PERSONAL AUTOMOBILE EXPOSURES AND INSURANCE

SANDI KRUISE INSURANCE TRAINING
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PERSONAL AUTOMOBILE EXPOSURES AND INSURANCE

PERSONAL INSURANCE EXPOSURES

Personal insurance consists of the insurance coverages designed to transfer the financial consequences of personal losses from individuals and families to an insurer. Personal Auto insurance is one of the most important types of personal insurance.

Personal Automobile insurance accounts for about one-third of the total property and liability insurance premiums in the United States. More than 150 million drivers and roughly 110 million private passenger cars are insured in the United States. It is a major source of commission income to producers and is also a great entry into other personal lines policies. It is often the largest single line handled by an agency and, due to the number of claims and necessary policy changes, it usually accounts for a large portion of an agent's workload.

LOSS EXPOSURES OF INDIVIDUALS AND FAMILIES

A loss exposure is any condition or situation that presents the possibility of a financial loss. The term personal loss exposures mean all loss exposures relating to an individual or family unit, including both property and liability loss exposures. Personal loss exposures exist when personal resources are subject to causes of loss that might adversely affect an individual's or a family's financial condition. All individuals and families face loss exposures. How they handle those loss exposures varies according to individual preference, resources, knowledge, and often ignorance.

Loss Exposures are usually grouped into two major categories: Property and Liability. There are two major automobile exposures for which individuals seek protection. First, people want protection for damage to their own automobile should the auto suffer damage in an accident or other types of damage, such as fire, theft or vandalism (Property). Second people want to be protected against their liability should they injure someone or damage someone else's property through the use of their automobile (Liability).
PROPERTY LOSS EXPOSURES

Property losses result when property is destroyed, damaged, stolen, lost, or otherwise suffers a decrease in value because of a particular cause of loss (or peril). Property losses also include loss of use of the damaged property. A property loss exposure is any condition or situation that presents the possibility that a property loss will happen. Property loss exposures consist of three elements:

- The property exposed to loss
- The possible causes of loss
- The financial consequences of loss

PROPERTY EXPOSED TO LOSS

Property is any item with value and can be divided into two basic categories: real property and personal property.

Real Property

Real property consists of land as well as buildings and other structures attached to the land or embedded in it. A family might own several types of real property that give rise to property loss exposures. The land on which their home is built, items permanently attached to it, such as underground pipes or foundations, and any separate structures on their land, such as a storage shed, pool cabana or detached garage, present real property exposures.
Other types of real property also create property loss exposures, such as ownership rights to common areas of condominium property, (i.e. land, swimming pools, and recreational areas), vacation homes or rental properties.

**Personal Property**

*Personal property* consists of all tangible or intangible property that is not real property. For the purpose of identifying and insuring personal property loss exposures, personal property can be divided into the several categories:

- **Household contents** - including furniture, appliances, kitchenware, groceries, clothing, sports equipment, tools, and many other items common to the use of a dwelling as a home.

- **High-value personal property** - items of personal whose value comes from their unique characteristics such as silverware, jewelry, furs, antiques, works of art, coin or stamp collections, and firearms.

- **Business personal property** - personal property used for business purposes, such as office furniture and computer equipment.

- **Motor vehicles, trailers, watercraft, and aircraft** - mobile property typically excluded (or covered only up to a certain limit) in policies covering dwellings and their contents.

In order to keep the cost of insurance reasonable, personal insurance policies are designed to cover the loss exposures of the average person or family. If personal policies included unlimited coverage on all categories of personal property, insurance for such coverage would be higher than most people would be willing to pay. To keep insurance premiums affordable for the average consumer, it is fair for those persons who own valuable or unusual items to pay an additional premium to insure them.

It is very important, however for agents to explain any limitations or exclusions for various types of property, which may exist in the policies they sell. For example, automobile policies do not cover personal property items, which are carried in the car, such as luggage. Homeowners policies have limits on various types of property such as jewelry, cash, and property used in business. Agents must be familiar with the limits and exclusions in the policies from the various companies they represent. Be aware that each company’s property may include different provisions.
CAUSES OF LOSS AFFECTING PROPERTY

A **cause of loss** (also known as a *peril*) is the actual means by which property is damaged or destroyed. Examples are fire, theft, collision and flood. All types of property are exposed to numerous causes of loss, many of which can be insured against, but not all. It is important to carefully explain to the insured which perils are automatically covered, which can be added by endorsement or written under a separate policy, and which are uninsurable.

FINANCIAL CONSEQUENCES OF PROPERTY LOSSES

When a loss happens to property, an individual or family suffers one or more of the following consequences:

- **Reduction in value of property** - the difference between the value of the property before the loss and after the loss, such as the cost to repair or replace damaged or stolen vehicles.

- **Increased expenses** - expenses in addition to normal expenses that are necessary because of the loss, such as the cost of renting a vehicle while the damaged vehicle is being repaired.

- **Lost income** - loss of income that results if property is damaged, such as loss of rental income.

A policy may provide some benefits directly to the named insured, such as medical payments or recovery for physical damage losses. But most claims for property damage, lost income, and "pain and suffering" require a claim against the driver who caused the loss.
A liability loss exposure is any condition or situation that presents the possibility that a liability loss could happen. As disastrous as a property loss might be, the amount is still limited by the value of the property, which has been damaged. The potential for loss created by a liability loss exposure is essentially unlimited since it involves placing a value on the life of, or injury to, human beings.

Unfortunately, the legal climate in the United States encourages lawsuits. Attorneys advertise for clients enticing them with large potential settlements. Even people who would not have previously thought of suing see it as a quick way to make some additional cash. Individuals and families face a severe drain on assets from the possibility of being sued or being held responsible for injury to someone else.

CIVIL LAW

Claims for liability damages are governed by civil law. Civil law is the body of law deals with the rights and duties individual citizens with respect to one another, such as automobile accidents. In contrast, criminal law deals with conduct that endangers the public welfare, such as the crimes of murder, rape, and theft.

Since criminal acts are generally not the subjects of insurance, civil law provides the legal foundation of insurance. Several types of claims fall under civil law, but the most common ones involve tort liability, contractual liability, and statutory liability.

Tort Liability

Automobile accident victims have traditionally had to rely on tort law and the legal liability system for any awards for injury or damages. Tort liability is liability for damages caused by one party (the first party) to another party (the third party). A tort is a wrongful act, other than crime or breach of contract, committed by one party against another. Fault, or negligence, must be established before recovery can be made. The tort liability system, based on fault, is the traditional and most commonly used method in the United States of seeking compensation for injured auto accident victims. An individual may face a claim for tort damages on the basis of any of the following:
**Negligence**

Negligence is the most common cause of liability losses. It is usually defined as acting differently from the way a reasonably prudent person would act under similar circumstances. An individual is negligent when he or she fails to exercise the appropriate degree of care under given circumstances. In order to prove negligence, an injured party must prove that all four legal elements of negligence have occurred.

1. That the person suspected of negligence owed a **legal duty** to the person who was injured (i.e. Every person has a legal duty to operate their vehicle in a safe manner)

2. That they **breached that duty** (i.e. That they failed to do so by speeding, following too close, driving recklessly, etc.)

3. That **actual damages** resulted from the breach (i.e. Repair costs due to collision damage, medical bills and lost wages due to whiplash, etc.)

4. That the breach of duty was the **Proximate Cause** of the damages. (i.e. That a direct relationship existed between the breach of duty and damages suffered and nothing intervened between the time the duty was breached and the damages resulted)

If someone operates an automobile in a negligent manner that under given circumstances results in damage to another's property or in bodily injury to another person, the operator can be held legally liable for the damages incurred by the injured person. In order to avoid legal liability, owners and operators of automobiles must exercise a high degree of care to protect others from harm while operating an automobile.

**Intentional Torts**

An **intentional tort** is a deliberate act that causes harm to another person. Regardless of whether the harm itself is intended, the intentional act can create liability. Examples are libel and slander or intentionally inflicting bodily injury to another.

**Absolute Liability**

Absolute liability involves the right of recovery in cases involving inherently dangerous activities that result in injury or harm to another; liability that does not involve proving negligence. For example, if a person keeps a pet tiger in a cage in his back yard and the tiger bites a neighbor. The owner of the tiger could be held liable whether or not negligence can be proved. Owners of dangerous animals are typically held liable for injuries that the animals cause regardless of how carefully the owners confine them.

**Contractual Liability**

Contractual liability is liability assumed under any contract or agreement. The possibility of contractual liability arises when an individual enters into a contract or agreement. Leases for homes and apartments, as well as rental agreements for autos, power tools, and other equipment, typically contain provisions that transfer the financial consequences of liability losses from the owner of the property to the renter.
**Statutory Liability**

**Statutory liability** is liability imposed because of a statute or law. Usually it is not necessary for the injured person to prove negligence. If the law is broken, and damage to another occurred, it is presumed that the person who violated the law is at fault. For example, if an accident occurs in which the insured is intoxicated, they will probably be considered at fault.

Most important to individuals and families are the laws dealing with liability arising out of automobile accidents. Laws vary by state and motorists should know the laws that apply in the state, or states, in which they live and operate motor vehicles.

**THE TWO ELEMENTS OF LIABILITY LOSS EXPOSURES**

Regardless of the type of liability alleged, the second element of a liability loss exposure involves the possibility that the injured party will make a claim for damages against the insured.

**Possibility of a Claim for Money Damages**

A liability loss exposure involves the possibility that one party, claiming injury or damage, will bring a claim for money damages against another party allegedly at fault for the injury or damage. A liability loss results when a claim for money damages is actually made.

**Financial Consequences of Liability Losses**

When a liability claim occurs, an individual or family can suffer two major financial consequences:

- Costs of investigation and defense
- Money damages awarded if the defense is not successful (or if the claim is settled out of court)

If one driver is liable for an accident, then the other party may be entitled to compensation for injuries or damage or both. Compensation may include both Economic Damages, also called “Tangible Damages,” such as out-of-pocket medical expenses, lost wages and the cost to repair a damaged vehicle, as well as Non-economic Damages, also called “Intangible Damages,” such as pain and suffering or mental anguish.

Unlike most property loss exposures, liability loss exposures put all of an individual's financial resources at risk of loss. When a court orders an individual to pay liability damages, the amount of the damages is based on the loss the injured party suffers, not with the financial resources of the party at fault or their ability to pay the damages. As a result, all of an individual's or family's savings and property are exposed to loss. The fact that all of an individual's assets, plus his or her future income, may be required to pay for liability damages makes insurance for liability losses a necessity.

Tremendous sums are often awarded in bodily injury liability cases. When we damage another car, our liability might be limited to the value of the vehicle. But if we injure a person, causing a permanent disability and pain and suffering, a court could award millions of dollars in damages.
Many liability claims are settled before they reach court. The parties to the claim negotiate the amount paid in damages, and the costs of investigation and defense are usually reduced. Since settling out of court is usually less expensive than going through a potentially long trial, insurance companies often try to reach out-of-court settlements.

**LEGAL LIABILITY LAWS & THE AUTOMOBILE**

Automobile liability insurance is one of the most important automobile insurance coverages. The potential legal liability exposure of drivers and owners far exceeds the risk of loss or damage to the automobile itself. A loss because of theft of an entire automobile cannot exceed the value of the automobile, but a judgment for injuries and damages because of an accident could easily amount to hundreds of thousands of dollars, and even exceed $1 million.

Because US society is built on the easy access to automobiles, resulting in a high potential for liability, many laws, statutes, and ordinances have been enacted to address the responsibility of owning an auto. Auto statutes and regulations can vary widely by state. Be certain you are familiar with the provisions of the states in which you sell personal automobile insurance.

These statutes modify some of the common-law concepts of negligence and place specific obligations and responsibilities on the owners and operators of motor vehicles. Following are some of the more important statutes and regulations relating to automobile liability that every producer should know.

**Contributory Negligence**

A few states have *contributory negligence* laws that make it difficult for an accident victim to collect damages. Under contributory negligence, when both parties to an automobile accident are negligent, each party must bear its own damages. If a person contributes in any way to his or her own injury, that person cannot recover damages. For example, if two cars are involved in an accident and one car was speeding and the other car ran a red light, neither driver would be able to collect from the other party.

Contributory negligence rules currently exist in six states, Alabama, Idaho, Maryland, North Carolina, South Dakota, Virginia, and the District of Columbia.

**Comparative Negligence**

Because of the harshness of contributory negligence laws, most states have enacted some type of *comparative negligence* law that allows injured persons to recover damages even though they might have contributed to the accident. Although comparative negligence laws vary by state, they all share the common element that negligence on the part of the injured party does not necessarily prevent recovery for damages.

Under a comparative negligence law, if both the injured person and the other driver are negligent, the relative negligence of each party is determined, and a percentage of blame is assessed to each. Under the most common version of the comparative negligence rule, the damages recoverable by the plaintiff are reduced by the percentage of the plaintiff's contribution to the accident. For example, if the plaintiff were judged to be 20 percent responsible, the...
plaintiff would recover only 80 percent of damages arising out of the accident. In this way a driver who is partially at fault can still collect partially from another driver who was more at fault.

**Guest Statutes**

In most states, a driver owes the "reasonable and prudent" standard of care to guests in their vehicle. However, guest statutes, which modify the common-law doctrine of negligence by altering the standard of care a driver owes a guest in the auto, in five states (Alabama, Idaho, Illinois, Nebraska, and Texas). The extent of these laws varies by state. Producers and insureds must be familiar with how the laws in the states in which they operate affect their responsibility for injuries to passengers.

In order for a driver to be held responsible for injury to guests in states in which a guest statute exists, the driver must be held responsible for "willful and wanton misconduct," "gross negligence," or some other such conduct, for example if a driver is intoxicated. As a result, it becomes extremely difficult for a guest to pursue an action against the driver. Guest statutes apply only to guests. A fare-paying passenger in a taxi or bus would not be considered a guest.

**Vicarious Liability**

The person who negligently operates a motor vehicle is typically held responsible for resulting injury and damage. However, some states have passed vicarious liability statutes under which the owner is held liable for the negligent operation of a car driven with the owner's permission or if the driver is acting as an agent for the owner at the time of the accident even when the owner is not in the automobile.

The most common situation involving vicarious liability are parents who are held liable for the operation of motor vehicles by their minor children, and employers who are held liable for negligent acts of their employees during the performance of their job. The person who is held liable vicariously does not even have to be near the scene of the accident to or to have any personal involvement in the incident to be held responsible for damages incurred.

**TORT REFORM**

The number and size of third party claims presented to insurance companies, and defended and contested, have increased steadily over the years. A victim usually has to share a good portion of a settlement with an attorney. Tort reform is the process of changing legislation in a way that reduces legal costs or settlement awards resulting from negligence lawsuits. The tort liability system has come under attack by critics in recent years, arguing that this system is unfair and has many defects.

By the end of the 1960s, critics were charging that the entire system suffered from deficiencies that added to insurance costs and delayed payment to victims when they needed it most. Many people believe that a new system is needed for compensating auto accident victims. One type of tort reform that several states have proposed and enacted is no-fault insurance, which will be discussed in a later section in this text.
PERSONAL RISK MANAGEMENT

Risk management is the process of making and carrying out decisions that will decrease the adverse effects of potential losses. Personal risk management is the application of the risk management process to the exposures of individuals or families. Risk management helps people identify loss exposures and decide how to protect against potential losses before they happen. Families and individuals who engage in risk management can minimize worry and ease the harmful effects of a loss.

BASICS OF PERSONAL RISK MANAGEMENT

The typical individual or family does not pay much attention to personal risk management. Personal risk management is often unplanned and unintentional. Most individuals and families consider insurance as the only way to handle their loss exposures and to expect insurance to take care of all their exposures for them. They are not likely to identify all their loss exposures, study alternative risk management techniques, or select and implement other techniques. They are even less likely to monitor and revise their decisions. Large corporations are far more likely to have a formal risk management program than are families.

RISK MANAGEMENT AND THE INSURANCE AGENT

Many customers expect their insurance agent or company representative to serve as their risk manager. Although trained insurance personnel can help clients identify their loss exposures and suggest appropriate insurance coverages, customers should make their own coverage decisions. Insurance professionals should offer customers several optional coverages and limits and then let the client choose the ones they want and can afford.

Insurance personnel can become involved in errors and omissions (E&O) claims if they act as risk managers for their clients. Errors and omissions (E&O) are negligent acts (errors) or failure to act (omission) committed by a person in the conduct of the insurance business that give rise to legal liability for damages. Customers who think that an insurance professional gave them misleading or incorrect advice might bring an E&O claim against the insurance agency or company they believe to be responsible.
There are also several advantages to the producer who assists his or her clients to develop a good risk management program:

- It necessitates account selling and leads to larger premiums;
- the account becomes less vulnerable to takeover by a competitor because the producer handles all of a family's insurance coverages; account retention is increased; and
- the producer has the satisfaction of knowing that the client is being well served.

Insurance personnel can help a client identify loss exposures and can suggest appropriate insurance coverages, but they should not select coverages for the customer, or they might become involved in errors and omissions (E&O) claims. Although insurance is one effective risk management technique, it is certainly not the only one. Agents must consider other risk management techniques that might be used instead of, or in combination with, insurance.

**HOW A PERSONAL RISK MANAGEMENT PROGRAM WORKS**

Personal risk management involves the following steps:

- Identifying and analyzing loss exposures
- Examining possible risk management techniques
- Choosing the appropriate techniques
- Implementing the chosen techniques
- Monitoring and revising the plan

Good risk management means addressing all exposures. First, a family needs to identify and analyze their property loss exposures. They should also list their personal activities that could cause liability claims. The use of a risk management tool such as a questionnaire or checklist can help to generate the information needed to recommend the personal auto coverages that the producer believes will best protect the insured.

**INSURANCE AS A RISK MANAGEMENT TECHNIQUE**

One risk management technique is insurance. Insurance is an excellent risk management technique for individuals and families, as long as personal insurance clients understand that insurance will not cover all their loss exposures and that they must choose other techniques as well. Personal insurance can protect against many typical loss exposures the average person or family faces. Unfortunately, many individuals think insurance is the only technique available to handle loss exposures, and they do not explore other possibilities. They might also think that insurance should cover all losses, no matter what the cause or the circumstances.
OTHER TECHNIQUES TO TREAT LOSS EXPOSURES

In addition to insurance, the following are typical risk management techniques that an individual or family should consider:

- Avoidance
- Loss control
- Non-insurance transfer
- Retention

Avoidance

Avoidance involves not participating in an activity or not owning an object that might give rise to losses in the future. For example, not owning a car or getting rid of one you currently own.

Unfortunately, avoidance is not practical for most personal exposures since in avoiding the exposures, you must also avoid the enjoyment and/or income derived from the thing avoided. For example, if a family chooses not to purchase a vehicle, they might still have auto exposures from renting or borrowing vehicles or as a passenger in another's car or as a pedestrian.

Loss Control

Loss control is one of the most important and most overlooked personal risk management techniques. Controlling loss exposures involves both loss prevention and loss reduction.

- Loss prevention measures seek to control the frequency of losses, to prevent losses, or at least keep them from happening as often. (i.e. anti-lock brakes, car theft alarms)

- Loss reduction measures seek to control the severity of losses that do occur. Loss reduction cannot prevent losses, but it can help to reduce the dollar amount of losses that occur. (i.e. airbags, seat belts, shock absorbing bumpers)

Noninsurance Transfer

A noninsurance transfer is the act of transferring loss exposures from one party to another party that is not an insurance company. Individuals can transfer the potential consequences of a loss exposure to another party by contract such as a lease or rental agreement. Persons who assume a transfer of exposure usually cover the exposure with insurance.

Retention

Retention means drawing on the financial resources of an individual or family to pay for part or all of the consequences of a particular loss exposure. If individuals or families do not transfer their loss exposures to an insurance company or to anyone else, they retain their losses (either intentionally or unintentionally) and must pay for such losses with their own resources.
Retention can be total or partial. Most people use partial retention in the form of deductibles on their insurance policies. Some people choose to retain the exposure for damage to their vehicle by not purchasing coverage for physical damage at all. In some states insureds may even be able to retain their liability exposure by self-insuring.

Retention can also be intentional or unintentional. By intentionally choosing higher deductibles on their homeowners and auto policies, insureds could save substantial premium dollars. However, they must be prepared to pay the greater deductible amount for each loss that occurs. Unintentional retention occurs when insureds do not purchase coverage for a particular exposure (such as flood or earthquake) either because they do not know that their policies exclude these perils or because they do not know that specific insurance is available to cover them. Agents must be careful to explain any exposures that are not covered or excluded since unintentional retention often leads to E&O claims.
Personal insurance is a subject that affects all of us - not only in our professional lives, but also in our personal lives. Without insurance, most of us could not purchase our homes, finance our cars, pay our hospital and medical bills, or handle unexpected financial emergencies.

WHAT IS AN INSURANCE POLICY?

An insurance policy is a written agreement between two "parties." One party is the insured person, and the other party is the insurer (the insurance company). An insurance policy is also a legally binding contract. As with all contracts, an insurance policy describes the rights and obligations of each party. In addition, the policy identifies how much the insured must pay to receive those rights (the "premium.") The policy also identifies how much the insurance company is obligated to pay if certain events occur (the "limits of insurance.")

TYPES OF PERSONAL INSURANCE POLICIES

Personal insurance consists of the insurance coverages designed to cover loss exposures of individuals and families. Personal insurance policies are designed to transfer the financial consequences of many personal loss exposures from individuals and families to insurance companies. Although personal insurance policies meet the needs of most customers, no policy covers every potential loss exposure.

Personal insurance policies are often standardized and are usually written as a package policy, combining property and liability coverages in one policy. Examples of package policies are the homeowners policy and the personal auto policy.

This text examines one of the many policies used to insure loss exposures for individuals and families: the personal auto policy (PAP). Some of the other policies that provide important protection include:

- Homeowners policy
- Dwelling policy
- Mobile home insurance
- Farm insurance
- Flood insurance
- Inland marine insurance
• Recreational Vehicle policies
• Watercraft insurance
• Umbrella policies

Since virtually all other policies specifically exclude auto exposures, this coverage must be obtained separately, through the Personal Auto policy, or PAP.

The personal auto policy (PAP), developed by Insurance Services Office, forms a standard for personal auto insurance contracts. However many insurance companies offer policies that vary from nonstandard to preferred markets and from mono-line to package policies. Therefore, each policy must be reviewed carefully since a single word in a contract could mean the difference between coverage and no coverage.
Automobile insurance is the largest line, in terms of premium volume, in the property and liability insurance field. As such, it is a major source of commission income for producers. Consequently, automobile insurance is often the key to individual and family insurance accounts. A car is likely to be the first major possession that most people acquire, and automobile insurance is usually their first property and liability insurance purchase. The producer who successfully handles an insured's automobile insurance needs satisfactorily will probably write the insured's homeowners as well as other coverages.

The **personal auto policy (PAP)**, a simplified language policy, is intended to provide all of the automobile insurance protection needed by the vast majority of Americans. It consists of the Declarations, Insuring Agreement, and Definitions, as well as several parts that describe specific coverages such as liability coverage, medical payments, uninsured motorist coverage, coverage for damage to your auto, and duties after an accident or loss.

Automobile insurance policies are primarily "third party" contracts. Under a "third party" contract, the insurer agrees to pay on behalf of an insured for damages that the insured is legally responsible to third parties. The PAP also includes "first party" coverage to reimburse the insured directly for damages to, or theft of, the vehicle itself and/or its equipment.

In conjunction with the many endorsements that can be attached to it, the PAP can be used to insure passenger cars, trailers, pickup trucks, vans, motorcycles, golf carts, snowmobiles, and other motor vehicles not used for business purposes. To be eligible for coverage under the personal auto policy, the vehicle to be insured must be owned, or leased for at least six months, by an individual or married couple.

As you can imagine, not all vehicles and owners are exposed to the same type of losses and so not all owners require the same type or amount of coverage. An insured's choice of which coverages to purchase is influenced by:

- **Coverages which must be purchased because of state law**
- **Coverages which the insured truly needs or wants**
- **The premium cost for optional coverages**
PERSONAL AUTO INSURANCE POLICY MODERNIZATION

At one time the Basic Automobile Policy (BAP) was used to insure almost all types of personal and commercial vehicles. During the 1950s, the Family Automobile Policy (FAP) and Special Automobile Policy (SAP) were introduced. The BAP was used most extensively in the commercial area as time went on. The FAP provided broad coverage for private passenger and utility vehicles owned by individuals, and it became the predominant personal lines auto policy for two decades. The SAP was an economy package, which was not as broad as the FAP.

The Personal Auto Policy (PAP) was introduced in 1977. It is designed to be easy to read and understand. Highly technical terms have been eliminated, and simple definitions and short sentences are used throughout the policy. The PAP contains only about half as many words as the family policy did, but it provides essentially the same coverages. The result is that the PAP is easier to understand than earlier versions of personal automobile policies.

The PAP has been revised several times since it was introduced. The following discussion is based on the 1994 edition of the standard PAP. Be aware that many companies use other variations of the personal auto policy and that the PAP has been amended in many states to conform to state laws.

ELIGIBLE VEHICLES

Types of Eligible Vehicles

The PAP is designed to insure 4 wheel private passenger autos, as well as pickup trucks and full-size vans, subject to certain restrictions.

- Private passenger autos include vehicles such as cars, vans, station wagons, and sport utility vehicles designed primarily for use on public roads.

- Coverage for pickups and vans is available only if their gross vehicle weight (GVW) is less than 10,000 pounds. In addition, the pickup or van must not be used to transport or deliver goods and materials unless such use is for farming or ranching or is incidental to an insured's business of installing, maintaining, or repairing furnishings or equipment.

The PAP can also be endorsed, if allowed by the state and the insurer, to cover motorcycles, golf carts, snowmobiles, and similar vehicles by adding an appropriate endorsement to the policy. Vehicles rented to others, or used to carry passengers for a fee, are ineligible for coverage under a personal auto policy.

Ownership Rules

To be eligible, a vehicle must be owned or leased under contract for a minimum period of 6 consecutive months by one of the following:

- An individual
• A husband and wife who are residents of the same household

• A farm family co-partnership or farm family corporation

The Joint Ownership Coverage Endorsement and the Miscellaneous Type Vehicle Endorsement may be used to change the ownership rules for eligibility and the types of vehicles eligible. Vehicles used by a business whose principal operation is providing freight or delivery services are ineligible.

**HOW THE POLICY IS ORGANIZED**

The PAP is a schedule policy consisting of the following eight parts:

- **Declarations**: provides information about the insured, a description of the insured automobiles, a schedule of coverages, and other important details.

- **Definitions**: provides specific definitions to be used for words in the policy instead of the common (or dictionary) meanings for these words.

- **Part A-Liability Coverage**: provides coverage that protects the insured against a claim or suit for bodily injury or property damage arising out of the negligent operation of an automobile.

- **Part B-Medical Payments Coverage**: provides coverage for reasonable and necessary medical expenses incurred by an insured because of bodily injury caused by an automobile accident.

- **Part C-Uninsured Motorists Coverage**: provides protection if an insured is injured by an uninsured motorist, a hit-and-run driver, or a driver whose insurer is insolvent.

- **Part D-Coverage for Damage to Your Auto**: provides coverage for physical damage to a covered auto and on certain non-owned autos.

- **Part E-Duties After an Accident or Loss**: outlines the duties of an insured after an accident or a loss.

- **Part F-General Provisions**: contains certain general provisions, such as cancellation and termination of the policy and the policy period and territory.

Part A, liability, may be written alone or with any of the others. Medical payments coverage, Part B, is optional, but it may only be written if the policy includes liability. Uninsured motorists coverage, Part C, which may only be written along with liability, is subject to different state laws: it must be offered in all states; it is mandatory in many states; but some states allow the insured to reject the coverage in writing. Either or both of the coverages under Part D may be written alone or with liability coverages.
• **Endorsements**

Additional forms, called endorsements, may also attached to a policy to add optional coverages that are not included in the standard policy form. These forms may be attached when a policy is first issued, or at a later date.

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**DECLARATIONS**

The following information is typically provided on the **Declarations Page** of a personal auto policy:

**Insurer**

The Declarations Page contains the name and address of the insurance company.

**Policy Number**

All Declarations Pages contain the policy number, which is extremely important, since virtually all insurance companies file their policies by policy number rather than by the insured's name. If a previous policy number is shown, it indicates that the current policy is a "renewal."

**Named Insured**

The Declarations Page shows the name of the policyholder or named insured and the named insured's mailing address. The named insured can be an individual, a husband and wife, or other parties.

**Policy Period**

The policy period is the time period during which the policy provides coverage. The policy period is also referred to as the "policy term." The policy term for Personal Auto Policies is usually either six months or one year. It starts at 12:01 A.M. (one minute after midnight) standard time at the address of the policyholder on the date the policy becomes effective and ends at 12:01 A.M. standard time on the date the policy expires. Only those accidents that occur during the policy period are covered. The policy period is therefore very important in determining whether coverage applies.

**Description of Insured Automobiles**

The Declarations Page describes each of the vehicles and trailers that are insured including the year, make, model, body type, vehicle identification number, annual mileage, use of the vehicle, date of purchase, and other information about each vehicle.

**Schedule of Coverages**

The schedule of coverages shows the premiums and the following information for each insured vehicle:
• Part A shows the limits of insurance for liability coverage.
• Part B indicates the amount of medical payments coverage for each person.
• Part C shows the limits for uninsured motorists coverage.
• Part D indicates whether there is coverage for damage to the insured autos and, if so, the deductible amounts.

Limits of Liability

The limit of liability for any coverage is the maximum amount of insurance that the insurance company is legally obligated to pay if a covered loss occurs. If the amount of loss is equal to or less than the limit, the insurance company will pay the amount of the loss (minus any deductible that may apply). However, if the amount of a covered loss is more than the limit of liability, the insurance company will pay the limit of its coverage and the insured would be responsible for any additional loss.

Premiums

The declarations page includes space for entering the total policy premium for all included coverages as well as any endorsements which are attached.

Lienholder

Virtually all banks or lending companies require that Damage to Your Auto coverage be carried on a financed vehicle and that they (the lender) be listed on the policy. The loss payee's (lender's) name and address will appear in the Declarations Page. In the event of theft of the car or total loss, the named insured and loss payee will each receive payment in proportion of their insurable interest in the car.

Garage Location

The location where the described automobile is garaged is shown only if that location is different from the mailing address stated on the declarations page. For example if the named insured uses a post office box as a mailing address, or lives in one city but keeps a car at a different location. Premiums vary from place to place, and the garaging address is used when rating the policy.

Rating Information

The rating classification for the vehicle and any applicable credits and discounts are shown, such as multiple cars, driver training, a good student record, a defensive driving course, passive restraints, anti-theft devices, and other factors.
Applicable Endorsements

The declarations page also indicates any endorsements that are attached to the policy, along with the premium for each.

Signature

The signature of an authorized legal representative of the insurer is usually shown at the bottom of the declarations page. This may be the agent’s signature or an officer of the insurance company.

AGREEMENT AND DEFINITIONS

Page 1 of the personal auto policy contains the insuring agreement and the definitions of several terms used throughout the policy.

Agreement

The policy begins with a brief general agreement that serves as an introduction to the policy and states that the insurer's obligations are subject to all the terms of the policy and depend on the payment of the premium by the insured. The reason that the general agreement is so brief is that each coverage section contains a much more detailed insuring agreement.

Definitions

This section of the policy contains specific definitions of words and phrases that apply to the entire policy. These defined terms have a specific meaning within the context of the policy and are written in simple language designed to be easily understood. Not all terms are defined in the policy, and many terms are subject to interpretation. In addition, interpretations change over time and across the country.

• “You” and "Your" means the named insured and spouse if the spouse lives in the same household.
  • “Named insured” includes a spouse having the same residence address.
  • The definitions section does not describe an insured, because that term is given a separate definition under each of the coverages under Parts A, B, and C.

• “Bodily injury” means bodily harm, sickness or disease, including death that results.

• “Business” includes any trade, profession or occupation.

• “Family member” means a person related to the named insured by blood, marriage, or adoption, including a ward or foster child, who lives in the same household. A student temporarily away at school is still a family member.
• **“Occupying”** means in, upon, getting in, on, out, or off an auto or vehicle. A person who is "occupying" a covered auto is not necessarily inside the vehicle.

• **“Property damage”** means physical injury to, destruction of, or loss of use of tangible property. If an insured damages another vehicle, the cost of renting another vehicle while the damaged vehicle is being repaired becomes part of the property damage liability loss and is payable under the property damage coverage.

• **“Trailer”** means a vehicle designed to be pulled by a private passenger auto, pickup or van. It also means a farm wagon or farm implement, but only while towed by a private passenger auto, pickup or van.

• **“Your covered auto”** is defined by the policy as meaning any:
  
  - Vehicle shown in the declarations
  - Trailer owned by the named insured
  - Newly-acquired **additional** vehicle on the date the insured becomes the owner (automatic coverage is provided for 30 days)
  - Newly-acquired **replacement** vehicle on the date the insured becomes the owner (all coverages automatic for remainder of policy period, except for a 30-day limit on Part D, physical damage)
  - Non-owned vehicle or trailer used as a **temporary substitute** for any other covered vehicle which is out of use due to breakdown, repair, servicing, loss or destruction (this applies to all coverages except Part D, physical damage).
PART A—LIABILITY COVERAGE

Part A - Liability Coverage of the PAP pays damages for bodily injury or property damage for which the insured is legally responsible because of an auto accident. The insurer also agrees to defend the insured and pay all legal defense costs, in addition to the policy limits, until settlement or payment of a judgment exhausts the limits.

INSURING AGREEMENT

The insurer will pay damages for "bodily injury" or "property damage" for which any "insured" becomes legally responsible because of an auto accident. Damages include pre-judgment interest awarded against the "insured." The insurer will settle or defend, as they consider appropriate, any claim or suit asking for these damages. In addition to the limit of liability, the insurer will pay all defense costs they incur. Their duty to settle or defend ends when the limit of liability for this coverage has been exhausted. There is no duty to defend any suit or settle any claim for "bodily injury" or "property damage" not covered under the policy.

The policy uses the term "auto accident." Injury or damage must be the result of an accident—something that happened at a specific time and place.

- The policy protects only those who have the status of an insured.
- Coverage applies only to damages for which the insured is legally responsible.
- The legal liability must be for bodily injury or property damage.

Defense Costs

In addition to the payment of damages for which an insured is legally liable, the insurer also agrees to defend the insured and pay all legal defense costs. The defense costs are in addition to the policy limits. However, the insurer’s duty to settle or defend the claim ends when the limit of liability has been exhausted. Thus, once the policy limits (including prejudgment interest) are paid, the insurer has no further obligation to settle or defend the claim. The insurer also has no obligation to defend any claim that is not covered under the policy.
Prejudgment Interest

The damages paid also include any **prejudgment interest** awarded against the insured. Prejudgment interest is interest that might accrue on damages before a judgment determining that the insured is responsible for the damages. The laws of many states allow plaintiffs (injured persons) to receive interest on a judgment from the time an accident occurs, or a lawsuit is filed, to the time the judgment is handed down. Prejudgment interest is considered to be part of the award for damages and is subject to the policy limit of liability.

WHO IS AN INSURED

Many other people can be covered by an insurance policy in addition to the one whose name appears in the declarations. Although other people may be covered under some circumstances, the policy is still an agreement between the named insured and the insurance company.

The following four categories of persons and organizations are insured for liability coverage under the PAP:

- The named insured and members of his or her family while using any auto.
- Any person using a covered auto with permission.
- Any person or organization, but only for legal liability arising out of an insured person's use of a covered auto on behalf of that person or organization.
- Any person or organization legally responsible for the named insured's or a family member's use of any automobile or trailer (other than a covered auto or an auto owned by that person or organization).

