements were made without their approval. However, upon examining the details of the agreement and satisfying themselves that Bernie agreed to the terms, they were more than happy to agree with the arrangement.

### **EXCLUSIONS**

As with the Liability section, this section also has "exclusions." If any person sustains bodily injury while occupying or struck by any vehicle owned by the insured or a family member, but which is not insured under the policy for uninsured motorists coverage, including a trailer of any type used with that vehicle. Also, if any uninsured motorists claim is not approved by the insurance company, the insurer will not be liable for the claim. If the insured(s) is occupying one of the vehicles listed on the Declarations page, and if it is being used as a public or livery conveyance, it will not be covered under this provisions – except if it is being used in a car pool where expenses are shared. Also, if a vehicle (trailer) is located for use as a resident or premises, it is not covered.

There also is a provision that states that the uninsured motorist's coverage will not apply to the benefit of any insurer (or self-insurer) under Workers Compensation laws or Disability benefits laws.

Uninsured motorist's coverage is not provided for any punitive or exemplary damages.

Exclusion B addresses a problem unique to Uninsured Motorists coverage inasmuch as some States do permit a Workers' Compensation or Disability Income insurer to sue a negligent uninsured motorist to recover any benefits that has been paid to their injured insured. The purpose of this exclusion is to prevent the insurers from subrogating and claiming any benefit under Uninsured Motorists coverage as an offset against what they paid in compensation benefits.

*We do not provide Uninsured Motorists Coverage for "bodily injury" sustained by any person:*

1. *While "occupying," or when struck by, any motor vehicle owned by you or any "family member" which is not insured for this coverage under this policy. This includes a trailer of any type used with that vehicle.*
2. *If that person or the legal representative settles the bodily injury claim without our consent.*

3. *While occupying “your covered auto” when it is being used as a public or livery conveyance. This exclusion (A.3.) does not apply to a share the expense car pool.*
  4. *Using a vehicle without a reasonable belief that that person is entitled to do so.*
- B. *This coverage shall not apply directly or indirectly to benefit any insurer or self insurer under any of the following or similar law:*
1. *Workers' compensation law; or*
  2. *Disability benefits law.*
- We do not provide Uninsured Motorists Coverage for punitive or exemplary damages.*

### **CONSUMER APPLICATION**

Barry lives in a trailer in a mobile home park. Therefore, the trailer would not be covered under the Uninsured Motorists provision. Barry has a pickup that is not insured. He decides to move his trailer from one mobile home Park, to another closer to his work. While pulling the trailer, the trailer drifts off the roadway and strikes Henry as he is getting into his car parked on the side of the road. Therefore, the trailer would then be treated as an “uninsured vehicle” under the Uninsured Motorists provisions.

### **LIMITS OF LIABILITY**

As under the Liability section of the policy, the same limits of liability will apply, regardless of number of insured’s, claims made, etc. Also, any damage amount shall be reduced by any money paid on behalf of persons or organizations that may not be legally liable. Also any amounts paid under the Liability portion of the policy will reduce the payments under this section.

To reiterate, the purpose of the Uninsured Motorists provision is that the insured has elected to protect him, family member, and others riding in their vehicles, from losses due to bodily injury suffered in an auto accident involving an uninsured motorist. Further, it must be proven that the other driver was responsible for the accident and they do not have insurance on their vehicle. Since liability is involved, the limits of the Uninsured Motorists coverage chosen by the insured will be in a format which matches their liability limits. In some states, the insured will have to choose Uninsured Motorist limits equal to their liability limits. In other states, they may choose Uninsured Motorist limits in amounts less than or equal to their liability limits. For example, in an “equal to” state, if the insured has 100/300 liability limits, they must also have 100/300 Uninsured Motorist limits. In a state where one can have Uninsured Motorist limits less than or equal to their liability limits, the insured may choose Uninsured Motorist coverage of 25/50, 50/100, or 100/300 if those coverage options are offered by their company.

The Uninsured Motorist limit is expressed as per/person – per/accident amount; the first number indicating the maximum amount the company will pay per person. This is applied to each separate accident individually. Therefore, if the same person were involved in more than one Uninsured Motorist claim for different accidents, the limit would be renewed for each one. The same applies for per/accident amount.

Regardless of the number of people filing claims, or how many claims they actually file for any one accident, the amount of coverage chosen by the insured will be the maximum the company will pay for that particular loss.

Uninsured Motorist limits cannot be added together (or “stacked”) regardless of how many vehicles are shown in the Declarations or how many vehicles are involved in the accident. Therefore 100/300 does not become 300/900 when there are three vehicles on the policy. (See previous discussion of Stacking Option offered in some states)

#### *LIMIT OF LIABILITY*

- A., The limit of liability shown in the Declarations for this coverage is our maximum limit of liability for each person injured in any one Accident. This is the most we will pay regardless of the number of*
- 1. “Insured’s;”*
  - 2. Claims made;*
  - 3. Vehicles or premiums shown in the Declaration*
- Or*
- 4. Vehicles involved in the accident.*
- B. Any amounts otherwise payable for expenses under this coverage shall be reduced by any amounts paid or payable for the same expenses under Part A or Part C.*
- C. No payment will be made unless the injured person or that person's legal representative agrees in writing that any payment shall be applied toward any settlement or judgment that person receives under Part A or Part C.*

#### **OTHER INSURANCE**

This section duplicates the “Other Insurance” section under the Liability section, except that any insurance provided with respect to a vehicle not owned by the policyholder, shall be excess of any other collectible insurance.

#### **OTHER INSURANCE**

*If there are other applicable auto medical payments Insurance we will pay only our share of the loss. Our share is the proportion that our limit of liability bears to the total of all applicable limits. However, any insurance we provide with respect to a vehicle you do not own shall be excess over any other collectible auto insurance providing payments for medical, or funeral expenses.*

#### **CONSUMER APPLICATION**

Cynthia is the driver of an auto involved in an accident. She has Uninsured Motorist limits of 25/50. Al is her passenger and has 100/300 Uninsured Motorist limits on his policy. Cynthia’s Uninsured Motorist coverage will pay for his injuries and can also pay for Al’s injuries since he was a passenger in Cynthia’s car. Based on the “Other Insurance” clause, Cynthia’s portion would be:  $25 / (25+100) + 25 / (125) = 1/5$  of Al’s bills.

Al's portion would be:  $100 / (25+100) = 100 / (125) = 4/5$  of his bills. (Continued next page)

Therefore, if Al's injuries totaled \$20,000, Cynthia's insurance would pay \$4,000 and Al's would pay \$16,000.

HOWEVER, because the statement of Other Insurance usually ends with "shall be excess of any other collectible insurance, (or words to that effect), if Al's policy is going to be used, it will be excess to the coverage of Cynthia's policy. If Cynthia has a PAP, then the Other Insurance clause does apply and her policy will only pay \$4,000 for Al's injuries. Al's policy would pay the balance of \$16,000 (as indicated above).

### ARBITRATION

This section has provisions for arbitration, which is very common and typical of such contracts. Basically, if the insurance company and the insured(s) do not agree as to whether the person is legally entitled to receive damages, or as to the amount of damages, then either party can make a (written) demand for arbitration. Each party will then select an "arbitrator", and the two of them select the third arbitrator. If they cannot agree within a specified period (usually 30 days) as to whom the third arbitrator will be, either of the appointed arbitrators can request a judge to appoint the third. Each party pays the expenses it incurs and shares equally the expenses of the third arbitrator.

The decisions of the arbitrators are binding unless the amount exceeds the minimum limit required under the financial responsibility laws of the state. In that case, within 60 days, either party can demand the right to a trial.

Usually, the arbitration hearings are held somewhere in the home county of the insured, whose laws pertaining to arbitration apply.

### ARBITRATION

A. *If we and an "insured" do not agree:*

- 1. Whether that person is legally entitled to recover damages under this. Part; or*
- 2. as to the amount of damages;*

*Either party may make a written demand for arbitration. In this event, each party will select an arbitrator. The two arbitrators will select a third.*

*If they cannot agree within 30 days, either may request that selection be made by a judge of a court having jurisdiction.*

B. *Each party will:*

- 1. Pay the expenses it incurs; and*
- 2. Bear the expenses of the third arbitrator equally.*

C. *Unless both parties agree otherwise, arbitration will take place in the county in which the insured lives. Local rules of law as to procedure and evidence will apply. A decision agreed to by two of the arbitrators will be binding as to:*

- 1. Whether the "Insured" is legally entitled to recover damages, and*
- 2. The amount of damages. This applies only if the amount. Does exceed the minimum limit for Bodily Injury liability specified by the financial responsibility law of the*

*state in which your covered auto is principally garaged. If the amount exceeds that limit, either party may demand the right to a trial. This demand must be made within 60 days of the arbitrators' decision. If this demand is not made, the amount of damages agreed to by the arbitrators will be binding.*

### **CONSUMER APPLICATION**

Ron Hobson recently sold his car, so he borrows his Brother Tom's pickup to transport firewood that he had purchased locally. On the way home, he runs a stop sign and hits a car driven by Ernie Johnson, who is hospitalized with his resultant injuries.

Ernie has a PAP with AIC, with Uninsured Motorists Coverage limits of 100/300. Tom does not have any insurance on his pickup as he had planned to give it to charity soon, but he has insurance on 2 other cars that he owns.

The AIC adjuster decides that although Tom has auto insurance, AIC cannot file a claim against that company because they do not insure the truck. Therefore, Ernie's medical bills will be paid for out of his uninsured motorist coverage, up to \$100,000. Therefore, AIC will make payment for their client's injuries, even though someone else was negligent, caused the accident, and should have been responsible for the doctor's bills.

### **CONSUMER APPLICATION**

Martha Cunningham is involved in an accident and blames the other person, who is uninsured. Because she is furious, she hires her family attorney to sue the other driver. The court determines that Martha is right, and awards her \$25,000 for her medical bills.

Martha then contacts her insurance company and asks for the money from her uninsured motorist's coverage. Her company refused to pay her because the policy stated that the company must agree in writing to any lawsuit.

Had Martha gone to her company first, they would probably have come to the same conclusion as the court, and would have paid her medical bills under the uninsured motorist's coverage.

### **CONSUMER APPLICATION**

Arnie and his wife, Ellen, took their family to the beach in their minivan. In the van with them were their three children Arnie II, Lois and Melissa, Ellen's mother Helen, and 3 friends of the children: Ricky, Michelle and Nicole. As they exited to the highway near the beach, their van was struck in the rear by an uninsured teenager driving a pickup. The van was pushed into a station wagon containing the driver and 2 passengers. There were no serious injuries, but all persons involved had at minor injuries. The insurance situation was:

Pickup	no liability insurance
Minivan	100/300 BI and 10/20 Uninsured Motorist
Station Wagon	100/300 and 10/20 Uninsured Motorist

The cost of each person's injuries:

Pickup Driver	3,000
Arnie	1,500

Ellen	2,500
Arnie II	2,500 (Continued on next page)
Lois	1,500
Melissa	3,000
Helen	3,000
Ricky	2,500
Michelle	3,000
Nicole	1,500
Station Wagon driver	2,000
Station Wagon passenger #1	1,500
Station Wagon passenger #2	2,500

The driver of the pickup was responsible for the accident; however, since he does not have insurance, he will have to pay for his own medical bills. (If he had a PAP, his Medical Payments coverage would have paid for his injuries).

Arnie's Uninsured Motorists coverage will be used to pay for the injuries of the people in his van. Although he only has 10/20 limits, the medical bills for each person fall below the per person limit (\$10,000) it is sufficient to cover these medical expenses.

The total of all of the expenses of those of whom Arnie is responsible total \$21,000, \$1,000 over per/accident maximum. If these expenses are paid in order (as presented above) only \$500 of Nicole's expenses can be paid under Arnie's Uninsured Motorist coverage.

If Nicole's parents have a PAP, their Uninsured Motorist coverage would be excess over Arnie's and could pay for the balance of Nicole's expenses. Otherwise, they will have to pay for it or try to get the money from the pickup driver. They might sue Arnie, however since he was not responsible for the accident, they may not succeed.

The driver of the Station Wagon has Uninsured Motorist coverage and the medical bills for everyone in that car are below the limits of liability, both on per/person and per/accident basis. Therefore, that policy should pay for all of the medical expenses for the passengers and driver of the Station Wagon.

### **UNDERINSURED MOTORISTS COVERAGE**

While Uninsured Motorists coverage will pay only if an Uninsured motorist is liable for damages, the uninsured motorist is defined as one who either has no insurance, or has an amount less than the state's minimum financial responsibility limits – or also can be a hit-and-run driver.

The Personal Automobile Policy can be endorsed (in most states) to provide Underinsured Motorists coverage, which pays up to the difference between the Part A (Liability) limits on the covered vehicle, and the Liability limits on the vehicle who was at-fault, even if the vehicle who was at fault in the accident, had limits in excess of the minimum requirements of the financial responsibility law.

### **CONSUMER APPLICATION**

Smith negligently crashes his auto into Jones's pickup, injuring Jones. Both Smith and Jones have policy limits in excess of the State's minimum financial responsibility limits. Smith's liability limit is \$50,000, while Jones has Underinsured Motorists coverage with a limit of \$300,000. The court awards Jones \$150,000. Smith's liability insurer pays its limit of \$50,000. However, Jones's Underinsured Motorists Coverage would pay the remaining \$100,000, since Smith's limit was less than Jones's limit. (Jones's policy would have paid up to \$250,000 if the judgment had been more than \$300,000 or more).

Uninsured Motorists Coverage would not pay anything, as Smith did not qualify as an uninsured motorist.



### **STUDY QUESTIONS**

1. Under a PAP, the Medical Payments Coverage covers
  - A. only the insured or a member of his family.
  - B. only passengers in his automobile.
  - C. the insured or any other person occupying the covered automobile.
  - D. only injuries requiring surgery.
2. Morrie purchased a 3-wheel All Terrain Vehicle (ATV) for use on his farm. The day he bought it, he took his girlfriend for a ride. The ATV hit a large rock, throwing them both off the vehicle, breaking Morrie's arm, and his girlfriend's leg. Morrie made a claim under his PAP for medical expenses incurred as a result of the accident.
  - A. His PAP would normally pay for such an accident.
  - B. His PAP would not pay as the vehicle had less than 4 wheels.
  - C. His PAP would not pay for his girlfriend's expenses, but only for his.
  - D. His PAP would pay only if they both had individual or group health insurance.
3. Under an Uninsured Motorists Coverage, the insurer will pay \_\_\_\_\_ damages which an insured is legally entitled to recover from the owner or operator of an uninsured motor vehicle because of bodily injury sustained by an insured and caused by an accident.
  - A. compensatory
  - B. actual
  - C. punitive
  - D. no

5. Paul's auto was hit by a red Audi while Paul was legally crossing an intersection on a green light. Paul did not have a chance to get the license number and the owner of the Audi was never discovered. Paul had Uninsured Motorists coverage on his PAP.
  - A. Since the Audi may have had insurance, the Uninsured Motorists coverage would not apply.
  - B. Paul's PAP would cover compensatory damages.
  - C. The PAP usually excludes any hit-and-run damages as there is no way to determine contributory negligence.
  - D. Paul's PAP would only cover what his personal health insurance did not cover.
  
6. In a covered accident, Ken's wife suffered some back strain. Two years later, her back pain continually worsened, and it was discovered that she had a ruptured disc. What would the Medical Payments Coverage under his PAP cover?
  - A. All claims must be made within a 90 day period.
  - B. They will not make any more payments as it pertained to a family member.
  - C. Claims for Medical Payment are made at one time by law, therefore there are no subsequent claim payments made,
  - D. It would pay the usual Medical Payments for the treatment or surgery of her back pain as the claim was made within a 3 year period.
  
7. Brent is a member of a cost-sharing car pool. While driving to work, Brent had an accident and Mary, one of his car-pool members was injured.
  - A. Brent's PAP excludes injuries sustained when the car is being used as a public conveyance so they will not pay for any of Mary's medical bills.
  - B. Each car pool member that has a PAP, will share equally in Mary's Medical Bills.
  - C. Brent's PAP would pay only the excess over what Mary's private health insurance paid.
  - D. Brent's PAP would cover all of Mary's medical bills as provided under the policy.
  
8. It is possible for an individual to be covered for Medical Payments under the Liability and the Uninsured Motorists section of the PAP also. What happens if claims are made under one or both of these sections for a loss covered under Medical Payments?
  - A. The insurance company will only pay claims under one provision, A, B, or C, and will pay only the lesser amount.
  - B. Payments under Medical Payments will be reduced by any payments made under Section A or C.
  - C. Only the Medical Payments will be made.
  - D. Section A is the "prominent" Section, so in this case, only liability claims will be paid.
  
9. "Stacking" creates concern when paying claims under a PAP. "Stacking" means
  - A. having more than one automobile policy in force at time of claim.
  - B. providing excess coverage if the insured feels the liability amounts are too small under a policy.
  - C. subtracting any outstanding claims against premiums due.
  - D. an attempt to collect a multiple of policy limits based on existence of multiple autos covered, claims made, vehicles involved, etc.

10. When a claim is not made because the insured or the insurer cannot agree as to if the insured should recover damages or as to the amount of damages, either party may make a written demand for Arbitration. What does this mean?
- A. It must go to court for settlement.
  - B. Each side picks an Arbitrator and the two then pick a third. Both parties share in expenses of the third Arbitrator. Decisions of the Arbitrators as to whether the insured is legally liable to recover damages and the damage amount
  - C. The insurance company appoints an Arbitrator who presents the situation to the State Bar Association who will be the second Arbitrator. The Bar Association will make the final decision.
  - D. The insurer must automatically make a settlement in favor of the insured with the settlement amount at 50% of the claim.

### **ANSWERS TO STUDY QUESTIONS**

1C 2B 3B 4B 5B 6D 7D 8B 9D 10B



## **VII. COVERAGE FOR DAMAGE TO YOUR AUTOMOBILE**

### **INSURING AGREEMENT**

(Referred to as “Part D” in some policies) Coverage for damage to an insured automobile is subject to a deductible; therefore any payments made by the insurance company will be reduced by the amount of the deductible. The purpose of the deductible is to eliminate the number of small claims and thereby keep the premiums affordable. The specific amounts of the deductible available will vary by company. The higher the deductible, the lower the premium

Coverage is provided only under collision which is defined as the upset or impact with another vehicle or object, by the covered automobiles. Coverage may be provided if “Other than Collision Coverage” is provided on the automobile (discussed later). Most policies list losses that are not considered as “collision”, such as

1. Missiles or falling objects
2. Fire
3. Theft or larceny
4. Explosion of earthquake
5. Windstorm
6. Hail, water, flood
7. Malicious mischief or vandalism
8. Riot or civil commotion
9. Contact with bird or animal or
10. Breakage of glass (except if the breakage is caused by a collision).

### **CONSUMER APPLICATION**

Larry has a PAP and with glass breakage included under collision coverage. If the insured chooses either collision or other than “collision” or both, depending upon the options offered by the particular company, he will have to decide which deductibles he wants for each coverage for each vehicle he owns. Few (if any) offer a “no deductible” collision coverage, therefore the insured must choose a collision deductible. However, he has the choice of no deductible for comprehensive coverage, which if he elects, and there is glass breakage in a collision loss, he may choose to have the glass replaced under the “other than collision” coverage (no deductible applied). If he has a comprehensive coverage deductible (which will reduce the premium) he can choose to have the glass breakage as part of the collision loss so that only one deductible is applied to the entire loss.

Larry has a collision, with a loss of \$3,000 and a \$200 deductible, glass breakage is \$200 with a \$200 comprehensive coverage deductible. If Larry chooses to keep the 2 losses separate, the company will deduct \$200 from the collision amount, and pay \$2,800. The company will deduct \$200 from the comprehensive amount and pay nothing for the glass. Larry receives \$2,800. However, if the insured combines the glass breakage with the collision loss, the total damages will be \$3,200 under collision. The company will then deduct \$200 from that total and will pay Larry \$3,000. The comprehensive deductible doesn't come into play.

### **CONSUMER APPLICATION**

LeRoy bought a Mustang with expensive Bose stereo equipment installed by the previous owner. This provision differentiates between “total” theft, and “partial” theft. If his Mustang is stolen and never recovered, it is a “total” theft. If the stereo equipment is stolen from the car, then there is a “partial” theft. If the car is recovered but the stereo is gone, the payments are still considered theft payments because damage wouldn't occur if the car had not been stolen.

If there is a loss to an automobile that is considered “Non-owned”, the broadest coverage applicable to any covered auto is provided, as shown in the Declarations. Non-owned means any private passenger car, pickup, van or trailer, not owned or furnished to the insured or a family member, but while in the custody of or being operated by the insured or a family member, or an automobile or trailer that is not owned by the insured(s) but is being used as a temporary substitute while a covered automobile is being repaired or serviced, etc. Note that previous discussions involved a vehicle the insured did not own and therefore the policy did not provide coverage. This section covers situations where the insured will be covered if the vehicle that is damaged is owned by someone else.

The insuring agreement is necessarily broad, as the insurer agrees to pay for direct and accidental loss to “your covered auto” and any “non-owned auto.” Also, collision is defined here because the insured has the option of insuring against loss by (1) collision, (2) perils other than collision, or (3) both, or (4) neither. It may be noted that the term “collision” also includes upset. As an example, a motorist who lost control of his vehicle and ended up in a ditch has had an “upset” collision, even though he never “collided” with anything other than the ditch itself.

### **CONSUMER APPLICATION**

John Murphy has a PAP that covers three cars. Vehicle #1 does not have Part D Coverage. Vehicle #2 only has "Other Than Collision." Vehicle #3 has "Collision" and "Other Than Collision."

John borrows his neighbor's pickup to deliver a piano to his home that he had recently purchased at an estate sale. On the way home, he accidentally "side-swipes" a van parked on the side of the road. Damage was minimal to the truck. Therefore, his Vehicle #3 coverage would provide the broadest coverage.

A. We will pay for direct and accidental loss to "your covered auto" or any "non-owned auto," including their equipment, minus any applicable deductible shown in the Declarations. We will pay for loss to your covered auto caused by:

1. Other than "collision" only if the Definitions indicate that Other Than Collision Coverage is provided for that auto,
2. "Collision" only if the Declarations indicate that Collision Coverage is provided for that auto.

If there is a loss to a "non-owned auto," we will provide the broadest coverage applicable to your "covered auto" shown in the Declarations.

B. "Collision" means the upset of "your covered auto" or, a "non-owned auto" or their impact with another vehicle or object.

Loss caused by the following is considered other than "collision:"

1. Missiles or falling objects;
2. Fire;
3. Theft or Larceny;
3. Explosion or earthquake;
4. Windstorm;
5. Hail, water or flood;
6. Malicious mischief or vandalism;
7. Riot or Civil Commotion;
8. Contact with bird or other animal;
9. Breakage of glass.

If breakage of glass is caused by a "collision," you may elect to have it considered a loss caused by "collision".

C. "Non-owned auto" means:

1. Any private passenger auto, pickup, van or trailer not owned by or furnished or available for the regular use of you or any "family member" while in the custody of or being operated by you or any "family member;" or
2. Any auto or "trailer" you do not own while used as a temporary substitute for "your covered auto" which is out of normal use because of its:
  - a. breakdown;
  - b. repair;
  - c. servicing;
  - d. loss; or
  - e. destruction

## TRANSPORTATION EXPENSES

In case the automobile insured is stolen, transportation expenses will be paid (if the Other Than Collision coverage is elected), and the policy will also pay for "loss of use" expenses under these conditions. However, the insurance company will pay only for a stipulated period (such as 48 hours) after the theft and until the stolen automobile is recovered or the insured is paid for the loss.

Note that Transportation Expenses only apply to a total theft of the vehicle as discussed in the policy. It does not apply when the covered automobile is being repaired or otherwise not useable. If coverage is desired to cover these other situations, it can be purchased as Extended Transportation Expenses Endorsement, for an extra premium (See Endorsements section).

### **TRANSPORTATION EXPENSES**

*In addition we will pay, without application of a deductible, up to \$15 per day, to a maximum of \$450, for*

- 1. Transportation expenses incurred by you in the event of the total theft of "your covered auto." This applies only if the Declarations indicate that Other Than Collision Coverage is provided for that auto.*
- 2. Loss of use expenses for which you become legally responsible in the event of the total theft of a non-owned auto. This applies only if the Declarations indicate that Other Than Collision Coverage is provided for any "your covered auto."*

*We will pay only expenses incurred during the period:*

  - 1. Beginning 48 hours after the theft; and*
  - 2. Ending when "your covered auto" or the "non-owned auto" is returned to use or we pay for its loss.*

## EXCLUSIONS

This section of the policy contains many of the type of exclusions that confuse and irritate policyholders if not explained properly. The following list contains the majority of exclusions under the typical personal auto policy:

1. Any insured auto used for business or as a public or livery conveyance.
2. Damage due to wear & tear, freezing, mechanical/electrical breakdown or failure.
3. Road damage to tires.  
(The above exclusions do not apply if the auto is stolen)

### Losses due to or as a consequence of

1. Radioactive contamination
2. Nuclear weapon discharge
3. War, declared or undeclared
4. Civil war
5. Insurrection
6. Rebellion or revolution.

Losses due to

1. Electronic equipment designed for reproduction of sound, such as radios, stereos, tape decks or CD players.
2. Other electronic equipment that receives or transmits audio, visual or data signals, such as CB radios, telephones, 2-way mobile radios, scanning monitor receivers, television monitors, video or audio cassette records or personal computers.

Confiscation by governmental or civil authorities because of illegal activities of the insured or family member or because of failure to comply with EPA or Department of Transportation standards will not be covered under this section.

Coverage will not be provided for loss to any non-owned automobile used by the insured or any family member without a reasonable belief that the insured or the family member is entitled to do so. *Note: This is an exclusion that is present in other Parts of the policy. This exclusion means that if the insured or a member of his family (family member) borrows another person's automobile without that person's knowledge or approval, then this policy will not cover any claims arising from the usage of that auto. However, if there was a reasonable expectation that they were using the car legally, then the policy coverage would apply.*

Losses to awnings or cabanas, or vehicles designed to create additional living facilities, or equipment used to detect radar (fuzz-busters), loss to any custom furnishings or equipment on a pickup or van (such as special carpeting, furniture facilities for cooking or sleeping, murals or graphics, or extending roofs) are not covered under this section.

Also not covered is any loss to non-owned autos used while employed in selling, repairing, servicing, storing or parking vehicles; or to any loss to a non-owned auto being used for any business.

*Note: These exclusions show that the PAP is not intended to cover the normal wear and tear of vehicles or parts of vehicles. However, even though such things as worn-out mufflers, worn tires, torn seat fabric, faded paint, etc., will not be covered, in those cases when the car has to be repaired because of a covered accident, certain things will be replaced or repaired. Example would be a faded hood which would be replaced if damaged in an accident. The hood would be painted the original color. If the covered auto is stolen and the thieves severely damage the tires, the tires will be replaced.*

Also, only permanently installed equipment in the auto is covered under the policy. If a Walkman radio is stolen from the seat of the car, it is not covered under the PAP. Items such as cell phones, CB radios, television and VCR's cannot be insured; however coverage can be purchased as an Endorsement for an additional premium (See Endorsements Section).

