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Personal Auto Policy (PAP)

The Personal Auto Policy (a.k.a. **PAP**) was the first automobile policy to be written in simple language. It was designed to replace all earlier forms and is now the most widely sold form of auto insurance. For example, the latest exclusion is for an automobile confiscated by the government because of illegal activities. This exclusion was added because of stepped-up enforcement of federal drug laws by confiscating the property of lawbreakers.

Automobile policies are primarily "**third party**" contracts. Under a "third party" contract, on behalf of an insured, **the insurance company agrees to pay to a third party the damages for which the insured is legally responsible**. There are coverages for the insured, such as Damage to Your Auto (physical damage), Medical, Personal Injury Protection and Underinsured Motorist.

A. Eligible Vehicles

Specific insurers' eligibility requirements may vary, but according to the Insurance Services Office (ISO), a personal auto policy may be written to cover:

- ✓ Four-wheel motor vehicles such as a private passenger auto, a pick-up truck or van with **a gross vehicle weight of 10,000 pounds or less**.
- ✓ **Usage must be for personal use**, or certain farming and service type businesses. The vehicle must be owned by an insured or leased under a long-term contract (meaning **six months or more**).

B. Ineligible Vehicles

- ∅ Vehicles used in the delivery, shipping or transportation of goods or materials **are ineligible** under the Personal Auto Policy.
 - o *E.g., If you are delivering pizza, the restaurant has a commercial policy that covers you.*
- ∅ Vehicles rented to others, or used to carry passengers for a fee, **are ineligible** for coverage under a Personal Auto Policy.
 - o *E.g., If you are driving for Uber or Lyft, they have a commercial policy that covers you then. Your personal auto policy is suspended.*
- ∅ Vehicles such as motorcycles or dune buggies should **NOT** be considered as autos and are NOT automatically insured as autos under the Personal Auto Policy.

📖 **Underwriting a Personal Risk ...** Every auto insurer uses a somewhat different set of criteria to define an acceptable personal auto risk. However, there are some common standards used by most insurers who write standard or preferred personal auto policies.

These standards for underwriting and rating for premium determination include:

Age, gender, marital status, driving record, occupation, and insurance score of the insured drivers or operators. The type of car and use of the car are also considered.

A youthful operator may qualify for drivers training and good student discounts.

C. Arrangement of the Personal Auto Policy... A personal auto policy consists of a declarations page (the DEC), eight sections, and endorsements.

Declarations Page (DEC Page) identifies **who** (named insured, carrier, producer), **what** (describes the vehicle), **where** (garaging territory) and **when** (policy coverage period) of the policy.

- The DEC page gives the name and address of the insurance company, producer of record and the named insured.
- The DEC page lists any endorsements attached to the policy, and summarizes the coverage, limits, deductibles, and premiums.

The Personal Auto Policy has the following eight parts:

- 1) Agreement (a.k.a. insuring agreement)
- 2) Definitions Page
- 3) Part "A" **Liability** (Bodily Injury & Property Damage to a **third party**)
- 4) Part "B" Medical/Personal Injury Protection (PIP, **first party coverage**)
- 5) Part "C" Underinsured Motorist (UM or UIM, Bodily Injury to a **first party**)
- 6) Part "D" Damage to Your Auto (a.k.a. Physical Damage Coverage)
- 7) Part "E" Duties after an Accident
- 8) Part "F" General Provisions

The PAP (personal auto policy) opens with the policy agreement and definitions. In the policy (insuring agreement, the insurer agrees to meet the terms of the policy in return for the insured's payment of the premiums.

The definitions section defines various terms and points out that words used throughout the policy that may appear in quotation marks such as "We", "Us", or "Our", refer to the insurance company. If a policy reads "you" or "your," it refers to the insured. The word "insured" refers to anyone covered under the named insured's policy.

NOTE: *The following rules apply to Preferred Auto Policies and may not apply to all High-Risk or Sub-Standard Auto Policies.*

D. Definitions

1. The "Insured"

The insured is the **named insured** (person listed on the declarations page **and the spouse living with the named insured**) and members of the named insured's family living with the insured while using any auto.

For example, the insured's 17-year-old son who lives at home would be insured if he borrows a friend's car and has an accident. However, the parent's policy would be *excess coverage* to the friend's car policy which would be considered to be the *primary coverage*.

 **The insurance coverage stays with the car.**

- ❖ A family member means a person related to the named insured by blood, marriage, or adoption, including a foster child, who lives in the same household. ***A student temporarily away at school is still a family member.***

Anyone who uses the insured's covered auto... For example, a neighbor who borrows the insured's car and has an accident while driving it is covered by the insured's policy.