Remember that the named insured also includes the spouse of the named insured if he or she is a resident of the same household. Family members are persons related to the named insured by blood, marriage, or adoption, as well as a ward or a foster child, who live in the insured's household. In addition, while children are temporarily away from home, such as when attending college, they are still covered under their parents' policy.

COVERED AUTO

Four classes of vehicles are covered by the personal auto policy:

1. the vehicles shown in the declarations,
2. a newly acquired vehicle (subject to certain restrictions),
3. a trailer owned by the insured, and
4. a temporary substitute vehicle or trailer.
The Declarations Page describes the covered autos or trailers being insured by the policy. "Model year" means the manufacturer's model year. Auto manufacturers usually start selling their new models in the fall of the previous year. It is the model year and not the year of purchase that appears in the declarations. Related to model year is the "age" of a vehicle. Each model is assigned a “Symbol” which is based on the cost new as well as the damageability of the vehicle and its accessories. The insurance company in determining the policy premium will use both the symbol and model year of covered autos.

The definition of a trailer includes the so-called "fifth-wheel" type of trailer. Because they can be pulled by a pickup, they are covered under the PAP.

Remember that coverage under the Personal Auto policy is not limited to the named insured's covered auto. However, liability coverage for someone other than the named insured or a family member applies only when using the named insured's covered auto.

**Newly Acquired Vehicle**

If the newly acquired vehicle is a private passenger auto that replaces a vehicle for which the policy provides coverage, the new vehicle will automatically have the same coverages as the vehicle it replaces unless the insured specifically requests a change in coverage. However, the insured must notify the insurer within thirty days of buying the new vehicle if the insured wishes to continue or add Part D-Coverage for Damage to Your Auto on that vehicle. The insurer will then adjust the policy premium accordingly.

If a newly acquired vehicle is a private passenger auto that the insured acquires in addition to the vehicles already listed in the declarations, the coverage for the new vehicle will be equal to the broadest coverage the policy provides for any of the currently insured vehicles. The insured must notify the insurer within 30 days to continue or amend coverage.

Basically, this means that coverage for additional vehicles is automatically provided for up to 30 days, but only when the insured actually notifies the insurance company before the end of that 30-day period. If the vehicle replaces one shown in the Declarations, it will have the same coverage as the vehicle it replaced. The insured must notify the insurer within 30 days only if they wish to add or continue Coverage for Damage to Your Auto (comprehensive or collision).

If the newly acquired vehicle is a pickup truck or van, however, the PAP will provide coverage only if the newly acquired pickup or van meets the eligibility criteria for weight and use as previously described. The coverage will be provided only if no other insurance policy applies to the newly acquired pickup or van. For example, if an insured has a business and owns trucks that are insured by a commercial auto policy, a newly acquired truck would not be covered under the PAP until and unless the insured specifically adds coverage.

Despite the automatic coverage provided by the PAP, the insured should be advised to always report a newly acquired vehicle immediately upon purchase. Because the coverage on a vehicle that replaces a described auto will have the same coverage as the vehicle it replaced. If the replaced vehicle was an older one with no physical damage coverages, the replacement vehicle would have no physical damage coverage unless the insured notified the carrier. A similar situation could exist for an additional vehicle if none of the currently insured vehicles were covered for physical damage.
Temporary Substitute Vehicle

A temporary substitute vehicle is nonowned auto or trailer that the insured is using because of the breakdown, repair, servicing, loss, or destruction of a covered vehicle. A temporary substitute auto will be treated as a "covered auto" under the policy when it replaces another insured vehicle which is out of service because of any of the following five reasons.

- Breakdown
- Repair
- Servicing
- Loss
- Destruction

However, a temporary substitute vehicle is not considered "your covered auto" in regard to Part D - Coverage for Damage to Your Auto. (With respect to Part D, temporary substitute vehicles are considered nonowned vehicles.

LIMITS OF LIABILITY

The limit of liability section details how much the insurer will be liable for and how often. The limit of liability represents the most the company will pay for damages arising from one auto accident, regardless of the number of insureds, claims filed, vehicles or premiums shown in the Declarations, or vehicles involved in the accident.

The personal auto policy is written with a single limit of liability, and it applies to combined BI and PD resulting from any one accident. Split limits are available by endorsement, and the policy will automatically provide separate BI and PD limits when required by law.

Single Limit

A single limit of liability is the maximum amount a PAP insurer will pay for the insured's liability for both bodily injury and property damage that arise from a single occurrence. The limit of liability for auto liability insurance is frequently expressed as a single number representing the maximum the company will pay for all bodily injury or property damages in any one occurrence. This is known as a single or combined single limit.

Under a $35,000 single limit the entire $35,000 could be paid for one person injured, all persons injured, property damaged, or any combination of the three.

Split Limits

Split limits represent the maximum amounts a PAP insurer will pay for the insured's liability for bodily injury per person, bodily injury per accident, and property damage per occurrence. When
split limits apply, the liability limits are usually split in two ways - BI and PD limits are shown separately, and the BI limit is split into amounts for each person and each accident.

<table>
<thead>
<tr>
<th>Limit Type</th>
<th>Limit Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bodily Injury</td>
<td>$15,000 per person / $30,000 per accident</td>
</tr>
<tr>
<td>Property Damage</td>
<td>$ 5,000 per accident</td>
</tr>
</tbody>
</table>

Even though the total limit is $35,000, no more than $15,000 can be paid to any one person injured, no more than $30,000 to all persons injured and no more than $5,000 for all property damaged in a single accident. Care must be taken to explain the difference when replacing single limit coverage with a policy providing split limits or vice versa.

**Nonduplication Provision**

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

In addition, the limit of liability provision specifically states that no one is entitled to receive duplicate payments for the same loss under Part A-Liability Coverage, Part B-Medical Payments Coverage, Part C-Uninsured Motorists Coverage, or any underinsured motorists coverage provided by the policy.

**OUT-OF-STATE COVERAGE**

Out-of-state coverage is a provision in Part A of the PAP that automatically provides the minimum limits and types of coverage required by the state in which the accident occurs. If a covered person has an accident in another state which has a financial responsibility law or compulsory law requiring limits of liability higher than those provided by the policy, the policy will automatically provide the type and amount of coverage required.

The out-of-state coverage provisions refer not only to the required minimum amounts of coverage, but to required types of coverage as well. This means that if an insured drives into a state where no-fault benefits or other types of coverage are required, the policy will automatically provide the minimum amounts and types of coverage.

**FINANCIAL RESPONSIBILITY**

Each state has a financial responsibility or compulsory insurance law requiring automobile drivers to show that they are capable of paying accident claims against them up to a specified minimum amount (the amount differs by state). Most drivers satisfy these laws by purchasing an insurance policy with a limit of liability the same as or greater than the amount required by state law.

These laws generally specify split limits. For example, a state might require that automobile owners maintain liability insurance in the following amounts: 15/30/5. A Personal Auto Policy written with a single limit of $35,000 per accident would satisfy a state law prescribing the
required limits above - at least $30,000 per accident for bodily injury and at least $5,000 per accident limit for property damage.

**SUPPLEMENTARY PAYMENTS**

Defense costs are not the only valuable benefit in the PAP’s liability section payable in addition to the policy limits. Supplementary payments are also included as part of the package. Supplementary payments are payments made in addition to the limit of liability, for the following items:

**The cost of bail bonds**

Up to $250 for the cost of bail bonds required because of a traffic law violation in conjunction with a covered automobile accident. The accident must result in "bodily injury" or "property damage" covered under this policy. There is no coverage for a traffic law violation unless it is related to an accident.

**Premiums on appeal bonds or bonds to release attachments**

Premiums on appeal bonds and bonds to release an attachment of property in a lawsuit defended by the insurer. If a court awards a judgment against an insured, the insured might appeal that decision to a higher court. An appeal bond guarantees that, if the appeal is lost, the insured will pay the original judgment and the cost of the appeal.

During legal proceedings, an attachment or lien may be placed by the plaintiff on the insured's property, such as a house. A release of attachment bond guarantees that the insured will pay any judgment, permitting a release of the attachment on the insured's property.

**Post judgment interest**

Postjudgment interest is interest that might accrue on damages after a judgment has been entered in a court and before the money is paid. If the court orders a judgment against the insured and if the insurance company delays making the payment, the court might require that interest be paid on the amount of the judgment from the time it is entered until it is paid or an offer of payment is made. The insuring agreement states that "prejudgment interest" included, along with "damages," in the limit of liability. But "post judgment interest" is covered in addition to the limit of insurance under supplementary payments.

**Loss of earnings because of attendance at hearings or trials at the company's request**

Loss of earnings up to $50 a day will be paid to the insured but only for attendance at hearings or trials, at the request of the insurer. No other loss of income will be paid.

**Other reasonable expenses incurred by the insured at the company's request**

Other reasonable expenses incurred at the insurer's request are also paid such as travel expenses to testify at a trial at the insurer's request.
OTHER INSURANCE

The other insurance clause explains how the coverage will apply if there is other insurance covering the same loss, to prevent claimants from "profiting" from an accident by collecting the full amount of damages twice.

When an accident is covered by more than one insurance policy, one policy is often considered primary coverage, meaning that that policy would pay first up to its policy limit. Then, if the claim were greater than the primary policy’s limit, the second policy involved would pay the additional amount of the claim, up to its limit of liability. The second policy is then said to be excess coverage.

The clause states that if a loss is covered by other insurance, and if both policies are primary, the company will pay only its share of a loss that is also covered by other insurance. The company’s share is the proportion that its policy limits bear to the total of all applicable limits. Insurance on an owned vehicle is always primary. Any insurance the company provides for a vehicle that is not owned by the insured will be considered excess.

EXCLUSIONS

Exclusions are generally included in insurance policies to accomplish these four broad purposes:

- To clarify the intent of coverage
- To remove coverage for losses that should be covered by other insurance, and
- To remove coverage for above-average risks and catastrophic losses.

Because the insuring agreement of Part A provides such broad coverage, a lengthy list of exclusions applies to the liability coverage under the PAP. The personal auto policy does not provide liability coverage for:

**Intentional Injury**

Bodily injury or property damage caused intentionally by the insured.

**Property Owned or Transported**

Damage to property owned or being transported by the insured.

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

Damage to property (other than a residence or private garage) rented to, used by, or in the care of that insured. Coverage for damage to autos that an insured rents or borrows may be provided under Part D of the policy (the physical damage section).
**Bodily Injury to an Employee of an Insured**

Bodily injury to an employee of an insured person if the injury occurs during the course of employment. One exception, however, is that a domestic employee injured in the course of employment is covered if workers compensation benefits are not required or available.

**Public or Livery Conveyance**

Bodily injury or property damage resulting from an insured's ownership or operation of a vehicle used as a public or livery conveyance used to carry people or property for a fee, such as a taxi or a bus. The exclusion does not apply to share-the-expense car pools. Anyone who operates a taxi or limousine service and carries passengers for a fee needs a Commercial Auto Policy.

**Garage Business**

Any insured while employed or engaged in the business of selling, repairing, servicing, storing, or parking vehicles designed for use mainly on public highways including road testing and delivery of vehicles. This loss exposure should be covered by a commercial garage policy. The exclusion does not apply to the insured's covered auto when it is being driven by the named insured, a family member, or any partner, agent, or employee of the named insured or family member even if engaged in the automobile business.

**Other Business Use**

Any insured while using commercial-type vehicles in any other business or occupation. Coverage for such vehicles is available through business auto policies. The exclusion specifically does not apply to private passenger autos, or to any pickup or van that is either owned by the insured or used as a temporary substitute for a covered auto.

**Using a Vehicle Without Reasonable Belief of Being Entitled to Do So**

Any insured using a vehicle without a reasonable belief that he or she is entitled to use. Coverage is eliminated only when there is no clear belief by the borrower of the vehicle that he or she had permission to use a vehicle.

**Nuclear Energy Liability Losses**

Bodily injury or property damage due to nuclear hazards for which an insured is also an insured under a nuclear energy liability policy.

**Vehicles That Have Fewer than Four Wheels or are Designed Primarily for Off-Road Use**

Vehicles such as motorcycles, ATVs snowmobiles, etc. Coverage may apply when vehicle is used in case of a medical emergency. The excluded vehicles may be covered by adding a miscellaneous-type vehicle endorsement to the PAP.
Vehicles Furnished or Available for the Named Insured's Regular Use

Ownership, maintenance, or use of any vehicle, other than a covered auto, which is owned by or furnished for the regular use of the named insured. The policy will cover the insured's use of occasionally used non-owned autos, but it will not provide free insurance for autos which the insured owns or uses regularly if they are not shown on the policy.

Coverage while driving vehicles furnished for regular use can be provided by attaching the Extended Nonowned Coverage for Named Individual endorsement.

Vehicles Furnished or Available for Regular Use of Any Family Member

A vehicle (other than a covered auto) that is owned by any family member or that is furnished or made available for the regular use of any family member. However, the exclusion does not apply to the named insured and spouse while maintaining or occupying such a vehicle.

Racing

Any vehicle while located inside a facility designed for racing for the purpose of competing in or practicing or preparing for any prearranged or organized racing or speed contest.
PART B – MEDICAL PAYMENTS COVERAGE

Part B - Medical Payments Coverage pays medical expenses without regard to fault up to a specified limit for both the insured and the injured occupants of the insured's covered auto in an automobile accident.

INSURING AGREEMENT

The insuring agreement defines the nature of medical payments coverage, and describes those situations and persons to whom the coverage applies.

The insurer will pay all reasonable and necessary medical and funeral expenses incurred by an insured because of bodily injury caused by an accident. The insurer will pay only those expenses incurred for services rendered within three years from the date of the accident. The types of expenses payable include those incurred for medical, surgical, X-ray, dental, and funeral services. Medical payments coverage typically ranges from $1,000 to $10,000 per person and applies separately to each insured person who is injured in an automobile accident.

Medical payments coverage is sometimes called a "no-fault" coverage, because it is paid without regard to fault or negligence. Since it is not necessary to determine who was at fault in order for coverage to apply, the insurance company does not have to go to the expense and effort of defending a claim.

WHO IS AN INSURED

Insureds for Medical Payments coverage include:

- The named insured or any family member while occupying a motor vehicle designed for use mainly on public roads, or a trailer.

- The named insured or any family member when struck as a pedestrian by a vehicle designed for use mainly on public roads, or a trailer.

- Any other person while occupying the named insured's covered auto
LIMIT OF LIABILITY

Coverage applies on a per-person, per-accident basis. The limit of insurance for medical payments coverage is stated in the declarations. Typical limits are $1,000, $2,000, $5,000, or $10,000, but some companies offer considerably higher limits. This limit is the maximum amount that will be paid to each injured person in a single accident regardless of the number of insured persons, claims made, vehicles or premiums shown, or vehicles involved in the auto accident.

No person is entitled to receive duplicate payments for the same elements of loss under medical payments coverage and under any liability coverage, uninsured motorists or underinsured motorists coverage provided by the policy.

OTHER INSURANCE

The provision regarding other insurance is identical to that found in the liability section. When other medical and funeral expense coverage applies, losses will be shared proportionally based on limits. But if the other insurance applies to a non-owned auto, coverage will be treated as excess over any other collectible medical payments insurance.

EXCLUSIONS

Several exclusions apply to medical payments coverage. Some of these are similar to exclusions that apply to liability coverage. There is no coverage for:

Motorized Vehicles with Fewer than Four Wheels

Medical expenses for bodily injury that any insured sustains while occupying a motorized vehicle with fewer than four wheels.

Public or Livery Conveyance

Medical expenses sustained while a covered auto is being used as a public or livery conveyance. The exclusion does not apply to share-the-expense car pools.

Vehicles Used as a Residence or Premises

Injuries sustained while occupying a vehicle located for use as a residence or premises but do not exclude coverage while such vehicles are being used as motor vehicles. People often purchase vehicles such as house trailers, travel trailers, motor homes, or converted school buses and park them for a time at one location, perhaps at a trailer camp or on the beach, in which case, the vehicle loses its identity as a vehicle and is becomes a residence.
# Injury During the Course of Employment

Injuries that occur during the course of employment if workers compensation benefits are required or available.

## Vehicles Furnished or Available for the Named Insured's Regular Use

Injuries sustained while occupying an uninsured auto that is owned by the insured or furnished for his or her regular use that is not described in the policy and for which no premium is paid.

## Vehicles Furnished or Available for Regular Use of Any Family Member

A similar exclusion applies to any vehicle (other than a covered auto) that is owned by or is furnished or available for the regular use of any family member. However, there is an important exception. The exclusion does not apply to the named insured and spouse.

## Occupying a Vehicle Without Reasonable Belief of Being Entitled to Do So

Injuries sustained while occupying a vehicle without the reasonable belief that the person is entitled to do so.

## Vehicles Used in the Business of an Insured

Injuries sustained while occupying an auto for business. This exclusion does not apply to a private passenger automobile, an owned pickup or van, or a trailer used with these vehicles.

## Bodily Injury from Nuclear Weapons or War

Injury from the discharge of a nuclear weapon (even if accidental) or from war, insurrection, rebellion, or revolution is excluded from medical payments coverage.

## Nuclear Radiation Exclusion

Bodily injury caused by nuclear reaction, radiation, or radioactive contamination.

## Racing

Bodily injury that occurs while an insured is occupying any vehicle that is located inside a racing facility for the purpose of preparing for, practicing for, or competing in any organized racing or speed contest. However, medical payments coverage does apply to an insured who is injured by an auto while in a racing facility if the insured is a pedestrian or bystander.
PART C—UNINSURED MOTORISTS COVERAGE

Uninsured motorists coverage pays damages that an insured person is legally entitled to recover from the owner or operator of an uninsured motor vehicle because of accidental bodily injury. Uninsured motorists (UM) coverage pays only if an uninsured motorist is liable. Uninsured motorists (UM) coverage does not benefit the uninsured motorist who is responsible for an accident. It covers the named insured and family members while occupying a motor vehicle, or as pedestrians if an uninsured vehicle strikes them. It also covers any other person while occupying a covered auto.

This coverage differs by state, because state laws determine the minimum limits, the nature of coverage, and whether the coverage is optional or mandatory. In some states, uninsured motorists coverage is mandatory. In other states, the named insured may choose not to carry the coverage, but must reject it in writing at the time the policy is issued. In most cases, the coverage applies only to bodily injury, but property damage coverage is provided in a few states (including California).

State laws define the term “uninsured motorist” in different ways. The coverage usually applies to hit-and-run accidents where the operator cannot be identified, motor vehicles which are not covered for bodily injury liability or are covered for an amount less than the minimum state financial responsibility requirement, and in cases where the vehicle is insured but the insurer denies coverage or becomes insolvent.

INSURING AGREEMENT

The insurer agrees to pay compensatory damages that the insured person is legally entitled to recover from the owner or operator of an uninsured motor vehicle because of bodily injury caused by an accident. Compensatory damages are amounts paid to injured persons to compensate them for harm caused by a negligent party. Such damages can include medical and rehabilitation expenses, lost wages, and payment for pain and suffering.

Uninsured motorist coverage pays "bodily injury " not just medical expenses. Any payment the insured could have collected from the uninsured driver's bodily injury can be collected under uninsured motorists coverage. With the large number of uninsured motorists on the road, this could be extremely valuable coverage.
UM coverage applies only if the uninsured motorist is legally responsible for the accident. Although a covered person is not required to sue the uninsured driver, that driver’s legal liability must be established. Judgments for damages arising out of a suit that is brought without the consent of the insurer are not binding on the insurance company.

**PERSONS INSURED**

Only loss caused by an accident and sustained by an insured is eligible for coverage. Three groups of persons are considered insureds under the uninsured motorists coverage:

**The named insured and family members**

The named insured and family members if injured by an uninsured motorist while occupying a covered auto or nonowned auto. They are also covered as pedestrians if a hit-and-run motorist injures them.

**Any other person occupying a covered auto**

Any other person who is injured while occupying a covered auto. Thus, passengers in an insured's car have coverage for bodily injury caused by an uninsured motorist. However, passengers in a nonowned auto operated by the named insured or a family member are not covered, because they generally are insured under their own uninsured motorists coverage or have protection under the policy covering the nonowned auto.

**Any person legally entitled to recover damages**

Any person entitled to recover because of injury sustained by another insured to which this coverage applies. This refers to individuals who, although suffering no bodily injury themselves, may be entitled to recover for bodily injury to another insured that results from an accident with an uninsured motorist. Examples include a wife who could be entitled to recover for loss of consortium (loss of a spouse's services) or a parent entitled to recover for medical expenses incurred by a child.

**LIMITS OF COVERAGE**

The limit of liability for uninsured motorists coverage is shown in the declarations and is the maximum amount that will be paid for all damages resulting from any one accident. That amount is the most that will be paid regardless of the number of insured persons, claims made, vehicles or premiums shown in the declarations, or vehicles involved in the accident. This provision prevents the "stacking" of uninsured motorists payments under a policy that covers more than one car owned by the named insured. Stacking refers to situations in which the insured maintains that, because the policy covers two (or more) vehicles, and since a separate premium has been paid for each vehicle he or she should collect a multiple of the per vehicle limit.
Named insureds must be offered Uninsured Motorists coverage in at least the amount that the state’s financial responsibility law requires for bodily injury liability. Like liability insurance limits, this may be a single limit for all bodily injury arising out of any one accident or a split limit, with both a per person and per accident limit. The insurer may offer considerably higher limits, usually a maximum limit equal to the insured’s Bodily Injury liability limit.

**UNINSURED MOTOR VEHICLES**

The uninsured motorists coverage clearly specifies the types of vehicles that are considered uninsured motor vehicles. The policy defines an uninsured vehicle as a land motor vehicle or trailer of any type that meets one of the following criteria:

- A vehicle for which there is no bodily injury liability policy or bond applicable at the time of the accident
- A vehicle with liability coverage that does not meet the minimum required by the financial responsibility law in the state where the insured's vehicle is garaged
- A hit-and-run vehicle whose driver cannot be identified that strikes the named insured, a family member, a vehicle occupied by the named insured or a family member, or the named insured's covered auto
- A vehicle for which there is a bodily injury liability policy or bond applicable at the time of the accident, but the insurer is unable to make payment because of insolvency.
- A vehicle for which there is a bodily injury liability policy or bond applicable at the time of the accident, but the insurer denies or refuses to admit coverage.

The uninsured vehicle definitions use the terms "bodily injury liability bond" and "bodily injury liability policy" to include any special financial responsibility bonds a person or organization has been required to obtain instead of insurance, for example, when a driver is self-insured.

Since uninsured motorists coverage will pay only for injuries caused by an "uninsured motor vehicle," it is important to know about some vehicles that never qualify as uninsured motor vehicles. The definition of uninsured motor vehicle does not include the following types of vehicles or equipment:

- Vehicles owned or furnished or available for the regular use of the named insured or any family member
- Vehicles located for use as a residence or premises
- Vehicles designed mainly for use off public roads while they are off public roads
- Vehicles owned or operated by a self-insurer under any applicable motor vehicle law, except a self-insurer that is or becomes insolvent
- Vehicles owned by a governmental unit or agency
• Vehicles operated on rails or crawler treads
• Vehicles designed mainly for use off public roads (while not on public roads)

EXCLUSIONS

There are fewer exclusions in the uninsured motorists section of the policy than we found in the liability and medical payments coverage sections. Uninsured motorists coverage does not apply to:

Owned vehicle with no uninsured motorists coverage.

Bodily injury sustained by an insured who occupies or is struck by a motor vehicle or trailer owned by that insured if that vehicle does not have uninsured motorists coverage under the policy.

Primary Coverage under Another Policy.

A family member who occupies or is struck by a vehicle that the named insured owns, but is insured for uninsured motorists coverage on a primary basis under another policy.

Settling the claim without insurer's consent.

A claim that is settled without the insurer's consent. The purpose of this exclusion is to protect the insurer's right to settle the claim and to prevent fraud.

Public or livery conveyance.

A person who is injured while occupying a covered auto when it is being used as a public or livery conveyance. The exclusion does not apply to a share-the-expense car pool.

Using a vehicle without reasonable belief of being entitled to do so.

Any insured using a vehicle without reasonable belief that he or she is entitled to do so.

Cannot benefit workers compensation insurer.

Any loss for which a person is entitled to receive a payment under a workers compensation or disability benefits law. The policy does not exclude coverage in situations which are subject to workers compensation laws, but it does limit liability if such benefits are payable. This exclusion is designed prevent payment of duplicate benefits.

Punitive damages not paid.

Uninsured motorists coverage does not apply to "punitive or exemplary" damages. Punitive damages are damages awarded by a court to punish wrongdoers who through malicious or outrageous actions cause bodily injury or property damage to others. Only compensatory damages are paid under this coverage.
ARBITRATION

Uninsured motorists coverage is unique in the sense that an insured files a claim against its own insurer instead of the negligent party. For this reason, the coverage includes an arbitration clause that establishes procedures to be followed in case of coverage disputes between the insured and insurer.

If the insurer and insured cannot agree on whether the insured is entitled to recover damages under uninsured motorists coverage or on the amount of damages, each party selects an arbitrator, and the two arbitrators select a third arbitrator. If the two arbitrators cannot agree on a third arbitrator within thirty days, either party can request that the selection be made by a judge of a court having jurisdiction. Each party pays the expenses it incurs, and both parties share the expenses of the third arbitrator. However, both the insurer and the insured must agree to arbitration.

A decision agreed to by two of the three arbitrators is binding as to whether the insured is legally entitled to recover damages and, if so, the amount of damages. If the amount of damages exceeds the BI limit under the state's financial responsibility law, either party can demand the right to a trial within sixty days of the arbitrators' decision. Otherwise, the arbitrators' decision is binding.

OTHER INSURANCE

The other insurance clause for uninsured motorists coverage differs from the provisions that apply to other coverages. If other applicable uninsured motorists insurance is available under one or more policies, the following provisions apply to the payment for damages:

- Any recovery for damages under all such policies or provisions of coverage may equal but not exceed the highest applicable limit for any one vehicle under any insurance providing coverage on either a primary or excess basis. The total amount paid will be no more than the highest limit of any of the policies that provide coverage.

- Any insurance provided with respect to a non-owned vehicle shall be excess over any collectible insurance providing coverage on a primary basis.

If the coverage under this policy is provided:

- On a primary basis, the insurer will pay only the proportion that the policy's limit of liability bears to the total of all applicable limits of liability for coverage provided on a primary basis.

- On an excess basis, the insurer will pay only the proportion that the limit of liability bears to the total of all applicable limits of liability for coverage provided on an excess basis.

In addition, the insurer will make no duplicate payment under the uninsured motorists coverage if payment has been made by the person or organization legally responsible for the accident or if the injured person is entitled to receive payment under a workers compensation or disability benefits law.
The uninsured motorists section specifically states that no person will receive duplicate payments for any loss under Part A-Liability Coverage, Part B-Medical Payments Coverage, and Part C-Uninsured Motorists Coverage, or under any underinsured motorists coverage provided by the policy.

**UNDERINSURED MOTORISTS COVERAGE**

*Underinsured motorists coverage* provides additional limits of protection to the victim of an auto accident when the negligent driver's insurance limits are insufficient to pay for the damages. "Underinsured" motorists coverage protects a covered person from the risk that other drivers carry inadequate bodily injury liability limits. When insurance carried by a negligent other driver is exhausted, underinsured motorists coverage pays additional amounts (up to its limit) which the covered person is legally entitled to recover as damages.

An *underinsured motor vehicle* means a vehicle that is an insured vehicle, but insured for an amount less than the uninsured motorists limits carried on the policy covering the injured person, even if the limits are in excess of the minimum financial responsibility law in the state.

A significant number of lawsuits against agents have been successful because the producer did not recommend uninsured and underinsured motorists coverage at the same limits as bodily injury liability. Insureds face a significant uninsured and underinsured motorists exposure. Producers should not only recommend UM and UIM limits equal to bodily injury liability limits but should also document that such recommendations are routinely made. Any rejection of such recommendations should be documented and kept in the insured's file.
PART D—COVERAGE FOR DAMAGE TO YOUR AUTO

The parts of the Personal Auto Policy that we have examined so far have been concerned with the legal liability of insureds for damages to others (Part A), and bodily injuries to insureds (Parts B and C). The Liability section of the Personal Auto policy excludes damage to property owned by, rented to, used by, or in the care of the insured. Such coverage is provided under the Personal Auto policy by Part D—Coverage For Damage To Your Auto, commonly known as Physical Damage coverage.

It is important to remember that physical damage coverage applies only to the automobile and its parts, and does not cover any personal property in the vehicle.

INSURING AGREEMENT

In the insuring agreement of Part D, the insurer agrees to pay for direct and accidental loss to your covered auto, or any non-owned auto, including their equipment, minus any applicable deductible. "Loss" as used in an insurance policy means a direct financial loss of value as a result of any type of damage that is not excluded.

Physical Damage coverage pays for direct and accidental loss to the named insured's covered auto or any nonowned auto against loss caused by:

- Collision, and/or
- Other than collision, also known as “Comprehensive”

The named insured may purchase Collision coverage only, Other Than Collision coverage only, or both coverages. Coverage may also vary by car. But only coverages for which a premium is shown in the Declarations will apply.

The PAP distinction between collision coverage and other than collision coverage is important because many motorists purchase only other than collision coverage on older cars and do not purchase collision insurance, which is more expensive. In addition, the deductible that applies to other than collision loss is frequently lower than the deductible that applies to a collision loss.
Collision Loss

Collision is defined as “the upset, of your covered auto or a non-owned auto, or their impact with another vehicle or object.” Collision with an object is covered, even if it is not another vehicle.

"Colliding" with animals or birds is not considered "collision" according to the policy, and the damage would be covered only if "other than collision" (OTC) coverage has been purchased.

When glass breakage occurs during a collision, the insured has the option of electing to have it covered as part of the collision loss. This usually works to the insured's advantage because it eliminates a double deductible when glass breakage and other collision damage result from the same accident.

Collision coverage is provided on a named perils basis, because the perils (causes of loss) are specifically identified. Collision losses are paid regardless of fault. Sometimes an insured will prefer to have collision damages repaired by their own insurer, even though another party was at fault for the damages. The insurer will pay for the damages, less the insured’s deductible, then will "subrogate" against the at-fault other party to recoup its payment for the damages. We will discuss the concept of subrogation under the conditions section of the policy.

Other Than Collision Loss

Other Than Collision (OTC) coverage covers auto physical damage losses that are not caused by collision and are not specifically excluded in the policy. This coverage was previously called "comprehensive," and many insurance professionals still frequently use that term.

While collision is specifically defined in the PAP, other than collision is not but losses caused by the following perils are specifically listed in the policy as Other Than Collision losses:

- Missiles or falling objects
- Malicious mischief or
- Fire
- Vandalism
- Theft or larceny
- Riot or civil commotion
- Explosion or earthquake
- Contact with a bird or animal
- Windstorm
- Breakage of glass
- Hail, water or flood

The above list is not all-inclusive. Any "direct and accidental loss" that is not due to collision and is not specifically excluded would be covered as an Other Than Collision loss.

TRANSPORTATION EXPENSES

Transportation expenses is an additional coverage in Part D of the PAP that provides reimbursement of up to $15 per day, to a maximum of $450, for temporary transportation expenses for each covered physical damage loss.
Transportation expenses may be applied to bus or taxi fares, or fees for a rental or substitute auto. These payments are provided only if the declarations indicate that the applicable coverage (“collision” or “other than collision”) applies to the original loss.

Transportation expenses coverage is provided "without application of a deductible." No monetary deductible applies; however, coverage is subject to a waiting period, which is essentially a deductible stated in days, rather than in dollars. The length of the waiting period, as well as the period for which coverage is provided, depends on the cause of the loss. For losses caused by a theft of the auto, the waiting period is forty-eight hours. For any other covered cause of loss, the waiting period is twenty-four hours.

Part of the policy provisions concerning transportation expenses refers to loss of use expenses of a non-owned auto for which an insured is legally liable. The rental car company might incur additional losses because the car is not available to earn rental income by renting it to someone else. This would be a "loss of use expense" for the rental car company. Whether the insured is legally liable for this loss might depend upon the circumstances of the theft and the content of the rental car agreement signed by the insured. Coverage applies only if an insured is legally liable, and the coverage may apply when no transportation expenses are actually incurred.

The $15 per day, $450 total can be increased up to $30 day, $900 total with the Increased Limits Transportation Expenses Coverage endorsement.

**LIMIT OF LIABILITY**

The limit of liability for physical damage coverage is not a specific amount - it is actual cash value (ACV) minus a deductible. ACV generally means replacement cost minus depreciation.

The insurer's liability for physical damage losses is the lesser of the actual cash value of the property or the amount necessary to repair or replace it with property of like kind and quality. If the cost of repairs exceeds the auto's value, the auto may be declared a total loss. The word "total" is often used to describe the severity of an auto loss or the act of damaging a vehicle beyond repair. A vehicle is a total loss if it has sustained damage that exceeds its actual cash value.

Since most cars depreciate in value over the years, this amount should allow the insured to purchase another car of the same (or similar) make, model and age. If the car was not a total loss, the company will pay what it would cost to repair the car with materials of like kind and quality (which may mean using used or substitute parts).

If the insured has a loss that results in damages to her car, which are under the amount of the deductible, the insurance company will pay nothing at all. This eliminates small claims and paperwork and keeps costs down.

With the increasing cost of vehicles, longer-term loans and leasing arrangements have become common. A significant gap in coverage can result when a covered total loss to "your covered auto " occurs. The ACV of the damaged auto (which depreciates considerably the minute it is driven from the new car lot) is often less than the balance still owed on the auto's loan or lease agreement. In these situations, producers should always add the Auto Loan/Lease Coverage endorsement, which modifies the PAP to pay the amount needed to pay off the balance due on the loan or lease.
Although no standard endorsement is available, check with your carriers to see if they offer endorsements replacing the ACV settlement provisions above with "replacement cost" coverage.

NONOWNED AUTO

A nonowned auto is any private passenger auto, pickup, van, or trailer that is not owned by, or made available for the regular use of, the named insured or any family member. Under Physical Damage Coverage only, a temporary substitute vehicle is considered a nonowned auto instead of a covered auto. Physical damage coverage applies to such a vehicle while it is in the custody of or is being operated by the named insured or any family member. By including coverage for "non-owned autos" in Part D, the Personal Auto Policy provides coverage for loss to autos borrowed or rented by the named insured or family members.

If there is a loss to a nonowned auto, the PAP provides the broadest coverage applicable to any covered auto shown in the declarations. Therefore, if collision and comprehensive coverages have not been purchased, there will be no such coverage for any non-owned auto. Coverage would be excess over any physical damage coverage on the vehicle itself. The maximum amount paid for a physical damage loss to a nonowned trailer is $500.

PAYMENT OF LOSS

The insurer has the option of paying for the loss in money or repairing or replacing the damaged or stolen property. If the insurer returns a stolen auto, the insurer pays the cost of returning the stolen car or its equipment to the insured and also pays for any damage resulting from the theft. However, the insurer has the right to keep all or part of the stolen property and pay the insured an agreed or appraised value. If the insurer pays for the loss, that payment will include the applicable sales tax for the damaged or stolen property. The insurance company, not the insured, can choose among those alternatives.

Deductibles

Deductibles are used for Part D to reduce small claims, hold down premiums, and encourage the insured to be more careful in protecting his or her car from damage or theft by requiring the insured to share all losses with the insurer.