The confiscation provision of the policy is called into play because of the ongoing "war on drugs" and subsequent legislation. If an insured uses his covered Motor home (or van or auto) for the transport of drugs, the government can, and will, confiscate the vehicle and this would be not covered under a PAP.

Many policies have statements such as “This exclusion does not apply to the interest of Loss Payees in “your covered auto.” This applies to the “government confiscation.” This protects a lien holder if the insured purchased the car with an auto loan.

### ***EXCLUSIONS***

*We will not pay for*

1. *Loss to “your covered auto” or any non-owned auto which occurs while it is being used as a public or livery conveyance. This exclusion (1.) does not apply to a share the expense car pool.*
2. *Damage due and confined to:*
  - a. *wear and tear;*
  - b. *freezing;*
  - c. *mechanical or electrical breakdown or failure; or*
  - d. *road damage to tires*

*This exclusion (2.) does not apply if the damage results from the total theft of “your covered auto” or any “non-owned auto.”*
3. *Loss due to or as a consequence of*
  - a. *radioactive contamination;*
  - b. *discharge of any nuclear weapon (even if accidental);*
  - c. *war (declared or undeclared);*
  - d. *civil war;*
  - e. *insurrection; or*
  - f. *rebellion or revolution*
4. *Loss to:*
  - a. *any electronic equipment designed for the reproduction of sound, including, but not limited to:*
    - (1) *Radios and stereos;*
    - (2) *Tape decks; or*
    - (3) *Compact disc players;*
  - b. *any other electronic equipment that receives or transmits audio visual or data signals, including, but not limited to:*
    - (1) *Citizens band radios;*
    - (2) *Telephones;*
    - (3) *Two way mobile radios;*
    - (4) *Scanning monitor receivers;*
    - (5) *Television monitor receiver;*
    - (8) *Video cassette recorders;*
    - (7) *Audio cassette recorders; or*
    - (8) *Personal computers;*
  - c. *tapes, records, discs, or other media used with equipment described in a or b, or*
  - d. *any other accessories used with equipment described in a. or b.*

*This exclusion (4.) does not apply to:*

- a. *equipment designed solely for the reproduction of sound and accessories used with such equipment, provided such equipment is permanently installed in your covered auto or any non-owned auto; or*
  - b. *Any other electronic equipment that is:*
    - (1) *Necessary for the normal operation of the auto or the monitoring of the auto's operating systems; or*
    - (2) *an integral part of the same unit housing any sound reproducing equipment described in (a) and permanently installed in the opening of the dash or console of "your covered auto" or any non-owned auto normally used by the manufacturer for installation of a radio.*
- 5. *Loss to your covered auto or any non-owned auto due to destruction or confiscation by governmental or civil authorities because you or any family member.*
  - a. *engaged in Illegal activities; or*
  - b. *failed to comply with Environmental Protection Agency or Department of Transportation standards.*

*This exclusion (5.) does not apply to the Interests of Loss Payees in "your covered auto."*
- 6. *Loss to a camper body or trailer you own which is not shown in the Declarations. This exclusion does not apply to a camper body or trailer you:*
  - a. *acquire during the policy period; and*
  - b. *asks us to insure within 30 days after you become the owner.*
- 7. *Loss to any non-auto when used by you or any family member without a reasonable belief that you or that family member is entitled to do so.*
- 8. *Loss to:*
  - a. *awnings or cabanas; or*
  - b. *equipment designed to create additional living facilities.*
- 9. *Loss to equipment designed or used for the detection or location of radar.*
- 10. *Loss to any custom furnishings or equipment in or upon any pickup or van. Custom furnishings or equipment include but are not limited to:*
  - a. *special carpeting and insulation, furniture or bars;*
  - b. *facilities for cooking and sleeping;*
  - c. *height extending roofs; or*
  - d. *custom murals, paintings or other decals or graphics*
- 11. *Loss to any non-owned auto being maintained or used by any person while employed or otherwise engaged in the business of:*
  - a. *selling;*                      d. *storing; or*
  - b. *repairing;*                  e. *parking;*
  - c. *servicing;*

*Vehicles designed for use on public highways. This includes road testing and delivery.*
- 12. *Los to any non-owned auto being maintained or used by any person while employed or otherwise engaged in any business not described in exclusion 11. This exclusion (12.) does not apply to the maintenance or use by you or any family member of a non-owned auto which is a private passenger auto or "trailer."*

### **CONSUMER APPLICATION**

Bert's PAP states as exclusion under Part D, "Loss to any "non-owned auto" when used by you or any "family member" without a reasonable belief that you or that "family member" are entitled to do so."

Bert buys a new pickup on Monday, and then leaves on Tuesday on a business trip. His brother, Steve, visits Bert's wife on Tuesday, to "check out the new truck." Bert's wife tells Steve that his brother is out of town, but she gives him the truck keys so that he can take it for a drive. Steve decided that he would use the truck to haul several railroad ties he was going to use for landscaping. While loading the ties, one fell and smashed the side of the pickup bed and badly scratched the back of the cab.

Steve filed a claim for damage to the truck under his PAP, but was not covered because of the provision stated above. (Bert could have the damage paid for under his own comprehensive coverage).

### **LIMIT OF LIABILITY**

The limit of liability under this section will be the lesser of

- (a) The Actual Cash Value of the stolen or damaged property - or
- (b) The amount necessary to repair or replace the property.

However, there may be a maximum amount for a trailer as a non-owned vehicle, such as \$500.

In determining the Actual Cash Value under this section, an adjustment for depreciation and physical condition will be made in determining actual cash value at the time of loss. This provision – as short and succinct as it appears, frequently causes settlement problems during settlement. Invariably, a person will attach a higher value to an automobile than the offer that is made by the insurance company. If, for instance, the automobile was recently overhauled, painted, with a new interior and new tires, etc., insurance companies may offer more for actual cash value if this is pointed out to them and given proof the condition exists. If an older vehicle in superb condition is being insured, it may be wise to ask the insured to have the auto appraised, or at least take frequent pictures of the vehicle, showing its condition.

### **LIMIT OF LIABILITY**

*A. Our limit of liability for loss will be the lesser of the:*

- 1. Actual cash value of the stolen or damaged property; or*
- 2. Amount necessary to repair or replace the property.*

*However, the most we will pay for loss to any non-owned auto which is a trailer is \$500.*

*B. An adjustment for depreciation and physical condition will be made in determining actual cash value at the time of loss.*

### **CONSUMER APPLICATION**

Jerry owns a three year old Buick LaSabre and is involved in a single car accident, causing extensive damage to his car. When the adjuster from the insurance company receives the necessary information, it is determined that the cost to replace the vehicle would be \$13,000 with the same equipment as the original car.

The adjuster also discovered that Jerry put considerably more mileage on the car than expected, which reduces the value of the car by \$2,000. Therefore, Jerry's insurer will pay \$11,000 to replace the auto if necessary.

When the adjuster receives the estimates to repair the car, it is discovered that it would cost \$6,000 to restore it to its pre-accident condition. Therefore, the insurer only has to pay for the repair of the car, or \$6,000.

### **PAYMENT OF LOSS**

The insurance company has the right to either pay for any loss in money to the insured, or repair or replace the damaged or stolen property. They also have the right to return the property to the insured and they will pay for any damage resulting from the theft. The insurance company may keep all or part of the property at an agreed or appraised value.

#### ***PAYMENT OF LOSS***

*We may pay for loss in money or repair or replace the damaged or stolen property. We may, at our expense, return any stolen property to:*

- 1. You; or*
- 2. The address shown in this policy.*

*If we return stolen property we will pay for any damage resulting from the theft. We may keep all or, part of the property at an agreed or appraised value.*

#### ***NO BENEFIT TO BAILEE***

*This insurance shall not directly or indirectly benefit any carrier or other bail for hire.*

### **OTHER SOURCES OF RECOVERY**

If another insurer also covers the loss, the insurance company will only pay their share of the loss, which is the proportion that their limit of liability bears to the total of all applicable limits. However, if the auto is a non-owned auto, any insurance provided under the policy would be excess of any other coverage provided by the owner of the "non-owned auto", or any other applicable physical damage insurance, or any other source of recovery applicable to the loss.

*If other sources of recovery also cover the loss, we will pay only our share of the loss. Our share is the proportion that our limit of liability bears to the total of all applicable limits. However, any insurance we provide with respect to a non-owned auto shall be excess over any other collectible source of recovery including, but not limited to:*

1. *Any coverage provided by the owner of the non-owned auto;*
2. *Any other applicable physical damage insurance;*
3. *Any other source of recovery applicable to the loss.*

### APPRAISAL

If the insurance company and the insured do not agree on the amount of loss, either party can demand an appraisal of the loss. Similar to arbitration, each party will appoint a competent appraiser, who will select an “umpire.” The appraisers will then state their estimate as to actual cash value and amount of loss, and if they disagree, the umpire will make the final decision.

In order to keep every claim of this type from being contested in an effort to get an inflated cash value appraisal, the policy provides that if such appraiser arbitration is effected, each party must pay the charges for their chosen appraiser, and pay the expenses of the appraisal and umpire equally.

While this provision is similar to other such provisions, there is one apparent difference. No other rights are abrogated by agreeing to an appraisal. This means that if an appraisal sets the amount of loss in excess of the insurer’s determination, the insurer may still decide to repair the vehicle. Appraisal is concerned only with determining the amount of the loss, and not the amount payable.

- A. If we and you do not agree on the amount of loss either may demand an appraisal of the loss. In this event, each party will select a competent appraiser. The two appraisers will select an umpire. The appraisers will state separately the actual cash value and the amount of loss. If they fall to agree, they will submit their differences to the umpire. A decision agreed to by any two will be binding. Each party will:*
1. *Pay its chosen appraiser; and*
  2. *Bear the expenses of the appraisal and umpire equally.*
- B. We do not waive any of our rights under this policy by agreeing to an appraisal.*

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### STUDY QUESTIONS

1. Part D, Coverage for Damage to an Insured Automobile, is subject to a deductible. Which of the following statements regarding a deductible is NOT true?
  - A. The higher the deductible, the higher the premium.
  - B. The higher the deductible, the lower the premium.
  - C. The purpose of the deductible is to eliminate small claims and help keep premiums affordable.
  - D. The specific amounts of the deductible will vary from company to company.

2. Coverage for damage to an insured automobile is provided under
  - A. Property Damage.
  - B. Medical Coverage.
  - C. Uninsured Motorists.
  - D. Collision.
  
3. Under Part D, which vehicles may be covered?
  - A. All owned vehicles and vehicles not owned by the insured.
  - B. Only owned vehicles.
  - C. Vehicles that is rented or leased only.
  - D. Trailers or Vehicles owned by the insured only.
  
4. Under the PAP, "Collision" is defined as
  - A. upset or impact with another vehicle or object, by the insured vehicle.
  - B. two or more insured automobiles striking each other.
  - C. mechanical breakdown or damage caused by natural forces.
  - D. an insured vehicle striking an inanimate object.
  
5. Dave has the "Other than Collision" coverage on his PAP. Dave's car is stolen. What coverage does he have?
  - A. The insurer will pay for a private detective to aid in the search for the stolen automobile.
  - B. The policy will pay if the automobile is being repaired or stolen, a stipulated amount.
  - C. The policy will pay "loss of use" expenses for a stipulated amount and period of time if the automobile is a total theft.
  - D. The policy will pay for any damage caused by the stolen car during the period of time that it is stolen.
  
6. Henry's daughter, Marie, who lives with Henry and is covered under his PAP, attends a local college. One evening the rest of the family were out of the house, and Marie had to make a class but her car would not start. So she borrowed the neighbors car as they had told her to take it in case of emergency and she knew where the key was (they were not at home). On the way to school, she was forced off the road by a weaving automobile, she hit a fire hydrant, causing considerable damage to the car. Will Henry's collision coverage pay for damages to the car Marie was driving?
  - A. No. Coverage is not provided for loss to an auto owned by the insured or family member.
  - B. Collision coverage only applies to cars owned and driven by the insured.
  - C. Yes. Collision coverage is provided as there was a reasonable expectation that Marie was using the car legally. But the insurance would be "excess" over any amounts paid by the neighbor's insurance.
  - D. No, but the neighbors' collision coverage would cover the entire loss.

7. Ken's car was broken into and the following items were stolen: (1) the Stereo system installed in the dash, along with the speakers installed in the back, (2) a cell phone laying in the front seat, (3) a small television set not permanently mounted, but used in long trips, and (4) Ken's girlfriend's small purse containing a small amount of marijuana. Which would be covered under the PAP?
  - A. All items.
  - B. All items except for the marijuana.
  - C. Only the installed stereo system, as it was permanently installed.
  - D. The stereo and the television set.
  
8. Marvin inherited a 12 year old auto that had been garaged and had only 7500 miles on the odometer. In reading his PAP, he saw where in case of total loss, for instance, he would only receive the actual cash value, including depreciation. He believes that the car is worth nearly as much as it was purchased for 12 years ago. What can he do?
  - A. Nothing. He will only receive the actual cash value regardless.
  - B. He can purchase another automobile policy from the same company that would double the cash value in case of claim.
  - C. He can go to the State Licensing Department and get a certification that the car has the mileage of a much newer car.
  - D. He should have the auto appraised by an appraiser approved by the insurer, and then take frequent photos of the car.
  
9. When an automobile is stolen and later found with considerable damage to the car, the insurance company may
  - A. pay to have the car fixed, or pay for a total loss at an appraised or agreed value.
  - B. only return the car to the insured and pay to have the car fixed.
  - C. keep the automobile and pay the cash value to the insured, regardless of the amount of damage done to the insured auto.,
  - D. give the car to a charity, and pay the insured the difference between what he can get as a tax write-off, and the actual value of the car.
  
10. Marvin's 12 year old car is struck by a hit-and-run driver while being driven to a car show. Marvin and the insurer are over \$8,000 apart in determining the value of the car. Marvin demands an appraisal of the loss, where each party pays for their appraiser, a third appraiser is appointed by the other 2 appraisers as an "umpire." If the cash value is still not agreed upon by the two parties, the umpire will declare the final decision. Now what?
  - A. Both parties are absolutely bound by the decision of the umpire.
  - B. Marvin can tell the umpire that he does not agree and refuse to pay any expenses.
  - C. The insurer can decide to repair the vehicle if they do not agree with the umpire's decision.
  - D. Only the insurance company is totally bound by the decision of the umpire.

### ANSWERS TO STUDY QUESTIONS

1A 2D 3A 4A 5C 6C 7C 8D 9A 10C



## **VIII. DUTIES AFTER AN ACCIDENT OR LOSS**

(Referred to in some policies as “Part E”) As there are duties of an insurance company to provide services or funds under stipulated conditions, there are duties of the insured also. Even though the greatest majority of policyholders never read their policies, they would automatically perform most of these duties, as again, common sense applies.

The insurer must be notified promptly as to how, when and where the accident or loss happened. One cannot assume that the police report will suffice as notification to the insurer, or that the other driver will file a report with their company who will then notify all other insurers involved. The original notice should contain as much information as possible, including the names and addresses of the other parties, whether injured or not, and of any witnesses. Normally, insured’s called their agents and ask them what to do, but the phone call by itself is not sufficient for an insurer to take the appropriate action.

The insured must cooperate with the insurance company during all stages of the claim, during investigation, settlement or through the defense procedures of any claim or suit. Any legal papers received by the insured must be sent promptly to the insured.

The insured (or driver, if family member) may be required to take a physical examination by designated doctors (paid for by the insurer), and possibly, to be required to submit to an examination under oath.

The insured must authorize the insurance company to receive copies of medical reports and any other pertinent records, and to complete any “Proof of Loss” when required by the insurer.

If a person is seeking Uninsured Motorists Coverage, they must promptly notify the police if a hit-and-run driver is involved, and if a suit is brought, they must send those papers directly to the insurer. The police need to be quickly informed as there is a possibility of criminal charges being filed as a hit-and-run.

If an insured (or family member) is seeking coverage for damage to the insured automobile, they must take reasonable steps after loss to prevent any further loss of the auto or equipment. Example: If a car is burglarized through a broken window, the window must be repaired or other steps taken so that other equipment gained by access through the window, does not become stolen. If the car is stolen, the police must be promptly notified.

The insurance company reserves the right to inspect and appraise the damaged property before it is repaired or disposed of.

## **CONSUMER APPLICATION**

Doug leaves his car in the mall parking lot while shopping for a birthday present for his wife. When he returns to his car, he sees that someone had “keyed” the car (i.e., dragged a car key or other sharp instrument down the side of the car). Doug asks everyone he sees if they knew who did it to his new car, but was unable to find the culprit.

The next day he calls his brother’s body shop for an estimate to repaint the car. The estimate seems reasonable, so he authorizes his brother to paint the car. The paint job was perfect, so Doug send the bill to his insurance company.

Doug’s insurance company does not have to pay the bill, because:

- (1) Doug did not notify the police about the vandalism. Even though that may not be “required” under his contract, it would support his claim of vandalism, and
- (2) Doug should not have had his car painted without having an adjuster or appraiser from the insurance company look at the car first.

*We have no duty to provide coverage under this policy unless there has been full compliance with the following duties:*

- A. *We must be notified promptly as to how, when and where the accident or loss happened. Notice should also include the names and addresses of any injured persons and of any witnesses.*
- B. *A person seeking any coverage must:*
  1. *Cooperate with us in the investigation, settlement or defense of any claim or suit*
  2. *Promptly send us copies of any notices or legal papers received in connection with the accident or loss.*
  3. *Submit, as often as we reasonably require:*
    - a. *to physical exams by physicians we select. We will pay for these exams.*
    - b. *to examination under oath and subscribe the same.*
  4. *Authorize us to obtain:*
    - a. *medical reports, and*
    - b. *other pertinent records*
  5. *Submit a proof of loss when required by us.*
- C. *A person seeking Uninsured Motorists Coverage must also:*
  1. *Promptly notify the police if a hit and run driver is involved.*
  2. *Promptly send us copies of the legal papers if a suit is brought.*
- D. *A person seeking Coverage for Damage to Your Auto must also:*
  1. *Take reasonable steps after loss to protect your covered auto or any non-owned auto and their equipment from further loss. We will pay reasonable expenses incurred to do this.*
  2. *Promptly notify the police if your covered auto or any non-owned auto is stolen.*
  3. *Permit us to inspect and appraise the damaged property before its repair or disposal.*

## STUDY QUESTIONS

1. In case of an accident or loss covered by a PAP, the insured must
  - A. promptly notify the insurance company.
  - B. let the police department file the report with the insurance company.
  - C. notify the Department of insurance first.
  - D. call his attorney.
2. The insured is required to cooperate with the insurance company
  - A. only during the investigative stage.
  - B. during the settlement stage only.
  - C. during all states of the claim.
  - D. only during the defense procedures of any claim or lawsuit.
3. Bill wrecked his car. The other driver insisted that Bill was totally at fault, and referred to Bill as an "Elderly Gentleman." The insurance company wants Bill to take a physical examination to show what his physical condition actually is.
  - A. Bill does not have to take such physical according to the policy.
  - B. The only time that an insured must take a physical exam is if the court demands it.
  - C. Under the provisions of the policy, Bill must take the examination.
  - D. An insurance company cannot require this of any person as it is in violation of their privacy.
4. Bill's insurer also wants copies of his medical records from Dr. Jones, his family doctor.
  - A. An insurer cannot require anyone to turn over private medical records.
  - B. Under the laws of most states, a person involved in an accident must automatically turn over their medical records to the court.
  - C. Under the provisions of the policy, Bill must also turn over any medical records from Dr. Jones.
  - D. Dr. Jones would never turn over any personal medical records to any person, authorization or not.
5. Cecil was hit by a hit-and-run driver. He has uninsured motorists coverage.
  - A. He must notify the police department immediately, and let them contact the insurer.
  - B. He must call his insurance agent and the agent should call the police.
  - C. He must file a claim immediately with the State Department of Insurance.
  - D. He must notify the police immediately, and if a suit is brought, notify the insurer.
6. Jim's stereo was stolen from his car by the thief entering through a broken window. Because severe storms were forecast, Jim covered the window with plastic as soon as he discovered it was broken.
  - A. Jim must not touch the car if it has been burglarized, until the appraiser has looked at it.
  - B. Jim is required to take reasonable steps to avoid any further loss of the auto or equipment.
  - C. It is illegal to cover a broken window in a vehicle that has burglarized.
  - D. Jim must take the vehicle immediately to a professional shop to have the window fixed.

7. An insured is required to file a claim with their insurer in case of an accident. What information is NOT necessary to state in the report?
- A. The date of the accident.
  - B. The time of the accident.
  - C. The names and addresses of all persons involved in the accident.
  - D. The name and address and license number of the insurance agent.
8. Bill car was struck at a red light by a car that ran the red light. There were no witnesses, and both drivers insist that they had the green light. In an effort to determine how liable Bill was, if at all, his insurance company could
- A. require Bill to take a lie detector test.
  - B. pay the total damages out of his own pocket, and then he would be reimbursed if the other party is discovered as lying.
  - C. require Bill to make a statement under oath.
  - D. refuse to take any action at all, even in a no-fault state.
9. Sonja was involved in an auto accident at a 4-way stop sign. The other driver insists that Sonja did not have the right-of-way, and is suing Sonja. Sonja's boyfriend is an attorney and in an attempt to impress Sonja, he told her to let him handle it. After about 60 days, he and Sonja "broke-up", and he told Sonja he wouldn't do anything about the accident.
- A. Sonja's insurance company would have to settle the claim anyway.
  - B. Sonja's insurance does not have to pay the claim as she was in violation of the provision that instructs the insured to PROMPTLY send notice of suit to the insurer.
  - C. Sonja's insurance company is restricted by law from taking any action whatsoever, either against Sonja or in respects to the lawsuit.
  - D. The boyfriend's auto insurance policy would have to settle the claim.
10. In the situation in Question 9 above, Sonja's insurance company notifies Sonja that they have received the claims papers and will take "appropriate action."
- A. The insurer will immediately take action to prevent or defend the lawsuit.
  - B. The insurer MAY take action to prevent or defend the lawsuit.
  - C. The insurer, by sending notice that they have received the papers, must now take all action that it ordinarily would have taken if they had been notified immediately of the suit.
  - D. Sonja's insurance company will probably automatically cancel her insurance.

## ANSWERS TO STUDY QUESTIONS

1A 2C 3C 4C 5D 6B 7D 8C 9B 10B



## **IX. GENERAL PROVISIONS**

As the heading implies, there are policy provisions that apply to all sections of the policy and therefore occur towards the end of the policy, prior to any Endorsements. However, some policies have the General Provisions immediately following the Declarations page. Some of the provisions are required by law or regulations, but in most policies, they are not voluminous.

### **BANKRUPTCY**

If the insured becomes insolvent or declares bankruptcy, the insurance company will not be relieved of any obligations under the policy. This provision helps third – party claimants by not relieving the insurer of any duties to pay if the covered person becomes bankrupt.

*Bankruptcy or insolvency of the insured shall not relieve us of any obligations under this policy.*

### **CHANGES**

The policy provisions may not be changed or waived except by endorsement issued by the insurance company. This statement relieves the insurer of any liability as a result of a verbal statement by an agent or company employee. Further, it limits the contract between the insurance company and the insured exactly to the written policy and to nothing else.

If the insurance company broadens coverage during the premium paying period without charge, the policyholder will have the new features if they have the coverage. This would pertain generally to mandated coverage's.

The premium on the policy is derived from information in the hands of the insurance company, therefore any changes in the information in the possession of the insurer allows the insurer to make adjustments in premiums. Any rate change will be made using the rules, rates and forms on file in the state of residence of the insured.

Sometimes coverage's under an insurance policy is improved or made more liberal. Many changes can be made without additional premium charges and the insured will not have to wait to take advantage of the new provisions, nor will the insured have to cancel their policy and purchase a new policy with the more liberal provisions. Since there are a lot of changes continually being legislated by the various states, this provision allows the policy to be automatically interpreted to provide the better coverage on the date the coverage would become effective for all of the insurance companies in that state.

### **CONSUMER APPLICATION**

Basil purchased a PAP on his Acura when it was used to drive to and from work one day a week (he belonged to a carpool). Basil changed jobs which entailed using his own car for sales trips throughout the state. His annual mileage increased from 8,000 a year to approximately 15,000 a year. Basil's insurance company sends their policyholders a questionnaire each year on renewal, asking for present odometer readings.

The first year that Basil reported the odometer reading, it was higher than the previous year, but the large increase did not show until the renewal date following his second year of heavy travelling. Upon receipt of the questionnaire, the insurance company increased his premium by reclassifying his automobile as to usage.

- A. *This policy contains all the agreements between you and us. Its terms may not be changed or waived except by endorsement issued by us.*
- B. *If there is a change to the Information used to develop the policy premium, we may adjust your premium. Changes during the policy term that may result in a premium increase or decrease include, but are not limited to, changes in:*
1. *The number type or use classification of insured vehicle;*
  2. *Operators using insured vehicles;*
  3. *The place of principal garaging of insured vehicles;*
  4. *Coverage, deductible or limits.*
- If a change resulting from A. or B. requires a premium adjustment, we will make the premium adjustment in accordance with our manual rules.*
- C. *If we make a change which broadens coverage under this edition of your policy, without additional premium charge, that change will automatically apply to your policy as of the date we implement the change in your state. This paragraph (C.) does not apply to changes implemented with a general revision that includes both broadening and restrictions in coverage, whether that general program revision is implemented through introduction of:*
1. *A subsequent edition of your poll; or*
  2. *An Amendatory Endorsement.*

### **FRAUD**

The insurer does not provide coverage for any insured that has made fraudulent statements, or engaged in fraudulent conduct in connection with any accident or loss for which coverage is sought under the policy.

*We do not provide coverage for any "insured" that has made fraudulent statements or engaged in fraudulent conduct in connection with any accident or loss for which coverage is sought under this policy.*

### **LEGAL ACTION AGAINST THE INSURANCE COMPANY**

This provision states that the insured cannot take legal action against the insurance company until such time that the insurance company and the insured agree (in writing) that the

insured has an obligation to pay or the amount has been determined by judgment after trial. This provision also excludes the insurer from any action to determine the liability of an insured.

- A. No legal action may be brought against us until there has been full compliance with all the terms of this policy. In addition, under Part A, no legal action may be brought against us until:*
- 1. We agree in writing that the “insured” has an obligation to pay; or*
  - 2. The amount of that obligation has been finally determined by judgment after trial.*
- B. No person or organization has any right under this policy, to bring us into any action to determine the liability of an “Insured.”*

## **RIGHT TO RECOVER PAYMENT**

Sometimes called the “Subrogation” provision, this provision states that if the insurance company makes a payment under the policy, and the person to or for whom payment was made has a right to recover damages from another source, the insurance company shall be “subrogated” (substituted) to that right. The policyholder must cooperate fully with the insurer in these cases, and may not hinder any action taken for the insurer to recover these funds. Further, the person that has received funds from others, must hold in trust for the insurance company these funds, and reimburse them to the company.

This provision usually comes into play when a company compensates their own policyholder without determining liability and when the case is finally settled.

### **CONSUMER APPLICATION**

Betty is driving her new Pontiac, when she collides at an intersection with Bruce’s Olds. It was not apparent as to who caused the accident, as they both receive traffic citations. There were no witnesses and there were no traffic signals involved (only a 4-way stop), so it was difficult to establish blame. Therefore, since both drivers had PAP coverage’s, the companies each covered the medical expenses of their own insured’s.