Others who are legally responsible for the acts of an insured... For example, if an insured has an accident in her own car while running an errand for her employer, the employer is also liable (remember vicarious liability). The insured's policy covers the employer's liability.

2. A “Covered Auto” is any vehicle shown on the Declarations Page and includes:

A covered auto is any vehicle shown on the declarations page.

A covered auto means any trailer while it is being towed by a vehicle listed in the declarations. It covers the insured's **liability only** (*no* comprehensive or collision).

A covered auto is a non-owned auto while used as a **temporary substitute** for a covered auto if covered under the named insured's auto contract. **A temporary substitute is any auto or trailer used by the insured in place of a covered vehicle or trailer which is out of use due to service, repair, breakdown, loss, or destruction.**

-  The PAP explicitly states that insurance on a temporary substitute vehicle is secondary, NOT primary. ***The vehicle owner's insurance is primary, if collectible.***

A covered auto is any private passenger vehicle the insured acquires during the policy period. People usually buy an auto to replace an older vehicle or one that has been lost or damaged. More often than not, they upgrade from an older vehicle to a new one or from a lower-priced vehicle to a more expensive one. The **“newly acquired auto”** definition in the PAP is designed to handle these circumstances for the insured by providing a few days of automatic coverage for the insured to report it to the insurer.

Newly acquired auto: Liability, medical payments/personal injury protection, and uninsured motorists' coverage on a newly acquired auto is automatically in force on the day the insured purchases it. If the insured's listed vehicles do not all have the same coverage, the newly acquired auto automatically receives the same coverage as the listed vehicles with the broadest coverage.

Replacement vehicle: If the vehicle replaces (trades a car in for another car) one shown on the Declarations, then liability, medical (PIP) and UM coverage is automatic and continues until the policy expiration. For physical damage coverage to continue past 14 days, notification by the insured is required.

Additional Vehicle: If the vehicle purchased is an “**additional**” or new car (instead of having two cars you now have three cars), it is covered for the “broadest” coverage under any of the other “insured” cars. Notification is required within **14 days** for **any** coverage to continue.

- If the insured has no physical damage coverage (collision or other than collision) on any listed autos, physical damage coverage will be given for 4 days with a \$500 deductible.

COVERED AUTOS

SPECIFIED Autos	REPLACEMENT Autos (including Trailers)	ADDITIONAL Autos (including Trailers)	TEMPORARY Substitutes
Covered as described in the Declarations	Same coverage as the vehicle it replaces	Broadest coverage of any insured car	Same coverage as the car it replaces (secondary coverage, NOT primary)
	Trailers are covered for BI & PD ONLY		
	Notify insurer within 14 days to continue physical damage	Notify insurer within 14 days to continue any coverage	

E. Standard Coverages (Parts “A” through “D”) pay on a per occurrence basis.

1. Liability, Part “A,” provides protection against amounts an insured may become *liable to pay as a result of causing bodily injury or property damage to another person (3rd party) in an auto accident.* The policy will also make **supplemental payments** which are over and above the limit of liability, including a **duty to defend** the insured in a lawsuit.

a. Supplemental Payments:

- Up to \$250 for bail bonds
- Premiums on appeal bonds or bonds to release attachments. E.g., a court date for an incident may be 18 months after the incident occurs. The amount of the judgement is paid, additionally interest accrues from the date of the incident, not the judgement date.
- Interest accruing on post and pre-judgments
- Up to \$200 a day for earnings lost to attend court at the company's request
- Reasonable expenses incurred at the company's request

b. Liability Exclusions

- Ø Bodily injury or property damage intentionally caused, **including illegal activity of the insured.**
- Ø **Vehicles used for organized racing** or speed contests located inside a facility designated for racing.
- Ø Damage to property owned, rented, or being transported by the insured.

- Ø **BI to an insured's employees** (covered under Worker’s Compensation).
- Ø Ownership or operation of a vehicle used to carry persons (taxi) or property for a fee (pizza delivery).
- Ø **Use of a vehicle for business purposes.** **Exceptions to this exclusion:** *a private passenger vehicle may be used for a service type of business such as an insurance agent or realtor, however a higher premium may be charged.* Certain farming usage is also allowed.
- Ø Use of a vehicle without reasonable belief of being entitled to do so.
- Ø Use of a vehicle with fewer than four wheels (e.g., motorcycles).
- Ø Coverage for **regularly used non-owned autos.** (e.g., roommate’s car, parent’s car, etc.)
- Ø Owned autos which are neither declared on the policy nor acquired during the policy period.
 - ✓ The **Drive Other Car (DOC)** endorsement added to an automobile policy protects an insured when *driving a non-owned car* if the insured's negligent act results in bodily injury or property damage to a third party.