Different deductibles usually apply to collision coverage and comprehensive, and these deductibles apply per occurrence. It is very important to carefully define which losses are collision and which are other than collision. Auto policies are almost always written with higher deductibles for collision than for comprehensive losses.

If there is a collision loss to more than one covered auto in the same accident, only the highest applicable deductible will apply.
NO BENEFIT TO BAILEE

The no benefit to bailee provision states that the policy will not benefit, either directly or indirectly, any bailee. A bailee is a person or business that has in its care, custody, or control property that belongs to someone else such as a garage, valet parking or service station. This clause is in the policy to reinforce the insurer's right to subrogate against any common carrier, repair shop, or other bailee should it be responsible for the loss.

OTHER SOURCES OF RECOVERY

If other sources of recovery also cover a loss, the PAP insurer will pay only its share of the loss. Its share is the proportion that its limit of liability bears to the total applicable limits.

Any physical damage insurance provided by the PAP for a nonowned auto is excess over any other collectible source of recovery. Other sources of recovery include coverage provided by the owner of the nonowned auto, any other applicable physical damage insurance, and any other source of recovery that applies to the loss.

APPRAISAL

Appraisal is a provision in Part D of the PAP that allows the insurer and the named insured to settle disputes regarding the amount of a physical damage loss. Each party selects a competent appraiser, and the two appraisers select an umpire. A decision by any two of the three is binding. Each party will pay its own appraiser and share equally the expenses of the appraisal and the umpire.

If an appraisal sets the amount of a loss in excess of the insurer's ACV determination, the insurer may still elect to repair the vehicle because appraisal is solely concerned with a determination of an amount of the loss, not the amount payable or whether or not coverage exists.

EXCLUSIONS

Because the insuring agreement for Part D provides broad coverage, many exclusions apply, which are summarized below. Coverage may be purchased for many of the excluded items by adding an endorsement and charging an additional premium.

Public or Livery Conveyance

Loss to a covered auto or non-owned auto while it is being used as a public or livery conveyance (other than as a shared-expense car pool)
Wear and Tear, Freezing, Mechanical or Electrical Breakdown, and Tire Damage

Damage due to wear and tear, freezing, mechanical or electrical breakdown, or road wear to tires (but these are covered if resulting from theft of an entire covered auto or non-owned auto)

Radioactive Contamination or War

Loss due to nuclear contamination, discharge of a nuclear weapon, or war risks.

Electronic Equipment

The PAP excludes many types of automobile electronic equipment and their accessories such as:

- Any electronic equipment designed for the reproduction of sound, other equipment that receives or transmits audio, visual or data signals, and accessories or tapes, records, discs or other media used with such equipment

The exclusion of equipment and accessories that reproduce, receive or transmit sound, visual or data signals applies to radios, stereos, tape decks, compact disc players, citizens band radios, telephones, two-way mobile radios, scanning monitor receivers, television receivers, video or audio cassette recorders, and personal computers. However, the exclusion does not apply to:

- Sound reproduction equipment and accessories permanently installed in the covered auto or nonowned auto, or which is designed to be operated solely by power from the auto’s electrical system and is removable from a permanently installed housing unit

- Electronic equipment that is necessary either to the normal operation of the vehicle or the monitoring of the vehicle’s operating system.

- Electronic equipment that is an integral part of the same unit housing any sound reproducing equipment, and is permanently installed in the opening of the dash or console used by the manufacturer for the installation of a radio.

Up to $200 worth of tapes, records, and other media and permanently installed equipment other than that subject to the exceptions in the exclusion can be covered by adding the Coverage for Audio, Visual and Data Electronic Equipment endorsement and the Tapes, Records, Discs and Other Media endorsement to the PAP. There is no standard method for providing coverage on such equipment that is not permanently installed in the vehicle.

Government Destruction or Confiscation

The PAP excludes coverage for a total loss to a covered auto or nonowned auto due to destruction or confiscation by governmental or civil authorities. An exception is made for the interests of any loss payee, since the loss payee is an innocent party who does not participate in the illegal activity.
### Camper Body or Trailer Not Shown in the Declarations
Loss to a camper body or trailer the named insured owns but is not listed in the Declarations (does not apply if acquired during the policy period and the insured requests coverage from the company within 30 days).

### Nonowned Auto Used Without a Reasonable Belief of Permission
Loss to a nonowned auto when used by the named insured or family member without a reasonable belief that he or she is entitled to do so.

### Awnings or Cabanas
Loss to TV antennas, awnings, cabanas, or equipment designed to create additional living space.

### Radar and Laser Detection Equipment
Loss to equipment designed or used for the detection or location of radar or laser.

### Customized Equipment
Loss of any custom furnishings or equipment in or on any pickup or van. Custom furnishings and equipment include but are not limited to the following:
- Special carpeting and insulation, furniture, or bars
- Facilities for cooking and sleeping
- Height-extending roofs
- Custom murals, paintings, or other decals or graphics

Property described may be added back to the policy with the Customizing Equipment Coverage endorsement.

### Nonowned Auto Used in the Automobile Business
Loss to a nonowned auto maintained or used in the business of selling, repairing, servicing, storing, or parking vehicles designed for use on public highways, including road testing and delivery.

### Nonowned Autos Used in Any Other Business
Loss to any non-owned auto while being maintained or used by any person while employed or engaged in any non-automobile business (this does not apply to use of a non-owned private passenger auto or trailer by the named insured or a family member).
Racing

Loss to any vehicle while located inside a facility designed for racing for the purpose of competing in or practicing or preparing for any prearranged or organized racing or speed contest.

Rental Vehicles

To any non-owned auto rented by the named insured or any family member, or to loss of use of such vehicle, if an auto rental agreement or applicable state law bars recovery from an insured for damage to a rented vehicle, the PAP does not provide nonowned auto coverage for the rented vehicle.
The conditions of the PAP are found in two sections at the end of the policy. Parts E and F of the Personal Auto policy establish the rules of conduct, duties, and obligations for the insured and insurer. Part E concerns duties of the policyholder after a loss, and Part F concerns general provisions applicable to the policy.

**PART E - PAP DUTIES AFTER AN ACCIDENT OR LOSS**

Part E of the PAP outlines a number of duties the insured must perform after an accident or loss. The insurer has no obligation to provide coverage unless the insured fully complies with these duties. Additional duties are imposed if the insured is seeking protection under Part C-Uninsured Motorists Coverage or Part D-Coverage for Damage to Your Auto.

Part E-Duties After an Accident or Loss lists six general duties of the insured under the personal auto policy:

<table>
<thead>
<tr>
<th>General Duties</th>
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<tbody>
<tr>
<td><strong>Prompt notice</strong></td>
</tr>
<tr>
<td>An insured is obligated to provide prompt notice describing how, when, and where an accident happened, and including the names and addresses of any injured persons and witnesses.</td>
</tr>
<tr>
<td><strong>Cooperation with the insurer</strong></td>
</tr>
<tr>
<td>The insured must cooperate with the insurer in the investigation, settlement, or defense of any claim or suit.</td>
</tr>
<tr>
<td><strong>Submission of legal papers to insurer</strong></td>
</tr>
<tr>
<td>The insured must promptly submit to the insurer copies of any notices or legal papers received in connection with the accident or loss.</td>
</tr>
<tr>
<td><strong>Physical examination</strong></td>
</tr>
<tr>
<td>The insured must agree to submit to a physical examination at the insurer's expense.</td>
</tr>
</tbody>
</table>
Examination under oath

The insured must agree to an examination under oath if required by the insurer.

Authorization of medical records

The insured must authorize the insurer to obtain medical reports and other pertinent records.

Proof of loss

The insured must submit a proof of loss when required by the insurer not only to verify that a loss has indeed occurred, but also to establish the extent and amount of the loss in some cases.

Additional Duties for Uninsured Motorists Coverage

In addition to the general duties, a person seeking benefits under Part C-Uninsured Motorists Coverage must perform the following two duties:

Notify police

The insured must notify the police if a hit-and-run driver is involved. This requirement is designed to reduce fraudulent claims. When an accident is subject to police investigation, the possibility of a fraudulent claim is reduced.

Submit legal papers

If the insured sues the uninsured motorist, a copy of the legal papers must be sent to the insurance company.

Additional Duties for Physical Damage Coverage

Three additional duties are required if the insured is seeking payment under Part D-Coverage for Damage to Your Auto:

Prevent further loss

For physical damage claims, the insured is obligated to protect a covered auto or nonowned auto from further loss. The insured must take reasonable steps after a loss to protect a covered auto or nonowned auto and its equipment from further loss. The insurer will pay the reasonable expenses incurred to protect the vehicle from further damage.

Notify police

If a covered auto or nonowned auto is stolen, the insured must promptly notify the police of the theft. Prompt notification significantly increases the possibility of recovering the stolen vehicle.

Permit inspection and appraisal

The insured must permit the insurer to inspect and appraise the damaged property before its repair or disposal.
Educate your insureds about the above duties. After paying premiums, no insured wants to hear that a claim will be held up or denied because of failure to comply with what he or she might consider to be an obscure policy provision. Advise every insured to report claims promptly.

**PART F - PAP GENERAL PROVISIONS**

Part F - General Provisions is the final part of the PAP. It contains general provisions and conditions that apply to the entire policy.

**Bankruptcy of Insured**

The insurer is not relieved of any obligations under the policy even if the insured declares bankruptcy or becomes insolvent.

**Changes in the Policy**

The policy contains all the agreements between the named insured and the insurer. Policy terms may not be changed or waived except by written endorsement issued by the insurer. Any premium adjustment due to a change will take effect as of the date of change. If the policy form is revised to provide broader coverage without additional charge, all policyholders will automatically and immediately benefit from the expanded coverage on the date the change is implemented in their state of residence.

**Fraud**

The fraud provision states that the policy will not provide coverage for any insured that has committed fraud. Other insureds involved in the same accident are not affected by this provision, as long as they are not guilty of fraud themselves.

**Legal Action Against the Insurer**

If coverage applies and the insurer does not pay a legitimate claim, the claimant may sue the insurance company, but *only after* there has been compliance with the conditions specified in this section.

Under liability coverages, Part A, legal action may not be taken against the insurer until it agrees in writing that an insured has an obligation to pay, or unless the amount of such an obligation has been established by judgment after a trial. No person or organization may take action against the insurer for purposes of determining whether or not an insured is liable.

**Insurer's Right to Recover Payment**

Subrogation is the insurer's right to recover payment from a negligent third party. When an insurer pays an insured for a loss caused by a negligent third party, the insurer takes over the insured's right to collect damages from the other party responsible for the loss (the insurer has the right to subrogate against the party directly responsible for the loss). The covered person
must do whatever is necessary to enable the insurer to exercise its subrogation rights. If the person actually recovers damages from the other party, there is an obligation to hold the proceeds for the insurer and to reimburse the insurer to the extent that insurance payments have been made.

This provision, however, does not apply to physical damage coverages in regard to any person who is using a covered auto with a reasonable belief that he or she is entitled to do so, since they are actually a covered person under the policy.

**Policy Period and Territory**

The PAP applies only to accidents and losses that occur within the policy period and within the policy territory. The policy period is stated in the declarations and is usually a six-month or one-year period. The effective and expiration dates of the policy are as of 12:01 a.m. Standard Time in the county in which the vehicle is principally garaged. The only time this becomes important is when an accident occurs close to midnight on the day that the policy takes effect.

The policy territory includes the United States, its territories and possessions, Puerto Rico, and Canada. The policy also applies to a covered auto while being transported between the ports of the United States, Puerto Rico, or Canada. Insureds are not covered anywhere outside of the policy territory.

Specifically there is no coverage in Mexico. The Mexico Coverage endorsement can be used to provide limited coverage while in Mexico, but liability insurance must be purchased through a Mexican insurer in order to comply with the terms of the endorsement and the requirements of Mexican law. A motorist from the United States who has not purchased valid insurance from a Mexican insurer and is involved in an accident can be detained in jail, have his or her car impounded, and be subject to other penalties under Mexican law. Coverage through Mexican insurers is readily obtainable at most border crossing points. For more information see the endorsement section of the text.

**Termination**

The **termination** provision deals with issues of cancellation and non-renewal of the policy by either the insured or insurer. The termination provision consists of four parts:

**Cancellation**

After a policy has been in effect for at least 60 days, or if it is a renewal policy, the reasons for which the insurance company is permitted to cancel are limited.

The named insured can cancel any time during the policy period by returning the policy to the insurer or by giving advance written notice of the date the cancellation is to become effective.

The insurer can cancel the policy only for nonpayment of premium, if the insured or a family member normally using the vehicle has had driving privileges revoked (subject to individual state laws), or if the insured materially misrepresented a fact essential to underwriting. These provisions do not apply to nonrenewal. If the cancellation is for nonpayment of premium, the named insured must be given at least ten days notice; at least twenty days notice must be given in all other cases.
When a policy is cancelled prior to the expiration date it requires a premium adjustment. A refund is not a condition of cancellation. This permits the insurer to cancel before the refund is made and gives the insurer time to complete the process of determining the amount of the refund and mailing it, without continuing to insure an unacceptable insured.

**Nonrenewal**

Rather than cancel, the insurer may decide not to renew the policy. If so, the named insured must be given at least twenty days notice before the expiration of the policy period. If the policy period is less than six months, the insurer has the right not to renew every six months, beginning six months after the policy's original effective date. If the policy period is one year or longer, the insurer has the right not to renew at each anniversary of the policy's original effective date. The reasons for nonrenewal and the number of days notice required can vary by state according to law.

**Automatic Termination**

Under the automatic termination provision, if the insurer offers to renew the policy and the named insured is billed for another period, the premium must be paid or the policy automatically terminates at the end of the current policy period. If the named insured obtains other insurance on a covered auto, the PAP coverage on that auto automatically terminates on the effective date of the other insurance.

**Other Termination Provisions**

The insurer may choose to deliver the cancellation notice rather than mail it. However, proof of mailing to the named insured at the address shown on the declarations page of any cancellation notice is considered sufficient proof of notice.

If the policy is canceled, the named insured may be entitled to a premium refund. Any premium refund is computed according to the insurer's manual rules. Making or offering to make the refund is not a condition of cancellation.

The effective date of cancellation stated in the cancellation notice becomes the end of the policy period.

**Transfer of Insured's Interest in the Policy (Assignment)**

**Assignment** refers to the transfer of a policy from the named insured to another party. The named insured's rights and duties under the policy cannot be assigned to another party without the insurer's written consent.

If the named insured dies, coverage will continue for a surviving spouse living in the same household. Coverage will also continue for legal representatives of the named insured with respect to use of a covered auto. In the event of the named insured's death, the insurer is only obligated to continue coverage until the end of the policy period.
Two or More Auto Policies

To prevent stacking of policy limits, the maximum amount that the insurance company will pay if the insured has coverage under two or more policies issued by the same insurance company and has an accident for which both apply, is the highest applicable limit of liability under any one policy. (This differs from the "Other Insurance" clauses that referred to other policies issued by other insurance companies.)
PERSONAL AUTO POLICY ENDORSEMENTS

Although the Personal Auto policy provides broad coverage for the auto exposures of families because of various exclusions and limitations, the PAP might not completely meet the automobile insurance needs of some people. Several additional coverages are available by endorsement to the PAP.

Endorsements are forms that modify the insurance contract in some way. They may be used to change information in the declarations, or to add, delete, or modify coverages, exclusions or policy provisions. Some may be attached to a policy when it is issued, while others are added at a later date. Although all endorsements change the policy, not all endorsements require a premium adjustment. Various insurers and states have drafted endorsements that can be added to a PAP, and these endorsements often differ from the ISO endorsements described in this text.

All endorsements contain a form number and the insurance company lists the form numbers of endorsements that are attached to a particular policy when it is issued on the policy's declaration page. Some of the most commonly used automobile endorsements are:

**Miscellaneous Type Vehicle Endorsement (PP 03 23)**

The definition of "your covered auto" can be modified by the Miscellaneous Type Vehicle Endorsement to insure vehicles that are not normally eligible for the Personal Auto Policy such as motorcycles, recreational vehicles, golf carts and similar vehicles. Each insured vehicle is listed in a schedule, which states the applicable coverages, premiums, and limits of liability. Some companies issue specialized policies to cover these vehicles rather than endorsing the standard policy.

**Snowmobile Endorsement (PP 03 20)**

Snowmobiles can be insured by adding the snowmobile endorsement to the PAP. Available coverages include liability, medical payments, uninsured motorists, collision, and other than collision. Each covered snowmobile is listed in a schedule that states the applicable coverages, premiums, and limits of liability.

The named insured and family members are covered for liability arising out of their use of any snowmobile. However, other persons are covered only while using the insured's owned or temporary substitute snowmobile. They are not covered while using a snowmobile rented or leased by the named insured.
The liability coverage for snowmobiles has several exclusions and modifications:

- Coverage does not apply if the snowmobile is used in any business.
- Coverage is excluded for any person or organization, other than the named insured, while renting or leasing a snowmobile.
- Coverage does not apply when the snowmobile is used in a race or speed contest or in practice or preparation for the race, regardless of whether the race is prearranged or organized.
- A passenger hazard exclusion can be activated, which excludes liability for bodily injury to any person while occupying or being towed by the snowmobile.

The provisions of this endorsement regarding the amount paid for physical damage losses are essentially the same as those of the miscellaneous type vehicle endorsement described above.

**Named Non-Owner Coverage Endorsement (PP 03 22)**

The named non-owner coverage endorsement can be used to provide liability, medical payments, and uninsured motorists coverage for a driver who does not own an auto, but regularly borrows or rents cars as needed.

The endorsement provides liability, medical payments, and uninsured motorists coverage only for the person named in the endorsement. The spouse and other resident family members and other individuals are not automatically covered and must be named in the endorsement for coverage to apply.

Liability insurance under the policy is excess over any other applicable liability insurance on the nonowned auto. The endorsement provides important protection to the named insured who is driving a nonowned auto with inadequate liability limits or perhaps with no insurance at all.

When this endorsement is attached, the premium is substantially reduced (usually 50 percent for liability and medical payments coverages). If the named insured buys a car, he or she has insurance on the car for up to thirty days. Coverage automatically terminates when the named insured purchases insurance on the newly acquired car, when the policy expires, or 30 days, whichever occurs first.

**Extended Non-Owned Coverage for Named Individual Endorsement (PP 03 06)**

The extended non-owner coverage endorsement removes and alters some of the exclusions of the personal auto policy. It provides broader liability coverage, but only for individuals named on the endorsement. When attached to a policy, it covers:

- A nonowned car furnished or made available for the regular use of the named individual is covered.
- A nonowned vehicle used in business is covered, except vehicles used in the auto business. Although the unendorsed PAP provides such coverage for nonowned private passenger
autos and trailers, other types of vehicles, such as certain vans and trucks, are provided coverage by this endorsement.

- Use of a nonowned vehicle as a public or livery conveyance is covered.
- The individual named in this endorsement also has protection against a fellow-employee suit arising out of a work-related accident.

**Mexico Coverage (PP 03 21)**

The policy territory does not include Mexico, so normally there would be no personal auto coverage in Mexico. However, a limited type of coverage may be purchased which applies only to accidents occurring in Mexico within 25 miles of the United States border, only while an insured is in Mexico on a trip of 10 days or less, and only to suits brought in the United States which do not involve a Mexican citizen. Moreover, coverage applies only if the insured has purchased liability insurance through a licensed Mexican insurance company, and the coverage under this endorsement will be excess over any other collectible insurance.

In other words, the limited coverage might apply to a suit brought in the US by one American driver who was involved in an accident just over the border with another American driver. This is very limited protection. It does not apply to any suit brought by a Mexican citizen. To be adequately protected while driving in Mexico, an insured must purchase Mexican insurance. Mexican auto insurance laws are very stringent and failure to have appropriate Mexican insurance coverage while driving in that country is a criminal offense.

**Towing and Labor Costs Coverage (PP 03 03)**

The towing and labor costs coverage endorsement pays for towing and labor costs when a covered auto or nonowned auto is disabled, up to some stated amount such as $25, $50, or $75. The cost of labor, however, is covered only when it is performed at the place of disablement. Labor costs for work done at a service station or garage are not covered.

Coverage for a nonowned auto being used by an insured will be the broadest towing and labor costs coverage that applies to any covered auto shown in the schedule or declarations.

The towing and labor endorsement can only be added to the PAP for a specified auto if the insured has purchased physical damage coverages on that auto, usually collision coverage. Some insurers automatically include towing and labor coverages on any vehicle to which collision coverage applies.

**Electronic Equipment and Tapes (PP 03 13)**

The unendorsed PAP excludes a wide variety of electronic equipment, as well as tapes, records, and other media. Coverage for such equipment can be obtained by adding the coverage for audio, visual and data electronic equipment and tapes, records, discs and other media endorsement to the PAP.

Under this endorsement, the insurer will pay, without any deductible, for direct and accidental loss to electronic equipment that receives or transmits audio, visual, or data signals and is not
designed solely for the reproduction of sound. For the coverage to apply, the electronic equipment must be in or upon a covered auto at the time of loss and must also be (1) permanently installed in the covered auto or (2) removable from a housing unit permanently installed in the covered auto and designed to operate solely from the auto's electrical system. The endorsement can be used to insure a citizens band radio, car telephone, videocassette recorder (VCR), television receiver, personal computer, and similar electronic equipment if installed as required.

In addition, the insurer will pay, without any deductible, for direct and accidental loss to any accessories used with electronic equipment installed as required in a covered auto and not designed solely for the reproduction of sound. Tapes, records, discs, or other media owned by the named insured or family member that are in a covered auto at the time of loss can also be insured, but for a maximum limit of $200 for all such media.

### Stated amount - Coverage for Damage to Your Auto (Maximum Limit) (PP 03 08)

This endorsement is used when an insured wants physical damage coverage for an automobile with an unusual value such as a unique, custom-made car, or an antique car. The value of such a car may be difficult to determine, and might actually increase with time. Since the amount of value is difficult to predict, the insurance company does not know what its exposure is or what to properly charge for the coverage.

The **Stated Amount** endorsement establishes a maximum value which the insured and insurer agree upon. Many producers mistakenly believe the stated amount endorsement turns the PAP into a valued policy, that the stated amount will automatically be paid if the vehicle is damaged or destroyed. This is not true. The insurer's payment will be for the least of ACV, repair or replacement cost, or the stated amount. Accurate, as well as updated, appraisals of the vehicles value are crucial for the use of this endorsement.

### Covered Property Coverage (PP 03 07)

Under the covered property coverage endorsement, the insurer agrees to pay for direct and accidental loss to awnings, cabanas, or equipment designed to create additional living facilities, while such equipment is in or attached to the auto shown in the schedule or declarations. Losses to business or office equipment and articles that are sales samples or that are used in exhibitions are specifically excluded. Like the coverage for damage to your auto (maximum limit of liability) endorsement, the insurer's maximum limit for a covered loss is the lowest of the amount stated in the endorsement or declarations, the ACV of the stolen or damaged property, or the amount necessary to repair or replace the property with property of like kind and quality.

### Customizing Equipment Coverage (PP 03 18)

The customizing equipment coverage endorsement adds coverage for direct and accidental loss to customized furnishings or equipment including, but not limited to, the following:

- Special carpeting and insulation, furniture, or bars
- Facilities for cooking and sleeping
• Height-extending roofs

• Custom murals, paintings, or other decals or graphics

It specifically excludes losses to the following kinds of equipment:

• Electronic equipment excluded in Part D

• Awnings, cabanas, and equipment designed to create additional living space (which can be insured under the covered property coverage endorsement)

• Radar and laser detectors

**Joint Ownership Coverage (PP 03 34)**

The Joint Ownership Coverage endorsement modifies the Personal Auto Policy to include private passenger autos, pickups, vans, and trailers jointly owned by resident relatives other than husband and wife, resident individuals who are not husband and wife, and nonresident relatives, including a nonresident spouse.

**Extended Transportation Expenses (PP 03 02)**

The Extended Transportation Expenses Coverage endorsement may be attached to raise the coverage amount to $30 a day and a $900 maximum payment. These higher limits of coverage apply only to covered autos that are described in the schedule and for which a premium for increased limits is shown.

**Underinsured Motorists Coverage (PP 03 11)**

The underinsured motorists coverage endorsement supplements the uninsured motorists coverage in the policy. This endorsement provides coverage when a negligent driver injuring the named insured or family members has liability insurance limits that are insufficient and lower than the named insured's underinsured motorists limits. It pays a maximum of the difference between the coverage A limit of the at-fault driver and the Uninsured motorist limit of the insured.

**Rental Reimbursement Coverage**

A reimbursement of rental charges endorsement may be attached to a personal auto policy only when comprehensive coverage is written. When coverage applies, it will reimburse the insured for rental charges resulting from loss of use of an insured vehicle because of a comprehensive or collision loss.

**General Endorsement**

The General includes blank space for typing in whatever changes are being made to the policy and is used whenever no other preprinted endorsement is appropriate for the kind of change desired.
<table>
<thead>
<tr>
<th><strong>Change Endorsement</strong></th>
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<tbody>
<tr>
<td>Whenever any of the endorsements are attached to the policy at the time the policy is issued, their endorsement numbers will be typed on the policy Declarations Page. But when it is necessary to add an endorsement after a policy is in effect, in most cases the Change Endorsement must also be issued.</td>
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<table>
<thead>
<tr>
<th><strong>Suspension of Insurance</strong></th>
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<tbody>
<tr>
<td>The Suspension of Insurance endorsement is helpful to an insured who is not going to use one or more covered autos for a lengthy period of time. It states that premium will be refunded if the suspension exceeds a specified period of time. The insured would have to notify the insurance company when coverage was to be restored. The insurance company would then restore coverage by issuing a Reinstatement endorsement and calculate any refund due to the insured.</td>
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<table>
<thead>
<tr>
<th><strong>Split Liability Limits</strong></th>
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<tbody>
<tr>
<td>This endorsement would be attached to the policy to modify the limit of liability provision by specifying that separate limits apply to each person and to each accident, as well as to bodily injury losses and property damage losses.</td>
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</table>

<table>
<thead>
<tr>
<th><strong>Loss Payable Clause</strong></th>
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<tbody>
<tr>
<td>When a driver borrows money to buy a car, both the driver and the lender have an insurable interest in the car until the loan is paid off. To protect its interest in the car, the lender will usually require that the borrower purchase insurance to cover the auto against theft or damage. The lender in these cases becomes the &quot;loss payee.&quot;</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th><strong>Additional Insured - Lessor</strong></th>
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<tbody>
<tr>
<td>Leasing companies (lessors) have an insurable interest in autos they have leased to their customers. Additionally, since the lessor remains the legal owner of the leased vehicle, it is possible for a lessor to become legally liable for injury or damage involving the leased vehicle. For these reasons, leasing companies usually require that they be included as additional insureds on the policies of lessees (the people to whom the vehicles are leased).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Auto Mechanical Breakdown Insurance</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto Mechanical Breakdown insurance designed to indemnify against the costs of certain mechanical failures or breakdowns that are not a part of the dealer's or manufacturer's warranty. This coverage may be available either in endorsement form or by a separate policy and may be marketed by insurance agents or through auto dealers. Two insuring agreements are standard: Mechanical Breakdown and Rental Reimbursement. Mechanical Breakdown covers repair costs, including necessary labor and replacement of specific parts named in the policy. Rental Reimbursement provides coverage toward the rental of a vehicle when the insured's vehicle is kept for repairs for more than one night.</td>
</tr>
</tbody>
</table>
UNDERWRITING THE PERSONAL AUTO POLICY

THE UNDERWRITING PROCESS

Underwriting activities include selecting insureds, pricing coverage, determining policy terms and conditions, and monitoring underwriting decisions. Underwriting is an ongoing process, not a one-time event. The producer is the front-line underwriter and must be able to review the exposures the driver and vehicle present.

Insurance and underwriting are based on the ability to discriminate fairly. The word “discrimination” itself is often viewed as derogatory when in fact it merely means making a choice. Fair discrimination involves basing underwriting decisions about individuals on characteristics that determine expected losses. Those characteristics group individuals as part of the classification system used by insurance companies. Insurance specialists must be careful not to discriminate unfairly by making decisions based on factors such as race, national origin, religion, or sexual preference.

The underwriter follows a process in reviewing a personal auto application:

- The underwriter will first gather information about the risk. The information provided on the application is the primary source of information about the risk that the underwriter verifies or supplements in various ways.

- From this information, the underwriter identifies the loss exposures and the extent of the exposures.

- An underwriter then considers the underwriting alternatives.

- After the underwriter selects an alternative, he or she must implement that decision.

- If a personal auto policy is written the underwriter will review the policy at a future date to determine changes in exposures or classification.
GATHERING INFORMATION

The Application

The application is the starting point in reviewing a risk. Applications vary by company, but the information they ask for is relatively standard. Each piece of information requires review and a logical comparison with other pieces of information. The following are items that appear on applications:

- Drivers names, dates of birth and relationship to the named insured
- Driving record of all operators
- Use of vehicles and number of miles driver
- Length of driving experience
- Year, make, model and body type.
- Garage, location, and parking.
- Passenger safety features and loss control devices
- Loss payee/lienholder.
- Car modification or special equipment.
- Existing damage to the vehicle.

The information must be verified and some responses on the application might indicate the need for additional information.

Producer/Applicant Interviews

The primary source of information about the applicant is the producer. The quality of information depends not only on the application but also on the person who assists the applicant in completing the application. The information on an application directly reflects the applicant's reliability and integrity, as well as the producer's skill in asking questions.

Records and Reports

The following reports are widely accessed:

Motor Vehicle Reports (MVRs)

The MVR is the state's official record and usually contains traffic violation and accident information. Those records usually provide information for the past three years.
**Database Subscriptions**

One of the most important questions on an auto policy application concerns prior losses, because prior losses are an excellent indicator of future losses. Involvement in an at-fault accident increases that person's chances of having another at-fault accident within twelve months by 250 percent.

Several vendors have database systems that allow insurance companies to share prior claim information. Database services such as the Comprehensive Loss Underwriting Exchange (CLUE) provide detailed information on all claims associated with an insured and/or vehicle, such as the vehicle’s driver, the amount of the claim paid, whether the driver was at fault. A recent study found that many claims reported by CLUE reports were not disclosed on insurance applications.

**Credit Reports**

Some insurers and underwriters strongly support the value of credit reports. Poor credit histories have been linked to poor driving records. A morale hazard is exhibited in both a failure to make promised payments and careless driving. In addition to a relationship between a poor credit history and a poor driving record, credit reports also reflect the number of dependents in a household.

Using credit reports for automobile insurance underwriting is prohibited in some states unless certain procedural requirements are met. In all states, the Fair Credit Reporting Act requires the subject to grant permission for a credit report to be accessed from his or her records. That permission is usually included as part of the application (near the signature block).

**Other Reports**

Vendors offer reports and services to insurers to help answer particular questions or to fill special information needs. The information is often obtained through observation, inquiry of the insured, inquiry of the neighbors, and use of computer databases. The reports are varied, but some of the more common examples of information that investigative reports can supply are:

- Photos of the vehicles and reports of vehicle condition
- Number of drivers in household
- Vehicle use
- Odometer readings
- Loss history

**Claim Information**

Claim files can provide details about the type of prior losses experienced by an insured. This information is available only if the same company has previously insured the insured.
EVALUATING DRIVERS' EXPOSURES

Drivers constitute the major risk in automobile insurance. The degree of risk is a function of a driver's skill and ability.

Although no one can accurately predict what any one person will do in the future, accurately projecting the ultimate loss potential of large groups of people is possible. The more precise information for the group, the more accurate the projection will be.

Age

Most automobile rating systems include age as a primary rating factor. According to the US Department of Transportation, in 1993, an estimated 24,522,000 drivers were age sixty-five and older. At the same time, an estimated 25,764,000 drivers were under the age of twenty-five.

Youthful Operators

Youthful drivers have a higher number of accidents and fatalities than older drivers do, and premium rates are considerably higher for youthful drivers than for older drivers.

- Drivers under the age of 25 represent only 14.61 percent of all drivers, yet they account for 27.9 percent of all accidents and 26.1 percent of all fatal accidents.

- Young drivers are involved in motor vehicle crashes at rates that far exceed those of older drivers. Per mile, teenagers are involved in 3.8 times more crashes than older drivers are. Per licensed driver, teenagers are involved in 2.2 times more fatal crashes than older licensed drivers are.

- Nearly one-third of all deaths among school-age youth and young adults are caused by motor vehicle crashes.

Young drivers have more accidents than older drivers do, primarily because of inexperience and immaturity. Immaturity is often evidenced by an attitude of supreme self-confidence, perhaps even to the extent of a feeling of invulnerability. Driver training courses provide some practice but actually practicing an activity many times under varying circumstances gives a person the ability and confidence to react appropriately in different situations.

Many high school students participate in behavior that can increase the likelihood of their deaths such as rarely using seat belts when riding in cars or trucks driven by others, riding in a car with a driver who had been drinking alcohol. Maturity is a question not just of age but also of judgment, and judgment usually improves with time and experience.

The distribution of automobile accidents involving teenagers varies by time of day. Much teenage driving is done at night when accidents are more likely to occur. The majority of accidents occur between 9 P.M. and 3 A.M.
The Aging Population

Society will be experiencing many changes due to an overall aging of the population. The "baby boomers," who were born between 1946 and 1964, form a large percentage of the population. As this group ages and the average age of the population increases within the next 20 years, we can expect 2-3 times as many older drivers on the road.

More attention is now being paid to the driving records of older Americans. Beginning at age fifty-five, some drivers experience a decline in driving skill. Their accident-involvement rates increase slightly at age 69. By age seventy-five, most drivers' skills drop off dramatically. Major problems develop regarding vision (especially at night), hearing, reaction time, and agility. Medication can also affect older drivers. However, the ability to drive and have a license means independence, so the elderly are often reluctant to give up their licenses.

Some people have recommended that between the ages of seventy and eighty, drivers should be required to take a driver's test every two to four years. That requirement would allow competent senior citizens to continue to drive and would force the others to surrender their licenses.

Gender

According to the National Safety Council (NSC), men drive 65 percent of the total miles driven each year and represent about 51 percent of the licensed drivers. Those numbers have held true for many years.

In the past, young, unmarried women tended to have better driving records and fewer accidents than their male counterparts. However, that is less true today as the accident differential is narrowing. Today, young women are driving more and are involved in more accidents.

The rate of accident involvement overall is slightly higher for women but that the rate of involvement in fatal accidents is greater for men. At least part of the difference in accident rate might occur because of the time, place, and circumstances of the actual driving. Young male drivers drive more miles in the evening and on the weekends, when the accident rate is higher.

Marital Status

Marital status relates directly to stability. The effect is strongest at younger ages because marriage tends to raise maturity. Also, young married couples normally spend more time at home. As the couple has children and acquires more possessions, their citation and accident rates decline. The more they have to protect, the more mature their actions tend to become.

Driving Record

Driving experience is a likely indicator of a driver's future actions and the chance of loss. Most automobile insurers have a rating plan that assumes that a driving record is a valid indicator of the individual's future experience. The experience period comprises the three years immediately preceding the date of the application for the insurance or the inception of the renewal policy. Under the rating plan, points are assigned for traffic violations and accidents.
Traffic Violations

Most insurers classify violations as major or minor and assign points in relation to the type of violation. The points used for calculating premiums determines the acceptability of a risk and the appropriate auto market tier or plan. The underwriters review traffic violations for the following:

- Minor violations.
- Major violations.
- Multiple violations.
- Date of last occurrence.

Accidents

The accuracy of reporting and the type of accidents reported vary significantly among states. Chargeable at-fault accidents usually must surpass a dollar limit in order to generate a surcharge.