Betty’s insurance company finds a witness who is willing to testify that Betty was at fault as she went through the 4-way stop without stopping. The witness said that Betty was apparently looking for something that had fallen on the floor when she went through the intersection. She also testified that Bruce had arrived at the stop sign first, stopped, and then proceeded.

Based upon the new information, Betty’s insurance company agreed to a settlement. Therefore, the expenses of Bruce that had been paid by his insurer would be reimbursed by Betty’s company.

- A. If we make a payment under this policy and the person to or for whom payment was made has a right to recover damages from another we shall be subrogated to that right. That person shall do:*
- 1. Whatever is necessary to enable us to exercise our rights; and*
  - 2. Nothing after loss to prejudice them.*

*However, our rights in this paragraph (A.) do not apply under Part D, against any person using your covered auto with a reasonable belief that that person is entitled to do so.*

*B. If we make a payment under this policy and the person to or for whom payment is made recovers damages from another, that person shall:*

- 1. Hold in trust for us the proceeds of the recovery; and*
- 2. Reimburse us to the extent of our payment.*

#### **POLICY PERIOD AND TERRITORY**

Standard wording applies: “The policy period is shown in the Declarations page, and applies only to losses and accidents which occur within the United States of America, its territories or possessions, Puerto Rico, or Canada.” Coverage to include Mexico can be purchased and added as an Endorsement by most companies. However, a Mexican coverage Endorsement can be purchased, but liability insurance must be purchased through a Mexican insurer in order to comply with the Mexican laws. This endorsement only provides coverage for trips of ten days or less in Mexico. Coverage can be easily obtained at most border crossing points.

Coverage during transport applies only to the covered auto – not a non-owned vehicle – and only between points in the United States, its possessions and Canada. Interestingly, distance makes no difference, as an automobile shipped to London from New York will not be covered; however an automobile shipped to Honolulu from San Francisco would be covered.

*A. This policy applies only to accidents and losses which occur*

- 1. During the policy period as shown in the Declarations; and*
- 2. within the policy territory*

*B. The policy territory is:*

- 1. the United States of America, Its territories or possessions*
- 2. Puerto Rico; or*
- 3. Canada.*

*This policy also applies to loss to, or accidents involving your covered auto while being transported between their ports.*

#### **TERMINATION**

The policy may be cancelled during the policy period by returning the policy to the insurance company, or giving advance notice of the date of cancellation. The insurer can cancel by mailing to the insured a notice at least 10 days if the cancellation is for nonpayment of premiums, or, if the notice is mailed during the first 60 days the policy is in effect. Otherwise, 20 days notice must be given.

NOTE: These periods of time are typical, but vary by state.

If the insured obtains other insurance on the covered auto, similar coverage under this policy will automatically terminate on the date that the coverage on the other auto became effective.

If the insured is entitled to a premium refund, the insurer will compute the premium refund according to its manuals and according to state laws or regulations.

Some states have a provision that the policy may not be cancelled by the insured during the first 2 months following the issue date, except if the insured auto was totally demolished, ownership was transferred to another person, or if another policy covering the insured auto was purchased. The insurer may cancel during the first 60 days of coverage if the check remitted was dishonored. After 60 days, the insurer may cancel for the normal reasons.

The reason for this variance is that states that require Financial Responsibility want to make sure that the policy that is in force when the vehicle is licensed remains in force for at least 60 days.

If the insurer elected not to renew or continue the policy, notice of 20 days prior to the renewal date will suffice. If the insurer offers to renew or continue, and the insured does not accept, the policy will automatically terminate at the end of the current policy period. Failure to pay the premium means the insured has not accepted the offer. Some states require more than the 20 days notice. Mid-term cancellations by the insurer may be accomplished only by nonpayment of premium, license suspensions or revocations, or material misrepresentation.

Some policies also have a stipulation that after 60 days, the company will cancel only "...if your driver's license or that of any driver who lives with you; or any driver who customarily uses 'your covered auto;' has been suspended or revoked. This must have occurred during the policy period; or since the last anniversary of the original effective date if the policy period is other than one year; or since the last anniversary of the original effective date if the policy period is other than one year or if the policy was obtained through material misrepresentation." Material misrepresentation is interpreted as the insured withholding or lying about information on the application, which, if the company had been aware of this information, the company would have declined to accept the application.

### **CONSUMER APPLICATION**

Bob is a new insurance agent for AIC and while working in the local office he received a telephone call from a lady in Virginia, who identified herself as Bernice W., a policyholder whose agent has since retired. She wanted to cancel the insurance on her automobile as she was moving to Virginia and would get a new policy and insurance agent in that state. She stated she had no idea as to where her policy was, but Bob looked it up on the computer and the information she gave appeared to be correct. Bob asked for a written notice, and when it arrived he notified the insurance company and filled out the necessary forms for return of unearned premium, which was such a small amount as to be insignificant.

Three weeks later, a claim is filed by Bernice W. for an accident that had just occurred. Her claim was denied as the policy had been cancelled. Bernice hired an attorney who informed the insurance company that Bernice had never cancelled her auto insurance, had not moved to Virginia, and had no intention of taking out new insurance with another company. Further, her former sister-in-law had a history of harassing Bernice on financial matters. Upon the insistence of the attorney, it became apparent to the insurance company that the signature on the letter was a forgery.

(Continued on next page)

A very similar situation has happened, but most insurers will check a signature before they cancel a policy. This is another reason that the company requests that the policy be returned, but does not require it to be surrendered. In an event such as this, the policy is reinstated as though it had not been terminated.

*A. Cancellation. This policy may be cancelled during the policy, period as follows:*

*1. The named insured shown in the Declarations may cancel by:*

*a. returning this policy to us; or*

*b. giving us advance written notice of the date cancellation is to take effect.*

*2. We may cancel by mailing to the named insured shown in the Declarations at the address shown in this policy:*

*a. at least 10 days notice:*

*(1) If cancellation is for nonpayment of premium; or*

*(2) if notice is mailed during the first 60 days this policy is in effect and this is not a renewal or continuation policy, or*

*b. at least 20 days notice In all other cases.*

*3. after this policy is in effect for 50 days, or if this is a renewal or continuation policy, we will cancel only:*

*a. for nonpayment of premium; or*

*b. if your driver's license or that of*

*(1) Any driver who lives with you; or*

*(2) Any driver who customarily uses "your covered auto;" has been suspended or revoked. This must have occurred:*

*(1) During the policy period; or*

*(2) Since the last anniversary of the original effective date if the policy period is other than 1 year; or*

*c. if the policy was obtained through material misrepresentation.*

*B. Nonrenewal. If we decide not to renew or continue this policy, we will mail notice to the named insured shown in the Declarations at the address shown in this policy. Notice will be mailed at least 20 days before the end of the policy period. If the policy period is other than 1 year, we will have the right not to renew or continue it only at each anniversary of its original effective date.*

*C. Automatic Termination. If we offer to renew or continue and you or your representative do not accept, this policy will automatically terminate at the end of the current policy period. Failure to pay the required renewal or continuation premium when it is due shall mean that you have not accepted our offer.*

*If you obtain other insurance on "your covered auto," any similar insurance provided by this policy will terminate as to that auto on the effective date of the other insurance.*

*D. Other Termination Provisions.*

*1. If the law in effect in your state at the time this policy is issued, renewed or continued:*

*a. requires a longer notice period;*

*b. requires a special form of or procedure for giving notice; or*

*c. modifies any of the stated termination reasons; -*

*We will comply with those requirements.*

*2. We may deliver any notice instead of mailing it. Proof of mailing of any notice shall be sufficient proof of notice.*

3. *If this policy is cancelled, you may be entitled to a premium refund. If so, we will send you the refund. The premium refund, if any, will be computed according to our manuals. However, making or offering to make the refund is not a condition of cancellation. The effective date of cancellation stated in the notice shall become the end of the policy period.*

#### **TRANSFER OF INTEREST**

Any rights and/or duties under the policy cannot be assigned without the written consent of the insurance company. However, if the insured should die, coverage will be provided for the surviving spouse (if living at the same address at time of death) and in effect, the surviving spouse will become the insured. If there is no surviving spouse, the legal representative shall become the insured. In any event, coverage will be provided only until the end of the policy period.

#### ***TRANSFER OF YOUR INTEREST IN THIS POLICY***

- A. *Your rights and duties under this policy may not be assigned without our written consent. However, if a named insured shown in the Declarations dies, coverage will be provided for:*
  1. *The surviving spouse if resident in the same household at the time of death. Coverage applies to the spouse as if a named insured shown in the Declarations; and*
  2. *The legal representative of the deceased person as if a named insured shown in the Declarations. This applies only with respect to the representative's legal responsibility to maintain or use your covered auto.*
  3. *Coverage will only be provided until the end of the policy period.*

#### **TWO OR MORE AUTO POLICIES**

An interesting but common provision in automobile policies states that if the policyholder has another automobile insurance policy issued by the same insurer and if they apply to the same accident, the maximum limit of liability under all policies shall not exceed the highest applicable limit of liability under any one policy.

*If this policy and any other auto insurance policy issued to you by us apply to the same accident, the maximum limit of our liability under all the policies shall not exceed the highest applicable limit of liability under any one policy.*

## **CONSUMER APPLICATION**

For an in-depth study of the various provisions of a Personal Automobile Insurance Policy, the following CONSUMER APPLICATION illustrates many of the provisions of such a policy. Particular sections will be so noted by heading, e.g. situations wherein Liability provisions would be applicable, are labeled “Liability Coverage”, etc. In addition, certain instructive comments are made regarding the various PAP coverage’s – which may be repetitive but are presented in this fashion as instructional.

### (Liability Coverage)

Cindy McKay is driving home from the supermarket. Her daughter Lauren is strapped into her child 'safety seat' next to her. Seat belts hold both Cindy and the safety seat in place. As Cindy turns the corner onto her street, Lauren spits the pacifier out of her mouth, it falls next to her on the child seat and she begins to cry. As Cindy tries to figure out why her daughter is making such a fuss, she doesn't see her neighbor Marilyn backing out of her driveway. Cindy finds the pacifier and puts it back in Lauren's mouth to calm her down. Marilyn had not backed into the street yet, but was waiting at the end of her driveway for Cindy to pass. Unfortunately, while Cindy was tending to Lauren, her car swerved toward Marilyn's. By the time Cindy looked up she was dangerously close and tried to get back into her lane to avoid the accident. She couldn't. Because she jerked the steering wheel hard to the left, Cindy was able to avoid a direct hit on the passenger's side of Marilyn's car. However, her right front bumper did hit the right rear bumper of her neighbor's station wagon tearing it half off. Marilyn suffered a minor cut on the side of her head when she hit it on the driver's door window. The collision and sharp turn of the wheel by Cindy caused her to lose control of the car, sending it across to the other side of the road where it hit her next door neighbor's mailbox and smashed through their fence coming to a stop on their lawn (luckily, that wasn't damaged!).

Neither Lauren nor Cindy was injured; their seat belts had worked perfectly. Plus, the car wasn't moving that fast as she came around the corner.

Once everyone had calmed down, the police, paramedics and a tow truck were called in.

Marilyn was taken to the emergency room for precautionary x-rays of her head. Luckily they were negative. However, she did need a couple of stitches for the cut. Her car was able to be driven so her husband took it to the body shop for an estimate and repair. Cindy's car was more severely damaged and had to be towed to the shop. After all that, she finally got the chance to call her insurance company, Auto Mutual, to report the accident.

Cindy, and her husband, Mark, have liability limits of 100/300/50 on their personal auto policy. Therefore, it provides bodily injury liability protection of up to \$100,000 per person and \$300,000 per accident if either of them is found negligent (at fault) in an accident. And it will pay up to \$50,000 for property damage per occurrence. In this case, Cindy was found to be clearly at fault. So, Auto Mutual will pay for the losses. The following details how the adjuster will handle each part of the loss.

The bodily injury liability coverage would be used to pay for the medical bills Marilyn incurs for her head injury. If complications attributable to the accident develop at some point in the future, for example, dizziness or double vision, and further treatment is required, the policy

would pay for that also. If Marilyn had been more seriously injured and was hospitalized, her medical bills could have been much higher. If that were the case, Auto Mutual would have paid up to \$100,000 for Marilyn's injuries, rehabilitation, pain and suffering, etc. Anything over that amount would have to be paid for by Cindy and Mark. If there were more people in Marilyn's car (whether they are family members or not) their medical bills would also have been paid for up to \$100,000 each. The maximum amount of \$300,000 per occurrence would come into play if more than three people were injured, and their medical bills reached the person limit of \$100,000. If that happened, Auto Mutual would stop paying once the \$300,000 had been reached.

The property damage liability is a little more complicated. Once again, Cindy's negligence comes into play. Since she was at fault, Auto Mutual will have to pay for the repairs to Marilyn's car. Instead of hitting Marilyn broadside, Cindy swerved and just tore off part of the rear bumper, but the entire bumper had to be replaced. As it ripped away from the car, the right rear quarter panel was pulled out so that had to be straightened out and repainted. The tailgate of Marilyn's station wagon was also damaged and had to be repaired. The bill came to \$3600. However, the accident didn't stop there.

Remember that Cindy's car then crossed the road and smashed into her next door neighbor's mailbox and through their fence before it came to a stop on their front lawn. The mailbox was not too expensive to replace and only a relatively small section of the fence had to be replaced and painted. That totaled \$150 which Auto Mutual also paid. If the neighbor's lawn had been severely damaged and needed re-sodding, that would have been paid for also.

So Cindy's little misadventure turned out to be very nerve wracking but not too expensive in the long run. In this case, if the McKays had liability only auto policy they would be all set. The damages are paid for and everyone is happy. But are Marilyn and the next door neighbors the only ones who suffered a loss?

#### (Physical Damage Coverage's)

A definition of loss is a decrease in value or out of pocket expenses to repair the insured item. We already know that the victim's losses are paid for out of the bodily injury and property damage liability coverage's of the auto policy. This is how Marilyn's injuries and the damage to her car and the neighbor's mailbox and fence were paid for. But what about Cindy's car?

When the McKay's car was new, they had to consider how they wanted to protect themselves against the risk of financial loss if the car was damaged or destroyed. Once again, the questions of avoiding, assuming or transferring that risk came into play. Because they purchased the car, avoiding the risk was out of the question. And even if they are wealthy enough to be able to afford to assume the risk, another factor may come into play - an auto loan.

Anyone can finance an automobile purchase. When this is done, the option of assuming the risk for damage to that vehicle is eliminated. The financing institution will require that physical damage coverage be purchased to protect their interest in the vehicle. In fact, the

borrower may be required to have a binder or declaration page showing coverage for the new car before they can drive it off the lot. If they don't provide their own insurance, the lending institution will notify them that they are providing the coverage and charge them the premium. That usually doesn't happen because most borrowers purchase physical damage coverage's from their liability carrier.

"Physical damage" is a term used to group two coverage's - collision and comprehensive -which provide protection for the insured against loss to their own vehicles. Each of the coverage's insures against certain kinds of losses.

#### (Collision Coverage)

Collision coverage pays for the repair or replacement of the insured's vehicle if it is damaged in a collision with another vehicle or any other object - (e.g., a tree or a telephone pole). The insured's company will pay for the loss regardless of who was at fault. As a means of holding down the costs of providing this coverage and to discourage small claims, the company will require that the insured choose a deductible which will be subtracted from the amount of the loss before payment is made. If the other party is at fault, the insured's company will first pay to repair or replace the insured vehicle, then try to collect all of the money from the other driver or their insurance company, if they have one, including the deductible.

In respect to Cindy McKay's accident, it is easy to determine that she was at fault and that Auto Mutual would pay for Marilyn's medical treatment and for the damage to her car and the other neighbor's property. It was also noted that Cindy's car was damaged severely enough to require towing to the body shop. The car is only a couple of years old so she still has physical damage coverage for it. Auto Mutual will pay to have the car repaired minus the deductible on Cindy's policy. Since Cindy was the negligent party, the company will not get the money back for the collision payment and Cindy will not get her deductible either. In fact, depending on the dollar amount of the damages, Cindy may be surcharged additional premium at her next renewal as a penalty for having the negligent loss.

Because, it was easily determined that Cindy was at fault in the accident, her property damage liability coverage paid for the repair of Marilyn's car. However, if there was a dispute as to who was at fault, Marilyn could have used her own collision coverage to pay for repairs to her car and then let the two insurance companies decide who was at fault.

#### (Comprehensive Coverage)

Comprehensive coverage is sometimes called "other than collision" because those are the kinds of losses for which it pays. It covers losses caused by theft, vandalism, fire, glass breakage, falling objects, explosion, flood and other acts of God. Once again, there may be a deductible involved which would be absorbed by the insured. For comprehensive coverage, though, the company may allow the insured to have no deductible, or "buy back the deductible." Buying back means the insured will pay a higher premium for the coverage. In fact, for both physical damage coverage's, the insured can control their premium by changing their

deductibles. Some companies may allow an insured to choose comprehensive coverage only, without selecting collision coverage.

There are also several minor, but important, optional coverage's that may be available to an insured that chooses the physical damage package. They include towing and labor, substitute transportation, rental reimbursement, and CB radio coverage. There may be others depending on the company, but these are the basics.

In respect to the repairs to the McKay's car, if rental reimbursement was available to them and they chose the coverage, Auto Mutual would pay for a rental car while theirs is in the body shop. There would be a maximum number of days and money the company would pay for the rental. Using this information regarding the accident, none of the other physical damage coverage's would be used.

#### (No Fault or Medical Payments)

Up to this point, four coverage's were used to make payments for Cindy McKay's accident - bodily injury liability, property damage liability, collision and rental reimbursement. Comprehensive was not used because both vehicles were damaged as a result of the accident. What the other available coverage's are should be determined at this point, and if they would have been used in this case.

Luckily, Cindy and her daughter were not injured in the accident. If they were, they could have used their no fault or medical payments coverage for the medical bills. In most states, the laws require auto insurance companies to offer one or the other of these coverage's. A very few states give the insured the chance to choose both. No matter which is available, they generally work on the same idea. Each of the coverage's is designed to have the insured's company pay for the bodily injuries of the people in their vehicle without immediate concern for who is at fault. This serves two purposes. First, it allows the injured people to get immediate medical attention without worrying about who will pay for the bills. We are all familiar with the movie scene where a critically injured person is wheeled into the emergency room and the nurse has to get all this medical coverage information before the doctor can see them. Second, these coverage's are supposed to reduce the number of lawsuits by eliminating fault as a consideration for paying for the claim.

If Cindy McKay and/or her daughter had been injured in the accident, their immediate medical bills (ambulance, emergency room, etc.) would have been paid for by their no fault or medical payments coverage. We said earlier that Marilyn's medical bills were paid for from Cindy's bodily injury liability coverage. They could have been paid from Marilyn's own no fault or medical payments coverage.

Some states allow people to reject this coverage. There may be different limits to choose from. There could be deductibles involved. Payments could be made for lost wages and death. Lawsuits may be allowed once a certain dollar amount has been reached for the injuries. Naturally, all these choices affect the premium.

### (Uninsured Motorists Coverage (UM))

Basically, Uninsured motorist coverage protects the insured if they are injured and their car is damaged (Uninsured Motorists Property Damage - UMPD) in an accident with an uninsured or hit and run driver. (NOTE: UMPD may not have to be offered in some states.) Some states allow the insured to reject UM (and/or UMPD if offered). Some allow the insured to choose the limits of coverage while others require that these limits match the liability limits chosen. Once again, the options chosen affect the premium.

In this CONSUMER APPLICATION, Marilyn could have used her Uninsured Motorist coverage to pay for her head injury if Cindy had no coverage or if the accident were caused by a hit and run driver. If Marilyn had Uninsured Motorist Property Damage coverage and the same situation existed, she could use the coverage to pay for the repairs to her car.

### (Underinsured Motorist Coverage)

Underinsured motorist coverage is used only if the negligent driver is insured but their limits are not high enough to pay for the bodily injury or property damage of the victim. Many times, this coverage is optional. As an example, in this instance of Mrs. McKay's accident, suppose Cindy only had liability limits of 10/20/10 and the accident was a little more serious than previously indicated. In this instance, Marilyn's medical bills were \$25,000 and her car was totaled and was worth \$15,000. If her Underinsured Motorist coverage limits were 100/300/50, her company would pay the difference of \$15,000 for her medical bills (25,000-10,000) and \$5,000 for her car (15,000-10,000). However, as stated earlier, Cindy and her husband have liability limits of 100/300/50, so underinsured motorist coverage does not come into play when settling the claim,



## STUDY QUESTIONS

1. Henry purchases a PAP from Agent Brady. Brady assures Henry that his policy will always pay the actual cash value, of prime importance to Henry, and sends Henry a letter so stating upon Henry's insistence. If Brady has an accident that does not "total" his automobile,
  - A. the insurance company will pay the Actual Cash Value in all cases.
  - B. the insurance company will only pay to have the auto repaired, according to the terms of the policy, as there was no Endorsement stating otherwise attached to the policy.
  - C. if the insurance company does not pay the actual cash value, Henry can sue the insurance company.
  - D. he can go to court and the court will almost always rule in favor of the insured.

2. If Henry (above) elects to sue the insurance company prior to any judgment being rendered by a court,
  - A. he can take legal action before a judgment has been rendered.
  - B. he cannot take legal action against the insurer until the insurer and Henry verbally agree that Henry has an obligation to pay for the damage to the auto.
  - C. he cannot take legal action against the insurer until the insurer and Henry agree in writing that Henry has an obligation to pay for the damage to the auto.
  - D. the insurance company may cancel the policy and refund the premiums.
  
3. If an insurance company, under a PAP, makes a payment under the policy, and the person for whom the payments were made has a right to recover damages from another source, the insurance company shall be substituted to that right. This is called
  - A. Duplication of Coverage.
  - B. Subrogation.
  - C. Contractual Substitution.
  - D. Substitution Provision.
  
4. A PAP can be cancelled by the insured by
  - A. notifying the Department of Insurance.
  - B. calling the insurance company.
  - C. returning the policy to the insurance company.
  - D. throwing the policy away.
  
5. Percy has a PAP with Supreme Insurance on his new Toyota. He pays the first annual premium in full. Eight months after issue, his brother-in-law goes to work for Premier Insurance, and Percy purchases the same coverage for less money from Premier. Before he notifies Supreme, he has an accident. Which PAP would cover the damage to his new Toyota?
  - A. Supreme would cover the damage as they were the first insurer.
  - B. Premier would cover as Supreme's policy automatically terminated when the new policy with Premier was purchased.
  - C. Both insurance companies would on a pro-rata basis.
  - D. Neither company would pay.
  
6. John lost his auto insurance policy but he knew it was up for renewal in a couple of months, and since he decided to raise his liability limits, he applied for a new policy with higher liability limits. He was issued a binder by the new agent with higher limits. If John was involved in an accident where he was liable, which liability limits would apply, if any?
  - A. The highest applicable limit of liability under any new policy.
  - B. The total of the applicable limits of liability under the policies.
  - C. None, as this is Duplication of Coverage and the policies both automatically are void.
  - D. The lowest applicable limit of liability under either policy.

7. Bernard and his wife take a trip from their home in Alaska, with the intention of going as far South as they want to find warmer weather. After a week of travel and sightseeing, they find themselves in San Diego. They want to continue travelling through Mexico and decide that Mexico City is their final destination before returning home. Under their PAP
- A. they will have no coverage through Canada.
  - B. they will have coverage until they reach Mexico.
  - C. they will be covered for the entire trip.
  - D. they will have to get an Endorsement for travelling through the contiguous 48 states.
8. Mid-term cancellations of a PAP by the insurer may not be cancelled by
- A. nonpayment of premium.
  - B. license suspensions or revocations.
  - C. material representations.
  - D. excessive claims.
9. An insurance company is not happy with the number and size of claims from an insured. What can they do to cancel the policy?
- A. Give the insured a 20-day notice prior to renewal date.
  - B. They must keep the policy in force as long as the insured wishes.
  - C. They can notify the agent 30 days in advance, and he can then inform the insured.
  - D. Send a letter of cancellation at any time that they want.
10. Walter owns a PAP and passes away suddenly. His wife Mathilda, does not drive. His son Pierce also is covered under the policy, and his daughter, Cynthia is learning to drive. What will happen to the policy now?
- A. Pierce will become the insured as long as he wishes.
  - B. Pierce and Cynthia will become co-insured's.
  - C. The policy will be automatically cancelled at time of death of the insured.
  - D. Mathilda automatically becomes the insured until the end of the policy period.

### STUDY QUESTION ANSWERS

1A 2C 3B 4C 5C 6A 7B 8D 9A 10D



## **X. ENDORSEMENTS & BASE PREMIUMS**

It is not feasible to describe or provide samples of all Endorsements because of the variety of state regulations and laws, and the number of insurance companies. For purposes of this text, examples of some of the most used Endorsements are described and illustrated. Most of them have been briefly discussed as to functions in the earlier text.

### **MISCELLANEOUS TYPE VEHICLES**

The Miscellaneous Type Vehicles is used to provide coverage for motor vehicles that are not covered under a PAP, including motor homes, motorcycles, all-terrain vehicles, golf carts or dune buggy. It can also extend coverage for a private passenger auto owned jointly by two or more relatives (other than husband and wife) or other individuals who reside in the household. Normally, the private passenger auto jointly owned would be insured under its own policy. The format of this Endorsement is much like a “mini-policy” inasmuch as it is comprised of several sections relating to the particular part of the PAP form.

### **EXTENDED TRANSPORTATION EXPENSES**

In the discussion of “Part D – Coverage For Damage To Your Auto” it is mentioned that Transportation Expenses coverage is automatically available to a policyholder if they have “Other Than Collision Coverage” for the covered automobile, and such vehicle is stolen. Under the terms of the typical PAP, the insured would probably be able to purchase similar coverage for other types of losses, which is provided by this Endorsement.

Endorsement extends the Part D provisions to allow (as examples, amounts may vary by state or company) \$15 per day, to a maximum of \$450, to rent a substitute vehicle if the covered automobile, or a non-owned automobile cannot be used for more than 24 hours because of a loss covered under the PAP. Note that the insured auto must be covered under Part D and is not subject to exclusion (for example: an engine that has to be replaced because it has operated for 300,000 miles, would not be a covered loss).

Secondly, the loss must not be a total theft, however, if the car is stolen, the Transportation Expenses of Part D would apply and would pay for the rental car.

This particular Endorsement example allows for the coverage to be increased to \$30 a day with a maximum of \$900.

### **EXTENDED NONOWNER COVERAGE**

This Endorsement eliminates some of the previous - mentioned exclusions in “Part A – Liability Coverage”, and modifies some exclusion under “Part B – Medical Payments Coverage.” Under the PAP, liability is excluded if the vehicle were hired or used as a livery conveyance. This Endorsement eliminates that exclusion. This allows a taxi driver (as an example) that has a PAP, for the PAP to serve as secondary coverage. (Note: It does not provide

the coverage needed by a Taxi Driver, as they must have a Commercial policy covering them while driving their taxi).

