

CISR

INSURING
PERSONAL AUTO
EXPOSURES

L E A R N I N G G U I D E



THE NATIONAL ALLIANCE
for Insurance Education & Research

Insuring Personal Auto Exposures

THE CERTIFIED INSURANCE SERVICE REPRESENTATIVE PROGRAM

Commercial Casualty I

Commercial Casualty II

Insuring Commercial Property

Insuring Personal Auto Exposures

Life & Health Essentials

Elements of Risk Management

Agency Operations

Insuring Personal Residential Property

Other Personal Lines Solutions

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Insurance policy forms, clauses, rules, court decisions, and laws constantly change. Policy forms and underwriting rules vary across companies.

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A Letter from William J. Hold, President/CEO

We know that choosing the right professional development programs to strengthen your career can be challenging. There are many options for you to choose from; so how can you be sure that your time, efforts, and money are being invested and not wasted?

By partnering with The National Alliance, you can rest assured that you are also making the best educational choice for your career—no matter what step of your learning path you are on.

For the last 50 years, our designations have been regarded throughout the industry as symbols of quality and trust. Our practical insurance and risk management courses are taught by active insurance practitioners, include policies and forms currently used in the field, and guide you through real-world scenarios to give you a deeper understanding of what your clients are facing today. The knowledge and skills you develop in any one of our courses (or designation programs) can be put to use immediately.

You will build long-lasting relationships with your clients and stay ahead of industry trends, emerging risks, and products that are constantly evolving in our dynamic market. You will have access to the industry's latest learning materials and be the first to hear about new courses. With a learning path customized to fit your needs, you will be better equipped to protect your clients.

Have no doubt that your success is our priority. Whether you are new to your career or a seasoned professional, you are about to embark on a wonderful professional development journey. Thank you for choosing The National Alliance for Insurance Education & Research as your guide toward a thriving career.

Let's take the first step.

A handwritten signature in black ink, appearing to read 'W. J. Hold', with a stylized flourish at the end.

William J. Hold, M.B.A., CRM, CISR

President/CEO

To the Participant

Welcome to Insuring Personal Auto Exposures, part of the Certified Insurance Service Representative designation program. This program will provide you with the core knowledge and tools you need in your work as a highly trained insurance service representative.

A Certified Insurance Service Representative (CISR) is recognized as someone capable of analyzing risks, policies, forms, and claims data and communicating that understanding clearly to clients, carriers, and colleagues. As a participant in The National Alliance (TNA) program of study, it is expected that you will not only gain knowledge that will give you greater success in your work, but that you will be challenged to make The National Alliance's core values of integrity, innovation, inspiration, and imagination part of your daily practice.

As experts in their fields, TNA faculty, consultants, and academic directors—each with a commitment to assisting you in your efforts to achieve standards of excellence—have contributed to the content of this course. In this course, you can expect:

- engagement in the learning process
- clear learning objectives supported by essential content
- activities designed to strengthen understanding
- exposure to real-world examples and contexts

As representatives of The National Alliance (TNA), we take great pleasure in welcoming you to this program and to our organization. We are committed to helping you become a successful Certified Insurance Service Representative.

Program Overview

This program overview provides an at-a-glance view of the contents of this Learning Guide. Here you will find section goals as well as specific learning objectives for every section.

Section 1: Introduction to the Personal Auto Policy

Section Goal

In this section, you will become familiar with the Insurance Services Office® (ISO) Personal Auto Policy, gain an understanding of essential policy terms, and acquire the knowledge and skills needed to determine eligibility for an ISO Personal Auto Policy.

Learning Objectives

- *Identify specific risks eligible for an ISO Personal Auto Policy.*
- *Become familiar with the common Personal Auto Policy structure and explain the functions of the Declarations and purpose of endorsements.*

Section 2: Personal Auto Policy Definitions and Liability Coverage

Section Goal

In the previous section of this Learning Guide, Section 1: Introduction to the Personal Auto Policy, you explored eligibility for an Insurance Services Office (ISO) Personal Auto Policy, were introduced to some essential terminology, and began familiarizing yourself with the Personal Auto Policy Program including the function of the Declarations page and purpose of the policy endorsements.

The goals of this section are to understand and apply definitions that appear in the ISO Personal Auto Policy as well as providing you with the knowledge and skills needed to assess liability coverage of various risks.

Learning Objectives

- *Demonstrate an understanding of the policy Insuring Agreement and key definitions that appear in the Personal Auto Policy.*
- *Use knowledge of the coverage of Part A – Liability Coverage Insuring Agreement and Supplementary Payments to recognize the importance of liability coverage and the benefits of high limits.*
- *Apply knowledge of the coverage provided by Part A – Liability Coverage, including the use of exclusions, to identify potential coverage gaps and recommend appropriate endorsements.*
- *Identify and apply policy provisions within Part A – Liability Coverage to loss scenarios.*

Section 3: Medical Payments and/or Personal Injury Protection

Section Goal

In the previous section of this Learning Guide, Section 2: Personal Auto Policy Definitions and Liability Coverage, you discovered the importance of definitions in the Personal Auto Policy. Definitions provide clarity to terms used and, in some cases, provide coverage. You gained an understanding of Part A – Liability Coverage through exploration of the Insuring Agreement, supplementary payments, and coverage exclusions. It became clear that carrying minimum limits of liability coverage may leave policyholders exposed to substantial financial loss in as little as one accident.

It is now time to move to the next part of the Personal Auto Policy, Part B – Medical Payments. The goal of this section is to ensure that you are familiar with the coverage provided by Medical Payments and/or Personal Injury Protection in the Personal Auto Policy and to whom the coverage will apply.

Learning Objective

- *Understand the coverage differences between Medical Payments and Personal Injury Protection and to whom coverage will apply.*

Section 4: Uninsured and/or Underinsured Motorists Coverage

Section Goal

In the previous section of this Learning Guide, Section 3: Medical Payments and/or Personal Injury protection, you developed an understanding of benefits that can be provided to policyholders and occupants of their vehicles since Part A – Liability Coverage of the Personal Auto Policy will not apply to a you or “family member.”

The goal of this section is to provide you with the knowledge and skills needed to understand both the importance of and the coverage provided by Part C – Uninsured/Underinsured Motorists Coverage.

Learning Objectives

- *Explain the purpose of Uninsured/Underinsured Motorists Coverage.*
- *Use knowledge of the Uninsured Motorists Coverage Insuring Agreement and the definitions of “insured” and “uninsured motor vehicle” to identify who is covered and the coverage provided.*
- *Correctly explain Underinsured Motorists Coverage, including how states differ in their definitions of an underinsured motor vehicle (trigger) and how much an “insured” can receive (offset).*

Section 5: Coverage for Damage to Your Auto

Section Goal

In the previous section of this Learning Guide, Section 4: Uninsured and/or Underinsured Motorists Coverage, we explored the coverage available to an “insured” in the event they are injured by a vehicle with too little coverage or no coverage at all.

The goal of this section is to provide you with the knowledge and skills necessary to understand coverages provided by Part D – Coverage For Damage To Your Auto. This includes how the coverages apply to owned and non-owned vehicles, and potential coverage gaps and endorsements available to improve coverage.

Learning Objectives

- *Use knowledge of the Insuring Agreement to explain the differences between “Collision” and Other Than “Collision” coverage.*
- *Understand how to apply coverage provided by Part D – Coverage For Damage To Your Auto to a borrowed or rented automobile.*
- *Apply Part D – Exclusions and the Limit of Liability provision to identify potential gaps in coverage and recommend appropriate endorsements where applicable.*
- *Identify the geographic areas where the Personal Auto Policy provides coverage.*

Section 6: Coverage for a Rented Vehicle

Section Goal

In the previous section of this Learning Guide, Section 5: Coverage For Damage To Your Auto, you gained competency in applying “Collision” and Other Than “Collision” coverage to various exposures which may apply to policyholders. You also became familiar with policy provisions outlining duties and expectations that apply to persons seeking coverage from the policy—whether they be the policyholder, the other “insured,” or a claimant.

The goal of this final section is to provide you with the knowledge and skills needed to present your clients with sufficient information to make an informed decision concerning the need to obtain additional coverage when renting a vehicle.

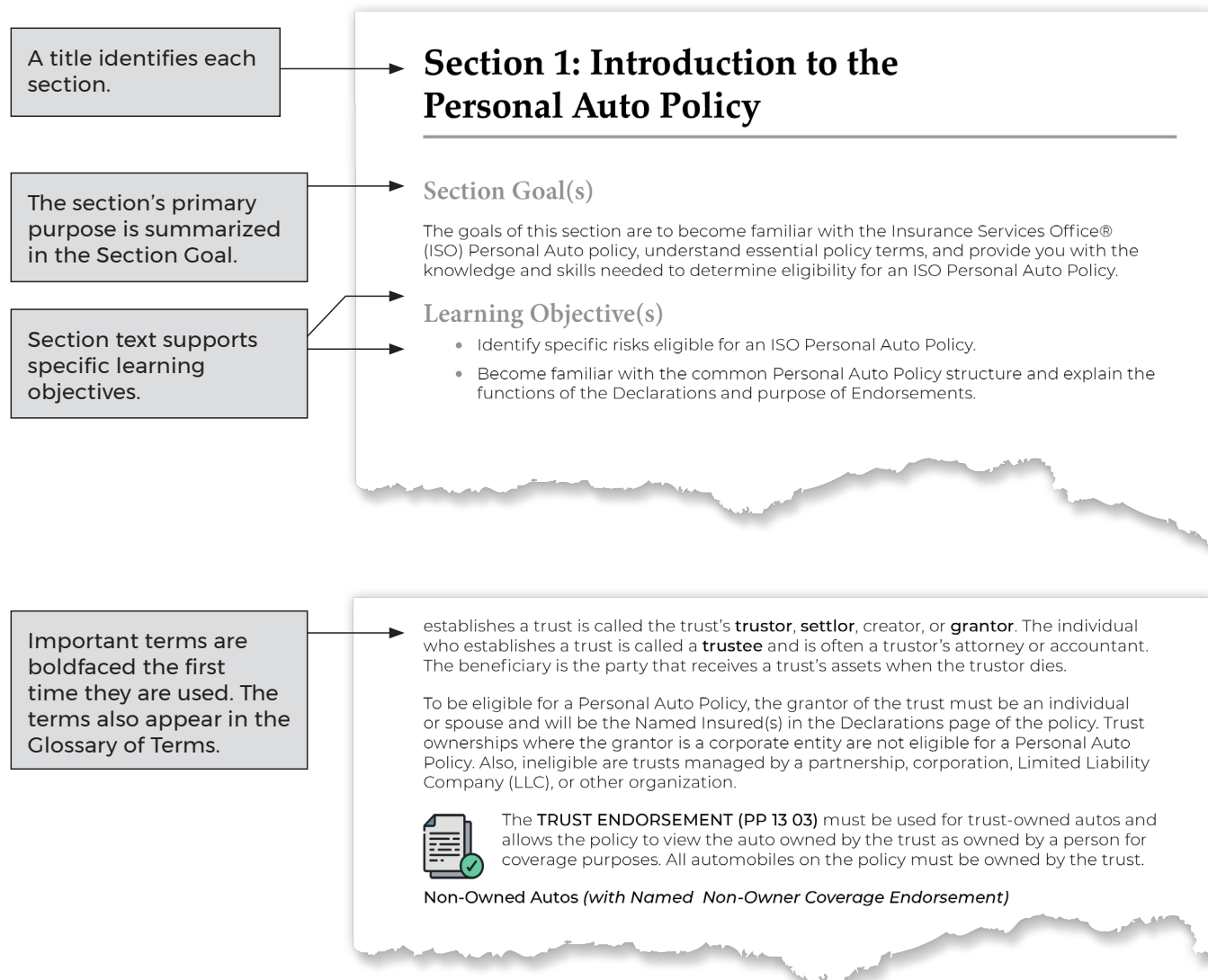
Learning Objectives

- *Identify the responsibilities clients have when renting a vehicle and explain the coverage provided by the ISO Personal Auto Policy and the coverage gaps created.*
- *Demonstrate an understanding of additional options that are available to cover damage to a rental vehicle and describe the protection provided by each option.*

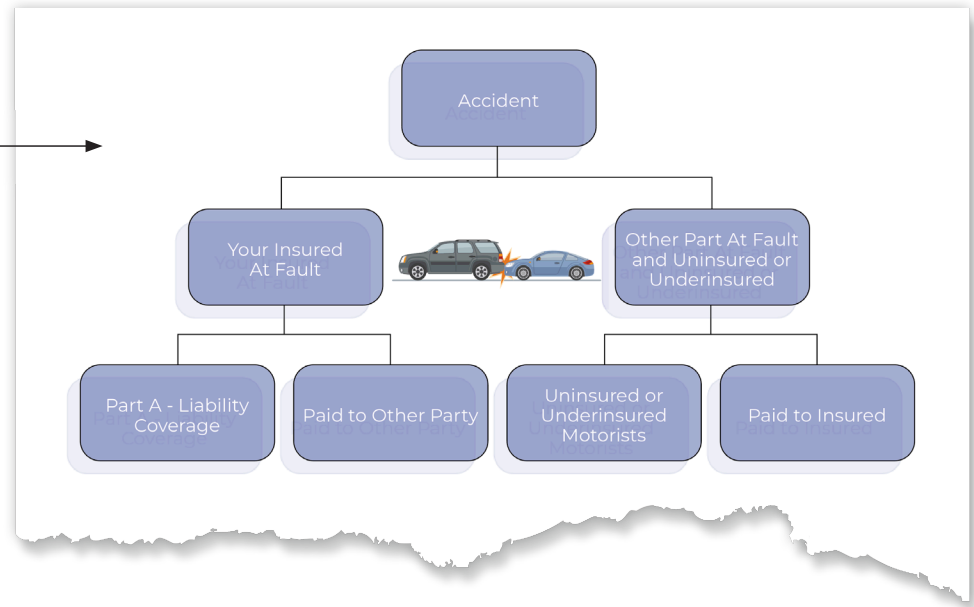
How to Use This Learning Guide

The Learning Guide you are using in this course is like all the learning materials published by The National Alliance; it has been written and authenticated by industry experts.

Each section in this Learning Guide shares the same features.



Visuals such as diagrams, graphs, and tables support the text.



Each section opens with an introduction and concludes with a summary.

Introduction to The Personal Auto Policy

According to iii.org, the Automobile Insurance Plan Service Office (AIPSO) reports that 203 million private passenger vehicles were insured in the United States (excluding Texas) in 2015; an increase of 5 million from the prior year. This figure includes vehicles in the voluntary market of private insurers and state-insured **residual markets**.

Given that most people will own or drive a vehicle at some point in their lives, driving a vehicle may be a person's single most risky daily activity. Each time a person drives their vehicle from point A to point B, they stand to lose financial security should they be at fault for an automobile

The **residual market** consists of assigned risk and state offered insurance plans for consumers who are unable to obtain automobile insurance through



Summary

With as many private passenger vehicles as there are out on the road understanding the ins and outs of the Personal Automobile Policy is crucial.

It is important to understand when coverage can be provided for a client on a Personal Auto Policy. Below are factors to consider when it comes to determining a client's eligibility

- Ownership
- Type of Vehicle
- Usage

If requirements are met, a Personal Auto Policy can be written for the client. In addition to eligibility requirements, underwriting requirements are another aspect clients must meet

Examples describe real-world-style scenarios to enhance your understanding of the concepts presented.



Consider this example: Jamal is a partner at a prominent law firm. Living in a big city where public transportation is widely available, Jamal does not own an auto of his own. Instead, he is provided a company automobile for both business and personal use. It may be that the company vehicle is covered under the law firm's Business Auto Policy (BAP), but if something should happen to the BAP, like accidental cancellation or the right vehicle symbols are not selected, it is good practice for Jamal to have his own Personal Auto Policy with the NAMED NON-OWNER COVERAGE ENDORSEMENT attached.



Check-Ins and Knowledge Checks help you test your understanding before moving forward.

Check-In – Eligibility



Directions: Select yes or no

The following individuals have come to you for their auto insurance. Are they eligible for a Personal Auto Policy?

	Yes	No
Dan and his spouse Elise own two vehicles.		
Bob and Sherry own two vehicles. They are currently separated.		
Bruce and his roommate Brad jointly own a jeep wrangler		
Matt and his fiancé, Diane, have jointly purchased a Mustang. Diane lives with her parents and Matt lives in an apartment across town.		
Tony wants to insure a vehicle registered to a corporation of which he is president.		



Knowledge Check – Eligibility



Alex is a seasoned surfer who recently purchased a new van to drive to the beach for surfing competitions. Due to the storage capability, it makes the most sense to house all of his boards for the long journey. Considering the type of vehicle and its intended use, explain what factor(s) contribute to whether or not Alex's vehicle is considered a private passenger auto, thus granting him eligibility for an ISO Personal Auto Insurance Policy.

Each section closes with a quiz to help you assess your learning.

Section 1 Self-Quiz

Directions: Answer the question below in a sentence or two.

1. When it comes to providing Personal Auto Coverage for a client, explain the three categories of *eligibility* requirements that you as the insurance professional must consider.

A Glossary of Terms puts the Learning Guide's special vocabulary in one, easy-to-use location.

Glossary of Terms

active retention – planned acceptance of losses to be financed internally through the use of deductibles on insurance policies, loss-sensitive insurance plans, and deliberate non-insurance

add-on no-fault states – typically tort states where Personal Injury Protection benefits must be offered, but are optional

Amendment of Policy Provisions – state-specific modifications to the Personal Auto Policy

arbitration – a process meant for resolving conflict outside of the court system; typically, an agreement to settle a dispute using one or more neutral parties (arbitrators) to assess the facts and make a determination

Section 1: Introduction to the Personal Auto Policy

Section Goal

In this section, you will become familiar with the Insurance Services Office® (ISO) Personal Auto policy, gain an understanding of essential policy terms, and acquire the knowledge and skills needed to determine eligibility for an ISO Personal Auto Policy.

Learning Objectives

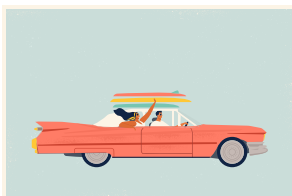
- *Identify specific risks eligible for an ISO Personal Auto Policy.*
- *Become familiar with the common Personal Auto Policy structure and explain the functions of the Declarations and purpose of endorsements.*

Introduction to the Personal Auto Policy

According to iii.org, the Automobile Insurance Plan Service Office (AIPSO) reports that 203 million private passenger vehicles were insured in the United States (excluding Texas) in 2015—an increase of five million from the prior year. This figure includes vehicles in the voluntary market of private insurers and state-insured **residual markets**.

Given that most people will own or drive a vehicle at some point in their lives, driving a vehicle may be a person's single most risky daily activity. Each time a person drives their vehicle from point-A to point-B, they stand to lose financial security should they be at fault for an automobile accident causing serious property damage or bodily injury to another. Not only could the immediate financial impact become burdensome, but future income could also be at risk when a vehicle owner/driver becomes liable for injury or property damages to others.

The **residual market** consists of assigned risk and state-offered insurance plans for consumers who are unable to obtain automobile insurance through private insurance carriers, often because of driving history or high risk factors.



Another substantial loss could be damage to a person's own vehicle. Whether it be due to an accident or a weather event, if a person's vehicle becomes inoperable after a loss, it becomes harder to perform daily activities such as going to work, stopping by the grocery store, or getting to and from doctor appointments. It is generally a financial burden and inconvenience for the average person to simply

buy an additional vehicle should theirs become disabled after an unexpected loss. What to do instead?

Fear not! Automobile drivers and owners are not without a solution. The Insurance Services Office® (ISO) provides solutions through the Personal Automobile Policy, also known as the "PAP."

PERSONAL AUTO
PP 00 01 09 18

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.

If the spouse ceases to be a resident of the same household during the policy period or prior to the inception of this Policy, the spouse will be considered "you" and "your" under this Policy but only until the earlier of:

- a. The end of 90 days following the spouse's

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. A "newly acquired auto";
3. Any "trailer" you own; or
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

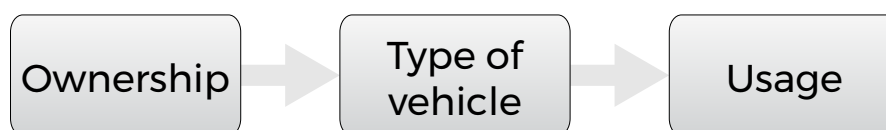
Eligibility for an ISO Personal Auto Policy

Learning Objective

- Identify specific risks eligible for an ISO Personal Auto Policy.

In this course, we will be focusing on the 2018 PERSONAL AUTO POLICY (PP 00 01 09 18). There are very few states that utilize older or specific versions of the ISO Personal Auto Policy.

Insurance professionals must understand when they can provide coverage for a client on a Personal Auto Policy (PAP). One of the first considerations when it comes to providing personal auto coverage for a client is whether the client meets the eligibility requirements. These requirements include ownership, type of vehicle, and usage. If the requirements are met, a Personal Auto Policy can be written for that client.



In addition to the *eligibility* requirements, clients must also meet the insurance company's *underwriting* requirements. Carrier underwriting guidelines generally apply additional considerations for things like the activity on any one driver's motor vehicle report (MVR), the number of claims experienced, or the ratio of drivers to vehicles in the household. For carriers you are contracted with, what is eligible may not always be what is desirable. Since underwriting requirements differ among insurance carriers, company-specific underwriting requirements are not part of this course.

One more note regarding eligibility. It is important not to confuse *eligibility* with *coverage*, as *eligibility* does not determine *coverage*. *Eligibility* is based on the ownership, vehicle, and usage requirements at the time of application, while *coverage* is determined by policy language at the time of a loss.

Ownership

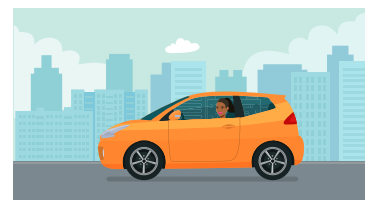
Ownership of a private passenger auto (i.e., auto or vehicle) is the first eligibility requirement to consider. Autos owned by a corporation, LLC, partnership, or any other legal entity are not eligible for a Personal Auto Policy. The word, *personal*, is in the title of the policy form, after all. There are several ownerships under which a Personal Auto Policy may be issued; they include:

- Individually Owned Autos
- Jointly Owned Autos
- Trust Owned Autos
- Non-Owned Autos (*with Named Non-Owner Coverage Endorsement*)

Section 1: Introduction to the Personal Auto Policy

Individually Owned Autos

Automobiles owned by one person is one of the most common eligible vehicle ownerships for a Personal Auto Policy. Consider the auto you drive. Are you the sole owner? If you are, then you are eligible for a Personal Auto Policy, and you will be the named insured in the Declarations.



Jointly Owned Autos



Another common ownership that is eligible for a Personal Auto Policy is ownership between two people. Typically, we think of an individual and spouse; they are eligible for a Personal Auto Policy as long as both reside in the same household. Some states may include domestic partners or civil unions, rather than a spouse, in their Amendment of Policy Provisions endorsement. Other than an individual and resident spouse, there are a few more eligible joint-ownership types; these include joint-ownerships for two individuals who are:

- Related and live in the same household
Example: Mike lives with his mother, Martha. Martha is helping her son buy his first car. The car is titled to both Mike and Martha.
- Related and live in different households
Example: Kathy's son, Adam, lives in an apartment across town. The car is driven by Adam and is titled in both Kathy's and Adam's names.
- Not related and live in the same household
Example: Daniel and Lindsay share an apartment. They own an automobile titled to both of them.



The **JOINT OWNERSHIP COVERAGE (PP 03 34)** endorsement must be used when two individuals jointly own an automobile. The owners must be people—other than spouses—residing in the same household, or “nonresident relatives” (as defined in the endorsement). This endorsement grants “you” status to unrelated, unmarried individuals living in the same household or a “nonresident relative.” Additional liability coverage is excluded for “nonresident relatives” and their “family members” for the use of any vehicle other than a “your covered auto” unless the appropriate box is checked on the schedule to give back coverage.

Trust Owned Autos

A Personal Auto Policy may also be issued for autos owned by or titled to a trust [known as vehicle(s) held in trust]. Sometimes, individuals will establish a trust and name the trust as the owner of certain property such as personal automobiles or residences. A **trust** is a relationship in which one party holds property for the benefit of another party. A trust is intended to protect assets and ensure that an appointed beneficiary receives the benefit of using those assets without probate and estate tax implications should something happen to the trust's trustor. The individual who establishes a trust is called the trust's **trustor, settlor, creator, or grantor**. The individual



Section 1: Introduction to the Personal Auto Policy

who manages a trust is called a **trustee** and is often a trustor's attorney or accountant. The **beneficiary** is the party that receives a trust's assets when the trustor dies.

To be eligible for a Personal Auto Policy, the grantor of the trust must be an individual or spouse and will be the named insured(s) in the Declarations page of the policy. A trust ownership where the grantor is a corporate entity is not eligible for a Personal Auto Policy. Also ineligible are trusts managed by a partnership, corporation, limited liability company (LLC), or other organization.

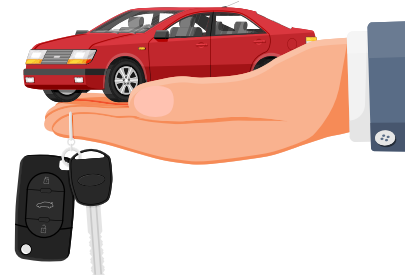


The **TRUST ENDORSEMENT (PP 13 03)** must be used for trust-owned autos and allows, for coverage purposes, the policy to view the auto owned by the trust as being owned by a person. All automobiles on the policy must be owned by the trust.

Non-Owned Autos (with Named Non-Owner Coverage Endorsement)

While most people will own an automobile at some point in their lives, others may drive autos that belong to someone else (like regularly driving a roommate's automobile), or they may be provided a company-owned auto to use for both business and personal purposes.

The Personal Auto Policy may also be used to provide coverage to a named individual who does not own an automobile and is not a "you" or a "family member" under any other Personal Auto Policy.



The **NAMED NON-OWNER COVERAGE ENDORSEMENT (PP 03 22)** must be added to the Personal Auto Policy of the person who does not own an automobile. This endorsement will provide the named individual—who is not a "**you**" or "family member" on any other Personal Auto Policy—with Liability, Medical Payments, and Uninsured Motorists coverages. Collision and Other Than Collision coverage may be added up to the stated amount in the endorsement schedule, less the selected deductible.



Consider an example: Jamal is a partner at a prominent law firm. Living in a big city where public transportation is widely available, Jamal does not own an auto of his own. Instead, he is provided a company automobile for both business and personal use. It may be that the company vehicle is covered under the law firm's Business Auto Policy (BAP), but if something should happen to the BAP, like accidental cancellation or the right vehicle symbols are not selected, it is good practice for Jamal to have his own Personal Auto Policy with the NAMED NON-OWNER COVERAGE ENDORSEMENT attached.



Type of Vehicle and Vehicle Usage

Once ownership is determined to be eligible, the next eligibility requirement for a Personal Auto Policy is the type of vehicle to be insured by the policy and how it is used. What exactly is a vehicle or an auto? Some insurance carriers may explicitly define *motor vehicle* or *auto* within their policies, but the ISO Personal Auto Policy has no such definition. Merriam-Webster defines a motor vehicle as “an automotive vehicle not operated on rails” (“rails” referring to those used by trains or trams). Generally, we identify a motor vehicle as being on wheels and self-propelled by a motor on land.

Private Passenger Autos



The ISO *Personal Vehicle Manual* takes the position that a PAP may be used to provide coverage to private passenger autos and motor

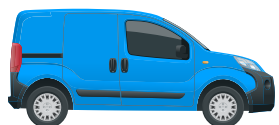
vehicles considered as private passenger autos. A private passenger auto is identified as a four-wheeled motor vehicle owned or leased for six months or longer. The vehicle cannot be used for **public or livery conveyance** and may not be rented to others. There are special considerations for truck-type vehicles and vans to be considered private passenger autos.

Public or livery conveyance

refers to the use of a vehicle for transporting people or goods for a fee (or hire)—consider an Uber, Lyft, Taxi, or delivery service



Trucks and Vans

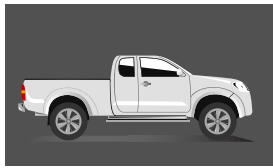


When it comes to truck-type vehicles and vans, why are they called out? To be considered a private passenger auto, a pickup or van must meet additional requirements. One of the requirements is that the **gross vehicle weight rating (GVWR)** of these types of vehicles must be

10,000 pounds (lbs.) or less. Some states modify the eligible GVWR by reducing it as low as 9,000 lbs. or increasing it to 12,000 lbs. or more in their Amendment of Policy Provisions endorsement.

Gross vehicle weight rating (GVWR) *refers to the maximum weight a vehicle is designed to safely carry according to the vehicle manufacturer and includes the total weight of the vehicle plus passengers, vehicle fluids, accessories, and cargo.* A vehicle **ISO Symbol** is first based on the vehicle's suggested retail price (MSRP) or the price-new symbol; then, the Symbol is adjusted based on actual and predicted claim frequency or severity. The ISO Symbol is used to help carriers match premium to actual and predicted losses for any given vehicle.

Section 1: Introduction to the Personal Auto Policy



GVWR	Vehicle Example
5,420 lbs.	2021 Ford Transit Connect Van
6,800 lbs.	2021 GMC Sierra 1500 Crew Cab
10,150 lbs.	2021 Sierra 2500 Heavy Duty Crew Cab
11,350 lbs.	2021 Sierra 3500 Heavy Duty Crew Cab

Consider the following vehicle types which may not be eligible for a Personal Auto Policy: cargo vans, high-capacity passenger vans, Ford E-350, flatbed trucks (ex: RAM 3500, 4500, 5500), and extended passenger vans (Ford E-series Econoline, Ford Transit, Mercedes-Benz Sprinter).

A pickup or van weighing more than 10,000 lbs. GVWR may be considered a private passenger auto when a symbol is displayed in the *Symbol and Identification Manual*. In addition to meeting GVWR requirements for PAP eligibility, a pickup or van may *not* be used to transport goods or materials unless it is:

- Incidental to the insured's business of installing, maintaining, or repairing furnishings
Example: James, the plumber, carries parts and supplies needed for various jobs in his pickup.
- A farm or ranch vehicle
Example: Delilah uses her pickup to drop hay bales in her pasture to feed cattle.



Don't forget! We are only addressing eligibility right now; not coverage. Business use of a private passenger auto, other than what is specified above, does not make a vehicle ineligible for coverage on a PAP.

Other Eligible Vehicles

In addition to the vehicles above, there are less obvious types of eligible vehicles; let's take a look at some other eligible vehicles. One such type is trailers, which you may not think of as vehicles at all. The other eligible vehicle type is miscellaneous vehicles.

Section 1: Introduction to the Personal Auto Policy

Trailers



Trailers, which are specifically defined in the PAP, are eligible for coverage on a Personal Auto Policy when designed for use with private passenger autos, pickup, vans, or if they are camper bodies designed for use with pickups. Trailers also

include farm wagons or implements when towed by private passenger autos, pickups, or vans. However, trailers are *not* eligible if:

- used for business purposes with non-private passenger autos,
- there is no other auto present on the PAP, or
- located for use as a residence (such as trailers parked as residences in mobile home parks or maybe at a long-term campsite or RV park).

Miscellaneous Vehicles



Vehicles such as motorhomes, motorcycles, motorized golf carts, motorized scooters, go-carts, dune buggies, all-terrain vehicles (ATVs), snowmobiles, etc., are eligible for coverage on the Personal Auto policy when the **MISCELLANEOUS TYPE VEHICLE ENDORSEMENT (PP 03 23)** or the **SNOWMOBILE ENDORSEMENT (PP 03 20)** are attached to the policy. Specialized personal lines policies may provide better coverage for miscellaneous vehicles over the Personal Auto Policy. These specialty policy types are addressed in the **CISR Personal Lines Specialty** course.



The **MISCELLANEOUS TYPE VEHICLE ENDORSEMENT (PP 03 23)** and **SNOWMOBILE ENDORSEMENT (PP 03 20)** ensure that the vehicle type listed in the schedule will be considered a covered auto on the policy.

Check-In



Directions: Select Yes or No.

The following individuals have come to you for their auto insurance. Are they eligible for a Personal Auto Policy?

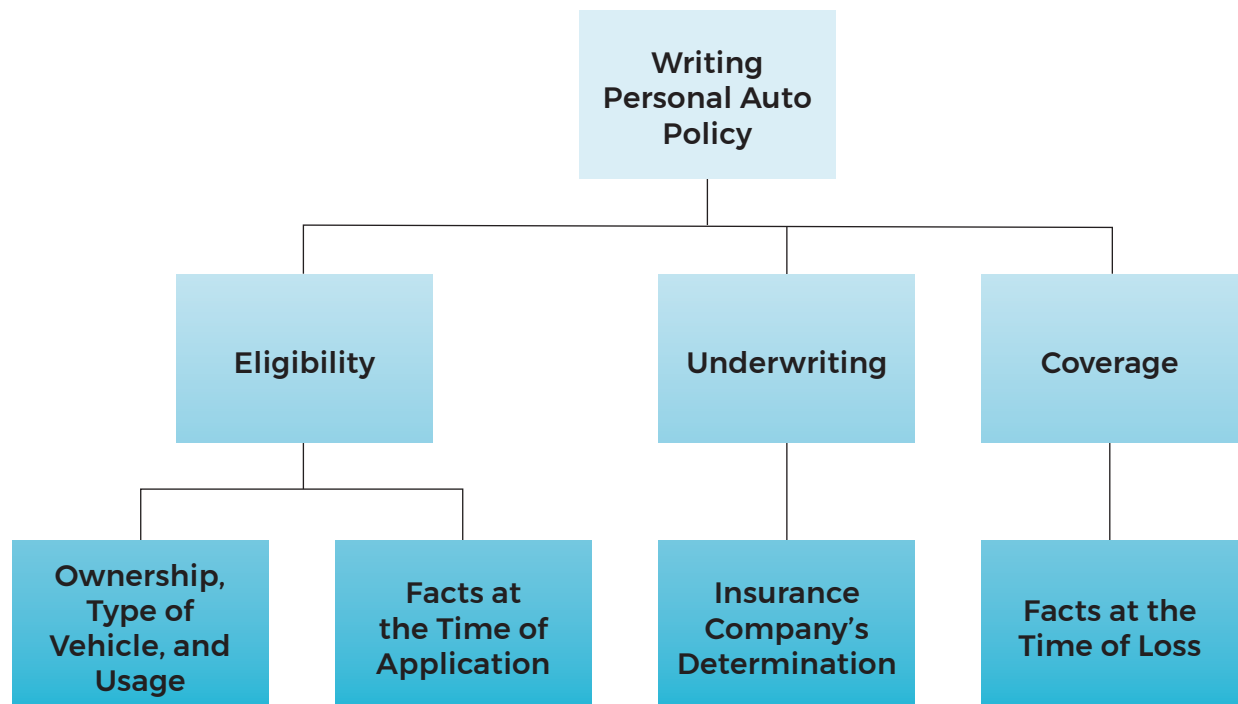
	Yes	No
Dan and his spouse, Elise, live together and own two vehicles.		
Bob and Sherry own two vehicles. They are currently separated.		
Bruce and his roommate, Brad, jointly own a Jeep Wrangler.		
Matt and his fiancé, Diane, have jointly purchased a Mustang. Diane lives with her parents and Matt lives in an apartment across town.		
Tony wants to insure a vehicle registered to a corporation of which he is president.		
Dave and his spouse have registered their only cars under a family trust.		
Steve primarily drives his car for Uber.		
Jane owns a small pickup and a camping trailer.		
Stephanie owns a Ford F-550 pickup that has a GVWR of 15,000 lbs.		
Leilani uses her van to deliver flowers for the local florist.		

When it comes to private passenger autos, the ISO *Personal Vehicle Manual* states *eligibility* of private passenger autos on a specified auto basis, meaning vehicles must be identified and are not insurable on a blanket basis (i.e., one coverage limit for multiple vehicles not itemized in the policy).

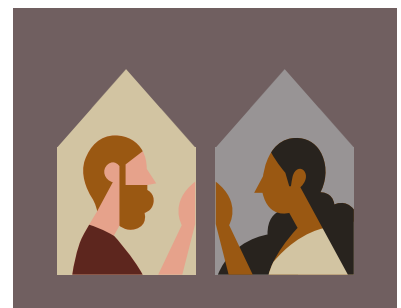
Before we leave eligibility, *let's remember not to confuse eligibility with coverage, as the two are unrelated*. Eligible vehicles may not be covered for a loss due to an exclusion in the policy; likewise, a vehicle that was eligible at the time the policy was written may not be an eligible vehicle at the time of a loss but may still receive coverage from the policy.

Section 1: Introduction to the Personal Auto Policy

Review the chart below. Eligibility is determined at the time of the policy application, using ownership, type of vehicle, usage, and other discoverable facts required by the insurance company. Through the process of underwriting, the company will decide on approving the application for policy issuance. When a loss occurs, underwriting and eligibility do not determine coverage; it is the facts of the loss which determine how policy coverage and exclusions will apply to the claim.



Marcus wrote a Personal Auto Policy for Armando and his spouse, Zariah. At the time Marcus wrote the policy for his clients, they owned three vehicles and lived together. Marcus ensured that both Armando and Zariah were named insureds to the policy and named in the Declarations page. Three months later, Armando and Zariah separated and began living in different households. Soon after, Zariah was involved in an accident. Remember that the Personal Auto Policy eligibility requires autos to be owned by individuals or spouses who are residents of the same household. Just because Armando and Zariah are no longer eligible for a new Personal Auto Policy together, as they now live separately, this does not mean that Zarah will not have coverage under the policy which insures her and her vehicle.





Knowledge Check



Alex is a seasoned surfer who recently purchased a new van to drive to the beach for surfing competitions. Due to the storage capability, it makes the most sense to house all his boards for the long journey. Considering the type of vehicle and its intended use, explain what factor(s) contribute to whether Alex's vehicle is considered a private passenger auto, thus granting him eligibility for an ISO Personal Auto Insurance Policy.

Policy Structure

Learning Objective

- *Become familiar with the common Personal Auto Policy structure and explain the functions of the Declarations and the purpose of endorsements.*

Now that you are familiar with the eligibility requirements for a Personal Auto Policy, the next step is to begin analyzing the policy for coverage. The Personal Auto Policy structure is predictable across most insurance carriers. When a client receives a policy from their insurance carrier, it typically starts with the Declarations page. This is then followed by the policy form and its various parts, concluding with any policy endorsements that alter the policy form coverage.



It is important that you understand how to read a policy. It's not as simple as picking up a novel and reading page after page in chronological order. You will need to use the information in the Declarations page to fully understand the meaning of certain definitions. Some definitions will even be a part of other defined terms, as you will soon see with "your covered auto," which incorporates the terms "newly acquired auto" and "trailer." Then you will need to connect coverage and exclusions back to definitions to understand who or what is covered. State Amendments of Policy Provisions and other mandatory or optional endorsements will then remove policy language, replace policy language, or add policy language; so, flipping back and forth between pages and connecting the dots is going to be a necessary skill.

Section 1: Introduction to the Personal Auto Policy

Before beginning an analysis of the PAP, it is helpful to look at the structure of the Personal Auto Policy, as this course will examine the policy in the same order.

THE PERSONAL AUTO POLICY
DECLARATIONS
AGREEMENT
DEFINITIONS
PART A – LIABILITY COVERAGE
PART B – MEDICAL PAYMENTS COVERAGE/PERSONAL INJURY PROTECTION
PART C – UNINSURED/UNDERINSURED MOTORISTS COVERAGE
PART D – COVERAGE FOR DAMAGE TO YOUR AUTO
PART E – DUTIES AFTER AN ACCIDENT OR LOSS
PART F – GENERAL PROVISIONS

Endorsements are attached to the policy and alter the policy form and coverage.

Parts A through D of the Personal Auto Policy operate independently of each other. Each coverage part has its own Insuring Agreement, additional definitions, exclusions, and conditions that apply to that coverage part only.

Declarations

Throughout the policy, you will see references to the **Declarations** page. This page (commonly referred to as the “Dec page”) is attached to the Personal Auto Policy coverage form and is part of the legal contract. While the layout may vary by each insurance company, the information provided on this page normally includes:



- Name of the insurance company providing the coverage
- Policy number
- Policy Period (effective and expiration date by which the policy starts and stops)
- Named Insured(s) to whom the policy was issued
- Named Insured(s) mailing address
- Vehicle garaging address (if different from the mailing address)
- Vehicle(s) insured, including its vehicle identification number (VIN)
- Coverage provided (limits of liability selected and for which a premium is shown)
- Deductibles for Collision and Other Than Collision coverage (if selected)
- Name of Loss Payee (financial institution that holds a lien/loan on a vehicle, if applicable)
- Policy Form
- Endorsements (broaden, restrict, clarify, or comply with state-specific regulations)

The Declarations page signifies the *who*, *what*, and *when* a client has coverage. In other words, it details to whom coverage is provided, what specific coverage the policy provides, and when the policy will provide those coverages. Take a moment to review the sample Declarations page on the following page and take note of where the important information above appears. Also, notice the form and endorsement(s) identified as part of the policy:

- PERSONAL AUTO POLICY (PP 00 01 09 18)
- EXTENDED NON-OWNED COVERAGE – VEHICLES FURNISHED OR AVAILABLE FOR REGULAR USE (PP 03 06 09 18)



The accuracy of the information presented in the Declarations is extremely important as this information is the starting point for applying coverage (definitions and terms of coverage) at the time of a loss. It is vital for insurance advisors and professionals to review the Declarations when the policy is received and any time it is serviced to ensure that the information is correct and that the policy reflects the coverages requested.