The expression "at fault" is commonly used to describe an insured's responsibility for causing an auto accident. The opposite of at fault is "not at fault," which is sometimes called "nonchargeable."

Underwriters review the accidents appearing on a motor vehicle report by looking for the following:

- Number of occurrences.
- Type of accident.
- Frequency of accidents.
- Date of last occurrence.

Alcohol

The term "drunk-driving" implies a driver who is visibly intoxicated; however, even small amounts of alcohol can impair driving ability. Alcohol-impaired driving is a major problem with repercussions not only for drunk drivers but also for pedestrians and other drivers. Following are some statistics regarding alcohol involvement in auto accidents:

- A Blood Alcohol Content as low as 0.02 percent affects driving ability, the probability of a crash begins to increase significantly at 0.05 percent BAC and climbs rapidly after about 0.08 percent.

- Although drivers with BACs at or above 0.10 percent represent only 12 percent of all drinking drivers, however 86 percent of the fatally injured drivers had BACs in that range.
• For drivers with BACs above 0.15 percent, the likelihood of being killed in a single-vehicle crash is more than 380 times higher than it is for nondrinking drivers.

• Crashes involving male drivers are much more likely to be alcohol-related than crashes involving female drivers. Alcohol-related crashes are highest for men aged twenty-one to thirty.

• Alcohol-related crashes peak at night and are higher on weekends.

Other Drug-Related Factors

The role of alcohol as a major contributing factor in motor vehicle crashes is well established. Much less information is available about the contribution of other drugs. Many drugs, both legal and illegal, even in moderate amounts, can impair driving ability and increase the risk of accidents.

According to the National Highway Traffic Safety Administration's 1988 report to Congress, the drugs with "the most potential to be serious highway safety hazards" are tranquilizers, sedatives, and hypnotics (for example, barbiturates and marijuana).

Occupation

Occupation is sometimes considered when determining whether a business-use surcharge is appropriate. Self-employed persons (artisans, contractors, salespersons, and so forth) often use their vehicles for business to travel to and from job sites, as well as for personal use. Certain occupations indicate a high volume of miles driven, sometimes in congested or high-accident areas, increasing the exposure to loss under their auto insurance policies.

EVALUATING VEHICLE USE EXPOSURES

Driver characteristics are important elements in the evaluation of an auto risk. How the vehicle is used is also an important consideration.

Area of Operation

Rating territories are based on the losses and risk profiles for given areas such as a city, part of a city, a county, or some other geographical subdivision. The premium charged to an individual car owner for collision or liability coverage is directly affected by the number and cost of accidents caused by all drivers who live in the territory.

Population density and density of vehicles on the road are two important determinants of loss results among rating territories. In addition to higher incidences of auto accidents, a higher population density also results in an increase in pedestrian accidents.

In addition to population and vehicle density, differences in losses among territories are influenced by the following factors:
• Climate
• Wage rates
• Costs of repairs and medical care
• Crime rates

Use classifications and Miles Driven

• Pleasure Use
• To & From Work
• Business Use

The types of driving and total mileage driven are important factors in measuring the location risk in private passenger auto insurance. Commuting distances are used in many automobile-rating plans to surcharge high-mileage drivers.

Insureds often underestimate mileage, but computer technology now exists that allows underwriters to measure driving distances by comparing home addresses and work addresses. Small insurers can access such information services.

When and where miles are driven might be more important than the actual number of miles driven. For instance, an insured that drives the same distance on rural roads vs. congested city streets or busy interstate highways would have different risk potential.

VEHICLES: EXPOSURE ANALYSIS

The vehicles listed on an application present physical exposures and hazards that are considered in the underwriting decision. Some of the vehicle characteristics are loss control features that reduce medical payments, personal injury protection, and liability losses.

From a practical standpoint, a producer or underwriter will not perform a complete evaluation of exposures for every vehicle encountered on a personal auto application. Many companies create underwriting guidelines that incorporate acceptable and unacceptable vehicles or vehicle types.

Producers must be familiar with vehicle-related loss factors for the following reasons:

• To provide discounts for some protective features.
• To discuss the exposures or equipment that are not covered by the policy.
Vehicle Types and Equipment

The automotive marketplace is in a constant state of change. Vehicle manufacturers produce a variety of different models and the models change every year. Some changes are merely cosmetic; others are design innovations. A manufacturer might even discontinue a particular model and introduce a new one.

Vehicle Testing and Data Reporting

Because insurance companies have difficulty collecting enough information to draw conclusions about vehicle safety and loss results, the insurance industry sponsors organizations that perform independent studies regarding highway and vehicle safety.

The Insurance Institute for Highway Safety (IIHS) is an independent, nonprofit, scientific and educational organization. It is dedicated to reducing losses (deaths, injuries, and property damage) resulting from crashes. IIHS is supported by numerous national insurance organizations and individual insurance companies. IIHS compiles and publishes information on subjects such as air bags, seat belts and other safety features in cars in addition to highway safety programs.

The Highway Loss Data Institute (HLDI) is a nonprofit, public service organization. It is closely associated with, and funded through, the Insurance Institute for Highway Safety. HLDI gathers, compiles, and publishes data regarding insurance loss variations among different makes, models, and kinds of vehicles.

Damageability and Cost of Repairs

The premium charged as well as underwriting guidelines for physical damage coverage reflects the vehicle's loss history. Rating symbols assigned to vehicles by ISO are based on the price new of each vehicle, adjusted to reflect the vehicle's physical damage loss experience, damageability, reparability, and likelihood of vehicle theft.

Crashworthiness

Crashworthiness refers to the vehicle design engineering that reduces or eliminates injury in an auto accident. The most important safety features are those that reduce the chances of being killed or seriously injured in a crash. How a car's body and structure perform in a use to be merely an afterthought for auto manufacturers. It is now part of the basic engineering design.

Front and rear crush zones are designed to absorb crash energy and reduce forces reaching the rigid occupant compartment. These zones are designed to absorb crash energy in a controlled manner, thereby reducing the forces inside the passenger compartment. The combination of reduced force and little or no distortion of the compartment is key to preventing occupant injuries.

Many current models are unibody construction that literally means "one body"; the body of the car acts as its frame. Some large passenger cars and full-size trucks, however, still use a car body added on top of the conventional frame (chassis).
Vehicle Size

Small cars tend to have the worst collision and bodily injury loss experience. The larger the vehicle crush zones, the lower the crash forces that reach the occupant compartment. In crashes, people in small vehicles are at much greater risk of injury than those in large vehicles. Claims for crash damage and occupant injuries are more frequent for small cars than for large ones. In relation to their numbers on the road, small vehicles account for more than twice as many occupant deaths.

LOSS CONTROL FEATURES

Seat Belts

Safety belts (including lap and shoulder belts) keep the vehicle occupants inside the compartment and prevent or reduce violent contact with hard interior surfaces. They are effective in reducing serious injuries and fatalities in crashes. Passive seat belts (activated when a front-seat occupant enters the vehicle and closes the door) are more likely to be used than seat belts that must be buckled manually. Consequently, insurers often give insureds rate discounts for vehicles with passive seat belts.

Since the 1980s, most states have enacted mandatory seat belt laws designed to increase seat belt usage among adults. These laws (as well as publicity campaigns and law enforcement) have helped to more than triple seat belt usage and have saved more than 20,000 lives and 500,000 serious injuries. Seat belt laws and their enforcement vary among the states.

Air Bags

Air bags are loss reduction devices designed to help prevent injuries in frontal crashes by creating an energy-absorbing cushion between an occupant's upper body and the steering wheel, instrument panel, or windshield. They inflate extremely rapidly in collisions of certain speeds.

Driver deaths in frontal crashes are about 20 percent lower in cars with air bags than in similar cars with belts only. In all kinds of crashes, air bags reduce deaths by about 14 percent in addition to lives already being saved by safety belts.

Side-impact Protection

Side impacts account for about 30 percent of all passenger vehicle occupant deaths. Many serious injuries occur when the force of a crash drives a door into an occupant. To reduce this, all new passenger vehicles have side-guard beams. Manufacturers are also developing side air bags to protect drivers and right-front passengers in side-impact crashes. These bags are typically smaller than frontal air bags, and they fully inflate more quickly than frontal bags.
Head Restraints

In rear-end crashes, seat backs and head restraints can reduce potentially dangerous backward movement by occupants. To ensure minimum protection and to prevent people's heads from being snapped back in rear-end crashes, head restraints must be high enough so that they are directly behind and very close to the backs of people’s heads.

Infant and Child Seats

Children too small to fit adult safety belts should be buckled into specially designed safety seats. Infants who cannot sit up should be in rear-facing seats placed in the back seats of vehicles. These child safety seats, however, can pose a safety risk if placed in a front seat with a passenger air bag. During deployment, an inflating bag could hit the infant seat with enough force to seriously injure a child. Some vehicles are equipped with manual cut-off switches for passenger side air bags.

Anti-Lock Braking Systems (ABS)

When a driver hits regular brakes hard, wheels can lock and skidding can occur, causing loss of control and extending stopping distances, especially on wet or slippery roads. An ABS pumps brakes automatically, many times a second, to prevent lockup and enable a driver to maintain control (called "stomp and steer"). ABS activation requires hard and continuous brake pressure. An ABS can mean improved braking, but not always. It is most effective on wet, slick roads. On dry roads, an ABS does not substantially shorten stopping distances compared with conventional brakes.

Daytime Running Lights

Daytime running lights are headlights operating at reduced intensity during the day. The ignition switch automatically activates these lights. These lights, which increase contrast between vehicles and their background, make cars more visible to oncoming drivers, and have been shown to reduce multiple-vehicle daytime crashes.

Anti-Theft Devices

Theft losses pose a particular problem for personal lines auto insurers. Two sources of information can help underwriters make an informed assessment of the theft peril.

- The data on theft losses compiled by HLDI that shows the most frequently and least frequently stolen vehicles within a group of model years.

- The overall theft rate in the community in which the applicant lives or in which the vehicles are garaged.

Many types of anti-theft devices are available, ranging from simple steering wheel locks to sophisticated passive devices that shut off the fuel supply and the electrical systems when armed or that send radio signals to the local police department when triggered.
Devices that lock to steering wheels provide only a limited deterrent to vehicle theft (the thief might choose another vehicle to steal), but they provide no protection from vandalism or from professional thieves.

Alarm systems by themselves are not very effective. Most people are merely annoyed by the noise and false alarms are so prevalent that hardly anyone pays attention when one goes off. For an alarm system to be effective, the vehicle must have a hood lock that can be released only from inside the vehicle to prevent the disabling of the alarm by disconnecting the battery. Those that include automatic shut-off devices and/or electronic tracking devices are most effective.

Certain types of electronic tracking devices not only help prevent theft losses but also actually aid low enforcement in apprehending the thief by emitting a signal, which the police can follow.

**SPECIAL VEHICLE TYPES AND ACCESSORIES**

Some vehicles and accessories create unique insurance exposures and the variety of these unique exposures is constantly changing.

**Antique and Classic Vehicles**

An *antique* auto is a vehicle that is at least twenty-five years old. A *classic* auto is a vehicle that is at least ten years old and has a significantly higher average value than other autos of the same make and model year.

An insurance problem unique to antique and classic vehicles is that, over time, they tend to increase in value rather than depreciate. The insurer and the insured could disagree about how a total loss should be settled on a vehicle that has appreciated in value. The insured should be encouraged to periodically review the current market value of the vehicle and adjust the stated amount as needed.

Because antique and classic vehicles are typically insured under a *stated amount* loss settlement option (achieved by attaching endorsement PP 03 08), the value of the vehicle must be established before a policy is issued. The premiums charged for physical damage coverages are based on the stated amount of the vehicles. The maximum loss settlement is based on the lowest of the stated amount, the ACV, or the amount to repair or replace.

**Foreign Vehicles**

Foreign vehicles present several unique problems. Foreign vehicle manufactured overseas and shipped to the United States (sometimes called a "gray market" auto) are costly to repair because the parts that would be used to repair their US counterparts will not fit these vehicles.

Also some foreign-made vehicles are sold in the United States in extremely low volumes and repair costs could be unusually high if replacement parts can only be obtained directly from an overseas manufacturer. If the insurer must pay for a rental vehicle while the insured's foreign vehicle is being repaired and repairs are delayed weeks or months, the costs could be substantial.
MEASURING THE EXPOSURES

The extent of the exposure can be measured by the following:

- Frequency of a problem
- Duration of time since the last problem
- Information that was not volunteered on the application but discovered through external reports (a potential indicator of an insured who presents a moral hazard)

Severity of losses is informative, but it might not be the best yardstick for measuring losses. Many auto losses can result in either a large or small claim, depending on chance circumstances.

IDENTIFYING THE ALTERNATIVES

After the appropriate information has been gathered, the alternatives can be examined. Not all alternatives are practical or available to an underwriter addressing the auto exposures. This text discusses only those alternatives that are applicable.

Accept or Reject

The basic rule is to accept risks whenever possible if they are consistent with established guidelines. Rejection should be used as a last resort when there is no way to make the risk acceptable.

Appropriate Classification

Take steps to be sure that the correct classification is applied to each driver and vehicle:

- Verify the car's use and mileage
- Assure that all drivers are listed (primary or occasional)
- Verify the age, sex, and marital status of all operators

Modify the Coverage

Coverage can sometimes be modified by endorsement so that a risk can be accepted.

Modify the Deductible

Modifying the deductible is a practical alternative for an insured or applicant who has experienced a history of relatively small OTC losses. A larger collision deductible will probably not significantly reduce the frequency or severity of collision losses.
**Driver Exclusions**

With a valid driver exclusion, the insurer is not obligated to pay any claims arising from the operation of the vehicle by an excluded driver. Not all states allow insurers to exclude drivers from coverage. If allowed, driver exclusions can modify coverage sufficiently to make an otherwise unacceptable application eligible for a company’s personal auto program.

**Modify the Liability Coverage Limits**

Some underwriters use lower liability coverage limits to write a questionable risk. Some risks, however, are probably not acceptable at any coverage limit.

**Modify the Premium**

The insurance industry encourages responsible and safe driving by offering credits loss control features and by offering safe driver discounts. Appropriate surcharges for violations and accidents also discourage unsafe vehicle operation.

**Loss Control**

Loss control measures such as seat belts, airbags, driver’s training courses, and anti-lock brakes can reduce the frequency or severity of losses. Loss control might be effective, but compliance cannot be verified. Enforcement of these measures is not within an underwriter's control.

**SELECTING THE BEST ALTERNATIVE**

The best alternative is the one that applies the appropriate price to the risks presented. To select the best alternative, the underwriter must develop a complete picture of the risk, gather missing information and fill gaps in risk data, then properly price the risk by adhering to the underwriting guidelines and appropriately classifying the risks.

**IMPLEMENTING THE DECISION**

After the underwriting decision is made, the personal auto risk must be implemented first and then monitored for changes.

**MONITORING THE RESULTS**

Personal auto policies require follow-up to ensure that the driver and vehicle use classification, coverages, and information remain current. Any item on the application or a report that is subject to future change should be monitored. Individual risks should be identified for a periodic review of motor vehicle reports.
RATING AUTOMOBILE POLICIES

Although proper coverage forms and endorsements are key issues to producers, the insured's focus is often (unfortunately) on the premium. Insureds assume that producers will provide them with proper coverage, but they want the cost of that coverage to be as low as possible.

With automobile insurance, a base rate is published for each of the specific coverages, such as bodily injury and property damage liability. A rate is the cost for a unit of insurance, such as $1.00 per $1,000 of insurance.

AUTO LIABILITY RATING

There are several factors involved in rating automobile coverages for individuals. These factors vary with the coverage being rated. For liability coverages, the factors that affect the premium charged are:

- Age, sex and marital status of the drivers
- Vehicle use and/or annual mileage
- Territory of garage (where the insured garages the car)
- Limits of liability selected

Factors considered in the rating of personal auto liability insurance vary by state. For example, under California law, the primary rating factors are an insured's driving record, annual mileage, and years of driving experience. Other factors such as age, sex, and marital status may be considered. Whatever rating factors are used, the rating plan must be approved by the state insurance Commissioner.

Once basic premiums are determined, increased limits factors are applied if higher amounts of coverage are being written. If more than one vehicle is insured on the same policy, multi-car discounts are given to the premiums. Various credits and surcharges may then be applied to arrive at the final premium. Credits might be given for youthful operators who have completed driver training courses, are good students or to insureds who have been free of accidents and claims for a number of years. Surcharges (called "points") are used to increase the premium for drivers who have had accidents or moving violations.
PHYSICAL DAMAGE RATING

The rating of physical damage exposure is considerably different than the rating of liability. While a liability exposure may be unlimited, the maximum physical damage exposure is known - it is the value of the vehicles insured.

For physical damage coverages, the factors are:

- Territory of garage
- Make and model year of the vehicle
- Deductible selected
- Age, sex and marital status of the drivers
- Vehicle use and/or annual mileage

The rating process usually involves a system of “symbols,” which are assigned to vehicles having different values. The actual vehicle information is used to determine the symbols, which are used to determine the rates. Another factor that will affect the final premium charged is the size of the deductibles that will apply separately to the collision and comprehensive coverages.

OTHER DISCOUNTS AND CREDITS

Some insurers also give credits for other factors and characteristics, such as the following:

- Anti-theft devices
- Passive restraints (such as airbags)
- Defensive driving courses
- Senior citizens
- Nonsmokers
- Insureds having more than one type of policy with the same insurer

Matching Price to Exposure

Insurers often divide auto insurance applicants into several rating categories in an attempt to match the price of insurance with the exposure. Rates may be reduced for better-than-average drivers and increased for below-average drivers. Companies also compete for profitable automobile insurance business by lowering rates when underwriting losses are low and profits are favorable and increasing rates during periods of high underwriting losses and low profits.
Despite these competitive cycles, however, rates are still subject to regulatory approval or disapproval.

**Prospective Loss Cost Rating**

Rating procedures that have historically been used by companies writing automobile insurance are based on broad averages of loss and expense data and include components for expected losses and expenses. Companies have generally been permitted to deviate from published rates based on individual differences in experience and expense factors.

In recent years, the Insurance Services Offices (ISO) has begun to develop **prospective loss costs** for a number of lines of insurance, including automobile insurance. Prospective loss costs are based on loss data and loss adjustment expenses but not the other components of a final rate. Insurers that use loss costs must apply modifications in the form of a loss cost multiplier to account for individual company expenses, underwriting profit and contingencies, in order to arrive at final rates. It is thought that loss cost rating will give individual companies more flexibility in developing their own rates, and lead to more competition in the insurance industry.

**RATE REGULATION**

Contrary to what some insureds believe, automobile insurers are in business to make a profit. Accomplishing this objective requires effective underwriting and appropriate rating. The basic objective of underwriting is to select insureds whose will be profitable for the insurer. However, the goal of profitability can conflict with the public's perceived right to buy insurance.

Most drivers generally believe that purchasing auto insurance is a right, not a privilege. For most drivers, the purchase of auto liability insurance is the only practical way to meet state financial responsibility or compulsory insurance laws.

Consumer advocates argue that if insurers are *allowed to increase rates to accept all* applicants for insurance, rates might become unfairly high for good drivers. In other words, good drivers could be subsidizing rates for the high-risk drivers that insurers are required by law to insure.

The conflict between the public's belief that it has a right to buy automobile insurance and the insurers' goal of profitability is often resolved by government regulation such as cancellation restrictions, nonrenewal restrictions, and rate regulation.

In general, the objectives of insurance rate regulation are to accomplish the following:

- Provide reasonable rates
- Maintain adequate rates
- Prevent unfair rate discrimination
**Reasonable Rates**

A balance between the amount of a reasonable underwriting profit earned by insurers and by consumers’ willingness to pay the rates needed for a reasonable profit determines the reasonableness of rates.

**Rate Adequacy**

Rate adequacy means that insurers earn enough to stay in business, and to be able to pay claims. If inadequate rates are charged, insurers may end up insolvent.

**Rate Discrimination**

Perhaps the most difficult problems in rate regulation are associated with rate discrimination. In insurance, a degree of fair discrimination using such factors which are relevant to rate determination is necessary and appropriate. The fairest solution for all concerned is to use rating factors for auto insurance that are truly valid for predicting potential losses.

*Unfair discrimination* involves applying different standards or methods of treatment to insureds that have the same basic characteristics and loss potential. Examples of unfair discrimination in insurance rating include charging higher-than-normal rates for an auto applicant based solely on the applicant's race, religion, or ethnic background.
INSURING OTHER MOTOR VEHICLES

We have discussed exposures, hazards, and underwriting of private passenger vehicles. Many other types of specialized vehicles present unique exposures and coverage problems and are subject to particular hazards. The number and variety of these vehicles are expanding and the need for effective insurance coverage for these vehicles is increasing.

The underwriting process for these vehicles should address all of the concerns applicable to private passenger vehicles plus the unique exposures based on the type of vehicle being insured and how it is used.

For the vehicles described in this chapter multiple coverage options are available. Some of them are automatically covered by the personal auto policy (PAP). Other vehicles can be added to the personal auto policy by endorsement or covered by specialty policies. The homeowners policy provides some limited coverage for vehicles that are used on the owner's premises.

OTHER MOTOR VEHICLES: EXPOSURE ANALYSIS AND COVERAGE

Vehicle operators and their driving characteristics are primary underwriting concerns. Accident and traffic violation histories are always principal underwriting criteria. The following sections describe the hazards associated with the special characteristics of each vehicle.

All-Terrain Vehicles

All-terrain vehicles (ATVs) are three, or four-wheeled vehicles equipped with balloon tires and designed for off-road use, on a variety of ground surfaces, including rough, swampy, hilly, sandy, or snowy. Such vehicles can usually accommodate the driver and one passenger and are usually operated for sport or play.

The short, narrow wheelbase of these vehicles makes them particularly susceptible to overturn which is especially hazardous because the driver and passengers have virtually no protection in the event of an accident. ATVs are not subject to registration and inspection and customizing is a common practice among owners of these vehicles, which causes a valuation problem following a loss.

With vehicles of this type, the underwriter needs to be concerned not only with the past safety record of all drivers but also with the maturity and attitude of the drivers. A youngster not yet old enough to obtain a driver's license might operate an ATV. The overall combination of hazards typically present with an ATV makes this one of the least desirable vehicles to write.
**Antique and Classic Autos**

A vehicle is not eligible for antique status unless it is at least twenty-five years old. Classic autos are at least ten years old. Antique and classic autos usually appreciate rather than depreciate.

Antique and classic autos are usually insured at a rate considerably below the rates charged for regular private passenger autos because vehicle owners agree to restrict its use to exhibitions, parades, and club activities.

Underwriters should be concerned with the garaging facilities provided for antique and classic autos. In most cases, antique or classic car owners protect their cars far better than the average owners of ordinary private passenger cars do.

Most insurers provide a PAP with a stated amount endorsement (PP 03 08) on antique and classic vehicles, so they must accurately determine the value of the vehicle at the time it is insured and update the valuation periodically.

**Trailers**

Most trailers are designed to be pulled behind a private passenger auto. A towing auto must be of sufficient size and power to handle the additional weight, drag, and brake requirements. The trailer's tail and brake lights should be in good working order. Trailer hitches should be attached to the frame of the towing vehicle. Operators must be aware of differences in driving and handling of a vehicle pulling a trailer.

Towing a trailer creates the following changes in vehicle handling:

- Driving Speeds must be reduced
- Braking distances are longer.
- A wider turning radius is required.
- Controlling the vehicle on wet, ice-covered, or snow-covered roads becomes more difficult.

**Camping Trailers**

When towed behind a private passenger vehicle, a camping trailer resembles a utility trailer. When in use, the top is raised to provide sleeping quarters and a small dining area for occupants. Plumbing and cooking facilities may be included in these trailers.

The underwriter should be concerned about the trailer's size and the driver's experience. Camping trailers are relatively light and usually do not usually alter the handling characteristics of the vehicle that tows them. However, even light trailers can present a significant challenge if a driver has never towed a trailer behind a private passenger auto.
Travel Trailers

A travel trailer is constructed of rigid materials and resembles a small mobile home. All of the concerns just mentioned in reference to camping trailers are increased, because travel trailers are typically longer and heavier than camping trailers. The driver’s experience with handling such a vehicle is an important factor. An underwriter should be concerned about the towing vehicle’s size and power. The presence of cooking facilities, heating and air conditioning equipment, and electrical wiring adds hazards that increase with the trailer’s age.

A fifth wheel is a type of trailer hitch designed for pulling heavy trailers. Large travel trailers might be designed with a "gooseneck" hitch for attachment to a fifth wheel mounted in the bed of a heavy-duty pickup truck. The expense of the fifth-wheel mounting should be considered in valuing the truck on the PAP.

Trailers Used as Living Quarters

A travel trailer that appears to be used as permanent living quarters presents unique underwriting concerns. Rates charged for travel trailers normally anticipate occasional recreational use. Location and protection should be evaluated if a trailer used as temporary living quarters. A trailer used as living for long periods of time might present increased exposures to vandalism, theft, and fire (from heating and cooking facilities in the trailer).

Trailers Used as Offices

If a travel trailer is used as an office, a mobile store, or for display purposes, the amount of traffic into and out of the trailer by members of the public creates a potential liability exposure not contemplated by personal lines rates. It should not be insured under a recreational vehicle policy. Commercial coverage should be used for such an exposure.

Trailers Rented to Others

Since travel trailers are fairly expensive, the owner might want to recover some of his or her investment by renting the trailer to others. Insurers differ in their treatment of vehicle rentals. Some simply provide no coverage while the trailer is rented to others. Some will not write insurance for trailers that will be rented. Other insurers allow occasional rentals if insureds notify the insurers in advance and pay an additional premium.

Utility Trailers

Various types of utility trailers are available. Some are designed for hauling specific cargo such as boats, horses, trash or miscellaneous items. Utility trailers typically present few concerns for underwriters. The size of the trailer, its construction and properly installed hitches are important factors.

Customized Vans

Private passenger vans have become a popular form of personal transportation. Vans are often equipped with a wide array of options such as televisions, captain's chairs, state-of-the-art stereo equipment, and living facilities. These options add thousands of dollars to the value of the vehicle.
These vans are usually insured under personal auto policies. Underwriting for these vehicles focuses on the same risk factors that apply to all other autos-driving safety records, age, experience, and vehicle use as well as the additional value of the accessories and any additional exposure from cooking facilities.

**Dune Buggies**

Dune buggies are small autos that are usually operated off-road, but might also be licensed for road use in some states. Dune buggies are designed for adventurous operation. An obvious concern for the underwriter is that most of the safety features built into the vehicle by the manufacturer have been removed. Establishing the vehicle’s accurate value may also be difficult due to the amount of customization involved.

**Farm Vehicles**

Trucks owned by farmers and used to operate farms and maintain farm premises are generally insured on the Personal Auto Policy at reduced rates, based on the assumption that such vehicles are operated less on public roads than private passenger vehicles are.

**Golf Carts**

Golf carts are small low-speed passenger vehicles powered by an electric or by a small gasoline engine. They are used mainly on golf courses but in some communities, golf carts are licensed for limited use on the roadways of planned urban developments. A planned urban development (PUD) is a preplanned community usually consisting of single and multifamily housing surrounding shops, restaurants, and offices.

Golf carts present special hazards such as rolling over, little protection for passengers, and the theft potential which can be significant.

**High-Value and Specialty Autos**

This category consists of expensive sports cars, custom-made cars of very limited production, hot rods and street rods, older-model cars that have been modified extensively.

**High-Value Vehicles**

High-value imported cars are often sold in relatively low volume in the United States. Parts and service for the vehicle could be difficult to obtain. Because of low volume, insurers seldom accumulate enough experience with these vehicles to develop accurate rates and loss adjustment expertise. The extremely high value of the vehicle makes it susceptible to vandalism or theft.

**Hot Rods and Street Rods**

Hot rods and street rods are standard or classic cars that have been modified extensively, but are still registered and licensed for road use. The extensive nature of the modification these cars have undergone might create safety concerns and the vehicle should be thoroughly
inspected. Owners often limit use of these cars to shows, exhibitions, parades, and club activities, because of the potential for vandalism, theft, and weather-related damage.

**Kit Cars**

A kit car usually consists of a fiberglass body that can be assembled on the chassis (frame) of a regular production automobile. The body style might resemble a vintage, classic, or antique auto, or it might resemble an exotic sports car. The kit is usually purchased by a customer, who then assembles the car. Some kit cars can be purchased already assembled from the manufacturer.

Establishing an accurate value for a hot rod, a street rod, or kit car poses a problem because the cost of the original vehicle plus all parts and labor is frequently much higher than the market value of the finished vehicle.

**Motorcycles**

Most motorcycles are two-wheeled vehicles powered by gasoline engines ranging in size from 250 to 1,200 cubic centimeters. They are capable of rapid acceleration and very high speeds. Motorcycles must be registered and licensed for road use and a special license or endorsement to a regular driver’s license is required to operate the vehicles on public roads.

Motorcycles present a greater risk than private passenger automobiles because they provide drivers and passengers with virtually no crash protection. Helmet use and protective clothing become important safety factors for motorcycle riders. The underwriter must carefully evaluate the age, experience, and driving of all potential motorcycle operators. Motorcycle theft and vandalism are significant problems.

**Minibikes**

A minibike is a small, low-powered, two-wheeled motorcycle designed for off-road use. Minibikes are usually designed to travel at a speed of twenty-five miles per hour or less.

Minibikes are often purchased for, and ridden by, youngsters not yet old enough to be licensed. Inexperience and immaturity of the operator combined with the rough off-road terrain are key factors in assessing the risk.

**Mopeds**

Mopeds are light-framed vehicles that closely resemble a bicycle with a very small engine that is started by pedaling. Mopeds can reach speeds of up to thirty-five miles per hour. They do not normally require licensing and registration to be ridden on public roadways. With a very small engine and low speed capability, they are not well suited to operating in traffic. Underwriting emphasis is placed on the operator's age, experience, and driving safety record.

**Trail Bikes**

A trail bike is a type of motorcycle equipped with a rugged suspension system that enables it to be ridden over rough, challenging terrain at high speeds. If used strictly off-road, trail bikes do
not have to be registered for road use. Trail bikes often involve hazardous operation by young riders.

**Motor Homes**

Motor homes are self-propelled vehicles permanently equipped for use as living quarters. They usually include cooking and sleeping facilities, plumbing, heating and air conditioning and are available in many sizes and prices ranging from $15,000 to $250,000. The presence of cooking and heating facilities in a motor home increases the risk of fire damage to the unit.

Towing an additional unit behind the motor home compounds the handling difficulties and can cause control problems. If the motor home is used in connection with the insured's business, is rented to others or used as permanent living quarters, the vehicle belong on a commercial auto policy.

**Snowmobiles**

Snowmobiles are self-propelled vehicles powered by a gasoline engine and designed for operation on snow-covered terrain. They are propelled by a flexible track located under the rear of the vehicle and steered with handlebars that are attached to skis on the front of the vehicle. Most snowmobiles can accommodate a driver and one passenger and can reach very high speeds.

The most common hazards associated with snowmobiles are high speeds and the rough off-road terrain on which they are typically operated. Snowmobiles are often driven by young drivers who do not yet have a driver's license. Operator attitude, driving safety record and prior experience is crucial to underwriting snowmobiles.

**COVERAGE FOR OTHER MOTOR VEHICLE**

A recreational vehicle or specialty vehicle policy may be used to provide coverage for unique vehicles. However, unendorsed homeowners and personal auto policies (PAP) already provide some coverage. Additional coverage can be added to the homeowners and PAP policies by endorsement. Some vehicles can be covered in more than one way. Many coverage placement decisions will depend on the insurer's underwriting guidelines.

**COVERAGES AVAILABLE IN THE HOMEOWNERS POLICY**

The unendorsed homeowners policy provides very limited coverage for recreational vehicles. Property coverage (Section I) excludes coverage for all motor vehicles, except for vehicles that are not subject to motor vehicle registration and that are used to service an insured's residence or are designed to assist the handicapped such as motorized chairs and carts as well as lawnmowers and similar equipment. These extensions open the possibility for coverage to many miscellaneous vehicles.
Vehicles covered under these definitions have no coverage limitation other than the limit of Coverage C and the Coverage C perils provided by the policy apply. Trailers (not used with watercraft) are covered up to $1,000 for the Coverage C insured perils.

The Personal Liability and Medical Payments to Others coverage (Section II) of the HO-3 policy excludes coverage for motor vehicles with the following exceptions:

- Trailers that are not being towed
- Recreational vehicles if they are owned by the insured and used on the insured location.
- Recreational vehicles which are not owned, without limitation to location, when used by an insured.
- Golf carts while they are on a golf course.
- The handicapped-assisting vehicles and service vehicles covered under Section I

The Snowmobile endorsement is a standard form that can extend coverage under the homeowners policy for Personal Liability and Medical Payments to Others (Section II) provided by the homeowners policy, while the snowmobile is off the insured location. Insurers might develop their own endorsements to provide coverage for other vehicles under the homeowners policies.

**COVERAGE PROVIDED BY A PERSONAL AUTO POLICY (PAP)**

The unendorsed PAP contains many exclusions for recreational or miscellaneous-type vehicles. The Miscellaneous Type Vehicle Endorsement or a recreational vehicle policy should be used to insure these vehicles.

**PAP Liability Coverage for Other Vehicles**

Any trailer the named insured or spouse owns is automatically defined as a “your covered auto” in the PAP and, as such, is covered.

Coverage is specifically excluded for the ownership or use of vehicles with fewer than four wheels (such as motorcycles and vehicles that are designed mainly for use off public roads (such as snowmobiles and ATVs). Coverage is provided if these vehicles are used in a medical emergency.

**PAP Physical Damage Coverage for Other Vehicles**

Although there are no specific provisions for physical damage that pertain to miscellaneous vehicles, the following coverage limitations should be noted:

- A camper body or trailer must be listed on the Declarations page with the appropriate physical damage coverages indicated for those coverages to apply.
• Awnings, cabanas, customizing equipment, and equipment that creates additional living facilities are excluded from coverage. This could be an important coverage gap for an insured with a conversion van or a customized van or truck.

• The loss adjustment provided by the PAP is based on ACV. The agent should be aware of any vehicles that require an alternative settlement basis, such as stated amount.

**PAP Endorsements for Other Vehicles**

Standard endorsements which can be attached to the PAP to provide coverages to vehicles that are otherwise limited or excluded:

**Miscellaneous Type Vehicle Endorsement**

This endorsement is intended to provide coverage for vehicles such as motor homes, motorcycles, ATVs, dune buggies, and golf carts. Coverage can be written for liability, medical payments, uninsured motorists, collision, and OTC. This endorsement also automatically extends coverage to similar newly acquired miscellaneous vehicles or substitute vehicles.

This endorsement allows the insured the option of excluding the passenger hazard for a miscellaneous vehicle by noting the exclusion on the Declarations page or the Schedule on the first page of the endorsement. If this option is chosen, the premium is reduced and liability coverage is eliminated for an insured who is liable for injuries to a passenger on the miscellaneous-type vehicle.

**The PAP Snowmobile Endorsement**

Unlike the Snowmobile endorsement, which can be added to the homeowners policy to extend liability coverage only, this endorsement can extend liability, medical payments, uninsured motorists, collision, and other than collision coverages. This endorsement can provide coverage for the trailers that are towed behind snowmobiles, newly acquired snowmobiles, and temporary substitute vehicles.

Like the Miscellaneous Type Vehicles Endorsement, the PAP's Snowmobile Endorsement contains a provision allowing for the exclusion of passengers or others being towed (in a trailer or sled).