2. Limits of Liability, Part ‘A’

- a. Single Limit:** one figure shows the maximum the company will pay for all BI & PD liability arising from one occurrence. For example, \$300,000 BI and PD per occurrence, paid out as claims come in until the limit is met.
- b. Split Limit:** three figures show the maximum the company will pay for liability resulting from one occurrence, for example: 100/300/100 per occurrence. The first 2 numbers are for bodily injury, while the last number is for property damage. Up to \$100,000 is available per person regardless of the number of persons needing Bodily Injury coverage until a maximum payout of \$300,000 has been paid.

\$100,000 /	\$300,000 /	\$100,000
Maximum <u>per person</u> for Bodily Injury (BI)	Maximum to <u>all persons</u> for Bodily Injury (BI)	Maximum for <u>all</u> Property Damage (PD)

3. Auto Medical/Personal Injury Protection, Part “B” (First Party Coverage)

Who is the First Party?

- ❖ The **named insured or any family member residing in the named insured's household** who is injured while occupying a motor vehicle or a trailer which is designed for use on public roads.
- ❖ The **named insured or any family member residing in the named insured's household** who is injured if struck as a pedestrian by a motor vehicle or a trailer used for public roads.
- ❖ **Anyone** who is injured while occupying a covered auto. Occupying means in, on, getting into, or getting out of.

a. **Medical Payments** pays the **First Party** for reasonable and necessary medical expenses for **three years** from the date of the accident and funeral expenses, **regardless of who is at fault**. It pays on a per person single limit basis (a.k.a. The Insuring Agreement).

b. **Personal Injury Protection (P.I.P)**, a.k.a. First Party Coverage **pays for bodily injury**, identical to Medical listed above. Additionally, it pays for lost wages and lost services of any first party injured in an insured's auto, **regardless of who is at fault**. Payments are made on a per person single limit basis. *

- **Lost Services**

*These can include daycare, housecleaning, yardwork, walking the dog, etc.

- **Lost wages**

*Lost wages will be the amount agreed to in the policy BUT not more than 80% of a person's income. There is usually a 2-week waiting period before this benefit is available.

- **Funeral Services** are included, a small benefit.

***There are Washington State Laws dealing with the minimum and maximum amounts which must be offered for P.I.P. See the Casualty Laws and Rules Section for specific information.**

4. **Uninsured/Underinsured Motorist (UM or UIM), 1st Party Coverage, Part "C"**

a. **Uninsured Motorist (UM)/Underinsured Motorist (UIM), Bodily Injury**, must be offered up to the same limit as the insured is covered for under coverage "A" (Liability BI and PD) of the Auto Policy. The insured may elect a lower limit on UM/UIM than on coverage "A," **but may not be insured for more on UIM than on coverage "A" (Liability BI & PD)**.

b. **Rejection**: If the insured chooses a lower limit or rejects UIM entirely, it must be in writing by the named insured or spouse. This written record is sent to home office and becomes part of the application. This is kept for 3 years.

c. **Indemnifies for Bodily Injuries to the 1st Party**

- ✓ It pays the 1st party when injured by a driver who is **uninsured or underinsured**.
- ✓ It pays the 1st party when injured by a **hit-and-run driver** or a **phantom vehicle**.
- ✓ It pays the 1st party **if the other insurer who should pay for the loss becomes insolvent**.

Bodily injury to the insured includes means bodily harm, sickness or disease, **including required care, loss of services** (i.e., **wages, daycare, landscaping, housekeeping**, etc.), and death that results to a first party for which the law holds the underinsured responsible.

- ❖ A “phantom vehicle” means a motor vehicle which causes bodily injury, death, or property damage to an insured but has no physical contact with the insured or the vehicle which the insured is occupying at the time of the accident. A witness to the other vehicle may be required.

d. Under UIM, the Insured (first party coverage) means the named insured and relatives living with the named insured and anyone occupying the insured's car. **Protection** extends to the named insured and family members while in their own car, while in someone else’s car (excess only), or even when walking down the street, if injured by another car.

e. Uninsured/Underinsured Motorist Property Damage (UMPD) protects the insured's covered auto if damaged by an uninsured, underinsured, hit-and-run motorist, or phantom vehicle. This coverage overlaps with the collision coverage you may already have. If you have collision with a high deductible this may (depending on your deductible), due to WA State laws, lower your deductible **if** you are hit by a driver that is uninsured, underinsured, hit-and-run motorist, or phantom vehicle.