Personal Auto Policy Declarations

ABC Insurance Company of America

POLICYHOLDER:
(Named Insured):

Chris and Karen Swift
8110 Lake Street
Lincoln, Nebraska 68506

POLICY NUMBER:

296 S 468211

POLICY PERIOD:

FROM: September 1, 20x1
TO: March 1, 20x2

But only if the required premium for this period has been paid, and for six-month renewed periods if renewal premiums are paid as required. Each period begins and ends at 12:01 A.M. standard time and the address of the policyholder.

INSURED VEHICLES AND SCHEDULE OF COVERAGES

VEHICLE COVERAGES	LIMITS OF INSURANCE	PREMIUM
1 2008 Toyota Corolla	ID#: JT2AL21E8B3306553	
Coverage A – Liability:		
Bodily Injury Liability	\$ 100,000 Each Person \$ 300,000 Each Accident	\$ 110.00
Property Damage Liability	\$ 50,000 Each Accident	\$ 40.00
Coverage B – Medical Payments	\$ 5,000 Each Person	\$ 36.00
Coverage C – Uninsured Motorist:		
Bodily Injury	\$ 100,000 Each Person \$ 300,000 Each Accident	\$ 40.00
	TOTAL	\$ 226.00
2 2018 Ford Fusion	ID#1FABP30U7GG212619	
Coverage A – Liability:		
Bodily Injury Liability	\$ 100,000 Each Person \$ 300,000 Each Accident	\$ 145.00
Property Damage Liability	\$ 50,000 Each Accident	\$ 60.00
Coverage B – Medical Payments	\$ 5,000 Each Person	\$ 36.00
Coverage C – Uninsured Motorist:		
Bodily Injury	\$ 100,000 Each Person \$ 300,000 Each Accident	\$ 40.00
Coverage D – Other Than Collision	Actual Cash Value Less \$250	\$ 50.00
– Collision	Actual Cash Value Less \$500	\$ 130.00
	TOTAL	\$ 461.00

POLICY FORM AND ENDORSEMENTS: PP 00 01 09 18, PP 03 06 09 18

Check-In



Directions: For each statement, select True or False.

1. Information in the Declarations page is unimportant as it has no bearing on coverage at the time of a loss.

True

False

2. The insuring agreement, additional definitions, exclusions, and conditions in coverage Parts A through D apply separately to each coverage part.

True

False

3. Endorsements attached to the Personal Auto Policy are used to broaden, restrict, clarify, or comply with state-specific regulations.

True

False

4. The Declarations page should only be reviewed when the Personal Auto Policy is first written.

True

False

Endorsements

Endorsements affect coverage and are a part of the legal policy contract. Endorsements may add or change definitions and may also broaden, restrict, or clarify coverage through a policy. When an endorsement is added, it often notes that part of the policy is amended or replaced. State-specific endorsements are typically added to comply with state laws or specific policy requirements and changes.

For example, the Extended Non-Owned Coverage – Vehicles Furnished or Available for Regular Use (PP 03 06) endorsement noted on the sample Declarations shown earlier adds policy language which will extend liability and medical payments coverage to furnished or available non-owned vehicles the insured may regularly drive which may otherwise be excluded in the Personal Auto Policy. Or, the Texas Amendment of Policy Provisions (PP 01 50), among other things, increases the eligible gross vehicle weight rating (GVWR) from 10,000 lbs. to 25,000 lbs. and alters automatic coverage provided under the “newly acquired auto” definition to be provided for up to 20 days rather than 14 days.

As an insurance professional, you are responsible for understanding and explaining to the policyholder how these policy language substitutions are made in order to confirm coverage.

Knowledge Check

Directions: Review the scenario and check the policy Declarations page. Discuss your observations; for any observations, discuss how coverage could be impacted.

Scenario: Prospect Haylee Jansen accepted your annual auto quote on a 2018 Nissan Altima she jointly owns with her brother who lives in the apartment next door. You quoted coverage to include Collision and Other Than Collision, with \$500 deductibles.

[illegible]

Section 1: Introduction to the Personal Auto Policy

Personal Auto Policy Declarations		
YOUR Insurance Company of America		
POLICYHOLDER:	Hailey Johnsen	
MAILING ADDRESS	135 Prime Lane Your Town, NE 00000	
POLICY NUMBER	ATX 009 987654	
POLICY PERIOD	EFFECTIVE: January 01, 2x01 EXPIRATION: July 01, 2x01	
But only if the required premium for this period has been paid, and for six-month renewed periods if renewal premiums are paid as required. Each period begins and ends at 12:01 A.M. standard time at the address of the policyholder.		
INSURED VEHICLES	LIMITS OF INSURANCE	PREMIUM
2018 Nissan Altima	VIN: 1N4AL3AP3JC99999	
Coverage A – Liability:		
Bodily Injury Liability	\$100,000 Each Person \$300,000 Each Accident	\$ 185.00
Property Damage Liability	\$100,000 Each Accident	\$ 86.00
Coverage B – Medical Payments	\$ 5,000 Each Person	\$ 50.00
Coverage C – Uninsured Motorist:		
Bodily Injury	\$100,000 Each Person \$300,000 Each Accident	\$ 35.00
Coverage D – Collision	Actual Cash Value less \$5,000	\$ 15.00
Other Than Collision	Actual Cash Value less \$500	\$ 150.00
Policy Form And Endorsements	PP 00 01 09 18 – Personal Auto Policy PP 01 85 09 18 – Amendment of Policy Provisions – Nebraska	
Total Premium		\$ 521.00
Drivers:	Hailey Johnsen (Age: 26) Tommy Jansen (Age: 23)	

Endorsements in this Section

Below is a list of endorsements identified in this section.



JOINT OWNERSHIP COVERAGE (PP 03 34)



TRUST ENDORSEMENT (PP 13 03)



NAMED NON-OWNER COVERAGE (PP 03 22)



**MISCELLANEOUS TYPE VEHICLE ENDORSEMENT (PP 03 23)
and SNOWMOBILE ENDORSEMENT (PP 03 20)**

Summary

With as many private passenger vehicles as there are out on the road, understanding the “ins and outs” of the Personal Automobile Policy is crucial.

It is important to understand when coverage can be provided for a client on a Personal Auto Policy. Below are factors to consider when it comes to determining a client’s eligibility:

- Ownership
- Type of Vehicle
- Usage

If requirements are met, a Personal Auto Policy can be written for the client. In addition to eligibility requirements, underwriting requirements are another aspect clients must meet for consideration. Remember: eligibility and coverage are two different things. Eligibility does *not* determine coverage.

With respect to ownership of a private passenger auto, there are several ownerships under which a Personal Auto Policy may be issued:

- Individually Owned Autos
- Jointly Owned Autos
- Trust Owned Autos
- Non-Owned Autos




Next, it’s important to consider the *type* of vehicle to be insured by the policy and how it will be *used*. Motor vehicles are identified as being on wheels and self-propelled by a motor on land. Private passenger autos, trucks, and vans, other eligible vehicles, and miscellaneous vehicles are all categories of autos that may be insurable under a Personal Auto Policy if they meet the requisite criteria. Private passenger autos, for example, must not be used for public or livery conveyance and may not be rented to others in order to be considered eligible.

Analyzing the Personal Auto Policy for coverage is the next step, once you are familiar with eligibility requirements. Most insurance policies begin with the Declarations page; this page provides important information about the insurance company providing the coverage, the policy number and policy period, the named insured(s) to whom the policy was issued, the named insured(s) mailing address, etc. Ensuring the accuracy of the information presented on this page cannot be stressed enough. Following the Declarations page is the policy form (inclusive of coverage parts), concluding with endorsements. Endorsements are important because they can restore coverage excluded by the policy.

In the next section, you will learn about the Personal Auto Policy definitions and Liability Coverage.

Resources

Important concepts related to the Learning Objectives in this chapter are summarized in separate videos. Online participants can use the links to access the videos. Classroom learners can access the videos at scic.com/PAresources.

	Eligibility vs. Coverage
	What is a Vehicle?
	Reading a Policy with Endorsements

Section 1 Self-Quiz

Directions: Answer each question in a sentence or two.

1. When it comes to providing personal auto coverage for a client, what are the three categories of *eligibility* requirements that you, as the insurance professional, must consider?

2. When it comes to gross vehicle weight rating (GVWR), explain how this impacts whether or not trucks and vans meet the requirement for private passenger auto coverage.

How does an ISO Symbol also impact this?

Section 1: Introduction to the Personal Auto Policy

Directions: Select the type of ownership under which a Personal Auto Policy may be issued for each scenario.

Options: Individually Owned, Jointly Owned, Trust Owned, Non-Owned

Scenario	Ownership Type
1. J. Marsh Holdings, owns a personal automobile for the benefit of another party, Gina. The intention is to protect assets and ensure that Gina, the beneficiary, receives the benefit of using those assets without probate and estate tax implications.	
2. Sacha owns a blue Corvette and is the sole owner of the vehicle. Sacha is the named insured on the Declarations page of the policy.	
3. Kurt works in sales, and one of the perks of the job is that his company issued him a car. Kurt loves having a car to drive and uses the company car for both business and personal use.	
4. Maggie and Emma are not related but live in the same household and share one car between them. Both Maggie's and Emma's names are on the title.	

Section 1: Introduction to the Personal Auto Policy

Directions: Read each statement below and indicate whether it is True or False.

1. Since eligibility and coverage are one and the same, Mary is correct to assume that if she's eligible for personal auto coverage for the car she drives, that she is covered at the time of a loss.

True

False

2. A private passenger auto is identified as a four-wheeled motor vehicle, including a truck-type vehicle, used for public or livery conveyance, and can be rented to others.

True

False

3. If an ISO symbol is assigned in the *Symbol and Identification Manual* to a vehicle greater than 10,000 lbs. GVWR, that vehicle may also be considered a private passenger auto.

True

False

4. Trailers **are** eligible for coverage on a Personal Auto Policy when designed for use with private passenger autos, pickup vans, or if they are camper bodies.

True

False

5. The SNOWMOBILE ENDORSEMENT (PP 03 20) is an example of an endorsement that provides auto policy coverage under the category of miscellaneous vehicles.

True

False

6. Eligibility is determined *after* the policy application, using ownership, type of vehicle, usage, and other discoverable facts required by the insurance company.

True

False

7. The endorsement granting "you" status to unrelated, unmarried, individuals living in the same household or to "nonresident relatives" who own a vehicle together would be the JOINT OWNERSHIP COVERAGE (PP 03 34) endorsement.

True

False

8. A trust ownership, where the grantor is a corporate entity, is not eligible for a Personal Auto Policy.

True

False

Section 1: Introduction to the Personal Auto Policy

Section 2: Personal Auto Policy Definitions and Liability Coverage

Section Goal

In the previous section of this Learning Guide, Section 1: Introduction to the Personal Auto Policy, you explored eligibility for an Insurance Services Office (ISO) Personal Auto Policy, were introduced to some essential terminology, and began familiarizing yourself with the Personal Auto Policy Program including the function of the Declarations page and purpose of the policy endorsements.

The goals of this section are to understand and apply definitions that appear in the ISO Personal Auto Policy as well to as provide you with the knowledge and skills needed to assess liability coverage of various risks.

Learning Objectives

- *Demonstrate an understanding of the policy Insuring Agreement and key definitions that appear in the Personal Auto Policy.*
- *Use knowledge of the coverage of Part A – Liability Coverage Insuring Agreement and Supplementary Payments to recognize the importance of liability coverage and the benefits of high limits.*
- *Apply knowledge of the coverage provided by Part A – Liability Coverage, including the use of exclusions, to identify potential coverage gaps and recommend appropriate endorsements.*
- *Identify and apply policy provisions within Part A – Liability Coverage to loss scenarios.*

Introduction to the Insuring Agreement, Definitions, and Liability Coverage

In the previous section, we began policy exploration with an overview of what coverage parts to expect: the Insuring Agreement, Definitions, and Part A – Liability Coverage, to name a few. We also took a look at the important information on the policy Declarations page. Remember, the information in the Declarations page is important because it is the basis on which policy coverage is applied.



The primary focus of this part of the Learning Guide is to continue exploring the coverage parts of the Personal Auto Policy. You will gain an understanding of the central role of Insuring Agreements, remembering that each coverage part operates independently of the others and has its *own* Insuring Agreement. You will also gain an understanding of key policy definitions and begin applying those definitions to information found in the Declarations page as well as coverage within the policy. With this foundation, you will be able to recognize the benefits of high Liability Coverage limits before beginning an in-depth look at how the policy restricts coverage through exclusions. Throughout this section, you will be introduced to endorsements and begin to identify how they alter the Personal Auto Policy.

Let's get started on our journey through the policy Insuring Agreement, key definitions, and Part A –Liability.

The Insuring Agreement

Learning Objective

- *Demonstrate an understanding of the policy Insuring Agreement and key definitions that appear in the Personal Auto Policy.*



An insurance policy operates under the principle of “utmost good faith.” This term originates from the Latin term, *Uberrima Fides*, or *Uberrimae Fidei*. The principle of **utmost good faith** is used in insurance contracts and legally obliges all parties of a contract to act honestly and not mislead or withhold critical information from one another. Think about this: when you are questioning a prospect for application or accepting details from a claimant, you reasonably expect that the prospect or client is being truthful. The prospect or client also reasonably expects

that their insurance policy is going to fairly apply coverage and the terms of their policy when they need it most. If the policyholder and insurance company cannot trust each other to act in good faith to the agreed-upon contract, what good is the contract?

The Personal Auto Policy begins with the Insuring Agreement. It states that the insurance company will provide and pay policy coverage as long as the named insured does two things: (1) pays the policy premium and (2) complies with all conditions of the policy. Those

two requirements are very important. The Insuring Agreement may vary between insurance companies, but generally applies the same principles.

Insuring Agreement

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

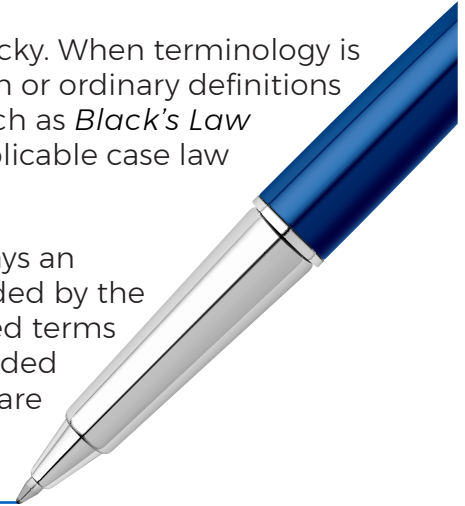
Policy Definitions

The Definitions section of the Personal Auto Policy provides specific meaning to terms that are used throughout the policy. These are defined so the policyholder, the insurance company, and the courts know what each term means within the context of the policy.



Interpreting undefined policy language can be tricky. When terminology is not specifically defined within the policy, common or ordinary definitions of words are generally used. Refer to resources such as *Black's Law Dictionary*, *Merriam-Webster's Dictionary*, or applicable case law to help clarify undefined terminology.

It is important to comprehend the defined terms as each plays an important role when determining whether coverage is provided by the various parts of the policy. When used in the policy, all defined terms are in quotation marks, except for **you** and **your**. We have bolded **you** and **your** in this course material as a reminder that they are defined words.



You and Your



Policy definitions for “**you**” and “**your**” are key definitions as the best coverage provided by the Personal Auto Policy is reserved for the **you** and **your**. So, any person falling within the definition of **you** and **your** receives the *best coverage* provided by the policy.

The individual named in the Declarations, otherwise called the named insured, is the **you** of the policy. Additionally, the named insured’s spouse (*or partner of a civil union) is a **you** to the policy as long as they are a resident of the named insured’s household.



*Daria A. Sommers is shown in the Declarations of her policy; she is a **you**.*



* It is important to note that many states amend the “**you**” and “**your**” definitions to include partners of civil unions or domestic partnerships in the Amendment of Policy Provisions endorsement. Check your state’s policy provisions for specific wording.

Consider the following questions that frequently come up with respect to the **you** and **your** in the policy.



What if an individual is named in the Declarations but the spouse/partner is not?

The definition of **you** and **your** states that the spouse (or partner of a civil union in some states) who is not the named insured in the Declarations is a **you** as long as they are a resident of the same household as the named insured.



*Yuna M. Zhang is shown in the Declarations of her policy; she is a **you** of the policy. Her spouse, Chan M. Zhang, is not named in the Declarations, but is a **you** as long as he is a resident of Yuna's household.*



What happens when the spouse/partner not named in the Declarations is no longer a resident of the same household?

The definition continues, and states that if, prior to the inception of the policy or during the policy period, the spouse/partner is no longer a resident, they will remain a **you** until the earliest of:

- 90 days after he or she ceases to be a resident of the same household; OR
- the effective date of a policy in his or her name; OR
- the date this policy expires.



If the auto policy is for an individual and spouse/partner, ensure both names are in the Declarations so that both are a **you** and receive the best coverage provided by the policy, regardless of relationship status and related residency.



It is often thought that if there are fewer than 90 days left in the policy period, the un-named spouse/partner will stop being a **you** at the end of the policy

period. The **you** status may actually extend into the next policy period, subject to a total of 90 days between both policy periods. This is because the ISO policy language states that if the spouse ceases to be a resident of the same household during the policy period or prior to the inception of the policy, the spouse will be considered a **you** and **your** under the policy until the earlier of the stated events.

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.

If the spouse ceases to be a resident of the same household during the policy period or prior to the inception of this Policy, the spouse will be considered "you" and "your" under this Policy but only until the earlier of:

- a. The end of 90 days following the spouse's change of residency;
- b. The effective date of another policy listing the spouse as a named insured; or
- c. The end of the policy period.

“We,” “Us,” and “Our”

Policy definitions “we,” “us,” and “our” refer to the insurance company providing the coverage.

Combined with **you** and **your**, “we,” “us,” and “our” make up the parties to the Personal Auto Policy contract. Recall that the policy Insuring Agreement stated, “in return for premium payment ‘we’ agree with **you**...” which is followed by the remainder of the policy contract.

These parties	enter into a contractual agreement with these parties, the carrier, or issuing company.
you	“we”
your	“us”
	“our”

Leased Private Passenger Type Auto, Pickup, or Van

Along with outright ownership and obtaining a bank loan to purchase a vehicle, leasing a vehicle is one choice an individual has as a means to possessing a vehicle. Payments under lease agreements are often less than traditional loans, which is what makes this option so attractive. The borrower does not own the vehicle but is essentially entering into a long-term rental agreement (usually one to three-year terms). Under a lease agreement, the borrower (the **lessee**) contracts with a financial institution (or the **lessor**) and agrees to pay loan interest plus the difference between the vehicle’s current value and its estimated value when the lease term is reached. Once the lease term is reached, the borrower turns in the vehicle to the auto dealership unless they are provided the option to buy the vehicle.



Since leases technically are long-term rentals, the policy assists with clarifying ownership of a vehicle as being more than outright ownership. A private passenger auto, pickup, or van will be treated as an owned vehicle if there is a written lease for at least six continuous months. The lessor should be identified in the Declarations as the leaseholder.

C. For purposes of this Policy, a private passenger type auto, pickup or van 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 six months.

“Bodily Injury”



The definition of “bodily injury” is another key definition as it is one of two main coverages (Bodily Injury and Property Damage) in Part A – Liability Coverage. It encompasses bodily harm, sickness, disease, and includes resulting death. Pain and suffering, mental anguish, disfigurement, loss of income, loss of a relationship, loss of services—for example—that result from bodily harm, sickness, or death are also considered “bodily injury.”



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

“Business”

When used in the Personal Auto Policy, the term, “business,” means a person’s trade, profession, or occupation. Examples:

- Trade: plumber, electrician, carpenter, painter, etc.
- Profession: lawyer, physician, teacher, economist, etc.
- Occupation: cook, driver, cleaner, child-care worker, barista, bartender, etc.



E. “Business” includes trade, profession or occupation.

“Family Member”



Let’s look now at another recipient of coverage under the Personal Auto Policy: family members. “Family member” is a key definition to remember. While the **you** and **your** (named insured and spouse/civil partner) receive the best coverage provided by the policy, a “family member” receives the second-best coverage. Who is a “family member” though? The PAP has two requirements; the person must be (1) related to the named insured (the **you**) by blood, marriage, adoption, or is a ward or foster child, and (2) is a resident of the same household as the named insured. Age or status of their driver’s license is NOT a factor.



Sarah is 40 years old and lives with her brother, Tim. Sarah is a “family member” on Tim’s Personal Auto Policy. She is a resident of Tim’s household and related to him by either blood or adoption.

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.

Jack is visiting his sister, Jill, for a week while on vacation. Jack is not a “family member” on Jill’s Personal Auto Policy as he is visiting—not a resident.

Section 2: Personal Auto Policy Definitions and Liability Coverage



It is not always simple to determine whether or not an individual is a “family member.” Consider a dependent college student or a young adult dependent in the military. If there is a question as to whether an individual is a resident of the household, it is best to check with the insurance company underwriter to see how they view

dependents in these situations. Unlike the ISO auto policy, some policies may specifically include in their definition of “family member” or “resident relative” children or dependents temporarily away at school or in the military.

Insurance professionals should make sure their clients know the importance of making them—their insurance agents—aware of when there is a change in the dynamics of their households. If a child moves out and is no longer considered a member of the household, that child loses the broad, second-best coverage reserved for a “family member.”

You and “Family Member” Reinforcement

Reinforcement 1:

Dad, Mom, and Daughter live in the same household.
Dad is the named insured on a Personal Auto Policy.

Dad is a **you** as the named insured.

Mom is a **you/your** as a resident spouse of the named insured.

Daughter is a “family member.” She is related to a **you** by blood, marriage, or adoption and is a resident of the same household.

Reinforcement 2:

Dad is the named insured on a Personal Auto Policy.
Dad moves out. Mom and Daughter still live in the house.

Dad is a **you** as the named insured.

Mom is a **you** until the earliest of the following occurrences:

90 days, or
the effective date of her own policy, or
the end of Dad’s policy period.

Daughter is a “family member” for the same time as Mom is a **you**.

When Mom is no longer a you, Daughter is no longer a “family member” on Dad’s policy because Daughter is not a resident of Dad’s household.

What if a client has someone living with them that is not a “family member” because they are not related?

One question that may arise is over a client who has someone living with them who is not a “family member” because they are not related. What happens then? If the person does not own a vehicle and therefore does not have a Personal Auto Policy, your client may want their Personal Auto Policy to provide this individual with the best coverage possible. The ISO 2018 Personal Auto Policy allows for the use of the **ADDITIONAL RESIDENT OF YOUR HOUSEHOLD (PP 33 37)** endorsement to help with this situation.



Irene has a live-in nanny.

Joe’s son has a friend, Adam, whose parents moved out-of-state. Adam moves in with Joe’s family to finish his senior year of high school.

Kevin’s girlfriend lives with him.



When attached to the ISO 2018 Personal Auto Policy, the **ADDITIONAL RESIDENT OF YOUR HOUSEHOLD (PP 33 37)** endorsement allows a non-related resident of the household, who is shown in the schedule, to be considered a “family member” and receive the broad coverage provided by the policy to a “family member.” The insurance company must be notified within 30 days if the non-relative resident moves out of the household.

Check-In



Directions: Check Yes or No in the table below to indicate who is a “family member.”

Sarah has a Personal Auto Policy. Which of the following individuals are considered a “family member” by her policy?

	Yes	No
Her 14-year-old resident son, Scott		
Her mother, who is visiting her for a week		
Her daughter, Stephanie, who lives in her own apartment across town		
Sarah’s daughter-in-law, Sherry, who is living with her for a year while Sarah’s son, who is in the military, is stationed overseas		
Sarah’s boyfriend Allen, who lives with her		

"Occupying"

Now that you understand more about the nuances of "family members" in an auto insurance policy, we are going to explore what it means to occupy a vehicle. The defined term, "occupying," helps ensure understanding of all the places where a person can still be considered "occupying" a vehicle other than simply sitting inside the vehicle. Whether or not an individual is considered "occupying" a vehicle will determine coverage in some parts of the policy. "Occupying" means in; upon; or getting in, on, out, or off a vehicle. Let's take a look at some examples of "occupying":



In	Courtney is driving her car; Mark is a passenger in her car.
Upon	Ben is riding on the hood of a car (known as car surfing).
Getting in	Olive is getting into her SUV.
Getting on	David is jumping into the bed of a pickup truck.
Getting out	Jackie shuts the car door on her fingers while exiting the vehicle.

"Property Damage"



The definition of "property damage" is another key definition as it is the second of two main coverages (Bodily Injury and Property Damage) in Part A – Liability Coverage. The Personal Auto Policy defines "property damage" as physical injury to, destruction of, or loss of use of **tangible property**.



While parking her car, Carrie accidentally hits Jeff's car. The cost to repair the damage to Jeff's car and the cost of a rental car while his car is being repaired is "property damage."



Justin loses control of his vehicle and hits a house. Both the cost to repair the damage to the home and the hotel expenses for the homeowner while the house is being repaired are "property damage."

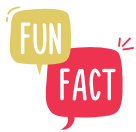
Tangible = Touchable

Examples:

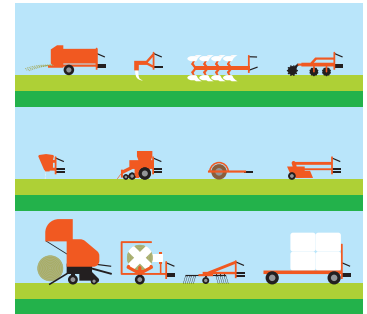
- Another vehicle
- Fence
- Mailbox
- Building
- Utility pole

“Trailer”

You may not think of a trailer as a vehicle, but the Personal Auto Policy considers it one. It is a vehicle designed to be pulled by a private passenger auto, pickup, or van. A boat trailer, camping trailer, horse trailer, and utility trailer are all “trailers.” Farm wagons or farm implements are also considered “trailers,” but only while being towed by a private passenger auto, pickup, or van.



Notice that farm wagons and farm implements are **ONLY** a “trailer” **WHILE** being towed by a private passenger auto. If they are being pulled by the tractor on a farm, they are not a “trailer” under the Personal Auto Policy.



Carmen is pulling a bale-throw farm wagon on the highway with her pickup truck. She is on her way to load hay bales on the other side of her acreage. While the bale throw wagon is being towed, it is a “trailer.”



“Your Covered Auto”



The defined term, “your covered auto,” is a key definition that identifies which vehicles receive the broadest coverage under the Personal Auto Policy. There are four categories of vehicles that make up the definition of “your covered auto.” Understand that these four categories of vehicles are not the *only* ones that get coverage; they are merely the ones provided the broadest coverage by the policy.

Vehicles Shown in the Declarations

The first category for “your covered auto” is any vehicles that are identified on the policy Declarations page—these will be considered a “your covered auto.” Consider the following: if, by chance, an ineligible Ford F-550 (ineligible for a PAP due to GVWR limitations) makes it onto the Declarations page, it may receive coverage from the policy because it is a “your covered auto.”



“Newly Acquired Autos”

The second category of “your covered auto” is “newly acquired autos.” A vehicle purchased, leased, traded, or gifted to an insured is newly acquired, even if it is not a brand new vehicle. A vehicle may either be added in addition to those already insured on the policy (*such as adding a second vehicle to a one-vehicle policy*) or it may replace a vehicle insured on the policy (*such as trading in one car for the purchase of another*). No matter how the vehicle is obtained, it may not always be acquired during normal business hours for a client to notify their insurance agent or carrier of the acquisition, so this definition will provide some automatic coverage. We will spend more time exploring



the definition of “newly acquired auto” and the coverage provided within the definition following a brief look at non-owned and temporary substitute vehicles as a “your covered auto.”

“Trailers” Owned by You

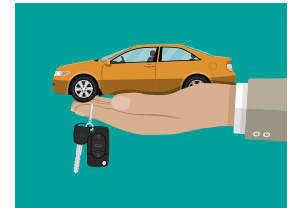
Another vehicle category of “your covered auto” is “trailers” owned by you. The policy states that any “trailer,” regardless of being towed by a vehicle, that is owned by a **you**, will be considered a “your covered auto.” Don’t forget that a “family member” is *not* a **you**.



Joe’s camper trailer parked in his driveway is a “your covered auto” even if it is not in the Declarations page.

Non-owned Temporary Substitutes

A final vehicle category of “your covered auto” is a temporary substitute. The following does NOT apply to Part D – Coverage for Damage to Your Auto.



A temporary substitute is a vehicle not owned by a **you** that is being used because any vehicle in the Declarations page, an owned “trailer,” or a “newly acquired auto,” (a “your covered auto”) is out of normal use due to one of the following:

- Breakdown
Example: Carl’s pickup won’t start one morning, so he borrows the neighbor’s dump truck to get to work.
- Repair
Example: Zahara borrowed her neighbor’s vehicle for two days while waiting on service for her Tesla after the battery malfunctioned and would not allow her to open her car door.
- Servicing
Example: Bill is driving a loaner vehicle provided by the auto dealership while his car is being serviced due to a warranty recall.
- Loss or Destruction
Example: Following an accident that totaled her car, Mae rents a car for a few days while searching for a new vehicle.

Section 2: Personal Auto Policy Definitions and Liability Coverage

Did you notice in the examples above that Carl decided to drive his neighbor's dump truck? Yes, you read that right. The definition states “any auto or ‘trailer’ you do not own while used as a temporary substitute...,” meaning that a temporary substitute is not limited to a private passenger auto.



Since a non-owned vehicle is only a temporary substitute when a “your covered auto” is out of normal use, this means that a vehicle rented while on vacation is NOT a temporary substitute. This doesn't mean there isn't coverage provided by the Personal Auto Policy for the rental car; it just means that the rental car is not a “your covered auto.”

“Newly Acquired Auto”



Remember, “newly acquired auto” is identified as the second category of vehicles that are a “your covered auto” and that a “your covered auto” receives the

broadest policy coverages. “Newly acquired auto” is a key definition in the policy as it not only offers clarity, but also provides coverage.

J. “Your covered auto” means:

1. Any vehicle shown in the Declarations;
2. A “newly acquired auto”;
3. Any “trailer” you own; or
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;
 - b. Repair;
 - c. Servicing;
 - d. Loss; or
 - e. Destruction.



In ideal situations, individuals notify their agents or insurance companies about a new vehicle and arrange to have it added to their policies before ownership takes place. Unfortunately, in the real world, this isn't always the case. A client who impulsively purchases the latest model Infiniti sedan over the weekend is not likely to be able to reach—or perhaps, even think about calling—their insurance agent on a Saturday night, after spending all day at the dealership.

W

- **WHO must own the vehicle**

W

- **WHEN the vehicle must be acquired**

W

- **WHICH vehicles are eligible**

The “newly acquired auto” definition may provide clients with coverage for a limited time prior to the new vehicle being reported to the insurance company. The definition begins by identifying **WHO** must own the vehicle, **WHEN** the vehicle must be acquired, and **WHICH** vehicles are eligible for the coverage detailed in the definition. We affectionately identify them as the “three Ws” (WWW).

If the vehicle satisfies these three requirements (WWW), the definition explains specific coverage that may be automatically provided (if applicable) and the length of time for which any automatic coverage is provided.

Who, When, Which

Who must own the vehicle?

A newly acquired auto must have been obtained by a **you**. Again, remember that a “family member” is not a **you**, so a vehicle solely owned by a “family member” does not meet this requirement.



*Amelia has a Personal Auto Policy and is the named insured. Her 18-year-old son, Link, resides with her and is a driver on her policy. Over the weekend they bought matching mother-son Mini Coopers, each in their own names. Amelia's Mini Cooper is a “newly acquired auto.” Link's Mini Cooper is not a “newly acquired auto” under his mother's policy because he is not a **you**.*



When must the vehicle be acquired?

Very simply put, for an ISO PAP, the “newly acquired auto” must be acquired during the effective policy period.

Which vehicles are eligible?

For a vehicle to be considered a “newly acquired auto” and receive the automatic coverage provided by the definition, it must not be covered by any other insurance policy and must meet eligibility requirements.

Think back to the vehicle eligibility requirements covered in Section 1 of this Learning Guide. Briefly, eligibility is limited to private passenger vehicles and pickups or vans meeting the GVWR requirement which are not used for delivery or transportation of goods and materials unless incidental to farming, ranching, or your “business” of installing, maintaining, or repairing furnishings or equipment. Vehicles must be also owned or leased for a period of six months or longer.

Consider the following example to see how WWW applies.



*Fred and Fiona insure a Ford F-150 pickup and a Dodge Challenger on their auto policy. Fiona purchases a new Mustang two months into the policy term. The new Mustang is a “newly acquired auto.” The vehicle is owned by a **you**, purchased during the policy period, and meets eligibility requirements.*

K. “Newly acquired auto”:

1. “Newly acquired auto” means any of the following types of vehicles you become the owner of during the policy period:
 - a. A private passenger auto; or
 - b. A pickup or van, for which no other insurance policy provides coverage, that:
 - (1) Has a Gross Vehicle Weight Rating of 10,000 lbs. or less; 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.

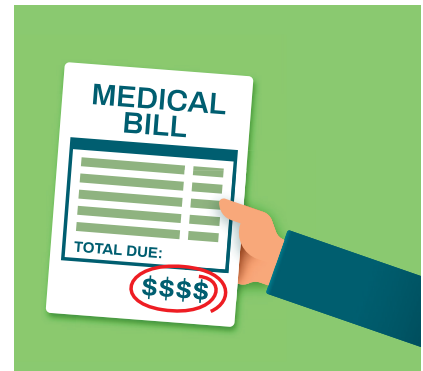
Automatic Coverage Provided

Now that we've established eligibility of the Who, When, and Which, let's explore the specific coverages provided within the definition of "newly acquired auto." Coverage provided within "newly acquired auto" is addressed in the three following coverage categories:

- Coverages Other Than Coverage For Damage To Your Auto
- Collision
- Other Than Collision

Coverages Other Than Coverage For Damage To Your Auto

In Section 5 of this course's Learning Guide, we will explore Part D – Coverage for Damage to Your Auto, which encompasses Collision and Other Than Collision Coverage. The first category for automatic "newly acquired auto" coverage is for all coverages already provided in the policy EXCEPT for coverages within Part D – Coverage For Damage To Your Auto. This means the first category of coverages are Liability Coverage, Medical Payments, Personal Injury Protection (PIP), and Underinsured/Uninsured Motorists Coverage (UM/UIM), BUT ONLY if these coverages are already selected/provided by the policy.



For the first category of coverage, a "newly acquired auto" will receive the broadest coverage shown for any vehicle in the Declarations page. Coverage for Liability, Medical Payments, PIP, and UM/UIM are generally applied with the same coverage limits across all vehicles insured on the policy, but if, by chance, the limit of liability differs between vehicles, the "newly acquired auto" will automatically receive the highest limit of any vehicle in the Declarations.

2. Coverage for a "newly acquired auto" is provided as follows:

- a. For any coverage provided in this Policy other than Coverage For Damage To Your Auto, a "newly acquired auto" will have the broadest coverage we now provide for any vehicle shown in the Declarations. However, for this coverage to apply, you must ask us to insure it within 14 days after you become the owner.

Automatic coverage may be provided for up to 14 days from the date of acquisition, but ONLY if the insured requests coverage for the new vehicle within 14 days from the date the vehicle was acquired. If coverage is requested within 14 days, coverage may be added to the policy retroactively to the date the insured first owned the auto. However, if coverage is requested AFTER 14 days, coverage may only be added (or begin) on the date the insured requests coverage rather than the date the vehicle was acquired.

Now, let's turn to coverages provided by Part D – Coverage for Damage to Your Auto. What coverage will a vehicle receive if it is damaged before being reported to the insurance carrier?

Collision Coverage



The second coverage category for “newly acquired autos” is Collision Coverage as provided under Part D – Coverage for Damage To Your Auto. Collision Coverage will start on the date the vehicle is purchased/ acquired but there are two time-sensitive situations to consider: (1) Collision Coverage is already purchased for at least one vehicle on

the policy or (2) Collision Coverage has NOT been purchased for ANY vehicle on the policy.

If Collision Coverage IS PURCHASED for at least one vehicle in the Declarations page, the “newly acquired auto” will receive the broadest Collision Coverage purchased for any auto, meaning the lowest deductible shown, for up to 14 days. It is important to note that the insured must request coverage for the new vehicle within 14 days from the date the vehicle was acquired for coverage to apply retroactively. If coverage is requested AFTER 14 days, coverage will begin on the date the insured requests it.



Blaine has two vehicles insured on his Personal Auto Policy: a 2018 Toyota Corolla with a \$1000 Collision deductible and a 2021 Toyota Tundra with a \$250 Collision deductible. Blaine decided to purchase a new vehicle on May 1st. It will automatically receive Collision Coverage with a \$250 deductible, beginning on May 1st if he asks within 14 days of purchase to insure the new vehicle.

If Collision Coverage is NOT PURCHASED for any vehicle insured by the policy, the “newly acquired auto” will receive Collision Coverage with a \$500 deductible for up to four days from the date it was acquired. The insured must request coverage within four days for coverage to apply. If coverage is requested AFTER four days, coverage will begin on the day the insured requests it.



Andy has a Personal Auto Policy with Liability and PIP coverage only. He let his agent know he would be purchasing a second vehicle over the weekend. As he was pulling out of the dealership parking lot, Andy hit another car with his brand-new vehicle. His policy will automatically provide Collision Coverage with a \$500 deductible when he reports the new vehicle and the claim on Monday.

- b.** Collision Coverage for a “newly acquired auto” begins on the date you become the owner. However, for this coverage to apply, you must ask us to insure it within:
- (1)** 14 days after you become the owner, if the Declarations indicates that Collision Coverage applies to at least one auto. In this case, the “newly acquired auto” will have the broadest coverage we now provide for any auto shown in the Declarations.
 - (2)** Four days after you become the owner, if the Declarations does not indicate that Collision Coverage applies to at least one auto. If you comply with the four-day requirement and a loss occurred before you asked us to insure the “newly acquired auto”, a Collision deductible of \$500 will apply.

Other Than Collision Coverage

The third coverage category for “newly acquired autos” is Other Than Collision Coverage as provided under Part D – Coverage for Damage To Your Auto. The coverage provided and conditions for applying Other Than Collision Coverage are the same as those identified for Collision. Coverage will start on the date the vehicle is acquired and has the same two time-sensitive conditions.



c. Other Than Collision Coverage for a “newly acquired auto” begins on the date you become the owner. However, for this coverage to apply, you must ask us to insure it within:

- (1) 14 days after you become the owner, if the Declarations indicates that Other Than Collision Coverage applies to at least one auto. In this case, the “newly acquired auto” will have the broadest coverage we now provide for any auto shown in the Declarations.
- (2) Four days after you become the owner, if the Declarations does not indicate that Other Than Collision Coverage applies to at least one auto. If you comply with the four-day requirement and a loss occurred before you asked us to insure the “newly acquired auto”, an Other Than Collision deductible of \$500 will apply.

If Other Than Collision Coverage IS PURCHASED for at least one vehicle in the Declarations page, the new vehicle will receive the broadest Other Than Collision Coverage purchased for any auto for up to 14 days. Again, coverage for the auto must be requested within 14 days of acquisition for coverage to apply.

If Other Than Collision Coverage is NOT PURCHASED for any vehicle insured by the policy, the “newly acquired auto” will receive Other Than Collision Coverage with a \$500 deductible for up to four days from the date it was acquired. The insured must request coverage within four days for coverage to apply.

Notifying The Carrier

For any of the above automatic coverages to apply to a “newly acquired auto,” the insured must report the new vehicle to the insurance carrier, or insurance agent as a representative of the carrier, within the stated time periods, starting from the date the vehicle was acquired.

If coverage is requested AFTER the applicable time period has passed, coverage will begin on the day the insured requests coverage. This means the vehicle will have been uninsured from the date of acquisition to the date coverage is requested.



Clarice purchased a new vehicle on the 1st of the month. On the 20th, she reported the new vehicle to her carrier. The carrier will begin providing the requested coverages effective the 20th of the month since Clarice did not report the new vehicle within 14 days of becoming the owner.

Section 2: Personal Auto Policy Definitions and Liability Coverage



One final note regarding the time periods for reporting a “newly acquired auto”: The number of days of automatic coverage provided for a “newly acquired

auto” may be reduced if there are too few days left in the policy period. If the client buys a new vehicle three days before the end of the policy period, automatic coverage may be provided for only three days and not the 14 or four days previously identified.

d. For all coverages addressed in Paragraphs **K.2.a., b. and c.**, if you first ask us to insure the “newly acquired auto” after the applicable time period has elapsed, coverage will begin on the day you first ask us to insure the “newly acquired auto”.

Let’s recap what we’ve just learned.

Coverage Recap for a “Newly Acquired Auto”	
Eligible vehicle acquired during the policy period by a you if reported within the required period of time	
Liability Medical Payments/ PIP UM/UIM	Coverage up to 14 days* Broadest coverage of any vehicle in the Declarations
Collision Coverage	Up to 14 days* if a vehicle in the Declarations has Collision Up to four days* if no vehicle in the Declarations has Collision (\$500 deductible)
Other Than Collision Coverage (OTC)	Up to 14 days* if a vehicle in the Declarations has OTC Up to four days* if no vehicle in the Declarations has OTC (\$500 deductible)

* May have less than four or 14 days of coverage if fewer days remain in the policy period.