**COVERAGE PROVIDED BY A RECREATIONAL VEHICLE POLICY**

Recreational vehicle policies or specialty policies are not standard, but they tend to be based on the PAP. The following is a brief discussion of these unique contracts.

**Policy Definitions**

Policy forms vary significantly among insurers. Definitions are adjusted to address differences between ordinary private passenger autos and the vehicles such as:

• A recreational vehicle lists the specific vehicle or vehicles covered rather than the type of vehicle.
• "Your covered auto" restricts newly acquired recreational vehicles to the same type that are listed on the Declarations page.

• "Relative" often includes the provision that the relative does not own a recreational vehicle of the same type.

• "Your covered auto" includes temporary substitute vehicles.

• “Loss” does not include clothes, luggage, and detachable living quarters. Equipment is covered if it is permanently attached or installed and is common to the vehicle's use.

### Common Exclusions

Some of the exclusions found in the policies used are also found in ordinary private passenger policies. Other exclusions unique to the recreational or specialty policy include the following:

- No coverage while the insured vehicle is used in racing or speed contests.
- No coverage while the insured vehicle is used in any hill climbing or jumping contest.
- No coverage if the trailer is used as permanent living quarters.
- No coverage if the insured used the vehicle to carry passengers for a charge.
- No coverage if the vehicle is jointly owned by other than family members, and club ownership might be prohibited.
- Coverage might not apply while the vehicle is rented to others or might apply only if the rental is approved in advance and an additional premium is paid.
- Coverage might not apply to resident relatives unless they are using the vehicle with the permission of the named insured or the named insured's spouse.
- Coverage might not apply in Canada or Mexico, or might provide only short-term coverage for operation in Canada and in Mexico.

### THE UNDERWRITING PROCESS FOR OTHER MOTOR VEHICLES

The underwriting process for the vehicles is similar to that for personal auto underwriting. The drivers and the vehicle use must be considered. Special characteristics regarding the theft or vandalism exposures for the vehicle should also be considered.

The underwriting process for "other motor vehicles" differs from personal auto underwriting in the following ways:

Additional exposures presented by the unique type of vehicle should be considered (such as protection provided to the occupants and characteristics of the vehicle that create hazards).
• All operators must be properly identified. Drivers might include unlicensed and youthful operators.

• Loss control measures used such as helmets and safety courses must be identified.

These concerns should be addressed in the application and underwriting process.
Automobiles have had a profound impact on society. Vehicles have altered lifestyles and automotive and related industries form a major segment of the national economy. Unfortunately, automobile use creates risks and hazards that have an undesirable economic impact. Millions of individuals are injured or disabled each year in automobile accidents, and thousands are killed. The high cost of medical services, the unexpected death of a family member, and the loss of or damage to an automobile can all have profound financial effects on an individual or family. Annually, automobile users are involved in over 30 million accidents, which cause about five million bodily injuries, 50,000 deaths, and substantial amounts of property damage. In addition to accidental losses, more than one million vehicles are stolen each year. This is why automobile insurance is one of the most important insurance products available today.

Traditionally, persons injured in auto accidents through the negligence of others have relied on the tort liability system, based on fault, to collect damages. In an effort to ensure that negligent drivers carry insurance to pay for such damages, states have enacted financial responsibility and compulsory insurance laws. Some states have established unsatisfied judgment funds to provide compensation for auto accident victims. Uninsured and underinsured motorists coverages are also possible sources of recovery for some accident costs of the injured individual.

Automobile insurance cannot prevent automobile accidents from happening, but it can help offset some of the financial loss that might result from an accident. Various coverages protect an insured's investment in the value of owned automobiles, pay medical expenses when injury occurs, and cover an insured's legal liability to others for injury or damages. This does not mean that all possible expenses or losses will be covered. Limits apply to insurance coverages, and each insurance policy has exclusions and limitations. Auto insurance is designed to reduce many of the financial losses that could otherwise result from owning or operating an automobile. Without insurance, a person would have to bear the entire cost when accidental injuries or damages occur.

PROBLEMS ASSOCIATED WITH AUTOMOBILE INSURANCE

Automobile insurers have experienced many problems in their efforts to insure the driving population. In addition, some drivers have difficulty obtaining insurance they can afford. Following are some of the problems associated with automobile insurance.
High Frequency of Automobile Accidents

According to the National Safety Council, an estimated 20 million motorists per year are involved in auto accidents in the United States, which amounts to one of every nine licensed drivers. More than 120 people are killed and over 5,700 are injured every day. Although the fatality rate declined by 7 percent from 1984 to 1994, it has been rising again in recent years.

High Costs of Automobile Accidents

The economic costs of motor vehicle accidents are staggering. In 1995, motor vehicle accidents in the US resulted in insured losses of over $64 billion. This amount includes the costs of property damage, medical expenses, lost income, emergency services, and legal fees. Additional costs include lost productivity, public assistance programs, and insurance administrative expenses.

Increases in the cost of medical treatment, automobile repair, and legal fees have contributed to the steadily rising cost of automobile accidents.

An underwriting loss occurs when an insurer's losses and expenses for a given period are higher than its premium income for the same period. Major automobile insurers have experienced such losses in many states; auto insurance has been only marginally profitable in several other states. Overall losses for personal automobile insurance increased steadily each year during the early 1990s.

Irresponsible Drivers

Irresponsible drivers are another part of the automobile insurance problem. These drivers fall into three main groups, and some drivers might belong to more than one of these groups:

Drivers with No Automobile Insurance

The number of uninsured vehicles in each state varies yearly. Nationwide, the percentage of uninsured vehicles during the 1980s ranged from 5 to 10 percent. In California, a 1995 estimate indicated that 25 percent of drivers had no automobile liability insurance.

When uninsured drivers cause accidents that injure other persons or damage property of others, they usually cannot pay for the injuries or damage they have caused.

Drivers Under the Influence of Alcohol or Drugs

Alcohol and drug abuse is widespread in the United States as well as in many other countries. Drivers under the influence of alcohol or illegal drugs are also responsible for a large number of automobile accidents. In addition to the use of illegal drugs, the use of legal drugs, such as sedatives and even decongestants, can also impair driving ability and has caused many automobile accidents.

Many states have tightened their drunk-driving laws, increased the penalties for first-time offenders, and passed laws holding servers of alcohol legally liable for accidents caused by drunk customers and guests. As a result of these efforts, alcohol-related traffic deaths have decreased almost steadily since 1986.
Other High-Risk Drivers

High-risk drivers include those who habitually violate traffic laws, those who are involved in an excessive number of traffic accidents, and those who are convicted of certain serious offenses, such as reckless driving and driving with a suspended license. Poor driving habits such as speeding, following too closely (tailgating), falling asleep at the wheel, and failing to yield right of way, also account for a large number of accidents.

Availability and Affordability of Automobile Insurance

Some individuals are unable to buy automobile insurance at affordable premiums in the standard market. Because of large underwriting losses and the potential of large liability judgments, automobile insurers restrict the sale of automobile insurance to certain groups, or they make the coverages available to certain drivers at premiums that are substantially higher than standard premiums.

Those who are unable to purchase auto insurance at standard rates include drivers convicted of serious or multiple traffic violations and other high-risk drivers, such as young and inexperienced drivers, especially young unmarried male drivers.
THE AUTOMOBILE INSURANCE MARKETPLACE

There are many automobile insurance markets willing to write the coverage. Market is a term that describes the grouping of insureds into preferred, standard, and nonstandard categories for marketing purposes. The following are examples of automobile insurance markets:

VOLUNTARY MARKETS

Many insurers have multiple personal auto programs, usually classified as preferred, standard, or nonstandard. Program definitions can differ greatly among insurers, but the following is a brief description of each.

Preferred Auto Market

The typical preferred market has lower rates than the other programs, coupled with stricter underwriting standards. This market accepts drivers who pose the least risk of incurring significant claim cost. A significant portion of this market consists of experienced, mature, claim-free drivers who statistically produce good underwriting results.

Standard Auto Market

The standard market refers collectively to insurers who voluntarily offer insurance coverages at rates designed for customers with average or better-than-average loss exposures. Risks that do not qualify for the preferred market are placed in the standard market. This market is the middle market segment and is composed of drivers falling just short of qualifying for preferred treatment, generally because of prior claims, poor driving record and certain newly licensed drivers or youthful operators. The standard program rates are generally 15 to 20 percent above the preferred program, but the underwriting rules are less stringent.

Nonstandard Auto Market

The nonstandard market is used for high-risk drivers whom insurers might otherwise reject. This market segment, sometimes referred to as "substandard," consists of drivers and vehicles that exhibit higher than-average loss potential. The premiums for this market segment are consequently higher.
**Nonadmitted Market**

In addition to the preferred, standard, and nonstandard markets, there is a small surplus lines market for auto insurance placed with nonadmitted insurers. A nonadmitted insurer is a company that is not licensed by the insurance commissioner of a state to write insurance in that state. Nonadmitted insurers operate much like nonstandard insurers but through the surplus lines market. This market is often limited to physical-damage-only policies, or excess limits of liability for high-risk drivers.

**IN Voluntary Market**

The involuntary market (also called the residual market, shared market, or automobile insurance plan) remains for those unable to obtain insurance in the voluntary market. Every state has a specific form of residual market for providing coverage for those drivers who are unable to purchase insurance in the voluntary market. These will be discussed in the next chapter.
Insurance companies must operate profitably. This means insuring exposures with loss expectations in line with premiums charged. Prospects with greater-than-average exposures cannot be insured at average or standard rates. Either the insurer must refuse to accept or renew this kind of business, or it must charge a higher premium.

For some people, it has become increasingly difficult to obtain automobile insurance through normal means. Due to poor driving records, most companies will not accept them because their loss experience is much greater than the average driver’s is. However, it is in society’s best interest to have all drivers insured so that they are able to live up to their financial responsibilities when accidents do occur.

All states have laws that either require auto insurance or compliance with a financial responsibility law. Driving is a privilege granted by government but, if a person cannot buy automobile insurance, it is the insurers who are deciding who may or may not drive.

Many involuntary market policies are heavily subsidized by the state government because of regulatory restrictions on pricing, with subsidies being paid by insureds in the voluntary market. The additional costs from the involuntary market are passed along to drivers in the voluntary market through surcharges.

AUTOMOBILE INSURANCE FOR HIGH-RISK DRIVERS

Applicants and insureds are sometimes referred to as "high-risk," meaning that they have an increased chance of loss. High-risk drivers often cannot obtain automobile insurance in the standard market. However, these drivers can usually purchase insurance in the residual market or shared market. Several plans are available for high-risk drivers:

- Automobile insurance plans
- Joint underwriting associations (JUA)
- Reinsurance facilities
- Specialty insurers

The residual market (shared market) refers collectively to insurers and other organizations that make insurance available to those who cannot obtain coverage from the voluntary market.
Automobile insurance plan or some similar state-mandated coverage pool plans (also called involuntary, shared, or residual markets) are mechanisms to:

- Assure that all drivers have access to insurance
- Equitably distribute the risks that are not written voluntarily by insurers

To meet the problem of placing these rejected risks, most states have implemented an “Automobile Insurance Plan” (also known as “Assigned Risk” plan) consisting of an association of insurers that operate in the state. The association agrees to provide liability insurance for those who cannot obtain it in the normal market, and to share risks in direct proportion to each carrier’s share of statewide automobile liability premiums. Usually, insurers are not required to provide limits above the minimum amounts stipulated by the state financial responsibility law.

In most states, a motorist who has been denied coverage by one or more insurers may apply to the plan. The manager of the plan will assign the risk to a carrier. That company then issues a policy and is obligated to service the insured just as the company would with a voluntary policy. An application cannot usually be denied unless the applicant has been convicted of a serious crime or traffic offense (drunk driving, hit-and-run, etc.). While the plans are designed to provide liability and uninsured motorist insurance, some states also allow medical payments, collision, and comprehensive coverages.

Under the automobile insurance plan all auto insurers doing business in the state are assigned their proportionate share of high-risk drivers based on the total volume of automobile insurance written in the state. For example, if one insurer writes 10 percent of all the automobile insurance written in the state, it would be assigned 10 percent of the state's high-risk drivers.

Although state automobile insurance plans vary, they usually have the following common characteristics:

- Applicants must show that they have been unable to obtain auto liability insurance within a certain number of days (usually sixty) of the application.
- The limits of insurance offered are equal to the state's financial responsibility or compulsory insurance requirement.
- Certain persons may be ineligible for coverage.
- Premiums are generally higher than premiums in the standard market.

Insurers absorb any gains or losses from their involuntary business within their overall books of business. Losses are recovered through an increase in the general rate level for standard drivers. Once the applicant is assigned to an insurer, that insurer will compute premiums based on surcharges added to standard premium for the class to which the applicant belongs. The insurers in assigned risk plans are individually responsible for the losses (and premiums) of their assigned insureds. This is different from joint underwriting associations and reinsurance facilities, in which all participating insurers share losses or profits.
Historically the loss experience of persons in state plans has generally exceeded the premium paid. Each insurer absorbs its share of these losses through its participation in the plan. The insurers share the entire overhead and administrative costs associated with the plans on the same basis. Producers share costs by handling this business at a low commission rate.

Assignment is normally for three years, and at renewal the insurer sends the insured a notice as to what the premium will be for the next twelve months. After three years, the driver can return to a standard insurer. If standard insurers still reject the applicant, the same procedure must be repeated, and the applicant is again assigned to an insurer.

OTHER AUTO INSURANCE FACILITIES

To avoid the perceived stigma associated with assigned risk plans, the insurance business developed two additional plans for automobile insurance for drivers who have difficulty obtaining it in the voluntary market.

Joint Underwriting Associations (JUA)

A joint underwriting association (JUA) is an organization created in a few states that designates servicing insurers to handle high-risk auto insurance business. All auto insurers in the state pay their auto insurers in the state are assessed proportionate share of the JUAs losses and expenses based on their percentage of the high-risk drivers.

Under the JUA system, all residual market drivers in a state are assigned to one or more insurance companies that act as servicing insurers. Those companies receive a specified fee for administering the plan and for servicing the involuntary market drivers. The fee, a percentage of written premiums for the policies serviced, pays normal underwriting expenses and some of the loss adjustment expenses associated with high-risk drivers. All auto insurers doing business in that state share losses in proportion to their shares of the voluntary market premiums. The rates are uniform for all servicing insurers.

Reinsurance Facilities

A reinsurance facility allows insurers to assign premiums and losses for high-risk drivers to a statewide reinsurance pool. All insurers in the pool share the losses and expenses of the facility in proportion to the total insurance they write in that state. Under this system, each company is required to provide coverage for all applicants, but the company is then allowed to cede undesirable insureds to a reinsurance facility. Applicants for insurance might be unaware that they have been ceded to the facility, because they continue to be serviced by the company that wrote the policy. Usually the number of drivers a company can cede to the facility is limited. The limitation restricts the insurer's ability to dump all but the best business, since the profits and losses of the reinsurance facility are shared by all participants in the voluntary market according to market share.
SPECIALTY INSURERS

High-risk drivers may also be able to obtain automobile insurance from certain private insurers that specialize in insuring motorists with poor driving records. These specialty insurers typically insure inexperienced drivers, drivers who have been canceled or refused insurance, drivers convicted of driving under the influence of alcohol or drugs, and other high-risk drivers.

Automobile insurance policies from specialty insurers for high-risk drivers generally have several common features:

- Premiums are substantially higher than premiums charged in the standard market.
- Liability, Uninsured Motorist and Medical payments coverage may be limited because high-risk drivers have a greater probability of having an accident.
- Physical Damage insurance may be available only with a high deductible.

Rates for automobile insurance provided by specialty auto insurers are based on loss expectancy that is higher than the average exposure. Insurers whose primary business is substandard auto policies typically service this market. The rate structure of these insurers produces a rate that is often 150 to 200 percent higher than those in the standard insurance market. The policy form used in the specialty market is normally an ISO form such as the PAP, although some insurers make modifications to reflect the higher risks involved (eliminating automatic physical damage coverage for the use of nonowned autos, for example).

In addition to charging higher rates, a specialty insurer may modify the PAP to remove some of the automatic coverage provisions. Never assume a specialty carrier is using the standard ISO PAP without first reviewing its auto policy. Then be certain the insured understands any coverage limitations you find.

Today, insurers of substandard business are an alternative to the automobile insurance plans. Rates for substandard business are often tied to the number of traffic violation points or chargeable accidents.

Producers in the personal auto market should maintain relationships with financially solid, reputable specialty insurers who may be more capable of properly underwriting and pricing a substandard risk than a preferred carrier. A driver whom a standard carrier considers undesirable may be the specific type of driver targeted by the specialty insurer. You can write accounts with a specialty carrier who appreciates the business, while protecting your standard markets.
Because most Americans have access to and operate vehicles (creating a large liability exposure), many laws, statutes, and ordinances have been enacted to govern the responsibility of owning an auto. Those statutes modify some of the common-law concepts of negligence and place specific obligations and responsibilities on the owners and operators of motor vehicles. It is important for a producer to be familiar with the auto statutes in his or her state.

State governments regulate the personal automobile insurance industry in several ways. In addition to financial responsibility and compulsory insurance laws, all states have laws that restrict the right of insurers to cancel or nonrenew automobile insurance policies. States also regulate the rates charged for auto insurance and require that rates be adequate, reasonable (not excessive), and not unfairly discriminatory.

The widespread use of automobiles has contributed to a number of social problems, particularly with respect to reparations for the victims of auto accidents. No-fault laws have been an attempt to remedy some of the limitations of the tort system - namely that it is too slow and too expensive. But there are other problems. Some drivers fail to carry insurance. Others carry inadequate limits. As recently as 1970, only three states had compulsory automobile insurance laws. However, during recent years, there has been a burst of automobile insurance reforms and a growing number of states have implemented compulsory insurance laws and tighter financial responsibility laws. Uninsured and underinsured motorists laws also attempt to improve protection for the general public.

Compensation of Auto Accident Victims

Under the legal system in the United States, persons who are injured or who incur property damage losses because of the negligence of the owner or operator of an automobile are entitled to compensation and damages. Both automobile insurers and state governments have designed various approaches to compensating auto accident victims, including the following:

- The tort liability system
- Financial responsibility laws
- Compulsory insurance laws
- Unsatisfied judgment funds
- Uninsured motorists coverage
- Underinsured motorists coverage
- No-fault laws
States have struggled with the proper combination of compulsory insurance laws, financial responsibility statutes, unsatisfied judgment funds, and uninsured motorists regulations that they believe will achieve the greatest amount of compliance and protection for all automobile operators.

**FINANCIAL RESPONSIBILITY LAWS**

**Financial responsibility laws** require motorists, under certain circumstances, to provide proof that they have the ability to pay, up to certain minimum amounts, for damage or injury that they might cause as a result of their operation of a vehicle.

By the 1940s, thirty-four US states had enacted some form of financial responsibility legislation. Financial responsibility laws require motorists to provide proof of financial responsibility under the following circumstances:

- An accident causing bodily injury
- An accident causing property damage above a stipulated amount ($500 in California)
- A conviction for a serious motor vehicle offense, or repeated minor offenses
- Failure to pay final judgments arising from an earlier accident

If motorists do not provide the required proof of financial responsibility, they face suspension of both their driver's license and vehicle registration. As a result, no one else would be injured because the irresponsible driver would be off the road, but this is of no value to the innocent uncompensated accident victim. If one party is financially irresponsible and removed from the road, the innocent party in the first incident still might not be compensated. Although financial responsibility laws provide some protection against irresponsible drivers, critics point out the following defects:

- **Financial responsibility laws do not guarantee payment to all accident victims**, such as those injured by uninsured drivers, hit-and-run drivers, or drivers of stolen cars injure them.

- **Considerable delay in compensating accident victims might result from the legal system.**

- **Injured persons might not be fully indemnified for their injuries**, since most financial responsibility laws require only minimum amounts of coverage.

The required liability insurance limits vary by state, ranging from a low of $10,000 per person, $20,000 per accident for bodily injury, and $5,000 property damage (10/20/5) to a high of $50,000 per person, $100,000 per accident for bodily injury, and $25,000 property damage (50/100/25).

A driver need not be at fault before a financial responsibility law applies. Simply being involved in an accident may be enough to trigger the requirement. When evidence is required, the driver usually
risks suspension of both the driver’s license and auto registration if security is not posted. Satisfactory evidence of financial responsibility can be established by:

- Showing proof of liability insurance with BI and PD limits at least equal to the minimum requirement
- Posting a bond for these same amounts
- Making a cash or security deposit equal to the minimum requirements

**SR-22 Filings**

The term "SR-22" is the form number of the document that is required by the department of Motor Vehicles from an insurance company to confirm that insurance is in force to meet the financial responsibility law.

Insurers file the SR-22 form with the state, certifying that the insured has purchased auto liability insurance with at least the state-mandated minimum limits. When an SR-22 is attached to a policy, the rules for cancellation are restricted and the insurer has additional reporting requirements.

**COMPULSORY LIABILITY INSURANCE LAWS**

Before the 1920s, the purchase of automobile insurance in the United States was optional. However, with the increase in the number of automobiles and drivers and the corresponding increase in automobile accidents, the need for automobile insurance increased. In 1927, Massachusetts became the first of many states enact compulsory auto insurance.

A compulsory auto insurance law requires the owners or operators of automobiles to carry automobile liability insurance (or provide a similar guarantee of financial responsibility) at least equal to certain minimum limits before the vehicle can be licensed or registered.

Many people consider compulsory insurance laws superior to financial responsibility laws since motorists must provide proof of financial responsibility before an accident occurs. Compulsory insurance laws have serious defects, including some defects that financial responsibility laws share.

Compulsory insurance is based on the tort system; delays caused by an overburdened court system can result in considerable financial hardship for some automobile accident victims.

Compulsory insurance laws might not reduce the number of uninsured motorists. Some drivers let coverage lapse after demonstrating proof of insurance to satisfy vehicle registration requirements.

Insurers argue that compulsory laws restrict their freedom to select profitable insureds and that state regulators might deny needed rate increases, resulting in underwriting losses.
UNSATISFIED JUDGMENT FUNDS

Unsatisfied judgment funds are funds established by some states to compensate auto accident victims who have obtained a court judgment that is uncollectible because the guilty party cannot pay. In these states, if the victim obtains a court judgment and the judgment is not satisfied because the guilty party cannot pay, the victim can recover from a state fund. These laws limit the amount of recovery, ranging from $5,000 per person and $10,000 per accident to $25,000 per person and $50,000 per accident for bodily injury. Some states permit recovery for both bodily injury and property damage.

Unsatisfied judgment funds offer some protection against irresponsible motorists. In addition, such funds keep uninsured drivers off the road by suspending their driving licenses until they reimburse the unsatisfied judgment fund.

Several methods are used to finance the benefits paid under unsatisfied judgment funds. States obtain funds by assessing insurers based on the amount of auto liability insurance premiums written in the state, by charging each motorist a fee, by assessing the uninsured drivers in the state, and by surcharging motorists convicted of moving violations.

UNINSURED MOTORISTS REGULATIONS

Uninsured motorists (UM) coverage is a technique for providing some financial protection against an uninsured driver. UM insurance is mandatory in many states and optional in the rest. Most states require that all automobile liability policies contain UM coverage unless the insured voluntarily waives the coverage in writing.

Uninsured motorists (UM) coverage reimburses an insured auto accident victim who sustains bodily injury (and, in some states, property damage) caused by an uninsured motorist, a hit-and-run driver, or a driver whose insurer is insolvent.

Underinsured motorists coverage provides additional limits protection to the victim of an auto accident when the negligent driver's insurance limits are insufficient to pay for the damages. It can be added by endorsement to an automobile insurance policy.

UM coverage applies when the bodily injury is caused by an uninsured motorist, by a hit-and-run driver, or by a driver whose insurer is insolvent. In contrast, underinsured motorists coverage applies only when the other driver has liability insurance, but the liability limits carried by the negligent driver are lower than the limits provided by the injured person’s underinsured motorists coverage.

A major disadvantage of uninsured motorists regulations is that it requires insured motorists to pay an extra premium to protect themselves from drivers who are uninsured. The results, however, appear to warrant the additional cost. For more information, see the section on Uninsured Motorist coverage in this text.
INSPECTION LAWS

Several states have enacted regulations that require a pre-insurance vehicle inspection as part of the application process. State vehicle inspections can help to ensure proper vehicle maintenance; however, inspections vary widely in quality and scope, and some states do not even have vehicle inspections.

An inspection form, usually in a format prescribed by the state insurance department, must be completed in detail and submitted with the application. Two color photographs of the vehicle are usually required as well. A photo might also be required of the VIN. Optional equipment included on the vehicle must be noted and existing damage identified on the inspection form.

Some insurers use pre-insurance inspection and photos even though the state does not require them. An inspection program is particularly helpful in a state in which insurance fraud is a conspicuous problem.

CANCELLATION & NONRENEWAL OF AUTOMOBILE INSURANCE

The provisions for cancellation vary by state, and the PAP is endorsed to conform to the regulations of the state in which the insured resides.

All states have laws that restrict the insurer's right to cancel or nonrenew an automobile policy. In many cases, these state laws differ from the termination provision in the PAP.

Cancellation refers to a decision by the insurer or the insured to terminate coverage during the policy period (before the expiration date of the policy).

Nonrenewal refers to an insurer's decision to terminate coverage on in other words, the insurer refuses the expiration date of the policy; to renew the policy when it expires.

Whenever state laws and the policy are in conflict, state law supersedes the policy provisions. Changes mandated by state laws are usually incorporated into the policy by means of a state endorsement that must be attached to all auto policies in the state.

Restrictions on Cancellation

Restrictions on cancellation by insurers generally do not apply to new policies that have been in force for less than a certain period (such as sixty days). That period gives them time to complete their initial underwriting and investigation of the applicant's qualifications. However, after the new policy has been in force for the stated period, cancellation is permitted only for reasons specified in the state's insurance laws and regulations. These reasons vary by state, but cancellation is usually permitted for the following reasons:

- Nonpayment of premium
- Suspension or revocation of a driver's license
- Submission of a false or fraudulent claim
• Material misrepresentation of relevant underwriting information

• Conviction for certain offenses, such as driving under the influence of alcohol or drugs

• Violation of policy terms or conditions

Most states require that an insurer provide written notice of cancellation to the insured a certain number of days before the cancellation becomes effective. Often, the reason for cancellation must be stated in the notice or provided upon the insured's request. In addition, most states require the insurer to indicate on the cancellation notice that coverage might be available from an automobile insurance plan or from some other residual market facility.
NO-FAULT INSURANCE

No study of automobile insurance would be complete without a discussion of no-fault insurance. **No-fault automobile insurance** is a type of first-party insurance through which each party collects directly from his or her own insurer.

No-fault laws have been adopted in several states. Under the no-fault system an insured is reimbursed by his or her own insurance company for medical expenses and loss of wages, regardless of who was at fault in the accident. No-fault can operate to pay all parties to auto accidents while significantly reducing legal expenses and insurance premiums.

**BASIC NO-FAULT CONCEPTS**

The tort system has not operated perfectly when providing compensation for auto accidents. Sometimes, cases involving motor vehicle accidents take years before they are heard in court. By then, witnesses have moved, have died, or cannot remember the incident. The costs of court actions are substantial, and the percentage of the awards that remains with the lawyers in the form of contingency fees means the victim often receives only a fraction of the damages awarded by the court. Those problems caused many people to try to find an alternative to the tort system of settling auto claims.

Under no-fault insurance, each party injured in an automobile accident collects from his or her own insurance company, regardless of who was at fault. Insurers pay benefits, as specified in the state law, for economic losses, such as medical expenses and loss of earnings resulting from bodily injury to the insured. Noneconomic losses, such as pain and suffering, inconvenience, and mental anguish, are not covered.

**Typical No-Fault Benefits**

Although no-fault laws vary widely among states, certain characteristics are common to these laws. They all seek to limit the need to prove negligence so that benefits can be paid quickly. They also define the conditions under which a victim might be entitled to additional compensation from the party at fault. Some states require that higher optional no-fault benefits be available to persons who want benefits above the prescribed minimums.
Insurers provide no-fault benefits by adding an endorsement called a personal injury protection (PIP) endorsement that describes the no-fault benefits to be paid. Benefits the endorsement provides are limited to the injured person's actual economic loss, including payment of medical expenses, a percentage of lost wages, and certain other expenses. The injured person can seek compensation for noneconomic losses that are not measurable in dollars (such as pain and suffering, inconvenience, and mental anguish) only if the monetary threshold is exceeded or the verbal threshold is met. The following are typical no-fault benefits:

Coverage usually applies to the named insured, all members of the insured's family who reside in the same household, all passengers of an insured vehicle, and any person who is struck by an insured vehicle while a pedestrian. Benefits are provided for injuries resulting from bodily injury. Mandatory benefits are usually paid on a "first party" basis in place of the injured person's right to sue. Optional benefits, or "add on" benefits, are usually paid without affecting the injured person's right to sue.

The types of benefits available or required differ by state, but similar general categories are found in most states. The four most common types of benefits are:

- Medical and hospital benefits
- Disability and work loss benefits
- Expenses for essential services
- Accidental death benefit and funeral expenses

Medical bills, loss of income, and funeral expenses often result from serious bodily injuries for obvious reasons. "Essential services" means services the injured person would have continued to perform if injury had not occurred, but for which someone else must be hired to perform because of the injury. Medical and death benefits are usually subject to a dollar limit. Work loss benefits are usually paid as a percentage of lost income, subject to a maximum weekly amount. Benefits for essential services may be limited to a daily or weekly amount.

Some states have additional classes of benefits, such as "rehabilitation benefits" and "survivors' benefits." Although there are similarities between various no-fault insurance laws, there are many differences in the requirements, amounts of coverage, and actual nature of the benefits provided. For any particular state, the actual state law or the Personal Injury Protection endorsement would have to be consulted for the specifics of the coverage.

PIP endorsements usually contain a number of common exclusions. Benefits are generally not payable to any person who intentionally causes their own injury. Coverage does not usually apply to a bodily injury for which benefits are payable under a workers compensation or disability benefits law. Injuries resulting from war or radioactive hazards are not covered.

**Right to Seek Compensation from the Party at Fault**

The right to seek compensation from the party at fault depends on the type of no-fault law. No-fault laws typically allow the no-fault insurer to collect payment from the party at fault or from the negligent driver's insurer to the extent that no-fault benefits are paid. No-fault provisions vary by state.
**Exclusion of Property Damage**

No-fault laws generally apply only to injuries and not to damage to property. Thus, if a negligent motorist damages a person’s property, that person has a right to seek compensation from the party at fault. No-fault laws generally exclude property damage for several reasons:

- Property damage is relatively small and is usually confined to vehicles.
- The amount of damage to property can usually be determined without great difficulty.
- Automobile insurers can usually settle claims for damage to their insured’s property quickly.

**Types of No-Fault Laws**

When no-fault insurance was first proposed, the proponents envisioned a pure no-fault system that would have abolished the tort liability system for auto accidents. However, many people thought a pure no-fault system would be unfair, and no state has yet enacted a pure no-fault law. Instead, certain states have enacted one of two types of no-fault laws: add-on plans and modified no-fault laws.

**Pure No-Fault**

A "pure" no-fault law would completely abolish tort liability for auto accidents and replace it with the right of the parties to collect from their own insurers. There would be no need for victims to prove negligence. A pure no-fault system would prevent an injured person from seeking compensation for damages from the party at fault, regardless of the severity of the injury. The only financial remedy available to accident victims would be claims payments from their own insurers. There are no true no-fault auto plans currently operating in this country. Instead, the injured person would collect no-fault benefits directly from his or her own insurer.

**Add-On Plans**

A few states have adopted optional or additional ("add on") amounts of no-fault coverage, which provide additional first party coverage without affecting the insured’s right to file suit. An add-on plan is an endorsement to an auto insurance policy that provides certain benefits to injured automobile victims without regard to fault, but the injured person retains the right to seek compensation from the negligent party who caused the accident.

**Modified No-Fault Laws**

Many states have adopted “modified” no-fault plans, which preserve the right to sue another party under certain circumstances. Modified no-fault laws limit an injured person's right to recover damages from negligent parties but do not completely eliminate it. This type of law is the one most commonly used in states that have adopted some form of no-fault insurance. Usually, the insured can collect no-fault benefits and then sue for additional amounts if medical expenses exceed a threshold, or if a serious injury, disability, or a death resulted from the accident.
No-Fault Thresholds

Under a no-fault system, an injured person does not need to establish fault and prove negligence in order to collect payment for damages. In addition, a true no-fault law places some restrictions on the right to sue the negligent driver who causes the accident. Limiting a person's right to sue is accomplished by instituting a **threshold** (a barrier) that must be crossed before a lawsuit is permitted. If a claim is below the threshold, an injured motorist would collect for the injury from his or her own insurer. If the loss exceeds the threshold, the injured person has the right to seek compensation from the negligent driver, which could include suing for damages resulting from the accident.

The way the threshold is stated and the monetary amount, if any, is specified, is extremely important to the rationale of no-fault plans. There are two types of thresholds used:

- **Dollar (Monetary) threshold** – Limits a person's right to sue to noneconomic damages until a certain dollar amount has been spent for medical care.

- **Verbal threshold** – Provides the right to sue only when there is death, dismemberment, serious impairment of bodily function, or permanent disfigurement.

Evaluation of No-Fault Laws

No-fault automobile insurance has been controversial since its conception. Here are some arguments both in favor of and against no-fault laws:

**Arguments in Favor of No-Fault Laws**

Those who favor no-fault laws argue that such laws correct serious defects in the present tort liability system based on fault by doing the following:

- **Eliminating the need to determine fault.** Determining who is at fault is often difficult, especially when more than one driver contributes to the accident.

- **Eliminating inequities in claim payments.** Under the present system, small claims might be overpaid, and serious claims might be underpaid.

- **Correcting the limited scope of the present system.** Many seriously injured persons or the beneficiaries of those killed in auto accidents do not collect under the current tort liability system.

- **Decreasing the proportion of premium dollar used for claim investigation and legal costs.** Under the tort liability system, a large proportion of the premium dollar is used to pay for attorneys, claim investigation expenses, and other costs of determining who was at fault.

- **Avoiding delays in payments.** Many claims take months or even years to settle under the tort liability system, which often involves lengthy court trials and delays in the legal system.
Arguments Against No-Fault Laws

Supporters of the present tort liability system, however, present various arguments against no-fault laws, including the following:

- **Defects of the present tort liability system are exaggerated.** Some people argue that the present system works reasonably well since most auto claims are settled out of court.

- **Claims of premium savings and greater efficiency are overstated and unreliable.** Premiums for automobile insurance have not decreased significantly, and in some cases have increased, in states that have implemented no-fault plans.

- **No-fault might penalize safe drivers.** The rating system used for no-fault insurance might unfairly allocate accident costs to the drivers who are not responsible for the accidents, thus increasing the premiums for good drivers.

- **No-fault benefits do not include payment for pain and suffering.** The dollar amount of medical expenses and lost wages does not always represent the true economic loss to the victim, because this amount does not include damages for pain and suffering.

- **The present tort system needs only to be reformed, not replaced.** Reform could take the form of limiting attorneys’ fees, increasing the number of courts and judges, and using arbitration panels rather than the courts to settle claims.
Claim payment is an insurance company's ultimate product. Until there is a claim, an insurance policy is merely a piece of paper with certain promises by the insurance company written on it. The policy lies dormant until a claim for a covered loss activates the coverage. It is at that time that the insurer actually delivers the product that the insured purchased.

