

CISR | COMMERCIAL CASUALTY II

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



THE NATIONAL ALLIANCE
for Insurance Education & Research

Commercial Casualty II

THE CERTIFIED INSURANCE SERVICE REPRESENTATIVE PROGRAM

Commercial Casualty I

Commercial Casualty II

Insuring Commercial Property

Insuring Personal Auto Exposures

Life and Health Essentials

Elements of Risk Management

Agency Operations

Insuring Personal Residential Property

Other Personal Lines Solutions

The National Alliance for Insurance Education & Research

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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 Commercial Casualty II, 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 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 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

The 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 : Workers Compensation and Employers Liability

Section Goal

In this section you will develop an appreciation of an important and legal insurance solution to a common societal problem—work-related injuries. By the end of this section, you will understand how to place workers compensation insurance suitable for an employer.

Learning Objectives

1. Workers Compensation and Employers Liability

- *Identify the purpose of the workers compensation system.*
- *Distinguish between monopolistic and elective states.*

2. The Information Page

- *Identify the purpose of each of the four parts of the Information Page attached to a Workers Compensation and Employers Liability Insurance Policy.*
- *Explain the role of the experience modifier in premium calculation.*

3. The Workers Compensation Benefits and Employers liability Coverage Form

- *Explain the purpose of the General Section in the Workers Compensation and Employers Liability Insurance Policy.*
- *Explain Parts One through Three in the Workers Compensation and Employers Liability Insurance Policy.*
- *Identify four different types of employee benefits provided by most workers compensation laws.*

4. Employers Liability Insurance

- *Identify four types of claims covered by Employers Liability Insurance.*

5. Other States Insurance

- *Explain the purpose of Other States Insurance.*

6. Workers Compensation Endorsements

- *Identify endorsements that respond to federal workers compensation laws.*

Section 2: Introduction to Business Auto Coverage

Section Goal

You will acquire the necessary knowledge to properly trigger desired coverage under the Business Auto Policy.

Learning Objectives

1. The Parts of a Business Auto Policy

- *Name the parts of a Business Auto Policy (BAP).*

2. Definitions

- *Define the key terms found in Section V of the BAP.*

3. BAP Coverage Symbols

- *Identify which coverage symbols are used to trigger desired coverages under the BAP.*

4. Covered Persons

- *Distinguish between those who are and those who are not an insured on the BAP and what situations require specific endorsements to make a party an insured.*

5. Covered Autos Liability Coverage

- *Identify types of liability losses that are not covered by the BAP.*

6. Physical Damage Coverage

- *Describe types of physical damage coverage available under the BAP.*

7. Business Auto Conditions

- *Distinguish between the two types of conditions in Section IV of the BAP.*

Section 3: Excess Liability and Commercial Umbrella Policies

Section Goal

You will acquire the knowledge required to recognize the need for excess liability insurance limits and how Excess Liability and Commercial Umbrella Policies apply.

Learning Objectives

1. Excess Liability and Commercial Umbrella Policies

- *Identify the primary functions of a Commercial Umbrella Policy.*

2. Excess Coverage Forms

- *Describe the functions of four types of Excess Liability Coverage Forms.*

3. Self-Insured Retention (SIR)

- *Explain the role of self-insured retention (SIR) in a given loss situation.*

4. Key Terms and Conditions

- *Describe how the underlying insurance requirement works and the dangers of non-concurrent policies.*

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.

A title identifies each section.

The section’s primary purpose is summarized in the Section Goal.

Section text supports specific learning objectives.

Section 1: Workers’ Compensation and Employers’ Liability

Section Goal

This section will help you develop an appreciation of an important and legal insurance solution to a common societal problem—work-related injuries. By the end of this section, you will understand how to place workers' compensation insurance suitable for an employer.

Learning Objectives

1. Workers’ Compensation and Employers’ Liability

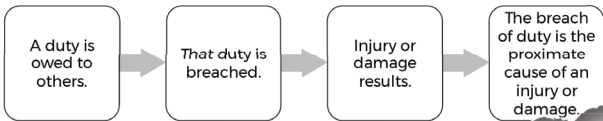
- Identify the purpose of the workers’ compensation system.