Be careful of impulsively advising clients that they have automatic coverage for 14 days after purchasing a new vehicle as each carrier may treat newly acquired automobiles differently. Various carriers may have requirements based on all autos owned being insured by that carrier or coverage differences between a replacement auto or an additional auto. Be sure to review each client’s policy before making a blanket statement.

Check-In



Directions: Read the scenario below and fill in the blanks using the coverage options in the word bank. Options may be used multiple times or not at all.

Andy has a Personal Auto Policy with the following vehicles and coverages:

2020 Ford F-150 Pickup

Liability

Medical Payments

Uninsured Motorists

\$250 ded. Collision

2017 Dodge Caravan

Liability

Medical Payments

Uninsured Motorists

\$500 ded. Collision

Andy buys a third vehicle, a 2022 Cadillac, on May 1st. What coverages, if any, will Andy's new vehicle automatically receive and for how long? If a deductible applies, identify the deductible amount.

Word Bank

14 days	4 days	\$500	\$250	No Coverage
---------	--------	-------	-------	-------------

- Liability _____
- Medical Payments _____
- Uninsured Motorists _____
- Collision _____, Deductible (if any) _____
- Other Than Collision _____, Deductible (if any) _____

“Transportation Network Platform”

Continuing with the remaining terms in the Definitions section of the Personal Auto Policy, “transportation network platform” is a term that was extracted from the old PUBLIC OR LIVERY CONVEYANCE EXCLUSION ENDORSEMENT (not in use with 2018 PAP or later) and added to the Personal Auto Policy with the 2018 ISO revision, along with corresponding coverage exclusions. This term groups online-enabled apps or digital networks used to match passengers with drivers with Public or Livery Conveyance risk.

Gig economy

Merriam-Webster added “gig economy” to the dictionary in 2019 with a stated “first known use” of 2009. Gig economy is defined as economic activity that involves the use of temporary or freelance workers to perform jobs, typically in the service sector.

Generally, when we think of transportation network platforms, we think of the popular ridesharing services like Uber and Lyft. These networks are one part of a growing **gig economy** that is here to stay. Later we will

see that the ISO Personal Auto Policy has exclusions related to ridesharing or transportation networks, but not all companies do. Be sure to understand your carriers’ definitions, exclusions, and coverage exceptions.

L. “Transportation network platform” means an online-enabled application or digital network used to connect passengers with drivers using vehicles for the purpose of providing prearranged transportation services for compensation.

“Minimum Limits”

The final definition to review before diving into Part A – Liability Coverage is “minimum limits.” This definition is not found in the PP 00 01 Personal Auto Policy, but is added through the AMENDMENT OF POLICY PROVISIONS endorsement for most states. The definition will explain the lowest limits allowable for that state on a split limit basis, though some states may offer a minimum combined single limit as well.

As an example, Texas limits are \$30,000/\$60,000/\$25,000; this may also be written as 30/60/25. Visit scic.com/PAResources to review a summary of financial responsibility requirements by state as produced by the Insurance Information Institute.

The first number is the bodily injury limit per person, the second is the bodily injury limit per accident, and the third number is the property damage limit per accident.

\$30,000	\$60,000	\$25,000
Maximum bodily injury per person	Maximum bodily injury per accident	Maximum property damage per accident

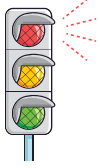


Split Limit vs. Combined Single Limit

Some insurance companies may offer liability limits on a combined single limit (CSL) basis rather than—or in addition to—split limits. CSL differs from split limits in that there is not a per person limit for bodily injury or a per accident limit for property damage. The entire limit shown in the Declarations becomes available for Bodily Injury and Property Damage, wherever it is needed. The entire limit could be paid to one person for bodily injury or could be used entirely for property damage.

1. Throughout the Policy, "minimum limits" refers to the following limits of liability, as required by Texas law, to be provided under a policy of automobile liability insurance:
 - a. \$30,000 for each person, subject to \$60,000 for each accident, with respect to "bodily injury"; and
 - b. \$25,000 for each accident with respect to "property damage".

Section 2: Personal Auto Policy Definitions and Liability Coverage



Let's look at the difference between split limits and combined single limit in a loss situation.



Jean runs a red light and hits another vehicle. The driver of the other vehicle is injured and has \$20,000 in medical bills. The passenger in the other vehicle is also injured and has sued Jean for \$150,000. It will cost \$15,000 to repair the other vehicle.

If Jean has liability limits of 100/300/50, her policy will pay:

\$20,000	Bodily injury for the other driver
\$100,000	Bodily injury for the passenger
\$15,000	Property damage for the other vehicle
\$135,000	Covered

Jean's policy does not cover the remaining \$50,000 for the passenger due to the per person limit of \$100,000.






What if Jean's policy had been written with \$300,000 CSL?

\$20,000	Bodily injury for the other driver
\$150,000	Bodily injury for the passenger
\$15,000	Property damage for the other vehicle
\$185,000	Covered

The total of the bodily injury and property damage for this accident is \$185,000. Since this is less than Jean's \$300,000 CSL, all the passenger's bodily injury is covered. We will go more in-depth with split and combined single limits a little later on in this course.

When we discuss the Limit of Liability provision, we will see that the limits shown in the Declarations for Liability Coverages are the maximum that will be paid, regardless of the number of "insureds."

Summary of Policy Definitions

Term	Summary	
“You” and “Your”	The named insured and resident spouse; receives the broadest coverage the policy offers; spouse has time-sensitive status as a “you” when no longer a resident	
“We,” “us,” and “our”	The insurance company	
Leased auto	Private passenger autos, pickups, and vans leased for six continuous months or longer are considered owned	
“Bodily injury”	Bodily harm, sickness, or disease; includes resulting death; one of two main Liability Coverages (bodily injury and property damage)	
“Business”	Trade, profession, or occupation	
“Family member”	Resident relative (related by blood, marriage, adoption, or is a foster child)	
“Occupying”	Getting in, upon, in, on, out, or off a vehicle	
“Property damage”	Physical damage, destruction, or loss of use of touchable property; one of two main Liability Coverages (bodily injury and property damage)	
“Trailer”	A vehicle designed to be pulled by a private passenger auto, pickup, or van	
“Your covered auto”	A vehicle in the Declarations acquired during the policy period or any “trailer” owned by a you ; also, a vehicle used temporarily while any of the previously mentioned vehicles are out of service for specified reasons	
“Newly acquired auto”	A vehicle acquired during the policy period; this definition defines time-sensitive automatic coverage provided for newly acquired autos	
“Transportation network platform”	A web-based app or platform used to match transportation drivers with passengers for a fee (think Uber or Lyft)	
“Minimum limits”	Minimum Liability Coverage limits as required by state law or regulation	

▶▶ Knowledge Check

Directions: Read the scenario below and explain what Deborah's agent should make her aware of, and why, when purchasing a new car for her son.

Deborah's resident son, Bryce, just turned 21! To celebrate this occasion, they are looking to purchase a new vehicle over the weekend. Bryce insists that he be the sole owner of his vehicle because he feels that he is now old enough to handle the responsibility. Deborah calls to let her agent know about their plans this upcoming weekend. What should the agent make Deborah aware of? Will Bryce's vehicle receive coverage under his mother's policy?



Deborah currently has the following coverages on her policy:

- Liability Coverage: 50/100/50
- Medical Payment to Others: \$5,000
- Collision: \$1000

Liability Coverage

Learning Objective

- Use knowledge of the coverage of Part A – Liability Coverage Insuring Agreement and Supplementary Payments to recognize the importance of liability coverage and the benefits of high limits.

Introduction to Liability Coverage

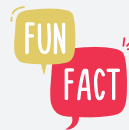


Liability coverage is the most important coverage provided by the Personal Auto Policy. While individuals hope to not have to use this coverage, accidents do happen. And when they do, the size of a potential liability claim against them can be extreme. When involved in an at-fault accident, a client can be sued. If their liability limits are not high enough to cover the suit, their current and future assets

could be at risk. Of course, that all depends on how many people are injured, who those people are, and the damage caused to property. Consider the frequency and severity of damage caused by distracted driving, the skill of a new driver, the skill of a driver who may not have gotten good sleep the night before, or the skill of a driver in poor health. Now consider the cost of medical care, the cost of lost wages of an injured party, or the cost of new vehicles. All of these factors are important to remember when accessing coverage limits for a client.

Who are the people that can make a liability claim against your clients due to their negligence in causing an accident? We often think of the pedestrian or the occupants of the other vehicle or vehicles. Don't overlook the fact that passengers in your client's own vehicle may also be the individuals seeking money from your client! The important consideration here is that while Medical Payments (Med Pay) or Personal Injury Protection (PIP) is available to pay for injuries to passengers within the client's vehicle, Part A – Liability Coverage may provide coverage when your client is responsible for injuries to passengers (other than **you** or a "family member") if the loss either exceeds the Medical Payments Coverage per person limit or does not cover the type or amount of damages.

What happens if you do not have sufficient liability coverage? Inadequate liability coverage can result in catastrophic financial consequences to a client's current and future financial security. This places responsibility on the insurance professional to make sure the recommended protection meets the needs of each client's unique exposures and asset profile.



660,000 drivers are using their cell phones while operating a vehicle at any time in the day (NHTSA: https://www.nhtsa.gov/staticfiles/numbers/SafetyInNumbers_Nletter101_811742.pdf).

A person is 20x more likely to crash while texting and driving than when not using a cell phone (VA Tech: <https://vtx.vt.edu/articles/2009/07/2009-571.html>).

Texting while driving has the same effect on your reaction time as if you had consumed four beers in a single hour (Driversafeonline.org).

The Insuring Agreement

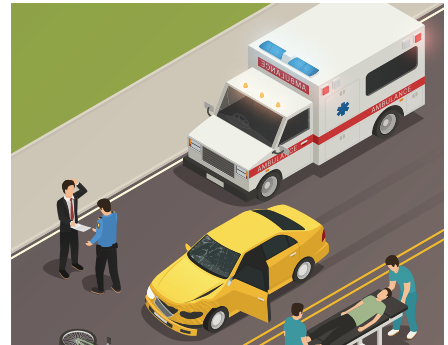
Part A – Liability begins with the Insuring Agreement. It lays the foundation for understanding the liability coverage provided by the policy and explains: (1) who the policy protects; (2) for what type of damages; (3) under what circumstances; and (4) the defense coverage provided.

The Personal Auto Policy will pay for injuries (“bodily injury”) and damages (“property damage” including prejudgment interest) resulting from an auto accident when an “insured” is legally responsible. Coverage for these damages is paid from the liability limits show in the Declarations page. The number of persons injured and the amount or extent of damage to property will chip away at the limits of liability, which can be exhausted quickly.

Consider the following multi-party/multi-vehicle accident:



Nora has liability limits of 25/50/25. She is responsible for an at-fault accident that involved two other vehicles. Four people were injured; each has \$15,000 in medical expenses. The other two vehicles each have \$20,000 in damages. Nora's limits will not be enough to cover the total medical expenses or property damage for the claim.



Defense coverage is also provided and explained in the Insuring Agreement. Defense costs experienced by the insurance company will not reduce the limit of liability. The insurance company has the duty to defend an “insured” for any loss covered by the policy. If the loss is not a covered loss, the carrier has no duty to defend. The carrier’s duty to defend ends when a settlement or **judgment** (or final decision from a court concerning the rights or obligations of each party in a suit) has been reached, which exhausts the limit of liability. The insurance company also maintains the right to settle any claim without the permission of the policyholder or “insured.”



Roberta has 100/300/50 Liability coverage on her car. She has an at-fault accident and is sued by the driver of the other car for his injuries.

The insurance company eventually settles with the driver for \$100,000. However, it also spent \$10,000 defending Roberta.

The \$10,000 is NOT subtracted from the limit of liability; it is in addition to the limit of liability. Therefore, the entire \$100,000 limit was available to pay the driver of the other car.

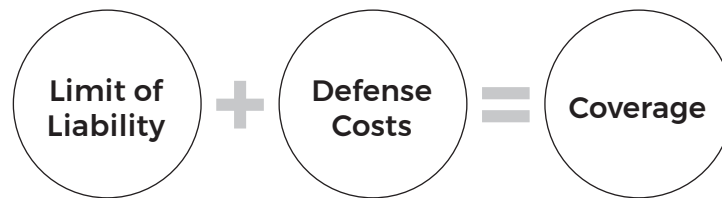
Section 2: Personal Auto Policy Definitions and Liability Coverage

Notice that “insured” is now in quotations. Only those falling within the definition of “insured” as defined in Part A – Liability will receive liability coverage protection. If a claim is made against someone who does not fall within the definition of “insured,” they will not have coverage. We will work through who is an “insured” later in this section.

In total, the limit of liability in the Declarations page, plus the total costs of legal defense, equates to the coverage available under the Personal Auto Policy.

PART A – LIABILITY COVERAGE 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 by payment of judgments or settlements. We have no duty to defend any suit or settle any claim for "bodily injury" or "property damage" not covered under this Policy.

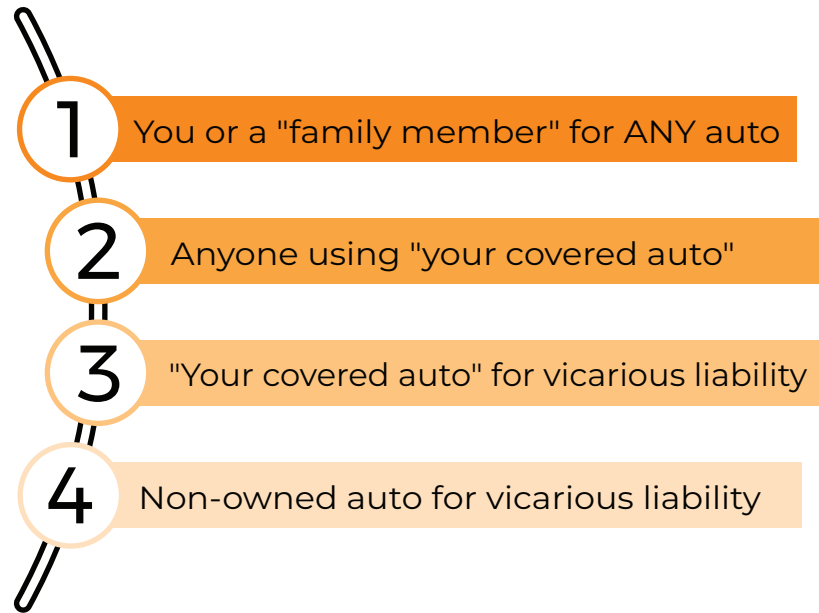


“Insured”



Part B of the Liability Coverage Insuring Agreement explains who may be considered an “insured” for Part A – Liability Coverage. This term is a key definition to remember within the Personal Auto Policy. Recall that we’ve already explored “**you**,” “**your**,” and “family member” definitions, and we would normally think of those persons as “insureds” on the PAP, but they are not the only parties who may be considered an “insured.”

There are four categories of an “insured” defined, and any person or organization included in any of these four parts is provided liability coverage and defense. However, there may be exclusions that later remove coverage for these same individuals or organizations. These categories are clearly defined in B.1 through B.4 of the Liability Coverage Insuring Agreement and will be discussed in the same order.



Let's explore each of these four categories of "insured."

1 You or a "family member" for ANY auto

The first "insured" category is comprised of **you** or any "family member" for the ownership, maintenance, or use of any auto or "trailer." The term, *auto*, is not defined in the ISO Personal Auto Policy, therefore, examples of an *auto* may include "your covered auto," a borrowed motor vehicle or trailer, a rented vehicle, a motor home, or a moving truck—to name a few. Coverage for this first category of "insureds" is very broad. The policyholder and "family members" will receive the best liability coverage the policy can provide; after all, the policy was most likely purchased to specifically protect **you, your**, and "family members."

2 Any person using "your covered auto"

The second category of "insured" includes anyone who is using a "your covered auto." This would be anyone such as a neighbor, friend, cousin, or coworker using a vehicle in the Declarations; or an owned "trailer," "newly acquired auto," or temporary substitute vehicle.

A client may be certain of their own driving abilities, but how certain are they of the driving abilities of someone who borrows their vehicle? How distracted will someone be trying to find the blinker, AC, or volume controls in a vehicle they have never driven or rarely drive? How high did you write those liability limits, again?

3

“Your covered auto” for vicarious liability

The third category of “insured” under Part A – Liability provides “insured” status for any person or organization legally responsible for any acts or omissions of a **you**, “family member,” or any other person for the use of a “your covered auto.” This is referred to as vicarious liability.

Vicarious

Experience(s) of one party through the actions of another party



Jesse volunteered on behalf of his Regional Soccer Club to drive kids in his vehicle to a scheduled soccer tournament. The Soccer Club is now responsible for Jesse’s actions should something happen while driving kids to the tournament on behalf of the Club and is an “insured” for Liability Coverage under Jesse’s PAP.

The following are examples of organizations to help prompt your thinking on who might be responsible for the action of an “insured”:



4

Non-owned auto for vicarious liability

The fourth and final category of “insured” for Part A – Liability affords “insured” status to any person or organization responsible for the acts or omissions of **ONLY you** or a “family member” (category 1 “insureds”), for the use of a non-owned auto or “trailer.” However, the person or organization will be an “insured” only as long as that person or organization does not own or did not hire the non-owned auto or “trailer” that is being operated. Let’s explain with an example.



Archie is a teacher for the Metro Water Department. He drives a company-owned car to an Expo five hours outside the city. He is involved in an at-fault accident on the way. Metro Water Department would not be an “insured” under Archie’s Personal Auto Policy since the company owns the vehicle.

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”.

Section 2: Personal Auto Policy Definitions and Liability Coverage



It is important to understand that no matter how many persons or organizations may be an “insured” under a Personal Auto Policy, there is still only one limit. All insureds will *SHARE* the limits!

We will see later, when we discuss the Limit of Liability provision, that the limits shown in the Declarations for Liability Coverages are the maximum that will be paid, regardless of the number of “insureds.”

Check-In



Directions: Read each scenario and indicate if each party is an “insured” under the identified Personal Auto Policy.

Jerry is the named insured on a Personal Auto Policy. He borrows a neighbor’s van to take a group of scouts to camp. While driving to camp, Jerry has an at-fault accident and several of the children are injured. The parents of the injured children sue Jerry as the driver, the neighbor as the owner of the van, and the scout chapter on whose behalf the van was being driven.

Pay close attention to whose Personal Auto Policy is being assessed for coverage.

Who is an “insured” under Jerry’s Personal Auto Policy and therefore provided coverage?

Person or Organization	“Insured”?
Jerry	
Neighbor	
The Scout Chapter	

Who is an “insured” under the neighbor’s Personal Auto Policy and therefore provided coverage?

Person or Organization	“Insured”?
Neighbor	
Jerry	
The Scout Chapter	

Supplementary Payments

There are certain coverage benefits that the Personal Auto Policy will pay in addition to the Limits of Liability for Part A – Liability Coverage; these are known as Supplementary Payments, or sometimes, as Additional Payments. When we say that the benefits are paid in addition to the limits of liability, this means that payment of these benefits will not reduce the limits shown in the Declarations page.

The following benefits may be paid on behalf of an “insured” (as defined in Part A – Liability Coverage):

- Up to \$250 may be paid for the cost of bail bonds required because of a covered accident. For this benefit to be paid, the accident must have resulted in “bodily injury” or “property damage” covered by the policy.

Bail is a cost imposed by the court as a guarantee that if the person is released from jail, the person promises to appear for their court date. If a client cannot afford bail, they may seek a **bail bond** and pay a percentage (usually 10%) of the bail.

- The cost of a bond needed to file an appeal to a suit or to release an attachment in a suit may be paid.

An **attachment** is an action filed by the plaintiff to ensure they will be paid from property assets of the defendant if the court rules in their favor. A release attachment bond counteracts this measure and gives back to the defendant control over their asset(s).

- The policy may pay for post-judgment interest that accrues on a judgment in a suit defended by the insurance company AFTER the judgment has been entered and BEFORE the insurance company offers to pay. The company will only pay post-judgment interest on the part of the judgment that does not exceed the limit of liability.



For example, if the policy limit of liability is \$25,000 but the judgment is \$50,000, the insurance carrier will only pay post-judgment interest on the \$25,000 that accrues between judgment and the date the company offers to pay \$25,000.



SUPPLEMENTARY PAYMENTS

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 \$250 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.

Section 2: Personal Auto Policy Definitions and Liability Coverage

- There are two types of interest: prejudgment interest and post-judgment interest. Remember that prejudgment interest is included in the limit of liability (meaning it reduces the limit of liability). Post-judgment interest is in *addition* to the limit of liability.

Date of Claim	Date Claim is Settled	Date Claim Payment is Offered
August 1, 2xx1 →	January 21, 2xx2 →	February 1, 2xx2
Prejudgment interest included in limit of liability		Post-judgment interest from supplementary payments

- Up to \$250 may be paid for loss of earnings when the “insured” is required by the insurance company to attend hearings or trials.
- Finally, the carrier will reimburse other reasonable expenses as a result of requests made by the insurance carrier.



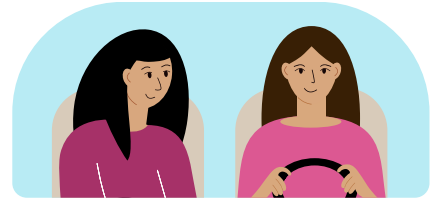
Do not forget that all of these supplementary payments are made in addition to the policy limit of liability.

We have spent quite a bit of time exploring the Insuring Agreement and Supplementary Payment benefits provided by Part A – Liability Coverage. We’ve discovered that more than just the policyholder and “family members” can be an “insured” for Liability Coverage on the Personal Auto Policy and that each of these “insureds” will share the policy limit of liability. We also now know that the limits of liability will be used and reduced by each claimant to a loss for “bodily injury” and/or “property damage” and that prejudgment interest will also reduce the available limit.

Selecting the highest limits of liability for your client’s needs is important for protecting their current and future assets. When selecting Liability Coverage limits with the client, the client must understand the financial risk they face when allowing someone to borrow or use their vehicle or when they drive on behalf of someone else. They must also understand how the coverage limits are used and that they are not unlimited.

▶▶ Knowledge Check

Directions: Read the scenario below and explain what you would say to help Alex understand the importance of carrying higher limits of liability on her insurance. Explain your reasoning.



Alex knows that adding her daughter, Jane (a teenage driver), to her Personal Auto Policy can be expensive. Alex has requested that with this change of adding a youthful driver to her policy, she also wants to lower her Liability Coverage limits from 100/300/100 to 25/50/25. What should you say to help Alex understand the importance of carrying higher limits of liability?

Liability Coverage Exclusions

Learning Objective

- Apply knowledge of the coverage provided by Part A – Liability Coverage, including the use of exclusions, to identify potential coverage gaps and recommend appropriate endorsements.

Introduction to Liability Coverage Exclusions

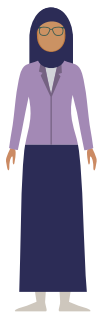
Now that we know what can be covered by Part A – Liability Coverage, it is time to understand that not all situations (or risks) can be covered. The Personal Auto Policy is not built to cover every possible loss that could occur. Exclusions limit or restrict coverage either for obvious reasons (like war) or because the policy simply cannot bear the cost of the loss without additional premium (i.e., endorsements), or by moving the risk to a policy meant for that exposure (like a commercial auto policy). The 2018 ISO Personal Auto Policy groups exclusions into two categories:



- **Group A.** (ISO exclusions A.1. through A.10.): These are exclusions that take away coverage for “bodily injury” and/or “property damage” based on a person, even if that person was previously defined as an “insured.”
- **Group B.** (ISO exclusions B.1. through B.5): These are exclusions that take away liability coverage based on vehicle type, use, or its availability.

Insurance carriers may rearrange these exclusions based on certain state requirements or other factors, but the exclusions we will address are usually presented—no matter the arrangement—with generally the same exclusionary purpose.

Group A Exclusions: The Person



The first group of exclusions (Group A) has ten exclusions. These exclusions focus on the various ways “insureds” may use a vehicle. Certain uses may be better covered by another type of policy (such as Nuclear Energy or Business Auto Policy), or the exposure is too great for the base rates of a Personal Auto Policy and endorsements are needed to assign premium to risk (such as ride-sharing). Several of these exclusions also address property owned by, rented to, or used by an “insured.” Liability Coverage intends to compensate other persons (not the insured) for injuries and damages the insured causes; it is not intended to cover injury or damage to the insured.

1. Intentional damage or injury

The Personal Auto Policy will not provide liability coverage for any “insured” who intentionally causes damage or injury. Intentional damage is a severe exposure that simply cannot be adequately assigned a rate; therefore, it is not covered. Understand though that the damage must be intended (or expected) by the “insured.”



Mariah is tailgating the vehicle in front of her in the hopes that the other driver will get the message to move out of the left lane and allow other cars to pass. Mariah gives it one last shot and rushes close to the other driver's bumper before accidentally hitting the other vehicle. Mariah did not intend to hit the vehicle in front of her; Mariah's policy should protect her.

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".

2. Damage to property owned or being transported

This exclusion has two parts. First, there is no coverage for “property damage” to property owned by that “insured.” Homeowners policies or other property policies are better suited to and capable of adequately rating for the damage that may occur and the value of real and personal property the “insured” owns.



Joe does not realize that the garage door is still closed when he backs his car out of the garage. There is no coverage for the damage to his house since he owns it. (Coverage for damage to his home may be found under his Homeowners Policy and subject to that policy deductible.)

Second, there is no coverage for “property damage” to property being transported by the “insured.”



While helping a friend move, the insured has an at-fault accident while driving his own pickup. The friend's property in the pickup is damaged. There is no coverage since it is property being transported by that “insured.”

3. “Property Damage” to property rented to, used by, or in the care of that “insured”

This exclusion takes away coverage for damage TO a rental vehicle, however, it does not take away coverage for damage caused BY a rental vehicle. We may find later in Coverage for Damage to Your Auto that coverage TO a rented vehicle is present, but coverage will not be found under Liability Coverage.





The insured has an accident while driving a rental car. The damage TO the rental car is not covered under “Property Damage” liability because of this exclusion. (The only coverage available for the damage to the rental car is under Part D – Coverage For Damage To Your Auto.)

There is an exception to this exclusion which gives back coverage for “property damage” caused to a rented residence or private garage.



The insured accidentally runs his car into the house he rents. There is coverage for the damage to the house since he does not own it.

EXCLUSIONS

A. We do not provide Liability Coverage for any “insured”:

3. For “property damage” to property:

- a.** Rented to;
 - b.** Used by; or
 - c.** In the care of;
- that “insured”.

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.

4. “Bodily injury” to an employee of that “insured”

The PAP excludes coverage for injury to an employee of that “insured” which occurs during the course of employment, as it is expected that the injury would be covered by workers compensation. However, coverage is given back to domestic workers when workers compensation benefits are not required or available, as many states do not require workers compensation for domestic employees.



Marie is the owner of a local bakery. While parking, Marie accidentally hit one of her employees who was taking bakery garbage out to the dumpster. Workers compensation would respond to the injury and coverage would not be provided from Marie’s Personal Auto Policy.

5. Ownership or operation of a vehicle being used as public or livery conveyance

The 2018 ISO Personal Auto Policy revision expanded the exclusion related to ownership or use of a vehicle being used as a public or livery conveyance. This exclusion (A.5.) also applies when a vehicle is being used by an “insured” who is logged into a

Section 2: Personal Auto Policy Definitions and Liability Coverage

“transportation network platform” (such as Uber or Lyft) as a driver for that platform, regardless of whether or not there is a TNC passenger “occupying” the vehicle.

Let us think back for a moment here. In 2007, Lyft (previously Zimrides), was founded and began connecting college students for long-distance ridesharing. Uber, another ridesharing company, was founded in 2009. Essentially identifying as “dating apps” for commuters, the technology companies did not see themselves as taxi service companies, which created some rather risky coverage gaps and ambiguity with the Personal Auto Policy. The insurance community often refers to these exposures as TNC risks (TNC = transportation network company).

There are two exceptions, or coverage give backs, for this exclusion. First, the exclusion will not apply to share-the-expense carpools. These types of arrangements are generally between persons who trade off riding to work or school in one person’s car or the other or share the cost of gas; generally, there is no financial gain.



Sam picks up two coworkers each morning on the way to work. The coworkers pay Sam to cover the fuel and wear/tear on his vehicle.

The second exception for the public or livery conveyance exclusion is while vehicles are being used for volunteer or charitable purposes.



On New Year’s Eve, Susan volunteers for MADD (Mothers Against Drunk Drivers) and uses her car to drive people home from local bars and parties. This exclusion would not apply should she have an accident while driving her passengers to their homes.

EXCLUSIONS

A. We do not provide Liability Coverage for any “insured”:

- 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 includes but is not limited to any period of time a vehicle is being used by any “insured” who is logged into a “transportation network platform” as a driver, whether or not a passenger is “occupying” the vehicle.

This exclusion **(A.5.)** does not apply to:

- a.** A share-the-expense car pool; or
- b.** The ownership or operation of a vehicle while it is being used for volunteer or charitable purposes.

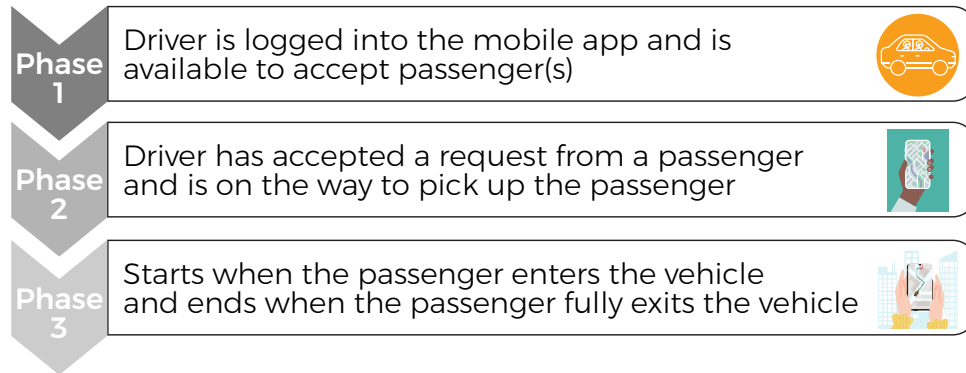
Be sure to ask your clients about their TNC driving habits in a way that does not make them feel like they will be denied coverage if they are honest. Assure them that you are only asking to make sure the right coverage is offered, as there are endorsements to help add coverage back for these exposures.

There are two Transportation Network Driver Coverage endorsements that may be used to provide coverage when logged into a “transportation network platform” as a driver. These endorsements require that the transportation network platform and vehicle(s) be

Section 2: Personal Auto Policy Definitions and Liability Coverage

described in the Schedule and give back coverage for Part A – Liability, Part B – Medical Payments, Part C – UM/UIM, and Part D – Coverage For Damage To Your Auto.

To understand when these endorsements provide coverage, it is important to understand the following three phases:



Now, let's take a look at the endorsements you may be able to offer to your client.



TRANSPORTATION NETWORK DRIVER COVERAGE (NO PASSENGER) (PP 23 41)

endorsement gives back coverage when an “insured” is logged into the “transportation network platform” described in the Schedule as a driver and a passenger is not “occupying” the vehicle. This provides coverage during both Phase 1 and Phase 2.



LIMITED TRANSPORTATION NETWORK DRIVER COVERAGE (NO PASSENGER) (PP 23 45)

endorsement gives back coverage when an “insured” is logged into the “transportation network platform” as a driver and a passenger is not “occupying” the vehicle AND a request through the “transportation network platform” to transport a passenger has not been accepted. This provides coverage during Phase 1 only.

Let's proceed with the remaining Part A – Liability Coverage exclusions.

6. While employed or otherwise engaged in the auto “business”

There is no liability coverage for the individual or the organization (i.e., mechanic, body shop, car salesperson, valet parking attendant, etc.) in the auto “business.” Auto “business” includes selling, servicing, repairing, storing, or parking autos designed for use on public roads. This exclusion will also apply to road testing and delivery of the auto.

However, while the person or organization in the auto “business” is excluded, this exclusion does not take away coverage for other “insureds” (**you**, any “family member,” or partner/agent/employee of **you** or any “family member”) for the ownership, maintenance, or use of a “your covered auto.”



Gary's vehicle is being repaired at Sally's Auto Shop. The mechanic has an at-fault accident while taking Gary's car for a test drive. The other driver is injured and makes a claim against the mechanic (as the at-fault driver), Sally's Auto Shop on whose behalf the mechanic was driving, and Gary as the owner of the vehicle. This exclusion takes away coverage for the mechanic and Sally's Auto Shop as they are both in the auto "business." There is still coverage for Gary as he is a **you**.



Let's unpack this exception a little bit more.

This exclusion DOES take away coverage for the **you** or a "family member" using a vehicle other than a "your covered auto" (generally non-owned autos) while in the auto "business."



Robert owns an auto repair shop and has an accident while driving a customer's car. Because of this exclusion, Robert does not have coverage for this loss under his Personal Auto Policy.

The EXCEPTION gives back coverage for the **you** or "family member" (or partner/agent/employee of you or "family member") for the ownership, maintenance, or use of a "your covered auto" while in the auto "business."



Robert owns an auto repair shop. Robert uses his own vehicle to take a new vehicle battery to a customer's home and accidentally scrapes the customer's vehicle pulling into the driveway. Robert is still covered for an accident while driving his own vehicle (a "your covered auto") in the auto "business."

EXCLUSIONS

A. We do not provide Liability Coverage for any "insured":

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:

- (1)** You;
- (2)** Any "family member"; or
- (3)** Any partner, agent or employee of you or any "family member".

7. In any “business” other than the auto “business”

The policy is not concerned just about the use of vehicles in the auto “business.” In the next exclusion (A.7.), the policy also excludes liability coverage for vehicles used in any other “business” (other than farming or ranching). But do not fret for the client that uses their owned, rented, or borrowed private passenger autos, pickups, or vans for business use. Coverage is given back for those specific vehicle types and includes “trailers” used with them.



COVERED: Leon rents a car while on a business trip. He has an at-fault accident. The damage he caused to the other vehicle is not excluded since he was driving a private passenger auto.

NOT COVERED: Leon rents a box truck to take large office printers to a client. He is in an at-fault accident. The damage he caused to the other vehicle is excluded since the vehicle was not a private passenger auto, pickup truck, or van and Leon was engaged in “business” activities.



EXCLUSIONS

A. We do not provide Liability Coverage for any “insured”:

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; or
- c.** “Trailer” used with a vehicle described in **a.** or **b.** above.

8. Use of a vehicle without a reasonable belief of entitlement to do so

The Personal Auto Policy does not want to provide coverage to someone wrongly using a vehicle without permission. Therefore, a reasonable belief of entitlement must exist for Liability Coverage to apply. The intent is to take away liability coverage for the car thief.

EXCLUSIONS

A. We do not provide Liability Coverage for any “insured”:

8. Using a vehicle without a reasonable belief that that “insured” is entitled to do so. This exclusion (**A.8.**) does not apply to a “family member” using “your covered auto” which is owned by you.

However, this exclusion (A.8.) does not apply to a “family member” using a “your covered auto” which is owned by you. Notice that this exception will not give coverage to a “family member” using a temporary substitute (which is a “your covered auto”) because the exception stipulates the auto must be owned by a **you**.



Diane’s 17-year-old son, Levi, was grounded. Despite this, Levi drove Diane’s car without permission and had an at-fault accident. This exclusion would not apply since Levi is a “family member” and was driving an owned car on her policy.

9. “Insured” also covered under a nuclear energy liability policy

The coverage exclusion related to nuclear energy is fairly straightforward. Claims for nuclear accidents are covered by nuclear energy liability policies as established by the **Price-Anderson Nuclear Industries Indemnity Act**, which is why all property and liability policies exclude nuclear risk. “Bodily injury” and “property damage” coverage is excluded for that “insured” who is also an insured under a nuclear energy policy—or would be if limits had not been exhausted.

EXCLUSIONS

A. We do not provide Liability Coverage for any “insured”:

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:

- (1) Nuclear Energy Liability Insurance Association;
- (2) Mutual Atomic Energy Liability Underwriters; or
- (3) Nuclear Insurance Association of Canada.

Price-Anderson Act

The Price-Anderson Act was enacted in 1957 to respond to growing concern over the liability and potential costs of nuclear accidents at a time when private nuclear energy investment and development was encouraged.

Visit nrc.gov for more information.



10. Personal vehicle sharing program

The final Group A exclusion is for an “insured” using a “your covered auto” enrolled in a **personal vehicle sharing** program while it is being used by someone other than a **you** or any “family member.”

A personal vehicle sharing program may be airport carsharing, peer-to-peer, or business-to-consumer carsharing. This is a formal arrangement; the program is typically required to be registered in the state and allows members of the program to earn money by allowing others to use their vehicle. For example, rather than leaving their car parked at the airport while on a



Section 2: Personal Auto Policy Definitions and Liability Coverage

trip or parked while working each day, the vehicle owner can earn money to offset expenses associated with vehicle ownership. Likewise, they have the opportunity to use the vehicles of others. Personal vehicle sharing programs are more likely to be found in larger cities; you may recognize popular peer-to-peer platforms like Turo or Getaround.



Betty enrolled in a personal vehicle sharing program with her 2015 Toyota Prius. Another member of the program, Steve, is driving Betty's car when he has an accident. Neither Betty nor Steve has coverage under Betty's policy.

EXCLUSIONS

A. We do not provide Liability Coverage for any "insured":

10. For the ownership, maintenance or use of "your covered auto" while:

- a. Enrolled in a personal vehicle sharing program under the terms of a written agreement; and
- b. Being used in connection with such personal vehicle sharing program by anyone other than you or any "family member".

Now, let's explore the five Group B exclusions. These are exclusions that take away liability coverage based on the type or use of a vehicle.

Group B Exclusions: The Vehicle

Group B exclusions take away liability coverage based on vehicle type, use, or its availability to the client. We've learned that a "your covered auto" may be a temporary substitute (a non-owned auto) and that an "insured" under Part A – Liability is **you** or a "family member" for the ownership or use of ANY auto or "trailer." Since vehicles named on the policy are not the only vehicles a client may drive or even own, the following exclusions ensure an understanding of which vehicles will not be afforded Part A – Liability Coverage.



1. Vehicles with fewer than four wheels OR designed for off-road use



The Personal Auto Policy will not provide Liability Coverage for the ownership, maintenance, or use of a vehicle with fewer than four wheels such as motorcycles, dirt bikes, scooters/mopeds, and three-wheeled vehicles. Also excluded are vehicles that are designed for use off public roads, such as ATVs, go-carts, mobility scooters, children's riding toys, and snowmobiles. Many of these types of vehicles are often referred to as recreational vehicles.

Liability coverage is given back to any of the excluded vehicles mentioned if they are being used by an "insured" for a medical emergency.



While riding in the woods, Joe flips his ATV and injures his back. Julie puts Joe on her ATV and drives him to the ranger station for medical attention. As Julie approaches the ranger station, she hits and damages the forest ranger's parked Jeep.

"Trailers" often have fewer than four wheels, but do not fret, because the exclusion also gives back coverage to any "trailer" owned, maintained, or used.

One final exception returns coverage for non-owned golf carts.



Patty rents a golf cart to play a round at her local country club. While driving to the first tee, Patty accidentally knocks down and injures another golfer.



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:

- (1)** While such vehicle is being used by an "insured" in a medical emergency;
- (2)** To any "trailer"; or
- (3)** To any non-owned golf cart.



While coverage for these types of vehicles may be better under a specialty Recreational Vehicle Policy, there are two endorsements offered if your client has a recreational vehicle. The **MISCELLANEOUS TYPE VEHICLE**

ENDORSEMENT (PP 03 23) and the **SNOWMOBILE ENDORSEMENT (PP 03**

20) may be used to add liability coverage, medical payments coverage, and coverage for damage to the recreational vehicle.

2. Vehicles, not a "your covered auto," **you** own or are furnished/available for **your** use

A client may own vehicles other than those shown on the Declarations page. The Personal Auto Policy will not provide Liability Coverage for a vehicle owned by a **you** that is not a "your covered auto." The vehicles could include autos the client decided not to insure or a new vehicle that was not reported to the insurance company within the required time period.



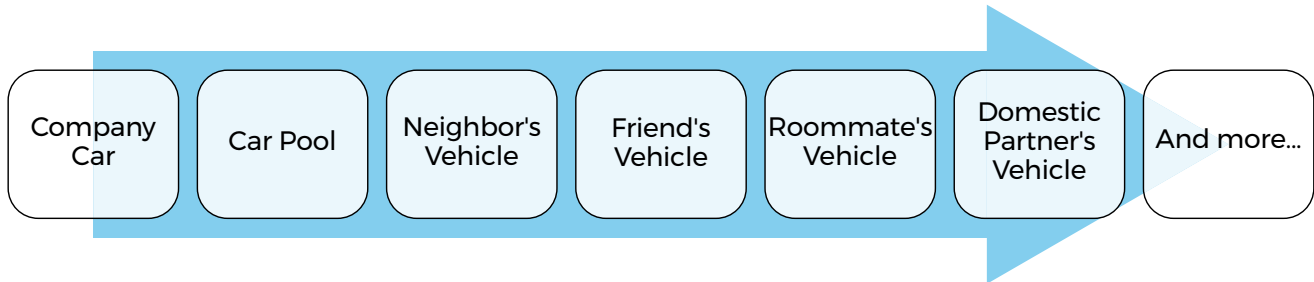
Rick has a pickup truck that he never drives, so he took it off his policy. He later has an accident while driving the pickup. The policy excludes this loss since he was in an owned auto that was not a "your covered auto."