Exclusions in the PAP stated that liability will not be provided for vehicles owned by the named insured, a resident spouse or family member, furnished or available for the regular use of the named insured or any family member, if the vehicle is not listed on the policy. This Endorsement eliminates that restriction and extends the coverage. It is most frequently used to extend PAP provisions to a car furnished by an employer.

Under Medical Coverage there are similar exclusions that exclude payments if the insured or a family member were injured while occupying a covered vehicle, or struck by an owned or regularly available vehicle that is not on the policy. This Endorsement again extends this coverage.

### **UNDERINSURED MOTORIST COVERAGE**

This Endorsement has been mentioned previously in the text. The intent of this Endorsement is to compensate the insured if the other driver responsible for the accident has liability limits that are too low to pay for the entire claim. The insured's Underinsured Motorist Coverage would pay the insured for their own bodily injuries up to the limit chosen. Frequently, the Underinsured Motorists limits selected are the same as the Uninsured Motorist limits in their state. The wording of this Endorsement closely resembles that of the Uninsured Motorists coverage.

As an example, Joe has a PAP which has Medical Payments Coverage of \$1,000 and \$100,000 of Uninsured Motorists coverage. Joe feels safe as he believes that he has adequate coverage for any contingency. However, Joe was backing out of his driveway when his neighbor's 17-year old son loses control of his car in the street and collides with Joe's car causing serious injuries to Joe. Joe is entitled to receive \$78,000 for his injuries. However, his neighbor's policy only has the minimum required coverage - \$15,000. Therefore, his neighbor is not "uninsured" but is "underinsured." Joe can recover \$15,000 from his neighbor's policy, and \$1,000 of medical payments from his own policy. Joe must come up with \$62,000 and of course, he can sue his neighbor.

### **AUDIO, VISUAL AND DATA ELECTRONIC EQUIPMENT AND MEDIA**

This endorsement covers such items as CB radios, mobile radios, televisions, VCRs, cell phones, etc., up to specified limits. In addition, coverage is provided for the various media used with the equipment, such as tapes, records or compact discs – up to \$200.

### **GENERAL ENDORSEMENT**

The basic Endorsement is called the General Endorsement, and may also be referred to as a "blank" or "manuscript" endorsement. It is used whenever no other pre-printed endorsement is appropriate for the kind of change desired.

Even the General Endorsement has preprinted lines for the key information concerning the policy (such as the policy period, name of insured and effective date of the change). But the blank sections of the General Endorsement are used to describe the actual changes being made. Even correcting a name on a policy must be done by Endorsement, as a policy is a legal document and it states in the policy that all changes must be by Endorsement.

(Note: There are no “examples” or “Sample” General or Change Endorsement following this section as they are, actually, “Blank” forms.)

## **CHANGE ENDORSEMENT**

Whenever any of these Endorsements are attached to the policy at the time the policy is issued, the Endorsement numbers will be printed on the Policy Declaration Page. Note statement at the end of the Sample Declaration Page earlier in this text.

When it is necessary to add an endorsement after a policy has been issued, generally the Change Endorsement must also be issued. Only the General Endorsement and Change Endorsement provide the effective date and effective date of the change.

## **TOWING AND LABOR COSTS**

This endorsement shows a particular limit of liability per disablement. This would indicate the maximum the company would pay each time the covered auto has to be towed and/or serviced on the road. It will not pay for repair work that is ultimately performed at a service station or automotive center.

## MISCELLANEOUS TYPE VEHICLE ENDORSEMENT

This coverage is Subject to all the provisions of the policy with respect to the "miscellaneous type vehicles" and coverage's described in the Schedule or in the Declarations except as modified as

Description and Type of Vehicle		SCHEDULE			
		Passenger	Hazard	Excluded	
1.	Yes No				
2.	Yes No				
3.	Yes No				
<u>Coverage is provided where a premium and a limit of liability is shown for the coverage. Premium</u>					
Coverage's	Limit of Liability				
	Each Accident				
	Each Accident				
	Each Accident				
	\$ Each Person				
Medical Payments	\$	Each Person			
	\$	Each Person			
		Each Accident			
Uninsured Motorists		Each Accident			
		Each Accident			
	\$	Less \$	Ded		
Collision			Less \$	Ded	
	\$	Less \$		Ded	
Less \$		Ded			
Other Than	Less \$	Ded			
Collision	\$	Less \$	Ded		
					Total Premium

### 1. DEFINITIONS

The Definitions Section is amended as follows:

- A. For the purpose of this coverage provided by this endorsement "miscellaneous type vehicle" means:
  - 1. A motor home, motorcycle or other similar type vehicle, all terrain vehicle, dune buggy or golf cart
  - 2. A private passenger auto owned jointly by 2 or more:
    - a. relatives, other than husband and wife; or
    - b. resident individuals
- B. The definition of "your covered auto" is replaced by the following:
 

"Your covered auto" means:

  - 1. Any "miscellaneous type vehicle" shown in the Schedule or in the Declarations.
  - 2. Any of the following types of vehicles on the date you become the owner:
    - a. a private passenger auto;
    - b. a pickup or van that
      - (1) Has a Gross Vehicle Weight of less than 10,000 lbs.; and
      - (2) is not used for the delivery or transportation of goods and materials unless such use is:
        - (a) Incidental to your "business" of maintaining or repairing furnishings or equipment,
    - or
    - (b) For farming or ranching,
    - c. any "miscellaneous type vehicle" of the same type shown in the Schedule or in the Declarations

These provisions apply only if:

- a. you acquire the vehicle during the policy period.
- b. you ask us to insure it within 30 days after you become the owner, and
- c. with respect to a pickup or van, no other insurance policy provides coverage, for that vehicle.

If the vehicle you acquire replaces one of the same types shown in the Schedule or in the Declarations, it will have the same coverage as the vehicle it replaced. You must ask us to insure a replacement vehicle within 30 days only if you wish to add or continue Coverage for Damage to Your Auto.

If the vehicle you acquire is in addition to any of the same type shown in the Schedule or in the Declarations, it will have the broadest coverage we now provide for any vehicle of that type shown in the Schedule or in the Declarations.

3. Any "trailer."
4. Any "miscellaneous type vehicle" or auto you do not own while used as a temporary substitute for any other vehicle described in this definition which is out of normal use because of its:
  - a. breakdown;
  - b. repair;
  - c. servicing;
  - d. loss; or
  - e. destruction

This provision (4.) does not apply to Coverage for Damage to Your Auto.

## **II. PART A - LIABILITY COVERAGE**

Part A is amended as follows:

- A. The definition of "insured" is replaced by the following:

"Insured" means:

1. You or any "family member" for the ownership, maintenance or use of <sup>your</sup> covered auto.
2. Any person using your covered auto.
3. For your covered auto, any person or organization but only with respect to legal responsibility for acts or omissions of a person for whom coverage is afforded under this Part

- B. The Exclusions Section is amended as follows:

1. Exclusion B.1 is replaced by the following:

We do not provide Liability Coverage for the ownership, maintenance or use of any motorized vehicle having fewer than four wheels. However, this exclusion (B. 1.) does not apply to a motorized vehicle having fewer than four wheels if it is insured for Liability Coverage under this endorsement

2. The following exclusion applies under Section A to any vehicle, for which the Schedule or Declarations indicates that this passenger hazard is excluded:

We do not provide Liability Coverage for any person for bodily injury person while occupying the described miscellaneous type vehicle.

## **III. PART B - MEDICAL PAYMENTS COVERAGE**

Exclusion I., of Part B is replaced by the following:

We do not provide Medical Payments coverage for any person for "bodily injury sustained while occupying" any motorized vehicle having fewer than four wheels. However, this exclusion (1.) does not apply to a motorized vehicle having fewer than four wheels if it is insured for Medical Payments Coverage under this endorsement

#### **IV. PART D - COVERAGE FOR DAMAGE TO YOUR AUTO**

Part D is amended as follows:

A. The following is added to the definition of "non-owned auto:"

3. Any motor home, motorcycle or other similar type vehicle, all terrain vehicle, dune buggy or golf cart you do not own while used as a temporary substitute for your covered auto which is out of normal use because of its:

- a. breakdown; d. loss; or
- b. repair; e. destruction;
- c. servicing;

B. With respect to the Stated Amount Coverage(s) shown as applicable to a vehicle described in the Schedule or in the Declarations, the Limit of Liability provision is replaced by the following:

##### **LIMIT OF LIABILITY**

Our limit of liability for loss will be the lesser of the:

- 1. Stated amount shown in the Schedule or
- 2. Actual cash value of the stolen or damaged property; or
- 3. Amount necessary to repair or replace the property.

Our payment for loss will be reduced by any applicable deductible shown in the Schedule or in the Declarations.

An adjustment for depreciation and physical condition will be made in determining actual cash value at the time of loss.

PP 03 02 **EXTENDED TRANSPORTATION EXPENSES COVERAGE**

Extended  
Transportation Expenses  
Coverage Premium

Increased Limits  
Transportation Expenses  
Coverage Premium

The provisions and exclusions that apply to Part D Coverage for Damage to Your Auto also apply to this endorsement except as changed by this endorsement

**A. EXTENDED TRANSPORTATION EXPENSES COVERAGE**

When there is a loss to a "your covered auto" described in the Schedule or in the Declarations for which a specific premium charge indicates that Extended Transportation Expenses Coverage is afforded, or to a "non-owned auto," we will pay, without application of a deductible, up to \$15 per day to a maximum of \$450 for:

1. Transportation expenses incurred by you.
2. Loss of use expenses for which you become legally responsible in the event of loss to a "non-owned auto."

This coverage applies only if:

1. "Your covered auto" or the "non-owned auto" is withdrawn from use for more than 24 hours; and
2. The loss is caused by "collision" or is otherwise covered under Part D of this policy.

However, this coverage does not apply when there is a total theft of "your covered auto" or a "non-owned auto." Such coverage is provided under Part D of this policy.

Our payment will be limited to that period of time reasonably required to repair or replace the "your covered auto" or the "non-owned auto."

**B. INCREASED LIMITS TRANSPORTATION EXPENSES COVERAGE**

When there is a loss to a "your covered auto" described in the Schedule or in the Declarations for which a specific premium charge indicates that Increased Limits Transportation, Expenses Coverage is afforded, or to a "non-owned auto:"

1. Coverage for Extended, Transportation Expenses Coverage provided under this endorsement is increased to \$30 per day up to a maximum of \$900. All other provisions of Extended Transportation Expenses Coverage apply.
2. Coverage for Transportation Expenses Coverage provided under Part D of this policy is increased to \$30 per day up to a maximum of \$900.

This endorsement must be attached to the Change Endorsement when issued after the policy is written.

**EXTENDED NON-OWNED COVERAGE FOR NAMED INDIVIDUAL**

**SCHEDULE**

<b>Name of Individual</b>	<b>Premium</b>
Liability	
Medical Payments	
Total Premium	<b>\$</b>

**I. LIABILITY COVERAGE**

Part A is amended as follows with respect to the individual named in the Schedule:

Exclusions A.5, A.7, B.2 and B.3 do not apply.

**II. MEDICAL PAYMENTS COVERAGE**

Part B is amended as follows if a premium is shown in the Schedule for Medical Payments with respect to the individual named in the Schedule:

A. Exclusions 5 and 6 do not apply.

B. The last sentence of Exclusion 8 is replaced by the following:

This exclusion (8.) does not apply to "bodily injury" sustained while "occupying" a

1. Private passenger auto, pickup or van; or

2. "Trailer" used with a vehicle described in 1 above.

III. This endorsement does not afford coverage under Part A or Part B of the policy for any accident involving a vehicle owned by the individual named in the Schedule or by a member of the same household, or any accident involving a temporary substitute vehicle for such owned vehicle.

This endorsement must be attached to the Change Endorsement when issued after the policy is written.

**. UNDERINSURED MOTORISTS COVERAGE**

Limit of Liability Each accident	SCHEDULE		
	Premium		
	Auto 1	Auto 2	Auto 3

**S**

**INSURING AGREEMENT**

A. We will pay compensatory damages which an "insured" is legally entitled to recover from the owner or operator of an "underinsured motor vehicle" because of "bodily injury:"

1. Sustained by an "insured;" and
2. Caused by an accident

The owner's or operator's liability for these damages must arise out of the ownership, maintenance or use of the, "underinsured motor vehicle,"

We will pay under this coverage only after the limits of liability under any applicable bodily injury liability bonds or policies have been exhausted, by payment of judgments or settlements.

B. "Insured" as used in this endorsement means:

1. You or any "family member."
2. Any other person "occupying" "your covered auto."
3. Any person for damages that person is entitled to recover because of "bodily injury" to which this coverage applies sustained by a person described in 1 or 2 above.

C. "Underinsured motor vehicle" means a land motor vehicle or trailer of any type to which a bodily injury liability bond or policy applies at the time of the accident but its limit for bodily injury liability is less than the limit of liability for his coverage. However, "underinsured motor vehicle" does not include any vehicle or equipment-

1. To which a bodily injury liability bond or policy applies at the time of the accident but its limit for bodily injury liability is less than the minimum limit for bodily injury liability specified by the financial responsibility law of the state in which "your covered auto" is principally garaged.
2. Owned by or furnished or available for the regular use of you or any "family member."
3. Owned by any governmental unit or agency.

4. Operated on rails or crawler treads.
5. Designed mainly for use of public roads while not upon public roads.
6. While located for use as a residence, or premises.
7. Owned or operated by a person qualifying as a self insurer under, any applicable motor vehicle law.
8. To which a bodily injury liability bond or policy applies at the time of the accident but the bonding or insuring company applies at the time of the accident but the bonding or insuring company:
  - a. denies coverage; or
  - b. is or becomes, insolvent

**EXCLUSIONS**

- A. We do not provide Underinsured Motorists Coverage for "bodily injury" sustained by any person:
1. While "occupying," or when struck by, any motor vehicle owned by you or any family member" which is not insured for this coverage under this policy. This includes a trailer of any type used with that vehicle.
  2. While "occupying" "your covered auto" when it is being used as a public or livery conveyance. This exclusion does not apply to a share the expense car pool.
  3. Using a vehicle without a reasonable belief that that person is entitled to do so.

B This coverage shall not apply directly or indirectly to benefit any insurer or self insurer under any of the following or similar law,

1. Workers' compensation law; or
2. Disability benefits law.

C. We do not provide Underinsured Motorists Coverage for punitive or exemplary damages.

**LIMIT OF LIABILITY**

- A. The limit of liability shown in the Schedule for this coverage is our maximum limit of liability for all damages resulting from any one accident. This is the most we will pay regardless of the number of-
1. "Insured's;"

2. Claims made;
  3. Vehicles or premiums shown in the Declarations; or
  4. Vehicles involved in the accident
- However, the limit of liability shall be reduced by all sums paid because of the "bodily injury" by or on behalf of persons or organizations who may be legally responsible. This includes all sums paid under Part A of this policy.
- B. Any amounts otherwise payable for damages under this coverage shall be reduced by all sums paid or payable because of the "bodily injury" under any of the following or similar law-
    1. Workers' compensation law; or
    2. Disability benefits law.
  - C. Any payment under this coverage will reduce any amount that person is entitled to recover under Part A of this policy.
  - D. No one will be entitled to receive duplicate payments for the same elements of loss.

#### **OTHER INSURANCE**

If there is other applicable similar insurance we will pay only our share of the loss. Our share is the proportion that our limit of liability bears to the total of all applicable limit. However, any insurance we provide with respect to a vehicle you do not own shall be excess over any other collectible insurance.

#### **ARBITRATION**

- A. If we and an "insured" do not agree:
  1. Whether that person is legally entitled to recover damages under this endorsement; or
  2. as to the amount of damages;

Either party may make a written demand for arbitration. In this event, each party will select an arbitrator. The two arbitrators will select a third. If they cannot agree within 30 days, either may request that selection be made by a judge of a court having jurisdiction.

- B. Each party will:
  1. Pay the expenses it incurs; and
  2. Bear the expenses of the third arbitrator equally.
- C. Unless both parties agree otherwise, arbitration will take place in the court in which the "insured" lives. Local rules of law as to procedure and evidence will apply. A decision agreed to by two of the arbitrators will be binding as to:
  1. Whether the "insured" is legally entitled to recover damages; and
  2. The amount of damages. This applies only if the amount does not exceed the minimum limit for bodily injury liability specified by the financial responsibility law of the state in which "our covered auto" is principally garaged. If the amount exceeds that limit, either party may demand the right to a trial. This demand must be made within 60 days of the arbitrators' decision. If this demand is not made, the amount of damages agreed to by the arbitrators will be binding.

#### **ADDITIONAL DUTY**

Any person seeking coverage under this endorsement must also promptly send us copies of the legal papers if a suit is brought

This endorsement must be attached to the Change Endorsement when issued after the policy is written.

**COVERAGE FOR AUDIO, VISUAL AND DATA  
ELECTRONIC EQUIPMENT AND TAPES, RECORDS,  
DISCS AND OTHER MEDIA**

PP 03 13 12 89

SCHEDULE

Description of Vehicles	Limit of Liability	Premium	Coverage for Audio, Visual and Data Electronic Equipment	Coverage for Tapes, Records, Discs and Other Media ONLY
			\$ <b>\$200</b>	
			\$ <b>\$200</b>	
			<u>\$200</u>	

The provisions and exclusions that apply to Part D - Coverage for Damage to Your Auto, other than Exclusion 4., also apply to coverage provided by this endorsement except as modified herein.

**INSURING AGREEMENT**

We will pay, without application of a deductible, for direct and accidental loss to any electronic equipment that receives or transmits audio, visual or data signals and is not designed solely for the reproduction of sound. This coverage applies only if the equipment is permanently installed in "your covered auto" at the time of the loss.

We will also pay, without application of a deductible, for direct and accidental loss to:

1. Any accessories used with electronic equipment permanently installed in "your covered auto" and not designed solely for the reproduction of sound; and
2. Tapes, records, discs or other media if they are:
  - a. your property or that of a "family member;" and
  - b. in "your covered auto" at the time of the loss.

**EXCLUSION**

We will not pay, under this endorsement, for any electronic equipment that is:

1. Necessary for the normal operation of the auto or the monitoring of the auto's operating systems; or
2. Both:
  - a. an integral part of the same unit housing any sound reproducing equipment designed solely for the reproduction of sound if the sound reproducing equipment is permanently installed in "your covered auto;" and
  - b. permanently installed in the opening of the dash or console of "your covered

auto." This opening must be normally used by the manufacturer for the installation of a radio.

**LIMIT OF LIABILITY**

With respect to coverage under this endorsement, the Limit of Liability provision of Part D is replaced by the following:

1. Our limit of liability for the total of all losses to audio, visual or data electronic equipment and any accessories used with this equipment, as a result of any one occurrence shall be the lesser of the:
  - a. stated amount shown in the Schedule or in the Declarations;
  - b. actual cash value of the stolen or damaged property; or
  - c. amount necessary to repair or replace the property.
2. Our limit of liability for the total of all losses to tapes, records, discs or other media, as a result of any one occurrence shall be the lesser of:
  - a. \$200;
  - b. the actual cash value of the stolen or damaged property; or
  - c. the amount necessary to repair or replace the property

If coverage for audio, visual or data electronic equipment and accessories used with the equipment is purchased, the limit of liability applicable for losses to tapes, records, discs or other media is in addition to the limit of liability applicable to audio, visual or data electronic equipment and any accessories used with the equipment
3. An adjustment for depreciation and physical condition will be made in determining actual cash value at the time of loss.

This endorsement must be attached to the Change Endorsement when issued after the policy is written,

**CUSTOMIZING EQUIPMENT COVERAGE**  
(Stated Amount insurance)

PP 03 IS 12 89

SCHEDULE

Other Description of Vehicle	Other Than Collision	Other Than Collision	Limit of Liability Premium		
			Collision	Collision	Collision
Less	Less				
Ded	Ded				
Less	Less				
Ded	Dad				
Less	Less				
Dad	Ded				

The provisions and exclusions that apply to Part D - Coverage for Damage to Your Auto also apply to coverage provided by this endorsement except Exclusion 10. and the -Limit of Liability provision.

A. With respect to the coverage's and vehicles shown in the Schedule or in the Declarations as subject to this endorse-

ment, we will pay for direct and accidental loss to custom furnishings or equipment including, but not limited to:

1. Special carpeting and insulation, furniture or bars;
2. Facilities for cooking and sleeping;
3. Height- extending roofs;
4. Custom murals, paintings, or other decals or graphics.

B. We will not pay, under this endorsement, for:

1. Any electronic equipment that is:  
A. necessary for the normal operation for the auto or monitoring of the auto's operating systems; or

b. both:

- (1) an integral part of the same unit housing any sound reproducing equipment designed solely for the reproduction of sound if the sound reproducing equipment is permanently installed in "your covered auto;" and
- (1) permanently installed in the opening of the dash or console
- (4) The opening must be normally used by the manufacturer for the installation of a radio.

2. A camper body or "trailer" you:  
a. acquired during the policy period; and

b. ask us to insure within 30 days after you become the owner.

C. With respect to the coverage's and vehicles shown in the Schedule or in the Declarations, the Limit of Liability provision in Part D is replaced by the following:

**LIMIT OF LIABILITY**

Our limit of liability for loss to custom equipment shall be the lesser of the:

1. Stated amount shown in the Schedule or in the Declarations;
2. Actual cash value of the stolen or damaged property; or
3. Amount necessary to repair or replace the property.

Our payment for loss will be reduced by an applicable deductible shown in the Schedule or in the Declarations. If a loss results in damage to the described vehicle and its customized equipment, the deductible applies only once. The amount for depreciation and physical condition will be made in determining the actual cash value at the time of loss.

This endorsement must be attached to the Change Endorsement when issued after the policy is written,

**TOWING AND LABOR COSTS COVERAGE**

Description Of Your covered auto	SCHEDULE Limit of Towing and Labor Costs Coverage	Premium
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We will pay towing and labor costs incurred each time “your covered auto” or any non-owned auto is disabled, up to the amount shown in the Schedule or in the Declarations as applicable to that vehicle. If a “non-owned auto” is disabled, we will provide the broadest towing and labor costs coverage applicable to any “your covered auto” shown in the Schedule or in the Declarations. We will only pay for labor performed at the place of disablement

This endorsement must be attached to the Change Endorsement when issued after the policy is Written.



**STUDY QUESTIONS**

1. The Miscellaneous Type Vehicles Endorsement is designed to
  - A. provide coverage for tractors and farm vehicles.
  - B. provide certain coverage’s for boats and airplanes.
  - C. provide coverage for vehicles not provided coverage under a PAP
  - D. provide coverage for foreign, show and antique cars.
  
2. If transportation expenses are provided by Endorsement,
  - A. the insured car must be totally stolen.
  - B. the insured car must be stolen, and can be a partial theft, in which case this Endorsement would pay for a rental car.
  - C. but the “per day” and “maximum” allowance for rental cars is not changed.
  - D. the insured auto does not have to be insured under Section D.
  
3. A taxi driver has a commercial auto policy. He wants to purchase secondary coverage that can give him more liability coverage.
  - A. He can purchase a PAP with an Extended Non-owner coverage.
  - B. He cannot increase his coverage’s from a Commercial policy.
  - C. If he bought a PAP, the policy would become primary.
  - D. He would have to purchase Inland Marine coverage to provide secondary coverage.

4. Henry's business auto is insured under a separate policy from his PAP. The PAP excludes payments if the insured or family member were injured while struck by an owned or regularly available vehicle. What can Henry do to get coverage in case his family car and business car were involved in the same accident?
  - A. There is nothing he can do.
  - B. He can purchase a "Non-Exclusive Endorsement" that eliminates all such exclusions.
  - C. He can purchase an "Extended Non-owner Endorsement" that takes care of that.
  - D. Transfer ownership of the company car to a family member.
  
5. Where Jim lives there are many newly arrived immigrants who are not used to American roads, cars or driving habits and many cannot read English. The majority of the drivers carry the absolute minimum of coverage as they cannot afford anything higher, and most of them are not used to having insurance anyway. Jim concerned that if he were involved in an accident; there would not be sufficient insurance from the other driver's insurance, to take care of his losses. What can he do?
  - A. Not much. The law cannot arbitrarily be changed to make immigrants buy higher limits.
  - B. He can purchase Uninsured Motorists Coverage, and that would take care of any of them who do not have insurance.
  - C. He can purchase Underinsured Motorists Coverage.
  - D. He can purchase Increasing Liability coverage.
  
6. Bert seems to be always carrying cell phones, cameras, miniature television sets, PALM computers, portable disc players, and other such equipment in his car. He goes to night school and often has to park in a high-crime area and he often is in a big hurry and forgets to lock these items in his trunk. What can he do?
  - A. Not much, other than remember to lock them in the trunk, or take them out of the car at home.
  - B. He can purchase an Endorsement that covers Audio, Visual and Data Electronic Equipment and Media.
  - C. If he puts in a sophisticated alarm system in his car, his insurance will cover these items.
  - D. He can install an electronics drawer under the dash, with a special lock that he can keep these items in when not in use. They would therefore be covered for theft.
  
7. Ronald has a PAP and after about 2 years, he notices that his name is wrong (it should be Donald). Because his brother is named Ronald, he wants it corrected. How does the insurer do that?
  - A. By Endorsement.
  - B. By letter.
  - C. By E-Mail.
  - D. By making a note in the file.

8. Only two endorsements provide the effective date and the effective date of the change.
- A. The Date Endorsement and the Policy Period Endorsement.
  - B. The Change Endorsement and the General Endorsement.
  - C. The Miscellaneous Type Vehicles and the Extended Non-owner Coverage Endorsement.
  - D. The Extended Transportation Endorsement and the General Endorsement.
9. What Endorsement is used when there are no other pre-printed Endorsement forms available?
- A. The Change Endorsement.
  - B. The General Endorsement.
  - C. The Empty Endorsement.
  - D. The Multi-Purpose Endorsement.
10. Jack has a PAP with Towing and Labor Costs Endorsement. This Endorsement covers
- A. the charge for a tow truck only.
  - B. repair work performed at an auto repair shop while more than 50 miles from home.
  - C. towing, servicing on the spot, and any later repairs that have to be made.
  - D. towing and servicing “on the road.”

#### **ANSWERS TO STUDY QUESTIONS**

1C 2B 3A 4C 5C 6B 7A 8B 9B 10D



## XI. PREMIUMS

This text has provided discussions regarding the legal aspects of a Personal Automobile Policy and policy provisions. As indicated in the discussions of Contracts, the consideration for an insurance policy is the premium paid by the policyholder to the insurer. Premiums are calculated differently by types of insurance, e.g. for life insurance premiums are obtained from tables by sex, age, smoking status, etc. For automobile insurance, premiums are more complicated for an agent because of the various types, age, replacement values and use of vehicles, driving record, specific coverage, geographical area and other factors that may apply.

In automobile insurance, premiums are determined by published rates, which are defined as the cost of a unit of insurance. The premium is determined by multiplying the base rate by the applicable rating factor.

The premium is determined from the base rate which is published rates for specific coverage, such as bodily injury and property damage. An example might be the base rate of \$250 for auto liability coverage of \$250,000. This would be considered as a base rate.

If the insured/applicant's driving record is not good, a rating factor will be used. Example might be a rating factor of 1.5 for a particular individual because of the driving record. Therefore, the \$250 base rate would be multiplied by 1.5 for a premium of \$375. This would be the premium.