Special Note: UM/UIM pays for bodily injury to an insured, and *UMPD pays for property damage to the insured’s auto*. They are separate coverages. An individual does not need to purchase both.

f. EXCLUSIONS for Medical/PIP and UIM:

- Ø Loss in a vehicle with fewer than four wheels
- Ø Loss when using an auto to carry persons or property for a fee
- Ø Loss covered under worker’s compensation
- Ø Loss when a vehicle is used without permission to do so
- Ø Loss when a vehicle is used for business
- Ø Loss if the vehicle is used as a residence or premises
- Ø Loss in an auto, other than a **covered auto**, owned by the insured
- Ø Loss in an auto furnished to the insured for his regular use

5. Damage to Your Auto, Part “D,” (a.k.a. *physical damage* coverage), pays for damage to the insured's own auto or any non-owned auto. ***The insurer reserves the right to repair or replace the damaged car rather than make a cash settlement.***

If there is a loss to a non-owned auto, the policy will provide the broadest coverage applicable to any covered auto. A **non-owned auto** is any private passenger auto, pick-up or van which is operated by an insured. **A non-owned auto includes a temporary substitute.**

a. Collision

- pays for **damage to a covered auto** from upset (rollover) or caused by its collision with another vehicle or object, such as a rock, tree, bridge, etc. It does not cover liability for bodily injury or property damage arising out of collision.
 - o E.g., your vehicle is covered if you run into a tree

b. **Comprehensive**

- (a.k.a. “**Other Than Collision**”) pays for all losses not excluded and not covered by **collision** damage. Coverage includes damage **from** falling objects, fire, theft, contact with **animals**, glass breakage, **earthquake, flood**, etc.
 - o E.g., your vehicle is covered if a tree falls on it
 - o **Deductible** - There are no standard deductibles. An insured may purchase either comprehensive or collision alone or together. **A separate deductible applies to each coverage separately (on a per occurrence basis).**

c. **Transportation Expense Coverage**

- ▣ Damage to Your Auto coverage *includes* transportation expenses which can include rental (e.g., \$20 a day with a maximum of \$600). This coverage reimburses the insured for transportation expenses if a covered auto is out of service due to a covered loss. This can be true even if the cost of the repair is within the deductible if repairs are due to a covered loss. It also covers expenses arising out of the theft of the auto and coverage will continue until the auto is returned to use or the company pays for its loss. **Transportation expenses will not be paid in the event of theft until 48 hours have passed.**

d. **EXCLUSIONS Under Physical Damage** include damage due to: wear and tear, freezing, war or nuclear contamination, road damage to tires, and mechanical or electrical breakdown. Also, it will NOT PAY for losses to:

- ∅ Cars used to carry people or property for a fee,
- ∅ Sound equipment unless it is **permanently installed** in an opening used by the auto manufacturer for such installations,
- ∅ Tapes, DVDs, CDs, radar detection equipment, custom furnishings, etc.,
- ∅ **Vehicles used by the insured without permission to do so,**
- ∅ **Regularly used non-owned autos,**
- ∅ owned autos which are neither declared on the policy nor acquired during the policy period, or
- ∅ automobiles confiscated by the government because of illegal activities.

6. **PAP Duties After a Loss or Accident, Part “E”**

- ✓ **Notice of Claim** - promptly notify the insurer of the claim or possible claim
- ✓ Cooperate with any investigation including physical exams, sworn statements, forwarding notices, and providing records
- ✓ Notify the police immediately
- ✓ Protect the car from any further damage and allow inspection of the damaged car

7. **PAP General Provisions, Part “F,”** establishes conditions for coverage and sets the rules of conduct, duties, and obligations for the insured and insurance company. The policy applies only to accidents and losses which occur during the **policy period** shown in the declarations and within the policy territory.

- a) The covered territory includes the United States, its territories and possessions, Puerto Rico, District of Columbia, and Canada.**
- a. The Other Insurance Clause** describes the extent of recovery when multiple policies apply to a covered loss. In accidents covered by multiple policies, the named insured's auto policy will pay no more than its share; a pro rata settlement.
- b. The Out-of-State provision** found in auto insurance says that **coverage automatically will conform to other states' regulations (without an addition in premium)**. If you travel through a state where the financial responsibility laws require higher minimum coverage than is currently carried, the other state's laws take precedence.
- c. Bankruptcy** of the insured does not relieve the insurer of any obligations to a third party due to liability to that party while the contract is in effect.
- d. Fraud** on the part of the insured will void coverage.
- e. Legal action against the insurer** is allowed only after full compliance with the policy terms has been met. (You cannot sue for something not paid if you never filed a claim.)
- f. Subrogation** A.K.A. the right to recover allows the insurer to indemnify the insured and recover the amount paid out if the fault was another's. A notable exception is if someone borrows your car and causes an accident, they are a first party insured and the company will not subrogate any losses against them.
- g. Assignment** is the transfer of an owner's rights in a policy to another. You cannot sell the policy along with your car or home because the risk is the person insured and underwriting needs to be involved. You can sign your name at the repair shop and let the insurer pay them directly instead of you paying and being reimbursed.
- h. Changes** can only be made by the named insured and are endorsed on the contract.
- i. Arbitration** can be used if the insurer and the insured disagree on a claim payment. It is used in place of litigation, each party hires their own arbitrator, they then select a third if necessary. If the first two come to differing decisions regarding the claim, the third is utilized and makes a choice between the decisions. In other words, 2 out of 3 is the final verdict.