Mac bought a new car 30 days ago but forgot to add it to his Personal Auto Policy. The vehicle will not receive liability coverage from Mac's policy until such time that he requests coverage (recall "newly acquired auto").

The client may also have regular access to or regularly use vehicles other than those on the Declarations page. While the policy will respond to the occasional use of certain non-owned autos, more risk is presented when certain non-owned autos are used on a regular and ongoing basis. Therefore, the Personal Auto Policy excludes Liability Coverage for a vehicle that is furnished or available for the regular use of a **you**. A

Section 2: Personal Auto Policy Definitions and Liability Coverage

furnished company auto is not the only auto that could be considered furnished or available for your regular use; take a look at other possibilities in the graphic that follows:



John regularly drives his roommate's car. He has his own set of keys and drives it anytime he wants. If John has an accident while driving his roommate's car, his Personal Auto Policy would not provide liability coverage because of this exclusion. The only coverage John would have is from his roommate's auto insurance.



Meredith's mother can no longer drive her car because of her failing health, so she has given Meredith her car to use. Meredith keeps the vehicle at her home. If Meredith has an accident while driving her mother's car, her Personal Auto Policy would not provide liability coverage because of this exclusion. The only coverage Meredith would have is from her mother's auto insurance.

EXCLUSIONS

B. We do not provide Liability Coverage for the ownership, maintenance or use of:

- 2.** Any vehicle, other than "your covered auto", which is:
 - a.** Owned by you; or
 - b.** Furnished or available for your regular use.



A vehicle furnished or available for regular use is an often-overlooked exposure that, if known about, may be able to have coverage provided by an endorsement. When gathering information about a client, the insurance professional should be aware of, not only owned vehicles, but other vehicles that may be considered furnished or available for their use as well.



For the client with a vehicle furnished or available for regular use, the **EXTENDED NON-OWNED COVERAGE - VEHICLE FURNISHED OR AVAILABLE FOR REGULAR USE (PP 03 06)** endorsement may take care of the coverage gap.

Section 2: Personal Auto Policy Definitions and Liability Coverage

Endorsement PP 03 06 effectively removes exclusion B.2.b and provides excess Liability Coverage over any primary insurance provided on the non-owned vehicle. Coverage (including Medical Payments and/or PIP Coverage) will be provided for the **you** with a vehicle furnished or available for their regular use. The individual must be named in the Schedule. If coverage for the spouse of that individual or “family members” is desired, the appropriate box must be marked.

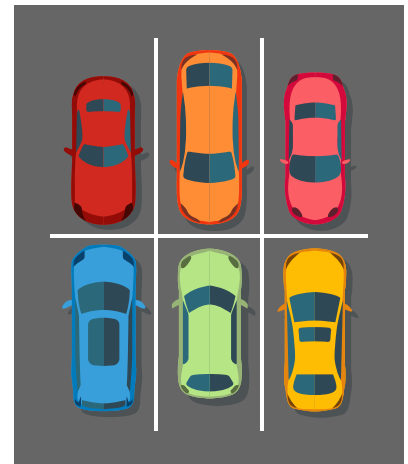
Endorsement PP 03 06 will NOT provide coverage for an auto that is owned by the individual named in the Schedule, a vehicle owned by a “family member,” or a temporary substitute for either.

3. Vehicles, not a “your covered auto,” owned by a “family member” or furnished/available for their use

When there are “family members” in the household, there is a possibility that those “family members” may also solely own vehicles and/or have vehicles furnished to them or available for their regular use. Again, the Personal Auto Policy must be able to effectively rate for the risks (drivers and automobiles) and minimize accidentally taking on unknown risk. The policy will not provide Liability Coverage for vehicles other than a “your covered auto” which is owned by a “family member.”



Mark and Karli’s resident son, Rowan, owns a vehicle and insures it on his own policy. Rowan has an accident while driving his own vehicle. This exclusion in Mark and Karli’s Personal Auto Policy excludes this loss, as the vehicle is owned by a “family member” and is not a “your covered auto” on Mark and Karli’s policy.



“Family members” may also have regular access to use vehicles other than those on the Declarations page. This exclusion (B.3.) applies to a vehicle that is furnished or available for the regular use of a “family member.” This includes the same types of vehicles discussed in the previous exclusion (company car, auto owned by a relative, neighbor, friend, or roommate).



Mark and Karli’s 18-year-old son, Cole, is attending college, where he regularly drives his roommate’s car. The car keys are kept on the kitchen counter for Cole to drive the vehicle any time he wants. If Cole has an accident while driving his roommate’s car, Mark and Karli’s Personal Auto Policy would not provide liability coverage because of this exclusion for a vehicle furnished or available for a “family member’s” regular use. The only coverage Cole has is from his roommate’s auto insurance.

Section 2: Personal Auto Policy Definitions and Liability Coverage

There is an exception that gives back coverage to a **you** while maintaining or “occupying” any vehicle owned by or furnished/available to “family member.” However, this coverage **ONLY** applies to a **you**.



COVERED: Joe and Janet’s 22-year-old son, Matt, lives at home. Matt has a car insured on a separate policy in his own name. Joe is driving Matt’s car when he has an accident. If Matt’s liability insurance coverage was not enough to cover the loss, Joe’s Personal Auto Policy would provide excess liability coverage for Joe.

This coverage exception does NOT apply to another “family member.”

EXCLUSIONS

C. We do not provide Liability Coverage for the ownership, maintenance or use of:

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:

- (1)** Owned by a “family member”; or
- (2)** Furnished or available for the regular use of a “family member”.



NOT COVERED: Joe and Janet’s 18-year-old resident son, Tom, had an accident while driving Matt’s car to the store. Matt carried minimum limits that are not enough to cover the damages from the accident. Joe and Janet turn in a claim to their insurance company only to find out that there is no coverage for Tom while driving Matt’s car.



An important note, the EXTENDED NON-OWNED COVERAGE – VEHICLE FURNISHED OR AVAILABLE FOR REGULAR USE (PP 03 06) endorsement may not be used to provide coverage for the “family member” with a vehicle furnished or available for their regular use. This is because the endorsement removes the exclusion related to vehicles furnished or available for the regular use of a **you** (B.2.b) and requires the named individual on the endorsement Schedule to be that **you**. A “family member” cannot be a **you**.

This endorsement does not remove exclusion B.3.b. (vehicles owned by a “family member” or furnished/available for the regular use of a “family member”) like it does in exclusion B.2.b (vehicles owned by **you** or furnished/available for **your** regular use).

4. Inside a racing facility

Have you heard of driving experiences for sports car enthusiasts? Racecar or stock car driving experiences? These popular events allow average drivers to get behind the wheel of high-performance vehicles like Lamborghinis and Ferraris to “give them a whirl.” As you can imagine, these types of events come with a lot of risk when inexperienced drivers are placed behind the wheel of a high-performance vehicle or vehicle designed for high-speed acceleration.

The Personal Auto Policy excludes Liability Coverage for ANY vehicle inside a facility designed for racing when the purpose of it being there is to prepare, practice,



Section 2: Personal Auto Policy Definitions and Liability Coverage

participate, or compete in prearranged or organized racing/speed contests or driver skill events.



On Friday nights, Jim takes his Camaro to a local drag-racing track and competes against other drivers.

This exclusion does not apply if racing is outside a facility designed for racing.



Sam is racing his friend on the back streets in his town and has an accident in the process. The racing exclusion does not apply.

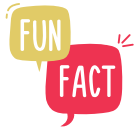
EXCLUSIONS

B. We do not provide Liability Coverage for the ownership, maintenance or use of:

- 4.** Any vehicle, located inside a facility designed for racing, for the purpose of:
 - a.** Participating or competing in; or
 - b.** Practicing or preparing for;any prearranged or organized:
 - (1)** Racing or speed contest; or
 - (2)** Driver skill training or driver skill event.

5. Flying vehicles

This final exclusion is pretty simple. There will be no liability coverage for a vehicle that is also capable of flight. These may also be referred to as roadable aircraft. You may still think flying cars are a thing of the future—you'd be wrong.



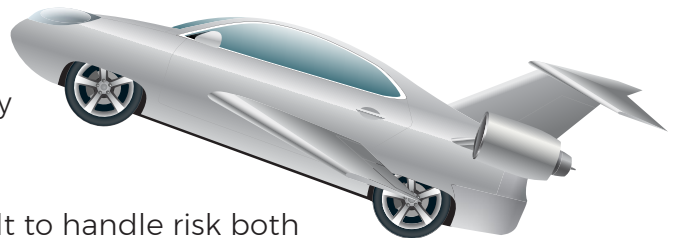
The first flying vehicle was Waldo Waterman's flying car called the Aerobile, in 1934, but to go from auto to airplane, the vehicle had to visit the hanger to have its wings attached. The Great Depression scrapped plans for production of this vehicle with only five ever being made. In 2021 the AirCar, created by Professor Stefan Klein, completed its first test flight in Slovakia, landing on a runway and driving straight into town. The company, Klein Vision, states it already has 40,000 orders pending in the United States.

The Personal Auto Policy is simply not built to handle risk both on the road and in the air.

EXCLUSIONS

B. We do not provide Liability Coverage for the ownership, maintenance or use of:

- 5.** Any vehicle which is designed or can be used for flight.



Check-In



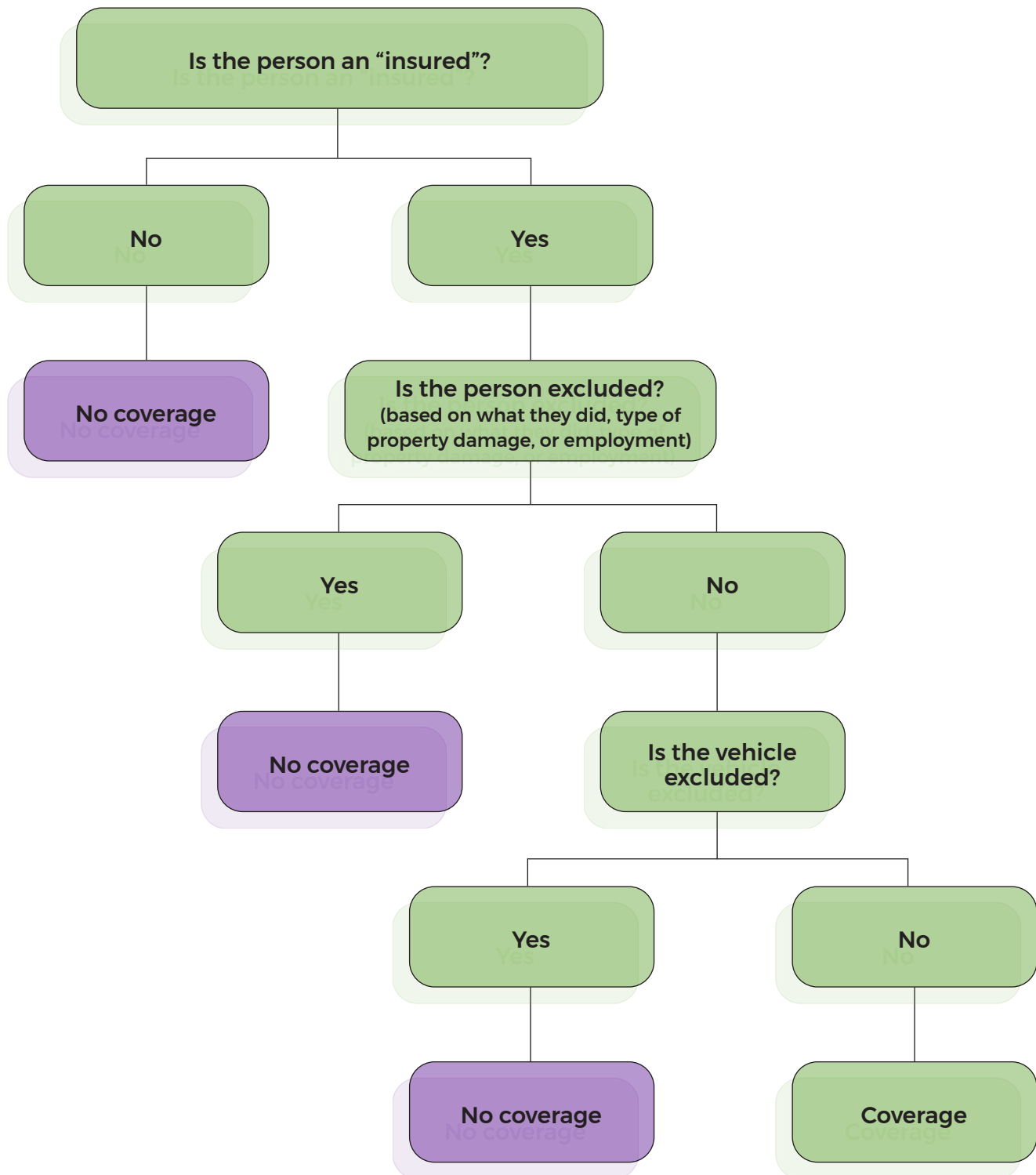
Directions: Read the scenarios below and select the letter choice of the corresponding exclusion.

Aaron has 250/500/100 Liability Coverage on his 2019 Dodge Durango. For each of the following scenarios, indicate which Part A – Liability Coverage exclusion, if any, will apply.

Scenario	Exclusions
_____ Aaron argues with his neighbor and repeatedly rams his Durango into his neighbor's parked car.	A. This situation is covered.
_____ Aaron's 16-year-old son takes his car without permission and has an at-fault accident.	B. Vehicles, not a "your covered auto," you own or are furnished/available for your use
_____ Aaron backs his rental car into a concrete post and damages the rental car.	C. Use of a vehicle without a reasonable belief of entitlement to do so
_____ Aaron has an at-fault accident while driving his furnished company car.	D. Intentional damage or injury
_____ A visiting friend takes Aaron's car without his permission and has an at-fault accident.	E. "Property damage" to property rented to, use by, or in the care of that "insured"

Section 2: Personal Auto Policy Definitions and Liability Coverage

Let's look at a simple flow chart that might help you walk through the process of discovering whether or not there is liability coverage for an exposure.



Liability Coverage Exclusions Recap



EXCLUSIONS APPLYING TO PERSONS

Intentional “bodily injury” or “property damage”
“Property damage” to property owned or transported by that “insured”
“Property damage” to property rented, used by, or in care of that “insured” with an exception for “property damage” to a residence or private garage
“Bodily injury” to an employee with exception for domestic employee, unless workers compensation benefits are required or available for that employee
Liability arising out of ownership or operation of vehicle used for public or livery conveyance (including logged into TNC platforms) with exception for share-the-expense car pools or being used for volunteer or charitable purposes
Persons employed in auto “business” with exception for the ownership, maintenance, or use of a “your covered auto” by you , a “family member,” or partner/agent/employee of you or any “family member”
“Business” use (other than auto “business”) of a vehicle other than a private passenger auto, pickup, or van
No reasonable belief of entitlement to use vehicle with exception for “family member”
Persons insured on a nuclear policy
Vehicle enrolled in a personal vehicle sharing program under the terms of a written agreement being used by anyone other than you or any “family member”



EXCLUSIONS APPLYING TO VEHICLES

Vehicle with fewer than four wheels unless a medical emergency or “trailer”
Vehicle designed for use off public roads unless medical emergency or non-owned golf cart
Vehicle other than a “your covered auto” owned by you or furnished or available for your regular use
Vehicle owned by or furnished or available for the regular use of a “family member” with an exception for you
Vehicle in a race facility participating, competing, practicing, or preparing for an organized or prearranged speed contest or driver skill training or driver skill event
Any vehicle which is designed or can be used for flight

Section 2: Personal Auto Policy Definitions and Liability Coverage

We have come to the end of the 2018 ISO Personal Auto Policy Part A – Liability Coverage exclusions. The Personal Auto Policy is not designed to cover every moving vehicle or every possible loss that could occur; it has its limits. It is important for the insurance professional to know and understand the coverage and exclusions within Part A – Liability Coverage to ensure they can assess a client’s exposure and adequately meet their needs with the correct coverage solutions. Given the number of vehicles available to drivers and the various circumstances in which one might access them, it is easy to see the necessity for becoming well-versed in this part of the policy.

Knowledge Check



Directions: Read the scenario below and respond with how you would advise your clients, Andrew and Annie. Be sure to explain your answer.

Your clients, Andrew and Annie, meet with you for an annual review of their auto policy. During the review, you discover they have had some significant changes in the past year. Andrew and Annie purchased a ride-on scooter for their 16-year-old son, Conner, to use to get to school. Annie also accepted a new position at her company and is provided a company car to drive. What should you tell Andrew and Annie about their Personal Auto Policy and what coverage recommendations should you make?

Learning Objective

- *Identify and apply policy provisions within Part A – Liability Coverage to loss scenarios.*

Before we move on to the next coverage part of the Personal Auto policy, there are a few more details to cover. Within Part A – Liability Coverage, there are provisions in which the policy explains:

- How the limits of liability will apply
- What happens when the vehicle travels outside of the state it is principally garaged in
- Financial responsibility and compliance with state law
- How the policy coordinates with other applicable coverage

Limit of Liability

The Limit of Liability provision of Part A – Liability Coverage states that the limits which are shown on the Declarations page are the maximum amount that will be paid in any one accident. Remember that liability limits may be shown as split limits or combined single limit (CSL).

SCHEDULE OF COVERAGES

VEHICLE COVERAGES		LIMITS OF INSURANCE	PREMIUM
1	2008 Toyota Corolla	ID#: JT2AL21E8B3306553	
	Coverage A – Liability:		
	Bodily Injury Liability	\$ 100,000 Each Person \$ 300,000 Each Accident	\$ 110.00
	Property Damage Liability	\$ 50,000 Each Accident	\$ 40.00
	Coverage B – Medical Payments	\$ 5,000 Each Person	\$ 36.00
	Coverage C – Uninsured Motorist:		
	Bodily Injury	\$ 100,000 Each Person \$ 300,000 Each Accident	\$ 40.00

With split limits, coverage for “bodily injury” has two separate limits: per person and per accident. The per-person limit is the most that will be paid for “bodily injury” for any one person. If there are three persons injured, they can each receive up to the limit shown. HOWEVER, the policy will not pay more than the per-accident limit for “bodily injury” regardless of the number of injured persons.

Section 2: Personal Auto Policy Definitions and Liability Coverage

Consider the following scenario involving Marie.



Marie has an auto policy with 25/50/25 liability limits. Marie is at fault for an auto accident involving four pedestrians. Each pedestrian may receive up to \$25,000, but the policy will not pay more than \$50,000 total for their combined medical expenses.



The last limit for split limits is the total limit available for property damage caused by an “insured” regardless of the amount of property damage. In the example above, Marie has a property damage limit of \$25,000. When Marie accidentally drives through the glass door of her local pharmacy, the most her policy will pay is \$25,000 for damage to the door and any loss of use the business may suffer.

Combined single limits allow the entire limit shown to be used to satisfy the claim however necessary. Using the previous example, if Marie had a combined single limit of \$100,000, this limit could be used for both “bodily injury” and “property damage” without any per-person limits.

Stacking of limits is not allowed. **Stacking limits** means that when multiple vehicles are covered on the policy, their limits can be added together to increase the limit available for a loss. For example, if a policy has two vehicles insured with liability limits of 25/50/25, and one of the vehicles was involved in an at-fault accident, stacking would combine the limits of both vehicles to equal 50/100/50. But again, this is NOT allowed.

The Limit of Liability provision also states that payment will not be duplicated for the same elements of a loss which are also covered under Medical Payments and Underinsured/Uninsured Motorists Coverage. Remember that passengers in the client’s vehicle are eligible for Part B – Medical Payments Coverage, but if the limit is not enough, passengers (not a **you** or “family member”) may also receive payment under Part A – Liability Coverage for the medical expense that exceeds Part B – Medical Payments.

As already mentioned, the Liability Coverage limits selected are of great importance. It is in the best interest of the client to assist them with selecting the highest limits of coverage they can comfortably afford, as low limits can be quickly exhausted by mild to severe losses.

LIMIT OF LIABILITY

A. The Limit Of Liability shown 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 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.

The Limit Of Liability shown in the Declarations for each accident for Property Damage Liability is our maximum limit of liability for all “property damage” 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.** 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.

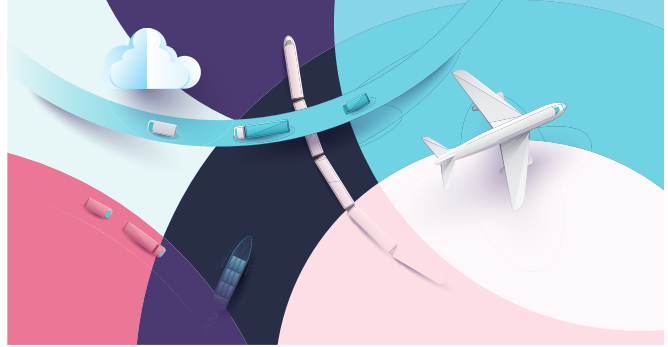
Out of State Coverage

Clients often travel outside of their home states. As we've discovered, each state has its own regulation on the minimum limits of liability coverage required for motor vehicles on the road. The lowest required minimum limits (as of 2021) are 10/20/10 and the highest are 50/100/25. If a covered accident occurs outside the state in which a "your covered auto" is principally garaged, the policy will provide a higher limit of liability if required by the state/jurisdiction where the accident happens.



Donté lives in Washington and has liability limits of 25/50/10. He visits Alaska, where he rents a car. If Donté has an accident while there, his Personal Auto Policy will provide the 50/100/25 required by the state of Alaska.

If a state/jurisdiction requires a certain type of coverage, such as mandatory Personal Injury Protection (PIP), that the state where the "your covered auto" is principally garaged does not, the policy *will* provide the required coverage.



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.

Check-In



Directions: Answer each question as True or False.

1. Payment dispersed under Liability Coverage cannot also be paid under Medical Payments or Uninsured/Underinsured for the same elements of a loss.

True

False

2. When Zander takes a road trip across the U.S., his auto policy coverage limits will be as stated on the Declarations page. In states where coverage requirements may be higher, this could leave him with a serious coverage issue.

True

False

3. When a combined single limit is selected and shown on the Declarations page, the full limit is applied individually to each claimant.

True

False

4. Coverage that is mandatory by law in a state other than where Kimberly resides will be automatically provided by Kimberly's policy while she is visiting that state, even if she has not selected that coverage on her policy.

True

False

Financial Responsibility

Each state has regulations and laws with respect to insurance coverage, limits, exclusions, provisions, etc. Financial responsibility laws require that persons with registered motor vehicles show proof that they can pay for damages they may cause to others (i.e., proof of insurance). The **Financial Responsibility provision** in the Personal Auto Policy simply states that the policy will comply with requirements of financial responsibility laws. Visit scic.com/PAResources to review a summary of financial responsibility requirements by state as produced by the Insurance Information Institute.

FINANCIAL RESPONSIBILITY

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

Other Insurance

The Personal Auto Policy will provide primary liability coverage for an owned auto. Let us think for a moment what might happen if a friend drives your vehicle. If your friend has an

Section 2: Personal Auto Policy Definitions and Liability Coverage

accident while driving your auto, your auto policy will provide primary liability coverage. *If you loan your car, you loan your insurance.*

The client's liability coverage may not be the only applicable automobile policy providing liability coverage to the vehicle involved in an accident, particularly in the case of non-owned autos. If there is other insurance applicable to a vehicle the client owns, such as when multiple policies are intended to provide primary coverage, The **Other Insurance provision** confirms that the policy will pay proportionate to the total limit of liability of all applicable limits. This is also known as a **pro-rata share**.

For non-owned autos, the Personal Auto Policy will be excess over any other liability insurance that applies to the non-owned auto.



Zane is driving his friend Zoe's car when he has an accident. Zoe's Personal Auto Policy is primary; Zane's policy is excess.

It is important to note that any liability coverage that is written to specifically be excess coverage to the Personal Auto Policy (i.e., Excess Liability or Personal Umbrella Policy) will remain as excess to the Personal Auto Policy.

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, including any vehicle while used as a temporary substitute for "your covered auto", shall be excess over any other collectible insurance except insurance written specifically to cover as excess over the limits of liability that apply in this Policy.



Knowledge Check



Directions: Determine how Liability Coverage will apply to the loss scenario below.

Your client, William, is the named insured on a Personal Auto Policy with Liability Coverage limits of 25/50/25, with no other coverage. William's son, Evan, who is visiting from out-of-state, had an at-fault accident while driving William's covered auto. There is damage to William's car and a parked auto. Both cars were total losses. The actual cash value (ACV) of William's car is \$28,000, and the ACV of the other car is \$22,000. Explain how William's policy will respond to the loss and how much, if anything, the policy will pay for damages.

Endorsements in this Section

Below is a list of endorsements identified in this section.



ADDITIONAL RESIDENT OF YOUR HOUSEHOLD (PP 33 37)



TRANSPORTATION NETWORK DRIVER COVERAGE (NO PASSENGER) (PP 23 41)



LIMITED TRANSPORTATION NETWORK DRIVER COVERAGE (NO PASSENGER) (PP 23 45)



MISCELLANEOUS TYPE VEHICLE ENDORSEMENT (PP 03 23)



SNOWMOBILE ENDORSEMENT (PP 03 20)



EXTENDED NON-OWNED COVERAGE - VEHICLE FURNISHED OR AVAILABLE FOR REGULAR USE (PP 03 06)


Summary

In this section, you reviewed the importance of the policy Insuring Agreement for the ISO Personal Auto Policy and explored the key definitions that appear in the Definitions section of the policy. Additionally, you became familiar with various liability exclusions to identify potential gaps in coverage and recommend the endorsements that would give back coverage.

The policy's Insuring Agreement is where everything begins. In the Agreement, it states that the insurance company will provide the stated coverage as long as the named insured:

- pays the policy premium
- complies with all conditions of the policy

Understanding that the Definitions section of the Personal Auto Policy is important as it allows you to grasp what each term means within the context of the policy and better advise your clients. Imagine the confusion if these terms were not specifically defined within the policy. An overview of the terms you learned are on the Summary of Policy Definitions table at the end of the Policy Definitions section in this Learning Guide. The key terms in the policy are as follows:

- **You and Your** 
- "We," "Us," and "Our"
- "Bodily injury"
- "Family member"
- "Your covered auto"
- "Newly acquired auto"

Following the section on definitions, you discovered the importance of coverages provided in Part A – Liability Coverage and the benefits of maintaining high limits. Liability coverage is the most important coverage provided by the Personal Auto Policy. The Insuring Agreement for Part A – Liability sets the foundation for understanding the coverage provided by the policy:

- Who the policy protects
- What type of damages
- Under what circumstances
- The defense coverage

The Personal Auto Policy will pay for injuries ("bodily injury") and damages ("property damage," including prejudgment interest) resulting from an auto accident when an "insured" is legally responsible.

Section 2: Personal Auto Policy Definitions and Liability Coverage

Now, who is an insured on the policy? Remember, there are four categories:

1. **You** or a “family member” for ANY auto
2. Anyone using “your covered auto”
3. “Your covered auto” for vicarious liability
4. Non-owned auto for vicarious liability

After understanding who qualifies as an insured on the policy, you went on to learn about Supplementary (also known as Additional) Payments. These benefits are paid in addition to the limits of liability, which means they will not reduce the limits shown on the Declarations page.

Understanding that not all risks can be covered, the 2018 ISO Personal Auto Policy groups exclusions into two categories:

- **Group A.** (ISO Exclusions A.1. through A.10.): These are exclusions that take away coverage for “bodily injury” and/or “property damage” based on a person, even if that person was previously defined as an “insured.”
- **Group B.** (ISO Exclusions B.1. through B.5): These are exclusions that take away liability coverage based on vehicle type, use, or its availability.

Remember, the Limit of Liability provision of Part A – Liability Coverage states that the limits shown on the Declarations page are the maximum amount that will be paid in any one incident. Liability limits may be shown as split limits or combined single limits.

When outside of their home states, clients are at the mercy of the rules and regulations of the state in which they are traveling. Each state has its own regulation on the minimum limits of liability coverage. The lowest required minimum limits (as of 2021) are 10/20/10 and the highest are 50/100/25.

Additionally, financial responsibility laws require that people with registered motor vehicles show proof they can pay for damages they may cause to others. The Financial Responsibility provision in the Personal Auto Policy simply states that the policy will comply with requirements of financial responsibility laws.

Finally, the policy informs how it will respond when there may be other insurance coverage to consider. The client’s Personal Auto Policy may not be the only automobile policy applicable to the vehicle involved in an accident. The Other Insurance provision confirms that the policy will pay proportionate to the total limit of liability of all applicable limits. This is also known as a pro-rata share. For non-owned autos, the Personal Auto Policy will be excess over any other liability insurance that applies to the non-owned auto.

In the next section of this Learning Guide, we will address Part B – Medical Payments of the Personal Auto Policy. Here, you will become familiar with coverage provided by Medical Payments and/or Personal Injury Protection (also known as no-fault coverages) offered with or in addition to the Personal Auto Policy and to whom the coverage will apply.

Resources

Important concepts related to the Learning Objectives in this chapter are summarized in separate videos. Online participants can use the links to access the videos. Classroom learners can access the videos at scic.com/PAResources.

	Contract of Utmost Good Faith
	PAP – Who is a “Family Member”?
	“Your Covered Auto”
	“Newly Acquired Autos”
	How Much Liability Coverage Should I have?
	PAP – Liability Coverage – Who is an “Insured”?
	PAP – Liability – Reasons for Exclusions
	Out of State Coverage
	Document: Summary of Financial Responsibility requirements by state as produced by the Insurance Information Institute

Section 2 Self-Quiz

Directions: Read each question below and select the one correct answer.

1. Choose the answer that describes the function of the policy Insuring Agreement.
 - ☐ It helps clients predict the coverage they are likely to receive during a time of loss, based on the type of vehicles they own and how many.
 - ☐ It outlines that the insurance company will provide coverage as long as the named insured pays the policy premium and complies with conditions of the policy.
 - ☐ It provides specific meanings to terms that are used throughout the policy so clients can better understand their coverage options.
2. The individual named in the Declarations, as well as their spouse/partner, would fall under which policy term?
 - ☐ "We," "Us," and "Our"
 - ☐ "Family Member"
 - ☐ "You" and "Your"
3. The defined term, "occupying," helps ensure understanding of all the places a person can still be considered "occupying" a vehicle rather just sitting inside of it. Which one of the choices below does NOT relate to "occupying" a vehicle?
 - ☐ Under
 - ☐ In
 - ☐ Upon
 - ☐ Getting in
4. Choose the scenario in which a vehicle would be considered a "your covered auto."
 - ☐ Stewart's car is in the shop and he borrowed his neighbor Peter's car to get work.
 - ☐ Christina is towing her sister Laura's trailer en route to a family reunion in New York.
 - ☐ Gina rented an SUV big enough for her family while on vacation in New Mexico.
5. The "newly acquired auto" definition may provide clients with coverage for a limited time prior to the new vehicle being reported to the insurance company. Which one of the following is NOT part of what the definition outlines?
 - ☐ Where the vehicle is going
 - ☐ Who must own the vehicle
 - ☐ Which vehicles are eligible
 - ☐ When the vehicle must be acquired

Section 2: Personal Auto Policy Definitions and Liability Coverage

Directions: Read each statement and select whether it is True or False.

1. The Personal Auto Policy considers a trailer a “your covered auto.”

True

False

2. While the **you** and **your** (named insured and spouse/civil partner) receive the best coverage provided by the policy, a “family member” receives the second-best coverage.

True

False

3. Roger purchased a new Prius. The Prius will have the lowest Collision deductible shown on the Declarations for up to 10 days from the date his Prius was acquired before he must request coverage to continue.

True

False

4. The AMENDMENT OF POLICY PROVISIONS endorsement for each state may add the “minimum limits” definition to the Personal Auto Policy, which is a term not originally found in the policy. It explains the required minimum limits of liability coverage for that state.

True

False

5. When it comes to Supplementary Payments, your agent, Grace, tells you that benefits are paid in addition to the Limits of Liability. This means that payment of the benefits will NOT reduce the limits shown on the Declarations page.

True

False

6. The following Supplementary Payment benefit may be paid on behalf of an “insured”: up to \$400 may be paid for the cost of bail bonds required because of a covered accident which resulted in “bodily injury.”

True

False

7. Group A exclusions take away coverage for “bodily injury” and/or “property damage” based on a person, even if that person was previously defined as an “insured.”

True

False

8. Group B exclusions provide liability coverage based on vehicle type, use, or its availability.

True

False

Section 2: Personal Auto Policy Definitions and Liability Coverage

9. An example of the exclusion related to ownership or use of a vehicle being used as a public or livery conveyance would apply to an individual who is a driver for the ridesharing company, Lyft.

True

False

10. Raina walks over to her neighbor Jade's house, and sees that Jade's keys are in the ignition of the car parked in the driveway; Jade is nowhere in sight. Needing to run a quick errand and not having a car of her own, Raina decides to take Jade's car without permission. The following exclusion would apply in this case: (A.7.) liability coverage for vehicles used in any other "business" (other than farming or ranching).

True

False

Directions: Read the question below and respond with a sentence or two.

Understanding that exclusions restrict coverage in the policy, please give one example of an exclusion affecting the person (Group A), and one exclusion affecting a vehicle (Group B). In your response, describe each of these exclusions.

Section 3: Medical Payments and/or Personal Injury Protection

Section Goal

In the previous section of this Learning Guide, Section 2: Personal Auto Policy Definitions and Liability Coverage, you discovered the importance of definitions in the ISO Personal Auto Policy. Definitions provide clarity to terms used and, in some cases, provide coverage. You gained an understanding of Part A – Liability Coverage through exploration of the Insuring Agreement, Supplementary Payments, and coverage exclusions. It became clear that carrying minimum limits of liability coverage may leave policyholders exposed to substantial financial loss in as little as one accident.

It is now time to move to the next part of the Personal Auto Policy—Part B – Medical Payments. The goal of this section is to ensure that you are familiar with the coverage provided by Medical Payments and/or Personal Injury Protection in the Personal Auto Policy and to whom the coverage will apply.

Learning Objective

- *Understand the coverage differences between Medical Payments and Personal Injury Protection and to whom coverage will apply.*

Introduction to Medical Payments and Personal Injury Protection Coverages

When automobile accidents happen, injuries within your clients' vehicles are probable. Remember that Liability Coverage is available when the "insured" is responsible for "bodily injury" to others—including injured pedestrians, persons in the other vehicle, and even passengers within the client's own vehicle. Passengers in the client's vehicle are eligible to receive coverage under Part A – Liability Coverage, but Liability Coverage limits are not available for the client (**you/your**) or any "family members." The client may have health insurance that can help with their own injuries, but what if the client has a high deductible health insurance plan and has a hefty up-front deductible before health insurance pays? What is an injured client to do?



Medical Payments and Personal Injury Protection are coverages the client can purchase—or which may be mandatory in some states—and are available for injuries and related expenses to persons in the client's vehicle, including the client and "family members."

While Medical Payments and Personal Injury Protection coverage generally serve the same purpose, they have coverage differences that the insurance professional should be aware

of to help their client make informed decisions that are best for them or to understand coverages that may be mandatory in their state.

Medical Payments



Part B – Medical Payments Coverage, also known as Med Pay, is provided in the Personal Auto Policy and often amended by each state’s Amendment of Policy Provisions. This coverage pays medical expenses for individuals in a client’s vehicle who are injured as the result of an accident. For the individual who is a **you** or a “family member,” this may be the only coverage available to cover medical expenses resulting from an at-fault accident. Medical Payments Coverage also has its own definition of “insured” which will be discussed soon.

When viewing the Declarations page, the limit selected and shown is the limit that will be applied per person; it is not a maximum per accident limit. This means that each person injured as a result of a covered accident can receive up to the limit shown in the Declarations page.

Bodily Injury Liability	\$ 100,000 Each Person \$ 300,000 Each Accident	\$ 110.00
Property Damage Liability	\$ 50,000 Each Accident	\$ 40.00
Coverage B – Medical Payments	\$ 5,000 Each Person	\$ 36.00
Coverage C – Uninsured Motorist:		
Bodily Injury	\$ 100,000 Each Person \$ 300,000 Each Accident	\$ 40.00
		TOTAL \$ 226.00



Diana has a Personal Auto Policy that includes \$5,000 Part B – Medical Payments Coverage. She is driving her son and two of his friends to the movies. On the way, she has an at-fault accident and all four occupants in her car are injured. Diana’s policy will provide her, her son, and her son’s two friends with up to \$5,000 Medical Payments Coverage each, for a total of \$20,000.

Part B – Medical Payments has its own Insuring Agreement which explains that the policy will pay expenses incurred—including funeral expenses—due to “bodily injury” for services provided within three years from the date of the accident. This is generally not an issue as Medical Payments Coverage limits are relatively low and are generally exceeded long before three years have passed. While Part A – Liability Coverage states that an “insured” must be legally responsible for damages, Part B – Medical Payments will pay regardless of legal responsibility for the accident, meaning, this coverage will pay regardless of who is at fault for the accident. Med Pay coverage can provide quicker payments to injured parties since fault determination is not a requirement.



Section 3: Medical Payments and/or Personal Injury Protection



While “reasonable medical expense” is not defined in the Personal Auto Policy, it can be established by state regulation.

Generally, reasonable expenses include medical, surgical, X-rays, prosthetics, ambulance, hospital expenses, and, in some states, funeral expenses.

“Insured”

Now that you have a better understanding of what comprises medical payments, let’s take a look at who is entitled to Medical Payments Coverage. Part B – Medical Payments Coverage has its own definition for “insured,” which differs from that of Part A – Liability Coverage. Individuals who fall within the definition of “insured” in this Part are entitled to coverage. There are two groups of individuals: 1) **you** and “family members” and 2) others who are “occupying” a client’s “your covered auto.”

1. **You** or any “family member” are provided the broadest coverage as coverage is provided both when “occupying” a motor vehicle (or any “trailer”) designed for use on public roads or as a pedestrian and struck by a motor vehicle (or any “trailer”) designed for use on public roads.

This could be the policyholder or family member “occupying” (in, upon, getting in, on, out, or off) their own vehicle, a rental car, or a friend’s vehicle; while a passenger in a cab or bus, etc. Understand that there would *not* be coverage while riding a recreational vehicle.



COVERED: Jane closed her hand in her car door while getting out of her car.

COVERED: Brad is taking a shuttle bus from the airport to his hotel; an accident occurs, and Brad is injured.

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 an accident; and
2. Sustained by an “insured”.

We will pay only those expenses incurred for services rendered within three years from the date of the accident.

PART B – MEDICAL PAYMENTS COVERAGE INSURING AGREEMENT

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”.

Section 3: Medical Payments and/or Personal Injury Protection

- Any other person will be considered an “insured,” but ONLY while “occupying” a client’s “your covered auto.”

This means, any other person will be considered an “insured” by the policy when in, upon, getting in, on, out, or off a vehicle in listed in the Declarations page, any owned “trailer,” a “newly acquired auto,” or a temporary substitute for an insured vehicle that is out of service.



COVERED: Jody is a passenger in Carrie’s car. Carrie swerves to miss a deer. No damage occurred, but Jody’s head was injured when it hit the window during the violet swerve.

COVERED: Cody is “car surfing” on the hood of Darren’s Mustang. Darren hit a pothole in the road and Cody fell from the hood.

Recall that we said Medical Payments Coverage will pay for injuries to passengers within the client’s vehicle even if your client isn’t responsible for the accident.

But what if your client *is* responsible? Medical Payments Coverage will still provide coverage for the passengers. In addition, Part A – Liability Coverage may provide coverage for injuries to passengers (other than a **you** or a “family member”) if the loss either exceeds the Medical Payments Coverage per person limit or doesn’t cover the type or amount of damages requested.



Kasey has \$5,000 Med Pay per person on her policy. Kasey is driving five of her daughter’s friends to a birthday party. On the way, she fails to stop at a red light, causing an accident. All five of her daughter’s friends are injured. With five people injured, Kasey’s Medical Payments Coverage will pay \$5,000 per person (total of \$25,000). However, if that is not enough, Kasey’s Liability Coverage may become available to her injured passengers (excluding “family members”). Let’s hope Kasey has enough Liability Coverage for her passengers’ injuries and any injuries caused to persons in the other vehicles, as well.

Check-In



Directions: Read each statement and select whether it is True or False.

1. Medical Payments Coverage only applies while occupying a “your covered auto.”

True

False

2. Courtney’s 16-year-old resident daughter was hit by a vehicle while she was walking in the crosswalk. Since her daughter was not occupying a vehicle, Medical Payments Coverage will not apply.

True

False

3. The city bus Thomas was riding was involved in an accident. His Medical Payments Coverage will respond to medical expenses he incurs for resulting injuries.

True

False

4. Since Tom has health insurance, he does not need Medical Payments Coverage on his auto policy.

True

False

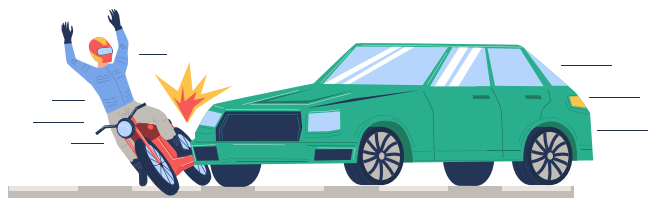
5. Amy’s Medical Payments Coverage is available for her and her friend, who was a passenger in Amy’s car at the time of an accident.