As is obvious, the premiums for auto insurance depend upon the "rates." Rates are determined by statistical rating bureaus based upon a very large and broad statistical database of loss and expense experience. Rates are affected by many other factors, such as governmental regulation and public policy.

From the viewpoint of regulations, any rates must be

1. Reasonable
2. Adequate
3. Do not unfairly discriminate.

**Reasonable Rates:** The reasonableness of rates can be determined by the earnings of the property-liability companies. Historically, these earnings have not been large as the costs of repair and replacement of automobiles has increased disproportionately because of jury awards, the cost of replacement of technology, and increasing company expenses.

**Adequate Rates:** Since insurance is regulated by the individual states, and since most Insurance Commissioners are political, rate increases are not popular so many Insurance Departments are more concerned as to whether they are "reasonable." Most states now have state guaranty funds supported by mandatory insurance company contributions that help to guaranty adequacy to some degree.

**Non - Discriminatory Rates:** Discrimination in rate-making does not necessarily refer to race discrimination, but that they do not unfairly discriminate in any fashion. Since factors such as age, sex and marital status are important and relevant to rate-making, insurers continue to make the case that this is not unfair discrimination but an essential part of determining the proper premium. Unfortunately some states have eliminated, or tried to eliminate, rate classifications based on these factors.

## **BASIC FACTORS IN AUTO RATING**

Automobile rates are based upon “classes” as a result of similar exposures grouped together, and the rates used for each group are therefore charged to each member of the group (spread of risk). If an insurer charged different rates within each “class”, that would be considered as “unfair” discrimination by the Insurance Departments. The “Classes” in most states are as follows:

### **AGE.**

Younger drivers drive more miles, drive faster and have more losses, both in number and in severity. Statistics reveal that these traits seem to start at around age 18 and continue through age 28 or age 30, principal reasons for the decrease in losses can be attributed to more experience in driving.

### **SEX.**

Females as a general rule have lower rates than males. The reasons are many, but include the fact that young males have more interest in racing and taking unnecessary chances, young married women are less likely to be in the workforce and therefore not in heavy commuter traffic (although this is changing) and when couples travel, usually the male does the driving.

### **GEOGRAPHY.**

The average cost of claims varies widely from location to location. One area might concentrate on making highways safer, or autos safer through vehicle inspections. Other areas may strictly enforce traffic laws leading to fewer accidents. Insurers generally use the location of where the vehicle is garaged, but there is a trend to base rates on where the auto is primarily used.

### **MARITAL STATUS.**

Single drivers are more inclined to use their automobiles at night than married persons, and often include alcohol or entertainment. They also have more of a tendency to drive high-performance vehicles. The difference in losses between married and unmarried female drivers is less than between married and single male drivers.

## **OTHER FACTORS.**

There are other factors than can make a difference in rating automobile insurance:

### ***Driver Education:***

Under certain types of Driver Education, discounts may apply for those successfully completing a Driver Education course.

### ***Student Discounts.***

Some companies allow discounts for those students who maintain a B average or above consistently.

### ***Multiple Car Discounts.***

If a family has more than one automobile, a discount is usually given because insuring more than one auto on the same family has lower expenses, and usually the cars are driven less.

### ***Merit Ratings.***

Those with a good driving record can receive a discount in premiums. However if losses occur later, the insured can lose the discount for a period of time (usually three years) without losses. Some insurers charge “points” against tickets for moving violations and accidents.

## **INSTALLMENT PAYMENTS**

Some states allow payment of premiums on an “installment” basis. As an example, Georgia allows this payment method; however they require “Premium Payment Plan Examples”, which list

“If the Total Policy Premium is: (amounts \$100 to \$1000)

“And You Put Down: (amounts of \$30, \$50, \$75, \$100, \$150, \$200 and \$250)

“The Balance subject To FINANCE CHARGE Will Be: (2d column subtracted from 1<sup>st</sup> column)

“The Total Number of Monthly Installments Will Be: (from 3 months to 10 months)

“The Monthly Installment before Adding the Finance Charge Will Be: (amount)

“The Total FINANCE CHARGE For All Installments Will Be: (amount)

“And The Total Deferred Payment Price Will Be: (amount)”

It is apparent that the consumer will be provided with all of the information should they choose this method of premium payment. The interest charge will vary, but in Georgia, for instance, it is 1.25% per month on the unpaid balance, or 15% annual percentage rate. It is essential that, in those states that allow installment premium payments of this type that the applicant is made aware of the interest charges before they apply for the insurance.

## RATING INFORMATION

For a Personal Automobile Insurance policy, rating information – the categories that determine the premium for a policy – varies by state and by company. The following Rating Information resembles that offered by one of the leading Automobile insurance companies. Each rating class is further categorized by individual or family policy and whether farm use or not.

PLEASE REFER TO THE “RATING MANUAL” SECTION FOR FURTHER DETAILS

### RATING INFORMATION

(Pleasure use, Business use, Commuting, and Ages of Operators)

The premiums your policy are based principally on the use of the car and the ages of the regular operators

The principal rating factors are shown below and the corresponding RATING CLASS numbers are shown under RATING CLASS on the policy.

A. RESIDENT STUDENTS - Youthful unmarried occasional operators away at school over 100 miles from the place of principal garaging of the car are classified as RESIDENT STUDENTS.

B. CAR POOL X DISCOUNT - Automobiles used in Car Pools for driving to or from work on less the daily basis will be classified as follows:

1. Cars in the "commuting 3 or more but less than 10 miles" classifications shall be classified as commuting "less than 3 miles" if the total usage of the car in driving to or from work is not more than two days per week or not more than two weeks per each five week period,
2. Cars in the "commuting 10 or more miles" classifications shall be classified as "commuting 3 or more but less than 10 miles" if the total usage of the car in driving to or from work is not more than two days per week or not more than two weeks per each five week period.

### PRINCIPAL COMPONENTS OF APPLICABLE CLASSIFICATIONS

#### Rating Class

01, 07 Pleasure use - no youthful operators - commuting less than 3 miles one way – principal operator age 50-64.

02, 08 No Youthful operators - commuting 3 or more but less than 10 miles one way - principal operator age 50-64

03, 09 No youthful operators - commuting 10 or more miles one way - principal operator age 50-64

04, 05\* Business use - no youthful operators - principal operator age 50-64

11, 24 Pleasure use - no youthful operators - commuting less than 3 miles one way - no principal operator over age 49.

12, 25 No youthful operators, commuting 3 or more but less than 10 miles one way - no principal operator over age 49.

13, 26 No youthful operators - commuting 10 or more miles one way - no principal operator over age 49

(Classes 11, 12, 13 may include an unmarried female Resident Student under age 25)

15 Farm use - no youthful operators - no commuting use - no principal operator age 65 or over.

20, 27\* No youthful operators - commuting less than 3 miles one way - uses auto less than 7500 miles annually - no principal operator over age 49.

22, 28\* No youthful operators - commuting 3 or more but less than 10 miles one way - uses auto less than 7500 miles annually - no principal operator over age 49.

30, 98\* Business use - no youthful operators - no principal operator over age 49

36, 56\*\* Unmarried female occasional operator under 21 years of age

37, 57\*\* Unmarried female principal operator under 21 years of age

38, 58\*\* Unmarried female occasional operator 21-24 years of age

39, 59\*\* Unmarried female principal operator 21-24 years of age

46, 48\* No youthful operators - commuting less than 3 miles one way – uses auto less than 7500 mile annually, - principal operator age 50-64.

47, 49\* No youthful operators - commuting 3 or more but less than 10 miles one way- uses auto less than 7500 miles annually - principal operator age 50-64.

51, 55\*\* Unmarried male principal operator age 25-29

52, 53\*\* Unmarried male principal operator age 25-29 insured with this company for 40 months without any accidents or convictions

60, 99\*\* Business use - no youthful operators - there is a principal operator age 65 or over.

61, 67\* Pleasure use - no youthful operators - commuting less than 3 miles one way – there is a principal operator age 65 or over.

62, 68\* No youthful operators - commuting 3 or more but less than 10 miles there is a principal operator age 65 or over.

63, 69\* No youthful operators - commuting 10 or more miles one way – there is a principal driver age 65 or over.

65 Farm use - no youthful operators - no commuting use - there is a principal operator age 65 or over.

81, 85\*\* Unmarried male occasional operator under 21 years of age

82, 86\*\* Unmarried male operator under 21 years of age or unmarried male RESIDENT STUDENT under 21 years of age

83, 87\*\* Unmarried male principal operator under 21 years of age

91, 95\*\* Unmarried male occasional operator 21-24 years of age

92, 96\*\* Unmarried male operator 21-24 years of age or unmarried male RESIDENT STUDENT 21 - 24 years of age

93, 97\*\* Unmarried male principal operator 21-24 years of age

\*Homeowner, all adult operators are accident free and motor vehicle violation conviction free for 40 months. However, if the policy has been in force for 36 months, one minor motor vehicle violation by an adult operator

For new and renewal multi-car policies, one minor motor vehicle violation by an adult operator is permitted. Or, if the policy has been in force for 60 months, one accident by an adult operator is permitted.

Only one of these exceptions may apply to the policy.

\*\*Automobile also has a farm use.

## **RATING PROCEDURES AND FUNCTIONS**

The actual procedure of arriving at a premium for a particular policy in this technological age, is simply entering the required information into a computer, and then, suddenly and mysteriously (if the program is working correctly), the applicable premium appears.

The basic information that is entered has been discussed earlier. Various companies and various policies require other information. The insurance company's application provides the necessary information to initiate the rating procedure. During the underwriting process, if

additional information is uncovered – such as an inspection report that reveals that there is an additional youthful driver in the family or a check of Motor Vehicle Records shows an unreported traffic citation – this information is entered into the program and the appropriate premium is developed.

Analogous to the importance of knowing what data (and why) goes into determining premiums, consider the fact that just as computers and calculators have the ability to perform mathematical functions far beyond the abilities of their operators (in most cases), it is still necessary for the operators to be able to understand basic math. For instance, a spread sheet program allows for functions to be entered providing certain statistics, but in order for the formula to be accurate, there must be a basic knowledge of what is needed. As an example, if a number in a specified cell (such as A1), is to be increased by 5% in the next cell and subsequent cells, the operator would enter a formula that would state in effect: Multiply the number in cell A1 by 1.05 and show it in cell A2. Do the same for the next 8 cells in this row.” The operator must know enough math to be aware that in order to arrive at the needed number, there must be a multiplication function, and that that function would be (A1) times 1.5.

Therefore, in order to understand how the computers arrive at the premium, a discussion of the factors and procedures is needed. One may ask why go through all of this detail. The answer is that to be a good driver, one must know more than turn on the key, push on the accelerator, turn the wheel, and put your foot on the brake to stop. In the same vein, a good insurance agent must know how the premiums are determined for each policy, which allows them to answer the customer’s questions and further emphasizes the necessity of reporting all of the appropriate and applicable information to the insurance company.

Before the discussion of the rating procedure, if one is not or never has been personally involved in the calculation of premiums or has not studied the subject in detail, a practical question arises: If the information contained in computers (or Rate Manuals) is used by all automobile insurers, why is it that premiums vary for the same identical risks, company by company? (For purposes of this discussion, “Rate Manual” may be construed to also mean the information [data] contained in the computer programs from which the applicable premiums are derived.)

Some insurance companies may use the same basic data as one down the street, but their premiums can be substantially lower. The companies that use the premiums as determined by using the statistics contained in the Rate Manual are called, for obvious reasons, Manual Rates Companies. Many, if not most, companies will vary from the Manual Rates and will “deviate” from the rates by some factor. Keep in mind that all premiums must be approved by the various Departments of Insurance, and the company actuaries must be able to prove to the insurance departments that the rates meet their requirements (see above) and that the company will be able to write auto insurance in their state at the supplied premiums, and be able to show enough profit so that the company will not bankrupt itself, or withdraw from the state, leaving irate policyholders without coverage.

As discussed earlier, the company must support their rates by using statistical data, the basis of the Rate Manual as provided by the Insurance Service Office, and/or the company's own experience, or the experience of a company so similar that any deviation from the Manual Rates can be illustrated, and subsequently approved.

As examples, consider a national company, operating in the majority of the states that has been in business for 50 years, and is one of the top 5 auto insurance companies in respect to premium in the country. This company would, in all likelihood be a top "Rated" company. Therefore, if their own experience in Colorado (for instance) shows that they have a lower loss ratio in that state, than they have in Kansas (for instance), the Colorado Insurance Department would probably accept their statistics and allow them to offer their policy at a lower premium there. Conversely, in Kansas, the Insurance Department would probably allow them to offer their policy at a higher premium – but would review their statistics very closely.

Another company could be in a particular market that by its nature, allows for a lower loss ratio. For instance, a company that accepts only non-drinkers would have a better experience than other companies.

Conversely, a company that accepts "sub-standard" risks would have a higher loss ratio, and would deviate upwards, i.e. would charge more premiums. Companies whose policyholders mostly reside in heavily populated cities would have a higher loss ratio than those companies who write in rural areas, if all things are equal and the premiums are the same.

Many companies have made a practice of "red-lining" certain areas where they will not accept new applicants, such as areas considered by many as "ghettos." This has been found to be discriminatory as most of these urban areas consist of minorities, and the Insurance Departments have taken action against such underwriting tactics.

Underwriting contributes to added premium – and on occasion, a reduction in anticipated premium by an applicant – because of the information, data and statistics available to the underwriters. Inspection reports are a valuable underwriting tool (see discussion on Moral and Morale Risks) as they can uncover many factors not reported on an application. Motor Vehicle Records (MVRs) are available in most states to insurance companies and are heavily used to determine the driving record of insurance applicants and policyholders.

All of these factors go into the determining of the proper premium for the particular risk.



## STUDY QUESTIONS

1. In auto insurance, the cost of a unit of insurance determines the
  - A. policy terminology.
  - B. published rates.
  - C. insurability of the applicant.
  - D. commission.
2. If an individual's premiums are increased by 50% over the published rates, this is probably because of
  - A. the applicant's health.
  - B. the applicant's driving record.
  - C. the agent's commission.
  - D. the required profit margin of the insurer.
3. From the viewpoint of regulation, any rates must be
  - A. reasonable, adequate and not unfairly discriminatory.
  - B. lower than those offered by any other insurance company.
  - C. based upon the earnings of the industry as a whole.
  - D. approved by the Secretary of State of each state.
4. Discrimination in rate making refers to
  - A. race discrimination only.
  - B. race, age, sex and marital status.
  - C. competition among insurance companies.
  - D. charging more in one geographical area, then in another.
5. Auto insurance rates are based upon similar exposures being grouped together. These groups are called
  - A. classes.
  - B. Basic Factors.
  - C. rates.
  - D. exposure ratings.
6. The rating classes do not include \_\_\_\_\_ of the principal operator.
  - A. age
  - B. sex
  - C. nationality
  - D. marital status.
7. In some states, PAP premiums may be paid
  - A. whenever the insured wants to pay them.
  - B. by exchange of like services.
  - C. on a monthly "installment" plan.
  - D. partially by an agent.

8. "Deviating" in premiums means
- A. increasing premiums in all categories.
  - B. decreasing premiums in all categories.
  - C. using the premiums established by the ISO or other statistics and filed with the Ins. Dept.
  - D. varying from the premiums filed with the Insurance Department.
9. An underwriting practice that has been outlawed in most, if not all, states, is "redlining." This is
- A. refusing to insure certain vehicles, such as sports cars.
  - B. specifying certain low-risk areas as "preferred" areas and paying higher commissions for business from those areas.
  - C. where an underwriter contacts all drivers of red sports cars, in the hopes that they may be single girls who statistically, drive such cars.
  - D. designating certain areas, usually lower income areas, where they will not accept new applicants.
10. Automobile insurance underwriters rely upon information obtained from
- A. newspapers and trade publications.
  - B. the local library.
  - C. the net.
  - D. inspection companies and Motor Vehicle Bureaus.

#### **ANSWERS TO STUDY QUESTIONS**

1B 2B 3A 4B 5A 6C 7C 8D 9D 10D



## **XII. PERSONAL AUTO INSURANCE RATING MANUAL INFORMATION**

This description and outline of a Personal Automobile Insurance Rating Manual is to be used only for illustrative purposes. Where premiums or rates are quoted, they are only examples and are not to be quoted or used for any other purpose other than for education and training.

Some of the more confusing parts of this typical manual, including such items as “Code Numbers” and “Symbols” are used only for training purposes. If the student is in a position to rate insurance policies, these and other technical terms will be well understood. In any event, most people never concern themselves with these technicalities, as the computer will perform the functions described in the Manual.

One should always remember the very applicable adage when entering data into a computer to arrive at the proper premiums: “Garbage in – Garbage out.” Reviewing the Rating Manual will help in correctly rating by computer, as the student should at least understand why certain DATA is entered, and will be aware of why the computer asks for the information. NOTHING is unimportant in entering or reporting information to the insurance company for the purpose of determining the premium.

The Rating Manual is (was) usually presented in a manner very similar to that described as follows. Basic questions will be asked at various intervals so that the purpose of the Manual information can be absorbed. Some of it may appear to be (and actually is) repetitive from earlier discussions of the provisions of the insurance contract, especially the first section of the Manual. However, there may be differences that do not seem important, but are quite important in this discussion of rates and premium calculations.

The first section of a Rate Manual would be typically similar to the following:

### 1. Definitions

- A. 1. A private passenger auto is a four wheel motor vehicle, other than a truck type, owned or leased under contract for a continuous period of at least six months, and
  - a. not used as a public or livery conveyance for passengers,
  - b. not rented to others.
2. A motor vehicle that is a pickup or van shall be considered a private passenger auto, if
  - a. it is owned by an individual or by a husband and wife who are residents of the same household;
  - b. has a Gross Vehicle Weight of less than 10,000 lbs.; and
  - c. is not used for the delivery or transportation of goods or materials unless such use is:
    - 1) Incidental to the insured's business of installing, maintaining or repairing furnishings or equipment, or
    - (2) For farming or ranching.

A pickup or van used in the business of the United States Government, by an employee of the Government, shall be considered a private passenger auto only if:

- a. it meets the conditions in a., b. and above c.; and
  - b. coverage is limited in accordance with the federal employees using autos in government business endorsement
3. a motor vehicle owned by a farm family co-partnership, or farm family corporation shall be considered a private passenger auto owned by two or more relatives who are residents of the same household if:
- a. it is principally garaged on a farm or ranch, and
  - b. it otherwise meets the definitions in 1 and 2 above.

Generally, private passenger automobiles are four-wheel vehicles which are not used to carry passengers for a fee (livery) or rented to others. Pickups and vans are treated as private passenger automobiles if they are less than 10,000 in weight and aren't used in the business, except for farming.

B. AUTO as used in the manual refers to a private passenger auto or a vehicle considered as a private passenger auto.

C. LIABILITY as used in the manual refers only to Bodily Injury and Property Damage Coverage's.

D. SINGLE LIMIT LIABILITY as used in the manual refers to one limit of liability that covers both Bodily Injury and Property Damage.

Liability and Single Limit Liability as used for rating purposes are not necessarily the same as the "legal" definition; therefore they must be defined for these purposes.

E. COMPREHENSIVE COVERAGE as used in the manual refers to other than collision damage to a motor vehicle.

F. OWNED as used in the manual includes an auto leased under contract for a continuous period of at least six months. If an auto lease contract requires the lessee to provide primary insurance for the lessor, attach the additional insured lessor endorsement

The "Eligibility" of a Personal Auto Policy is set forth in the rating manual to describe the functions of the PAP and when it should apply. The Manual would be similar to the following:

2. PERSONAL AUTO POLICY - ELIGIBILITY

A. A Personal Auto Policy shall be used to afford coverage to private passenger autos and motor vehicles considered as private passenger autos in Rule 1., if:

1. They are written on a specified auto basis, and
2. They are owned by an individual or by a husband and wife who are residents in the same household.

B. A Personal Auto Policy shall be used to afford coverage to private passenger autos that are owned jointly by two or more:

1. Relatives other than husband and wife; or

2. Resident individuals; if
  - (i) They are written on a specified auto basis, and
  - (ii) Coverage is limited in accordance with the miscellaneous type vehicle endorsement.
- C. A Personal Auto Policy shall be used to afford coverage to motorcycles, motor homes, golf carts or other similar type vehicles and snowmobiles if:
  1. They are written on a specified vehicle basis,
  2. They are owned by an individual, by a husband and wife who are residents of the same household, or by two or more resident relatives, and
  3. Coverage is limited in accordance with the miscellaneous type vehicle or snowmobile endorsement.
- D. A Personal Auto Policy shall be used to afford coverage to a named individual who does not own an auto. The named non-owner coverage endorsement must be attached.

Exception Exposures in A., B. or C. above may be written under a commercial auto policy when combined with a commercial risk.

This subject of eligibility has been covered early in the text, with no difference between the policy and the rating manual. One additional factor: If two unrelated individuals reside together, a Joint Ownership Endorsement is attached to the policy. Also, a PAP can be issued to cover an auto owned by relatives other than husband and wife.

### *3. PREMIUM DETERMINATION*

The Classification of automobiles is of utmost importance in determining the PAP premiums. The definitions in the Manual, as shown below, are detailed as to use, operators, and to the automobile itself. The referrals to the “rules” below are covered in detail later, and the first section is general instructions as to determination of their classification.

Single Limit Liability, or Bodily Injury and Property Damage Liability; Medical Payments; Comprehensive and Collision premiums are determined as follows:

A. Refer to the Classification Rule to determine the applicable Classification, Rating Factor and Statistical Code.

B. Refer to the Model Year/Age Group Rule to determine the model year/age of the auto and refer to the Symbol and Identification Section for the appropriate symbol of the auto.

When model year is used in rating and the rates for a model year are not displayed in the rate pages, use the rates shown for the latest model year.

C. Refer to Territory Definitions to determine the territorial schedule code number for the location where the auto is principally garaged.

Note: When a risk is statutorily required to have, or is eligible for, a coverage that is not available in the territory of principal garaging, use the registration address to determine the territory for that coverage.

D. Refer to the State Rate Sheets to determine base rates for the desired coverage for the appropriate territory.

E. For Stated Amount Comprehensive multiply the rate by the limit of liability to determine the Base Premium.

F. The premium for each of the coverage is determined by multiplying the base rate by the appropriate rating factor and adding the appropriate Expense Fees according to the following rule:

#### EXPENSE FEES

Expenses are determined by localities and are shown on State Rate pages. Because of the detail and the volume of information on State Rate pages, they are not shown in this text. Expenses are added to the Base Rate, and importantly, are not affected by any rating plans or rules. The Expense Factor is intended to pay for, or partially pay for, the administrative cost of issuing the policy, and has no effect on any other part of the rate making procedure. Theoretically, it costs no more to issue a single limit, minimum liability limit policy on an old beat-up pickup, than it would for a high-limit policy covering a new Mercedes. For illustrative purposes, the State Section of the Rating Manual consists of several factors:

1. The State is divided into Territories; each Territory is assigned a code number. The rates are then shown in tables that show the rates for
  - A. Single Limit Liability
  - B. Bodily Injury Limit
  - C. Property Damage in thousands (000)
  - D. Medical Payments
  - E. Deductible Comprehensive (by Deductible amounts, e.g. \$100, 200, \$300, etc.) and by Age Group
  - F. Deductible Collision, by Age Group and "Symbol" Group.
2. Rates for Miscellaneous coverage, such as Uninsured Motorists Coverage, Underinsured Motorists Coverage, and Non-owners rates.
3. Rates for Increased Limits, for increasing the Single Limit BI, BI Liability, and PD.
4. Miscellaneous types, such as trailers, etc.
5. Territory Definitions
  - A. Breaks down the state by population centers, Cities and more heavily populated Counties, and assigned a Territorial Schedule and Code for rating purposes.
  - B. List of important Cities and Towns

C. Symbol and Identification Section. This lists information on all vehicles, by Model and Body type, Rating Symbol and Code, VIN (Vehicle Identification Number), and the Engine displacement and the number of cylinders.

The Rating Manual continues to show the applicability of Expense Fees:

1. Refer to State Rate pages to determine the applicable Expense Fees.
2. Expense Fees are added separately to the premium for the Single Limit Liability or Bodily Injury and Property Damage Liability, Comprehensive, Collision and No Fault Coverage's applying to each auto.
3. Expense Fees are not subject to modification by the provisions of any rating plans or other rating rules (e.g., Classifications, Safe Driver Insurance Plan, Increased Limits factors, Physical Damage Deductible factors, etc.).
4. Expense Fees are subject to the Cancellation and Suspension provisions of this manual.
5. Expense Fees apply to the rates for Miscellaneous Types vehicles as follows:
  - a. Motorcycles, Go Carts and Similar Vehicles  
Add the expense fees to the B.I., P.D., Comprehensive, Collision and, if applicable, No Fault' rates that apply.
  - b. Snowmobiles and All-Terrain Vehicles, Dune Buggies, Golf carts and Antique Autos  
Add the expense fees to the Liability rates and, if applicable, No Fault rates.
  - c. Classic Autos, Electric Autos and Motor Homes  
Add the expense fees to the Liability, Physical Damage and, if applicable, No-Fault rates.
  - d. Recreational Trailers  
Add the expense fees to the Comprehensive and Collision rate.

G. When a surcharge is applicable under the Certified Risk - Financial Responsibility Laws Rule, the surcharge is to be applied to the liability premium determined by the foregoing provisions.

#### 4. CLASSIFICATIONS

This section actually breaks down the information discussed above. For an illustration, the following categories are derived for rating purposes.

This rule does not apply to risks rated in accordance with the Miscellaneous Types Rule unless otherwise specified.

Refer to Section C below for definitions of terms used in this rule.

A. Autos owned by an individual, or owned jointly by two or more relatives or resident individuals are classified as follows:

1. Primary Classification
  - a. Classify the auto according to the age, sex and marital status of the operators, the use of the auto and the eligibility of youthful operators for the Driver Training and/ or Good Student classes, and
  - b. Determine the applicable factor from the Primary Rating Factor tables.
2. Secondary Classification

- a. Refer to the Symbol and Identification Section to determine if the auto is:
  - (1) Standard performance,
  - (2) Intermediate performance,
  - (3) High performance, or
  - (4) Sports.
- b. Determine if the auto is:
  - (1) A single car, or
  - (2) Part of a multi-car risk.
- c. Refer to the Safe Driver Insurance Plan, to classify operators according to the provisions of the Plan.
- d. Refer to the Secondary Rating Factor table to determine the appropriate factor to be added to, or subtracted from the Primary Rating Factor.

### 3. Classification Changes

Compute premium adjustments on a pro-rata basis when changes in Primary and Secondary Rating Classifications are made. This includes the addition or deletion of an operator during the policy term.

### EXCEPTIONS

- 1. A policy shall not be changed mid-term because of the attained age of an operator of the auto.
- 2. A policy shall not be changed mid-term to affect a change in the Driving Record Sub-Classification.

Policies exceeding one year:

- 3. The attained age of an operator shall be recognized during the 2nd and 3rd annual policy periods or the portion of these years affected.
- 4. A policy shall not be changed mid-term solely due to a change in symbol assignment based on a review of loss experience.

B. Private Passenger Autos owned by corporations, co partnerships, or unincorporated associations and covered by a Personal Auto Policy.