8. Endorsements may be added to your PAP. They will be listed on the declarations page.

- a. **Rental Reimbursement Coverage** may be endorsed on a PAP but only when physical damage coverage is written. This coverage will reimburse the insured for rental charges resulting from loss of use of an insured vehicle because of a physical damage loss. Coverage under this endorsement is in addition to any other physical damage coverage available and is not subject to any deductible.
- b. **Amendment** is a change in the existing policy. When done the named insured must be notified in writing of the change.
 - ☐ This Amendment forms a part of the auto policy to which it is attached, and it modifies that policy as follows
- c. **Towing and labor** coverages may be added to your policy. There are differing limits but generally this pays the towing cost to a repair shop if the car is unable to be driven and may cover some of the labor costs for the repair while on the side of the road. This is known by many other names: roadside assistance, emergency service, etc.
- d. **Joint ownership coverage** could be attached to a policy if the vehicles are owned by 2 persons who are not married (to each other) or related persons living in separate homes.
- e. **DOC (Drive Other Car) endorsement** is essential if you REGULARLY drive another car that you are not an owner of. This could be as simple as driving your parents to the doctor or grocery store on a regular basis. A regular driver may be excluded from any policy with the vehicle if the driver is not listed or the vehicle is not listed.
- f. **Extended non-owned coverage** sounds very similar to the DOC endorsement but coverage is for an individual who drives a company car but is involved in an accident while on personal errands. The business auto policy may not cover a person unless they are driving for business usage.

F. Renewal, Non-Renewal and Cancellation

(both are ISO & Washington State standards)

A 20-day written notice is required for **cancellation, renewal, or non-renewal** of an auto policy by the insurer, with the actual reason given.

A 10-day written notice is required for **cancellation for nonpayment of premium**. ISO allows a 10-day notice for cancellation for any reason in the first 60 days of underwriting.

A return of premium is required in 45 days on a pro rata basis should the *insurance company cancel* the policy (all *unearned premium* must be returned, **no service fee**).

A return of premium is required in 30 days on a **short rate** basis should *the insured cancel* the policy (all *unearned premiums* minus any applicable **service fee**).

The named insured may cancel at any time by returning the policy or by giving written notice to the insurance company.

Commercial Auto

Commercial Auto coverage may be written monoline or as a coverage part of the Commercial Package Policy. The policy is designed to cover autos, trucks and trailers used in a business. A commercial policy may be a Business Auto Policy or an Auto Dealer Coverage Form (Garage Form). The coverage definitions are identical to the PAP; i.e. UIM, PIP, Med, Collision, etc., but as a business owner I can choose which types of coverage are necessary for which vehicles and pay premium accordingly.

A. Business Auto Coverage Form is used to insure commercial automobile exposures of all businesses **OTHER** than garages, truckers, and motor carriers arising out of owned, leased, rented, or borrowed vehicles. The insured may select which types of autos will be covered by the policy. Different types of autos may be given different coverage under the policy. For example, an insured may obtain liability coverage for all autos and physical damage coverage for only “owned” autos, or as listed below.

1. Who is the insured?

- ❖ The named insured
- ❖ Anyone using a covered auto with permission of an insured
- ❖ Anyone liable for the conduct of an insured, and
- ❖ Additional insureds named on the BAP by endorsement

2. Who is Not insured on the BAP?

- ∅ The owner of a hired or borrowed auto
- ∅ an employee of the named insured while driving their car
- ∅ Anyone working in an auto type business (Garage form/ ADC coverage)
- ∅ Anyone moving property to or from a covered auto (workers’ compensation for injury to an employee, CGL for injury to a client))

3. What is an auto?

- 🚚 Any land motor vehicle, “trailer” or semi-trailer designed for travel on public roads; or
- 🚚 Any other land vehicle that is subject to a compulsory or financial responsibility law or other motor vehicle insurance law where it is licensed or principally garaged.
- 🚚 However, “auto” does NOT include “mobile equipment”.