True

False

Personal Injury Protection

As with Medical Payments Coverage, Personal Injury Protection (also known as PIP coverage) is coverage the client can purchase, or which may be mandatory in some states, and is available for injuries and related expenses to persons in the client’s vehicle. This includes the client and “family members,” but may also be available for pedestrians struck by a client’s vehicle. Personal Injury Protection is often referred to as **no-fault coverage** as it is available regardless of who caused the accident. The intent behind PIP coverage is to provide quicker payments to injured parties since fault determination is not required.



- PIP coverage may either work alongside or replace Part B – Medical Payments Coverage. In states where PIP coverage is required, coverage is added by attaching a state-specific endorsement.

Section 3: Medical Payments and/or Personal Injury Protection

Again, for the individual who is a **you** or a “family member,” this may be the only coverage available to cover medical expenses resulting from an at-fault accident.

As previously mentioned, Medical Payments Coverage provides coverage for medical expenses, including funeral expenses, resulting from “bodily injury” caused by an automobile accident. Personal Injury Protection, however, is a little different, varies by state, and may provide additional benefits, such as:

- **Medical Expenses**
These include reasonable expenses such as medical, surgical, X-rays, prosthetics, ambulance, hospital expenses, and in some states, funeral expenses.
- **Funeral Expenses**
Generally, funeral or burial expenses related to “bodily injury” when death occurs within a stated period of time following the accident (i.e., death within 24 months) are covered. Depending on the state, basic limits for funeral expenses range between \$1,000 to \$5,000 and may be subject to a PIP coverage maximum.
- **Accidental Death**
A death benefit may be paid if “bodily injury” from a covered accident results in death within a specified time period from the date of the accident.
- **Work Loss (or Lost Wages)**
Coverage includes reimbursement of lost wages and is generally at a certain percentage of the person’s income (i.e., 70% or 80% of the person’s income) that they would have earned had they not been injured. Average monthly income is used to generate estimated income that the injured person would have earned. Reimbursement is reduced by any workers compensation or any disability benefits the injured person is receiving.
- **Replacement Services Loss**
These are often temporary service needs related to tasks the injured party would have normally performed (without pay) had they not been injured.



Moira hired a lawn service to cut the grass since an injury caused by an auto accident left her unable to do so herself.

Victor broke both of his legs in an accident and is unable to clean his house; he decides to hire a cleaning service to help out.

These are both examples of services in need of replacement that PIP coverage may pay for.

- **Survivor’s Economic Loss and/or Survivor’s Replacement Services**
Spouses and children are automatically considered dependents of a person deceased due to an automobile accident. Economic loss is related to the monetary and tangible things that dependents would have received had it not been for the death of the injured person. For example, consider the cost of vehicle maintenance the deceased may have performed themselves or childcare they provided. Survivor’s Economic Loss or Survivor’s Replacement Services is generally capped as a dollar amount per day.

While these coverages are generally set with basic limits, higher limits are often optionally available. Some states offer the option of applying a deductible to help offset some of the cost when coverage is mandatory.

Section 3: Medical Payments and/or Personal Injury Protection

Because PIP coverage may be mandatory and is state-specific, these coverage endorsements come with their own sets of definitions. Terms such as “insured,” “family member,” “motor vehicle,” “named insured,” “pedestrian,” “survivor,” and “your covered auto” are either added or redefined to ensure PIP coverage is correctly applied to the intended parties while meeting state-specific regulations as pertaining to the minimum coverages required.

For example, PIP coverage often wants to avoid duplicate payments and may exclude “insureds” who are “named insureds” under another policy.

“Insured”

Who is considered an “insured” for Personal Injury Protection (PIP) is fairly similar to Medical Payments Coverage (Med Pay), but often amended to comply with state-specific laws or requirements. As with Med Pay coverage, **you** or any “family member” are provided with the broadest coverage. Personal Injury Protection will be provided to both when:

1. “occupying” a motor vehicle (or any “trailer”) designed for use on public roads; or
2. as a pedestrian, and struck by any motor vehicle (or any “trailer”) designed for use on public roads.

This could be the policyholder or family member “occupying” (in, upon, getting in, on, out, or off) their own vehicle, a rental car, or a friend’s vehicle; while a passenger in a cab or bus, etc. Recall that there would *not* be coverage while riding a recreational vehicle.

An “insured” is also any other person while “occupying” a client’s “your covered auto.” In some states, however, an “insured” may also be any other person who is a pedestrian when struck by a “your covered auto.”

Check-In



Directions: Match the statement to the proper term.

Statements	Terms
_____ Coverage available for prosthetics, ambulance, emergency room, and X-rays	A. Medical Payments
_____ Coverage available if an automobile accident related death occurs within a specified time period	B. No-fault coverage
_____ Specified percentage of coverage available for lost wages resulting from a covered automobile accident	C. Work loss
_____ Personal Injury Protection is available regardless of who caused the accident.	D. Replacement services loss
_____ Provides payment for services temporarily needed while the injured party is unable to perform normal duties	E. Funeral expenses

We've explored the purpose and various coverages of both Medical Payments and Personal Injury Protection. Before we proceed, take a look at the following graphic to help you understand the different coverages offered by Med Pay and PIP:

Medical Payments (PP 00 01 09 18)	Personal Injury Protection (varies by state, not available in all states)
<ul style="list-style-type: none"> • Reasonable Medical Expenses • Funeral Expenses 	<ul style="list-style-type: none"> • Reasonable Medical Expenses • Funeral Expenses • Accidental Death • Loss of Income/Work Loss • Replacement Services • Survivor Benefits/Services

Exclusions

We are not going to spend much time discussing exclusions for Medical Payments and Personal Injury Protection as these coverages and their exclusions vary by state. It is best to review the state- or carrier-specific endorsement.



While exclusions vary by state, several of the exclusions found in Medical Payments and Personal Injury Protection coverages are similar to what we've seen in Part A – Liability Coverage. For example, coverage is generally excluded when an “insured” is “occupying” a vehicle with fewer than four wheels (motorcycles, mopeds, motorized tricycles, etc.). However, the **MISCELLANEOUS TYPE VEHICLE ENDORSEMENT (PP 03 23)** may be used to add Medical Payments Coverage as well as Part A – Liability Coverage and Part D – Coverage for Damage to Your Auto to recreational vehicles.

Other familiar exclusions are those which preclude coverage for “bodily injury” when:

- “occupying” a “your covered auto” while being used for public or livery conveyance (including rideshare use such as Uber or Lyft) with exceptions for share-the-expense car pools and while being used for volunteer or charitable purposes.
- “occupying” a vehicle owned by **you** or furnished or available for your regular use unless it is a “your covered auto.” **EXTENDED NON-OWNED COVERAGE - VEHICLES FURNISHED OR AVAILABLE FOR REGULAR USE (PP 03 06)** may be used to provide coverage.
- “occupying” a vehicle owned by a “family member” or furnished or available for their regular use, unless it is a “your covered auto.” Coverage is given back to a **you** while “occupying” or when struck by a vehicle owned or furnished to a “family member.”
- “occupying” a vehicle inside a facility designed for racing for the purposes of participating in, competing in, or practicing or preparing for any prearranged or organized racing, speed, or driver skill event or contest.
- “occupying” a vehicle without a reasonable belief of entitlement (with an exception for a “family member” using a “your covered auto” owned by a **you**).
- “occupying” a vehicle being used in the “business” of an “insured” (except for “business” use of private passenger autos, pickups, vans, and trailers used with them).

Coverage is also commonly excluded for injuries:

- caused by nuclear weapon discharge, war, civil war, insurrection, rebellion, or revolution.
- caused (no matter how it was caused) by nuclear reaction, radiation, or radioactive contamination.
- caused while “occupying” or when struck by a “your covered auto” enrolled in and being used (by anyone other than you or a “family member”) in connection with vehicle sharing programs (i.e., Turo).

Section 3: Medical Payments and/or Personal Injury Protection

All these exclusions we've just breezed through sound familiar. But let's look at a couple of unfamiliar yet common exclusions found within Med Pay/PIP coverage that were not previously explored in Part A – Liability Coverage:

- Exclusion of coverage for Medical Payments when “occupying” any vehicle used as a residence premises

The auto policy simply cannot act as a Homeowners policy.



Josh and a friend are staying in Josh's travel trailer while on a two-week camping trip at a state park. The friend is injured when he slips on a rug in the trailer. Since the trailer was being used as a residence, this exclusion would apply.



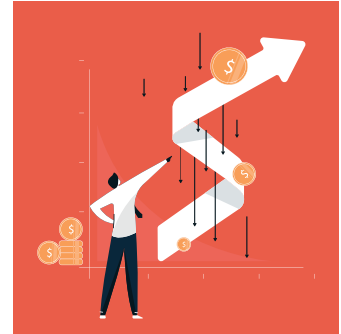
- Exclusion for Medical Payments Coverage for injuries that occur during the course of employment if workers compensation benefits are required or available for “bodily injury”



Julie is driving her own vehicle to pick up office supplies for her employer. On the way, she is injured in an auto accident. Since Julie was working at the time, she is entitled to workers compensation benefits, so this exclusion would apply.

Limit of Liability

The Limit of Liability provision under Medical Payments Coverage is fairly simple. It states that the limit shown in the Declarations is the maximum that will be paid on a per person basis and that limits cannot be stacked, regardless of the number of vehicles insured under the policy. Nor will duplicate payments be paid for the same element of loss covered under Liability or Uninsured/Underinsured Motorists Coverage. This means, if your passenger is injured and has \$4,000 in medical expense, they cannot be paid \$4,000 under Medical Payments *and* \$4,000 under Part A – Liability.



The Limit of Liability provision for Personal Injury Protection coverage is conceptually similar to Medical Payments Coverage, and once again, since PIP coverage varies by state, this provision varies as well. Generally, the limits in the Declarations page are the maximum applicable on a per person and/or per accident basis and cannot be stacked, regardless of the number of vehicles insured under the policy. The wording in the Declarations page often provides enough basic information to begin understanding how the limits apply.

Turning to the Limit of Liability provision for Part B – Medical Payments or the PIP endorsement will provide additional details and maybe even some stipulations. For example, when a deductible applies to the amount payable under PIP, the coverage is reduced by the applicable deductible and may even be split pro-rata between two or more individuals to whom coverage applies. Another common limitation in nearly all

PIP endorsements states that coverages payable under PIP are reduced by amounts paid by workers compensation, disability benefits, or other similar laws. There may also be stipulations on medical expenses being limited to set schedules within the policy or as determined by state regulation.

PART B – MEDICAL PAYMENTS COVERAGE

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.



Jericka is using her vehicle to help move files between two offices for her employer. She is injured in an accident. Her PIP coverage will respond, however, since she was working for her employer at the time, she is also entitled to workers compensation benefits. Any amounts paid by workers compensation will reduce her PIP coverage.

Insurance professionals—especially claims professionals—should be able to explain the Limit of Liability provisions to insureds to help eliminate the element of surprise during what is likely a stressful time dealing with unexpected injuries.

Other Insurance

It is possible that more than one policy may be applicable for an injured “insured.” The Other Insurance provision of Medical Payments Coverage states that for an owned auto, the client’s policy provides primary coverage. However, for a non-owned auto (including a temporary substitute), this policy provides excess coverage over any auto insurance on the non-owned auto.



Jack’s policy includes \$10,000 Part B – Medical Payments Coverage. One morning, his car would not start, so he borrowed his neighbor Jill’s

vehicle to take his son to school. En route, Jack got in an accident, injuring both Jack and his son. Jack has \$10,000 in medical expenses and his son has \$7,000.



As the owner of the vehicle, Jill’s policy is primary. She has \$5,000 Medical Payments Coverage. Her policy will pay her limit of \$5,000 per person, and the rest will be paid by Jack’s policy up to his \$10,000 limit since his policy provides coverage on an excess basis on a non-owned vehicle.

PART B – MEDICAL PAYMENTS COVERAGE

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, including any vehicle while used as a temporary substitute for “your covered auto”, shall be excess over any other collectible auto insurance providing payments for medical or funeral expenses.

If more than one policy applies that provides coverage for the exposure at the same level of coverage [i.e., the insured, for some reason, maintains policies for the same vehicle(s), driver(s), etc.], the policy will pay coverage on a pro-rata basis. This means the policy will provide coverage proportionate to the amount its limits share in the total combined limits of liability of all applicable coverage.

With regard to Personal Injury Protection coverages, since these endorsements are exceedingly state-specific according to state regulation and law, this provision is not easily summarized, and each endorsement should be reviewed individually for a comprehensive understanding.

No-Fault vs. Tort States



Now that you know what benefits can be provided to policyholders and their passengers should they be injured by their own fault or the fault of others, let's take a look at some important terminology and when these coverages may be mandatory.

The number of states that require Personal Injury Protection coverage changes often with each legislative session, therefore we are not going to list the states. The difference in requirements between states is often referred to as a state being a **tort** state or a **no-fault** state.

Tort States

In tort states, the at-fault driver is responsible for compensating individuals they injure in an automobile accident. Injured parties have a right to sue even if Med Pay or PIP coverage is selected. For the injured party, these coverages augment the coverage received from the at-fault party since the at-fault party is responsible for compensating the injured party; however, claims are usually not paid until fault is determined or a judgment is rendered in a suit. In these instances, the injured party will use their own Med Pay or PIP coverage and once fault or a judgment is determined, the insurance carrier of the responsible driver will begin to pay. There are little to no limitations on an injured party's right to sue the at-fault party in tort states.

No-Fault States

Residing in a no-fault state means that each driver is responsible for their own medical expenses in an automobile accident, even when someone else is at fault for the accident. Because of the requirement to carry PIP coverage, these states often limit the injured party's right to sue for injuries. Property damage, however, is still the responsibility of the at-fault party (except in Michigan where mandatory Property Protection Insurance applies). The intent behind no-fault laws is not only to provide quicker payments to injured parties but also to reduce the amount of litigation needed to determine fault to hold a party responsible.

Section 3: Medical Payments and/or Personal Injury Protection

This is where Personal Injury Protection comes in. There are three types of no-fault states with regard to PIP coverages: strict no-fault, choice no-fault, and add-on no-fault.

- In **strict no-fault states**, PIP coverage is required. Policyholders cannot opt-out of PIP benefits, and state laws generally limit possibilities to sue based on the severity of injuries as defined by that state's regulations.
- **Choice no-fault states** allow the consumer to opt-out of PIP coverage in writing and retain their rights to sue for injuries. For example, Kentucky is a choice no-fault state. While PIP is required, policyholders may still opt-out. When doing so, the policyholder must carry certain minimum coverage limits, and they may sue an at-fault party for injuries sustained, regardless of severity. Opting-out also means the policyholder themselves could be sued for injuries they are responsible for causing.
- **Add-on no-fault states** are typically tort states where PIP benefits must be offered, but are optional. In some states, PIP benefits may be purchased along with Medical Payments Coverage.

Knowing the differences between Medical Payments Coverage and Personal Injury Protection should bring you to the conclusion that Personal Injury Protection is often more comprehensive and offers clients more than just coverage for medical expenses.

Knowledge Check



Directions: Read the scenario below and respond with how you would advise Maria. Explain your reasoning.

Congratulations! You are a new insurance professional and Maria is your first personal auto prospect. While quoting Maria's coverage, you notice in the carrier's rating system you have the option to choose either Med Pay Coverage (with various coverage levels) or Personal Injury Protection. Both include Med Pay Coverage. Which option will provide Maria with the most comprehensive coverage? How should you explain to Maria the benefits and who receives coverage?

Endorsements in this Section



MISCELLANEOUS TYPE VEHICLE ENDORSEMENT (PP 03 23)

Summary

In this section, you were offered a high-level overview of the benefits that can be provided to policyholders and occupants of their vehicles when injured in an accident since Part A – Liability Coverage of the Personal Auto Policy will not apply to a **you** or “family member.”

Medical Payments and Personal Injury Protection are coverages the client can purchase—or which may be mandatory in some states—and are available to persons in the client’s vehicle, including the client and “family members,” for expenses related to injuries sustained in an auto accident or out of use of a covered auto. For the individual who is a **you** or a “family member,” this may be the only coverage available to cover medical expenses resulting from an at-fault accident.

While Medical Payments Coverage provides payment for medical expenses (medical, surgical, X-rays, prosthetics, ambulance, hospital expense, etc.) related to “bodily injury” caused by an automobile accident, Personal Injury Protection not only provides medical expense coverage, but typically offers coverages such as work loss, funeral expenses or accidental death, and maybe even survivor benefits.

Medical Payments (PP 00 01 09 18)	Personal Injury Protection (varies by state, not available in all states)
<ul style="list-style-type: none"> Reasonable Medical Expenses Funeral Expenses 	<ul style="list-style-type: none"> Reasonable Medical Expenses Funeral Expenses Accidental Death Loss of Income/Work Loss Replacement Services Survivor Benefits/Services

You should also now have a basic understanding of what it means for a state to be a no-fault state or a tort state and what that means for Med Pay or PIP coverage in those states. To review, in tort states, the at-fault driver is responsible for compensating individuals they injure in an automobile accident. In no-fault states, each driver is responsible for their own medical expenses incurred in an automobile accident (except in severe instances), even if someone else is at fault for the accident.

In the next section, you will become familiar with Uninsured/Underinsured Motorists Coverage.

Resources

Important concepts related to the Learning Objectives in this chapter are summarized in separate videos. Online participants can use the links to access the videos. Classroom learners can access the videos at scic.com/PAresources.



Med Pay and/or PIP Coverage

Section 3 Self-Quiz

Directions: Read each statement below and select whether it is True or False.

1. Med Pay and PIP coverage cannot be purchased by the client unless mandated by the state in which they reside.

True

False

2. Eliza is interested in better understanding Med Pay Coverage in her Personal Auto Policy. To find the limit that will be applied per person should she be involved in an auto accident, Eliza would review the Declarations page of her policy.

True

False

3. One of the differences between Med Pay and PIP is that unlike PIP, Med Pay does not pay lost wages.

True

False

4. Reasonable medical expense is not defined in the Personal Auto Policy, but it can be established by state regulation.

True

False

Directions: Read each question below and provide your response in a sentence or two.

1. Under Part B – Medical Payments, give an example of who would be entitled to Medical Payments Coverage. Explain.

2. Explain how Med Pay or Personal Injury Protection (PIP) coverage may be the only coverage available to some people to cover medical expenses resulting from an at-fault accident.

Section 3: Medical Payments and/or Personal Injury Protection

Section 4: Uninsured and/or Underinsured Motorists Coverage

Section Goal

In the previous section of this Learning Guide, Section 3: Medical Payments and/or Personal Injury Protection, you developed an understanding of benefits that can be provided to policyholders and occupants of their vehicles since Part A – Liability Coverage of the Personal Auto Policy will not apply to a **you** or “family member.”

The goal of this section is to provide you with the knowledge and skills needed to understand both the importance of and the coverage provided by Part C – Uninsured/Underinsured Motorists Coverage.

Learning Objectives

- *Explain the purpose of Uninsured/Underinsured Motorists Coverage.*
- *Use knowledge of the Uninsured Motorists Coverage Insuring Agreement and the definitions of “insured” and “uninsured motor vehicle” to identify who is covered and the coverage provided.*
- *Correctly explain Underinsured Motorists Coverage, including how states differ in their definitions of an underinsured motor vehicle (trigger) and how much an “insured” can receive (offset).*

Introduction

Learning Objective

- Explain the purpose of Uninsured/Underinsured Motorists Coverage.

We've learned that Part A – Liability Coverage is used for “bodily injury” and “property damages” the insured is legally responsible for causing. And while it is ideal and generally required by each state that everyone carries automobile insurance to protect against injury and damages to others, we cannot always assume that this occurs.

According to a 2021 study highlighted in a news release by the Insurance Research Council (IRC), “one in eight drivers on the road in 2019 was driving without insurance.” Let us consider the state of New Hampshire for a moment. New Hampshire state law does not require automobile insurance, however, citizens must be able to provide proof they can meet the minimum requirements of financial responsibility required by New Hampshire law (25/50/25). Though the percentage of uninsured drivers has declined from 15.6% in 1992 to 12.6% in 2019, uninsured drivers remain a problem in nearly every state.



Uninsured drivers are not the only problem for your clients; drivers who are not carrying enough liability coverage are also a concern. Each state has minimum requirements on Liability Coverage limits that a registered vehicle must carry; these limits are often too low! In 2021, the lowest required liability limits are those of Florida, which requires limits of 10/20/10. But, in this particular state, mandatory coverage requirements are only that Property Damage Liability and Personal Injury Protection coverage are purchased. Visit scic.com/PAResources to review a summary of financial responsibility requirements by state as produced by the Insurance Information Institute.



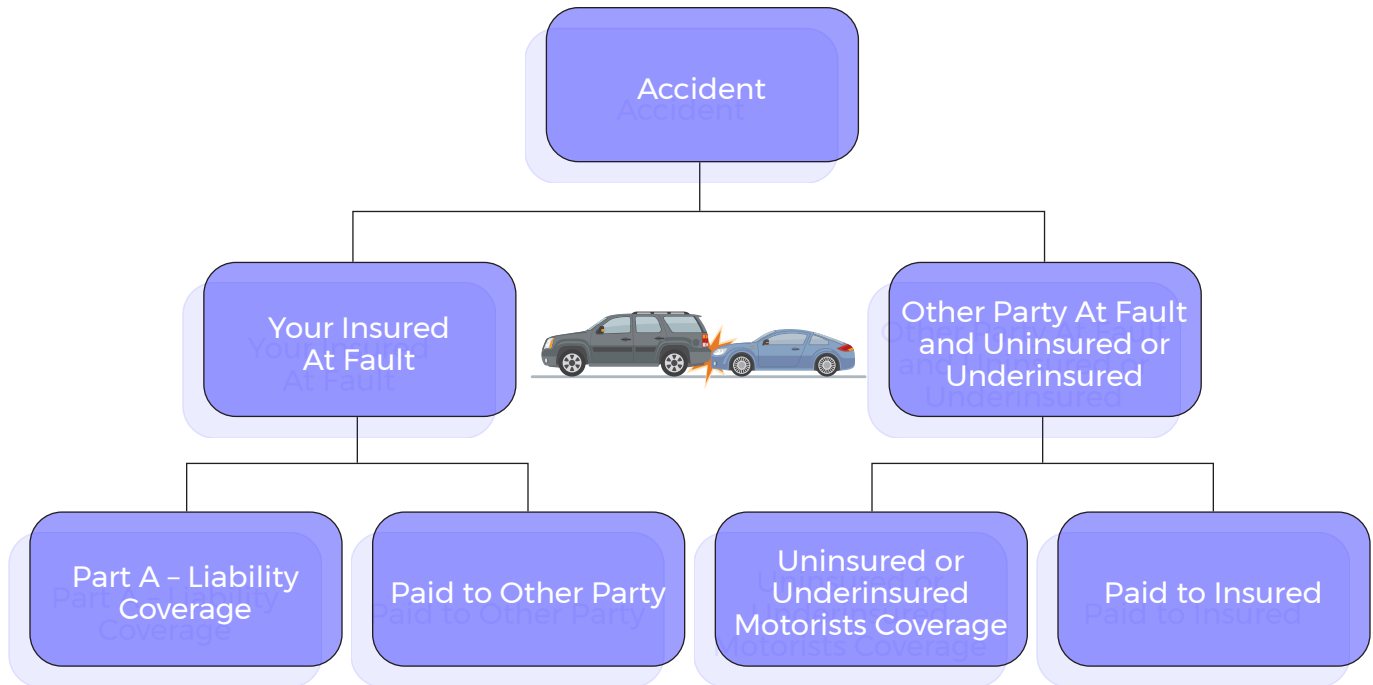
Uninsured/Underinsured Motorists Coverage



Both uninsured and underinsured motorists pose a risk to your client every day on the road. The solution for this problem is Uninsured (UM)/Underinsured Motorists (UIM) Coverage, often simply referred to as UM/UIM.

Uninsured/Underinsured Motorists (UM/UIM) differs among states more than any other coverage in the Personal Auto Policy. However, what doesn't differ is its purpose. The purpose of this coverage is to allow clients the ability to protect themselves against the same potential for loss they protect others from with their Liability Coverage. In other words, clients are protecting their assets in case they are injured by a UM/UIM driver the same way Liability Coverage is protecting their assets when they injure someone else.

Section 4: Uninsured and/or Underinsured Motorists Coverage



It is important for insurance professionals to understand UM/UIM so they can properly counsel their clients on the need for this coverage and the benefits that come along with having this type of coverage. This knowledge will often convince clients of the importance of protecting their financial interests in the event other vehicle owners or drivers are not financially responsible.

As previously mentioned, UM/UIM coverage differs among the states. One way it differs is in how coverage is provided. This can be challenging to the insurance professional since the name of the form may not accurately describe the coverage provided. This coverage is provided using one of the following methods:

- Part C – Uninsured Motorists section of the Personal Auto Policy with UIM Coverage is provided by an endorsement.
- Part C – Uninsured Motorists section of the Personal Auto Policy is replaced with two separate endorsements—one for UM and one for UIM.
- Part C – Uninsured Motorists section of the Personal Auto Policy is replaced with one endorsement that provides both UM and UIM coverage.



The endorsement may be named Uninsured Motorists Coverage, Underinsured Motorists Coverage, or Uninsured/Underinsured Motorists Coverage.

Initially, coverage may only be provided for Uninsured/Underinsured Bodily Injury, but some states also make available Uninsured Motorists Property Damage (UMPD) Coverage. This coverage may be included in the state's UM/UIM endorsement or provided by a separate endorsement.

UM/UIM is required in a handful of states, but in most, it is optional. Some states allow coverage to be rejected by the client (signed rejection form required). If your client does opt to accept this coverage, the best practice is for the coverage to be written for the same

Section 4: Uninsured and/or Underinsured Motorists Coverage

limits as the client's Part A – Liability Coverage; however, some states allow this coverage to be provided for limits that are lower. Consider this: why would your client want to provide more coverage for others (their liability limits) than they would want provided for themselves (their UM/UIM limits)?

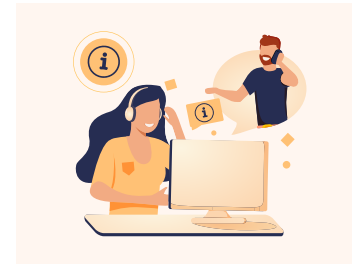
While the purpose of UM/UIM coverage is the same, the actual coverages function differently. This section of the Learning Guide will explain the coverage differences between Uninsured and Underinsured Motorists coverage, but to put it simply, the difference between the two is as follows: **Uninsured Motorists Coverage** protects the client involved in an auto accident with an unidentified (or hit-and-run) vehicle or with an at-fault party where liability insurance is not in place at the time of the accident. **Underinsured Motorists Coverage** comes into play when a client is involved in an accident where the at-fault party's liability limits are simply too low. For both of these coverages there is a bit more to it than this simplified summary, but this is usually where you (the insurance professional) will start with a client.

Knowledge Check



Directions: Read the scenario below and respond with what you would say to help Thomas understand his coverage.

Your client, Thomas, contacts you about coverage on his policy. He'd like to remove Uninsured and Underinsured Motorists coverage because he knows it is a state law that every registered vehicle carries automobile insurance which will pay for damages they cause to him. He says that if his policy protects others he causes damage to, then other drivers' policies will do the same for him. What should you say to ensure Thomas understands his UM/UIM coverage and hopefully changes his mind?



Uninsured Motorists Coverage

Learning Objective

- Use knowledge of the Uninsured Motorists Coverage Insuring Agreement and the definitions of “insured” and “uninsured motor vehicle” to identify who is covered and the coverage provided.



Now that you have an idea of what Uninsured/Underinsured Motorists Coverage is and how it benefits policyholders, let us first explore Uninsured Motorists coverage, including the Insuring Agreement and the definitions around who is eligible for coverage and when.

The Insuring Agreement

Like the coverage parts we have reviewed up to this point, Part C – Uninsured Motorists Coverage has its own Insuring Agreement. This agreement explains what coverage is provided, to whom, and when. The Part C – Uninsured Motorists Coverage agreement states the policy will pay an “insured” **compensatory damages** for his/her “bodily injury,” but only if they would be legally entitled to recover such damages from the owner or operator of an “uninsured motor vehicle.” In other words, the accident must be the other driver’s fault, not the fault of the client. Visit scic.com/PAResources learn more about compensatory damages.

Compensatory Damages

The principle objective of compensatory damages, as the name implies, is to compensate the injured party(ies) for damages incurred.

There are two categories of compensatory damages:

- (1) **special damages: actual measurable costs**
- (2) **general damages: intangible costs such as pain and suffering**



Section 4: Uninsured and/or Underinsured Motorists Coverage

The insurance company expects the right to be able to investigate the claim and determine who is liable for damages. The “insured” cannot sue or settle damages with an uninsured owner/operator without the consent of the insurance company; if they do, the settlement or judgment will not be binding on the insurance company. It is important to understand that notice of a claim or suit to the insurance company is not the same as getting written consent from the insurance company to sue the UM driver/owner.



Ryan was injured by an uninsured driver. Ryan notified his insurance carrier but also hired a lawyer to help him. The lawyer proceeded to file suit against the uninsured driver for damages, and judgment was made to award Ryan \$75,000. Ryan’s lawyer then sought for the

PART C – UNINSURED MOTORISTS COVERAGE INSURING AGREEMENT

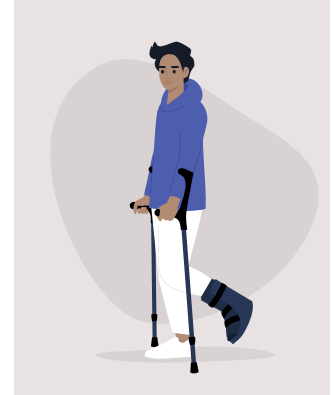
A. We will pay compensatory damages which an “insured” is legally entitled to recover from the owner or operator of an “uninsured motor vehicle” because of “bodily injury”:

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.

judgment to be paid by Ryan’s UM coverage; however, since written consent was never obtained from the insurance carrier, the judgment is not binding on the insurance carrier.



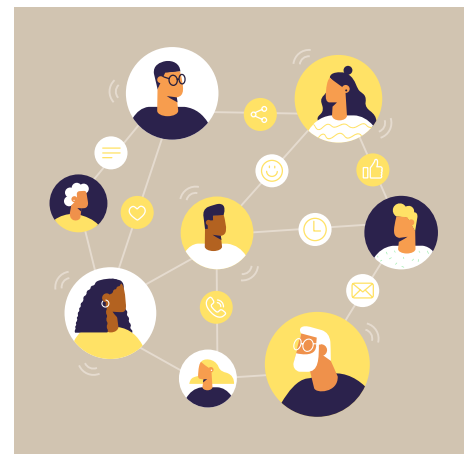
To understand the extent of the coverage provided by the Insuring Agreement, the definitions of both “insured” and “uninsured motor vehicle” need to be analyzed.

“Insured”

The Insuring Agreement for Part C – Uninsured Motorists Coverage has its own definition of “insured” for this coverage. Only those individuals who fall within the definition are entitled to receive the benefits of the coverage. As we explore who is an “insured,” remember that while an individual may be an “insured” by definition, coverage may later be taken away by an exclusion.

The definition contains three groupings of individuals:

1. **You** and any “family member”
2. Any other person “occupying” or using “your covered auto”
3. Any person entitled to damages because of “bodily injury” to previously described “insureds”



You and any “family member”

Hopefully, you’ve begun to notice a trend in that the **you** and “family members” always receive the broadest (or best) coverage provided by the Personal Auto Policy, and that is no different here. The best coverage is provided to **you** or any “family member.” They can be in a vehicle insured on the policy, in a friend’s vehicle, on a public bus, or even in a taxi. They are also an “insured” while they are pedestrians or while having lunch at an outside café.



Stella is sitting outside her favorite coffee shop when, unfortunately, a car jumps the curb, and she is struck. While the vehicle that injured Stella does not have insurance, Stella is an “insured” under her own policy for UM/UIM coverage.

Any other person “occupying” a “your covered auto”

The second category of “insured” is anyone who is not a **you** or a “family member” who is using a vehicle covered by the policy (or a “your covered auto”), or who is in, upon, or getting in, on, out, or off of a vehicle.



Clarissa’s friend, Jason, is driving her Nissan Altima. Another vehicle runs a stop sign and hits the Altima. It is discovered the other vehicle does not have insurance. Jason is an “insured” under Clarissa’s auto policy for UM/UIM coverage.

Any person entitled to damages because of “bodily injury” to previously described “insureds”

The third category of “insured” for UM coverage is the person who may be entitled to compensatory damages due to injury caused by an uninsured vehicle, to a **you**, any “family member,” or other person using or occupying a covered auto.



This part of the definition is often not fully understood and can easily be overlooked when explaining the coverage provided. As a matter of fact, the person does not even need to be present at the time of the accident to be considered an “insured.” Consider the spouse of a person injured by an uninsured vehicle. That spouse may be unable to provide for their family in ways they did before the accident (childcare, grocery shopping, mowing the lawn, providing educational support to children).



Heather was seriously injured when she was hit by an uninsured car as she was outside on a walk. It took several months for her recovery, and during that time, Heather was unable to perform the usual activities as a spouse and a mom. As a result, both her husband and young daughter are each an “insured” and are entitled to be compensated for the loss of their relationship with Heather in her role as a spouse and parent.

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

1. You or any “family member”;
2. Any other person “occupying” “your covered auto”; or
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.

Check-In



Directions: Read the following scenarios and select whether the individuals are or are not an “insured” as defined in Part C – Uninsured Motorists Coverage.

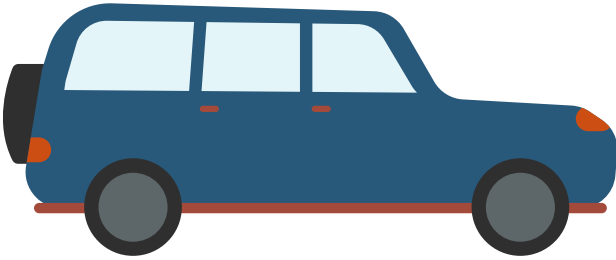
Sam and Laura have a Personal Auto Policy with Uninsured Motorists Coverage.

	Yes	No
Laura is injured when the taxi taking her to the airport is hit by an uninsured vehicle.		
Sam’s son, Chris, who lives across town, is hit by an uninsured vehicle while crossing the street as a pedestrian.		
Sam lets his neighbor, Angie, borrow his car to run errands. While driving Sam’s car, Angie is hit by an uninsured vehicle.		
Laura is in the crosswalk when she is hit by an uninsured driver who runs a red light. Due to her injuries, she will require a wheelchair for several months.		

We now know what coverage is provided under Uninsured Motorists Coverage and to whom it is provided; next, let’s take a look at *when* coverage is going to be provided.

“Uninsured Motor Vehicle”

The Insuring Agreement continues with its definition of “uninsured motor vehicle.” For this coverage to apply, the at-fault vehicle must be an “uninsured motor vehicle.” As a defined term, the following vehicles are considered to be uninsured:



C. "Uninsured motor vehicle" means a land motor vehicle or trailer of any type:

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

An “uninsured motor vehicle” is defined as a land motor vehicle or trailer:

that does not have an applicable liability bond or policy at the time of the accident.

where a bond or policy applies at the time of an accident, but the limits are less than the minimum required limits in the state where “your covered auto” is primarily garaged.

that is a hit-and-run vehicle whose owner cannot be identified, but only when it hits:

- **you** or any “family member”
- a vehicle occupied by **you** or any “family member”
- “your covered auto”

Part E – Duties After An Accident Or Loss requires that police must be notified of a hit-and-run accident.

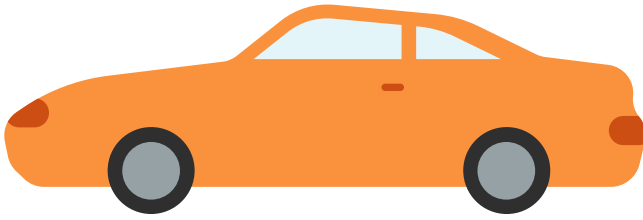
*In some states, a hit-and-run vehicle is one which causes an accident without physical contact. This is known as a **phantom vehicle**. Generally, a disinterested third party must witness.*



where a bond or policy applies at the time of the accident but the insurance company denies coverage or is/becomes insolvent.

Section 4: Uninsured and/or Underinsured Motorists Coverage

After identifying the vehicles that are included in the definition of “uninsured motor vehicle,” the definition continues by identifying vehicles or equipment that are **NOT** considered an “uninsured motor vehicle.” An individual injured by one of the following vehicles or equipment would *not* have Uninsured Motorists Coverage since the vehicle or equipment is not an “uninsured motor vehicle.”



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.

Vehicles NOT considered an “uninsured vehicle” by definition are those:

owned or furnished for the regular use of you or any “family member”

owned or operated by self-insurer unless insolvent

Self-insuring allows the client to be responsible for their own damages and damages they cause to others. In states where this is allowed, the client may need a surety bond or to show other proof they have cash reserves for these types of losses to obtain a certificate of self-insurance.

owned by any government unit or agency, as these are often self-insured

The U.S. Postal Service, for example, is exempt from state insurance statutes and self-insures their fleet.

operated on rails or crawler treads, such as a snowmobile, train, mobile equipment, etc.

designed for use off public roads while off public roads, such as an ATV on forest roads; the same ATV on a public road could be considered and “uninsured motor vehicle”

located for use as a residence or premises, such as a camper trailer

What Should You Do?

Cameron, your client, called to ask if he should remove his 2009 Polaris Ranger XP as a miscellaneous vehicle on his Personal

Auto Policy after discovering that his Homeowners Policy will provide liability coverage as long as it is used solely to service his residence. The vehicle is insured for Liability, Medical Payments, and Uninsured Motorists coverage. What should you do?



- ☐ Have Cameron sign a coverage change request to remove the Polaris and process his request.
- ☐ Inform Cameron that he has misunderstood coverage under his Homeowner Policy and should keep the ATV insured on his Auto Policy.
- ☐ Discuss with Cameron the coverage differences between his Homeowner and Automobile policy to ensure he understands his decision.

Check-In



Directions: Write the letter of each scenario in the appropriate column as either being an uninsured motor vehicle or not.

Victor has damage to his Nissan Titan. Assuming that the vehicles in the scenarios below caused the damage, consider each of the scenarios to decide if the vehicle in the scenario may or may not be an “uninsured motor vehicle.”

Damage to Victor’s truck was caused by:	An uninsured motor vehicle	Not an uninsured motor vehicle
A. an uninsured collector car owned by Victor		
B. a self-insured police cruiser owned by the state		
C. an unidentified vehicle while Victor was at the dentist		
D. any ATV being driven on the city street where Victor lives		
E. a vehicle that cut Victor off while driving but which did not make contact		
F. a vehicle/driver whose carrier denied coverage due to an exclusion in their policy		
G. a camper trailer that becomes dislodged while located at a long-term campsite		
H. a self-insured U.S. Postal Service mail truck		

Exclusions

Many of the exclusions found in Part D – Uninsured Motorists Coverage are similar to what we’ve seen in both Part A – Liability Coverage and Part B – Medical Payments Coverage (such as no coverage when used as public or livery conveyance). That said, we are not going to spend a lot of time focusing on exclusions here. There are, however, a few exclusions that are understandably specific to this coverage part:



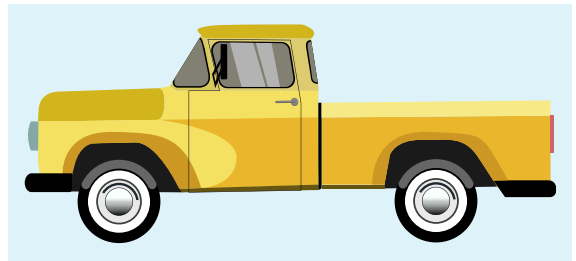
- an “insured” while “occupying” or struck by a vehicle the “insured” owns but has not insured for UM coverage on the policy
- a “family member” hit by or “occupying” a vehicle owned by the insured but which is insured by another policy on a primary basis
- a client who has already settled a claim with an at-fault party when it prejudices the insurance company’s right to recover damages from the at-fault party (this is known as **subrogation**)
- the punitive damages of an at-fault party

Let’s take a closer look. Uninsured Motorists Coverage will not be provided for an “insured” while “occupying” or struck by a vehicle the “insured” owns but has not insured for UM coverage on the policy. This will include “trailers” being used with that vehicle, as well. This means an “insured” is not eligible to receive UM coverage if involved in an automobile accident while driving a vehicle they own for which no premium was paid for UM coverage.



Toby has a small pickup truck that he typically only uses on his private residence. He does not insure the vehicle on his Personal Auto Policy.

While using the truck to check his property fence, he went further down the road to fill up on gas. On his way home, Toby was struck by another vehicle that does not have insurance. Toby cannot file a claim for UM coverage because he owns the vehicle and it is not covered on his Personal Auto Policy.



Similarly, coverage will not be provided for a “family member” hit by or “occupying” a vehicle owned by the insured but which is insured by another policy on a primary basis. For example, an insured has a collector auto insured on a specialty policy that includes UM coverage. The specialty policy will be primary for the collector vehicle.