- 1. Corporations, co partnerships or unincorporated associations owning fewer than five motor vehicles:
- 2. An owned private passenger auto principally furnished to a specified individual shall be classified and rated as if owned by that individual in accordance with Rule 4.A., provided that auto is not used for business purposes. This rule does not apply to autos which are eligible for rating as van pools in the Commercial Lines Manual - Division 1 - Automobile.
- 3. Farm family co partnerships or farm family corporations:

An owned private passenger auto principally garaged on a farm or ranch shall be classified and rated in accordance with Rule 4.

Provided that vehicle is:

- a. experience rated, and
- b. not used in an occupation other than farming or ranching, or
- c. used only in driving to or from work.

## **CONSUMER APPLICATION**

Pam, age 24 and a good driver, bought a new Corvette and was surprised at how high her insurance premiums were going to be, even with the Safe Driver premium reduction. At first she drove slowly, as she knew that the Highway Patrol always watched the Corvettes very closely (especially the red ones – like hers). However, as she became more proficient in driving the car, she found that it was “fun” to use her high horsepower to dodge in and out of traffic, and to leave rubber when the light turned red. She started getting traffic tickets after she had her car (and insurance) for 6 months. She managed to not gather enough points to lose her license as she attended Defensive Drivers School which, in that state, would erase the “points” for that traffic ticket. Her parents were concerned that she might lose her insurance, but she told them that she had not heard from the insurance company and so they probably didn’t really know or care.

At the next renewal date, one year after the effective date, she was stunned to receive a significant increase in her premiums – to the point to where she would have to either pay the payments on her car, or on her insurance. When she inquired to the insurance agent, she discovered that under her policy there were no “mid-term” penalties, but that the insurance company as a matter of routine, obtained the Motor Vehicle Record on all renewals for drivers under age 25.

The Rating Manual will then outline the Classifications based on Use of the vehicles.

### 1. Use Classifications

- a. BUSINESS USE means that the use of the auto is required by or customarily involved in the duties of the applicant or any other person customarily operating the auto, in an occupation, profession or business, other than going to or from the principal place of occupation, profession or business.
- b. FARM USE means the auto is principally garaged on a farm or ranch, and
  - (1) it is not customarily used in going to or from work other than farming or ranching, or driving to or from school, and
  - (2) It is not customarily used in any occupation other than farming or ranching.
- c. PLEASURE USE means:
  - (1) No BUSINESS USE.
  - (2) Personal use including driving to or from work or school
    - (a) Less than 3 road miles one way; and
    - (b) 3 or more, but less than 15, road miles one way for not more than 2 days per week or not more than 2 weeks in any 5 week period.
- d. WORK LESS THAN 15 MILES means:
  - (1) No BUSINESS USE.
  - (2) personal use including driving to or from work or school
    - (a) 3 or more, but less than 15, road miles one way if such usage is more than 2 days per week or more than 2 weeks per 5 week period; or
    - (b) 15 or more road miles one way, for not more than 2 days per week or not more than 2 weeks in any 5 week period.
- e. WORK 15 OR MORE MILES means:

- (1) No BUSINESS USE.
- (2) personal use including driving to or from work or school 15 or more road miles one way more than 2 days per week or more than 2 weeks in any 5 week period.
- f. an auto has driven part way to or from work or school, such as to a railroad or bus depot, whether or not the auto is parked at the depot during the day, shall be considered as driving to or from work or school.

As stated earlier, premiums are determined by multiplying the base rates by an applicable rating factor. This procedure applies to all coverage's except Uninsured Motorists Coverage. For illustrative purposes only, the following calculations would be made:

<u>Coverage</u>	<u>Base Premium</u>	<u>Total Factor</u>	<u>Premium</u>
BI/PD Liability	\$180	1.05	\$189
Medical Payments	\$ 12	1.05	\$ 12 (whole dollar)
Uninsured Motorists			\$ 18
Comprehensive	\$ 78	1.05	\$ 82 (whole dollar)
Collision	\$ 96	1.05	\$191 (whole dollar)
 Total Premium:			 \$492

## **RATING MANUAL LIABILITY COVERAGE ONLY**

As described earlier, Automobile Liability consists of Bodily Injury Liability and Property Damage Liability (BI & PD). The typical PAP has a “single limit of liability”, or “combined single limit” which is the maximum amount that the insurance company has to pay for all damages as the result of a single accident, regardless of the number of persons injured, and regardless of the amount of bodily injury as compared to property damage.

Some companies do allow a “split limit of liability”, which allows the policy owner to pick a different amount for Bodily Injury and for Property Damage. As illustrated earlier in the text, this is illustrated by using three number separated by a slash (e.g. 50/100/200)

The Manual would continue into “Classification” by using other factors, as outlined below;

1. An auto used in the business of the U.S. Government by one of its employees may be classified and rated as PLEASURE USE, WORK LESS THAN 15 MILES or WORK 15 OR MORE MILES when the federal employees using autos in government business endorsement is used to limit coverage.
2. Age, Sex and Marital Status Classifications
  - (1) YOUTHFUL OPERATOR means an applicant or any other operator resident in the same household as the applicant, who customarily operates the auto, and is one of the following:
    - (2) YOUTHFUL UNMARRIED FEMALE OPERATOR - unmarried female under 25 years of age;
    - (3) YOUTHFUL MARRIED MALE OPERATOR - married male under 25 years of age;

- (4) YOUTHFUL UNMARRIED MALE OPERATOR - unmarried male under 25 years of age who is not an owner or principal operator;
- (5) YOUTHFUL UNMARRIED MALE OWNER OR PRINCIPAL OPERATOR -unmarried male under 30 years of age who is an owner or principal operator.
  - a. AGE means the age attained on the last birthday.
  - b. MARRIED means a married person living with his or her spouse and includes a person widowed, divorced or legally separated only if such person has custody of one or more resident children.
  - c. RESIDENT means anyone residing in the same household.

#### EXCEPTIONS

- 1. A person in active military service with the armed forces of the United States of America is not considered a resident in the applicant's household unless this person customarily operates the auto.
- 2. If a YOUTHFUL UNMARRIED FEMALE OPERATOR or a YOUTHFUL UNMARRIED MALE OPERATOR is a student residing at an educational institution over 100 road miles from the auto's place of principal garaging, the auto is rated as if the student is MARRIED.

Note: For the purpose of Exception 2, if the rating factor for a married youthful operator is greater than the factor for an unmarried youthful operator, use the lower factor and corresponding statistical code.

#### **CONSUMER APPLICATION**

Calvin has bodily injury (BI) limits on his auto policy of \$100,000 per person, and \$300,000 per accident. Calvin was hurrying to work and talking on his car phone when a piece of paper fell to the floor. He bent over to retrieve it and rear-ended a car in front that had stopped at a red light. The court decision was that Calvin had to pay \$150,000 in damages to the driver and \$100,000 to a passenger in the other car.

Calvin felt that since the total was \$250,000 and his per accident coverage was \$300,000, he would not have to pay anything out of his pocket. However, he soon discovered that his insurance company will pay a maximum of \$100,000 per person per accident, so Calvin would have to pay \$50,000 for the driver of the car that he struck, but the passenger's award would be fully covered by his policy.

#### 3. Driver Training

Drivers Training is an important part of the rating procedure. Insurance companies have always been in the forefront in supporting and recommending Drivers Training, as statistics show overwhelmingly that those drivers who have completed a Driver's Training course have fewer accidents and a much lower ultimate loss ratio, than those who were "taught" by their parents or friends.

Drivers Training has become "big business" in many areas, although the majority of those taking Drivers Training do so at their High School or Community College. As with all things, some courses are better than others, so the industry learned early that there should be rather strict

requirements for a Driver's Training course before any premium discounts can be offered for insurance policies. The following information from the Rating Manual indicates the concern that Drivers Training should be adequate to support the premium discount.

The applicable Driver Training Classification applies to each Youthful Operator under 21 years of age where "Satisfactory Evidence" is presented that such operator has successfully completed a driver education course meeting the following standards:

- (1) The course included a minimum of 30 clock hours of classroom instruction plus a minimum of 6 clock hours of actual driving experience per student. These requirements may be met in either of the following ways:
  - (2) A minimum of 6 clock hours per student of actual driving experience exclusive of observation time in the car.
  - (3) In this case, part of the required 30 clock hours of classroom instruction can be met by the time spent in an approved simulated practice driving trainer.
  - (4) Use of the driving trainer must be authorized by the State Department of Education or other responsible educational agency.
  - (5) A minimum of 3 clock hours per student of actual driving experience exclusive of Observation time in the car, and
    - A minimum of 12 clock hours per student in an approved practice driving trainer.
    - In this case only time spent in excess of 12 clock hours may be counted as part of the required 30 clock hours of classroom instruction.
    - Use of the driving trainer must be authorized by the State Department Education or other responsible educational agency.
  - (6) The course was conducted by instructors certified by the State Department Education or other responsible educational agency, and
  - (7) The course was conducted by a recognized secondary school, college or university and had the approval of the State Department of Education or other responsible educational agency, or
  - (8) The course was conducted by schools, and such course and school with the approval and supervision of the State Department of Education or other responsible educational agency, or
  - (9) The course was conducted by a commercial driving school under the jurisdiction of the Motor Vehicle Department provided that by Statute or Regulations such school meets the same requirements as schools having official sanction from the responsible state education agency.
  - (10) "Satisfactory Evidence" is a certificate signed by a school official certifying the fulfillment of the requirements in (6), and (7), or (8) above.

Most companies offer discounts for "Good Students", and where applicable, the Manual would providing rating instructions similar to the following:

#### 4. Good Student

The applicable Good Student Classification applies provided:

- a. The owner or operator is -
  - (1) At least 16 years of age, and
  - (2) A full- time high school, college or university student.

- b. A certified statement from a school official is presented to the Company on each anniversary date of the policy indicating that the student has met one of the following requirements during the immediately preceding school semester:
  - (1) Is in the upper 20% of his/her class scholastically, or
  - (2) Maintains a "B" average, or its equivalent  
If the letter grading system cannot be averaged then no grade can be below "B."
  - (3) When in a school maintaining a numerical grade, must have at least a 3 in a 4, 3, 2, 1 point system or its equivalent
  - (4) Student is included in a "Dean's List," "Honor Roll" or comparable list indicating scholastic achievement

A classification change resulting from a change in the scholastic standing of the student cannot be effected between anniversary dates of the policy.

For certain situations involving Good Student or Drivers Training, the Manual looks at whether there is more than one car in the family, or if the number of youthful drivers exceeds the number of autos insured, situations where there are more than one car, etc. The provisions would be similar to the following:

#### 5. Single Car Risks

- a. If the number of youthful operators exceeds the number of autos, the Youthful Operator Classifications with the highest Primary Rating Factors apply. In determining such classifications any Driver Training and/or Good Student qualification shall apply.

#### b. Multi Car Risks

- (1) The applicable Multi Car Rating Factor applies if more than one private passenger auto is owned by an individual or owned jointly by two or more relatives or resident individuals, and two or more such autos are insured in same company for any of the following coverage's:  
Single limit liability, bodily injury liability, property damage liability, medical payments, no fault, comprehensive or collision insurance
- (2) The applicable "Youthful Operator" Classifications shall be applied as follows:

Determine the number of Youthful Operators and the Primary Rating Factor for each at the Pleasure Use Classification.

- (a) If there are more cars than Youthful Operators, or an equal number of cars and Youthful Operators, assign operators to cars as follows:
  - (i) Each principal Youthful Operator to the car principally operated.
  - (ii) Remaining youthful Operators to remaining cars in the order of highest rated Youthful Operator to the car with the highest Total Base Premium without regard to the cars operated.
  - (iii) Any remaining cars at the appropriate No Youthful Operator classification.
- (b) If there are more Youthful Operators than cars, assign Youthful Operators to cars as follows:

Select the Youthful Operators with the highest Pleasure Use rating factors equal to the number of cars.

Of those selected, assign any principal operators to the cars they principally operate.

Of those selected and remaining after principal operator assignment, assign operators to cars in the order of highest rated Youthful Operator to the car with the highest Total Base Premium.

After assigning Youthful Operators to cars on the basis of the primary Pleasure Use factors, each factor must be adjusted for the actual car use before determining and applying the Secondary Rating Factor.

- (3) If the TOTAL BASE PREMIUM is the same for each car, the classification for any youthful operator who is not the principal operator of any of the autos is applied to the auto with the lowest rated use classification.

TOTAL BASE PREMIUM is the sum of the base premiums for single limit liability or bodily injury and property damage liability, medical payments, no fault, comprehensive and collision coverage's that apply to the auto.

- (4) If all operators in the household are age 65 or over, the "Principal Operator Age 65 or over" classification applies to all autos.

If there are operators in the household under age 65, apply the "Principal Operator Age 65 or over" classification to the auto principally operated by the Age 65 or over operator, unless a Youthful Operator classification is applicable. The age of the operator shall be disregarded for the purpose of rating autos in excess of the number of Age 65 or over operators.

Many of the newer vehicles produced today have anti-theft devices, from burglar-proof locks, to devices that will notify the policy as to the location of the car in case the car is stolen. The satellite technology in the police-notification system is so new that manuals don't seem to give it a special consideration, but it will be taken into consideration soon as the anti-theft device becomes more popular (and less expensive).

#### 6. Vehicles Equipped With Anti Theft Devices

These discounts apply to comprehensive coverage only. To qualify, the vehicle must be equipped with:

- a. a hood lock which can be released only from inside the vehicle, and
- b. a device meeting the criteria of either paragraph 1 or 2 below

If a vehicle is equipped with more than one qualifying device, only the single highest discount shall apply.

Refer to Company for required evidence of installation of anti-theft devices meeting the following criteria prior to granting a discount.

##### I. Alarm ONLY (Coverage Code 1) and Active Disabling Devices (Coverage Code 2)

A 5% discount on Comprehensive Coverage shall be afforded on vehicles equipped with

- (1) Alarm only devices which sound an audible alarm that can be heard at a distance of at least 300 feet for a minimum of three minutes, or (2) active disabling devices which disable the vehicle by making the fuel, ignition or starting system

inoperative. A disabling device is categorized as active if a separate manual step IS required to engage the device.

(2) Passive Disabling Devices (Coverage Code 3)

A 15% discount on Comprehensive Coverage shall be afforded on vehicles equipped with passive disabling devices which disable the vehicle by making the fuel, ignition or starting system inoperative. A disabling device is categorized as passive if a separate manual step is NOT required to engage the device.

Seat belts and Shoulder straps are installed in all newer vehicles by law. However, there have been some provisions for a discount for “passive restraints.”

7. Passive Restraint Discount

The following discounts apply to Medical Payments and/or any No Fault Coverage only. To qualify, the private passenger auto must be equipped with a factory installed automatic occupant restraint, conforming to the federal crash protection requirements, and meeting the criteria of either paragraph a. or b. below:

- a. 20% discount shall be afforded when the restraint is installed in the driver side only position.
- b. 30% discount shall be afforded when the restraints are installed in both front outboard seat positions.

8. Panel trucks, pickups and vans

- a. Liability and Physical Damage: Rate as private passenger. For non-symbolized pickups, determine a symbol based on original cost new from the tables on page 1 of the Symbol and Identification Section.
- b. When a pickup is used to transport a non-permanently attached camper body, or to transport a camper body or cover with no facilities for cooking and sleeping:
  - (1) Add the cost of the camper body or cover to the cost of the pickup and determine a symbol from the tables on page 1 of the Symbol and Identification Section.
  - (2) Rate according to Paragraph a.
- c. When a pickup is used to transport a permanently attached camper body with facilities for cooking and sleeping, refer to the Motor Homes Section of the Miscellaneous Types Rule.

**5. SAFE DRIVER INSURANCE PLAN (SDIP)**

*SECTION I*

The experience of insurance companies varies, as described earlier, so that various methods have been initiated to become more competitive for the “Good Driver.” The insurance companies’ statistics show that if a person has a history of being a “safe driver” (as defined in this section of the Manual); the likelihood is that they will continue to be Safe Drivers.

Using a “point system”, which is also used by most state Motor Vehicle Departments, allows the “Safe Driver” to make a mistake, and still be eligible for the Safe Driver program, depending upon the severity of the accident, the culpability of the insured, etc.

Another important factor is the usage of the automobile in the determination of who is a “Safe Driver.” This is the “exposure” of the auto. Obviously, a person could be a Safe Driver if they only used their car 3 or 3 times a month to go to the grocery store, while that same person driving a car 50 to 100 miles a day in downtown Chicago (or Atlanta, or Jacksonville, etc.) would have to have a full-time, on-premises, Guardian Angel to have the same driving record as the person who seldom drove.

Experience is another factor, because an inexperienced driver would be more likely to “panic” in a tight traffic situation, whereas an experienced driver would automatically (it is hoped) make the right decisions. If Peter has never had an accident, or a ticket, and drives to work each day, a distance of 3 miles – and annual mileage is less than 12,000 miles – in his one year-old Ford Taurus (the safest car in its category). He lives and keeps his car garaged in an upper-middle income area which is a gated community with security guards 24 hours a day. He is active in his church and has never been known to drink, even socially. However, he has only been driving for a year as he immigrated to the United States from England, where he did not drive, 2 years ago, and is now 26 years old.

The fact that he is inexperienced offsets the positive factors, however according to the Manual, he would simply be assigned one point, and his rates would be higher than one with more experience. (Note: To receive full benefits (no points) the insured must have driven for 3 years).

The SDIP applies to policies written in companies authorizing its use. For companies electing not to use the Plan see Section 11 of this Rule.

When SDIP is used it is to be applied to all eligible autos.

#### A. Eligibility

An auto is eligible for rating under this Plan if it is:

1. Owned by an individual or owned jointly by two or more relatives or resident individuals.
2. Furnished to an individual by a corporation, partnership or unincorporated association owning less than 5 motor vehicles and not used for business purposes.
3. Owned by a family partnership or family corporation provided the vehicle is:
  - a. garaged on a farm or ranch; and
  - b. not rated as part of a fleet; and
  - c. not used in any occupation other than farming or ranching.

#### EXCEPTIONS:

1. The SDIP does not apply to an auto that is used in the business of driver training.
2. The SDIP does not apply to policies written for a term in excess of 12 months unless such policy provides for an annual adjustment of premium.

For a private passenger auto not eligible for the Plan add 0.20 to the Rating Factor otherwise applicable. Refer to Statistical Plan for codes.

#### B. Definitions

1. Driving Record Points

## Convictions

Points shall be assigned for convictions during the experience period for motor vehicle violations of the applicant or any other currently resident operator as follows:

- (1) Three points are assigned for conviction of:
  - (a) Driving while intoxicated or under the influence of drugs; or
  - (b) Failure to stop and report when involved in an accident; or
  - (c) Homicide or assault arising out of the operation of a motor vehicle; or
  - (d) Driving while license is suspended or revoked.
- (2) Two points are assigned for the accumulation of points under a State Point System or a series of convictions requiring the filing of evidence of Financial Responsibility under any Financial Responsibility Law as of the effective date of the policy.
- (3) One point is assigned for conviction of any other moving traffic violation resulting in:
  - (a) Suspension or revocation operator's license, or
  - (b) The filing of evidence of financial responsibility under any Financial Responsibility Law required the effective date of the policy

## C. Accidents

Points shall be assigned for each accident that occurred during the experience period, involving the applicant or any current resident operator, while operating an auto.

- (1) One point is assigned for each auto accident that results in:
  - (a) Bodily injury, or death; or
  - (b) Total damage to all property including his or her in excess of \$300.
- (2) One point is assigned if, during the experience period there were two or more accidents each of which resulted in damage to property but have not been assigned a point under (1) above.

## EXCEPTIONS

1. No points are assigned for accidents incurred by an operator demonstrated to be a named insured or a principal operator of an auto insured under a separate policy; and
2. No points are assigned for accidents occurring under the following circumstances:
  - a. auto lawfully parked (if the parked vehicle rolls from the parked position then any such accident is charged to the person who parked the auto); or
  - b. the applicant, owner or other resident operator reimbursed by, or on behalf of, a person who is responsible for the accident or has judgment against such person; or
  - c. auto is struck in the rear by another vehicle and the applicant or other resident operator has not been convicted of a moving traffic violation in connection with this accident; or
  - d. operator of the other auto involved in the accident was convicted of a moving traffic violation and the applicant or resident operator was not convicted of a moving traffic violation in connection with the accident; or
  - e. auto operated by the applicant or any resident operator is struck by a "hit and run" vehicle, if the accident is reported to the proper authority within 24 hours by the applicant or resident operator; or
  - f. accidents involving damage by contact with animals or fowl; or

- g. accidents involving Physical Damage, limited to and caused by flying gravel, missiles, or falling objects; or
- h. accidents occurring when using auto in response to an emergency if the operator of the auto at the time of accident was a paid or volunteer member of any Police or Fire Department, First Aid Squad, or any law enforcement agency; This exception does not include an accident occurring after the auto ceases to be used in response to such emergency.

**CONSUMER APPLICATION**

Marybeth lived in San Francisco and was proud of the fact that even with all of the hills and winding streets, she had never had a ticket in the 10 years since she first learned to drive. Her insurance agent suggested that perhaps she could save money by getting into a Safe Driver Plan with one of the companies that he represented. Her present policy was due for renewal in 2 months, so she decided to wait before she applied to the other company.

Her roommate, Sarah, had no car and usually took the cable car to work. One day the weather was bad, so she drove Marybeth’s car and dropped Marybeth off first. Sarah was late for work and parked the car at the curb and ran into the office so she wouldn’t get wet. The car was on a steep hill, and Sarah had forgotten to turn the front wheels into the curb when the car was facing downhill. She also did not put on the emergency brake and the inevitable result was that the car started rolling down the hill, striking another parked car and eventually coming to a halt.

Sarah got the ticket for not parking correctly, but Marybeth’s insurance took care of the damages to her car and to the other car involved. When Marybeth applied for the Safe Driver program, the agent asked about accidents and she told him about this mishap. She was afraid that it would not allow her to get the Safe Driver discount, but was informed that since she was not driving, there would be no points assessed against her.

c. Inexperienced Operator

If the principal operator of the auto has no surcharge for an accident, but has been licensed less than three years, one point is assigned.

d. Refund of Surcharged Premium

If a point has been assigned for an accident and it is later determined that the accident falls under one of the exceptions in this rule, the company shall refund to the insured the increased portion of the premium generated by the accident.

2. Experience Period

The experience period shall be the three years immediately preceding the date of application or the preparation of the renewal.

Driving Record Sub Classification

The driving record sub classification shall be determined from the number of Driving Record Points accumulated during the experience period as follows:

Number of Driving Record Points 0 1 2 3 4 or more

D. Multi Car Risk

1. Two Car Risk

Driving Record Sub Classification 0 1 2 3 4

The Driving Record Sub Classification, as determined above, shall apply to each auto as shown under the Multi Car Section in the Secondary Table.

Three or More Car Risk

Any points developed under SDIP are assigned to the two cars with the highest Total Base Premiums. The remaining autos are rated at Subclass 0.

TOTAL BASE PREMIUM is the sum of the base premium for Single Limit Liability, or Bodily Injury and Property Damage Liability; Medical Payments: No Fault; Comprehensive; Collision Coverage's that apply to the auto.

Use the following Secondary Rating Factors and Codes:

E. Administration of SDIP

1. New Business

a. Initial information necessary to assign the proper Driving Record Sub Classification shall be obtained from an application signed personally by the applicant-

b. The signature of the applicant on all applications received from an agent, broker or solicitor shall be certified by such agent, broker or solicitor.

2. Renewal Business Information necessary to assign proper renewal Driving Record Sub Classification shall be determined from any one or combination of the following:

a. Company's own records; or

b. Motor Vehicle records; or

c. An application signed by the applicant and producer.

SECTION II

For companies electing not to use SDIP, rate eligible private passenger autos by adding 0.20 to the Rating Factor otherwise applicable;

Use the following Secondary Rating Factors and Codes:

**1991 and Later Model Autos**

<b>Single Car</b>	<b>Code</b>	<b>Factor</b>
Standard Performance	19	+0.00
Intermediate Performance (i)	39	+0.15
High Performance (h)	59	+0.30
Sports (s)	79	+0.15
Sports Premium (p)	99	+0.15
<b>Multi-Car</b>		
Standard Performance	29	-0.15
Intermediate Performance (i)	49	+0.00
High Performance (h)	69	+0.15
Sports (s)	89	+0.00
Sports Premium (p)	09	+0.00

**1990 and Prior Model Autos**

<b>Single Car</b>	<b>Code</b>	<b>Factor</b>
Non High Performance	19	+0.00
High Performance	59	+0.00
<b>Multi-car</b>		
Non High Performance	29	-0.15
High Performance	69	-0.15

**6. MODEL YEAR/AGE GROUPS FOR COMPREHENSIVE AND COLLISION COVERAGES**

A. Where Model Year Is Used in Rating

1. The model year of the auto is the year assigned by the auto manufacturer.
2. Rebuilt or Structurally Altered Autos - the model year of the chassis determines the model year of the auto.

If the rates for a model year are not displayed in the rate pages, use the rates shown for the latest model year.

B. Where Age Is Used in Rating

1. Age is determined as follows:
  - Age Group Definition
  - 1. Autos of current model year
  - 2. Autos of first preceding year
  - 3. Autos of second preceding year
  - 4. Autos of third preceding year
  - 5. Autos of fourth preceding year
  - 6 All Other Autos

The "current model year," as used in this section, changes effective October 1 of each calendar year regardless of the actual introduction of the makes and models.

2. Rebuilt or Structurally Altered Autos - the age of the chassis determines the age of the autos.

C. Coding applicable whether Model Year or Age is used in rating:

1. Policies effective July 1, 1980 and subsequent:

Code the last two digits of the model years for example, code 1981 vehicles as 1981 as 81, etc.

2. Policies effective prior to July 1, 1980:

Description	Code
Current Model Year	1
First Preceding Model Year	2
Second Preceding Model Year	3
Third Preceding Model Year	4
Fourth Preceding Model Year	5
Fifth and Prior Model Years	6

## **7. MINIMUM PREMIUM RULE**

The Minimum Premium Rule is used because if premium payments are less than \$10, administratively it is not cost effective. If the premium amount is less than \$10 (can be higher with some companies) the usual procedure is to have the policyholder chose a quarterly mode, or bi-monthly if available.

The minimum annual premium charge is \$10 for each policy, certificate, declaration or binder covering one or more of the following perils;

Comprehensive,  
Single Limit Liability,  
Bodily Injury Liability, or  
Property Damage Liability

Premium for other coverage's which may also be included in the policy shall be in addition to the minimum annual premium.

The minimum annual premium charge is not subject to reduction except in the event of cancellation or short term policy, the minimum annual premium charge shall be adjusted on a pro rata or short rate basis, as the conditions require.

## **8. POLICY PERIOD**

It is obviously more expensive to send a premium notice every month, than it would be to send a premium notice once a year. Premiums are quoted and calculated basically on an annual basis; therefore any payment mode other than annual would require an additional premium charge.

If the company allows an automatically bank-draft payment, the premium is either the same as the annual premium, or the premium charge is quite low. Experience has shown that the persistency of a policy on an automatic bank draft equals (and in some cases, betters) persistence of those premiums paid on an annual basis.