4. What is mobile equipment? It includes any of the following types of land vehicles, *including any attached machinery or equipment*:

- Bulldozers, farm machinery, forklifts and other vehicles designed for use principally off public roads
- Vehicles maintained for use solely on or next to premises you own or rent
- Vehicles that travel on crawler treads
- Vehicles, whether self-propelled or not, maintained primarily to provide mobility to permanently mounted: a. power cranes, shovels, loaders, diggers, or drills; or b. road construction or resurfacing equipment such as graders, scrapers, or rollers: etc.

5. Vehicles: Which are covered, which are not, what are they covered for?

A numerical description system for the types of autos covered is used in the BAP, which allows a business to tailor the policy to its needs. Business auto policies will use numbers 1-9, Garage or Auto dealers’ plans will use 21-31, truckers and motor carries use other numbers.

Covered auto symbols appear in the declarations page of the auto policy next to each coverage purchased in the policy (e.g., liability, personal injury protection (PIP), auto medical payments, and uninsured and underinsured motorists (UM/UIM)). The symbols reflect the named insured's selection as to what types of vehicles are insured for that coverage (e.g., owned autos, hired autos, non-owned autos). PIP, Med pay and UIMBI may not be reasonable for any vehicle driven by employees while working because they will be covered by Workers Compensation in the event of an injury while driving or riding along.

The insured may select any of the following:

Symbol	Type of Auto Selected	Description
1	Any auto	Liability Only
2	Owned autos only 'All Owned'	-Any owned auto -Designates other coverages besides Liability coverage
3	Owned private "Passenger autos only"	-Any private passenger auto the insured owns-Designates any coverage provided by the Business Auto coverage form
4	Owned auto 'Commercial only'	-Other types of vehicles the insured owns, such as trucks, trailers, buses, and motorcycles -Designates any coverage

5	No-Fault, owned auto	-Designates owned autos required to have no-fault benefits in a particular state
6	UIM, Owned auto	-Designates owned autos required to have Uninsured Motorists coverage in a particular state
7	Specifically described autos Only	-Applies only to autos specifically listed in the Business Auto coverage form Declarations
8	Hired autos only	-Designates Liability and/or Physical Damage coverage -Only used for autos the insured has leased, hired, rented, or borrowed -Does not include autos rented or borrowed from employees or members of their households
9	Nonowned autos only	-Only used for autos used in the insured's business that are not leased, hired, rented, or borrowed -Includes autos owned by employees but used in the insured's business or personal affairs -Designates Liability coverage only
19	Mobile Equipment	-Designates Liability coverage only, necessary only if you have only comp and collision on any vehicles and purchase a new vehicle that needs liability. e.g., forklifts while being driven on the street would be subject to liability laws regarding any vehicle

Coverage may be tailored to the needs of the insured by selection of the appropriate symbols. Different symbols may be used for different coverages. The broadest coverage available is reflected by Symbol 1, because "any auto" includes all owned, hired, and non-owned autos. The most restrictive Symbol is Symbol 7, because it applies only to specifically described autos.

With the exception of specifically described autos, autos acquired during the policy period are automatically covered. For specifically described autos, the auto acquired during the policy period is only a covered auto for a particular coverage if the insured already insures all autos for this coverage or if it replaces a covered auto and the insured notifies the insurer within 30 days of acquisition.

If the insured has Liability coverage under the policy, the following vehicles are also covered autos for Liability coverage: Temporary substitute autos, trailers with a load capacity of 2,000 pounds or less, and mobile equipment while it is being towed or carried by a covered auto.

B. The Auto Dealer Coverage Form. (replaces the Garage Form) *Businesses engaged in selling, servicing, storing, or parking autos, such as car dealerships, gas stations and parking garages, have special insurance needs.* The auto dealer coverage form is designed to cover these special needs.

The numerical chart above corresponds to the numerical chart used for the ADCF. The primary difference is instead of 1, the symbol 21 is used. Additionally, symbol 30 designates Garagekeepers coverage and 31 deals with physical damage coverage.

This form **will not cover** other peoples' property in the care, custody, and control of the insured. **Garagekeepers must be added to cover that exposure.**

C. Garagekeepers Coverage covers the insured's liability for damage by a covered cause of loss to an auto left in the insured's care while the insured is attending, servicing, repairing, parking, or storing the autos in the garage operation. *Garagekeepers coverage is necessary because liability for such damage is excluded under the garage coverage form.* Like other types of liability insurance, garagekeepers coverage pays the cost to defend the insured against suits alleging covered losses.

D. A Motor Carrier Policy - includes auto liability, trailer interchange, and auto physical damage; other coverage is available by endorsement. The policy was developed as an alternative to the trucker's policy because of the changes taking place in the industry. The motor carrier policy is appropriate for all types of motor carriers—for-hire, private, or a combination of both types of operations.