Section 4: Uninsured and/or Underinsured Motorists Coverage

Uninsured Motorists Coverage will also not be afforded to a client who has already settled a claim with an at-fault party when it prejudices the insurance company's right to recover damages from the at-fault party. This is known as subrogation. Subrogation allows an insurer to pay their insured faster and handle all the details of recovery on the back end without much trouble to the insured. However, if the insured (or their legal representative) does anything—like signs a waiver of subrogation—that may prevent the insurer from recovering from the at-fault party, then this exclusion will kick in. If you think about it, this makes sense. The insurance company would be exposed to a higher risk of loss if they were not allowed to recover from the party that is actually responsible for damages.



One more exclusion to highlight is **punitive and exemplary damages**. Punitive damages are meant to make an impact or an example out of gross wrongdoings. Punitive damages are generally excessive and shocking for a reason—to discourage others from making the same mistake(s). UM coverage under the Personal Auto Policy will not pay for the punitive damages of an at-fault party. It would be counterproductive to sue your own insurance carrier for excessive fees which are meant to make an example of someone else.

Be sure to review Part C – Uninsured Motorists Coverage Exclusions for a full understanding of what is not covered for this coverage part.

Limit of Liability

As with the Liability Coverage part, the Limit of Liability section states that the limits which are shown in the Declarations page are the maximum amounts that will be paid for any one person or any one accident. Stacking of limits is generally not allowed. Remember that stacking limits refers to adding together the limits of multiple vehicles insured on the policy to increase the limit available for a loss. For example, if a policy has two vehicles insured with liability limits of 25/50/25, and one of the vehicles was involved in an at-fault accident, stacking would combine the limits of both vehicles to equal 50/100/50 (this is referred to as ***intrapolicy stacking***). While this is generally NOT allowed, be sure to review your state's **Amendment of Policy Provisions** as some states/jurisdictions do allow for the stacking of limits.

Payments made under Liability, Medical Payments, or Underinsured Motorists coverage parts, or for any element of loss paid by the responsible party, will not be duplicated under Uninsured Motorists Coverage. Neither will the policy duplicate payment for any portion of a claim if the injured party is entitled to payment under workers compensation or other similar laws. The Personal Auto Policy does not seek for the policyholder to make a profit from a loss, but to restore the client as closely as possible to their pre-accident state.



LIMIT OF LIABILITY

A. The Limit Of Liability shown in the Declarations for each person for Uninsured Motorists Coverage 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 accident. Subject to this limit for each person, the Limit Of Liability shown in the Declarations for each accident for Uninsured Motorists Coverage is our maximum limit of liability for all damages for "bodily injury" 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; 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 **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 law:

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

Other Insurance

You are familiar with the fact that more than one policy may apply to a loss. Consider the scenarios below.



Laura was a passenger in her friend Steve's car when they were hit by an uninsured driver who ran a stop sign. Laura has UM coverage from Steve's policy since she was a passenger in his vehicle. She also has UM coverage provided by her own policy. Laura has \$150,000 in damages for which she is seeking coverage.

Ask yourself the following:

- How much can Laura collect from Steve's policy?
- How much can Laura collect from her own policy?
- Which policy pays first?



The answers to the questions above can be found by examining the Other Insurance section of the Uninsured Motorists Coverage part. When more than one policy applies to a loss, the most that will be paid to any "insured" is the highest limit for UM of any one policy.



If Laura had 100/300 UM and Steve had 50/100, the most Laura could collect is \$100,000 (most likely \$50,000 from Steve's policy and \$50,000 from her policy) even though she has a \$150,000 claim.

Coverage is provided on a primary basis for an owned auto and on an excess basis for a non-owned vehicle.



If Steve has 50/100 and Laura has 100/300, Steve's policy will pay the first \$50,000 as the primary policy, and Laura's policy will pay a remaining \$50,000 as the excess policy.

OTHER INSURANCE

If there is other applicable insurance available under one or more policies or provisions of coverage that is similar to the insurance provided under this Part of the Policy:

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, including any vehicle while used as a temporary substitute for "your covered auto", shall be excess over any collectible insurance providing such 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



What happens if an “insured” disagrees with the insurance company on whether they are entitled to collect damages or about the amount of damages to be paid? The Arbitration clause lets the “insured” know that they and the insurance company have a process in place for these types of disputes. **Arbitration** is a process meant for resolving conflict outside the court system. It is typically an agreement to settle a dispute using one or more neutral parties (arbitrators) to assess the facts and make a determination.

For the Personal Auto Policy, the “insured” and the insurance company will each choose their own arbitrator, and then together they will choose a third arbitrator. Once two out of three arbitrators agree as to whether the “insured” is legally entitled to recover and the amount of damages, up to the state’s minimum limits, the decision is binding. This process allows for a much faster resolution than litigating the facts for months. The cost of the dispute is kept to a minimum, as well.

Uninsured Motorists Property Damage Coverage

Before we leave our discussions on UM coverage, let’s briefly address Uninsured Motorists Property Damage (UMPD) Coverage. UMPD protects clients if their property is damaged by an “uninsured motor vehicle.” Damaged property can be the insured’s vehicle or other property, such as their home, damaged by an uninsured motor vehicle.



Some states require the coverage. Other states require the coverage to be offered, but the client has the right to reject it. When UMPD is available, coverage is provided either by the state’s endorsement providing UM coverage or by a separate UMPD endorsement. Since UMPD differs from state to state, the endorsement needs to be analyzed to determine the coverage. While all cover direct damage to the vehicle, they do not all include:

- loss of use of the damaged vehicle,
- damage to other owned property, or
- damage to personal property in the vehicle.

The amount of UMPD Coverage available may be limited to as low as \$3,500 or up to the limit shown in the Schedule or Declarations. But, in some states, coverage does not apply if a damaged vehicle has Collision Coverage.



Knowledge Check



Directions: Understanding who is an “insured” and what is an “uninsured vehicle,” review the scenarios below, decide if the scenario is covered by Uninsured Motorists Coverage, and explain your reasoning.

Max has his car insured by a Personal Auto Policy with 100/300 Uninsured Motorists Coverage. For each of the following situations, explain if the loss is covered under Uninsured Motorists Coverage and include the reason for your answer.

1. Max is driving through an intersection and doesn't see the red light. He runs into the back of the car stopped in front of him. The other driver does not have insurance. Max has medical expenses totaling \$8,000.

2. Max's car is rear-ended by a hit-and-run vehicle while he is stopped at a red light. The other car leaves the scene of the accident without being identified. Max turns in a claim to his own insurance company for his \$25,000 in medical bills.

Underinsured Motorists Coverage

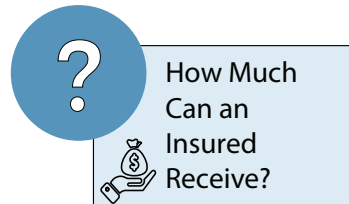
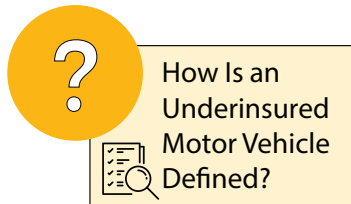
Learning Objective

- Correctly explain Underinsured Motorists Coverage, including how states differ in their definitions of an underinsured motor vehicle (trigger) and how much an "insured" can receive (offset).

Underinsured Motorists Coverage (UIM) is similar to Uninsured Motorists coverage; however, it is the coverage needed for an insured when the party at fault for an accident has insurance—but simply not *enough* insurance.

As previously mentioned, UIM coverage differs from state to state. The endorsements for each state will incorporate that state's requirements for two coverage areas. This is important to understand for the insurance professional who writes personal auto insurance in more than one state.

While this course will not analyze the entire endorsement providing UIM coverage, there are two coverage areas in the form that are important to understand so that coverage is correctly explained to clients.



How Is An Underinsured Motor Vehicle Defined?



How an underinsured motor vehicle is defined is commonly referred to as the UIM **trigger**—that is, what is required for coverage to apply. This is very important since there is no coverage if the vehicle does not meet the definition of an "underinsured motor vehicle." There are two ways an "underinsured motor vehicle" can be defined. Let's look at these two triggers of coverage:

Limits Trigger

This definition of a UIM vehicle is based on the liability limits of the at-fault driver. It defines an “underinsured motor vehicle” as one with liability limits less than the insured’s UIM limits.

- If the insurance for the other vehicle/driver provides the same or higher liability limits than the insured’s UIM limits, the vehicle is NOT an “underinsured motor vehicle.”

UIM Coverage Trigger		
Trigger	Client	Other Driver
Limits less than client’s	Limits: 100/300	Limits: 50/100



Ezel has Underinsured Motorists Coverage limits of 100/300. He is hit by a vehicle with liability limits of 50/100. The at-fault vehicle is an “underinsured motor vehicle.”

Amanda has Underinsured Motorists Coverage limits of 100/300. She is hit by a vehicle with liability limits of 100/300. The at-fault vehicle is NOT an “underinsured motor vehicle.”

Damages Trigger

This definition of a UIM vehicle is based on the amount of the insured’s damages and defines an “underinsured motor vehicle” as one with liability limits that are not enough to pay the insured’s damages (over half of all states use this definition).

- Even if the insurance for the other vehicle/driver provides \$500,000 liability coverage, if the limit is not enough to pay the insured’s damages, the vehicle would be considered an “underinsured motor vehicle.”

UIM Coverage Trigger		
Trigger	Client	Other Driver
Limits less than injury	Injury: \$300,000	Limits: 250/500



Terrance is hit by a vehicle with 250/500. Terrance has \$300,000 in bodily injury; his own UM limits of 50/100. The at-fault vehicle is an “underinsured motor vehicle.”

Cameron is hit by a vehicle with 25/50. Cameron has \$10,000 in bodily injury. The at-fault vehicle is NOT an “underinsured motor vehicle.”

Now that we know the triggers for UIM coverage, we can begin to understand just how much an “insured” can receive from their UIM limits.

How Much Can an Insured Receive?



The amount an “insured” can collect from their own UIM coverage depends on the language typically found in the Limit of Liability section of the UIM endorsement. It explains that the amount an “insured” can receive is offset by the “underinsured motor vehicle’s” insurance and is either a **limits offset** or a **damages offset**.

Limits Offset

If the policy contains limits offset language, the UIM payment will be reduced by the amount paid by the at-fault driver’s insurance. The insured will never collect more in total payment (from the at-fault driver’s insurance and UIM combined) than their own UIM limit.



Sarah has 250/500 UIM coverage on her Personal Auto Policy. She was seriously injured by an at-fault underinsured vehicle. The at-fault driver has 100/300 bodily injury liability limits. Sarah has \$900,000 in damages.

Limits Offset: Sarah would only be entitled to receive \$150,000 of her UIM coverage. This is the difference between her UIM limits and the driver’s liability limits.

Damages Offset

If the policy contains damages offset language, damages will be reduced by the amount paid by the at-fault driver’s insurance, and the insured can collect his/her entire UIM limit for damages that are in excess of the amount received from the at-fault driver’s insurance.



Damages Offset: Using the previous example, Sarah would be entitled to receive her entire \$250,000 UIM per person limit. Her \$900,000 damages, less \$100,000 from the at-fault driver’s liability limits, leaves \$800,000 of her damages. She can collect up to her entire \$250,000 UIM limit when the other driver’s liability limits are not enough to pay her damages.



It is important to recall that the best practice is for this coverage to be written for the same limits as the client’s Part A – Liability Coverage, however, some states allow this coverage to be provided for limits that are lower. Insurance professionals must explain UIM coverage as it applies in the state for which coverage is being provided. This is especially important for those who have clients in more than one state.

With the number of uninsured and underinsured drivers on the road today, the importance of this coverage for clients cannot be understated. For clients who decide to either reject this valuable coverage (in states that allow it) or select limits lower than their Part A – Liability limits, it is important for their decision to be an informed one.

What does an “informed decision” mean?

It means that clients have been provided technically correct information (who is covered, what is covered, and what the coverage does/doesn’t do) and make their decisions accordingly.

Check-In



Directions: Mark whether the following statements are True or False.

	True	False
In some states, a vehicle with 250/500 liability limits can be considered underinsured if it isn't enough to pay the insured's damages.		
In some states, the insured can only collect the difference between his/her UIM limit and the liability limit of the at-fault driver.		
A limits offset provides more coverage than a damages offset.		



Knowledge Check



Directions: Read the scenario below and respond with what you would say to help Bernard know what to expect out of his UIM claim. Explain your reasoning.

Your client, Bernard, has Liability Coverage limits of 100/300/100 and equal limits for UM/UIM Coverage. He was hit by a vehicle with liability limits of 25/50/25 and now has \$115,000 in medical and physical therapy expenses. In reading your client's policy, you discover they have a limits trigger with a limits offset. How will you explain this to Bernard so that he has an idea of what to expect out of his UIM claim?

Endorsements in this Section

No additional endorsements were discussed in this section.

Summary

The purpose of UM/UIM coverage is to allow clients the ability to protect themselves against the same potential for loss they protect others for with their Liability Coverage.

UM/UIM is required in a handful of states, but in most, it is optional. Some states allow coverage to be rejected by the client (signed rejection form required). If your client does opt to accept this coverage, the best practice is for this coverage to be written for the same limits as the client's Part A – Liability Coverage.

Uninsured Motorists Coverage

The PAP defines an uninsured motorist as:

- an at-fault driver who does not have liability coverage at the time of the accident.
- an at-fault driver who has coverage but whose:
 - limit is less than the minimum required by financial responsibility laws where “your covered auto” is principally garaged.
 - insurance company denies coverage or is/becomes insolvent.
- may also be a hit-and-run driver.

Underinsured Motorists Coverage




The PAP defines an underinsured motorist as an at-fault driver who has liability coverage, but not enough. The policy determines what is not enough by the definition of “Underinsured Motorists Coverage” which is known as a coverage trigger. Triggers may be either a limits trigger or a damages trigger.

Once the trigger is determined, the Limits of Liability section of UIM coverage will explain how much an “insured” can receive from UIM coverage, also known as the coverage offset.

In the next section, you will explore Part D – Coverage for Damage to Your Auto. This coverage is likely the single most coverage clients primarily think of when they think of automobile insurance, as it protects them for damage to their vehicle.

Resources

Important concepts related to the Learning Objectives in this chapter are summarized in separate videos. Online participants can use the links to access the videos. Classroom learners can access the videos at scic.com/PAResources.

	Uninsured and Underinsured Motorists Coverage
	Document: Summary of Financial Responsibility requirements by state as produced by the Insurance Information Institute
	Document: Compensatory Damages

Section 4 Self-Quiz

Directions: Look at the table below and select the correct letter to match each term with the appropriate description.

_____ The insurance company's right to recover damages from an at-fault party	A. Compensatory damages
_____ Coverage triggered by an "underinsured motor vehicle" with liability limits less than the insured's own UIM limits	B. Limits trigger
_____ Protects you if you're in an accident with an at-fault driver who doesn't carry liability insurance	C. Damages trigger
_____ Money awarded to the injured party for special or general damages incurred	D. Underinsured Motorists Coverage
_____ Coverage triggered by an "underinsured motor vehicle" with liability limits less than the injured party's damages.	E. Uninsured Motorists Coverage
_____ When involved in an accident with an at-fault driver whose liability limits are too low to cover the medical expenses of any injured parties	F. Subrogation

Section 4: Uninsured and/or Underinsured Motorists Coverage

Directions: Read each statement below and select whether it is True or False.

1. The damages trigger defines an “underinsured motor vehicle” as one with liability limits that aren’t enough to pay the insured’s damages.”

True

False

2. If the policy contains limits offset language, the UIM payment will be increased by the amount paid by the at-fault driver’s insurance.

True

False

3. UM/UIM is mandatory in most states, and clients do not have the option to reject this coverage.

True

False

4. Eva’s son, Sam, borrows Eva’s car to go to high school soccer practice. On the way there, he is rear-ended by another driver who is texting. Although the driver is not insured, Sam is covered under his mother’s Auto Policy under Part C – Uninsured Motorists Coverage.

True

False

5. Cory’s trailer is not specifically listed on his automobile policy. While hitching the trailer to his truck, the trailer damages Cory’s truck. Cory’s trailer is considered to be an “uninsured motor vehicle.”

True

False

Section 4: Uninsured and/or Underinsured Motorists Coverage

Directions: Read each question below and provide your response in a sentence or two.

1. Explain why UM coverage under the Personal Auto Policy will not pay for the punitive damages of an at-fault party.

2. Explain the purpose of Uninsured Motorists Property Damage Coverage.

Section 5: Coverage for Damage to Your Auto

Section Goal

In the previous section of this Learning Guide, Section 4: Uninsured and/or Underinsured Motorists Coverage, we explored the coverage available to an “insured” in the event they are injured by a vehicle with too little coverage or no coverage at all.

The goal of this section is to provide participants with the knowledge and skills necessary to understand the coverages provided by Part D – Coverage For Damage To Your Auto. This includes how the coverages apply to owned and non-owned vehicles as well as the potential coverage gaps and endorsements available to improve coverage.

Learning Objectives

- *Use knowledge of the Insuring Agreement to explain the differences between “Collision” and Other Than “Collision” coverage.*
- *Understand how to apply coverage provided by Part D – Coverage For Damage To Your Auto to a borrowed or rented automobile.*
- *Apply Part D – Exclusions and the Limit of Liability provision to identify potential gaps in coverage and recommend appropriate endorsements where applicable.*
- *Identify the geographic areas where the Personal Auto Policy provides coverage.*

Introduction



When clients think of automobile insurance, they typically think of themselves first. That is, they think that the purpose of the policy is to provide coverage for any damage that might occur to the automobile they drive. And this becomes the coverage they are most concerned with.

Coverage for damage to the auto is of importance when a vehicle owner obtains a financial loan to

purchase their vehicle. A financial institution—known as the lender—will request to be added as a **lienholder**, or loss payee, to an automobile policy to ensure their interest in the vehicle is protected. The lender will require the vehicle to have coverage for damage, known as Collision and Other Than Collision Coverage. Other Than Collision coverage may also be referred to as Comprehensive Coverage.

Lienholder:

One who has a financial interest in property—generally a bank or other financial institution, but may also be an individual. Liens are generally placed on vehicles as a promise that the borrower will repay the loan used to purchase the auto.



If a client fails to maintain coverage for damage to their auto, the lienholder may purchase coverage for the vehicle and require the client to pay for that coverage as part of their loan repayment. This is known as **forced placed coverage**. Forced placed coverage is generally more expensive than the coverage the client can purchase, and it only protects the interest of the lender; it does not provide coverage to the client.

In this part of the Learning Guide, we are going to explore Part D – Coverage For Damage To Your Auto, including the two important coverages provided and how those coverages apply to both owned and non-owned autos a policyholder may drive. As always, there will be exclusions to narrow the focus of coverage, but we will highlight some endorsements a policyholder may purchase to get coverage back. Let's get started.

The Insuring Agreement

Learning Objective

- Use knowledge of the Insuring Agreement to explain the differences between "Collision" and Other Than "Collision" coverage.

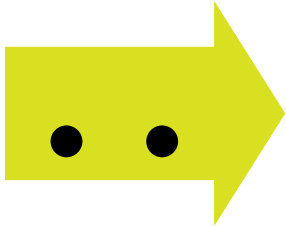
Don't forget that the beginning of the Personal Auto Policy started with an agreement—that in return for premium payment, the company agrees to provide coverage according to the terms in the policy. We've explored coverage for Liability, Medical Payments, and Uninsured/Underinsured Motorists coverage so far, all of which had separate Insuring Agreements for coverage promised within those coverage parts. This coverage part, Coverage For Damage To Your Auto, is no different as it, too, has its own Insuring Agreement.



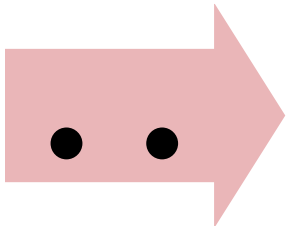
Section 5: Coverage for Damage to Your Auto

The agreement starts with a requirement that for damage to an auto to be covered under this part, the damage must be direct and accidental. You will not find an exclusion for intentional damage caused by the insured in this coverage part because intentional damage is obviously NOT accidental. Coverage provided will apply to both a “your covered auto,” a “non-owned auto,” and any equipment used with either. Recall that “your covered auto” is defined in the policy definitions section; “non-owned auto” will now receive its own definition (to be discussed later) under this coverage part.

Let’s look at the different ways coverage is provided between a “your covered auto” and a “non-owned auto.”



A “your covered auto” will receive only the coverage which is shown in the Declarations for that specific vehicle, meaning if two autos are insured—vehicle A has Collision Coverage indicated in the Declarations and vehicle B does not—only vehicle A will receive “Collision” coverage. Coverage will not extend from vehicle A to vehicle B; it must be purchased for each vehicle individually.



A “non-owned auto” will receive the broadest coverage provided of any vehicle shown in the Declarations page. If vehicle A has a Collision deductible of \$500 and vehicle B has a Collision deductible of \$100, the “non-owned auto” will receive the benefit of the lowest deductible—\$100. This also means that if “Collision” coverage is not purchased for any vehicle on the policy, a “non-owned auto” will not have “Collision” coverage. The same is true of Other Than “Collision.”

A. We will pay for direct and accidental loss to “your covered auto” or any “non-owned auto”, including its 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 indicates that Other Than Collision Coverage is provided for that auto.
2. “Collision” only if the Declarations indicates 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.

For any loss, a deductible (as shown in the Declarations) may apply. A deductible is the portion of the loss the policyholder is responsible for paying. Deductibles can help lower the premium cost associated with “Collision” and Other Than “Collision” losses as the policyholder is agreeing to share/or pay a higher portion of the loss. As a benefit to the client, if one “Collision” loss involves two or more “your covered autos” or “non-owned autos,” the policy will only apply the highest deductible. This may still result in two claims being opened by the carrier (thus two claims on loss history), but the carrier will then waive the smaller deductible(s).



Duane and Darcy have Collision on both of their cars. One has a \$250 Collision deductible, and the other has a \$500 Collision deductible. Darcy backs her car out of the garage and hits their other vehicle, damaging both cars. Only one deductible, the \$500 deductible, would apply to repair both vehicles.



“Collision” and Other Than “Collision”

The Insuring Agreement continues by defining both “Collision” and Other Than “Collision” (other policies may use the term “Comprehensive” rather than Other Than “Collision”). See below for the definitions of each term.

“Collision”

“Collision” is defined as the upset of a vehicle or its impact with another vehicle or object. Other vehicles or objects may include another car, train, tree, guardrail, building, pedestrian, utility pole, median, train tracks, etc.



While the ISO Personal Auto Policy considers striking a pedestrian as a “Collision” loss, some insurance carriers may classify this as an Other Than “Collision” loss.



Other Than “Collision”



The definition for Other Than “Collision” in the Personal Auto Policy provides examples of covered losses. But this is not a named perils policy; these are not the only losses covered! Any direct and accidental loss that is not a “Collision” loss, and which is not otherwise excluded, is covered.

One might think that collision with an animal (such as a deer or stray dog) would be considered a “Collision” loss, however, the policy allows these types of losses to be considered Other Than “Collision.” And, glass breakage is generally considered an Other Than “Collision” loss; however, the policy makes it clear that if glass breakage results from a collision, the policyholder can choose to have glass included under “Collision” coverage. Kind of curious when you think about it!

What Other Than “Collision” coverage does not cover are damages such as wear and tear, mechanical breakdown, intentional damage to the vehicle, or confiscation by law enforcement. We will find out more about what is not covered when we explore Exclusions.

Table of Other Than “Collision” Losses:
(The examples below are not the only losses covered.)



Missiles or Falling Objects



Fire



Theft or Larceny



Explosion or Earthquake



Windstorm



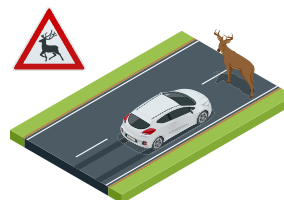
Hail, Water, or Flood



Malicious Mischief or Vandalism



Riot or Civil Commotion



Contact with Bird or Animal



Breakage of Glass

Section 5: Coverage for Damage to Your Auto

B. "Collision" means the upset of "your covered auto" or a "non-owned auto" or its 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; or
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".



Knowledge Check



Directions: Consider the scenario below and respond with examples you might give to Valerie.

The Personal Auto Policy provides a list of losses that could be considered Other Than "Collision" losses. Your client, Valerie, is wondering what other types of losses exist that may be considered Other Than "Collision" which are *not* named in the policy. What examples might you give to Valerie so that she is better informed?

Learning Objective

- Understand how to apply coverage provided by Part D – Coverage For Damage To Your Auto to a borrowed or rented automobile.

Up to this point in the policy, we've seen language such as “*vehicle(s) you do not own*” to address coverage differences in vehicles not specifically owned by the insured or listed in the Declarations page. After addressing what losses will be considered “Collision” and Other Than “Collision,” the Insuring Agreement of Coverage For Damage To Your Auto continues by defining what, specifically, is considered a “non-owned auto” under this coverage part.

“Non-Owned Autos”

“Non-owned auto” is a two-part definition that identifies the autos that will receive the coverage provided for a “non-owned auto” promised in the Insuring Agreement. The types of autos considered a “non-owned auto” will depend on the reason they are being used.

➤ Other than a Temporary Substitute

➤ Temporary Substitute

Remember, the Insuring Agreement promises that “non-owned autos” will receive the broadest coverage provided of any vehicle shown in the Declarations page. So, exactly what will be considered a “non-owned auto”?

➤ Let's start by taking a look at “non-owned autos” OTHER than those considered a temporary substitute. These must be private passenger autos, pickups, vans, or “trailers” that are NOT furnished to a **you** or “family member,” nor available for the regular use by a **you** or “family member.” That means company-provided autos or a roommate's vehicle that you have the keys to and regularly drive CANNOT be “non-owned autos.”

So, what are they then? “Non-owned autos” that are not temporary substitutes may be vehicles rented for vacation or business trips, a vehicle borrowed to get your child's soccer team to a tournament, driving your coworker's vehicle to pick up lunch, a trailer rented to get a new appliance home, or taking your brother's new sports car out for a drive. Your vehicle is in perfect working condition; you just need something a little different for a day or so.



Section 5: Coverage for Damage to Your Auto

“Non-owned autos” must be in the custody of, or be operated by, a **you** or any “family member.” Consider the examples below:



Your client borrows a friend's car. The car is a “non- owned auto.”

Your client rents a small travel trailer for a camping trip. The “trailer” is a “non-owned auto.”

Your clients rent a 30-foot motor home while on vacation. The motor home is NOT a “nonowned auto,” as it is not a private passenger auto, pickup, van, or “trailer.”



Up next are temporary substitutes as “non-owned autos.” A temporary substitute is ANY auto being used because “your covered auto” is out of normal use, or not in working condition, for the following very specific reasons:

- breakdown,
- repair,
- servicing,
- loss; or
- destruction.

Notice that a temporary substitute is ANY auto. Any!



Your client's car won't start, so he borrows his neighbor's dump truck to get to work. The dump truck is a “non-owned auto.”

Your client's pickup is involved in an accident a day before she and her family are planning on taking her 28-foot travel trailer on camping trip. While her truck is being repaired, she rents a motor home so she and her family can still go camping. The motor home is a “non-owned auto.”



A note about non-owned “trailers”: coverage for non-owned “trailers” is limited! The Limit of Liability provision of Coverage For Damage To Your Auto limits coverage to \$1,500 for “non-owned autos” that are “trailers.”



Section 5: Coverage for Damage to Your Auto

Now, let's think back—do you recall that Part A – Liability Coverage excludes coverage for “property damage” to property rented to, used by, or in the care of that “insured”? Anyone reading the policy who stops there might panic and think, “What about damage to a vehicle I rent or borrow?”

When Coverage For Damage To Your Auto—that is “Collision” and Other Than “Collision” Coverage—is purchased, the policy will provide coverage for damage to these “non-owned autos” with the broadest coverage purchased for any vehicle shown in the Declarations page, meaning the highest liability limits and the lowest purchased deductible(s) of any one vehicle in the Declarations. If all the client has is Liability Coverage, then the client will not have coverage for damage to “non-owned autos.”

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.



Danny insures his 2018 Nissan Titan and 2000 Ford Taurus on his Personal Auto Policy. The Nissan Titan has Collision and Other Than “Collision” coverages, each with a \$500 deductible. The 2000 Ford Taurus has Other Than “Collision” Coverage with a \$1,000 deductible, but does not have Collision Coverage. When Danny rents a sports car for his high school reunion (a “non-owned auto”), should Danny damage the auto, it will receive the lowest deductibles Danny purchased for Collision and Other Than “Collision” Coverage—that is, the \$500 deductibles as purchased for the 2018 Nissan Titan.

Later, when we discuss the Limit of Liability provision for Part D – Coverage For Damage To Your Auto, we will find that this provision applies to both a “your covered auto” and “non-owned autos.” The Personal Auto Policy will pay for damage to “non-owned autos” at an amount equal to the actual cash value (ACV) of the damage or ACV of the auto, if it is a total loss.

Before we leave the Insuring Agreement of coverage Part D to review Transportation Expenses Coverage, understand that the Insuring Agreement provides the following definitions:

- “Collision”
- Other Than “Collision”
- “Non-owned Auto”
- “Custom Equipment”

We have explored the definitions for the first three and will come back to “custom equipment” when we discuss the exclusion that addresses “custom equipment.”

Transportation Expenses

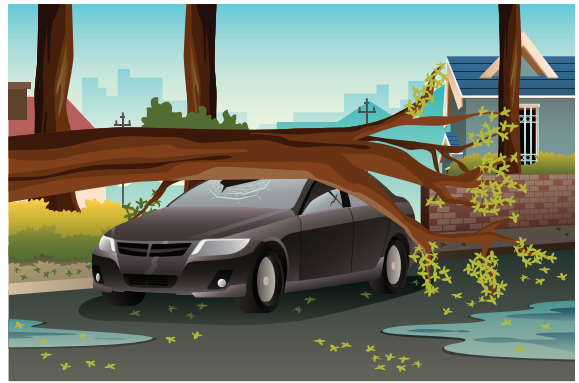
The ISO Personal Auto Policy automatically includes coverage for Transportation Expenses related to a covered Collision or Other Than Collision loss. Transportation Expenses can be more than just helping with the expense of a rental vehicle; they may also include bus fare, cab fare, metro fare, reimbursing a friend for assisting with transportation, etc.

The Personal Auto Policy addresses how this coverage applies to both a “your covered auto” and “non-owned autos.”

Consider the following scenario:



Beth, your client, had a massive tree limb fall on her vehicle, damaging her car. With her car in the repair shop, Beth's policy provides coverage for the claim under Other Than “Collision” coverage. As a full-time employee and the mother of two children, Beth needs a temporary vehicle to get around; the stress of the claim is already affecting her. As her agent, you can ease her worries a little by letting Beth know that her Personal Auto Policy has coverage to help pay for a rental vehicle while hers is in the repair shop.



Transportation Expenses for “Your Covered Auto”

Following a covered loss to a “your covered auto,” transportation expenses are provided when the applicable Collision or Other Than “Collision” coverage has been purchased for that auto. Coverage is limited to \$30 per day with a maximum of \$900 per loss.

Transportation Expenses for “Non-owned Autos”

In the event of a covered loss to a “non-owned auto,” coverage is provided for expenses the insured is legally responsible for due to the loss, but only if coverage for “Collision” or Other Than “Collision” has been purchased for at least one vehicle on the policy Declarations. Again, coverage is paid to a maximum of \$30 per day/\$900 per claim.



While driving your friends' car, you have an at-fault accident. Your friend doesn't have Collision Coverage, so you turn the claim in to your insurance company to be covered under your Collision Coverage. Transportation Expenses will pay up to \$30 per day for your friend's alternative transportation expenses while their car is being repaired.

Section 5: Coverage for Damage to Your Auto

Transportation Expenses are not subject to a deductible because there has already been a deductible for the Other Than "Collision" or "Collision" part of the loss. It's also important to understand that there is a waiting period before Transportation Expenses coverage begins. The length of the waiting period depends on the type of loss, and payment will be limited to the period of time reasonably required to repair or replace "your covered auto" or the "non-owned auto."

- For a total theft of a vehicle, coverage begins 48 hours after the theft and ends when the stolen vehicle is returned or when the insurance company has paid for the loss.
- For losses other than total theft, coverage begins 24 hours after a vehicle is withdrawn from use.

The time period for Transportation Expenses is limited to what is reasonably required or necessary to repair or replace the auto.

As with all other coverages in the Personal Auto Policy, an insurance professional should take the time to explain Transportation Expenses coverage to their client, including the limits of the coverage. Consider the cost of a rental vehicle today and how the cost fluctuates, such as around holidays or peak vacation season. The same is true for certain transportation fares where seasonal rates may apply. Is \$30 per day going to be enough?

What if the client is far from home and a damaged auto now inconveniences their trip, perhaps requiring an unexpected overnight stay? Will a towing bill add insult to injury?

TRANSPORTATION EXPENSES

A. In addition, we will pay, without application of a deductible, up to a maximum of \$900 for:

1. Temporary transportation expenses not exceeding \$30 per day 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 indicates that Other Than Collision Coverage is provided for that auto.
 - b. "Collision" only if the Declarations indicates that Collision Coverage is provided for that auto.
2. Expenses for which you become legally responsible in the event of loss to a "non-owned auto". We will pay for such expenses if the loss is caused by:
 - a. Other than "collision" only if the Declarations indicates that Other Than Collision Coverage is provided for any "your covered auto".
 - b. "Collision" only if the Declarations indicates that Collision Coverage is provided for any "your covered auto".

However, the most we will pay for any expenses for loss of use is \$30 per day.

B. Subject to the provisions of Paragraph **A.**, if the loss is caused by:

1. A total theft of "your covered auto" or a "non-owned auto", we will pay only expenses incurred during the period:
 - a. Beginning 48 hours after the theft; and
 - b. Ending when "your covered auto" or the "non-owned auto" is returned to use or we pay for its loss.
2. 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".

Transportation Expenses Endorsements

There are several endorsements which can be offered and attached to the Personal Auto Policy to improve Transportation Expenses coverage or provide other coverages to help the client when they need it. Let's take a look at some of those endorsements.



OPTIONAL LIMITS TRANSPORTATION EXPENSE COVERAGE (PP 03 02) – This endorsement increases the \$30/\$900 limit provided by the policy to \$40/\$1,200, \$50/\$1,500, or \$75/\$2,250 as selected by the insured. Note that some carriers may offer this coverage based on a rental vehicle class (i.e., compact, midsize, full size, SUV, pickup, etc.).



TOWING AND LABOR COSTS COVERAGE (PP 03 03) – This endorsement provides selected limits of \$25, \$50, \$75, or \$100, with higher limits available for motor homes. While the ISO endorsement has no requirement of a vehicle being disabled a certain distance from the insured's residence or limitations on the distance a vehicle may be towed, similar carrier endorsements often do. Be sure to fully understand and explain the limits of this endorsement to the client.



TRIP INTERRUPTION COVERAGE (PP 13 02) – This endorsement has a \$600 limit for transportation expenses and expenses for lodging and meals in the event of a mechanical or electrical breakdown of the scheduled auto that occurs more than 100 miles from home and it is withdrawn from use for at least 24 hours.



Knowledge Check



Directions: Read the scenario below and respond with how you would advise your client.

Stephen's coworker offered to let Stephen borrow her large SUV for a family camping trip. After Stephen discovered that his coworker only has liability coverage on her vehicle, he called you—his insurance professional. He is nervous about driving the SUV and wants to know how his policy would respond if he causes damage to the auto.

Before advising Stephen, you take a look at his auto policy and discover he has Liability (100/300/100), Medical Payments \$5,000, and UM/UIM equal to his Liability coverage. Stephen has three small sedans with Collision deductibles that range from \$500 to \$1000, but does not have Other Than "Collision" coverage.

What can you let Stephen know about his policy and how it may respond if he were to have either a "Collision" or Other Than "Collision" loss?

Coverage for Damage to Your Auto Exclusions

Learning Objective

- Apply Part D – Exclusions and the Limit of Liability provision to identify potential gaps in coverage and recommend appropriate endorsements where applicable.

Exclusions for Coverage For Damage To Your Auto

Now that we understand how Part D – Coverage For Damage To Your Auto applies to both owned and non-owned autos, it is time to recognize that not all situations (or risks) can be covered. The Personal Auto Policy is not designed to cover every possible loss that might occur. Exclusions limit or restrict coverage for obvious reasons (like war) because the policy simply cannot bear the cost of the loss without additional premium (i.e., endorsements) or by moving the risk to a policy meant for that exposure (like a commercial auto policy).



Be sure to have the **2018 Personal Auto Policy Form (PP 00 01)** available for exact policy language as we go through Exclusions. The Learning Guide will present Exclusions in the order in which they appear in the Personal Auto Policy. Let's jump in.

1. Public or Livery Conveyance Exclusion



We've seen the exclusion for public or livery conveyance multiple times throughout the Personal Auto Policy. The policy simply will not pay for damage to a "your covered auto" or "non-owned auto" while being used as a taxi, delivery service, transport service, or in rideshare platforms like Uber or Lyft (including while logged into these apps).



Abigail is logged into a rideshare app looking for a passenger request to accept. Assuming she'll find one near the airport she begins driving in that direction, but during a quick check of the app, she hits a curb and trashcan, damaging her vehicle. The public or livery exclusion will apply to this loss.

An exception to this exclusion exists to give back coverage to vehicles being used in share-the-expense car pools or for volunteer or charitable purposes.

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 includes but is not limited to any period of time "your covered auto" or any "non-owned auto" is being used by any person who is logged into a "transportation network platform" as a driver, whether or not a passenger is "occupying" the vehicle.

This exclusion (1.) does not apply:

- a. To a share-the-expense car pool; or
- b. While "your covered auto" or any "non-owned auto" is being used for volunteer or charitable purposes.



Scott occasionally volunteers to help members of a retirement community get to doctor appointments, the grocery store, or social functions. The public or livery exclusion will not apply to this use of Scott's vehicle.

Section 5: Coverage for Damage to Your Auto

There are two endorsements available to give back “Collision” and Other Than “Collision” coverage for a person logged into a transportation network company (TNC) as a driver (Phases 1 and 2), but neither of the endorsements provides coverage once a passenger is “occupying” the vehicle (Phase 3). [TNC phases and both endorsements were also highlighted in Section 2 of this Learning Guide.]



The **TRANSPORTATION NETWORK DRIVER COVERAGE (NO PASSENGER) (PP 23 41)** endorsement does not remove exclusions but gives back coverage when an “insured” is logged into the “transportation network platform” described in the Schedule as a driver and a passenger is not “occupying” the vehicle. This provides coverage during both Phase 1 (looking for a passenger request) and Phase 2 (accepting a passenger request).



The **LIMITED TRANSPORTATION NETWORK DRIVER COVERAGE (NO PASSENGER) (PP 23 45)** endorsement does not remove exclusions but gives back coverage when an “insured” is logged into the “transportation network platform” as a driver, and a passenger is not “occupying” the vehicle, AND a request through the “transportation network platform” to transport a passenger has not been accepted. This provides coverage during Phase 1 (looking for a passenger request) only.

2. Wear and Tear, Freezing, Mechanical Breakdown, or Road Damage Exclusion

The Personal Auto Policy is not designed to be a vehicle maintenance policy, which is why the policy excludes coverage for damage due and confined to:

- **Wear and tear**



The clear coating of a vehicle’s paint is eroding from tree sap after years of parking under a maple tree.

The brake pads on a vehicle were not replaced in a timely manner, causing damage to the rotors.

- **Freezing**



Water vapor in a vehicle fuel line caused damage to the line when it froze during cold weather.

- **Mechanical or electrical breakdown or failure**

Mechanical and electrical components (drivetrain, a/c system, suspension, etc.) of a vehicle that wear out over time due to normal or excessive use, may have inherent vices (like rust or corrosion) or defects from manufacturing. The possibility of repeated breakdown of the same or multiple systems from normal use is a high cost to bear and is, therefore, excluded.



Section 5: Coverage for Damage to Your Auto

- **Road damage to tires**



This exclusion speaks to the fact that tires slowly wear down with every drive; it is expected and should be planned for with the cost of vehicle maintenance. But another consideration is potholes. Some of them are massive, but most of them can be avoided (when driving carefully). Damage confined to a tire from a pothole may not be covered, but if other damage to the vehicle occurs (like damage to the wheel, bumper, or suspension), "Collision" coverage should respond.

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. War or Nuclear Discharge Exclusion

This exclusion is pretty obvious. The widespread damage and destruction caused by war, radioactive contamination, nuclear weapon, insurrection, rebellion, or revolution is a cost too great to bear and a cost too difficult to calculate adequate premium for.

3. Loss due to or as a consequence of:

- a.** Radioactive contamination;
- b.** Discharge of any nuclear weapon (even if accidental);
- c.** War (declared or undeclared);
- d.** Civil war;
- e.** Insurrection; or
- f.** Rebellion or revolution.



4. Electronic Equipment Exclusion



Technology and electronics are fun; however, they are in a constant state of evolution and can be expensive. Not only that, but we also tend to carry expensive electronics (from cellphones to laptops) around with us everywhere we go. For this reason, the Personal Auto Policy excludes coverage for electronic equipment but then gives back a little. First, the exclusion takes coverage away for items such as radios and stereos,

navigation systems, personal computers, telephones, TVs, and scanners. Understand that the exclusion is not limited to the items listed in the policy, these are just the most common.