**CATEGORIZING INSURANCE CLAIMS**

**Personal vs. Commercial**

Claim professionals may manage claims involving multiple lines, or specialize in claims for only one or a few personal or commercial lines.

**Personal lines** include property-casualty coverages that protect the individual or the family such as Personal Auto and Homeowners. **Commercial lines** encompass coverages designed for businesses such as Commercial Property, Commercial Liability, Commercial Auto and Workers Compensation.

**Primary vs. Excess**

Another factor that can affect how claims are managed is whether they involve primary policies, excess policies or both. A clause known as the Other Insurance clause in policies provides that either the policy will pay before any other policy covering the same loss (primary), or only the excess portion after the other insurance policy exhausts its limits in payment for damages.

Sometimes the Other Insurance clause provides that the policy will pay only a specified proportion of any loss that is also covered by other insurance. For example, if a policy provides 50% of the total insurance coverage on the insured's property, that policy would pay no more than 50% of a covered loss.

**First Party vs. Third Party**

Still another factor the claim handler must consider is whether a claim is a **first-party** or a **third-party** claim and that depends upon who is making the claim.

Insurance policies are legal contracts between certain parties: the **named insured** (who is the first party to the contract) and the **insurance company** (the second party to the contract). First-
party claims are made by insureds against the company. Third-party claims are claims made against insureds by others who are not parties to the insurance contract.

### Clear-cut vs. Doubtful Liability

When an insured's liability is characterized as clear, it means that there is no doubt that the insured was at fault for the accident. A case of probable liability on the insured's part simply means that the insured was probably at fault for the accident.

In a case of questionable liability, it is unclear which party bears primary responsibility for the accident. When an insured's liability is viewed as doubtful, it means that in all likelihood the insured was not negligent or legally liable for the accident.

### CLAIMS REGULATION

Claims must be handled in compliance with the state's insurance laws and regulations, and state insurance departments are charged with enforcing many of those laws. Among other requirements, insurance companies must handle claims promptly, fairly and courteously and retain records, which may be examined by state insurance departments.

The heads of the state insurance departments belong to an organization known as the National Association of Insurance Commissioners (NAIC). The NAIC meets at regular intervals to exchange information and provide coordination of the regulatory measures of each state. Through its recommendations, much of the nation's insurance law takes shape. Although nonbinding on the individual state, the NAIC's recommendations are generally followed.

Among these recommendations is a model law applying to unfair claims settlement practices which has become the basis for unfair claims settlement practices laws of many states. In formulating these laws, however, the states have modified the model regulations in various ways. Consequently, the requirements of the laws vary by state. In general, however, they provide for fines and other penalties to insurance companies when their employees violate these laws.

In addition, state financial responsibility laws, workers compensation laws and no-fault automobile laws can affect claim settlement. It is important for anyone dealing with claims to understand the state's laws and regulations.

### Handling Claims in Good Faith and With Fair Dealing

The adjuster should be familiar with any state unfair claim practice laws that establish specific regulations for handling auto damage claims. Certain omissions and commissions by claim handlers violate state unfair claim practices acts. In addition, breaching obligations of good faith and fair dealing when handling claims can result in what are known as bad faith claims or suits. As a result, the company may eventually be required by the court to pay punitive damages in excess of the payment of damages for loss that is payable under the insurance policy.

Some other general areas involving a claim handler's conduct or acts of omission or commission that could cause legal problems and potentially lead to "bad faith" claims or suits are:
• Failing to promptly and adequately investigate a claim
• Failing to properly interpret policy coverage and thereby misrepresenting policy coverage
• Failing to disclose to a party being interviewed over the telephone that the conversation is being recorded and failing to secure that person's permission to make the recording
• Failing to communicate promptly and adequately with insureds or their attorneys and advise them of all developments
• Failing to keep confidential facts that are private and that the disclosure of would highly offend and be objectionable to a reasonable person
• Failing to promptly and adequately evaluate a claim
• Failing to maintain a complete and adequate claim file
• Failing to make some reasonable offer within policy limits and promptly dispose of a claim

The Effect of Fair Claim Practice Law on Auto Damage

Many of the Fair Claim Practice Laws enacted in the various states establish specific regulations for handling auto damage claims. Among the more common are the following:

• The vehicle owner must be given a copy of the estimate prepared by the adjuster/appraiser and, if requested, must be furnished the names of two or more conveniently located repair shops that can repair the car for the amount of the estimate.

• If the adjuster reduces the amount of the claim because of betterment or depreciation, the adjuster must be able to justify the reduction make the appropriate notation to do so in the claim file. If deductions must be itemized and specified as to dollar amount.

• When an insurer selects a body shop to make the repairs, the insurer must make sure that the automobile is restored to its condition before the loss - within a reasonable period of time.

• Insurers cannot offer an insured a cash settlement in an amount less it would cost to repair the damaged vehicle except for the deductible, or if there is a provision in the auto policy which limits payment such as a "stated amount" provision.

• Deductions for previous damage or prior condition of the automobile must be measurable, discernible, itemized, and specified as to dollar amount, and the deduction must be documented in the claim file.

These are just a few examples of some issues addressed by typical Unfair Claim Practice Laws. Some or all of these provisions may or may not apply in your state.
THE CLAIM DEPARTMENT AND CLAIMS HANDLERS RESPONSIBILITIES

Claim handlers have many legal, moral and business obligations which can have strong impact on product and customer service quality and can greatly affect the company’s reputation.

The primary responsibility of claim handlers is to see that the contractual promises the company has made to its policyholders are honored promptly, equitably and in good faith.

Claim handlers must also control costs to see that the company does not pay more than it legitimately owes for claims. Controlling costs not only benefits the company and its employees, but its policyholders as well by maintaining lower premium rates.

In addition, claim handlers must comply with all laws and regulations pertaining to handling insurance claims.

When there is a claim against a policy, claim handlers manage it through a unique process that involves investigating it to verify the facts about it, evaluating those facts and then guiding the claim to its proper conclusion. Although a claim handler often deals with facts and figures, he or she primarily works with people while participating in necessary claim handling activities and guiding the claims to their proper conclusions.

CLAIM HANDLING SKILLS

There are some very important skills claim handlers need to learn and develop through practice and experience. For each claim, the claim handler needs answers to the questions of coverage, bodily injury and/or property damage and/or personal injury and legal liability, if it is an issue, to determine if payment is due and, to arrive at the correct amount of payment.

Technical Skills

A high amount of technical knowledge is very important to the job. The claim handler should be constantly striving to acquire and update additional technical knowledge such as insurance laws, regulations, policies changes and new technological advances which are employed by the industry.

Claim handlers need a solid understanding of the policies' provisions, conditions and exclusions and an ability to interpret their basic meanings. Several coverages and several issues are often involved in a claim, and situations are not always clear. The skills of analysis, comparison and interpretation must be applied, first to the contract upon which the claim has been made, and then to the issues of that claim and the situation that was involved.

In property insurance claim cases, strong estimating skills need to accompany analyzing skills when determining amounts of damages

Claim representatives who handle auto claims need to know about:

- The laws of agency, Bailment, Driving laws and regulations, No-fault law, Personal Injury Protection (PIP) and threshold limits
- How autos are constructed, Analyzing estimates of damages, Methods of repair and prices of materials and parts
- Medical terminology, Human anatomy, Illnesses, medical conditions and injuries
- Medical procedures, Medical tests, medical signs and medical reports
- Litigation procedures

The completeness and accuracy of the claim handler's work on the claim can directly affect the outcome of the claim.

Claim handlers are not required to hold a legal degree; however, they do need a strong general understanding of the legal principles that apply to insurance and specific knowledge of the law in their jurisdiction. In addition, in order to properly analyze and evaluate claims, they need to keep abreast of any recent court decisions pertaining to insurance and current policy interpretations by the courts.

Insurance claim handlers need to know about certain legal doctrines of civil law. Under civil law, an individual takes legal action against another party to recover for damages he or she suffered from a negligent act or omission by that other party. There are two types of civil law, contract law and Tort Law.

**Contract law** involves a specific contract or agreement between two or more parties. **Tort Law** involves a civil wrong, not created by a breach of contract, that arises from either an intentional or unintentional violation of a legal or natural right and for which monetary remedy is provided. In other words. There are three types of torts: intentional tort, negligence, and absolute and strict liability and claim handlers must understand their differences.

### People Skills

The claim professional must understand human behavior and possess strong human relations and communication skills. These skills are also referred to as interpersonal skills, people skills, customer relations skills and customer service skills.

Claim professionals must deal with all kinds of people with different temperaments, personality types and needs during times that are often traumatic, emotional and stressful for them. Some of them have been physically injured, perhaps very severely. Some have suffered total or partial loss of property they value very much.

When policyholders have a claim, they expect to have the promises that were made to them in their policies fulfilled, willingly, quickly, courteously, knowledgeably and competently.

Claim handlers need to know how to work well with people of different personality types and various cultural backgrounds. In particular, claim handlers should emphasize perfecting communications and negotiations skills. Strong telephone communication skills are very important. The same is true about correspondence communication skills.
A claim handler’s strengths in "people" skills help greatly in developing relationships with people while seeking their cooperation and compromise for various reasons while handling claims.

**Personal & Professional Ethics**

Claim handlers' moral values and principles of conduct that are part of both their personal and professional lives. Ethics include:

- Honesty
- Truthfulness
- Integrity
- Fairness
- Sincerity
- Loyalty
- Tolerance

These qualities are essential for relating, communicating and negotiating with others. They are also essential for properly handling and controlling funds and conducting other claim handling tasks.

Claim handlers must not breach the trust that is placed in them. They must not:

- Put their self-interests before those of the company
- Profit or seek to profit in any way from conducting the company's affairs
- Represent interests that are adverse to those of the insurance company
- Accept gifts or services from those who provide services associated with handling claims
- Put the insurance company at risk of legal liability for libel or slander

**Libel** is defamation in written form.

**Slander** is defamation in spoken form.

Those who handle and control company funds as part of their claim handling tasks become **fiduciary agents** of the company. Because of the special trust and confidence placed in them, they are required to conduct their affairs with a high degree of responsibility, fidelity and loyalty toward the interests of their **principal**, the insurance company.

As a representative of the company, claim handlers may not accept gifts, services or other payoffs, and are required to report any conflicts of interest they may encounter.

The conduct of claim handlers must not suggest that they are practicing law without proper credentials. Claim handlers can avoid such illegal practice by complying with a code of conduct adopted by the National Conference of Lawyers, Insurance Companies and Adjusters called the **Statement Of Principles**, which provides some major guidelines for handling claims.
Personal Traits & Characteristics

Several personal traits, characteristics, abilities and aptitudes are very significant:

**Self-discipline** is high on the list in order of importance. Someone who has a great degree of self-discipline usually has strong ability to:

- Work alone
- Establish proper priorities for job tasks
- Organize and schedule work

**Intelligence** is another important personal characteristic. Intelligence is the measure of an individual's ability to study, learn and understand technical and complex subjects, and deal with new and changing situations, ideas and problems.

Claim handlers should have **outgoing personalities** and the ability to make people they encounter feel comfortable with them. Claim handlers should also possess a high degree of **self-confidence and poise**. Other highly valuable characteristics claim handlers need to produce high quality work include:

- Friendliness
- Tolerance
- Courteousness
- Trustworthiness
- Helpfulness
- Tact
- Patience
- Diplomacy
- Common sense
- Imagination
- Logic
- Persistence
- An inquiring mind

**TYPES OF CLAIM HANDLERS**

**Staff Claim Handlers**

Most claims are managed by **staff claim handlers**, claim professionals who are employed directly by an insurance company as full-time salaried employees and are assigned to an insurance company's home office, regional, district or branch office. These employees may work only in the office or both in and outside the office.

If they work exclusively in an office and mainly handle smaller claims by telephone and mail, they are frequently referred to as **telephone claim representatives** or **inside adjuster**.
Staff claim handlers who do field work may be given the title field claim representative or outside adjuster. Although the field method of processing claims is usually more costly and time-consuming than the in-the-office only method, field claim handlers have the advantage of being able to personally investigate and negotiate claims and make on-site inspections.

**Independent Adjusters**

Independent adjusters are claim handlers who are hired by insurance companies for a fee to perform all or a certain part of those companies' claims. Insurance companies often use independent adjusters:

- For cases involving catastrophes, such as hurricanes, floods or tornadoes
- For cases in geographic areas where the company has no conveniently located claim office
- When the Claim Department has an exceptionally heavy work load
- When there is need for a special claim handling skill or expertise which is not available within the company

**Public Adjusters**

Another type of claim handler is the public adjuster, who are hired by insureds to handle the insureds' property losses rather than insurance companies

Public adjusters are responsible for protecting their client's interests by handling the claim and negotiating settlement with the insurance company's claim handler. They are usually compensated in the form of a percentage of the claim settlement amount.

**Producers as Claim Handlers**

Sometimes producers (insurance agents or brokers) are allowed by the company to settle and pay certain claims of their insureds. Commonly, a producer's claim cases will involve only smaller first-party auto claims such as towing, rental car or stolen parts. The producer may be given draft authority up to a specified amount, such as $1,000. This is another means companies use to save time and claim-handling expenses and provide good service.

**THE CLAIM HANDLING PROCESS**

After the insurance company receives notice of a claim and it assigns a claim handler to the case, the claim handling process can begin. The purpose of this process is for the claim handler to determine as closely as possible the true amount or value of the claim and to reach an agreement on that issue with the claimant.

**Analysis, Planning and Preparations**

Usually, the claim investigation process begins with an analysis of the facts and information that are available to identify specific directions for the investigation.
Among the first items that should be examined, are the insured's report (or "notice") of the accident or occurrence, reports from official sources, such as police reports, and notes received from the producing insurance agent or others.

When reviewing these items, they should be checked and compared for discrepancies and similarities, such as the:

- Date and location of the event
- Cause of the event
- Names and addresses of the parties involved
- Names and addresses of any witnesses
- Policy number

At the beginning of an investigation it may be helpful to contact the producing agent to ask additional questions and obtain additional information pertaining to the claim. Later, as the investigation develops, the claim handler should keep the agent advised of its progress.

The company's records of premium payments also need to be checked and the policy's Declarations should be checked to verify that the policy was in force at the time of the event and the personal information about the insured corresponds to that on the accident or loss report.

The policy should also be compared with the facts of the case to determine if the claim is covered by the policy or if there is some question as to coverage. The policy should be reviewed to determine if its language, definitions, conditions, exclusions and any endorsements provide or eliminate coverage.

**How Claims Are Reported**

Insurance policies require that claims and accidents and occurrences that may result in claims be reported to the insurance company promptly or as soon as practicable. The notification method required will depend upon the company's claim-reporting procedures, locations of claim offices and the type of claim involved.

An insured will telephone the insurance producer to report an accident or occurrence. Often the only involvement of the agent or customer service representative in the claims process is to complete the loss notice and forward it to the insurer's claim department. Care must be taken to carefully and completely fill in all sections of the form by asking the claimant both closed and open ended questions about the incident. The person completing the form must also be careful not to assume liability for losses or to confirm coverage for claims as that is within the domain of the claims department. A copy of a claim form is included in the appendix of this text.

Sometimes claimants, both first-party and third-party claimants, report claims directly to the company by telephone, letter or in person. Other times, an insurance company may learn about a claim from a second insurance company before the first company's insured has notified it
about the claim. And, occasionally, a company will first learn about an accident or occurrence in which an insured was involved when a third party files a suit against the insured.

Many state laws require that within a specified period of time (i.e., ten or 15 working days) after receiving a claim unless the company pays the claim within that time, the claimant must be notified that the claim was received by the insurance company. The company must send the necessary claim forms to the claimant. Also, the company must provide the insured with reasonable assistance and instructions about what to do to comply with the policy's conditions and any other requirements.

### Setting Up and Maintaining A Claim File

Unfair Claim Settlement laws require insurance companies to keep a **claim** file containing all documents, notes, letters and any other papers pertaining to a claim. In many companies this information is stored on computer rather than in paper files.

The claim file is the claim handler's record of the claim containing all details about the claim and reasons and actions taken. Items included in a claim file depend upon the type and severity of the claim extent and results of the claim investigation. In general, claim files will contain:

- **Documentary evidence**, including reports and other papers regarding the claim and all telephone conversations with the claimant and the claimant's attorney.

- **Testimonial or oral evidence**, including written or recorded statements of persons who were interviewed by claim handler.

- **Demonstrative evidence**, such as in photographed property and diagrams of the scene of, the event happened.

The claim handler is responsible for the claim file for each claim he or she handles. The file should contain supporting evidence for every action taken by the claim handler. Each item in the file must contain the date the item was received and processed or mailed. Notes and reports to the file by the claim handler should to be clear and concise. If the claim should eventually be taken to court, company attorneys will review the file when preparing their court case.

When a claim becomes a lawsuit, a company attorney must be assigned immediately. When preparing for the trial, the attorney analyzes the results of the claim handling process as documented in the claim file. This analysis is used as the basis for a decision as to how best to proceed with the suit. Also, the attorney may ask the claim handler who was assigned to the claim to contribute to the evaluation.

To protect the rights of both the insurance company and the insured, the attorney must submit the company’s answer to the suit within a period of time specified by law (typically 20 to 30 days after notice is served on the insured). Failure to answer could result in default of the suit by the defendant (the insured) and, in that case, the plaintiff (the claimant) would be awarded damages. The quality of the claim file can affect the outcome of the case. This is particularly important in the event the claim eventually goes to court several years after the original investigation, which is often the case.
It can also greatly affect the quality of the attorney's defense. For instance, a claimant who alleges the insured is legally responsible for the claimant’s bodily injury and property damage sues an insured. Under the terms of the Liability coverage in the insured's policy, the insurance company has the "right and duty to defend" that suit. The claim file is vitally important to the outcome of the lawsuit and amount of damages payable by the insurance company if the suit is lost.

THE THREE ELEMENTS OF CLAIM HANDLING

The claim handling process involves three primary elements, Investigation, Evaluation and Disposition. All of these must be included to some degree whether the claim is a first-party claim or a third-party claim, a large claim or a small claim.

INVESTIGATION

The claim handling process begins with the claim handler's investigation of the claim, the objective of which is to gather all pertinent details about the facts and circumstances of the claim, including:

- The insurance coverage
- The exact cause of the loss
- Any legal responsibility of others for the accident or occurrence that caused the loss
- The nature and extent of the damages

A prompt investigation is important for several reasons. First, a prompt claim investigation complies with state Unfair Claim Settlement Practices laws. The law in many states places a time limit on when a claim investigation must be completed unless it is not reasonably possible to do so.

Some states also require that when the insurance company needs more time to determine if a claim should be accepted or denied, the company must notify the claimant within a specified period of time after the proof of loss is received and must repeat that notification every so many days and with an explanation of why more time is needed.

Such notification is particularly important in cases of auto theft. Commonly, the company will wait for a period of time before settling the claim because statistics show that if stolen property is to be recovered, it will frequently turn up within that time period.

Another reason for stressing prompt, efficient and courteous claim investigations is they go a long way toward boosting the insurance company's image and reputation. A timely investigation confirms to the claimant that the company is working on the claim and helps demonstrate that the claim handler is efficient, courteous, interested and caring.

The claim handler's basic goal of resolving every claim fairly, justly and rationally for all concerned, must be based on facts about the issues of the claim, never on guesswork. During
the investigation, if the appropriate facts aren't obtained, the evaluation of the claim will likely be a poor one and disposition of the claim incorrect. On the other hand, obtaining way too much insignificant information wastes time and is inefficient.

**Coverage Verification**

The first order of business is to verify coverage. Policy period, specific vehicle(s) insured, coverage carried, and so on, may be verified by checking the Declarations page of the policy.

A second aspect of coverage verification involves checking it from a contractual standpoint. Reading the pertinent policy provisions to determine whether the claim is within the insuring agreement and checking the exclusions and conditions to see whether coverage is excluded or limited in any manner.

**Verifying the Validity of the Policy**

The insurance company can only pay if there is applicable coverage. The claim handler must obtain enough facts to verify that there was a **valid insurance policy** in effect at the time of the event and that the policy was written for the **type and amount of coverage** that must be included for the policy to apply to the injuries or damages.

**Verifying the Validity of the Alleged Injury or Damage**

Enough facts must also be obtained to determine if **bodily injury or property damage** did occur as alleged and, if so, how and to whom.

**Verifying the Existence of Insurable Interest**

The claims handler must obtain enough facts to identify **all who had an insurable interest** (a chance of financial loss because of a financial interest) at the time of the event.

**Verifying the Existence of Legal Liability**

The insurance company has no obligation to pay a liability claim unless **an insured is legally liable**. The claim handler must gather enough facts to determine who was at fault and why, and any possible actions of others, such as a spouse or child, arising out of the claimant's injury.

Coverage and liability are distinct concepts. Coverage refers to the insurer's contractual obligation to pay for damages and defend claims, and liability refers on the insured's legal responsibility.

When both coverage and liability exist simultaneously, the insurer will pay a claim. When there is coverage, but no liability, or questionable liability, ordinarily the claim will be declined or defended or, settled by compromise. When there is liability but no coverage, the insured must be informed that coverage is not available and given an explanation of why it does not apply.
Verifying the Dollar Amounts of Damages

The claim handler must also determine the amount of any damages that reasonably should be paid to serve as the basis for any negotiations concerning the amount of damages that may become necessary.

The amount payable is limited by the limits of insurance and any applicable deductible in the policy. In some cases, determining the dollar amount of damages involves establishing the values of both bodily injuries and property damages.

Verifying that Insureds Have Fulfilled Their Contractual Duties

Insurance policies establish certain duties of insureds in the event of a claim or loss. The claim handler is to verify that the insured has fulfilled the contractual duties. Failure by the insured to do so may affect the validity of coverage.

Obtaining Information and Evidence

Claim investigations involves identifying, collecting and preserving various items of evidence from a wide variety of sources. Evidence is usually divided into three types:

Documentary Evidence

Documentary evidence, as the name implies, consists of all sorts of documents and other papers. A wide variety of items fall into the category of documentary evidence, including:

- Bills
- Receipts
- Manuscripts
- Ledgers
- Books
- Personal and Business correspondence
- Original copies of contracts
- Titles to property
- Other public and private records
- Reports, such as claim reports, medical reports, and police reports
Common Sources of Documentary Evidence

- Insureds and claimants
- Lending institutions that hold liens against or have mortgage interests in damaged property
- People from whom the insured purchased the property that was damaged
- Investigating police officers
- Arson and other fire investigators
- Interstate Commerce Commission (for information pertaining to truckers)
- Weather bureau (for information about weather conditions at the time of the event)
- Hospitals and doctors
- Coroner (in death claims)
- Bureau of motor vehicles
- Employers

Demonstrative Evidence

Demonstrative or physical evidence is evidence of a visual nature. Demonstrative evidence, also called physical evidence, is evidence of a visual nature. A damaged part from an automobile or skid marks at the site of an auto accident are examples.

Primary sources of demonstrative or physical evidence include the physical conditions at the site of the accident or occurrence, such as the terrain of a road on which an auto accident occurred or cracks in machinery on which an employee was injured. The objects involved in the accident or occurrence, such as personal property, vehicles, or defective products. The bodies of parties involved in the event, such as through physical examinations of injured persons and autopsies of the bodies of people who were killed.

Common ways of documenting demonstrative or physical evidence include photographs, motion pictures, X-rays, diagrams, maps and charts taken or provided by

- The claim handler
- Police officers, fire fighters or arson investigators
- Witnesses
- Newspaper photographers
- Professional photographers hired by the insurance company
• Hospitals

• Physicians

It's important for the evidence to be obtained and preserved as soon as possible after the event because the evidence can change very quickly.

**Testimonial Evidence**

Testimonial evidence is sometimes also called oral evidence. It is obtained in the form of claim statements. In claim statements, people talk about the accident or occurrence that generated the claim, or about an associated subject, and explain and describe what they know as fact because of something they saw, heard, smelled, felt or tasted.

**Common Sources of Testimonial or Oral Evidence**

• Parties involved in the accident or occurrence

• Eyewitnesses—people who saw the accident but were not actually involved in it

• Police officers who were called to the scene of the event, including, if someone was arrested or cited, the arresting officer

• Fire fighters who fought the fire that damaged insured property

• Paramedics who gave first aid to injured parties at the scene of the event

• Physicians who treated injured parties

• Physicians who previously treated the claimant

• Hospital personnel who provided services to injured parties

• Tow truck operators who hauled damaged vehicles away from the scene of the accident

• Those who cleaned up debris left after the event

• Employers and co-workers of the insured or claimant

• Friends, neighbors and acquaintances of the insured or claimant

• "Expert witnesses"

• Others who have information that pertains to the claim
Claim statements are preserved in several ways:

- In writing
- On audio recording (i.e., cassette tapes)
- On audio-visual recording (i.e., motion pictures, sound-slides, or video cassette tapes)

**Admissible Evidence**

Not all evidence is admissible in a court of law. While claim handlers do not need to become experts on the admissibility of evidence, they should have some basic knowledge of the subject. This includes understanding the three established criteria for admissibility of evidence:

- **Materiality** - The evidence tends to prove or disprove a matter at issue in the case.
- **Relevancy** - The evidence must relate to the claim, not to some unrelated matter or event.
- **Competency** - The person who provides the information must be qualified to do so.

**Maintaining A Chain of Possession**

A chain of possession of the evidence should be maintained at all times. As each item of evidence is accumulated, it should be carefully identified and labeled for preservation as part of the claim file. This should be done by the individual who will introduce it into evidence at the trial. A documented record in the claim file should show who has had possession of any item of evidence at any given time and that the evidence has not been tampered with in any way.

**Investigation of Liability Claims**

The adjusting process involves the investigation, evaluation, and negotiation of coverage, liability, and damages. Investigation is getting the facts about coverage, liability, and damages. The adjuster must determine how, when, where, and why the accident happened. The purpose of investigation is to secure the necessary facts so that a claim can be evaluated and settled or, in some instances, defended.

**Contacting Insureds, Claimants and Witnesses**

The claim handler should make a point of contacting insureds, claimants and witnesses as soon as possible because people tend to forget details over time. Also, when these individuals are contacted early they tend to be more cooperative and willing to talk than when they are contacted long after the event.

**Diagrams of the Scene**

A diagram of the accident scene may be helpful in forming a picture of how the accident happened. It should carefully document all pertinent physical landmarks, traffic controls, signs, and so on to portray the scene as it appeared at the time of the accident. In the more serious cases, adjusters will want to personally inspect the accident scene as soon after the accident as possible.
**Weather Reports**

Weather can also be an important factor in automobile claims. Weather reports sometimes will need to be obtained and are available from any branch of the National Weather Service, from local airport authorities, or from independent meteorological organizations.

**Experts**

Sometimes investigations require statements containing the opinions of *expert witnesses*, people with specialized knowledge, education, training and experience in certain areas relevant to the claim. Experts are allowed to testify in court as to their opinions based on facts presented to them, and these opinions are admissible as evidence.

Experts also may be used in the defense of a claim. Examples of experts who may be used in the process of disposing of a claim are medical specialists, accident reconstruction experts, engineers, weather experts, accountants, and others, depending on the nature of the claim.

**Establishing Theories of Defense**

When studying the policy and comparing it with available information, the claim handler should begin to check for possible *theories of defense*. Two major reasons for establishing theories of defense are to establish reasons for a negotiated settlement and legitimate reasons why the claim should not be paid.

All during the investigation, the claim handler should continue to watch for possible theories of defense and compare them with the information and evidence accumulated to see if the theories are proved or disproved.

**Avoiding Waiver**

Insurance company employees must be very careful not to *waive* any of the insurance company’s rights under the insurance contract. Claim handlers and producers are probably most vulnerable to this problem. For example, waiver can occur if claim people or agency personnel:

- Exceed their authority
- Neglect to take some necessary action
- Take misleading actions
- Fail to resolve a claim promptly

During every phase of claim handling, claim professionals must use caution so as not to waive the company's rights to deny payment of a claim that would otherwise be invalid.
**Estoppel**

*Estoppel* is a similar principle. The company is legally stopped from denying, reducing or otherwise changing coverage based on a condition or information on which the insurance company has previously waived its right to act. Always notifying insureds and claimants when there are questions of coverage can go a long way to preventing waiver or estoppel.

For example, neglecting to notify the claimant that there is a coverage question can give the false impression that coverage exists. In such a case, if the claimant, to his or her detriment, relied on that impression, a court could stop the company from denying payment of the claim.

**Nonwaiver Agreement and Reservation of Rights Notice**

The claim person has several options available when coverage questions exist or an insured has breached or violated policy provisions: reservation of rights letter, nonwaiver agreement and, in some circumstances, the filing of a declaratory judgment action.

When a breach or violation of the contract is discovered, the usual practice is for the claim handler to explain the situation to the alleged insured and, to protect the company's rights, ask that individual to sign a nonwaiver agreement acknowledging awareness of the problem and agreeing that no waiver of rights exists because the coverage question is being investigated further.

The *reservation of rights notice* serves the same basic purpose as the nonwaiver agreement. Both the reservation of rights notice and nonwaiver agreement permit necessary investigation of a coverage question without waiving any rights under the policy.

An insurer's silence in the face of a potential coverage question may constitute waiver and/or estoppel. An adjuster cannot act in a manner that would imply that coverage has been accepted when in reality a question of coverage exists. Agency personnel should always refer coverage questions to the claims department.

**EVALUATION**

All the details are evaluated as they are acquired and compared with all the other data. The claim handler makes a strong effort to be as fair, knowledgeable and realistic as possible in that evaluation. Evaluation is ongoing throughout the investigation of a claim, and each new piece of data that's acquired is compared with the rest for similarities, contradictions and conflicts.

**Adjusting Physical Damage Claims**

**Determining the Amount of Loss**

Determining the amount of an auto damage loss requires skill in estimating or appraising damage. The claim person handling such losses should be able to check an estimate against an estimating guide to validate its correctness. Estimating guides more commonly referred to as crash or flat rate manuals, procedures for estimating the cost to repair auto damage and include labor times as well as painting/refinishing times.
In determining the extent of auto damage losses, companies may utilize any combination of these four methods:

1. Obtaining competitive estimates;

2. Checking claimant’s estimate against crash manual;

3. Writing an estimate; and

4. Using a drive-in claim facility.

**Estimate of Repairs**

Determining the amount of an auto damage loss requires skill in estimating or appraising damage and involves checking an estimate against an estimating guide to validate its correctness. Common methods of determining the amount of damages includes obtaining competitive estimates, checking estimates against the crash manual, and obtaining an appraisal of the damages, perhaps in a drive-in claims center.

The adjuster ordinarily completes an estimate or inspection form as the appraisal is being made. The form includes space to identify the vehicle owner, the year, make and VIN of the vehicle, registration number, mileage, and contains substantial space for including details of the repairs and the amount of money necessary to complete the repair work.

Appraisal statutes usually require that the form include:

- name and address of firm making appraisal or estimate.
- name and address of company for whom appraisal is being made
- adjusters name, and
- appraiser’s name and license number.

One of the first things an adjuster must do is to identify the car by comparing the vehicle identification number (VIN) with the VIN listed on the insurance policy. The adjuster must determine if the VIN plate is genuine or if it was tampered and may be a stolen car.

The recommended practice is to estimate vehicle damage in the order in which the parts are listed in the crash manuals, from the front of the automobile to the rear or point of initial impact, and from the outside to the inside. This approach helps facilitate the overall estimating process and helps the estimator and repairer avoid missing items in the estimate.

Some items, such as batteries, tires, convertible tops, upholstery, paint, and rusted parts, may be depreciated. Mileage is an important factor when determining whether and how much depreciation to deduct from the estimate.

When damages involve items that are depreciated, using new parts can result in betterment to the insured. The use of the term “betterment” is usually more understandable than the term “depreciation” to the average person. Most people understand that a new battery replacing one that is worn out puts the owner in a better position than they were in prior to the accident.
Some of the parts need to be replaced while others can be repaired. As a general rule, replacement is performed with parts of the same kind and quality as the original. The parts used may be new, used or salvage parts, rebuilt or rechromed, or "aftermarket" parts. The age of a vehicle, its overall condition, and the availability of the part are factors that determine whether new or used parts will be utilized in the repair of a vehicle.

Aftermarket parts are new auto body parts that are manufactured by independent companies that can produce parts at a lower cost than the original equipment manufacturer. There is some debate as to whether aftermarket parts are of equal quality to original manufacturer’s parts, and legislation may eventually be required to establish regulations for the use of aftermarket parts.

The estimate of repair form clearly indicates that it is not an authorization to that it does not authorize charges to be made to the company. As a general rule, adjusters should never authorize repairs and should always leave that to the vehicle owner (the insured or claimant).

Adjusters should also not recommend repair contractors for auto damage claims should always let the insured or claimant select the repair facility. If a recommendation is made or inferred, the insurer could be in violation of the states unfair claims statutes.

As a result of some auto collisions, an insured may need to have his or her automobile removed from the street and towed to a safe storage area to protect it from further damage so that repairs would be made right the wrong. The PAP policy, under the Duties provision, requires that the insured take reasonable steps after loss to protect the covered auto from further loss. In addition, the company agrees to pay the reasonable expenses incurred by the insured to do this. Most if not all insurers will consider charges for towing a disabled vehicle to a nearby garage after an accident to be both necessary and reasonable. Reasonable storage charges also would be covered based on the same reasoning.

**Right to Inspect**

The policy states that the insured must permit the insurer to inspect and appraise the damaged property before its disposal or repair. When the adjuster believes that there is a legitimate reason why repairs were made or the vehicle disposed of before the loss was reported to the insurer (perhaps the insured did not know that coverage applied), then the provision may be waived. However, when the legitimacy of the claim is questioned, the provision may be relied upon to deny coverage on the basis that the insured violated the policy conditions.

**Automobile Total Loss**

Whenever the cost to repair a damaged auto exceeds its value, a total loss exists. Two basic steps are necessary to determine that a damaged auto is a total loss: determining the cost of repairs and establishing the value of the car.

A total loss exists whenever the cost to repair a damaged automobile exceeds its value. Auto total losses fall into three categories:

- The theft of a vehicle which is not recovered.
- The vehicle is so badly damaged that it obviously is unreparable even without an estimate.
• If the cost of repairs plus the salvage value of the vehicle equal or exceed the value of the car, a constructive total loss exists.

Although the car can be repaired, it would cost the insurer more to repair it than to settle on a total loss basis, paying the actual cash value and taking the salvage and selling it. When rental and other expenses are involved, those expenses should be added to the cost of repair and salvage value in determining whether to repair or "total" the vehicle.

**Automobile Total Loss Report**

Many companies require a total loss report be used to report the information to the National Automobile Theft Bureau (NATB), an organization supported by the insurance industry with several regional offices and special agents throughout the country. The details of auto total loss claims are entered into the NATB computer to build a database. It monitors auto theft claims of member companies for possible indications of fraud and also assists in the recovery of stolen automobiles.

**Actual Cash Value**

The measure of damages for an auto total loss ordinarily is actual cash value. As used in auto damage claim handling, the term means the amount that would be necessary to buy a replacement vehicle of like kind and quality and in the same physical condition at the time of loss as the one damaged. This assumes depreciation for ordinary wear to tires, brakes, exhaust system, exterior finish, engine components, and so on produced by use of the vehicle over the years. It also assumes some obsolescence due to normal style changes.

Occasionally, auto physical damage insurance written on a stated amount basis. This means that the insurer is obligated to pay the lesser of the amount stated in the policy or the actual cash value. The insured is not guaranteed to receive the stated amount.