✚ Please keep in mind that we do NOT cover Truckers Form in this text, and it is NOT included in the pre-licensing exam.

E. Standard Coverages (for both the Business Auto and ADC Forms):

1. **Liability** covers the named insured and others that use a covered auto with the permission of the insured party, any party that has vicarious liability for the actions of an insured party involving an auto, or anyone from whom a trailer is borrowed if such trailer is towed by a **covered** auto owned by the insured. It covers those listed above for legal liability, defense costs and supplemental payments (duty to defend, \$250/day for lost wages, bail bonds for \$250, etc.).

a. **The liability agreement** has 3 parts:

First is the insurers agreement to pay 'all sums and insured is legally obligated to pay because of BI/PD to which this insurance applies, cause by a covered accident and resulting from the ownership, maintenance or use of a COVERED AUTO'. Remember, only symbol 1 will cover any auto.

- ✚ The second part covers the cost of pollutant clean up. This does not cover the cleanup for a truck that rolls over and spills fuel. This will cover leaks and accidents away from the premises owned or rented by the insured. Additionally, the spill cannot come from the covered auto. e.g., a truck backs into a container while making a delivery and causes a spill, that is covered.
- ✚ Third is the insurers duty to defend. The insurer must defend any insured against any lawsuit seeking damages for BI or PD including pollution cleanup expense due to a covered loss for which this insurance applies. (Not all losses.)
- ✚ The insurer has the right to investigate and settle any claim without consent of the insured.
- ✚ Duty to defend ends when the policy limits have been reached.

b. Liability exclusions

- ❖ expected or intended injury
- ❖ employee injury (workers compensation)
- ❖ property in the care, custody, or control of the insured (liability is for 3rd party)
- ❖ movement of property.
- ❖ operations of mobile equipment. If a cherry picker is on the road and there is an accident, the BAP will cover it. If the same cherry picker is being operated and causes BI or PD to a pedestrian walking by, the CGL of the company picks up that liability.
- ❖ completed operations
- ❖ pollution
- ❖ war exclusion
- ❖ racing exclusion
- ❖ limits of insurance- prevents stacking of benefits

2. Physical Damage (a.k.a. damage to your auto) coverage includes:

a. Comprehensive, a.k.a. Other Than Collision

🚗 coverage pays for losses not excluded and not covered under collision. Coverage includes damage from:


- o falling objects
- o fire
- o theft
- o contact with animals
- o glass breakage
- o **earthquake, flood**

OR, instead of 'other than collision, a business may choose....

b. Specified Causes of Loss covers fewer perils than Comprehensive Coverage. It covers the vehicles on a "named perils" basis. It **does not cover** glass breakage, loss caused by hitting an animal, nor loss caused by falling objects, all of which are covered in Comprehensive Coverage. This coverage replaces Comprehensive Coverage and allows an insured to save money due to lower premium costs.

Additionally, business may choose to have...

c. Collision covers colliding with another object or upset of a covered auto such as the car rolling over. If the insured carries full coverage (Comprehensive and Collision), losses such as glass breakage, hitting an animal, or falling objects may be covered as comprehensive rather than collision.

 **Physical Damage Exclusions** include sound reproducing or receiving equipment, tapes and records, wear and tear, freezing, mechanical or electrical breakdown, road damage to tires, war and nuclear events, or any intentional acts.

d. Transportation Expenses... Physical Damage include coverage for **transportation expenses** (\$20 a day with a maximum of \$600 for example). This coverage reimburses the insured for transportation expenses if an insured auto is out of service due to theft. There is a **48-hour waiting period** before expenses will be paid, and coverage will continue until the auto is returned to use or the company pays for its loss.

There are several sections of the Commercial Auto Policy that deal with covered vehicles such as liability coverage, physical damage coverage, conditions, and definitions. **There is no mention of medical payments, personal injury protection or uninsured motorist's coverage in these sections.**

Why? Because worker's compensation coverage provided by the employer through the Department of Labor and Industries will pay for employee's accidental injuries which are job related.

e. Towing and labor coverages will be in your policy. There are differing limits but generally this pays the towing cost to a repair shop if the car is unable to be driven and may cover some of the labor costs for the repair. This is known by many other names: roadside assistance, emergency service, etc. The labor costs are those costs covered at the location of the breakdown, not at the garage later.

f. Exclusions for Damage to your Auto

- Ø nuclear hazards or war
- Ø racing
- Ø wear and tear
- Ø loss to tapes, records, discs or data equipment for audio visual usage, radar detection equipment, any electronic equipment unless it is installed in an opening designed by the manufacturer for such purposes

g. Deductibles

- The deductible is the portion of the loss the consumer pays first before the insurer pays. A deductible applies to collision, comprehensive and/or specified causes of loss. The deductible is per vehicle per occurrence, meaning if I have a fleet of cars parked overnight and the parking lot flooded, there is a deductible for each vehicle, not 1 deductible due to the flood.
- Any comprehensive deductible does not apply to losses due to fire or lightning.
- The only deductible charged on specified causes of loss is for vandalism or mischief

h. Endorsements

DOC or Drive Other Car endorsement extends coverage to those autos regularly used but not owned by the insured including hired or borrowed autos.