It makes sense that cellphones and laptops are not covered as they do not have anything much to do with your vehicle. But what about coverage for your car's built-in navigation system? In fact, there is some coverage. The exclusion gives back coverage for electronic equipment that is permanently installed in the vehicle. But read a little further, and the Limit of Liability provision may limit this coverage once again. The Limit of Liability provision of Coverage for Damage to Your Auto limits coverage to \$1,000 for permanently installed electronic equipment that transmits audio, visual, or data signal(s) when installed in areas the manufacturer would NOT have installed it. Consider the examples that follow:

4. Loss to any electronic equipment that reproduces, receives or transmits audio, visual or data signals. This includes but is not limited to:

- a. Radios and stereos;
- b. Tape decks;
- c. Compact disc systems;
- d. Navigation systems;
- e. Internet access systems;
- f. Personal computers;
- g. Video entertainment systems;
- h. Telephones;
- i. Televisions;
- j. Two-way mobile radios;
- k. Scanners; or
- l. Citizens band radios.

This exclusion (4.) does not apply to electronic equipment that is permanently installed in "your covered auto" or any "non-owned auto".



Terrell removes the audio system in his vehicle and replaces it with a custom system using the same installation design as the manufacturer. The system will not be excluded since it is permanently installed, nor will a covered loss be limited to \$1,000 because it was installed where the manufacturer intended it to be.



Zane's vehicle is older, and he would like a video entertainment system. Zane hardwires and installs a \$2,500 system, manually cutting out areas of the seatbacks and headliner for the system to fit. The system will not be excluded since it is permanently installed, but coverage will be limited to \$1,000 since it is a video system that was installed in areas not intended by the manufacturer.



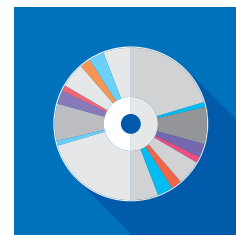
The **EXCESS ELECTRONIC EQUIPMENT COVERAGE (PP 03 13)** endorsement is available to increase the policy limit of \$1,000 up to the amount selected and shown in the endorsement schedule.

5. Tapes, CDs, and Other Media Exclusions

Coverage is excluded for damage to tapes, records, disks (like DVDs and CDs), or other media (like SD cards) used with electronic equipment described in the exclusion above (Part D – Exclusion #4).



Once again, the **EXCESS ELECTRONIC EQUIPMENT COVERAGE (PP 03 13)** endorsement is available to add up to \$200 of coverage for tapes, records, disks, and other media.



5. Loss to tapes, records, discs or other media used with equipment described in Exclusion 4.

6. Confiscation/Destruction by Government/Civil Authorities Exclusion

The policy excludes a total loss to “your covered auto” or any “non-owned auto” due to confiscation or destruction by government or civil authorities. However, a loss payee on the vehicle does not lose coverage for its insurable interest as this exclusion does not apply to the interest of the loss payee.

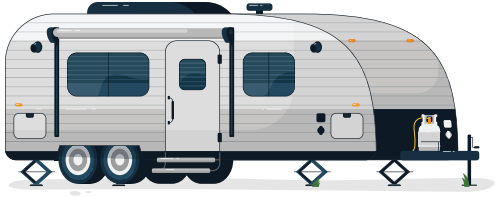


Your client is using her car for illegal purposes. Law enforcement confiscates the client's car as allowed by law. The client still owes money to the bank for her car loan. While this exclusion takes away coverage for your client, it does not take away coverage for the bank.

6. A total loss to "your covered auto" or any "non-owned auto" due to destruction or confiscation by governmental or civil authorities.

This exclusion (6.) does not apply to the interests of Loss Payees in "your covered auto".

7. Owned “Trailers,” Campers, or Motorhomes Not in the Declarations Exclusion



While the Personal Auto Policy will automatically provide Liability Coverage for “trailers” you own that aren’t listed in the Declarations page (they are a “your covered auto”), this *not* true of “Collision” and Other Than “Collision” Coverage. “Trailers,” camper bodies, and motorhomes that are NOT shown in the Declarations

page (including equipment used with them), are *not* afforded physical damage coverage. However, newly acquired “trailers” and camper bodies (including equipment in or attached to them) receive “Collision” and Other than “Collision” coverage (if purchased in the Declarations) if they are acquired during the policy period and coverage is requested within 14 days of becoming the owner. Note: This does not apply to motorhomes.

This exclusion does not apply to non-owned “trailers,” but know that the Limit of Liability provision limits coverage for non-owned “trailers” to \$1,500.

8. Use of a “Non-owned Auto” Without a Reasonable Belief of Entitlement to Do So Exclusion



If you do not have permission—or at minimum, have a reasonable belief that you have permission—to drive a vehicle you do not own, don’t drive it! The policy will not pay for damage to a “non-owned auto” being used by a **you** or any “family member” without permission from the vehicle’s owner.

7. Loss to:

- a. A “trailer”, camper body or motor home, which is not shown in the Declarations; or
- b. Facilities or equipment used with such “trailer”, camper body or motor home. Facilities or equipment include but are not limited to:
 - (1) Cooking, dining, plumbing or refrigeration facilities;
 - (2) Awnings or cabanas; or
 - (3) Any other facilities or equipment used with a “trailer”, camper body or motor home.

This exclusion (7.) does not apply to a:

- a. “Trailer”, and its facilities or equipment, which you do not own; or
 - b. “Trailer”, camper body, or the facilities or equipment in or attached to the “trailer” or camper body, which you:
 - (1) Acquire during the policy period; and
 - (2) Ask us to insure within 14 days after you become the owner.
8. 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.
9. Loss to equipment designed or used for the detection or location of radar or laser.

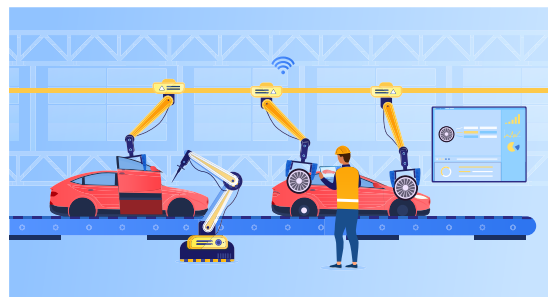
9. Radar Detection Equipment Exclusion



Radar and/or laser detection equipment is often purchased by drivers to help spot police trying to catch speeding drivers. The legality of the use of these devices varies from state to state, but no matter the circumstance, the Personal Auto Policy will not pay for any damage to these devices.

10. “Custom Equipment” Exclusion

Clients love to customize their vehicles—custom exhausts, window tint, or interior ambient lighting, to name a few. Not only that, most auto dealerships, in an effort to have unique products, may create their own custom packages by adding on aftermarket parts or embellishments. When driving a brand-new vehicle off the lot, the client may not even realize their vehicle has custom equipment in/on it.



Most insurance carriers use **ISO Vehicle Rating Symbols** to develop accurate premiums and pricing for vehicle coverage. If a vehicle is customized after it is manufactured, the coverage rate based on VSRs will not reflect the true value of that vehicle or of everything that could be damaged. For this reason, the Personal Auto Policy defines what is considered “custom equipment” in Part D – Coverage For Damage To Your Auto so that coverage can be limited.

ISO Vehicle Rating Symbols (VSRs):

numbers assigned to vehicles that represent extensive actuarial facts of historical claims data and the suggested retail price for the same or comparable vehicles



“Custom equipment” is defined as anything other than original manufacturer equipment, furnishings, or parts, or replacements for these items with like kind and quality items or parts. The definition provides a detailed list of what is considered

“custom equipment” (winches, custom wheels, spinners, custom chrome or paintwork, bed liners, etc.), but this is not an all-inclusive list. For example, equipment added to assist the handicapped is not included in the definition but may also be considered custom equipment. Since electronic equipment is addressed by a separate exclusion, electronic audio, visual, or data signal equipment is not included in “custom equipment.” *Refer to the Personal Auto Policy definition of “custom equipment” in Part D – Coverage For Damage To Your Auto.*

10. Loss to any “custom equipment” in or upon “your covered auto” or any “non-owned auto”.

This exclusion (10.) does not apply to the first \$1,500 of “custom equipment” in or upon “your covered auto” or any “non-owned auto”.

The coverage exclusion for “custom equipment” will not apply to the first \$1,500 of “custom equipment” in or upon “your covered auto” or any “non-owned auto.”



If the client’s vehicle is something highly customized, and this \$1,500 in limited coverage is not enough, the **EXCESS CUSTOM EQUIPMENT COVERAGE (PP 03 18)** endorsement is available to increase coverage on a specified vehicle up to the amount selected and shown in the endorsement Schedule. If damage occurs to a “non-owned auto,” that vehicle will receive up to the highest limit selected in the endorsement Schedule. The endorsement will still not cover property excluded in Part D – Exclusions #4, 5, 7, or 9.

11. “Non-owned Auto” Maintained or Used in the Auto “Business” Exclusion

Coverage is not provided for loss to “non-owned autos” used in the “business” of selling, repairing, servicing, storing, or parking vehicles.



Your client, Al, is an auto mechanic. He has an accident while test-driving a customer's car. There is no coverage.



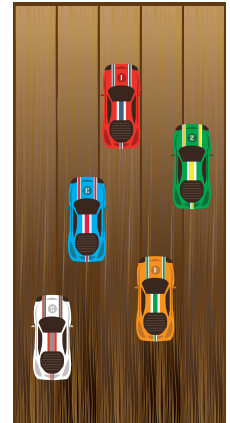
Your client's resident son, Ed, is a hotel valet. He has an accident while taking a hotel guest's vehicle to the valet parking lot. There is no coverage.

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.** Servicing;
- d.** Storing; or
- e.** Parking;

12. Racing Exclusion

Here is another exclusion related to racing. Coverage will not be provided to a “your covered auto” or any “non-owned auto” inside a facility designed for racing when the purpose of being there is related to racing or speed contests, driver skill training, or driver skill events. However, if the client is at a stoplight and foolishly accepts a challenge to race from a vehicle revving their engine in the next lane, any damage that occurs will be covered.



Darin was just trying to stay ahead of a vehicle that was riding his bumper, but after doing this for a few miles, he suddenly finds himself barreling down the interstate in a 110-mph race with the same vehicle. This exclusion will not apply to Darin should he lose control and cause damage to his vehicle.



Caroline attends a driver skill event at the BMW Performance Center. Pulling onto the track she grazes a wall causing damage to the passenger side of the car. Because Caroline was in a facility designed for participating in a driver skill event, this exclusion will apply. Caroline's policy will not provide coverage for damage to the BMW.

12. Loss to “your covered auto” or any “non-owned auto”, located inside a facility designed for racing, for the purpose of:

- a.** Participating or competing in; or
- b.** Practicing or preparing for; any prearranged or organized:
 - (1)** Racing or speed contest; or
 - (2)** Driver skill training or driver skill event.

13. Rental Vehicle Company Prevented From Recovery Exclusion

When a client rents a vehicle, they may purchase the Collision Damage Waiver (CDW) or Loss Damage Waiver (LDW) from the rental agency. This releases the client from being held

13. 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.

responsible for the cost of any damage to the rental vehicle.

For this reason, the policy

excludes coverage for damage to or loss of use of a rental vehicle when a law or the rental agreement prohibits the rental company from recovery of damages or limits the amount of recovery.



14. "Your Covered Auto" Personal Vehicle Sharing Program Exclusion



When ridesharing started, there was disbelief over anyone wanting to personally act as a taxi or that passengers would want to ride around with strangers. But, money talks, and so does convenience; drivers enjoyed earning extra cash while passengers could have access to a car at the click of a button. Personal vehicle sharing programs are yet another way individuals can make money using the vehicle(s) they own.

Personal vehicle sharing programs, or car-sharing, allow individuals to rent out their vehicles via a website or app-based program. A client may leave their car at the airport for vacation and use an app (like GetAround, Turo, or ZipCar) to allow someone to rent their car for a few days to earn some of that vacation money back.

14. Loss to "your covered auto" which occurs while:

a. Enrolled in a personal vehicle sharing program under the terms of a written agreement; and

b. Being used in connection with such personal vehicle sharing program by anyone other than you or any "family member".

If a client is renting their vehicle out to others (whether regularly or sporadically), the Personal Auto Policy is unable to fluidly adjust rates for unknown drivers of various unknown driving skills. Thus, the Personal Auto Policy will not pay for damage to "your covered auto" being used by someone other than a **you** or any "family member" when it is enrolled in a personal vehicle sharing program and under a written agreement.

15. “Non-owned Auto” Personal Vehicle Sharing Program Exclusion

15. Loss to, or loss of use of, a “non-owned auto” used by:

a. You; or

b. Any “family member”;

in connection with a personal vehicle sharing program if the provisions of such a personal vehicle sharing program preclude the recovery of such loss or loss of use, from you or that “family member”, or if otherwise precluded by any state law.

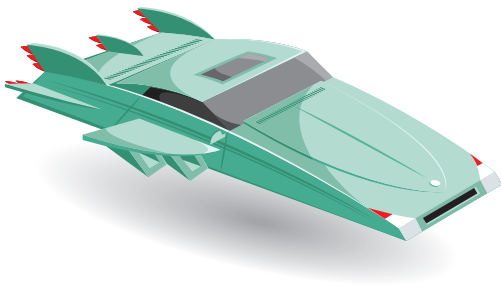
We’ve addressed the exclusion for car-sharing when a client is renting out their vehicle (a “your covered auto”) using a car-sharing program or app. But, what if the client decides to rent someone else’s vehicle through a car-sharing app (personal vehicle sharing program)?

The Insuring Agreement of Part D – Coverage For Damage To Your Auto says that coverage

provided will apply to both a “your covered auto” and a “non-owned auto.” A vehicle the client rents through a car-sharing app (like GetAround, Turo, or ZipCar) qualifies as a “non-owned auto.” However, similar to the exclusion for rental vehicle companies (#13), the policy will not pay for damage to a “non-owned auto” used by a **you** or any “family member” in connection with a personal vehicle sharing program if the program or state law does not allow recovery for damage or loss of use.



16. Flying Vehicles Exclusion



All there is to know about a flying vehicles exclusion is that damage to vehicles capable of flight is excluded—period. The cost of systems and parts required to be both a vehicle and an airplane are simply too much for the Personal Auto Policy.

16. Loss to any vehicle which is designed or can be used for flight.

Check-In



Directions: Read the statements below and mark whether they are True or False.

1. The transportation network coverage endorsement nullifies exclusions in the policy and provides coverage for ridesharing, starting with accepting a passenger and ending when the passenger arrives at their destination.

True

False

2. Samantha spent \$6,000 on her car by adding custom rims and custom paint to match her favorite NFL team colors. Her auto policy will pay the full cost of damage under Other Than "Collision" after thieves stole her rims and damaged the paint in the process.

True

False

3. The Excess Custom Equipment endorsement cannot be used to provide coverage for custom sound or navigation systems.

True

False

4. Candice is having trouble with the transmission in her car. Unfortunately, her auto policy will not pay to replace the transmission.

True

False

Section 5: Coverage for Damage to Your Auto



Before continuing with the remainder of Part D – Coverage For Damage To Your Auto, let's take a moment to note that there are endorsements available to add extra coverage that may be desired by clients. Be sure to check with individual insurance carriers for availability of the following endorsements:

PERSONAL PROPERTY COVERAGE (PP 33 42)



This endorsement may be valuable to the client who does not have a Homeowners or renters insurance policy or may have a high deductible on these policies. With this endorsement, property owned by an insured is covered anywhere in the world, on an open perils basis, with ACV loss settlement, and up to the limit shown in the schedule. A deductible will apply.

PET INJURY COVERAGE (PP 33 31)



This endorsement can only be used when Collision and Other Than Collision coverages are purchased. It provides coverage for “bodily injury” or other expenses—such as cremation—for “your pet” (cat or dog) owned by a **you** or “family member” while inside a “your covered auto” or any “non-owned auto.” No deductible will apply.

CHILD RESTRAINT SYSTEM (PP 33 30)



The National Highway and Traffic Safety Administration (NHTSA) recommends that child restraint/safety seats be replaced following a moderate to severe crash. This endorsement provides coverage to replace a child restraint system (CRS) owned by the insured following an accidental loss to a “your covered auto” or any “non-owned auto” when that CRS was in the vehicle at the time of the loss. Collision and Other Than Collision coverage must be purchased to use this endorsement and no deductible will apply.

KEY REPLACEMENT AND RELATED SERVICES COVERAGE (PP 33 27)



Electronic key fobs that lock/unlock and start vehicles can be quite expensive. This endorsement provides the insured with coverage to replace or program keys and key fobs to a “your covered auto” that are lost or stolen. No deductible will apply.

We have almost completed this section, Part D – Coverage For Damage To Your Auto, but we must first take a look at the following provisions that apply to this coverage part:

- Limit of Liability
- Payment of Loss
- No Benefit to Bailee
- Other Sources of Recovery
- Appraisal

Limit of Liability

The Limit of Liability section for Part D – Coverage For Damage To Your Auto explains what the policy will pay in the event of a covered loss. This provision applies to a “your covered auto” and “non-owned autos.” The policy will pay the lesser of the actual cash value (ACV) of the stolen or damaged property OR the amount necessary to repair or replace the property with like kind and quality parts. **Actual cash value** is the replacement cost of property less an allowance for depreciation, wear and tear, or obsolescence.

Depreciation and physical condition of the vehicle will be taken into consideration when the insurance company determines the actual cash value of a total loss. Consider this: the insured may have just purchased new tires for their vehicle and is involved in an accident that damages the vehicle and tires the very next day. There hasn’t been much wear and tear on the tires so the depreciation for them will likely be very little.



The policy will not pay for **betterment**. What does this mean? It means, the policy will not pay to repair or replace damaged parts of the vehicle (or the vehicle itself) with better quality materials or which have higher value than like kind or quality. The policy essentially wants to restore the client to the time before the accident, not set them up better than they were before the accident.



Blair's vehicle was deemed a total loss after a deer ran into her 2018 Toyota Corolla. She was paid \$18,000 for the total loss. Blair then purchased a \$25,000 2021 Toyota Corolla. The policy will not pay the cost difference for the newer/better vehicle even though it is the same make and model.

LIMIT OF LIABILITY

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

1. Actual cash value of the stolen or damaged property; or
2. Amount necessary to repair or replace the property with other property of like kind and quality.

However, the most we will pay for loss to:

- a. Any "non-owned auto" which is a trailer is \$1,500.
- b. Electronic equipment that reproduces, receives or transmits audio, visual or data signals, which is permanently installed in the auto in locations not used by the auto manufacturer for installation of such equipment, is \$1,000.
- c. "Custom equipment" in or upon "your covered auto" or any "non-owned auto" is \$1,500.

B. An adjustment for depreciation and physical condition will be made in determining actual cash value in the event of a total loss.

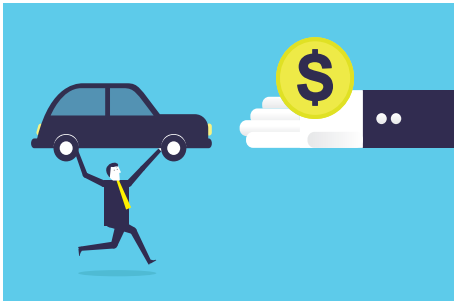
C. If a repair or replacement results in better than like kind or quality, we will not pay for the amount of the betterment.

Section 5: Coverage for Damage to Your Auto

We found coverage exceptions in the exclusions for non-owned “trailers,” electronic equipment, and “custom equipment,” but recall that the Limit of Liability provision limits the coverage the policy will pay in these areas. The policy will not pay more than:

- \$1,500 for a non-owned “trailer”;
- \$1,000 for permanently installed electronic equipment in a location not used by the auto manufacturer for the installation of such equipment; or
- \$1,500 for “custom equipment.”

Recall that the **EXCESS ELECTRONIC EQUIPMENT COVERAGE (PP 03 13)** endorsement can be used to increase coverage.



The policy pays actual cash value. With this in mind, there might be a problem if the client has a loan or lease on the vehicle and the balance of the loan or lease is more than the ACV of the vehicle at the time of the loss. You might know this as being “upside-down” on a car loan. Unfortunately, in situations of total loss, if the loan value is more than the ACV loss of the vehicle, the policy is not going to pay the rest of the loan off, but the carrier will want the loan paid off so the title can be released to them.



The **AUTO LOAN/LEASE COVERAGE (PP 03 35)** endorsement is available just for this predicament. This endorsement covers the difference between the ACV and the loan/lease balance. This coverage is commonly referred to as **gap insurance**. This ISO endorsement, like others, has limitations to be aware of. It excludes any portion of the loan which may have been carried over from a prior vehicle purchase (like another upside-down loan). Any lease penalties from excessive use of a vehicle are excluded, as well. Ensure that your client knows the limitations of this endorsement and whether or not similar coverage that can be purchased from the dealership or financial lender would be better coverage.

Section 5: Coverage for Damage to Your Auto



Your client, the policyholder, does not have to be stuck with an ACV valuation as there are several endorsements that alter the limit of liability.

They are:

COVERAGE FOR DAMAGE TO YOUR AUTO (MAXIMUM LIMIT OF LIABILITY) (PP 03 08)



This endorsement changes the loss settlement to the LESSER of (1) the Limit of Liability in the Schedule, (2) ACV, or (3) the cost to repair or replace the vehicle. This is not agreed value (e.g., guaranteed value)!

REPLACEMENT COST COVERAGE (PP 33 10)



This endorsement changes the loss settlement for a total loss from ACV to replacement cost. For coverage to apply:

- The total loss must occur within 24 months after you become the original owner.
- The mileage on the vehicle must be less than 24,000 miles.

If a similar new vehicle is not available, the policy limits replacement to a similar type of vehicle and equipment not to exceed 110% of the manufacturer's suggested retail price of the "your covered auto" being replaced.



Let's take a look at one more endorsement. Damage to Glass is included under both "Collision" and Other Than "Collision" coverage and subject to the applicable deductible. However, when the **FULL SAFETY GLASS (PP 33 05)** endorsement is added to the policy, under Other Than "Collision," the endorsement will repair or replace the glass without application of the OTC deductible.

Payment of Loss

How does the insurance company compensate the insured for their loss? The Payment of Loss provision confirms that the insurance company has the authority to choose to pay the insured directly for a loss, or the carrier may choose to repair or replace damaged or stolen property.

Totaling a vehicle that is stolen (and unrecovered) is fairly straightforward because repairing it is not possible. Once these claims are paid, if the property is recovered, the insurance company also has the right to return stolen property or keep it if it has already paid for the loss.



No Benefit to Bailee



This provision does not relieve the obligation of any carrier or bailee for hire. A **bailee** is a person or organization that has possession of the property of others; a valet service, mechanic, repair shop, or maybe a custom detailer, for example. The “Collision”

or Other Than “Collision” coverage provided by the insured’s policy will not benefit the bailee, meaning damage the bailee caused will not be paid by the policy and forgotten; the bailee is still responsible to pay for (or repay the carrier) for the damage they caused.

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.



A client’s auto is damaged by vandals while in the repair shop. If the repair shop is legally responsible, the existence of the client’s Other Than “Collision” coverage does not release the repair shop from its financial responsibility for the damage.

Other Sources of Recovery

The client’s Personal Auto Policy may not be the only automobile policy applicable to the vehicle involved in an accident—particularly in the case of non-owned autos. If there is other insurance applicable to a loss (such as two policies covering the same loss), the Other Sources of Recovery provision states that the insurance company will only pay its proportional share of the claim.

If the loss is to a “non-owned auto,” the policy will pay on an excess basis; the owner’s insurance is primary.

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

Remember that depreciation and the physical condition of the vehicle will be taken into consideration when the insurance company determines the actual cash value of a total loss. What happens when the insurance company and the client do not agree on the value of the vehicle, particularly when it comes to a total 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 and impartial 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.



Within the Appraisal provision, the policy sets forth a method used to settle disputes when the policyholder and the insurance company do not agree on the amount of the loss. Generally, this process involves seeking one or more third-party appraiser(s) to come to an agreement on a value.



Knowledge Check



Directions: Read the scenario below and respond with what you would say to help Penelope. Explain your reasoning.

Your client, Penelope, is the original owner of a one-year-old Chevrolet Corvette Stingray. She purchased the Corvette for \$90,000 and added the following customizations:

- \$6,000 custom rims
- \$3,500 custom sound system to replace the manufacturer's stereo

Her unendorsed Personal Auto Policy provides "Collision" and Other Than "Collision"—each with a \$1,000 deductible. Penelope's vehicle was damaged in a covered collision loss which resulted in damage to the rims, complete damage to the sound system, and \$20,000 in damage to the body of the vehicle. She will need a rental vehicle for seven days while her vehicle is being repaired and would like a sports vehicle.

How much would you expect Penelope's policy to pay and what endorsement(s), if any, should she consider adding to her policy to improve coverage? Disregard depreciation.

Learning Objective

- *Identify the geographic areas where the Personal Auto Policy provides coverage.*

We've made our way through Part D – Coverage for Damage to Your Auto, which ended with provisions—or information on how this part of the policy will function and any additional rules/procedures that might apply to it. The next parts of the policy we come to are:

- Part E – Duties After An Accident Or Loss
- Part F – General Provisions

These two parts of the policy apply to the entire policy: Liability, Medical Payments, Uninsured/Underinsured Motorists, and Coverage For Damage To Your Auto.

Part E – Duties After An Accident Or Loss

This section of the policy, Duties After An Accident Or Loss, explains the duties of the insured or any person seeking coverage under any of the policy coverage parts. If the individual(s) fail to perform the duties and the failure is prejudicial to the insurance company, the insurance company has no duty to provide coverage. Ensure that you can explain these duties to the insured or claimant, if necessary.



The insurance company must be notified promptly of the loss and provided information related to the loss (the who, what, where, when, and how). So, just what are these duties?

A person seeking coverage must:

- Cooperate with their carrier.
- Forward notices and legal papers.
- Submit to physical exams, examinations under oath, and recorded statements, as required.
- Authorize and give access to medical records.
- Submit a Proof of Loss.

A person seeking Uninsured Motorist Coverage must:

- Notify police of a hit-and-run accident.
- Send copies of legal papers if a suit is brought.

A person seeking Coverage For Damage To Your Auto must:

- Take reasonable steps to protect the vehicle/property from further damage.
- Notify police of theft.
- Allow the carrier to inspect and appraise damage BEFORE the vehicle is repaired or disposed of.

PART E – DUTIES AFTER AN ACCIDENT OR LOSS

We have no duty to provide coverage under this Policy if the failure to comply with the following duties is prejudicial to us:

- 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.
 - c.** To recorded statements.
 - 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 its 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.

Part F – General Provisions (Selected)

The 2018 ISO Personal Auto Policy (PP 00 01) has nine General Provisions that apply to the entire policy and ensure that provisions and coverage of the policy is applied or carried out fairly and according to state regulations and the carrier's desires. We will review only a select few of the General Provisions; however, all provisions are listed in the table at the end of this review.

Fraud



Remember that insurance policies are contracts of the “utmost good faith.” Insurance contracts legally obligate all parties of a contract to act honestly and not mislead or withhold critical information from one another. The policy makes it clear, and insurance professionals should also make it clear, that there will be no coverage for any “insured” who has engaged in fraudulent activity in connection with any accident or loss—period.

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.

Our Right To Recover Payment

The Our Right To Recover Payment provision gives the insurance company the right to seek recovery from an at-fault party for the loss payment the company made—this is referred to as subrogation. To reiterate, subrogation helps safeguard against the client's insurance carrier paying for losses that are not the policyholder's fault and ensures the carrier's ability to recover payments the at-fault party (or their carrier) should be paying due to the at-fault party's negligence.

Subrogation:

The legal right of one who has paid another's obligation to collect from the party originally owing the obligation (e.g., the insurer's right to recover from another the amount that the insurer paid to its insured for a covered loss)



Sarah was hit by an uninsured motorist and was injured. Her insurance company paid her for her injuries. The insurance company now has the right to seek recovery from the uninsured driver.



Ben's car was hit by a driver with insurance. Rather than wait on the other driver's insurance, damage to Ben's vehicle is paid under his own collision coverage. Ben's insurance company will now seek reimbursement from the at-fault party.

Section 5: Coverage for Damage to Your Auto

The insurance company cannot seek recovery under Part D from any person using a “your covered auto” with a reasonable belief that he/she was entitled to do so. When you loan your auto, you loan your insurance.



Roderick's brother, Chase, is visiting from out of town. Unfamiliar with the area, Chase hit a speedbump causing damage to the low custom suspension of Rod's car. The claim was paid under "Collision." The carrier will not seek reimbursement from Chase since Rod permitted him to drive his vehicle.

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



The Personal Auto Policy does not provide worldwide coverage. A loss must occur during the policy period and within the coverage territory.

The policy period is the time between when the policy starts (the effective date) and when coverage expires (the expiration date).

Coverage territory is as follows:

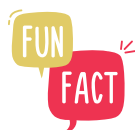
- The United States
- Its territories or possessions
- Puerto Rico
- Canada
- “Your covered auto” while being transported between the ports of the above



Mexico is not within the coverage territory. Mexico requires Mexican Insurance from an authorized Mexico insurer. While the ISO Personal Auto Policy Program allows the use of the **LIMITED MEXICO COVERAGE (PP 03 21)**

endorsement, it does not meet the Mexican auto insurance requirements. The endorsement requires the insured to also purchase liability coverage through a licensed Mexican insurance company for the endorsement's coverage to apply. The word, “limited,” in the endorsement, supports the limitations of coverage as determined by the location of the loss and the length of time the vehicle has been in Mexico.





The border zone, also known as the “free zone” (*zona libre*), is a buffer area along the northern Mexico and U.S. border where

Mexican auto insurance is not required. Beyond this area, non-Mexican residents driving into Mexico are required to have a Temporary Vehicle Import Permit (TIP). It is illegal to travel outside of the free zone without a TIP.

There are specialty carriers that offer automobile insurance to travelers abroad. Coverage is also often available for purchase from rental car companies should the client rent a vehicle while traveling abroad. Another quick tip: an Umbrella Policy (depending on the form) is usually worldwide coverage and may provide clients with excess coverage to the foreign auto coverage they purchase.

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.

Transfer of Your Interest in this Policy

The insured does not have the right to assign this policy or their rights and duties under the policy over to another person. This is commonly known as assignment, assignment of rights, or in some instances assignment of benefits. This shifts the contractual rights, duties, and/or benefits of the policy from the insured to another party. Assignment of the policy is **ONLY** allowed with the insurance company’s written consent.

Should the named insured die, policy coverage will apply to the surviving spouse—if a resident of the same household—and/or their legal representative, as if each was a named insured, until the end of the policy period.

TRANSFER OF YOUR INTEREST IN THIS POLICY

A. Your rights and duties under this Policy may not be assigned without our written consent. However, if a named insured shown in the Declarations dies, coverage will be provided for:

1. The surviving spouse if resident in the same household at the time of death. Coverage applies to the spouse as if a named insured shown in the Declarations; and
2. The legal representative of the deceased person as if a named insured shown in the Declarations. This applies only with respect to the representative’s legal responsibility to maintain or use “your covered auto”.

B. Coverage will only be provided until the end of the policy period.

TWO OR MORE AUTO POLICIES

Section 5: Coverage for Damage to Your Auto

Part F – General Policy Provisions (All nine)	
Bankruptcy	Bankruptcy or insolvency of the “insured” shall not relieve us of any obligations under the policy.
Changes	The policy contains all agreements between the insured and the insurance company. Terms of the contract can only be changed or waived by an endorsement issued by the insurance company.
Fraud	There is no coverage for any “insured” who has engaged in fraudulent activity in connection with any accident or loss.
Legal Action Against Us	Legal action may not be made against the insurance company unless all terms of the policy have been complied with.
Our Right to Recover Payment	This provision gives the insurance company the right to seek recovery from another for the loss payment it made (commonly referred to as subrogation).
Policy Period and Territory	A loss must occur within the U.S., its territories or possessions, Puerto Rico, or Canada during the policy period.
Termination	<p>This section of the policy states the requirements for a policy to be canceled or non-renewed.</p> <p>This section is state-specific and is typically changed by a state’s Amendment Of Policy Provisions endorsement.</p>
Transfer of Your Interest in this Policy	<p>The insured does not have the right to assign this policy over to another person. Assignment of the policy is allowed only with insurance company’s written consent.</p> <p>If the named insured dies, coverage applies to the surviving spouse—if a resident of the same household—and/or the legal representative, as if each was a named insured, until the end of the policy period.</p>
Two or More Policies	If the insurance company has issued two or more auto policies to you, it will not be liable for more than the highest limit of liability on any one policy.





Knowledge Check



Directions: Read the scenario below and respond with how you would advise your client. Explain your reasoning.

Your client just returned from a trip to Canada, and they are ready for their next adventure—Mexico! Planning even further ahead, they will soon be driving through the country hills of England. In fact, they are so excited they do not even seem concerned enough to ask any questions about their insurance. What should you inform your client of, if anything, about where their policy coverage applies?

Endorsements in this Section



PET INJURY COVERAGE (PP 33 31)



CHILD RESTRAINT SYSTEM COVERAGE (PP 33 30)



**KEY REPLACEMENT AND RELATED SERVICES COVERAGE
(PP 33 27)**



AUTO LOAN/LEASE COVERAGE (PP 03 35)



**COVERAGE FOR DAMAGE TO YOUR AUTO (MAXIMUM LIMIT OF
LIABILITY) (PP 03 08)**



REPLACEMENT COST COVERAGE (PP 33 10)



FULL SAFETY GLASS (PP 33 05)



LIMITED MEXICO COVERAGE (PP 03 21)

Summary

In this section, you learned that the purpose of Part D – Coverage For Damage To Your Auto is to provide clients with coverage for damages that may occur to the automobile(s) they drive. For coverage under this part of the policy to apply to vehicles shown in the Declarations page, coverage must be purchased and shown in the Declarations page for that particular vehicle.

The Insuring Agreement promises to pay for direct and accidental damage to a “your covered auto” or a “non-owned auto” that results from “Collision” or Other Than “Collision” losses (when coverage is purchased). For each coverage, and each vehicle, a deductible is selected by the client; this is the portion of any loss the policyholder agrees to pay.

- “Collision” coverage relates to damage caused by the vehicle’s impact with another object.
- Other Than “Collision” encompasses losses that do not result from impact (such as weather losses, fire, theft, and more).

While vehicles in the Declarations page (“your covered auto”) receive the specified coverage(s) selected for each vehicle, “non-owned autos” will receive the broadest coverage selected for any “your covered auto.” This means “non-owned autos” receive the lowest deductible of coverage(s) purchased.

As with other parts of the Personal Auto Policy, coverage exclusions are present which limit or remove coverage. The ISO 2018 Personal Auto Policy contains sixteen exclusions for Part D – Coverage For Damage To Your Auto. Don’t worry though—various endorsements can be offered to add back coverage to the policy.

Certain policy provisions are present that apply to this coverage part as well. They are:

- Limit of Liability
- Payment of Loss
- No Benefit to Bailee
- Other Sources of Recovery
- Appraisal

Following Part D – Coverage for Damage To Your Auto are two more parts to the policy that apply to the entire Personal Auto Policy. They are:

- Part E – Duties After An Accident or Loss
- Part F – General Provisions

Part E – Duties After An Accident or Loss outlines the duties of the insured or any person seeking coverage under any of the policy coverage parts and states that failure to follow these duties (if prejudicial to the carrier) could result in the carrier having no duty to provide coverage.

Part F – General Provisions apply to the entire policy and ensure that provisions and coverage of the policy are applied or carried out fairly and according to state regulation and the carrier’s desires.

Section 5: Coverage for Damage to Your Auto

In the next section, you will explore one of the most common questions clients have: “Does my policy cover me when I am driving a rental vehicle?” You will explore how the ISO Personal Auto Policy responds when clients are operating rental vehicles and what other coverage options they may have.

Resources

Important concepts related to the Learning Objectives in this chapter are summarized in separate videos. Online participants can use the links to access the videos. Classroom learners can access the videos at [scic.com/PAResources](https://www.scic.com/PAResources).



“Collision” and Other Than “Collision”



Exclusions – Coverage for Damage to Your Auto



The following is a video resource from The National Alliance glossary resource.

What is Actual Cash Value in insurance?

<https://www.scic.com/insurance-glossary/actual-cash-value/>

Section 5 Self-Quiz

Directions: Read each question below and select the correct answer.

1. Eloise wants to understand what types of damages her policy provides coverage for as it pertains to her own vehicle. As her agent, you advise the policy covers damage which is:
☐ Indirect and accidental
☐ Direct and intentional
☐ Direct and accidental
☐ Indirect and intentional
2. Dennis' car was speeding along some neighborhood back roads when he lost control of the car and crashed into a tree. This is defined as a(n) _____ loss.
☐ Other than "Collision"
☐ "Collision"
☐ peril
☐ indirect
3. Of the following, which one would NOT be considered an Other Than "Collision" loss?
☐ Riot or civil commotion
☐ Explosion or earthquake
☐ Missiles or falling objects
☐ Impact with a tree
4. Select the statement that is true concerning "non-owned autos" other than those considered a temporary substitute.
☐ They must be private passenger autos, pickups, vans, or "trailers" that are not furnished to a you or "family member" for regular use.
☐ They must be available for regular use by a you or "family member."
☐ They cannot be rented for business trips.
☐ They cannot be lent for one-time use as company cars.
5. Mitch lives near the beach in a house without a garage. Parked outside and repeatedly exposed to the salty air, Mitch's battery cables on his car corroded. This would be an example of which exclusion for Coverage For Damage To Your Auto?
☐ Electronic Equipment Exclusion
☐ Custom Equipment Exclusion
☐ Wear and Tear, Freezing, Mechanical Breakdown, or Road Damage Exclusion
☐ Prolonged Elements Exposure Exclusion

Section 5: Coverage for Damage to Your Auto

Directions: Read each statement below and select whether it is True or False.

1. Ed's car broke down and he has been given a loaner car to use in the meantime. This would be an example of a temporary substitute for a "your covered auto."

True

False

2. Iris owns two cars, and both of them are insured on her policy. Only one is listed as having Collision coverage in the Declarations page. Regardless, both of Iris' cars will be covered in the event of a collision.

True

False

3. Since getting in a car accident that landed his car in the shop, Xavier must resort to taking the bus to and from work each day, incurring a daily expense in bus fares. This transportation expense would be covered by Xavier's PAP.

True

False

4. "Non-owned auto" coverage is provided for expenses the insured is legally responsible for due to loss related to a "non-owned auto," but only when "Collision" or Other Than "Collision" has been purchased for at least one vehicle on the policy Declarations.

True

False

5. The OPTIONAL LIMITS TRANSPORTATION EXPENSE COVERAGE endorsement provides coverage for transportation expenses and expenses for lodging and meals in the event of a mechanical or electrical breakdown.

True

False

Section 5: Coverage for Damage to Your Auto

Directions: Look at the table below and select the correct letter to match each term with the appropriate description.

_____ The insurance company has the authority to choose to pay the insured directly for a loss, or the carrier may choose to repair or replace damaged or stolen property.	A. Actual cash value
_____ Property's replacement cost less an allowance for depreciation, wear and tear, or obsolescence	B. Bailee
_____ When a client fails to maintain coverage for damage to their auto, the lienholder may purchase coverage for the vehicle and require the client to pay for that coverage as part of their loan repayment.	C. Forced placed coverage
_____ The insured doesn't have the authority to transfer their policy or rights and duties of the policy over to another person without written consent of the insurance carrier.	D. Payment of Loss provision
_____ Person or organization that has possession of the property of others	E. Assignment of rights

Directions: Read the question below and provide your response in a sentence or two.

Explain how the policy period and coverage territory impacts where and when the Personal Auto Policy provides coverage.

Section 5: Coverage for Damage to Your Auto

Section 6: Coverage for a Rented Vehicle

Section Goal

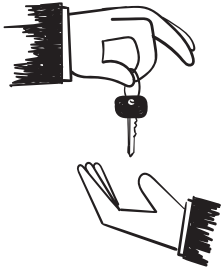
In the previous section of this Learning Guide, Section 5: Coverage For Damage To Your Auto, you gained competency in applying “Collision” and Other Than “Collision” coverage to various exposures which may apply to policyholders. You also became familiar with policy provisions outlining duties and expectations that apply to persons seeking coverage from the policy—whether they be the policyholder, other “insured,” or a claimant.

The goal of this final section is to provide you with the knowledge and skills needed to present your clients with sufficient information to make informed decisions concerning the need to obtain additional coverage when renting a vehicle.

Learning Objectives

- *Identify the responsibilities clients have when renting a vehicle and explain the coverage provided by the ISO Personal Auto Policy and the coverage gaps created.*
- *Demonstrate an understanding of additional options that are available to cover damage to a rental vehicle and describe the protection provided by each option.*

Introduction



A question commonly asked by clients looks something like this: “We’re going on vacation tomorrow and renting a car. We want to make sure our auto insurance covers everything we need. Does it?”

The likelihood of a client ever needing to rent a vehicle is pretty high. According to a recent study, there were 2.3 million U.S. rental cars in service, over 20,000 U.S. rental car locations, and over \$28 million generated from rental vehicles in the United States.

Unfortunately, many clients are unaware that in the event of a loss, they may be financially responsible for damage to the rented vehicle. They may not receive accurate information from the rental company employee regarding the rental contract obligations and/or the insurance protection the client’s Personal Auto Policy provides for a rental vehicle.