Sources are readily available to adjusters to provide information about the current market value or worth of a comparable automobile to the one damaged. In establishing the value of an automobile, several factors must be considered. They include the car's make, model, equipment, mileage, and general condition. Ideally, this information should be obtained through an inspection of the vehicle.

After inspecting the car or verifying the identity, extra equipment, mileage, and condition of the auto as well as the extent of the damages, the adjuster may determine the current value of the auto through three chief sources:

• Market value or used car guide books
• Local dealer quotations
• Newspaper ads

Mileage and optional equipment on the vehicle are taken into consideration in evaluating the automobiles. The actual auto being evaluated may have been in better or in worse condition than the typical vehicle. Keep in mind that all of these sources may, and often should, be used together as an overall means of establishing value.
In the event that a total loss involves a current model year auto too new to be listed in a used car guide, companies usually determine the actual cash value of the car by establishing the selling price of a new comparable car with the same equipment as the one damaged and adding the sales tax. They then compute depreciation at a rate of so much per mile depending on make, model, year, and condition.

Unfair Claim Practice Laws must be checked since they may prescribe certain procedures or requirements for handling auto total losses. Many such laws also require that, in addition to the cash settlement agreed to by the parties, an amount representing sales tax must be added to the settlement figure in order to indemnify the insured.

**Salvage**

Adjusters have two basic options for disposing of salvage in auto total loss claims. The first is to permit the insured or vehicle owner to keep the salvage, in which case the owner may attempt to sell the salvage or have the damaged auto repaired. The second option, clearly the more common approach, is for the insurance company to take possession of the salvage and sell or dispose of it through its own means.

Many insurers enter into contracts with salvage buyers in the various locations in which they conduct business. The insurer usually agrees to sell all auto salvage in a given area to a specified salvage buyer. The salvage value of a total loss auto is agreed in advance by the contracting parties to be a percentage of the actual cash value of the vehicle.

When the insured agrees to keep the salvage, the adjuster must estimate the salvage value and deduct it from the actual cash value of the automobile. If salvage bids have been solicited, a credit from the actual cash value of the vehicle based on the highest bid is taken. The deductible, if applicable, is then subtracted from the sum remaining to arrive at the amount to which the insured is entitled.

**Handling Auto Theft Losses**

The theft of an automobile is covered if the insured has purchased other than collision (or comprehensive) coverage on the vehicle. As is the case with auto total losses caused by collision, the measure of damages or the dollar amount paid on auto theft losses is the actual cash value of the vehicle.

The same factors necessary to determine the value of a car in a collision total loss-year, make, model, and overall condition—are necessary to determine the value of a vehicle that is stolen. The only difference is that in a theft loss the adjuster does not have the physical specimen at hand to observe these factors.

The police report, which should always be obtained in auto theft losses, also may shed light on the loss since it contains information the insured gives to the police.

If the car is recovered before payment is made, the car is appraised and handled as any other loss. If it is repairable, the loss is settled on the basis of repair cost. If it is a total loss, payment is made on that basis.

Adjusters ordinarily wait thirty days to see if the car is recovered before settling an auto theft claim. The reason for this is that the policy provides coverage up to thirty days. If the vehicle is
recovered within thirty days, the expense payments will cease as soon as the car is repaired and again made usable. Loss caused by the theft of auto parts is also covered under comprehensive insurance.

Payment of transportation expenses represents a loss of use or indirect loss coverage. The coverage includes payment of expenses for bus or taxi fare as well as car rental charges necessitated by the loss of the automobile. Covered are only expenses incurred during the period beginning forty-eight hours after the theft and ending when the vehicle is returned to use or the loss is settled.

**Auto Claims Fraud**

As always, adjusters must be alert to the possibility of fraudulent claims. An adjuster must establish three elements before denying a claim where fraud is suspected: motive, that a crime was committed, and opportunity.

Specifically with regard to auto arson, the following indicators should cause adjusters to consider conducting a more intensive investigation:

- Loss occurs at night, especially after 11:00 PM.
- Automobile was for sale prior to loss, or was recently purchased.
- Automobile was in need of substantial repairs prior to loss.
- Insured is experiencing financial difficulties.

Once again, it must be emphasized that these factors merely indicate the possibility of fraud. An investigation is necessary to establish evidence of fraud. Some organizations offer training courses to the industry to help adjusters recognize claims that may involve fraud or arson in virtually all of the major kinds of losses.

**Adjusting Liability Claims**

Once the investigation of coverage liability and damages has been completed, the claim person is ready to evaluate the claim. It is at this time that efforts are made to settle and close the claim, usually through the exchange of a claim payment for a release.

The claimant's damages mean compensatory damages, referring to an amount of money that will compensate the injured person for the loss that he or she has suffered. Compensatory damages are divided into two categories: "special damages" and "general damages."

**Special Damages**

Special damages consist of actual, identifiable expenses incurred by the claimant resulting from such charges as medical or hospital bills, prescriptions, therapy, X-rays, and loss of wages.
**General Damages**

General damages require no specific showing of a monetary loss but include amounts for pain and suffering, inconvenience, disfigurement, scarring, mental anguish, and so on, which are often extremely difficult to measure and evaluate.

**Other Important Considerations in Claims**

The burden of proving damages is ordinarily placed on the claimant who must establish precisely what damages he or she has sustained as a result of the accident. The element of damages is one of the four elements of tort liability that must be established by a claimant before recovery can be made.

Along with the duty to establish damages, a claimant has a duty to mitigate damages as well. This means that an injured claimant cannot neglect himself and expect to receive additional medical expenses brought about by that neglect. The claimant must exercise reasonable care in the treatment of his or her injuries. The duty to mitigate damages includes seeking reasonable treatment and avoiding excessive treatment just because another individual may be responsible for the accident and ultimately for paying the medical bills.

If an injury to a claimant aggravates a preexisting condition, damages should be paid in extent of the aggravation of the preexisting injury or disease. This is necessary because the insured's responsibility is limited to the period of the aggravation or flare-up of the preexisting condition. Once the aggravation subsides and the claimant's condition returns to the same status as prior to the accident, the insured's responsibility ceases.

In cases where the medical attention required to treat the injury is greater because of the claimant's preexisting condition, the wrongdoer ordinarily is responsible for the additional expenses incurred. The claimant, however, must prove through medical evidence that the treatment was necessitated by the injuries sustained in the accident in combination with the preexisting condition.

The collateral source rule holds that even though the claimant has other resources available to pay for medical expenses, the wrongdoer cannot take credit for these benefits. The same is true in cases in which the employer continues to pay the claimant's salary or wages during his or her period of disability. In short, the wrongdoer is still responsible for the damages sustained by the claimant, regardless of any benefit that may be received by the claimant from collateral sources.

The collateral source rule permits the claimant to "double dip," or to be paid more than once for the same expenses. The rationale behind the collateral source rule is that if the wrongdoer is allowed to take credit for collateral benefits received by the claimant, he or she would escape the full burden of compensating the injured.

The rule does not apply (which means a claimant cannot collect duplicate payments) to workers compensation payments or, in many instances, to medical payments benefits received by the claimant from the wrongdoers' insurance policy. In addition, the provisions of many no-fault insurance laws prevent the injured person from receiving no-fault (PIP) benefits from the no-fault insurer and then recovering the equivalent expenses again in any recovery from the liability insurer of the responsible party.
Methods of Evaluating Claims

Though there are a number of methods available for evaluating bodily injury claims, each injury claim has its own unique set of circumstances and this tends to discourage the application of any precise formula which might apply to all injury claims. In the final analysis, each claim is different and the adjuster will need to use his or her experience and judgment to evaluate it.

Nevertheless, these methods provide claim people with general guidelines for evaluating claims. In addition, attorneys will sometimes base their settlement demands on one or more of these methods or formulas. Since special damages ordinarily are known, the objective of the following evaluation methods is to consider the value of general damages.

The most common method used by claim people to evaluate bodily injury claims is based to a large extent on a claim person's experience and knowledge of settlement values in his or her locale. With this approach, the adjuster looks at a number of factors including the injury, special damages, and liability and then attempts to determine what a jury would award the claimant.

Usually, the adjuster sets a range for settlement value, and may attempt to settle the claim for a figure in the middle of the range or may be willing, if necessary, to go to the upper limit to settle the case.

A formula approach is sometimes used whereby an arbitrary figure is multiplied by the amount of the medical special damages to arrive at the total value of the claim. This produces an amount that includes both special damages and the pain and suffering or general damages aspect of the claim. It assumes that there is a direct relationship between medical special damages and general damages. Unfortunately, it also provides an incentive to "run up" treatment as well as diagnostic expenses and testing procedures.

Duty to Pay Damage and Duty to Defend

An insurer actually makes two separate promises in the liability insuring agreement. The first is to pay for damages; the second, to defend the insured.

It is customary to view the promise or duty to defend as being greater than the duty to pay damages. This view is accurate because frequently no liability or question of liability will exist, and an insurer might not have to pay a claim. Regardless of the liability situation, however, an insurer may have to defend its insured once a lawsuit against the insured is commenced. The insurer must defend (if it chooses not to settle) any suit against an insured for bodily injury or property damage arising out of an auto accident in which the facts alleged come within the coverage of the policy.

Though there is a stated limit in the policy concerning the amount the insurer will pay for damages, there is no such limit as far as the cost of defense is concerned. Expenses incurred in defending an insured are in addition to the limit of liability and actually are unlimited in terms of money expended.

A problem exists for claim people when a summons and complaint is served upon an insured and the fact situation of the accident creates questions about whether coverage actually applies. In cases where an accident seems to involve a policy exclusion, for example, the insurer must look to the plaintiff's allegations as expressed in the complaint to determine if it must provide a
defense for the insured. If the complaint alleges anything that conceivably could come within the scope of the liability coverage, even if untrue, the insurer must defend its insured. Even if the complaint alleges an excluded act, but the insurer knows that the basis for the claim brings it within the coverage of the policy, the insurer may be compelled to defend its insured.

Another aspect of the defense provision that needs to be emphasized is that when a lawsuit is turned over to defense counsel to defend an insured, the defense attorney's prime duty is to the insured, not the insurance company. When a coverage question is involved or develops as the case proceeds, defense counsel may be confronted with a serious conflict of interest. When confronted with such a conflict, the defense attorney may withdraw from the defense of the insured and recommend that the insured be permitted to retain its own counsel at the insurer's expense. The original attorney then would represent the interests of the insurer, and the insured would have separate counsel.

An insurer has no duty to defend any suit or settle any claim not covered under the policy. This sentence is added to the insuring agreement in an effort to strengthen the insurer's position that it need not settle or defend a claim which is not covered either because an exclusion applies or a policy condition eliminates insurance coverage.

**Duty to Defend Ends When Limit of Liability Is Exhausted**

Once the insurer offers to pay any judgment up to its policy limit, along with the accrued interest, its obligation ends. The insuring agreement also states that the insurer's duty to settle or defend ends when the policy limit, has been exhausted.

**Supplementary Payments**

Coverage for supplementary payments may be viewed as an extra benefit associated with the promise to settle or defend claims. Like the costs incurred in defending the insured, supplementary payments are payable in addition to the limit of liability of the policy.

- Bail Bond
- Appeal Bond
- Release of Attachment Bond
- Post-judgment Interest
- Loss Of Earnings
- Other Expenses

**DISPOSITION**

When the claim handler is confident that all the questions have been resolved, he or she has a basis for deciding the disposition or resolution of the claim, whether the claim should be paid in full as presented or paid as compromise settlement or if the claim should be denied.

It's not only the claim handler's duty to settle fairly those claims that require settlement, but to deny payment of claims that should not be paid because they are not covered by the policy or are not valid for some other reason.

There are four basic ways in which claims are settled or otherwise disposed of.
1. **Payment in full as presented by the claimant.** Claims can be settled in this way when all factors eligible bodily injury and/or property damage, the insured's legal liability, if it is an issue, and the dollar amount of damages have been clearly established, and the amount that will fairly meet the insurance company's contractual obligation is clear-cut.

2. **Paid in a negotiated or compromised amount.** This method is frequently used when a claim has been thoroughly investigated and evaluated, and one or more factors still remains unclear after the claim handler has reached an agreement with the claimant or his or her attorney.

3. **Settled through litigation.** Litigation may become necessary for one of two main reasons:

   - A claimant rejects the company's offer and takes the case to court for its decision.
   - The insurance company does not wish to pay a claim it does not owe or to pay more than it is obligated to pay.

4. **Claims sometimes have to be denied.**

**Settlement**

Before a claim can be paid, the insurance company must agree to the payment amount and authorize the claim handler to proceed with payment. A claim handler may have draft authority up to a certain amount and must obtain company approval for payments over that amount.

Generally, the negotiation of a claim is the prelude to its final disposition is to meet or confer with another to reach agreement on a matter. With regard to insurance claims, the parties are attempting to reach agreement on the settlement value of the claim. The dignity and self-respect of each party must be considered throughout the negotiations process.

Negotiation takes place throughout the claim handling process. For example, sometimes while collecting information and evidence, it becomes necessary to employ negotiation skills in setting dates, times and places for interviews with insureds, eyewitnesses and others. Negotiation may be required even for seemingly simple things, such as obtaining an individual's permission to take a recorded statement.

**Determining Case Readiness for Negotiations**

At a certain point in the claim process, the claim will be ready for settlement negotiations. The claim person can do much to hasten the arrival of this time by completing the investigation and evaluation in a timely manner, by communicating clearly with the claimant regarding what he or she must do to process the claim, and by making oneself accessible to the claimant's needs and questions.

Claims do not get any less expensive with time. In fact, just the opposite is true. Before the negotiations process can begin, however, certain the claimant must be ready to settle, both from a medical as well as a psychological standpoint.

The adjuster must demonstrate in convincing fashion that he or she is well prepared and well informed about the details of the accident as well as the damages being claimed. It is
necessary that the adjuster be aware of the strong and weak points of the case so that he or she will be able to respond intelligently to objections or arguments raised by the claimant. Negotiating a settlement often involves give and take and the adjuster must come to the claimant with some flexibility and be prepared to bargain to some extent.

**The Threat to Consult an Attorney**

Frequently in cases where the adjuster is negotiating directly with the claimant and an obstacle or dispute arises, the claimant may indicate that he or she will seek the services of an attorney. The adjuster should not express alarm over the possibility that the claimant may retain an attorney. Unquestionably, the claimant has the right to do so, and claim people may not advise a claimant to refrain from seeking legal advice.

Perhaps the best way to handle the claimant’s threat to seek counsel is to immediately affirm the claimant’s right to do so. It should be explained that once a claimant has retained an attorney, the claim person can no longer contact the claimant or negotiate directly with him. All correspondence and communication must be conducted with the attorney who acts as agent for the claimant. The adjuster should then reemphasize the desire to negotiate directly with the claimant, if the claimant so desires.

**The Offer**

The offer to settle the case may be made by either the adjuster or the claimant (or the claimant's attorney). Although the term "demand" is most commonly associated with an offer made by the claimant or his or her attorney, a demand is just an offer of settlement. The different terms are used merely to distinguish between an offer made by the claim person and one made by the claimant or attorney.

Claim people should talk to claimants and attorneys in terms of what they would settle the case for rather than what their demand is on a particular claim. Generally, adjusters should not make an offer unless there is a possibility of settling the claim for a figure approximating the amount offered. In addition, the adjuster should not increase the offer unless there is a corresponding decrease in the demand. Finally, adjusters should avoid ultimatums. For negotiation to lead to agreement, the dignity and self-respect of the parties to the claim must be maintained.

Adjusters need to be sure that they document the claim file with respect to any offers or demands that have been made. It is advisable to follow up the negotiations session with a letter to the attorney, either reiterating the offer or responding affirmatively or negatively to the demand, so that there is no chance of misinterpreting the intent of the parties regarding settlement.

**Concluding the Loss**

A claim check or draft ordinarily concludes the loss. Companies vary on whether they require the insured to complete and sign a proof of loss or a release at time of settlement. Some companies set a dollar threshold above which a proof or release will be required. Other companies simply instruct their adjusters to give the insured complete the proof or release on all suspicious or disputed losses.
**Advance Payments**

Claimants frequently incur expenses soon after an accident or loss that are created because of that event. When this places an unnecessary burden on the claimant, the insurance company may agree to an advance payment to help defray those expenses until final settlement of the claim can be reached. This payment method is generally used when the claim is a serious one and it's probable that coverage applies and the claim will be paid.

An advance payment not only helps the claimant at a crucial time but can also have distinct advantages for the insurance company. Because the insured was very pleased about that thoughtful service, he will now probably be even more inclined to cooperate well during the rest of the claim investigation and settlement negotiations.

**Loss Payee and Repairer as Payees on Check**

Automobile insurance policies include a "Loss Payable" clause. The loss payee is usually a bank or finance company. For the clause to be effective, the loss payee must be specifically named and identified on the Declarations page of the policy.

If the loss payee or lienholder is specifically named on the Declarations, the adjuster must include such party's name on the check or draft to protect its interest in the automobile. Remember that the car has been pledged as security for the loan.

While there is no legal obligation on the part of the insurer to include the repair facility as a payee on a claim check, many insurers do so as a business courtesy. If the loss payee or lienholder is specifically named on the declarations, the adjuster must include such party's name on the check or draft.

**The Release**

When a claimant has agreed to a settlement offer, he or she may be asked to sign a release. This is typically a preprinted form issued by the insurance company. Claim handlers should always explain the contents of any release to the claimant and point out that by signing it the claim is being officially closed.

A release is a legally binding contract and, as such, must embody all of the elements of a contract in order to be valid. It provides that in consideration for the specific sum paid to the claimant, the claimant releases the insured from all claims arising out of the particular accident.

The effect of a release is that the claimant relinquishes the right to bring legal action against the insured to enforce his or her claim. Although most people understand the binding effect of a release, it is advisable that prior to obtaining a signed release, adjusters make sure that claimants fully understand that the release terminates their claim.

Insurance companies normally pay claims immediately or within a very short time after they are settled. On the chance this might not otherwise occur, Unfair Claim Settlement Practice laws require payment to be made within a specified period of time (i.e., 30 or 60 days) after settlement in writing by the insured and the insurance company. You should check the law in your state.
For first-party claims, the settlement check for the entire amount or for an advance payment and, at final settlement, the remainder, is usually made out to the named insured and/or any loss payee, such as a mortgagee or the company that repaired the damaged property.

Third-party settlement amounts are commonly paid to the claimant in one lump sum. In other cases, however, payment of the settlement amount may be made in periodic payments, usually after an initial payment for immediate expenses. This method of **structured payments** may be selected for dependents in death cases, for minors, or when the recipient is unable to manage his or her own finances, such as because of serious injury or other disability.

Structured settlements have been used frequently in recent years. Usually they involve putting the funds into some type of investment vehicle, such as an **annuity** or **trust**, from which periodic (usually monthly) payments of a fixed amount are paid for a certain **period** of time or for the claimant's remaining lifetime. Besides providing a means for having large sums of money professionally managed, this payment method may provide certain tax benefits to the claimant.

### OTHER DEPARTMENT’S INVOLVEMENT IN CLAIM HANDLING

**Underwriting Department**

The Underwriting Department in some companies has an Engineering Division; in other companies, these are separate departments. In any case, the underwriters sometimes rely on the engineers to help inspect certain types of risks and provide information about any of their physical conditions that might have a bearing on their acceptability for insurance.

At the time of a claim against a policy, one of the claim handler's major duties is to confirm that the facts upon which the policy was underwritten were true, accurate and complete. In addition, the underwriter may seek the claim handler's advice about any factors pertaining to the risk that the claim handler has uncovered that might affect its future acceptability or the premium to be charged at renewal of the policy.

**Sales Department**

The **Sales Department** sometimes called the **Agency Department**, is in charge of selling the company's insurance policies. Advertising, marketing and public relations are handled within the Sales Department in most companies.

A claim handler will sometimes confer with the producer who sold the policy involved in a claim because the producer may be able to furnish additional information to help in settling the claim.

Also, insureds commonly contact their insurance producer to ask questions about their claims and the claim handlers should keep the producers informed about the status of claims on the policies they have sold. Some companies require their sales people to refer all claim questions to the Claim Department because it is felt such questions can be better answered by claim handlers.
Actuarial and Statistical Department

The **Actuarial and Statistical Department** and the Claim Department work together in an important financial area: claim reserves. Many times, claims cannot be paid immediately upon receipt because time is needed to investigate and evaluate them in order to determine the appropriate settlement, the insurance company must earmark a claim reserve to be used to pay claims as they become due. The Claim Department is usually responsible for estimating claim reserves and reporting those estimates to the **Actuarial Department** where the final reserve amount is set.

Claim reserves are based on amounts established through statistics of past claim experience and projected future loss expectancy and are used to project the company's total amount of future claim payments, including amounts awarded by the courts and claim expenses.

Accounting Department

After claim reserves are set, the **Accounting Department** then records and maintains them. Claim reserves must always be adequate to make all required claim payments. The Accounting Department keeps records of all claim expenses. These records must be accurate because claim handling expenses can have a direct impact on the company's financial status.

Claim handlers strive to control claim costs by investigating claims and paying only those that should be paid in compliance with their contracts. The insurance company uses three main ratios to evaluate its book of business: loss ratio, expense ratio, and combined ratio.

**Loss Ratio**

The **loss ratio** shows the percentage of losses the company incurred for every dollar of earned premium.

**Expense Ratio**

The **expense ratio** shows the percentage of expenses the company incurred for every dollar of earned premium.

**Combined Ratio**

The **combined ratio** is simply the sum of the loss ratio and the expense ratio. A combined ratio that is lower than 100% is favorable, while a combined ratio higher than 100% is considered unfavorable.

Legal Department

Most claims are settled to everyone's satisfaction. Sometimes, regardless of the claim handler's best efforts, negotiations fail and either the insurance company or the claimant decides to take the claim to court for settlement. Attorneys who specialize in claim issues may participate with the claim handlers in these situations. These attorneys may work in the **Legal Department** or the legal branch of the Claim Department, depending upon the company's corporate structure.
Appraisal

Under a clause in property insurance contracts, an Appraisal process may be used when the insured and insurance company cannot agree on an amount of indemnification for a loss. Company attorneys may participate with claim handlers in the appraisal process, particularly on major cases.

Arbitration

The Arbitration clause in insurance policies permits settlement of disagreements. Sometimes, when two or more insurance companies are involved in a claim, for some reason they may not be able to agree about subrogation or their percentages of liability for payment of the settlement amount, so they will frequently take advantage of that clause and arbitrate their differences so the claim can be settled as soon as possible.

In such cases, the claim work accomplished by the claim handler and documented in the claim file is very important. That evidence may be very useful to company attorneys when they are preparing pleadings and evidence for the arbitration hearings.

Arbitration may be used to resolve other areas of disagreement between:

- The insured and the insurance company
- The insurance company and a third party in the case of liability insurance
- Two or more insurance companies when other insurance is involved

Arbitration may be voluntary; however, some states require some form of court-ordered mandatory arbitration.

Subrogation

Adjusters must investigate losses with a view toward determining fault since the money paid on claims may be recovered from third parties. If the other driver is at fault or if the car manufacturer or repairer is responsible for a product defect or faulty repairs, the company has a subrogation claim against that party to the extent of the insured's loss. It provides an excellent source of income for the company and places responsibility for the loss where it belongs.

Recognizing the potential for subrogation claims is another one of a claim handler's important responsibilities because subrogation claims represent sources of income for the insurance company. Subrogation limits the company's claim costs to those that are the company's responsibility under the policy. The Subrogation clause allows the insurance company the right to recover from the individual who was responsible for a loss, only the amount the company has paid to a claimant for that loss.
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APPENDIX

Selected Personal Automobile Policy Forms

Automobile Claim Report
[PERSONAL AUTO POLICY]

DECLARATIONS

(Policy Number)

(Previous Policy Number)  (COMPANY NAME)

Policy Period: 12:01 A.M. Standard Time  From:  To:  (Years)

Named Insured
and mailing address

(Number, Street, Apartment, Town or City, County, State, Zip Code)

Description of Auto(s) or Trailer(s)

<table>
<thead>
<tr>
<th>Auto</th>
<th>Year</th>
<th>Trade Name – Model</th>
<th>VIN</th>
<th>Sym</th>
<th>Age</th>
</tr>
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<tbody>
<tr>
<td>1</td>
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<td>3</td>
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</tr>
</tbody>
</table>

The Auto(s) or Trailer(s) described in this policy is principally garaged at the above address unless otherwise stated.

(Number, Street, Apartment, Town or City, County, State, Zip Code)

Coverage is provided where a premium and a limit of liability is shown for the coverage

<table>
<thead>
<tr>
<th>Coverages</th>
<th>Limit of Liability</th>
<th>Premium</th>
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</thead>
<tbody>
<tr>
<td>A. Liability</td>
<td></td>
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</tr>
<tr>
<td>B. Medical Payments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C. Uninsured Motorists</td>
<td></td>
<td></td>
</tr>
<tr>
<td>D. Damage to your Auto</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Collision Loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Other Than Collision Loss (Towing and Labor Costs)</td>
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<td></td>
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<tr>
<td>(ACV means Actual Cash Value)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Endorsements made part of this Policy at time of issue:

Endorsement Premium $  Total Premium $  Premium

Loss Payee:

(Name and address)

(This policy shall not be valid unless countersigned by our authorized agent)

(Countersignature Date)  (Agency at:)

_________________________ Agent)

_________________________ (Company Officer)

Title

Copyright, Insurance Services Office, Inc., 1975, 1976

PP 00 01 (Ed. 6-80)
PERSONAL AUTO POLICY

AGREEMENT

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

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 in 1. or 2. 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.
INSURING AGREEMENT

A. We will pay damages for "bodily injury" or "property damage" for 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 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. 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.

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 of 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

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.

5. Other reasonable expenses incurred at our request.

EXCLUSIONS

A. We do not provide Liability Coverage for any "insured":

1. Who intentionally causes "bodily injury" or "property damage".

2. For "property damage" to property owned or being transported by that "insured".

3. For "property damage" to property:
   a. Rented to;
   b. Used by; or
   c. In the care of;

   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 "insured" 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 "insured'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;
   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";
   c. Any partner, agent or employee of you or any "family member".
7. Maintaining or using any vehicle while that “insured” 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:
      (1) You own; or
      (2) 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; or
         (c) Servicing;
   c. “Trailer” used with a vehicle described in a. or b. above.

8. Using a vehicle without a reasonable belief that that “insured” is entitled to do so.

9. For “bodily injury” or “property damage” for which that “insured”:
   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

B. We do not provide Liability Coverage for the ownership, maintenance or use of:
   1. Any vehicle which:
      a. Has fewer than four wheels; or
      b. Is designed mainly for use off public roads.
   This exclusion (B.1.) does not apply:
      a. While such vehicle is being used by an “insured” in a medical emergency; or
      b. To any “trailer”.
   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 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”.

4. Any vehicle, located inside a facility designed for racing, for the purpose of:
   a. Competing in; or
   b. Practicing or preparing for;
   any prearranged or organized racing or speed contest.

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 we will pay regardless of the number of:
   1. “Insureds”;
   2. Claims made;
   3. Vehicles or premiums shown in the Declarations; 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.

C. No one will be entitled to receive duplicate payments for the same elements of loss under this coverage and:
   1. Part B or Part C of this policy; or
   2. Any Underinsured Motorists Coverage provided by this policy.
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

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

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.

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PART B - MEDICAL PAYMENTS COVERAGE

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 for services rendered 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.

EXCLUSIONS

We do not provide Medical Payments Coverage for any "insured" 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 (6.) does not apply to you.

7. Sustained while "occupying" a vehicle without a reasonable belief that that "insured" 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.
11. Sustained while "occupying" any vehicle located inside a facility designed for racing, for the purpose of:
   a. Competing in; or
   b. Practicing or preparing for;
      any prearranged or organized racing or speed contest.

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. "Insureds";
   2. Claims made;
   3. Vehicles or premiums shown in the Declarations; or
   4. Vehicles involved in the accident.

B. No one will be entitled to receive duplicate payments for the same elements of loss under this coverage and:
   1. Part A or Part C of this policy; or
   2. Any Underinsured Motorists Coverage provided by this policy.

OTHER INSURANCE
If there is 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.

PART C - UNINSURED MOTORISTS COVERAGE

INSURING AGREEMENT
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";
      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 off public roads while not on public roads.
   6. While located for use as a residence or premises.

EXCLUSIONS
A. We do not provide Uninsured Motorists Coverage for "bodily injury" sustained:
   1. By an "insured" while "occupying", or when struck by, any motor vehicle owned by that "insured" which is not insured for this coverage under this policy. This includes a trailer of any type used with that vehicle.
2. By any "family member" while "occupying", or when struck by, any motor vehicle you own which is insured for this coverage on a primary basis under any other policy.

B. We do not provide Uninsured Motorists Coverage for "bodily injury" sustained by any "insured":
1. If that "insured" or the legal representative settles the "bodily injury" claim without our consent.
2. While "occupying" your covered auto when it is being used as a public or livery conveyance. This exclusion (B.2.) does not apply to a share-the-expense car pool.
3. Using a vehicle without a reasonable belief that that "insured" is entitled to do so.

C. This coverage shall not apply directly or indirectly to benefit any insurer or self-insurer under any of the following or similar laws:
1. Workers' compensation law;
2. Disability benefits law.

D. We do not provide Uninsured Motorists Coverage for punitive or exemplary damages.

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 accident. This is the most we will pay regardless of the number of:
1. "Insureds";
2. Claims made;
3. Vehicles or premiums shown in the Declarations;
4. Vehicles involved in the accident.

B. No one will be entitled to receive duplicate payments for the same elements of loss under this coverage and:
1. Part A or Part B of this policy; or
2. Any Underinsured Motorists Coverage provided by this policy.

C. We will not make a duplicate payment under this coverage for any element of loss for which payment has been made by or on behalf of persons or organizations who may be legally responsible.

D. We will not pay for any element of loss if a person is entitled to receive payment for the same element of loss under any of the following or similar laws:
1. Workers' compensation law;
2. Disability benefits law.

OTHER INSURANCE
If there is other applicable insurance available under one or more policies or provisions of coverage:
1. Any recovery for damages under all such policies or provisions of coverage may equal but not exceed the highest applicable limit for any one vehicle under any insurance providing coverage on either a primary or excess basis.

2. Any insurance we provide with respect to a vehicle you do not own shall be excess over any collectible insurance providing coverage on a primary basis.

3. If the coverage under this policy is provided:
   a. On a primary basis, we will pay only our share of the loss that must be paid under insurance providing coverage on a primary basis. Our share is the proportion that our limit of liability bears to the total of all applicable limits of liability for coverage provided on a primary basis.
   b. On an excess basis, we will pay only our share of the loss that must be paid under insurance providing coverage on an excess basis. Our share is the proportion that our limit of liability bears to the total of all applicable limits of liability for coverage provided on an excess basis.

ARBITRATION
A. If we and an "insured" do not agree:
1. Whether that "insured" is legally entitled to recover damages; or
2. As to the amount of damages which are recoverable by that "insured":
   from the owner or operator of an "uninsured motor vehicle", then the matter may be arbitrated. However, disputes concerning coverage under this Part may not be arbitrated.

   Both parties must agree to arbitration. If so agreed, 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 not 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.
PART D - COVERAGE FOR DAMAGE TO YOUR AUTO

INSURING AGREEMENT

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. If loss to more than one "your covered auto" or "non-owned auto" results from the same "collision", only the highest applicable deductible will apply. We will pay for loss to "your covered auto" caused by:

1. Other than "collision" only if the Declarations 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 any "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;
4. Explosion or earthquake;
5. Windstorm;
6. Hail, water or flood;
7. Malicious mischief or vandalism;
8. Riot or civil commotion;
9. Contact with bird or animal;
10. 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 addition, we will pay, without application of a deductible, up to $15 per day, to a maximum of $450, for:

1. Temporary transportation expenses incurred by you in the event of a loss to "your covered auto". We will pay for such expenses if the loss is caused by:
   a. Other than "collision" only if the Declarations indicate that Other Than Collision Coverage is provided for that auto.
   b. "Collision" only if the Declarations indicate that Collision Coverage is provided for that auto.

2. Loss of use expenses for which you become legally responsible in the event of loss to a "non-owned auto". We will pay for loss of use expenses if the loss is caused by:
   a. Other than "collision" only if the Declarations indicate that Other Than Collision Coverage is provided for any "your covered auto".
   b. "Collision" only if the Declarations indicate that Collision Coverage is provided for any "your covered auto".

If the loss is caused by a total theft of "your covered auto" or a "non-owned 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.

If the loss is caused by other than theft of a "your covered auto" or a "non-owned auto", we will pay only expenses beginning when the auto is withdrawn from use for more than 24 hours.

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".

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;
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 receivers;
      (6) 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:
      (1) The equipment is permanently installed in "your covered auto" or any "non-owned auto"; or
      (2) The equipment is:
         (a) Removable from a housing unit which is permanently installed in the auto;
         (b) Designed to be solely operated by use of the power from the auto’s electrical system; and
         (c) In or upon "your covered auto" or any "non-owned auto"; at the time of the loss.
   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. A total loss to "your covered auto" or any "non-owned auto" due to destruction or confiscation by governmental or civil authorities.
   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 (6.) does not apply to a camper body or "trailer" you:
      a. Acquire during the policy period; and
      b. Ask us to insure within 30 days after you become the owner.
   7. 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.
   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 or laser.
   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;
       b. Repairing;
       c. Parking;
       d. Storing; or
       e. Servicing;
       this includes road testing and delivery.
   12. Loss 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".
   13. Loss to "your covered auto" or any "non-owned auto", located inside a facility designed for racing, for the purpose of:
       a. Competing in; or
       b. Practicing or preparing for;
       any prearranged or organized racing or speed contest.
14. Loss to, or loss of use of, a “non-owned auto” rented by:
   a. You; or
   b. Any “family member”;

if a rental vehicle company is precluded from recovering such loss or loss of use, from you or that “family member”, pursuant to the provisions of any applicable rental agreement or state law.

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;
   2. Amount necessary to repair or replace the property with other property of like kind and quality.

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 in the event of a total loss.

C. If a repair or replacement results in better than like kind or quality, we will not pay for the amount of the betterment.

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.

If we pay for loss in money, our payment will include the applicable sales tax for the damaged or stolen property.

NO BENEFIT TO BAILEE
This insurance shall not directly or indirectly benefit any carrier or other bailee for hire.

OTHER SOURCES OF RECOVERY
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
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 fail 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.

PART E - DUTIES AFTER AN ACCIDENT OR LOSS

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 of 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.
BANKRUPTCY

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

CHANGES

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 vehicles;

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 program revision that includes both broadenings and restrictions in coverage, whether that general program revision is implemented through introduction of:

1. A subsequent edition of your policy; or

2. An Amendatory Endorsement.

FRAUD

We do not provide coverage for any "insured" who 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 US

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".

OUR RIGHT TO RECOVER PAYMENT

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

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

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 60 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:
   1. Less than 6 months, we will have the right not to renew or continue this policy every 6 months, beginning 6 months after its original effective date.
   2. 1 year or longer, we will have the right not to renew or continue this policy 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 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. We may deliver any notice instead of mailing it. Proof of mailing of any notice shall be sufficient proof of notice.
   2. 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.
   3. The effective date of cancellation stated in the notice shall become 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".

