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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 law-breakers.

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.
  - *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.
  - *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, **first party**)
- 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 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" is

- the **named insured**, the person listed on the declarations page
  - the spouse living with the named insured
  - members of the named insured's family living with the insured while **using any auto**.
  - 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.***
    - *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.*
  - **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.*
- ☞ **The insurance coverage stays with the car.**

### 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 are automatically in force on the day the insured purchases the vehicle. If the insured's listed vehicles do not all have the same coverage for physical damage, the newly acquired auto automatically receives the same coverage as the listed vehicles with the broadest coverage.

- 3. 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 are automatic and will continue until the policy expiration. For physical damage coverage to continue past 14 days, notification by the insured is required.
- 4. 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)
	<u>Trailers</u> are covered for <b>BI &amp; PD ONLY</b>		
	Notify insurer within <u>14 days</u> to continue <b>physical damage</b>	Notify insurer within <u>14 days</u> to continue <b>any coverage</b>	

## 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 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) Supplemental Payments:** These amounts are paid **IN ADDITION** to the policy limits.

- 💰 Up to \$250 for bail bonds
- 💰 Premiums on appeal bonds or bonds to release attachments.
- 💰 Interest accruing on post and pre-judgments.
  - *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, this is pre-judgement interest. Once the judgement is set the carrier needs time to process the payment or they may appeal, the interest now is post-judgement interest*
- 💰 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., roommates car, parents, 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, the last is 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 total has been paid. Remember, BI is more than doctor's bills. It is lost services, wages, etc.

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

## 3. 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 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.

#### 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.**

- 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 will, due to WA State laws, lower your deductible if you are hit by a driver that is uninsured, underinsured, hit and run, 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. A person does not need to purchase both. If a client has comprehensive and collision, that will cover the same damages as UMPD. The deductibles may be different.

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.**


 **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 bodily injury or property damage arising out of collision.

- e.g., you run into a tree

 **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.

- e.g., a tree falls on your car

 **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).**

 Damage to Your Auto coverage *includes **Transportation Expense Coverage*** (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.**

**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:

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

- b) 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.
- c) 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.
- d) 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.
- e) Fraud** on the part of the insured will void coverage.
- f) Legal action against the insurer** is allowed only after full compliance with the policy terms has been met. (You can't sue for something not paid if you never filed a claim)
- g) Subrogation** (a.k.a. the transfer of 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.
- h) 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.
- i) Changes** can only be made by the named insured and are endorsed on the contract.
- j) 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 the 2 come to differing decisions regarding the claim, a third is utilized and makes a decision based on one of the others already made. 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. 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

 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 for 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.