Long-term Physical Damage policies may be paid on a longer period of time than 12 months. These are usually written to protect a lien-holder and the insurance company may receive the full annual, 2-year or 3-year premium as the first (and only) premium payment.

A. No policy may be written for a period longer than 12 months for Liability Coverage or 36 months for Physical Damage Coverage.

B. Premium charged for policy terms not exceeding 12 months is as follows:

1. Twelve Month Policies -

Charge the annual premium or minimum premium whichever applies.

2. Three and Six Month Policies -

For a specified 3 or 6 month period the premium charge is 25% or 50% respectively, of the annual or minimum annual premium whichever applies.

3. Policies issued for a 3 or 6 months period with an effective date on the 29th, 30th, and 31st of any month -

The first policy can be extended from the effective date to the first day of the calendar month following the expiration of the policy.

Premium for this extended coverage of 1 to 3 days may be waived.

4. Other Short Policies written for less than 12 months and other than 3 or 6 months - Such policies shall be written on a pro rata basis in accordance with the Pro Rata Table in the Cancellation rule.

**EXCEPTIONS:**

The premium is computed Pro Rata

1. When coverage is written to secure a common policy date with other coverage's or lines of insurance.

2. When a policy is issued on a short rate basis to replace an outstanding policy of a company in liquidation, provided the new policy is based upon the rules and rates in effect at the time replacement is made and shall be in effect for a period equal to the unexpired term of the outstanding policy.

3. When a statutory policy is required by a state or municipality to expire on a fixed date and the policy is written to expire on such date.

Long Term Physical Damage Policies written for a term in excess of 12 months -

Determine premium as follows:

1. 1st 12 months:

Charge the first year premium or minimum premium, whichever applies.

2. 2nd 12 month:

In addition to the above, charge the second year premium or minimum premium whichever applies.

If the term is more than 12 months but less than 24 months, charge pro rata of such second year premium or minimum premium whichever is larger, for the period in excess of 12 months.

3. 3rd 12 months:

In addition to the premium for the 1st and 2nd 12 months periods, charge the third year premium or minimum premium which ever applies.

If the term is more than 24 months but less than 36 months charge the pro rata of such third year premium or minimum premium, whichever is larger, for the period in excess of 24 months.

Note: Calculation of the premium for the 2<sup>nd</sup> and 3rd 12 month periods, or pro rata part thereof shall recognize:

1. The attained age of operator(s) during a previous 12 month period;

2. Any change in the model year/age group of the insured auto, during a previous 12 month period;

3. Any change in sub classification under the Safe Driver Insurance Plan;

4. A change in symbol assignment based on a review of loss experience.

## **9. CHANGES**

This section of the Manual lists the rules for adjusting and changing the policy coverage's. The following section described the cancellation and termination procedures. While the cancellation and termination provisions are well described in the policy, the changes described below will not appear on the policy.

These changes are those outlined in the manual, and deviations may arise from company to company. However, it is of considerable interest to an agent to be aware of what procedure(s) used in case a question arises with a policyholder. If the agent is aware of what the insurance

company needs to effect the requested change, it can save a lot of time and money by submitting the necessary information initially.

- A. All changes requiring premium adjustments shall be computed pro rata
- B. If an auto or a form of coverage that was cancelled from a policy at the request of the insured is reinstated within 30 days, the premium shall be the same as the amount that was returned at the time of cancellation.
- C. Adjustments of \$5 or less:
  - 1. If an outstanding policy is amended and results in a premium adjustment of \$5 or less, the amount &
    - a. may be waived, or
    - b. may be made subject to a minimum of \$5.00, except that the actual return premium shall be returned at the request of the insured.
  - 2. Minimum premium of \$5 applies if an insured requests the following during the policy period:
    - a. additional coverage,
    - b. an increase in limits of liability,
    - c. a reduced deductible,
  - 3. Companies need not refund a return premium of less than \$5 if the insured requests the following:
    - a. cancellation of coverage,
    - b. reduction of limits of liability,
    - c. increase in deductible, except that actual return premium shall be returned at the request of the insured.

If the limits of liability are increased because of a change in the limits prescribed under any financial responsibility law, the additional premium charge shall be the actual difference in premium charges. If \$5 or less, it may be charged or waived.

## **10. CANCELLATION**

- A. If a policy, vehicle or form of coverage is cancelled,
  - 1. By the company:  
Compute return premium pro rata
  - 2. By the insured:
    - a. For one year policies -  
Compute return premium at 90% of the pro rata unearned premium for one year.
    - b. For two year or three year policies -
      - (1) If cancelled during the first year, the return premium shall be the sum of (a) 90% of the pro rata unearned premium for the first year, and (b) the full annual premium for the second and third year.
      - (2) If cancelled after the first year, the first year premium shall be fully earned and the full pro rata unearned premium for the remaining policy term shall be returned.

- c. For Three Month and Six month policies or other policy terms of less than one year -  
Compute return premium at 90% of the pro rata unearned premium for the policy term.

#### EXCEPTION

Compute return premium on a pro rata basis in the following cases:

1. If the insured has disposed of the insured vehicle and takes out a new policy in the same company on another vehicle, to become effective within thirty days of the date of cancellation.
2. If the insured auto is repossessed under terms of a financing agreement
3. in a multi-car situation:
  - a. if one vehicle is cancelled from the policy and the policy remains in force on other vehicles, or
  - b. if a policy is cancelled and there remains in force with the same company in the name of the insured or spouse, residents in the same household, a concurrent policy covering another vehicle.
4. If the insured enters the armed forces of the United States of America
5. If the insured auto is stolen or destroyed (total or constructive loss) and cancellation is requested by the insured
  - a. within 30 days following the date the auto is stolen or destroyed, or
  - b. within 15 days of the time the auto was determined by the company
    - (1) To be unrecoverable if stolen, or
    - (2) To be a total or constructive loss.
6. If a vehicle or form of coverage is cancelled from a policy and the policy remains in force.

#### B. Instructions for Use of PRO RATA TABLES

1. Express the date of cancellation by year and decimal part of a year by combining the calendar year with the decimal appearing opposite the month and day in the Pro Rata Table, e.g., March 7, 1996 is designated as 1996.181.
2. In like manner, express the effective date of the policy by year and decimal part of a year and subtract from the cancellation date.
3. The difference in the case of 1 year Policies represents the percentage of the annual premium which is to be retained by the company.
4. For 6 Month Term Policies, the difference between cancellation date and effective date multiplied by two represents the percentage of the semi-annual term premium which is to be retained by the carrier.
5. For 3 Month Term Policies, the difference between cancellation date and effective date multiplied by four represents the percentage of the quarter annual term premium which is to be retained by the carrier.

### CONSUMER APPLICATION

Mildred insured her new Cadillac effective March 2, 1996. However, she found that she was not seeing as well as she used to, so the Doctor told her that she really should not be driving. Therefore, she sold her car and cancelled her insurance on May 19, 1996. She had paid a full annual premium of \$738 so she asked for a refund of the premium she had paid.

The insurance company had provided coverage for the period between the time the policy was effective and the date it was cancelled. The insurance company Rating Manual contained the pro-rata table for the premium that was earned. Using the procedure (below) the company calculated that the earned premium was \$738 times .214, or \$158.15. They returned the difference (\$579.85) to Mildred.

Cancellation date May 19, 1996	1996.381
Effective date March 2, 1996	<u>1996.167</u>
	.214

Earned premium for an I Year Term Policy will therefore be .214 times the annual premium.

For a 6 Month Term Policy: Multiply .214 by 2. (.214 x 2 = .428). Earned premium will be .428 times the semi-annual term premium.

For a 3 Month Term Policy: Multiply .214 by 4 (.214 x 4 = .856) Earned premium will be .856 times the quarter annual term premium.)

Note: As it is not customary to charge for the extra day (February 29th) which occurs one year in every four years this table shall also be used for each such year.

PRO-RATA TABLE

(FIRST SIX MONTHS)

January			February			March			April			May			June		
Day of	Day of	Ratio	Day of	Day of	Ratio	Day of	Day of	Ratio	Day of	Day of	Ratio	Day of	Day of	Ratio	Day of	Day of	Ratio
Mo.	Yr.		Mo.	Yr.		Mo.	Yr.		Mo.	Yr.		Mo.	Yr.		Mo.	Yr.	
1	1	.003	1	32	.088	1	60	.164	1	91	.249	1	121	.332	1	152	.416
2	2	.005	2	33	.090	2	61	.167	2	92	.252	2	122	.334	2	153	.419
3	3	.008	3	34	.093	3	62	.170	3	93	.255	3	123	.337	3	154	.422
4	4	.011	4	35	.096	4	63	.173	4	94	.258	4	124	.340	4	155	.425
5	5	.014	5	36	.099	5	64	.175	5	95	.260	5	125	.342	5	156	.427
6	6	.016	6	37	.101	6	65	.178	6	96	.263	6	126	.345	6	157	.430
7	7	.019	7	38	.104	7	66	.181	7	97	.266	7	127	.348	7	158	.433
8	8	.022	8	39	.107	8	67	.184	8	98	.268	8	128	.351	8	159	.436
9	9	.025	9	40	.110	9	68	.186	9	99	.271	9	129	.353	9	160	.438
10	10	.027	10	41	.112	10	69	.189	10	100	.274	10	130	.356	10	161	.441
11	11	.030	11	42	.115	11	70	.192	11	101	.277	11	131	.359	11	162	.444
12	12	.033	12	43	.118	12	71	.195	12	102	.279	12	132	.362	12	163	.447
13	13	.035	13	44	.121	13	72	.197	13	103	.282	13	133	.364	13	164	.449
14	14	.038	14	45	.123	14	73	.200	14	104	.285	14	134	.367	14	165	.452
15	15	.041	15	46	.126	15	74	.203	15	105	.288	15	135	.370	15	166	.455
16	16	.044	16	47	.129	16	75	.205	16	106	.290	16	136	.373	16	167	.458
17	17	.047	17	48	.132	17	76	.208	17	107	.293	17	137	.375	17	168	.460
18	18	.049	18	49	.134	18	77	.211	18	108	.296	18	138	.378	18	169	.463
19	19	.052	19	50	.137	19	78	.214	19	109	.299	19	139	.381	19	170	.466
20	20	.055	20	51	.140	20	79	.216	20	110	.301	20	140	.384	20	171	.468
21	21	.058	21	52	.142	21	80	.219	21	111	.304	21	141	.386	21	172	.471
22	22	.060	22	53	.145	22	81	.222	22	112	.307	22	142	.389	22	173	.474
23	23	.063	23	54	.148	23	82	.225	23	113	.310	23	143	.392	23	174	.477
24	24	.066	24	55	.151	24	83	.227	24	114	.312	24	144	.395	24	175	.479
25	25	.068	25	56	.153	25	84	.230	25	115	.315	25	145	.397	25	176	.482
26	26	.071	26	57	.156	26	85	.233	26	116	.318	26	146	.400	26	177	.485
27	27	.074	27	58	.159	27	86	.236	27	117	.321	27	147	.403	27	178	.488
28	28	.077	28	59	.162	28	87	.238	28	118	.323	28	148	.405	28	179	.490
29	29	.079				29	88	.241	29	119	.326	29	149	.408	29	180	.493
30	30	.082				30	89	.244	30	120	.329	30	150	.411	30	181	.496
31	31	.085				31	90	.247	31			31	151	.414			

(Note: This table is for the first six months of the year and is shown here for illustrative purposes only. Please refer to text for an explanation as how to use this table.)

## **11. WHOLE DOLLAR PREMIUM**

The premium for each exposure shall be rounded to the nearest whole dollar, separately for coverage provided by the policy.

A premium involving \$.50 or more shall be rounded to the next higher whole dollar.

This procedure shall apply to all interim premium adjustments, including endorsements or cancellations at the request of the insured. In the case of cancellation by the company, the return premium may be carried to the next higher whole dollar.

The phrase "each exposure" as used herein shall mean each premium developed (after the application of all applicable adjustments) for (1) each auto, if written on a per car basis, and (2) for all other business.

## **12. RULES FOR DETERMINING PHYSICAL DAMAGE BASE RATES FOR SYMBOLS NOT DISPLAYED ON STATE RATE SHEETS**

This section of the Rating Manual simply refers the user to the State Exception Pages for Comprehensive and Collision Coverage, which is beyond the scope of this text.

## **13. SUSPENSION**

Certain rules regarding the suspension of coverage must also be included in a Rating Manual. The following are some of the provisions of this section.

- A. Under any policy providing just physical damage coverage, only Collision may be suspended.
- B. Liability coverages may not be suspended for risks for which a financial responsibility filing is in effect.
- C. Insurance may be suspended by endorsement in accordance with the following provisions, provided the period of suspension is at least 30 consecutive days.
  - 1. Insurance be reinstated upon the named insured's request effective not earlier than receipt of such request by the company or authorized representatives.
  - 2. The reinstatement of insurance endorsement shall not extend the policy beyond its original expiration date.
  - 3. Pro-rata premium credit shall be granted for the period of suspension upon reinstatement. Companies can retain a minimum of 90 days premium calculated on a pro rata basis for the policy period.
  - 4. If the policy expires during the period of suspension, the insured shall be entitled to a pro rata return of premium in accordance with provisions of the policy.
  - 5. If the collision coverage is written under other than the PAP or Liability coverages, is suspended on all owned autos, coverages for which separate premiums apply

(including Uninsured Motorists, Medical Payments, etc.,) shall be continued in force without any premium adjustment for those coverages.

6. Insurance covering a private passenger auto which is withdrawn for a period of at least 30 consecutive days, because of a strike; may be suspended. Pro rata return of premium shall be granted if requested by letter from the insured.

#### **14. MISCELLANEOUS COVERAGES**

##### Uninsured Motorists Coverage

Uninsured Motorists Coverage must be included in a policy that also provides (at least) Bodily Injury liability coverage. The rates for Uninsured Motorists Coverage can be found in the State Exception pages.

Uninsured Motorists Coverage is one of the easiest coverages to rate because the published rates are not subject to adjustment as there are no rating factors or territorial rates to apply.

Be aware that in some states Uninsured Motorists Coverage is combined with Underinsured Motorists Coverage, and in other states can be obtained independently. Either way, the table will reflect whichever applies in your state.

Manual rules regarding Uninsured Motorists Coverage would be similar to the following:

##### A. Uninsured Motorists Coverage

###### 1. Owners - (Class Code - Refer to Statistical Plan)

This form of coverage may be afforded only if single limit liability or bodily injury liability coverage has been purchased.

If this form of insurance is purchased it must apply to all vehicles on the policy.

- a. Basic Limits - The rates shown on the State Exception or Rate Pages are the minimum limits available and are the financial responsibility law limits of the state.
- b. Increased Limits - Increased Limits may be afforded but may not be in excess of the single limit liability or bodily injury liability limits on the policy. Rates are shown on the State Exception or Rate Pages.
- c. Rates - Rates apply in accordance with the following designations:

###### (1) Individual or Husband and Wife:

The insured named in the Declaration of the policy is an individual or husband and wife.

###### (2) All Others:

The insured named in the Declarations of the policy is other than an individual or husband and wife.

###### (3) Additional Persons:

This insurance may be extended only to an executive officer, partner or employee of the named insured who does not own an auto at the additional person's rate for each named individual.

###### (4) Rates:

The rates are not subject to classification rating or modification by any rating plan.

Non-owners (Class Code 9900)

If a named non-owned policy is extended to afford Uninsured Motorists coverage, the rate for such extension of coverage shall be the applicable uninsured motorist rate for the first auto shown on the State Exception or Rate Sheet for owners.

**B. Underinsured Motorists Coverage**

1. Basic Limits - Protection for this coverage up to the Financial Responsibility law limits is provided under the Uninsured Motorists Coverage endorsement.
2. Increased Limits - Increased limits of underinsured motorist's coverage may be afforded under the following conditions:
  - a. only if increased limits uninsured motorists coverage is afforded.
  - b. increased limits uninsured and underinsured motorists insurance must be afforded at the same limits.
  - c. underinsured motorists coverage must apply to all vehicles insured under the policy.
3. Rates
  - a. Rates are displayed on the State Edition Pages.
  - b. Rates are not subject to classification rating or modification by any rating

**C. Deductible Insurance**

1. Deductible Liability Insurance - is not available for vehicles classified and rated according to the rules of this manual.
2. Comprehensive Deductibles For Which No Premium Is Shown - Refer to State Exception Pages.
3. Collision Deductibles for Which No Premium is Shown - Refer to State Exception Pages.
4. Percentage of Loss Deductibles for Comprehensive and Collision Coverages - Refer to State Exception Pages.

**D. Extended Transportation Expenses Coverage**

1. Eligibility. Only policies providing Comprehensive Coverage may be afforded either Extended Transportation Expenses Coverage or Increased Limits Transportation Expenses Coverage.
2. Rating. The rates for this coverage are not subject to classification rating or modification by any rating plan.

<b>Coverage</b>	<b>Annual Rate per Auto</b>
\$ 15/\$450 Extended Transportation Expenses Coverage (Coverage Code 704)	\$12
\$30/\$900 Increased Limits Transportation Expenses Coverage (Coverage Code 706)	\$25

3. Endorsement. Attach the extended transportation expenses coverage endorsement to the policy.

E. Towing and Labor Costs

1. This coverage may be written only for Private Passenger Autos.
2. The available limits and rates are:

<b>Limit Per Disablement</b>	<b>Rate per car per year</b>
\$25	\$4
\$50	\$6
\$75	\$8

3. Attach the towing and labor costs coverage endorsement

F. Audio, Visual, and Data Electronic Equipment and Tapes, Records, Discs and Other Media Coverage (Coverage Code 0 14)

The following coverage of Audio, Visual and Data Electronic Equipment, etc., is quite important to many vehicles in today's world of technology as the quality of the audio in newer cars is almost "concert hall" in quality. Some of the younger generation seems to have an attraction to huge speakers in their cars, which may entertain them and their passengers when played at a loud volume, but it quite disconcerting to other motorists. In any event, the theft of this type of equipment is quite prevalent, especially in some of the more urban areas.

As new technology is developed for automobiles, they become more of a target for theft. Some "family vans" are offering installed television sets with stereo sound. Many of the more luxurious automobiles have expensive telephones installed, with the ability to operate by the owner's voice. Computers are an integral part of the new cars, but laptop computers are used mostly by auto occupants, however computer-operated facilities, such as providing detailed maps and instructions, are targeted by thieves.

It has been noted before, but should be reiterated in this section: The policy covers that equipment that is permanently installed in the automobile.

**CONSUMER APPLICATION**

Randall bought a new car that had a television monitor, a car-telephone, stereo radio and CD player, and high-quality speakers. He is a Safety Engineer and uses a laptop computer for his work and almost always carries a laptop with him.

Randall was leaving the site of a Safety Inspection and had entered data into his laptop. He had plugged his computer into the cigarette lighter so his computer battery would not drain while he was travelling.

At his next stop, he spent over 2 hours in the building and when he returned, thieves had broken into his car and had stolen his TV, telephone, stereo and CD player, and had even torn his dash and door panels in order to remove his speakers. Then, for good measure, they took his laptop computer.

Randall made a claim with his PAP carrier which contained an endorsement covering his electronic equipment. His television monitor, telephone, stereo, CD player and speakers were all covered under the policy. However, the laptop was not covered, even though it was "attached" by way of the current cable in the cigarette lighter. It was not "permanently" installed in the car.

1. Coverage is available for loss to any of the following, if at the time of loss they are contained in a vehicle described in the policy for which this coverage is provided:
  - a. tapes, records, discs or other media used with audio, visual or data reproduction, receiving or transmitting equipment permanently installed in the auto
  - b. any electronic equipment not specifically designed solely for the reproduction of sound, that receives or transmits audio, visual or data signals.

This coverage applies only if the equipment is:

- (1) Permanently installed in the auto at the time of loss;
- (2) Not necessary for the normal operation of the auto or monitoring of the auto's operating systems; and
- (3) Not an integral part of the same unit housing any sound reproducing equipment permanently installed in the opening of the dash or console of the auto. This opening must be normally used by the manufacturer for installation of a radio.

Types of electronic equipment not specifically designed solely for the reproduction of sound for which coverage may be purchased include, but are not limited to:

- (1) Citizens band radios;
- (2) Telephones;
- (3) Two-way mobile radios;
- (4) Scanning monitor receivers;
- (5) Television monitors receivers;
- (6) Video cassette recorders;
- (7) Audio cassette recorders; and
- (8) Personal computers.

Note: Electronic equipment which is specifically designed solely for the reproduction of sound and permanently installed in the auto at the time of loss, along with accessories used with such equipment, is automatically covered under the policy without additional premium charge.

- c. accessories used with electronic equipment permanently installed in the auto, and not specifically designed solely for the reproduction of sound.

Refer to the coverage for audio, visual, and data electronic equipment and tapes, records, discs and other media endorsement for extent of coverage.

2. Coverage is not available for radar detectors.

3. Develop the premium independently for each covered auto as follows:

Audio, visual and electronic equipment including its accessories (Coverage Code 0 14)

- (1) Determine the limit of liability based upon the total cost new of the electronic equipment permanently installed in that auto and the cost new of its accessories. Do not include the cost of tapes, records, discs or other media in determining this limit.
- (2) Additional coverage for \$200 worth of tapes, records, discs or other media applies at no additional charge when coverage is provided for audio, visual and data electronic equipment.
- (3) Select the premium from the table below:

**NOTE: These premiums are provided for illustrative purposes only.**

**Total Cost New of Equipment and AccessoriesPremium**

\$ 0- 500	\$	30
501 - 1,000		60
1,001 - 1,500		90
1,501 -2,000		120
2,001 -2,500		150
2,501 -3,000		180
3,001 -3,500		210
3,501 -4,000		240
4,001 -4,500		270
4,501 -5,000		300
5,001 and over	Refer to Company	

b. Tapes, records, discs and other only (Coverage Code 064).

When coverage is not purchased for audio, visual and data electronic equipment coverage for \$200 worth of tapes, records, discs and other media is available for an additional premium charge of \$1 per auto, per year.

4. Attach the coverage for audio, visual data electronic equipment and tapes, records, discs and other media endorsement to the policy.

**G. Customizing Equipment Coverage**

Comprehensive and Collision coverage for customizing equipment may be purchased on a stated amount basis for any panel truck, pickup or van insured for physical damage coverage. Refer to the customizing equipment coverage (stated amount insurance) endorsement for extent of coverage.

1. The cost of customized equipment should not be considered when determining the symbol of the vehicle.

2. The customizing charge determined in this rule is the only charge for customized equipment on a vehicle.

3. The charge for customizing is made only when the customizing equipment coverage (stated amount insurance) endorsement is attached.

Rate as follows:

1. Refer to state rate pages; use the territory and any physical damage deductible applicable to the vehicle.

2. Multiply the Symbol 5 rate for the current model year by the following factor to obtain the stated amount rate per \$100 of customizing:

Comprehensive - for all model years: .032

Collision - for all model years: .014

3. Multiply the stated amount rate for customizing by the desired limit of coverage to obtain the stated amount customizing Base Rate.

4. Multiply the customizing Base Rate by the vehicles classification rating factor to determine the premium for stated amount B. Owners Comprehensive and Collision customizing coverage.

Notes: (a) The customizing equipment coverage (stated amount insurance) endorsement shall be attached.

- (b) If Comprehensive or Collision coverage for customizing is purchased, the vehicle must have the corresponding Comprehensive or Collision coverage.
- (c) The customizing deductibles shall be the same as the vehicle deductibles.

#### H. Mexico Coverage

1. At the option of the company, and at the request of the insured, a policy may be extended to apply to accidents occurring in Mexico on a trip of ten days or less if within twenty-five miles of the United States border.
2. Rate - \$6 per year.
3. Attach the Mexico coverage endorsement
4. Modification - this premium shall not be subject to classification rating or modification by the Safe Driver Insurance Plan.

### **15. CERTIFIED RISKS - FINANCIAL RESPONSIBILITY LAWS**

Surcharges are added to the Liability premium if the insured has been driving while intoxicated, hit and run, homicide, etc. The major factors have a 50% surcharge, graded down to 5%. Please note that if an insured is insured under the Safe Driver Insurance Plan (SDIP), there is an automatic addition of 10%.

#### A. Surcharges

1. Surcharges apply to Liability coverages only.
2. For SDIP rated risks, the Rating Factor shall be increased by .10.
3. In all other cases the appropriate charges shown below shall be applied to the final premium for the affected coverages for the period of time the certificate is required but not more than three years (after 3 years a 5% surcharge applies) as follows:
  - a. 50% for driving a motor vehicle while intoxicated, or failing to stop and report when involved in an accident, or homicide or assault arising out of the operation of a motor vehicle.
  - b. 25% for driving a motor vehicle at an excessive rate of speed or in a reckless manner, where an injury to person or damage to property actually results therefrom.
  - c. 5% for any other reason requiring filing.

#### B. Owners

1. If an owner is required to file evidence of financial responsibility for owned autos and for the operation of autos which he does not own, the additional premium shall be computed by applying the proper surcharge to the sum of the premium for the highest rated auto owned by the insured and the total non-ownership liability premium, modified in accordance with any applicable rating plan.
2. In all other cases, the additional premium shall be computed by applying the proper surcharge to the premium for the highest rated auto owned by the insured modified in accordance with any applicable rating plan.

#### C. Non-owners

1. If a policy is written to insure a named individual, the additional premium shall be computed by applying the proper surcharge to the premium for the policy.

If coverage is provided under a policy which has been extended to cover a named individual in accordance with Rule 17 - Extended Non-Owned Liability Coverage, the additional premium shall be computed by applying the proper surcharge to:

- a. the rates for the highest rated auto insured under the policy for the rating territory in which the named individual is located, or
- b. if there is no auto at such location, 170% of the private passenger Base Rates for the territory in which the named individual is located.

**16. NAMED NON-OWNER POLICY**

For individuals who do not own an auto, such as those who are furnished an automobile by their employer, special rules apply.

A. Liability and Medical Payments Coverage -charge 50% of the premium that would apply if such individual owned an auto.

B. Uninsured motorists Insurance - Refer to the State Exception or Rate Sheets. Charge the "first auto" Uninsured Motorists rate applicable to owners.

Attach the named non-owner coverage endorsement.

**17. EXTENDED NON-OWNED LIABILITY COVERAGE**

A. Liability coverage - Liability coverage may be extended to an individual described below:

- 1. The insured named in the policy, the spouse if a resident of the same household, or a resident relative who is furnished an auto for regular use but is NOT employed by a garage:
  - a. When no Primary Liability insurance is in effect on the auto, charge 50% of the liability premium which would apply if the furnished auto were being specifically insured as an owned auto by the individual.
  - b. When there is Primary Liability insurance in effect on the auto or if the auto is used in the business of the United States Government, charge the premiums per person shown in the table below. The premiums are for the minimum financial responsibility requirement limits in the State.

**Note: All premiums are provided for illustrative purposes only.**

<b>Person Named</b>	<b>Bodily Injury</b>	<b>Property Damage</b>	<b>Single Limit</b>
Insured Named or Spouse	\$4	\$1	\$6
Relative	\$8	\$2	\$12

2. The insured named in the policy, the spouse if a resident of the same household, or a resident relative who is furnished an auto for regular use and is employed by a garage:

- a. When garage has no liability insurance charge 170% of Base Rate for Liability.
- b. When garage has liability insurance, refer to Company.