B. Coverage will only be provided until the end of the policy period.

TWO OR MORE AUTO POLICIES

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.
EXTENDED TRANSPORTATION EXPENSES COVERAGE

<table>
<thead>
<tr>
<th>Description of Your Covered Auto(s)</th>
<th>Extended Transportation Expenses Coverage Premium</th>
<th>Increased Limits Transportation Expenses Coverage Premium</th>
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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.
TOWING AND LABOR COSTS COVERAGE

<table>
<thead>
<tr>
<th>Description of Your Covered Auto</th>
<th>Limit of Towing and Labor Costs Coverage</th>
<th>Premium</th>
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<tbody>
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</table>

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.
THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

EXTENDED NON-OWNED COVERAGE FOR NAMED INDIVIDUAL

SCHEDULE

<table>
<thead>
<tr>
<th>Name of Individual</th>
<th>Liability</th>
<th>Medical Payments</th>
<th>Total Premium</th>
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<tbody>
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<td>$________</td>
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</table>

With respect to the individual and coverages listed in the Schedule or in the Declarations, the provisions of the policy apply unless modified by this endorsement.

I. Part A - LIABILITY COVERAGE
   Part A is amended as follows with respect to the individual named in the Schedule or in the Declarations.
   Exclusions A.5., A.7., B.2. and B.3. do not apply.

II. Part B - MEDICAL PAYMENTS COVERAGE
   Part B is amended as follows if a premium is shown in the Schedule or in the Declarations for Medical Payments Coverage with respect to the individual named in the Schedule or in the Declarations.
   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 in the Declarations, 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.
MISCELLANEOUS TYPE VEHICLE ENDORSEMENT

SCHEDULE

<table>
<thead>
<tr>
<th>Description and Type of Vehicle</th>
<th>Passenger Hazard Excluded</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes □</td>
</tr>
<tr>
<td></td>
<td>No □</td>
</tr>
<tr>
<td>1.</td>
<td></td>
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<tr>
<td>2.</td>
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<tr>
<td>3.</td>
<td></td>
</tr>
</tbody>
</table>

Coverage is provided where a premium and a limit of liability is shown for the coverage.

<table>
<thead>
<tr>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coverages</td>
</tr>
<tr>
<td>Liability</td>
</tr>
<tr>
<td></td>
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<tr>
<td>Medical Payments</td>
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<tr>
<td>Uninsured Motorists</td>
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<tr>
<td>Collision</td>
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<tr>
<td>Other Than</td>
</tr>
<tr>
<td>Collision</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

NOTICE

For the Collision and Other Than Collision Coverages, the amount shown in the Schedule or in the Declarations is not necessarily the amount you will receive at the time of loss or damage for the described property. PLEASE refer to the Limit of Liability provision below.

With respect to the "miscellaneous type vehicles" and coverages described in the Schedule or in the Declarations, the provisions of the policy apply unless modified by this endorsement.

I. DEFINITIONS

The Definitions Section is amended as follows:

A. For the purpose of the coverage provided by this endorsement "miscellaneous type vehicle" means a motor home, motorcycle or other similar type vehicle, all-terrain vehicle, dune buggy or golf cart.

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.

This provision applies only if:

a. You acquire the vehicle during the pol-
icy 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 cover-
age for that vehicle.

If the vehicle you acquire replaces one of
the same type 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 Sched-
ule 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 Cov-
erage 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 own-
ership, maintenance or use of "your cov-
ered 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 un-
der this Part.

B. The Exclusions Section is amended as fol-
loowing:

1. Exclusion B.1. is replaced by the fol-

dowing:

We do not provide Liability Coverage for
the ownership, maintenance or use of any
vehicle which:

a. Has fewer than four wheels; or

b. Is designed mainly for use off public
roads.

This exclusion (B.1.) does not apply:

a. While such vehicle is being used by an
"insured" in a medical emergency; or

b. To any "trailer"; or

c. To a vehicle having fewer than four
wheels if it is insured for Liability Cov-
erage under this endorsement.

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

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

III. PART B - MEDICAL PAYMENTS COV-
ERAGE

Exclusion 1. of Part B is replaced by the fol-

dowing:

We do not provide Medical Payments Coverage
for any "insured" 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 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

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

1. 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 with other property of like kind and quality.

Our payment for loss will be reduced by any applicable deductible shown in the Schedule or in the Declarations. If loss to more than one "your covered auto" results from the same "collision", only the highest applicable deductible will apply.

B. An adjustment for depreciation and physical condition will be made in determining actual cash value in the event of a total loss.

C. If a repair or replacement results in better than like kind or quality, we will not pay for the amount of the betterment.

This endorsement must be attached to the Change Endorsement when issued after the policy is written.
THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

COVERED PROPERTY COVERAGE

<table>
<thead>
<tr>
<th>Your Covered Auto(s)</th>
<th>Amount for All Covered Property</th>
<th>Deductible</th>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$______</td>
<td>$______</td>
<td>$______</td>
</tr>
</tbody>
</table>

NOTICE
The amount shown in the Schedule or in the Declarations is not necessarily the amount you will receive at the time of loss or damage for the described property. PLEASE refer to the Limit of Liability provision below.

With respect to the coverage provided by this endorsement, the provisions of the policy apply unless modified by the endorsement:

A. Exclusion 8. of Part D - Coverage For Damage To Your Auto does not apply to coverage provided by this endorsement.

B. We will pay for direct and accidental loss to "covered property" while it is in or attached to the auto shown in the Schedule or in the Declarations for which a specific premium charge indicates that Covered Property Coverage is provided.

"Covered property" means awnings, cabanas or equipment designed to create additional living facilities.

C. We will not pay for:
1. Loss to business or office equipment.
2. Loss to articles which are sales samples or used in exhibitions.

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

LIMIT OF LIABILITY
A. Our limit of liability for loss will be the lesser of the:
1. 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 with other property of like kind and quality.

Our payment for loss will be reduced by any applicable deductible shown in the Schedule or in the Declarations. If loss to more than one "your covered auto" results from the same "collision", only the highest applicable deductible will apply.

B. An adjustment for depreciation and physical condition will be made in determining actual cash value in the event of a total loss.

C. If a repair or replacement results in better than like kind or quality, we will not pay for the amount of the betterment.

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

SCHEDULE

Limit of Liability

Auto 1

Auto 2

Auto 3

$_______ each accident $_______ $_______ $_______

With respect to the coverage provided by this endorsement, the provisions of the policy apply unless modified by the endorsement.

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";
   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 if 1. or 2. below applies:
   1. The limits of liability under any applicable bodily injury liability bonds or policies have been exhausted by payment of judgments or settlements; or
   2. A tentative settlement has been made between an "insured" and the insurer of the "underinsured motor vehicle" and we:
      a. Have been given prompt written notice of such tentative settlement; and
      b. Advance payment to the "insured" in an amount equal to the tentative settlement within 30 days after receipt of notification.

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 this 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 off 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:
      a. Denies coverage; or
      b. Is or becomes insolvent.

EXCLUSIONS

A. We do not provide Underinsured Motorists Coverage for "bodily injury" sustained:
   1. By an "insured" while "occupying", or when struck by, any motor vehicle owned by that "insured" which is not insured for this coverage under this policy. This includes a trailer of any type used with that vehicle.
   2. By any "family member" while "occupying", or when struck by, any motor vehicle you own which is insured for this coverage on a primary basis under any other policy.
OTHER INSURANCE

If there is other applicable insurance available under one or more policies or provisions of coverage:

1. Any recovery for damages under all such policies or provisions of coverage may equal but not exceed the highest applicable limit for any one vehicle under any insurance providing coverage on either a primary or excess basis.

2. Any insurance we provide with respect to a vehicle you do not own shall be excess over any collectible insurance providing coverage on a primary basis.

3. If the coverage under this policy is provided:
   a. On a primary basis, we will pay only our share of the loss that must be paid under insurance providing coverage on a primary basis. Our share is the proportion that our limit of liability bears to the total of all applicable limits of liability for coverage provided on a primary basis.
   b. On an excess basis, we will pay only our share of the loss that must be paid under insurance providing coverage on an excess basis. Our share is the proportion that our limit of liability bears to the total of all applicable limits of liability for coverage provided on an excess basis.

ARBITRATION

A. If we and an "insured" do not agree:
   1. Whether that "insured" is legally entitled to recover damages; or
   2. As to the amount of damages which are recoverable by that "insured";

from the owner or operator of an "underinsured motor vehicle", then the matter may be arbitrated. However, disputes concerning coverage under this endorsement may not be arbitrated.

Both parties must agree to arbitration. If so agreed, 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 not 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.

ADDITIONAL DUTIES
A person seeking coverage under this endorsement must also promptly:

1. Send us copies of the legal papers if a suit is brought; and
2. Notify us in writing of a tentative settlement between the "insured" and the insurer of the "underinsured motor vehicle" and allow us 30 days to advance payment to that "insured" in an amount equal to the tentative settlement to preserve our rights against the insurer, owner or operator of such "underinsured motor vehicle".

GENERAL PROVISIONS
The following is added to the Our Right To Recover Payment provision in Part F:

OUR RIGHT TO RECOVER PAYMENT
Our rights do not apply under Paragraph A, with respect to Underinsured Motorists Coverage if we:

1. Have been given prompt written notice of a tentative settlement between an "insured" and the insurer of an "underinsured motor vehicle", and
2. Fail to advance payment to the "insured" in an amount equal to the tentative settlement within 30 days after receipt of notification.

If we advance payment to the "insured" in an amount equal to the tentative settlement within 30 days after receipt of notification:

1. That payment will be separate from any amount the "insured" is entitled to recover under the provisions of Underinsured Motorists Coverage; and
2. We also have a right to recover the advanced payment.

This endorsement must be attached to the Change Endorsement when issued after the policy is written.
THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

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

SCHEDULE

<table>
<thead>
<tr>
<th>Description of Vehicle</th>
<th>Limit of Liability</th>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coverage for Audio, Visual and Data Electronic Equipment</td>
<td>Coverage for Tapes, Records, Discs and Other Media ONLY</td>
</tr>
<tr>
<td></td>
<td>$</td>
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<tr>
<td></td>
<td>$</td>
<td>$200</td>
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</tbody>
</table>

NOTICE
The amount shown in the Schedule or in the Declarations is not necessarily the amount you will receive at the time of loss or damage for the described property. PLEASE refer to the Limit of Liability provision below.
With respect to the coverage provided by this endorsement, the provisions of the policy apply unless modified by the endorsement.

Exclusion 4. of Part D - Coverage For Damage To Your Auto does not apply to coverage provided by this endorsement.

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:
1. The equipment is permanently installed in “your covered auto”; or
2. The equipment is:
   a. Removable from a housing unit which is permanently installed in the auto;
   b. Designed to be solely operated by use of the power from the auto’s electrical system; and
   c. In or upon “your covered auto” or any “non-owned 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 such equipment; 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 the equipment, as a result of any one occurrence shall be the lesser of:
   a. 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 with other property of like kind and quality.

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 with other property of like kind and quality.

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 that equipment.

3. An adjustment for depreciation and physical condition will be made in determining actual cash value in the event of a total loss.

4. If a repair or replacement results in better than like kind or quality, we will not pay for the amount of the betterment.

This endorsement must be attached to the Change Endorsement when issued after the policy is written.
THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

MEXICO COVERAGE

WARNING

AUTO ACCIDENTS IN MEXICO ARE SUBJECT TO THE LAWS OF MEXICO, NOT THE LAWS OF THE UNITED STATES. UNDER MEXICAN LAW, AUTO ACCIDENTS ARE CONSIDERED A CRIMINAL OFFENSE AS WELL AS A CIVIL MATTER.

THE COVERAGE WE PROVIDE YOU BY THIS ENDORSEMENT DOES NOT MEET MEXICAN AUTO INSURANCE REQUIREMENTS.

YOU ARE REQUIRED TO PURCHASE LIABILITY INSURANCE THROUGH A LICENSED MEXICAN INSURANCE COMPANY FOR THIS ENDORSEMENT TO APPLY.

SCHEDULE

<table>
<thead>
<tr>
<th>Mexico Coverage</th>
<th>Premium</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
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</tbody>
</table>

With respect to the coverage provided by this endorsement, the provisions of the policy apply unless modified by the endorsement.

1. DEFINITIONS

   The Definitions Section is amended as follows:

   "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 applies only if:
   a. You acquire the vehicle during the policy period;
   b. You ask us to insure the vehicle within 30 days after you become the owner; and
   c. The vehicle is principally garaged and used in the United States.

   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.
II. COVERAGE
All Liability, Medical Payments, Uninsured Motorists, Damage to Your Auto and No-Fault coverage afforded to an "insured" under this policy is extended to accidents occurring in Mexico within 25 miles of the United States border. This extension of coverage only applies while an "insured" seeking coverage under this endorsement is in Mexico on a trip of 10 days or less.

Our duty to defend under Liability Coverage will only apply if:
1. The original suit for damages is brought in the United States; and
2. The suit does not involve a Mexican citizen or resident.

III. ADDITIONAL EXCLUSIONS
A. We do not provide coverage to any "insured":
1. If liability insurance from a licensed Mexican Insurance Company is not in force at the time of loss;
2. While "occupying" an auto other than "your covered auto"; and

B. We will not pay under Damage to Your Auto Coverage for auto repairs made in Mexico unless "your covered auto" cannot be driven in its damaged condition.

3. Who is a citizen or resident of Mexico. This exclusion (A.3.) does not apply to loss payable under Damage to Your Auto Coverage if the accident arises out of the operation of "your covered auto" by a Mexican citizen or resident.

IV. SPECIAL CONDITIONS
A. OTHER INSURANCE. The insurance we provide by this endorsement will be excess over any other collectible insurance.

B. LOSSES PAYABLE UNDER DAMAGE TO YOUR AUTO COVERAGE. We will pay losses under Damage to Your Auto Coverage in the United States, not in Mexico. If "your covered auto" must be repaired in Mexico in order to be driven, we will not pay more than the actual cash value of such loss at the nearest United States point where the repairs can be made.

This endorsement must be attached to the Change Endorsement when issued after the policy is written.
THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

NAMED NON-OWNER COVERAGE

With respect to the individuals and coverages listed in the Schedule or in the Declarations, the provisions of the policy apply unless modified by the endorsement.

<table>
<thead>
<tr>
<th>Name of Individual</th>
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<tbody>
<tr>
<td>1.</td>
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<td>2.</td>
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<tr>
<td>3.</td>
</tr>
</tbody>
</table>

Coverage is provided where a premium and a limit of liability is shown for the coverage.

<table>
<thead>
<tr>
<th>Coverages</th>
<th>Limit of Liability</th>
<th>Ind. 1</th>
<th>Ind. 2</th>
<th>Ind. 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liability</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>a) Single Limit</td>
<td>$_____ Each accident</td>
<td>$</td>
<td>$</td>
<td>$</td>
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<tr>
<td>or</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Bodily Injury</td>
<td>$_____ Each person</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>$_____ Each accident</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Property Damage</td>
<td>$_____ Each accident</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Medical Payments</td>
<td>$_____ Each person</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Uninsured Motorists</td>
<td>$_____ Each accident</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>a) Single Limit</td>
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<td></td>
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<tr>
<td>or</td>
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<td></td>
</tr>
<tr>
<td>b) Bodily Injury</td>
<td>$_____ Each person</td>
<td>$</td>
<td>$</td>
<td>$</td>
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<td></td>
<td>$_____ Each accident</td>
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<tr>
<td>TOTAL PREMIUM</td>
<td>$_____</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

I. DEFINITIONS

The Definitions Section is amended as follows:

A. "You" or "your" refers to the individual named in the Schedule or in the Declarations.

B. The definition of "your covered auto" is replaced by the following:

"Your covered auto" means 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 maintaining or repairing furnishings or equipment; or

   (b) For farming or ranching.

This provision applies only:

a. If you acquire the vehicle during the policy period; and

b. For 30 days after you become the owner.

This insurance does not apply if other insurance applies with respect to newly acquired vehicles.
II. PART A - LIABILITY COVERAGE

Part A is amended as follows:

A. Paragraph 1. of the definition of “insured” is amended by deleting reference to “family member”.

B. The Exclusions Section is amended as follows:

1. The exception to Exclusion A.3. is replaced by the following:
   This exclusion (A.3.) does not apply to “property damage” to a residence or private garage caused by a private passenger auto which is insured under this endorsement.

2. Exclusions A.6. and A.7. are replaced by the following:
   We do not provide Liability Coverage for any “insured” maintaining or using any vehicle in the “business” of that “insured”. This exclusion does not apply to an auto operated or occupied by you.

3. Exclusion B.2. is replaced by the following:
   We do not provide Liability Coverage for the ownership, maintenance or use of any vehicle, other than “your covered auto”, which is owned by you.

4. Exclusion B.3. is replaced by the following:
   We do not provide Liability Coverage for the ownership, maintenance or use of any vehicle, other than “your covered auto”, which is owned by any “family member”. However, this exclusion (B.3.) does not apply to you while you are maintaining or “occupying” any vehicle which is owned by a “family member”.

C. If the Schedule or Declarations indicates an each person and each accident limit of liability for “Bodily Injury”, the first sentence of the Limit of Liability provision is replaced by the following:

LIMIT OF LIABILITY

The limit of liability shown in the Schedule or in the Declarations for each person for Bodily Injury Liability is our maximum limit of liability for all damages including damages for care, loss of services or death, arising out of “bodily injury” sustained by any one person in any one auto accident. Subject to this limit for each person, the limit of liability shown in the Schedule or in the Declarations for each accident for Bodily Injury Liability is our maximum limit of liability for all damages for “bodily injury” resulting from any one auto accident.

D. The Out of State Coverage provision is replaced by the following:

OUT OF STATE COVERAGE

If an auto accident to which this policy applies occurs in any state or province other than where you reside, we will interpret your policy for that accident as follows:

1. A financial responsibility or similar law specifying limits of liability for “bodily injury” or “property damage” higher than the limit shown in the Schedule or 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.

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

III. PART B - MEDICAL PAYMENTS COVERAGE

Part B is amended as follows:

A. Paragraph 1. of the definition of “insured” is amended by deleting reference to “family member”.

B. The Exclusions Section is amended as follows:

1. Exclusion 6. does not apply.

2. Exclusion 5. is replaced by the following:
   We do not provide Medical Payments Coverage for any “insured” for “bodily injury” sustained while “occupying” or, when struck by, any vehicle (other than “your covered auto”) which is owned by you.

3. Exclusion 8. is replaced by the following:
   We do not provide Medical Payments Coverage for any “insured” for “bodily injury” sustained while “occupying” any vehicle used in the business of that “insured”. This exclusion (8.) does not apply to a vehicle operated or occupied by you.
IV. PART C - UNINSURED MOTORISTS
COVERAGE

Uninsured Motorists Coverage (in Washington, Underinsured Motorists Coverage) is amended as follows:

A. Paragraph 1. of the definition of "insured" is amended by deleting reference to "family member".

B. The definition of "uninsured motor vehicle" (in Washington, "underinsured motor vehicle") is amended as follows:

1. Any reference in Part 2. to the state in which "your covered auto" is principally garaged is amended to read the state in which you reside.

2. Paragraphs a. and b. of the hit-and-run vehicle section are amended by deleting reference to "family member". (In Oklahoma and Vermont, the hit-and-run vehicle section is amended by substituting the term "you" for the phrase an "insured".)

C. LIMIT OF LIABILITY

1. If the Schedule or Declarations indicates an each person and each accident limit of liability for Bodily Injury Uninsured Motorists Coverage, the first sentence of the Limit of Liability provision is replaced by the following:

This endorsement must be attached to the Change Endorsement when issued after the policy is written.
THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

UNINSURED MOTORISTS COVERAGE - CALIFORNIA

SCHEDULE

<table>
<thead>
<tr>
<th>Uninsured Motorists Coverage</th>
<th>Limit of Liability</th>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Auto 1</td>
</tr>
<tr>
<td>1. Bodily Injury</td>
<td>$ each accident</td>
<td>$</td>
</tr>
<tr>
<td>2. Property Damage</td>
<td>$3,500 each accident</td>
<td>$</td>
</tr>
</tbody>
</table>

With respect to the coverage provided by this endorsement, the provisions of the policy apply unless modified by the endorsement.

1. **Part C - Uninsured Motorists Coverage**
   
   Part C is replaced by the following:
   
   As used in this endorsement, "you" and "your" refer to the "named insured" shown in the Declarations and spouse.

   **INSURING AGREEMENT**
   
   **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:
   
   1. "Bodily injury" sustained by an "insured" and caused by an accident, and
   2. "Property damage" caused by an accident if the Schedule or Declarations indicates that "property damage" Uninsured Motorists Coverage applies to that auto. Only Items 1 and 4, under the definition of "uninsured motor vehicle" apply to "property damage".

   The owner's or operator's liability for these damages must arise out of the ownership, maintenance or use of the "uninsured motor vehicle". With respect to coverage under Item 2, of the definition of "uninsured motor vehicle" we will pay only after the limits of liability under any applicable liability bonds or policies have been exhausted by payment of judgments or settlements.

   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 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 in 1. or 2. above.

   However, with respect to coverage for "bodily injury", "insured" does not include any person who sustains "bodily injury" while "your covered auto" is being used as a public or livery conveyance. This exception does not apply to a share-the-expense car pool.

   **C.** "Property damage" as used in this endorsement means injury to or destruction of "your covered auto". However, "property damage" does not include:
   
   1. Loss of use of "your covered auto"; or
   2. Damage to personal property contained in "your covered auto".

   **D.** "Uninsured motor vehicle" means a land motor vehicle or trailer of any type:
   
   1. To which no liability bond or policy applies at the time of the accident.
   2. Which, with respect to damages for "bodily injury" only, is an uninsured motor vehicle. An uninsured motor vehicle is one to which a liability bond or policy applies at the time of the accident but its limit for liability is less than the limit of liability for this coverage.
3. Which, with respect to damages for "bodily injury" only, is a hit-and-run vehicle whose owner or operator cannot be identified and which makes physical contact with:
   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 liability bond or policy applies at the time of the accident but the bonding or insuring company:
   a. Denies coverage;
   b. Refuses to admit coverage except conditionally or with reservation; or
   c. Is or becomes insolvent.
   With respect to coverage for "property damage", the accident must involve direct physical contact between "your covered auto" and the "uninsured motor vehicle", and:
   1. The owner or operator of the "uninsured motor vehicle" must be identified; or
   2. The "uninsured motor vehicle" must be identified by its license number.
   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. Designed or modified for use primarily off public roads while not on public roads.
   5. While located for use as a residence or premises.

EXCLUSIONS
A. We do not provide Uninsured Motorists Coverage for "bodily injury" sustained:
   1. By an "insured" while "occupying", or when struck by:
      a. Any motor vehicle; or
      b. A trailer of any type used with a motor vehicle;
      c. Owned by that "insured" which is not insured for this coverage under this policy.
   2. By any "family member" while "occupying", or when struck by any motor vehicle you own which is insured for this coverage on a primary basis under any other policy.
B. We do not provide Uninsured Motorists Coverage for "bodily injury" sustained by any "insured":
   1. If that "insured" or the legal representative settles the "bodily injury" claim without our consent.
   This Exclusion (B.1.) does not apply to a settlement made with the insurer of a vehicle described in SECTION 2. of the definition of "uninsured motor vehicle".
   2. Using a vehicle without a reasonable belief that that "insured" is entitled to do so.
   3. While "occupying" a motor vehicle rented or leased to that "insured" for use as a public or livery conveyance.
C. We do not provide Uninsured Motorists Coverage for "property damage" sustained by any "insured" 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.
D. This coverage shall not apply:
   1. To "property damage" to:
      a. A trailer of any type;
      b. Any motor vehicle owned by you to which Collision Coverage applies under this policy; or
      c. Any other motor vehicle to the extent that there is valid and collectible Collision Coverage applicable to that damage under any other policy.
   2. Directly or indirectly to benefit:
      a. Any insurer or self-insurer under any of the following or similar laws:
         (1) Workers' compensation law; or
         (2) Disability benefits law.
      b. Any insurer of property.
3. Directly to the benefit of the United States or any state or political subdivision thereof.

E. We do not provide Uninsured Motorists Coverage for punitive or exemplary damages.

LIMIT OF LIABILITY

A. The limit of Bodily Injury Liability shown in the Schedule or in the Declarations is our maximum limit of liability for all damages for "bodily injury" resulting from any one accident.

Our maximum limit of liability for all damages for "property damage" resulting from any one accident will be the lesser of:

1. The Limit of Property Damage Liability shown in the Schedule or in the Declarations;
2. The actual cash value of "your covered auto"; or
3. The amount of any deductible if there is valid and collectible Collision Coverage under any other policy.

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

The limit of Bodily Injury Liability or Property Damage Liability shown in the Schedule or in the Declarations is the most we will pay regardless of the number of

1. "Insureds";
2. Claims made;
3. Vehicles or premiums shown in the Schedule or Declarations;
4. Vehicles involved in the accident.

B. With respect to coverage under Item 2, of the definition of "uninsured motor vehicle", the limit of liability shall be reduced by all sums:

1. 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 the policy; and
2. Paid or payable because of the "bodily injury" under any automobile medical payments coverage. This includes all sums paid under Part B.

C. No one will be entitled to receive duplicate payments for the same elements of loss under this coverage and Part A or Part B of this policy.

D. We will not make a duplicate payment under this coverage for any element of loss for which payment has been made by or on behalf of persons or organizations who may be legally responsible.

E. We will not pay for any element of loss if a person is entitled to receive payment for the same element of loss under any workers' compensation law exclusive of non-occupational disability benefits.

OTHER INSURANCE

If there is other applicable insurance available under one or more policies or provisions of coverage:

1. Any recovery for damages under all such policies or provisions of coverage may equal but not exceed the highest applicable limit for any one vehicle under any insurance providing coverage on either a primary or excess basis.

2. Any insurance we provide with respect to a vehicle you do not own shall be excess over any collectible insurance providing coverage on a primary basis.

3. If the coverage under this policy is provided:
   a. On a primary basis, we will pay only our share of the loss that must be paid under insurance providing coverage on a primary basis. Our share is the proportion that our limit of liability bears to the total of all applicable limits of liability for coverage provided on a primary basis.
   b. On an excess basis, we will pay only our share of the loss that must be paid under insurance providing coverage on an excess basis. Our share is the proportion that our limit of liability bears to the total of all applicable limits of liability for coverage provided on an excess basis.
ARBITRATION

A. If we and an "insured" do not agree:
   1. Whether that person is legally entitled to recover damages under this coverage; or
   2. As to the amount of damages;
then the matter will be settled by a single neutral arbitrator. With respect to "bodily injury", the "insured" must formally begin arbitration proceedings by notifying us in writing. Such notification must be sent by certified mail, return receipt requested. With respect to "property damage", arbitration proceedings must be formally instituted by the "insured" within 1 year from the date of accident.

B. Each party will:
   1. Pay the expenses it incurs; and
   2. Bear the expenses of the arbitrator equally.

C. Any decision of the arbitrator will be binding as to:
   1. Whether the "insured" is legally entitled to recover damages; and
   2. The amount of damages.

II. Duties After An Accident Or Loss

Paragraph C. of Part E is replaced by the following:

C. A person seeking Uninsured Motorists Coverage must also:
   1. Promptly notify the police if a hit-and-run driver is involved.
   2. Send us copies of the legal papers if a suit is brought.

A person seeking coverage for "bodily injury" sustained in an accident involving a vehicle described in Item 2. of the definition of "uninsured motor vehicle" must:
   1. Provide us with a copy of the complaint by personal service or certified mail, if the "insured" brings action against the owner or operator of the "uninsured motor vehicle".
   2. Within a reasonable time, make available all pleadings and depositions for copying by us or furnish us copies at our expense.

3. Provide us with proof that the limits of liability under any applicable liability bonds or policies have been exhausted by payment of judgments or settlements.

A person seeking Uninsured Motorists Coverage for "property damage" must also notify us or our agent within 10 business days of the accident.

III. General Provisions

Part F is amended as follows with respect to Uninsured Motorists Coverage:

A. The Legal Action Against Us provision is replaced by the following:

LEGAL ACTION AGAINST US

No legal action may be brought against us until there has been full compliance with all the terms of the policy or unless within 1 year from the date of the accident:
   1. Agreement as to the amount due under this coverage has been concluded;
   2. The "insured" or his legal representative has formally instituted arbitration proceedings; or
   3. Suit for "bodily injury" has been filed against the uninsured motorist in a court of competent jurisdiction. Written notice of the suit must be provided to us within a reasonable time after the "insured" knew or should have known of the uninsured status of the other motorist. In no event will such notice be required before one year from the date of the accident. Failure of the "insured" or his representative to provide such notice will not be a basis for a denial of coverage unless such failure prejudices our rights.

B. The Our Right To Recover Payment provision is amended as follows:

OUR RIGHT TO RECOVER PAYMENT

1. Paragraph A. of this provision does not apply to coverage under Item 2. of the definition of "uninsured motor vehicle".

2. Paragraph B. of this provision does not apply to coverage under Items 1., 3., or 4. of the definition of "uninsured motor vehicle".

This endorsement must be attached to the Change Endorsement when issued after the policy is written.
**ACORD. AUTOMOBILE LOSS NOTICE**

**PRODUCER**

PHONE (A/C, No, Ext):

**COMPANY**

NAIC CODE:

**MISCELLANEOUS INFO (Site & location code)**

**POLICY NUMBER**

**REFERENCE NUMBER**

**CAT #**

**CODE:**

**SUB CODE:**

**EFFECTIVE DATE**

**EXPIRATION DATE**

**DATE OF ACCIDENT AND TIME**

**AM**

**PM**

**PREVIOUSLY REPORTED**

**YEA**

**NO**

**AGENCY**

**CUSTOMER ID:**

**INSURED**

**CONTACT**

**CONTACT INSURED**

**WHERE TO CONTACT**

**RESIDENCE PHONE (A/C, No)**

**BUSINESS PHONE (A/C, No, Ext)**

**RESIDENCE PHONE (A/C, No)**

**BUSINESS PHONE (A/C, No, Ext)**

**LOSS**

**LOCATION OF ACCIDENT**

(Include city & state)

**AUTHORITY CONTACTED:**

**VIOLATIONS/CITATIONS**

**DESCRIPTION OF ACCIDENT**

(If separate sheet, necessary)

**POLICY INFORMATION**

**BODILY INJURY (Per Person)**

**PROPERTY DAMAGE**

**SINGLE LIMIT**

**MEDICAL PAYMENT**

**OTC DEDUCTIBLE**

**OTHER COVERAGE & DEDUCTIBLES**

(UIM, no-fault, towing, etc)

**LOSS PAYEE**

**COLLISION DED**

**UMBERLA/EXCESS**

**LIMITS:**

**CARRIER:**

**AGGR PER CLAIM/DIV**

**DP**

**INSURED VEHICLE**

**VEH # YEAR**

**MAKE:**

**BODY TYPE:**

**V.I.N.**

**RESIDENCE PHONE (A/C, No)**

**BUSINESS PHONE (A/C, No, Ext)**

**RESIDENCE PHONE (A/C, No)**

**BUSINESS PHONE (A/C, No, Ext)**

**OWNER'S NAME & ADDRESS**

**DRIVER'S NAME & ADDRESS**

**RELATION TO INSURED** (Employee, family, etc.)

**DATE OF BIRTH**

**DRIVER'S LICENSE NUMBER**

**STATE**

**PURPOSE OF USE**

**USED WITH PERMISSION?**

**YES**

**NO**

**DESCRIBE DAMAGE**

**ESTIMATE AMOUNT**

**WHERE CAN VEHICLE BE SEEN?**

**WHEN CAN VEH BE SEEN?**

**OTHER INSURANCE ON VEHICLE**

**PROPERTY DAMAGED**

**DESCRIBE PROPERTY**

(If auto, year, make, model, plate #)

**OTHER VEH PROP INS?**

**COMPANY OR AGENCY NAME:**

**YES**

**NO**

**POLICY #:**

**RESIDENCE PHONE (A/C, No)**

**BUSINESS PHONE (A/C, No, Ext)**

**RESIDENCE PHONE (A/C, No)**

**BUSINESS PHONE (A/C, No, Ext)**

**OTHER DRIVERS NAME & ADDRESS**

**CHECK IF NORTHWEST**

**DESCRIBE DAMAGE**

**ESTIMATE AMOUNT**

**WHERE CAN DAMAGE BE SEEN?**

**INJURED**

**NAME & ADDRESS**

**PHONE (A/C, No)**

**INS (OVR VEH)**

**AGE**

**EXTENT OF INJURY**

**WITNESSES OR PASSENGERS**

**NAME & ADDRESS**

**PHONE (A/C, No)**

**INS (OVR VEH)**

**OTHER (Specify)**

**REMARKS (Include adjuster assigned)**

**REPORTED BY**

**REPORTED TO**

**SIGNATURE OF INSURED**

**SIGNATURE OF PRODUCER**

ACORD 2 (7/97)

**NOTE: IMPORTANT STATE INFORMATION ON REVERSE SIDE**

© ACORD CORPORATION 1998
Applicable in Arizona
For your protection, Arizona law requires the following statement to appear on this form. Any person who knowingly presents a false or fraudulent claim for payment of a loss is subject to criminal and civil penalties.

Applicable in Arkansas, Kentucky, Michigan, New Jersey and Pennsylvania
Any person who knowingly and with intent to defraud any insurance company or another person, files a statement of claim containing any materially false information, or conceals for the purpose of misleading, information concerning any fact, material thereto, commits a fraudulent insurance act, which is a crime, subject to criminal prosecution and civil penalties.

Applicable in California
Any person who knowingly files a statement of claim containing any false or misleading information is subject to criminal and civil penalties.

Applicable in Colorado
It is unlawful to knowingly provide false, incomplete, or misleading facts or information to an insurance company for the purpose of defrauding or attempting to defraud the company. Penalties may include imprisonment, fines, denial of insurance, and civil damages. Any insurance company or agent of an insurance company who knowingly provides false, incomplete, or misleading facts or information to a policy holder or claimant for the purpose of defrauding or attempting to defraud the policy holder or claimant with regard to a settlement or award payable from insurance proceeds shall be reported to the Colorado Division of Insurance within the Department of Regulatory Agencies.

Applicable in Florida and Idaho
Any person who knowingly and with the intent to injure, defraud, or deceive any insurance company files a statement of claim containing any false, incomplete or misleading information is guilty of a felony.*
* In Florida - Third Degree Felony

Applicable in Indiana
A person who knowingly and with intent to defraud an insurer files a statement of claim containing any false, incomplete, or misleading information commits a felony.

Applicable in Minnesota
A person who files a claim with intent to defraud or helps commit a fraud against an insurer is guilty of a crime.

Applicable in Nevada
Pursuant to NRS 686A.291, any person who knowingly and willfully files a statement of claim that contains any false, incomplete or misleading information concerning a material fact is guilty of a felony.

Applicable in New Hampshire
Any person who, with purpose to injure, defraud or deceive any insurance company, files a statement of claim containing any false, incomplete or misleading information is subject to prosecution and punishment for insurance fraud, as provided in RSA 638:20.

Applicable in New York
Any person who knowingly makes or knowingly assists, abets, solicits or conspires with another to make a false report of the theft, destruction, damage or conversion of any motor vehicle to a law enforcement agency, the Department of Motor Vehicles or an insurance company, commits a fraudulent insurance act, which is a crime, and shall also be subject to a civil penalty not to exceed five thousand dollars and the value of the subject motor vehicle or stated claim for each violation.

Applicable in Ohio
Any person who, with intent to defraud or knowing that he/she is facilitating a fraud against an insurer, submits an application or files a claim containing a false or deceptive statement is guilty of insurance fraud.

Applicable in Oklahoma
WARNING: Any person who knowingly and with intent to injure, defraud or deceive any insurer, makes any claim for the proceeds of an insurance policy containing any false, incomplete or misleading information is guilty of a felony.