Individual Named Insured extends personal auto coverage to immediate family members of the named insured.

Employees as insureds coverage extends coverage for the business use of a personal auto. It does not protect other family members who may own a vehicle being used by the insured.

Lessor- Additional Insured will cover leased vehicles as though they are owned vehicles.

Mobile equipment added to a policy will cover mobile equipment as an owned auto. Mobile equipment includes bulldozers, farm machinery, forklifts, etc.

Covered Pollution cost covers the cost of testing and clean up due to ordinances. This does not apply to fuels or to pollutants from normal use of the vehicles.

Broad form coverage covers a driver in any vehicle for liability only.

i. General Conditions

- Appraisal: if the named insured and the insurer disagree on the amount of a loss either party may demand an appraisal. Each party hires an appraiser, if the 2 do not agree an impartial 3rd appraiser is hired by both the client and the company. This appraiser may be called an umpire and they in turn choose one of the amounts. Best 2 out of 3 is the final amount. This is the amount to be paid IF the insurer does not deny the claim.
- Give prompt notification of claim, include all details.
- Notify the police if a law has been broken.
- Assume no obligation for liability.
- Cooperate with any investigation.
- Permit inspection of the covered auto.
- Concealment, misrepresentation, or fraud will void coverage.
- Bankruptcy of the insured will not relieve the insurance company of any obligations due.
- Liberalization - the policy will be effective immediately if better coverage is offered at no additional premium.
- No Benefit to the Bailee- no items being transported are covered under this policy.
- We will pay our share only if the loss is covered under another policy.
- Coverage territory is the United States, its possessions and territories, Puerto Rico, and Canada. There is a coverage extension available for vehicles being transported between any of the places listed as covered territory. If, for example, an auto was being shipped from New York to Puerto Rico

and there was a fire on board, the vehicle is in covered territory and will be covered if the auto has comprehensive coverage.

- Coverage territory is anywhere in the world if it is a private passenger auto leased, hired, rented, or borrowed for 30 days or less.
- legal action against the insurer cannot be taken unless there has been full compliance with the company with all the terms under the contract
- loss payment: the insurer may repair, replace, or make a cash settlement.
- transfer of the right of recovery against others or subrogation allows the insurer to be reimbursed by an at fault party after paying for a loss
- premium audits at the end of the policy period to verify the exposures may result in a refund or a bill to the insured

j. Common Conditions

- ❖ changes may only be made with the consent of the insurer. (An agent may not waive any provision)
- ❖ Inspections and Surveys- the carrier has the right to inspect the premises
- ❖ Premiums are the responsibility of the First Named Insured
- ❖ transfer of rights and duties- the named insured duties may not be transferred without consent of the insurer

k. Definitions

Accident- An event that occurs unintentionally or by chance including continuous or repeated exposure to the same harmful conditions resulting in bodily injury or property damage.

Auto - A land motor vehicle, trailer or semitrailer designed for use on public roads.

Bodily Injury - Injury, sickness or disease including death resulting from these to a 3rd party. This is a liability coverage (BI/PD). Settlements for this include lost wages, lost services, etc. to those injured by an insured when the insured is legally liable for the injury.

Covered pollutant expense - Minimal coverage of any cost arising out of suits initiated by a government authority including testing for pollutants.

Diminution in Value - Actual or perceived loss in market or resale value which results from a direct covered loss value.

Employee - A person working in the employment of a business, including a leased worker. This does not include a temporary worker.

Insured - The person who is covered by the insurance.

Insured Contract - Leases, sidetrack agreements, easements.

Leased worker - A person leased to you by a leased worker firm.

Loss - Sudden and accidental loss.

Mobile Equipment - Land vehicles including bulldozers, forklifts, and other vehicles used not on public roads.

Property Damage (BI/PD Liability); Damage to the tangible property of others or loss of use of that property. Damage to your own auto is covered under 'Damage to your auto'

Suit - A civil proceeding due to bodily injury or property damage.

Temporary Worker - A worker who is not a regular employee who is there for seasonal work or to cover a regular employees work while they are on leave.

Trailer - Includes semi-trailer.