3. In all other situations, charge the premiums per person shown in the table below. The premiums are for the minimum financial responsibility requirement limits in the State.

<b>Person Named</b>	<b>Bodily Injury</b>	<b>Property Damage</b>	<b>Single Limit</b>
Insured Named or Spouse	\$3	\$1	\$5
Relative	\$5	\$2	\$9

B. Medical Payments - Premiums per person - available only if Single Limit Liability or Bodily Injury and Property Damage coverages are extended

<b>Medical Payments Limit of Policy To Which Attached</b>	<b>Auto Furnished for Regular Use</b>	<b>Auto Not Furnished for Regular Use</b>
\$500	\$4	\$2
\$1,000	\$5	\$3
\$2,000	\$6	\$4
\$5,000	\$9	\$7
\$10,000	\$17	\$15

### 18. INCREASED LIMITS

Special premiums are used for increased amounts above the state dictated minimum amounts. It will be noted that the premium increase by increased limits increase, but not in direct proportion to the increase. In other words, for Medical Payments illustrated below (remember, these premiums are for illustrative purposes only, but do reflect a “ball-park” figure) the increase for \$50,000 is not 5 times that of \$10,000. The reason for not having a level premium progression, is that the higher the claim, the less it occurs. Loss experience is what drives the premiums, and the loss experience is different as the amount is increased or decreased.

A. Refer to State Exception Pages to determine the factors to be applied to the appropriate basic limits rates for Single Limit Liability, Bodily Injury or Property Damage Liability. For limits not displayed on a State Exception Page, refer to company.

B. Medical Payments Increased Limits

Medical Payments coverage for limits greater than \$5,000 may be afforded. The base rates for higher limits shall be the \$5,000 Medical Payments Base Rates increased by the following:

<b>Total Medical Payments Limits</b>	<b>Additional Base Rate above \$5,000</b>
\$10,000	\$ 8
25,000	23
50,000	35
75,000	45
100,000	50

## 19. MISCELLANEOUS TYPES

A. **Motor Homes** A motor home are a self-propelled motor vehicle with a living area that is an integral part of the vehicle chassis, or a pickup with a permanently attached camper body. The living area or camper body must consist of facilities for cooking and sleeping.

Attach the miscellaneous type vehicle and the miscellaneous type vehicle amendment (motor homes) endorsements to the policy.

### LIABILITY, MEDICAL PAYMENTS/NO-FAULT, UNINSURED AND UNDERINSURED MOTORISTS COVERAGES

1. Motor Homes used in driving to or from work or used in business - Classify and rate as private passenger autos.

2. Pleasure Use Motor Homes - Charge 50% of the otherwise applicable All Other Class/Pleasure Use rates for private passenger autos. (The Safe Driver Insurance Plan does not apply.)

a. Expense Fees - add the appropriate expense fees, according to the Premium Determination rule.

### PHYSICAL DAMAGE

3. Determine the stated amount value, including the value of any custom built additions.

4. For all model years, assign a symbol based on the stated amount, from the table for 1981 and Subsequent Model Years on page 1 of the Symbol and Identification Section.

a. To determine base rates for symbols not displayed on rate pages, use the factors in rule 12. For 1981 and later Model Years and the Symbol 5 rate for the model year of the motor home.

b. For Motor Homes with a stated amount value of \$65,001 and over, increase the Symbol 20 base rates (as calculated in a) as follows: (Statistical Code - Use the code for Symbol 21 (A))

(1) Comprehensive - 1.7% for each \$1,000 or part of \$1,000 in excess of \$65,000.

(2) Collision - 1.4% for each \$1,000 or part of \$ 1,000 in excess of \$65,000.

c. Motor Homes used in driving to or from work or used in business - Classify and rate as private passenger autos, using the base rates calculated in a. and b.

d. Pleasure Use Motor Homes - Charge 35% of the base rates calculated in a as well as b (The Safe Driver Insurance Plan does not apply.)

e. Expense Fees - add the appropriate expense fees, according to the Premium Determination rule.

f. For custom built Motor Homes, the model year of the chassis determines the model year of the motor home.

### Covered Property Coverage

Attach the covered property coverage endorsement to the policy.

<b>Deductible</b>	<b>Rate per \$ 100</b>
\$50	\$1.45
100	\$1.15

## RENTAL COVERAGE

5. Liability, Medical Payments, Comprehensive, Collision and Covered Property Coverages may be extended to apply while a motor home is rented to others. To determine the additional premium, apply the following factor separately to the otherwise applicable motor home coverage premium:

Number of Weeks Rented Per Year	Factor
1 -4	.50
Over 4	1.00

## B. Trailers Designed for Use With Private Passenger autos

### LIABILITY

A Personal Auto Policy affording liability coverage covers trailers designed for use with a private passenger auto, pickup, panel truck or van without additional premium charge and without specific description of the trailer.

Exceptions: Coverage is not provided for a trailer

- (1) used for business purposes with other than a private passenger auto or owned pickup, panel truck or van, or
- (2) When no auto is owned by the insured.

### MEDICAL PAYMENTS

Personal Auto Policy affording medical payments coverage provides coverage for trailers without additional premium charge and without specific description of the trailer if designed for use with a private passenger auto, pickup, panel truck or van.

Exceptions: Coverage is not provided for a trailer

- (1) used for business purposes with other than a private passenger auto or owned pickup, panel truck or van, or
- (2) When no auto is owned by the insured, or
- (3) Located for use as a residence or premises.

### LIABILITY AND MEDICAL PAYMENTS

Liability and Medical Payments Coverage is afforded without additional premium charge for farmwagons and farm implements when attached to a private passenger auto, pickup, panel truck or van.

### PHYSICAL DAMAGE

Trailers are to be insured as separate items with separate premiums shown for each unit. The deductible applies separately to each unit. Attach the coverage for damage to your auto (stated amount maximum limit of liability) endorsement.

1. Recreational Trailers (Refer to State Plan) Non-self -propelled recreational units equipped as living quarters (including cooking, dining, plumbing or refrigeration facilities). To be eligible for coverage, insured must maintain a separate and permanent residence other than the recreational trailer.

Comprehensive and Collision - Use Motor Home rates

Coverage Property Coverage - Use Motor Home rates - Attach the covered property coverage endorsement.

2. All Other Trailers (Refer to State Plan)

For rates refer to State Rate Pages or Exception Pages.

**C- Motorcycles, Mopeds, Motorscooters, Motorbikes, Go Carts and Any Other Similar Motor Vehicles Not Used For Business Purposes.**

Attach the Miscellaneous Type Vehicle Endorsement.

**LIABILITY**

Charge the following percentages of the Private Passenger Liability Base Rate:

(Following this heading in the Manual would be a list by Engine Size (cc), Operator under Age 25 column with the Code and the percentage, and a column of All Other Operators. As an example, Engine Size 201cc to 360cc would be 120% of the base rate for those under age 25, and 75% for all other drivers.)

Passenger Hazard Exclusion - Reduce Split Limit Bodily Injury Liability rate by 40% or the Single Limit Liability rate by 20%

Uninsured Motorists - 200% of private passenger rate

Medical Payments - Refer to company

**PHYSICAL DAMAGE**

1. Comprehensive - All Vehicles

Charge the following percentages of the Symbol 5 private passenger Comprehensive rate for the applicable model year:

(For Physical Damage the percentages are based upon the original new cost of the car, generally in \$3,000 increments.

2. Collision - All Vehicles

Charge the following percentages of the Symbol 5 private passenger Collision rate for the applicable model year:

(Again, a similar percentage table is shown)

**D. Snowmobiles and All-Terrain Vehicles**

A snowmobile is a motor vehicle designed for use principally on snow or ice, using wheels or crawler - type treads or belts for locomotion across land, ice or snow. This does not include Coverage a vehicle using airplane type propellers or fans. Attach the snowmobile endorsement.

An all-terrain vehicle (ATV) is a four or six wheel motor vehicle equipped with balloon tires or crawler treads, designed for use on rugged terrain or rugged terrain and water. Attach the miscellaneous type vehicle endorsement.

All premiums apply for the period of coverage.

**LIABILITY, MEDICAL PAYMENTS AND UNINSURED MOTORISTS**

a. ability - Charge 50% of private passenger base rates

b. Passenger Hazard Exclusion - Reduce Split Limit Bodily Injury Liability rate by 40% or the Single Limit Liability rate by 20%.

c. Medical Payments - \$500 limit only - Charge 200% of Private Passenger base rate subject to a \$10 minimum.

d. Uninsured Motorists - Charge private passenger rate.

**PHYSICAL DAMAGE**

(For Physical Damage, rates are given for Comprehensive Coverage, with Deductibles of \$100 or \$200, and the Rate per \$100 is given for each. The same applies for Collision Coverage).

**E. Dune Buggies**

A dune buggy is a motor vehicle of the private passenger type designed or modified for use principally off public roads.

All premiums apply for the period of coverage.

Attach the miscellaneous type vehicle endorsement.

1. Registered Dune Buggies - Classify and rate as private passenger autos

2. Non-registered Dune Buggies

**LIABILITY, MEDICAL PAYMENTS AND UNINSURED MOTORISTS**

a. Liability - Charge 90% of private passenger base rates.

b. Passenger Hazard Exclusion - Reduce Split Limit Bodily Injury Liability rate by 40% or the Single Limit Liability rate by 20%.

c. Medical Payments - Charge private passenger base rate.

d. Uninsured Motorists - Charge private passenger rate.

**PHYSICAL DAMAGE**

(For Physical Damage, rates are given for Comprehensive Coverage, with Deductibles of \$100 or \$200, and the Rate per \$100 is given for each. The same applies for Collision Coverage).

**F. Golf Cart**

A golf cart is a three or four wheel motor vehicle with limited speed capabilities designed to carry golfers and their equipment around a golf course.

All premiums apply for the period of coverage.

Attach the miscellaneous type vehicle endorsement

**LIABILITY**

Charge 25% of Private Passenger base rates: The premiums are subject to a minimum premium (applicable to the minimum financial responsibility requirement limits in the State) of:

\$ 10 - Bodily Injury

\$ 5 -Property Damage

\$15 - Single Limit Liability

**PHYSICAL DAMAGE**

(For Physical Damage, rates are given for Comprehensive Coverage, with Deductibles of \$100 or \$200, and the Rate per \$100 is given for each. The same applies for Collision Coverage).

**G. Antique Autos (Class Code 962000)**

An antique auto is a motor vehicle of the private passenger type which is 25 or more years old and is maintained primarily for use in exhibitions, club activities, parades and other functions of public interest, and occasionally used for other purposes.

LIABILITY

Charge 40% of private passenger base rates: The premiums are subject to a minimum premium (applicable to the minimum financial responsibility requirement limits in the State) of:

- \$ 10 - Bodily Injury
- \$ 5 - Property Damage
- \$15 - Single Limit Liability

MEDICAL PAYMENTS, UNINSURED AND UNDERINSURED MOTORISTS AND NO-FAULT

Charge private passenger base rates or premiums

Note: No-Fault coverages are to be afforded only where required.

PHYSICAL DAMAGE

Attach the coverage for damage to your auto (stated amount maximum limit of liability) endorsement.

(For Physical Damage, rates are given for Comprehensive Coverage, with Deductibles of \$100 or \$200, and the Rate per \$100 is given for each. The same applies for Collision Coverage).

**H. Electric Autos**

An electric auto is a motor vehicle of the private passenger type that is run by electric power and it is not used for commercial purposes.

LIABILITY

Charge 75% of the applicable private passenger base rate

MEDICAL PAYMENTS, UNINSURED AND UNDERINSURED MOTORISTS AND NO-FAULT

Charge private passenger base rates or premiums

PHYSICAL DAMAGE

Charge the applicable private passenger base rate.

**I. Classic Autos**

A classic auto is a motor vehicle of the private passenger type which is 10 or more years old and may be used on a regular basis. Its value is significantly higher than the average value of other autos of the same make and model year.

LIABILITY, MEDICAL PAYMENTS, UNINSURED AND UNDERINSURED MOTORISTS, NO-FAULT

Classify and rate as a private passenger auto.

PHYSICAL DAMAGE

Attach the coverage for damage to your auto (stated amount maximum limit of liability) endorsement.

1. Determine the stated amount of coverage applicable to the vehicle.
2. Assign a symbol based on the stated amount, from the table for 19 8 1 and subsequent model years on Page 1 of the Symbol and identification Section.
3. Classify and rate as a private passenger auto using the base rate for the current model year.

## 20. RATING TERRITORIES

- A. The State Rate Pages display rates by territory.
- B. The Territory Pages contains the definition and code for each rating territory.
  - 1. Each territory includes a specific area for rating purposes. The following provisions apply:
    - a. Any city, town, borough or village not mentioned within a defined territory, but falling within its boundaries, shall take the rate for that territory.
    - b. If a city, town, borough or village extends into more than one territory, the rates for the higher rated territory apply to the entire city, town, borough or village.
    - c. If a street or other public way serves as a dividing line between two territories, except when the public way serves as a boundary line of any political subdivision such as a state, county, city, town, etc., the rates applicable to the lower rated of the two territories shall apply to autos principally garaged on either side of the street
  - 2. The Territory Pages also contain a List of Important Cities and Towns indicating the territories to which they are assigned. Refer to a map to determine the rating territory for a town not listed.



## STUDY QUESTIONS

1. Charles and his wife retired and decided to purchase a motor home to travel and see the USA. They found a 32 foot motor home that contained what they were looking for. They discovered that the motor home was actually rebuilt a year earlier, and the original motor home was 15 years old. The body had been designed by a local businessman and was rebuilt to his specifications. All of the furniture and appliances were 1 year old including the electric generator. They applied for insurance on the motor home by endorsement on their PAP. How would be premium to cover the motor home be determined.
  - A. It would be rated as a new vehicle.
  - B. It would be rated as a vehicle that was 15 years old.
  - C. It would be rated as a vehicle that was built on the date that the first reconstruction commenced (1 year ago).
  - D. It would be rated as a vehicle that was 16 years old.
2. Sunset Farms has 3 pickups and a SUV which are driven to and from work by the 4 family member's active in the farm, but who live 15 miles away in the city. These trucks (are) (are not) eligible to be classified as private passenger automobiles because
  - A. Are - they are used primarily on the farm.
  - B. Are not - they are not garaged on the farm.
  - C. Are - they are driven by family members.
  - D. May be - in some states, an SUV is never considered as a farm vehicle.

3. Henry is a real estate broker and uses his car very heavily for business purposes. It is necessary for him to maintain a new, well maintained auto, so he has elected to lease an auto for his business on an annual basis.
  - A. A leased car, according to the Manual, cannot be considered a private passenger vehicle for a PAP.
  - B. A leased car, according to the Manual, can be considered a private passenger vehicle if all drivers are over age 25, and the names insured is the only driver of the vehicle.
  - C. This leased car can be considered as a private passenger vehicle under the Manual, if the lease period is for more than 6 months.
  - D. The car qualified as a private passenger vehicle as it is not used to carry passengers for a fee of rented to others.
  
4. Which of the following uses of automobiles would be classified as “business use?”
  - A. Ron covers Georgia, Florida and Alabama as a Manufacturers Representative but usually flies and uses his own car to travel to and from the airport.
  - B. Sam is an auditor for a company that has 4 locations in the state. He uses his car to travel to each location for a period of one week at each location, and then to return home at the end of each day.
  - C. Barbara lives on a Tomato farm and drives her pickup around the farm each day, and uses it for personal use, such as going to town for repairs for farm machinery.
  - D. Betsy uses her minivan to take her children to a private school every day.
  
5. Which of the situations below mean that the operated vehicle is a “pleasure vehicle” under the definitions in the Rating Manual?
  - A. Coleen drives her car to and from work on Mondays and Fridays. On the other three days, she drives her car to call on customers in the local area.
  - B. Sean drives his car to and from work every other work day, a one way distance of 13 miles. He rides with a neighbor on alternate days.
  - C. Grant drives his car to and from work each day, a one way distance of 2 miles.
  - D. Ruby drives her car to work 3 days a week, one way distance of 23 miles.
  
6. Cynthia attends Georgia Tech and lives with her parents in a suburb of Atlanta. From her parents’ home to her campus is a one – way distance of 24 miles. What is the classification as to usage of her car?
  - A. Business use.
  - B. Pleasure use.
  - C. Work 15 miles or more.
  - D. Commercial use.

7. Bertram is 20 years old and has been independent since age 18. He lives in an apartment with 2 other young men. He works as an accountant for a large accounting firm part time, but goes to school time also, working for his Masters Degree. He drives to work and takes a commuter bus to school as the school is located 105 miles from his home. He is the owner and principal driver of a 1998 Honda Accord. He would be classified as:
  - A. Youthful unmarried male operator.
  - B. Youthful unmarried male owner or principal operator.
  - C. Youthful married male owner or principal operator.
  - D. Youthful male resident driver.
  
8. John applied for his Driver's license on May 8<sup>th</sup>, 1994. He was born on December 4, 1977. How old was John for insurance purposes?
  - A. 17
  - B. 16
  - C. 15
  - D. 17 ½.
  
9. If a policy is terminated because the auto has been repossessed, but PAP premiums have been paid for one year and there are still 6 months left on the policy period,
  - A. the vehicle owner will not receive any premium refund because the auto was repossessed.
  - B. the policyowner will receive one-half (50%) of the premium.
  - C. the policyowner will receive the unearned premium.
  - D. the policyowner will receive only the commission paid to the agent as a refund.
  
10. Bob has a 1988 Toyota Camry. It is absolutely in "mint" condition, although Bob drives it back and forth to work each day, one way distance of 4 miles. A local car dealer has offered him 10% above the "blue book" price. For rating purposes, is his car considered a "Classic Auto?"
  - A. No, because it is not "significantly" higher in value than other 11 year old autos.
  - B. Yes, but only because the condition of the car is exceptional.
  - C. Yes, because the car is over 10 years old and he uses it on a regular basis and its value is significantly higher in value than other 11 year old autos.
  - D. No. To be a "Classic", the card must be at least 20 years old.

### ANSWERS TO STUDY QUESTIONS

1B 2C 3D 4B 5C 6B 7B 8C 9B 10C



## **GLOSSARY OF AUTOMOBILE INSURANCE TERMS**

### **ACCIDENT**

A fortuitous event, unforeseen and unintended

### **ACTUAL CASH VALUE**

An amount equivalent to the replacement cost of lost or damaged property at the time of the loss, less the amount of depreciation. For Actual Cash Value of buildings, generally the actual cash value closely parallels the market value of the property.

### **APPLICATION**

A questionnaire which must be filled out by the person seeking insurance: It gives the company information about the proposed subject of insurance and the person to be insured, for the purpose of determining whether the company will issue the policy.

### **APPRAISAL**

A survey of property made for the purpose of determining its insurable value or the amount of loss sustained. The Personal Auto Policy prescribes a method for appraisal when there is a dispute as to the amount of a covered loss.

### **ARBITRATION**

A method to settle disputes between and insurer and the insured as to the applicability of coverage or the amount of a covered loss: (“Appraisal” is used only to settle disputes involving the amount of a covered loss)

### **BAILEE**

A person or business having possession of property committed in trust from the owner

### **BINDER**

A preliminary agreement providing immediate insurance coverage until a policy can be written. It contains a definite time limit and should be in writing. It should also clearly designate the amount of coverage and perils insured against as well as indicate the type of insurance afforded. It is a temporary insurance contract.

### **BODILY INJURY**

Bodily Injury means bodily harm, sickness, disease, or death. Both homeowner and auto policies provide coverage for bodily injury liability, subject to certain limitations and exclusions.

### **CANCELLATION**

Termination of a contract of insurance in force by voluntary act of the insurance company or by the insured, which is effected in accordance with the provisions in the contract or by mutual agreement

**CLAIM**

The formal demand for recovery for a loss which may be covered by an insurance contract

**CLAIM PAYMENT**

The actual payment of the amount agreed upon at settlement.

**COLLISION COVERAGE**

Automobile insurance against loss or damage to a vehicle resulting from collision with another object: It also means loss caused by upset of the vehicle.

**COMPREHENSIVE COVERAGE**

Automobile insurance protecting against any loss or damage to an automobile, except by collision or upset: Comprehensive coverage includes loss caused by missiles, falling objects, fire, theft or larceny, explosion, earthquake, windstorm, hail, water, flood, malicious mischief or vandalism, riot or civil commotion, colliding with a bird or animal, or breakage of glass.

**COMPULSORY INSURANCE**

Insurance that is required by law.

**CONSTRUCTIVE TOTAL LOSS**

A partial loss that is of an amount that would make the cost of repair more than the worth of the property

**DECLARATION**

The term used by insurers to identify that portion of the insurance contract which contains information such as the person or property insured, policy period, amount of insurance coverage, applicable premiums, and policy forms. It is often referred to as a "dec." page.

**DEDUCTIBLE**

That portion of an insured loss to be paid by the policyholder before they are entitled to recover from the insurance company

**EARTH MOVEMENT**

Earth movement means any shaking, movement or trembling of the earth that is volcanic or tectonic in nature. It also includes earthquake, mud flow, and earth sinking, rising, shifting, expanding, or contracting. Most basic homeowner insurance policies do not include coverage for many areas; limited coverage for earth movement may be purchased separately.

**EFFECTIVE DATE**

The date on which the protection afforded under an insurance policy begins. Effective time is usually 12:01 a.m.

**EXCESS INSURANCE**

Insurance that applies to a covered loss only when all other applicable insurance has paid its limits. For example the "Other Insurance" clauses of the Personal Auto Policy provide that the policy's coverage is excess under certain circumstances.

**EXCLUSIONS**

Exclusions are contract provisions that deny coverage for certain perils, persons, properties, or locations. Exclusions are used to define what is not covered by a policy.

**EXPIRATION DATE**

The date an insurance contract terminates. Termination time is usually 12:01 a.m.

**EXPOSURE**

Calculated projection of the possibility of loss

**FINANCIAL RESPONSIBILITY LAW**

A statute that requires all motorists to furnish evidence of ability to pay for damages, either before or after an accident

**INSURABLE INTEREST**

Any interest in a subject of insurance, or any legal relation to it, of such a nature that certain circumstances could cause a monetary loss to the insured: For example, a Bank has an insurable interest in a creditor; a spouse always has an insurable interest in the other spouse, child or sibling.

**INSURANCE**

Coverage by contract where for a consideration (premium) one party (company) undertakes to assume, to a specific extent, losses suffered by another (insured)

**INSURANCE POLICY**

The printed document issued to the insured by the company stating the terms of the insurance contract. It is a written contract of insurance between an insurance company and the policyholder.

**LIABILITY**

In general terms, liability is an obligation to pay damages.

**LIABILITY INSURANCE**

Insurance that pays on behalf of an insured for losses arising out of his/her responsibility to others imposed by law or assumed by contract.

**LIMIT**

Limit means the limit of the liability that applies to the occurrence. This is the maximum amount of money available for payment of a covered loss.

**LOSS**

(1) The amount of reduction in value of an insured's property caused by an insured peril, (2) the amount that is paid by the insurance company on behalf of an insured, (3) the amount of an insurance claim.

**MEDICAL PAYMENTS**

In respect to Personal Automobile Policies, insurance coverage that pays medical or funeral expenses of an insured or covered person, without regard to legal liability.

**NAMED INSURED(S)**

A person or business which is specifically designated by name as the insured(s) in an insurance policy: This is opposed to those who are or may be covered by insurance, even though they are not actually named in the insurance. As an example, in liability provisions, a definition of “insured” also includes interests according to their status or in particular situations or circumstances.

**NEGLIGENCE**

Failure to use that degree of care which an ordinary person of reasonable prudence (prudent person) would use under the given or similar circumstances: A person may be negligent by acts of omission and/or commission.

**NO FAULT INSURANCE**

Automobile insurance that pays for loss without regard to legal liability or fault

**NON-OWNED AUTO**

A private passenger auto, pickup, van or trailer in the custody of or being operated by the named insured or a family member, but not owned by or furnished or available for the regular use of the named insured or family members. Loss of damage to non-owned autos is covered under Part D of the Personal Automobile Policy.

**PERSONAL INJURY**

Personal Injury means injury arising out of one or more of the following offenses: false arrest, false imprisonment wrongful detention, libel, slander, defamation, invasion of privacy, wrongful eviction, or wrongful entry. Personal injury coverage is often included as a part of homeowner liability coverage. Personal injury is also subject to certain exclusions and limitations.

**POLICY TERMS**

Policy terms are all provisions, limitations, exclusions, conditions and definitions used in a particular policy. Together, the policy terms define exactly what claims are covered by a specific policy.

**PREMIUM**

The price for insurance protection for a specific limit of liability and a specific exposure for a stated period of time

**PROOF OF LOSS**

A form signed by the insured which states in writing the nature of the claim and the dollar amount of the loss being claimed. A proof of loss form is usually required before claims are paid by an insurance company.

**PROPERTY DAMAGE**

Property Damage means physical injury to or destruction of tangible property, including loss of its use. Again, both homeowner and auto policies usually cover property damage liability, subject to certain restrictions.

**RENEWAL**

Renewal of an insurance policy is accomplished by either issuing a new policy, or renewal receipt or certificate, to take effect upon the expiration of the old policy,

**RENTAL CAR COVERAGE**

Automobile insurance that provides reimbursement for reasonable transportation expenses incurred due to the loss of use of an automobile.

**REPLACEMENT COST**

The cost of replacing property without deduction for depreciation

**SCHEDULE**

The names of those individuals covered under one insurance policy.

**SETTLEMENT**

Agreement between the insurer and the insured or other injured party as to the nature of the claim and the amount of the loss

**STATED AMOUNT COVERAGE**

An agreement by an insurance company to pay a specified amount of money to or on behalf of the insured upon the occurrence of a defined loss

**SUBROGATION**

Subrogation may be defined as: "substitution", whereby an insurance company seeks from a liable third party recovery of the amount paid to the insured.

**TOWING AND LABOR COVERAGE**

Automobile coverage that provides reimbursement for reasonable towing and labor costs incurred because of disablement of an automobile.

**TRANSPORTATION EXPENSES**

Expenses paid by a Personal Auto Policy so that the insured can procure a substitute method of transportation because of the total theft of the insured's covered auto.

### **UNDERINSURED MOTORISTS COVERAGE**

Insurance that pays for bodily injury (in some states, they will also pay for property damage) resulting from an accident involving an unidentified hit-and-run vehicle; a vehicle to which no liability insurance or adequate limits of insurance apply; or a vehicle whose insurer denied coverage or becomes insolvent.

### **VOLCANIC EFFUSION**

Volcanic effusion means wind or airborne shock waves, ash, dust, particulate matter, or lava flow discharged or vented from a volcano. Volcanic effusion is generally covered under a homeowner policy subject to some specific limitations.

### **VOLCANIC ERUPTION**

Volcanic eruption means the land shock waves, tremors, earthquakes, landslides, mud flows, tidal waves, flooding, earth sinking, and earth rising, shifting, expanding, or contracting which occurs before, during, or after the eruption or explosion of a volcano. Volcanic eruption is not covered by most homeowner policies. In many areas, coverage for volcanic blast, shock wave, lava flow, and volcanic fallout may be purchased for an additional premium.