Clients may believe:

- Their personal auto insurance “takes care of everything.”
- Their credit card “takes care of everything.”
- Nothing will happen to the vehicle during the rental period.

What exactly is the client responsible for? We will begin by looking at the rental contract.

The Rental Contract

Learning Objective

- *Identify the responsibilities clients have when renting a vehicle and explain the coverage provided by the ISO Personal Auto Policy and the coverage gaps created.*

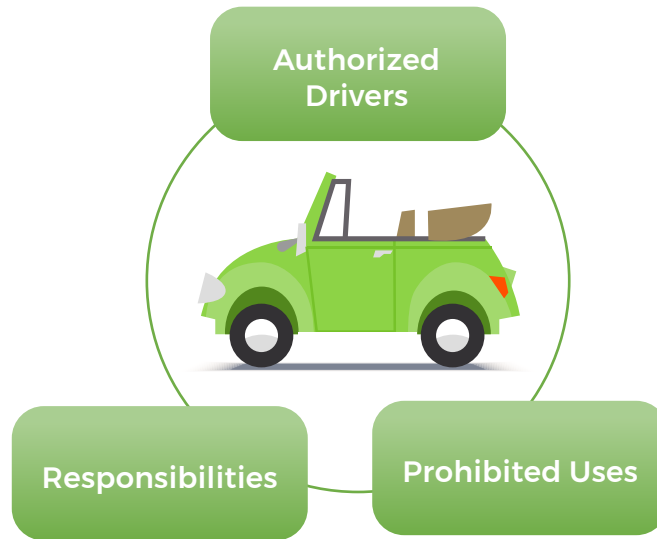
The rental contract consists of three primary requirements from the renter (outlined in the following diagram). Failure to comply with any of these requirements is a violation of the rental contract and may void any protection from the rental company. When renting a vehicle, clients need to understand these requirements to avoid the financial responsibility falling directly on them due to breaching the rental agreement.

Many clients do not read the rental agreement when picking up their rental vehicles; after all, they are ready to continue their vacation or business trip. In addition to that, the print size of rental agreements may make them difficult to read even when clients want to. Finally, employees of rental agencies may not know what a contract is holding the clients responsible for in the event of damage to the vehicle.



Section 6: Coverage for a Rented Vehicle

The three primary requirements from the renter include (1) understanding who is considered an authorized driver, (2) prohibited uses of the rental vehicle, and (3) the renter's responsibilities while a vehicle is rented to them.



Authorized Drivers

Only authorized drivers may operate the rental vehicle. There may be others who are automatically considered an authorized driver, such as members of the renter's immediate family, business, employer, etc. This should be stated in the rental agreement.

Ideally, it is in the renter's best interest to have all potential drivers of the rental car listed in the rental agreement to avoid potential coverage disputes with the rental company or the Personal Auto Policy.

Prohibited Uses

Types of uses that are prohibited will vary by the rental vehicle agency and the location of the rental at the time of a loss. Examples of prohibited use might include but are not limited to the following (taken from various rental vehicle contracts):

- Engaging in willful or wanton misconduct, which, among other things, may include reckless conduct, such as: the failure to use seat belts; the failure to use child seats or other child restraints where legally required; use of the car when overloaded or carrying passengers in excess of the number of seat belts in the car; use of unpaved roads or on roads which are not regularly maintained; refueling the car with the wrong type of fuel; leaving the car and failing to remove the keys; failing to close and lock all doors, car windows, or the trunk
- Driving or operating the rental car while using a hand-held wireless communication device or other device that is capable of receiving or transmitting telephonic communications, electronic data, mail, or text messages while not in a hands-free mode
- Carrying passengers or property for hire

Section 6: Coverage for a Rented Vehicle

- Being operated by someone who is not an authorized driver
- Being operated by anyone who is intoxicated or under the influence of any substance that impairs driving ability
- Being operated during the commission of a felony or for the transportation of illegal drugs or contraband
- Driving in or through any underpass or other object where there is insufficient clearance, whether of height or width
- While on specified highways (Alaska: Denali, Dalton, etc.; Hawaii: Road to Hana, etc.)

Responsibilities

Commonly, persons renting a vehicle are responsible for the rental vehicle being returned in the same condition in which it was received. This means the renter is responsible for whatever happens to the vehicle while it is in his or her custody. There may be exceptions for normal wear and tear or acts of nature, but other than the cited exceptions, the renter is responsible for all damage to the rental vehicle.

Encourage clients to do a thorough inspection of the vehicle prior to leaving the rental facility. Doing so will help prevent a client from becoming financially responsible for prior damage. Areas to check include cracks or dings in the windows; scrapes, scratches, or dings in the body; the top of the vehicle for hail damage; missing floor mats, hubcaps, spare tire/jack; damaged interior; etc.

Since the rental contract often holds the renter responsible for damages to the rental vehicle, let's take a look at two categories of damages the client should be aware of:

Direct damages are those such as the cost to repair physical damages to or the replacement value of the rental vehicle.

Indirect damages are those which are incidental or consequential to a direct loss. They are types of damages that are often overlooked and/or misunderstood by individuals renting vehicles. Collectively, they can add up quickly.

Section 6: Coverage for a Rented Vehicle

Consider the following acronym (L.A.D.) for common indirect damages:



Loss of Use for the days the rental vehicle is not available to be rented because of the damage—

The daily rate charged to the client during this time may be higher than the rental contract rate. The rental agency may have to prove it lost revenue due to the unavailability of the vehicle before holding the client financially responsible.



Administrative Expenses charged for claims processing that is often based on a percentage of the total amount of damage—

Many rental companies outsource their claims handling to a third party. The cost of outsourcing may be passed to the client in the form of an administrative fee.



Diminution (di-muh-noo-shun) in value or loss of turn-back value—

Many rental agencies have contractual arrangements with auto manufacturers to buy back a rental car at a price that is higher than what the rental agency could expect if selling it retail or at an auction. The previously agreed-upon turn-back value between the auto manufacturer and the rental agency may be reduced if the vehicle is damaged, even if the vehicle is repaired. Some contracts include a percentage (for example, 10 percent) of the total amount of damage for diminution in value.

Check-In



Directions: Answer the questions as True or False.

1. When renting a vehicle, anyone may drive the vehicle with the permission of the person who rented the vehicle.

True

False

2. According to the rental agency contract, persons who rent vehicles are not responsible for damage caused by someone else.

True

False

3. It is impermissible to use rental vehicles for transporting passengers or delivery of goods (rideshare or pizza delivery, for example).

True

False

4. Direct damages are physical damages that occur to a vehicle.

True

False

5. Indirect damages are damages that are caused by accident and not directly involving the person who rented the vehicle.

True

False

Options for Coverage

Clients may have multiple options for coverage available to them when renting a vehicle. The insurance professional should be familiar with these options so they can properly advise their clients. Let's take a look at a summary of each coverage before exploring them individually.

- **Client's Personal Auto Policy**

Insurance professionals should advise clients of any potential coverage gaps in their policy and offer suggestions for options to protect themselves properly.

- **Purchase Collision Damage Waiver/Loss Damage Waiver (CDW/LDW) from the rental vehicle agency**

This may be the most comprehensive option for the client. Purchasing CDW/LDW coverage through a rental agency does add a significant cost to the rental, which is why clients frequently ask if this rental coverage option is necessary or if they already have proper coverage through other means.

- **Credit card coverage**

The credit card a client uses to rent a vehicle may provide some coverage. Coverage does vary by credit card company, thus, insurance professionals should refer the client to the credit card company for coverage details.

- **Out-of-pocket, also known as retention**

- **Combination of the above**

Let us look at the details of each of these options.

Personal Auto Policy and a Rental Vehicle

Clients frequently call their insurance agents or companies to ask about their coverage for a rental vehicle. Insurance professionals should advise clients of any potential coverage gaps in their policy and offer suggestions for options to protect themselves properly.

When analyzing a policy for coverage, the insurance professional needs answers to the following questions:

- What is the purpose of the rental—personal or business?
- Who is renting the vehicle?
- What type of vehicle is it? Private passenger auto, pickup, van, or motor home?
- Length of rental—could it be considered a vehicle furnished or available for regular use?



Section 6: Coverage for a Rented Vehicle

- Will the vehicle be rented within the coverage territory? Or outside of the coverage territory?
- Who will be driving—does the insured expect all drivers to be covered under his/her Personal Auto Policy?

Let's review the coverage provided by the Personal Auto Policy for a rental vehicle, including potential coverage gaps.

Part A – Liability



Liability Coverage is provided for the **you** and any “family member” for the ownership, maintenance, or use of any auto or trailer. Unless excluded, bodily injury and property damage liability coverage for the rental vehicle are provided on an excess basis for an occurrence in the policy territory.

For the ISO Personal Auto Policy, damage to the rental vehicle cannot be covered under Part A – Liability Coverage due to the exclusion for damage to property rented to, used by, or in the care of that insured. However, each state’s Amendment of Policy Provisions and/or insurance carrier may address this differently:

- Some states require the damage to the rental vehicle be covered under liability, and the policy is revised accordingly.
- Some insurance companies cover damage to the rental vehicle under property damage liability as a coverage advantage.
- If the damage to the rental vehicle is covered under property damage liability, the limits must be sufficient to cover both the damage caused BY the rental vehicle and the damage (direct and indirect) TO the rental vehicle.

If the vehicle is being used for business purposes and it is not a private passenger auto, pickup, van, or trailer used with any of these, Liability is excluded. This includes a motor home, large truck, etc.



While the ISO policy covers business use of non-owned pickups and vans, it may be excluded in carrier-specific policies.

Finally, with respect to Liability Coverage, if the rental vehicle is considered furnished or available for regular use, Liability is excluded.

Part B – Medical Payments Coverage/Personal Injury Protection and Part C – Uninsured/Underinsured Motorists Coverage

Medical Payments, Personal Injury Protection, and Uninsured/Underinsured Motorists Coverage is provided for a **you** and any “family member” for the ownership, maintenance, or use of ANY auto or trailer.

Part D – Coverage For Damage To Your Auto

“Non-owned autos” will receive the broadest coverage purchased for any vehicle in the Declarations page. Thus, if at least one vehicle in the Declarations has “Collision” and Other Than “Collision” coverages, these coverages will be provided for a rented “non-owned auto.” So, no coverage purchased on the policy means no coverage for the rental vehicle.



Do not forget that Part D – Coverage for Damage To Your Auto specifically defines what is considered a “non-owned auto.” In Section 5 of this course, we identified that there are two categories of “non-owned autos”: (1) other than a temporary substitute, and (2) a temporary substitute. Temporary substitutes may be ANY non-owned auto or “trailer” while a “your covered auto” is out of service for specified reasons. However, if the rented auto does not qualify as a temporary substitute, then, for it to be considered a “non-owned auto” and receive Part D coverage, the vehicle must be a private passenger auto, pickup, van, or a “trailer” used with connection with those vehicles—but these are only “non-owned autos” while being operated by a you or “family member.” Again, a vehicle being used as a temporary substitute for a “your covered auto” is not limited to these named body styles.

Coverage for indirect damages may be found in the Transportation Expenses section. Transportation Expenses provides up to a maximum of \$900 for expenses for which a **you** becomes legally responsible due to a loss to a “non-owned auto” and *may* include the following:

- A sublimit of \$30 per day for loss of use (\$900 maximum per loss)
- Loss of turn-back, if required by the rental agreement (diminution of value)
- Administrative fees (claim handling, processing, etc.)

While loss of turn-back and administrative fees might be covered in the ISO Personal Auto Policy, many insurance carriers explicitly exclude these indirect damages.

Part D coverage for the non-owned rental vehicle is subject to any exclusions that may apply (wear and tear, road damage, electronic equipment, “custom equipment,” usage, etc.).

Limit of Liability (Loss Settlement)

For Part D – Coverage For Damage To Your Auto, the policy will pay the lesser of the actual cash value of the rental vehicle, or the amount necessary to repair or replace with like kind and quality. This does not include diminution in value (some states require diminution in value be provided in Part D). This may be insufficient when a rental agreement requires replacement cost.

Electronic equipment and “custom equipment” are covered, however, there are sublimits of \$1,000 for permanently installed electronic equipment not in a place used by the auto

Section 6: Coverage for a Rented Vehicle

manufacturer and \$1,500 for custom equipment. And, if the rented property is a non-owned “trailer,” a sublimit of \$1,500 applies.

Part E – Duties After An Accident Or Loss

The policy requires the insurance company to be able to inspect and appraise damaged property before it is repaired or disposed. Rental vehicle agencies may have the damage repaired without allowing this inspection.

Part F – General Provisions

Policy Period and Territory

An accident/loss with a rental vehicle must occur during the policy period and within the coverage territory for coverage to apply. The Personal Auto Policy coverage territory is the U.S. and its territories and possessions, Canada, Puerto Rico, and between the ports of these locations. Clients renting vehicles outside of the coverage territory will not have coverage.

There are specialty carriers that offer automobile insurance to travelers abroad. Coverage is also often available for purchase from rental car companies should the client rent a vehicle while traveling abroad.



▶▶ Knowledge Check



Directions: Read the scenario and explain how Steve’s policy will respond to all damages.

Steve insures his car on a Personal Auto Policy that provides Liability, Medical Payments, UM/ UIM, Other than Collision, and Collision coverages. Steve rents a large U-Haul box-truck to transport furnishings from his home to a storage unit. While parking the truck, Steve hits his neighbor’s car. Explain how Steve’s policy will respond to damage to the neighbor’s car and damage to the U-Haul truck.

Learning Objective

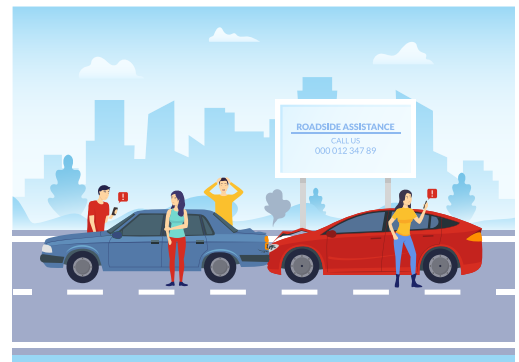
- *Demonstrate an understanding of additional options that are available to cover damage to a rental vehicle and describe the protection provided by each option.*

It’s now understood that the Personal Auto Policy provides coverage for direct damage to private passenger autos, pickups, vans, or “trailers” a client rents. Depending on the policy language (as each carrier may be different), there may or may not be coverage for indirect damages like diminished value or administrative expense.

Let’s now explore other coverage options available for providing coverage for rental vehicles.

Collision Damage Waiver (CDW) or Loss Damage Waiver (LDW)

Rather than relying on the coverage from their Personal Auto Policy, clients could choose to purchase Collision Damage Waiver or Loss Damage Waiver (CDW/ LDW) from the rental vehicle agency. As mentioned, purchasing this coverage through a rental agency may add a significant cost to the rental reservation, prompting clients to ask if this coverage is really necessary; but this may be the most comprehensive



option for the client. It generally eliminates the uncertainty associated with other sources of coverage mentioned in this section.

Advantages of Purchasing CDW/LDW



Purchasing the CDW/LDW does come with some advantages to the client. Think about limits on electronic equipment, “custom equipment,” or limitations to non-owned trailers. What if the Personal Auto Policy does not cover the entire loss? The CDW/LDW releases the client from their financial responsibility for damage caused to the auto—not just a limited amount of the loss. The client may find peace

of mind in purchasing the CDW/LDW, knowing that they will not be financially responsible for the damages. They might be able to drive a little easier and worry a little less about whether they caught all the dings in the vehicle during their initial inspection.

Another advantage a client may find with the CDW/LDW is how much time and energy they may save over having to file a claim with their insurance carrier. Of course, the client will need to provide the rental agency with the details of the loss; however, protection through the rental company eliminates the need for the renter to look elsewhere for possible coverage, greatly reducing the client’s claim responsibilities (recall the PAP’s provision, Duties After An Accident or Loss).

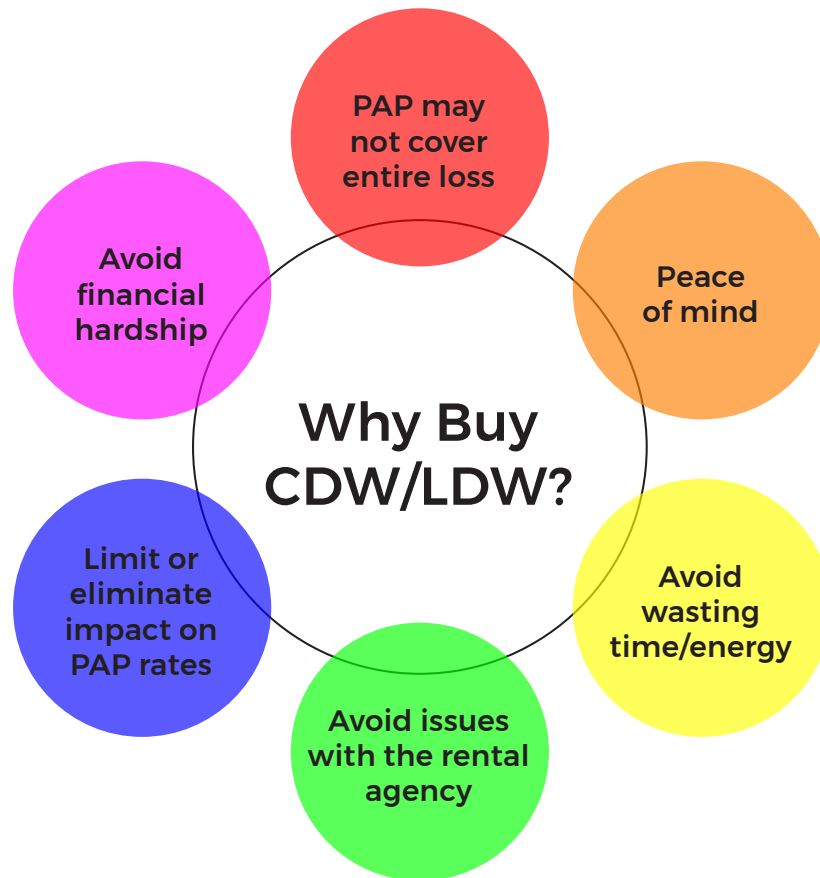
The CDW/LDW may also help the client avoid issues with the rental agency, such as when rental companies charge for damage without the expressed consent of the client. The client’s credit card is on file and the client likely agreed, by way of the rental agreement, for that credit card to be charged for any damages found once the rental vehicle is returned. The loss of use that may come with repairing the vehicle or the administrative fees for handling the damage could also be charged to the client. Purchasing the CDW/LDW will help avoid unexpected charges.

Let’s look at one more advantage of purchasing the CDW/LDW. The client may not have to file a claim on their own insurance, thereby avoiding an impact on their policy rates. Depending on the type of claim, this could be significant. Colliding with another object (like a traffic cone, guardrail, or maybe a tree) will be filed as a “Collision” claim and may even be described as an at-fault accident. Collision claims generally carry a high probability of increasing the client’s rates at the next renewal. What if the claim is something like spilling a sticky (or stinky) liquid in the car or leaving the windows down during a rainstorm and causing extensive water damage? This might not affect policy rating as much as an at-fault accident, but in the client’s mind, any increase is too much. Even if the policy rate itself is not impacted, the client may carry what is known as a claim-free discount on their policy; even small claims will remove this discount, causing a perceived increase in rates.

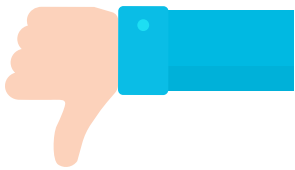
Overall, purchasing the Collision Damage Waiver or Loss Damage Waiver from the rental car agency will help put the client at ease knowing that, for a minimal cost, they will not have to use their own financial resources (money or Personal Auto Policy) to pay for any part of the direct or indirect loss to a rental vehicle.

Section 6: Coverage for a Rented Vehicle

Review the following diagram below as a summary of what you just learned.



Disadvantages of Purchasing CDW/LDW



Now, let's explore some of the disadvantages of purchasing CDW/LDW. Understand that CDW/LDW coverage is not insurance; it is an agreement (a hold harmless agreement) to hold the renter harmless in the event the rented vehicle is damaged. The agreement is that if the renter/client complies with the contractual requirements of the rental agency, he/she would not be responsible for any direct damage or indirect damage to the rental vehicle. This means the renter must understand the rental contract, as it contains exclusions and/or limitations that may void the CDW/LDW if the renter violates the rental contract. Ask your client if they plan on reading the rental agreement. Make sure they understand their responsibilities so that CDW/LDW remains valid. The obvious disadvantage here, as mentioned previously, is that many clients, in fact, do not read their rental agreements.

Another disadvantage of the CDW/LDW option is the cost. The daily charge for CDW or LDW coverage varies by rental agency, the location of rental, and the type of vehicle rented. The cost can range anywhere from \$6.99 per day to over \$29.99 a day. It is this cost that can be a deterrent to purchasing this protection, especially for an extended rental period.

Liability coverage, or coverage for injury or property damage to others, is not provided with the purchase of CDW or LDW, however, rental companies may offer it for yet another fee.

Section 6: Coverage for a Rented Vehicle

Liability coverage through the rental company is typically more expensive on a per-day basis than rates through a Personal Auto Policy. When traveling abroad, rental agencies are the most common source for purchasing coverage that is not provided by the Personal Auto Policy outside of its coverage territory.

Credit Card Coverage

Relying on the rental vehicle coverage provided by a credit card may be another coverage option for the client. Insurance professionals should make their clients aware that relying on a credit card may not deliver the protection they are counting on. While credit card coverage may provide coverage for Collision and theft, Liability and Personal Injury Protection (PIP) are usually *not* covered.



For example, if the rental vehicle contract is between the rental agency and the client's son, but paid-for by the client with their credit card, coverage provided by the client's credit card may not apply to the rental. *Why not?* This is because the client is not the signor on the rental contract. As long as the rental agreement signor and the cardholder are the same, the coverage may also extend to other approved drivers.

Many credit card agreements are vague about the coverage provided and instruct the cardholder to call the credit card company to find out what is covered. Coverage may not be available depending on a range of factors:

- the length of rental,
- location of rental,
- age of the vehicle and/or value of the vehicle (most luxury cars are not eligible).

Most credit cards also require that the renter decline the CDW/LDW offered by the rental agency, and coverage is often provided on a reimbursement basis with coverage being excess over the client's Personal Auto Policy. If coverage is offered on a primary basis (meaning before any other coverage), the client will be able to submit a claim right away.

Liability coverage is very rarely provided with credit card coverage, so if the client is at fault for an accident involving injury or property damage to others, there is likely no coverage.

Insurance professionals should take care *not* to counsel clients on the coverage provided by a credit card.

Out of Pocket (Retention)



A client always has the option of being personally responsible for any or all financial consequences when renting a vehicle. The cost of minor damages might be bearable for the client. If clients are provided sufficient information

to allow them to make informed decisions and they choose this option, it is considered **active retention**. They know, in advance, the possible financial consequences. If, however, they were unaware of the potential financial impact with this option, it is considered **passive retention**—which is not good!

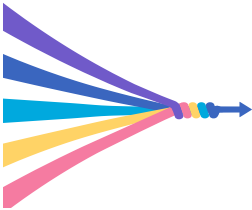
Active Retention:

Planned acceptance of losses to be financed internally through the use of deductibles on insurance policies, loss-sensitive insurance plans, and deliberate non-insurance

Passive Retention:

Unplanned acceptance of losses because of failure to identify risk, failure to act, or forgetting to act

Combination



Using any combination of the previously discussed options is also an option. Relying on both the Personal Auto Policy and credit card coverage is an example of this option. The client will need to understand the coverage provided by each option, how they may or may not work together, and who will be responsible for handling the processes of each.

Check-in



Directions: Use the words in the word bank to fill in the blanks. Words may be used more than once or not at all.

Word Bank

rental agency	active retention	Liability coverage
hold harmless	coverage	credit card company
insurance carrier	passive retention	Collision coverage

- Purchasing the Collision/Loss Damage Waiver through the _____ may add a significant additional cost to the total cost of a rental vehicle.
- Clients may choose to pay out-of-pocket for damage to a rental vehicle. When they are informed on this decision, this is known as _____.
- A(n) _____ may require that the renter decline the CDW/LDW.
- The CDW/LDW is not insurance; rather, it is a _____ agreement.
- Using the Personal Auto Policy and _____ offered by a _____ is an example of combining coverage options for damage to a rental vehicle.
- _____ is not usually offered with the CDW/LDW or by credit card companies.

Coverage Options For Rental Vehicles



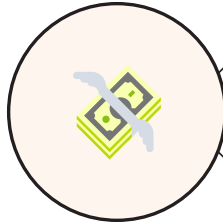
Personal Auto Policy



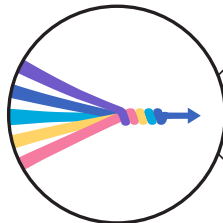
*Collision/Loss Damage Waiver
through rental agency*



Credit card coverage



Out-of-pocket (rentention)



Combination of the above

The Best Response?

Now that you've weighed all of the options, you may be left wondering what is the right response for a client wondering what they should do or whether they have coverage for damage to a rental vehicle.

One response could be:



"While your Personal Auto Policy may provide coverage similar to driving your own vehicle, there may be limitations. The vehicle rental agreement holds you legally responsible for items that may not be covered, such as the administrative fees they charge for any loss you may have with the vehicle; the daily rate for the vehicle while it can't be rented due to repairs/destruction; and the depreciated value of the vehicle after the repairs are made."

Purchasing the CDW/LDW waives your financial responsibility for damage to the rental vehicle, which includes administrative fees, loss of use, and diminished value. If you decide to purchase the CDW/LDW, be sure to read the rental agreement and comply with the rental contract requirements."

Another response could be:



"Your Personal Auto Policy may provide coverage similar to driving your own vehicle, but if the damage is minimal and no other parties are involved, you may consider paying for the damage out-of-pocket."



But understand that you will never go wrong with ensuring that your clients are provided with enough information about their options that allows them to make an informed decision.



Knowledge Check



Directions: Read the scenario below and respond with how you would advise your client. Be sure to explain your reasoning.

Quick! Your client is standing at the counter of a rental vehicle agency in another state, and they have called you for advice. This is their first time renting a vehicle and they are getting overwhelmed about coverage options and waivers being offered to them before they can get their keys. Another customer in line tells them not to let the rental company take any more of their money because their auto policy will pay for any damage. As an experienced insurance professional informed on the various other coverage options available when renting vehicles, what could you say to your client to help them make an informed decision?

Endorsements in this Section

There were no additional endorsements discussed in this section.

Summary

The purpose of this section—Coverage for a Rented Vehicle—is to ensure that you can answer one of the most common questions insurance professionals receive related to personal auto insurance coverage: will the client have coverage for damage to a vehicle they rent?

It is not likely that clients will read the rental contract or agreement when renting a vehicle, but if they did, they would find that they are obligated to various responsibilities and requirements imposed by the rental agency. The primary requirements are that the renter must understand are:

- Who is considered an authorized driver
- Prohibited uses of the rental vehicle
- The renter's responsibilities while a vehicle is rented to them

With possible exceptions for wear and tear or acts of nature, persons renting a vehicle are going to be responsible for whatever damage happens to the vehicle while it is in his or her custody. Not only will the renter be responsible for direct damages to the vehicle, they may also be responsible for indirect damages such as:

- Loss of Use
- Administrative Expenses
- Diminution in value

There are, however, options available to the renter to ease their minds and provide coverage for damage to rented vehicles. These options are:

- Coverage provided by their own Personal Auto Policy
- Purchasing the rental agency's Collision/Loss Damage Waiver
- Coverage offered by credit card companies
- Paying for the damage out of their own pocket
- A combination of options above

For the Personal Auto Policy to provide any coverage for damage to a rental vehicle, "Collision" and Other Than "Collision" coverages must already be purchased and present in the Declarations page. But, as we've discovered throughout this course, the Personal Auto Policy has coverage limitations and exclusions and these will apply to rental vehicles, as well.

Purchasing the rental agency's CDW/LDW may add additional expense to their rental reservation, but it may be the best option to allow the client to enjoy the purpose of their rental with minimal worry. CDW/LDW is not insurance, but a hold harmless agreement that releases the renter from responsibility for both direct and indirect damages, as long as they comply with the terms of the rental contract.

Section 6: Coverage for a Rented Vehicle

Coverage offered through credit card companies varies widely. It generally requires that the renter waive the purchase of the CDW/LDW, is often excess of other coverage, and does not usually include coverage for Liability or Personal Injury Protection. Coverage may also be unavailable for certain locations, a vehicle of certain age/value, or long-term rentals. The client/renter should always contact the credit card company for coverage details.

When damage to a rental vehicle has a minimal cost or if the client/renter has sufficient funds to pay for the damage, paying out-of-pocket is certainly an available option. Various combinations of coverage options may also be utilized.

No matter which option the client chooses, an informed decision is the best decision, and your clients look to you for guidance.

Resources

Important concepts related to the Learning Objectives in this chapter are summarized in separate videos. Online participants can use the links to access the videos. Classroom learners can access the videos at scic.com/PAResources.



Coverage For Rental Vehicles

Section 6 Self-Quiz

Directions: Read each statement below and select whether it is True or False.

1. Greta's insurance agent tells her to be aware of three distinct sections of her rental contract: Authorized Drivers, Prohibited Uses, and Responsibilities. Each of these is a primary requirement of someone interested in renting a vehicle.

True

False

2. The only prohibited uses the rental agreement lists are those related to operation during the commission of a felony or for the transportation of illegal drugs or contraband.

True

False

3. Same state Amendment of Policy Provisions and state regulations may require damage for a rental vehicle be covered under Part A – Liability Coverage.

True

False

4. Evan's vacation has concluded and, unfortunately, he returned his rental vehicle with damage to the bumper. When he receives the invoice for damage, other than the actual cost to repair the damage, he noticed charge for loss of rental totaling \$304.16. This would be an example of indirect damage.

True

False

5. Transportation Expenses provides up to a maximum of \$1,500 for expenses for which a **you** becomes legally responsible due to a loss to a "non-owned auto."

True

False

Section 6: Coverage for a Rented Vehicle

Directions: Read each question below and select the correct answer.

1. Of the choices below, which one would NOT be a reason for why a renter should purchase CDW/LDW?
 - ☐ Peace of mind
 - ☐ To avoid issues with the rental agency
 - ☐ Because it protects them for every kind of loss
 - ☐ To avoid financial hardship
2. When it comes to relying on rental coverage provided by a credit card, coverage might not be available depending on which one of the following factors?
 - ☐ The length of the rental term
 - ☐ The color of the rental car
 - ☐ The electronic equipment inside the rental car
 - ☐ The rental agency
3. Unplanned acceptance of losses because of failure to identify risk, failure to act, or forgetting to act, is the definition for what term?
 - ☐ Active retention
 - ☐ Subrogation
 - ☐ Passive retention
 - ☐ Diminution of value
4. After purchasing the Collision/Loss Damage waiver, Adam is presented with a rental agreement as he prepares to secure a car for his business trip. Glossing over the agreement, Adam signs where he is instructed to, and then sets out to continue his trip. What is a likely consequence of Adam's actions?
 - ☐ The cost! He may have missed hidden fees that will be charged to his credit card.
 - ☐ A waiver of rights! The agreement outlines the rights that Adam has waived during a claim.
 - ☐ Requirements and responsibilities! If Adam is not aware of the responsibilities required of him by the rental agreement, it could nullify the CDW/LDW.
5. An agent is analyzing an auto policy for coverage for a rental vehicle. From the choices below, what is one question this agent should be thinking about?
 - ☐ How fast does the person typically drive?
 - ☐ What rental agency is the person using?
 - ☐ Has this person ever rented a car before?
 - ☐ Will the auto be rented within the coverage territory?

Appendix

Preparing for the Final Exam

For many learners, test preparation is stressful. Please keep in mind that the most important measure of your knowledge will be witnessed in your service to your organization. Think of a test as a tool. Use it to come to an understanding of what you know, how it affects your work, and what more you would like to know to have even greater success in the workplace.

The testing period for the Final Exam is one hour long. The test itself is composed of 50 multiple-choice questions that ask you to demonstrate what you know. Each question is worth two points. To pass, you are required to earn a minimum of 70 out of 100 possible points. Questions appear in the order of presentation of the topics.

Remain aware of the time as you take the test. Pace yourself and be aware that unanswered questions are considered incorrect.

Study Techniques

There are some techniques you can use to help you prepare for the end-of-course test. Apply the same techniques to each chapter in your Learning Guide.

1. Review the Section Goal.
2. Review each Learning Objective.
3. Change each header and subhead into a question. Then answer the question. For example,
Header: Characteristics of Whole Life Insurance
Question: What are some characteristics of Whole life insurance?
4. Review each diagram, graph, and table. Interpret what you see. Ask yourself how it relates to a specific Learning Objective.
5. Check your answers to each Check-In. Correct your original answers, if necessary.
6. Check your answers to each Knowledge Check. Consider ways to improve your original answers.
7. Re-read the summary at the end of each section.
8. Check your answers to each question in the Self-Quizzes at the end of each section. Correct your original answers, if necessary.

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9. Review any comments, highlights, or notes you made in each section.
10. Rewrite important ideas in your own words. Find ways to connect those ideas to your own work experiences.
11. Make flash cards to help you review important vocabulary.

Sample Test Questions

1. Which of the following is NOT covered by Part D - Coverage For Damage to Your Auto in an unendorsed Personal Auto Policy?
 - A. A personal laptop computer stolen out of the back seat of the vehicle.
 - B. A DVD system permanently installed in the vehicle.
 - C. A \$5,000 custom stereo that replaced the manufacture stereo
 - D. New \$500 custom rims
2. Antonio has a Personal Auto Policy with Liability Coverage and both Collision and Other Than Collision coverages. He purchased a second vehicle Friday evening. Monday morning Antonio called to inform you that he hit a deer Sunday night. How will Antonio's policy respond?
 - A. Damage to the auto will be paid under Collision coverage.
 - B. Damage to the auto will be paid under Other Than Collision coverage.
 - C. There will be no coverage for damage to the auto as it was not reported to the carrier prior to the loss.
 - D. Damage to the auto will be paid from the Liability Coverage property damage limit.

Sample 1: The correct answer is **A**.

A personal laptop computer stolen out of the back seat of the vehicle.

Sample 2: The correct answer is **B**.

Damage to the auto will be paid under Other Than Collision coverage.

Glossary of Terms

active retention – planned acceptance of losses to be financed internally through the use of deductibles on insurance policies, loss-sensitive insurance plans, and deliberate non-insurance

add-on no-fault states – typically tort states where Personal Injury Protection benefits must be offered, but are optional

Amendment of Policy Provisions – state-specific modifications to the Personal Auto Policy

arbitration – a process meant for resolving conflict outside of the court system; typically, an agreement to settle a dispute using one or more neutral parties (arbitrators) to assess the facts and make a determination

attachment – an action filed by a plaintiff to ensure they will be paid from property assets of the defendant if the court rules in their favor

bail – a cost imposed by the court as a guarantee that if the person is released from jail, the person promises to appear for their court date

bail bond – way for a defendant to pay the jail to get out of jail until their court date; usually (10%) of the bail

bailee – the party to whom personal property is delivered and entrusted (without transfer of ownership) for a specific purpose

beneficiary – the party that receives a trust's assets when the trustor dies

betterment – repairing or replacing damaged parts of the vehicle (or the vehicle itself) with better quality materials or which have higher value than like kind or quality; the PAP does not intend to provide betterment

choice no fault states – states which allow the consumer to opt-out, in writing, of Personal Injury Protection coverage and retain their rights to sue for injuries; the policyholder must carry certain minimum coverage limits, and they may sue an at-fault party for injuries sustained, regardless of severity; opting-out means the policyholder could be sued for injuries they are responsible for causing

compensatory damages – payment intended to compensate the injured party(ies) for damages incurred; two categories are: (1) special damages—actual measurable costs and (2) general damages—intangible costs such as pain and suffering

coverage territory – the geographical area within which insurance coverage applies

Declarations – the front page (or pages) of a policy that specifies the named insured, address, policy period, location of premises, policy limits, and other key information that varies from insured to insured; also known as the information page; often informally referred to as the “Dec” or “Dec page”

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damages offset – policy language which indicates that damages will be reduced by the amount paid by the at-fault driver's insurance

direct loss – loss incurred due to direct physical damage to property, as opposed to time element or other indirect losses

Financial Responsibility provision – states that the policy will comply with requirements of financial responsibility laws

forced placed coverage – coverage purchased by the lienholder of the vehicle to protect the lienholder's interests when a client fails to maintain coverage for damage to their auto; the lienholder can require the client to pay for that coverage as part of their loan repayment; this coverage is generally more expensive than the coverage the client can purchase, and it only protects the interest of the lender; it does not provide coverage to the client

gap insurance – covers the difference between the ACV of the auto and the loan/lease balance

gig economy – economic activity that involves the use of temporary or freelance workers to perform jobs, typically in the service sector (Merriam-Webster's Dictionary)

GVWR (gross vehicle weight rating) – refers to the maximum weight a vehicle is designed to safely carry according to the vehicle manufacturer and includes the total weight of the vehicle plus passengers, vehicle fluids, accessories, and cargo

grantor – the individual who establishes a trust; also referred to as the trustor, settlor, or creator

indirect loss – loss resulting from the inability to use damaged property

intrapolicy stacking – adding together the limits of multiple vehicles insured on the policy to increase the limit available for a loss; this is generally NOT allowed, but be sure to review your state's Amendment of Policy Provisions as some states/jurisdictions do allow for the stacking of limits

ISO symbol – based on the vehicle's suggested retail price (MSRP) or the price-new symbol; is then adjusted based on actual and predicted claim frequency or severity; used to help carriers match premium to actual and predicted losses for any given vehicle

ISO vehicle rating symbols (VSRs) – numbers assigned to vehicles that represent extensive actuarial facts of historical claims data and the suggested retail price for the same or comparable vehicles

judgment – settlement or final decision from a court concerning the rights or obligations of each party in a suit

lienholder – one who has a financial interest in property—generally a bank or other financial institution, but may also be an individual

lessee – the borrower under a lease agreement who contracts with a financial institution and agrees to pay loan interest

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lessor – the financial institution contracting a lease agreement (e.g., to lease a car)

limits offset – policy language which indicates payment will be reduced by the amount paid by the at-fault driver's insurance

no-fault coverage – coverage that is available regardless of who caused the accident; Personal Injury Protection is an example of no-fault coverage; the intent is to provide quicker payments to injured parties

no-fault states – states in which each driver is responsible for their own medical expenses in an automobile accident, even when someone else is at fault for the accident

Other Insurance provision – confirms that the policy will pay proportionate to the total limit of liability of all applicable limits

passive retention – unplanned acceptance of losses because of failure to identify risk, failure to act, or forgetting to act

personal vehicle sharing program – a formal arrangement that allows members of the program to earn money by allowing others to use their vehicle; may be airport car sharing, peer-to-peer, or business-to-consumer car sharing

phantom vehicle – a “hit-and-run” vehicle which causes an accident without physical contact

Price-Anderson Act – enacted in 1957 to respond to growing concern over the liability and potential costs of nuclear accidents at a time when private nuclear energy investment and development was encouraged

pro-rata share – when a policy pays proportionate to the total limit of liability of all applicable limits

public or livery conveyance – refers to the use of a vehicle for transporting people or goods for a fee (or hire); consider an Uber, Lyft, Taxi, or delivery service

punitive and exemplary damages – meant to make an impact or an example out of gross wrongdoings; generally excessive and shocking for a reason—to discourage others from making the same mistake(s)

release attachment bond – counteracts an attachment and gives back to the defendant control over their asset(s)

residual market – consists of assigned risk and state-offered insurance plans for consumers who are unable to obtain automobile insurance through private insurance carriers, often because of driving history or high risk factors

settlor – the individual who establishes a trust; also referred to as the trustor, creator, or grantor

subrogation – insurance company's right to recover damages (payment already made to the injured party) from the at-fault party

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stacking limits – means that when multiple vehicles are covered on the policy, their limits can be added together to increase the limit available for a loss; NOT allowed under the Personal Auto Policy

strict no fault states – states in which Personal Injury Protection coverage is required; laws generally limit possibilities to sue based on the severity of injuries as defined by that state's regulations

tangible property – touchable property such as a vehicle, a fence, a mailbox, a building, or a utility pole

tort states – states where the at-fault driver is responsible for compensating individuals they injure in an automobile accident; claims are usually not paid until fault is determined or a judgment is rendered in a suit; there are little to no limitations on an injured party's right to sue the at-fault party in a tort state

trigger – the conditions required for coverage to apply

trust – relationship in which one party holds property for the benefit of another party; intended to protect assets and ensure that an appointed beneficiary receives the benefit of using those assets without probate and estate tax implications should something happen to the trust's trustor

trustee – the individual who manages a trust; is often a trustor's attorney or accountant

trustor – the individual who establishes a trust; also referred to as the settlor, creator, or grantor

Underinsured Motorists (UIM) coverage – comes into play when the at-fault party has liability limits that are simply too low to cover the cost of damages

Uninsured Motorists (UM) coverage – protects the client involved in an auto accident with an unidentified (or hit-and-run) vehicle or with an at-fault party where liability insurance is not in place at the time of the accident

utmost good faith – a principal used in insurance contracts; legally obliges all parties of a contract to act honestly and not mislead or withhold critical information from one another

vicarious liability – liability one party brought through the actions of another party