Important terms are boldfaced the first time they are used. The terms also appear in the Glossary of Terms.

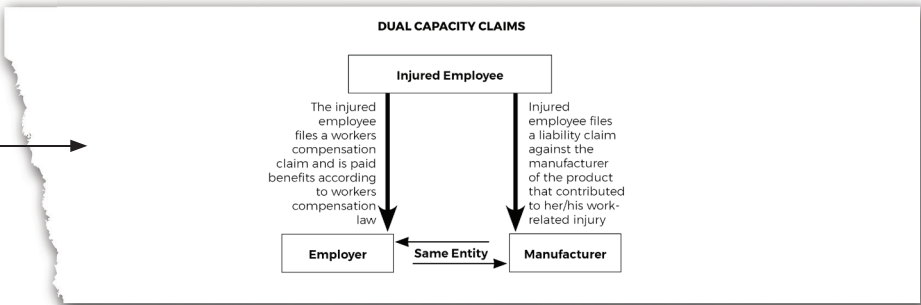
Liability insurance coverage is designed to pay others for the injuries and damage caused by an Insured operating a covered auto. Liability is created when an Insured commits a tort, or a legal wrong done to others. Ultimately, a court decides whether or not a **tort** has been committed. But in most cases, the insurance company adjuster judges how things would turn out if a claim were to go to trial. The adjuster then works with the other party to reach a compromise settlement based upon the evidence and the damage done.

The legal principle of negligence is used to determine whether the operator of an auto is responsible for an accident. **Negligence** has four elements:

The Four Parts of Negligence



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



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

Introduction to Workers' Compensation and Employers' Liability Insurance

The Societal Need for Workers' Compensation

The advancement of industrialization in the U.S. in the early 20th century led to rapid changes in the workplace. Businesses were expanding quickly and new technology was being deployed to increase production and improve efficiency. Public demands for worker protections grew as the number of workplace injuries increased. Traditional legal methods of resolving claims of negligent injury were seen as insufficient to address the needs of employees



Summary

Workers compensation insurance policies are fairly simple, however, why and how they work are firmly rooted in our social and legal past.

Ultimately, state laws created a no-fault system. Workers compensation laws provide employees who are injured in the course and scope of their work with benefits. At the same time, those laws protect employers from employee suits. In short, workers compensation laws established a compromise between employee and employer.

Employee - Advantages of WC

Employer - Advantages of WC

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

Third-Party-Over Action



An employee is injured by piece of equipment. The employee sues the manufacturer. The manufacturer (the third party) files a claim against the employer when it is discovered the employer was aware that the employee removed a safety guard to speed up work or a cleaning process.



Care and Loss of Services



Dependents need care and services an injured parent can no longer provide. Also, a spouse may sue for loss of consortium or harm to the marriage relationship due to the injury.



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

Check-in



Directions: Read each statement. Then select True or False.

1. State workers compensation laws are no-fault systems.

True

False

2. Employer purchase of workers compensation is voluntary in all states but Texas and New Jersey.



Knowledge Check



Directions: What is the experience modifier? Explain its purpose.

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

Section 1 Self-Quiz

Directions: Use the following terms to fill in the blanks.

classification codes	higher	monopolistic	provisions
defined	Information Page	negligence	rehabilitation

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

Glossary of Terms

accident an event or continuous or repeated exposure to the same conditions resulting in bodily injury or property damage.

"auto" a land motor vehicle; "trailer" or semitrailer designed for travel on public roads; or any other land vehicle that is subject to a compulsory or financial responsibility law or other motor vehicle insurance law where it is licensed or principally garaged. An auto does not include "mobile equipment."

Auto Dealers Coverage Form a form designed to insure auto dealers and similar businesses.

Section 1: Workers Compensation and Employers Liability

Section Goal

This section will help you develop an appreciation of an important and legal insurance solution to a common societal problem—work-related injuries. By the end of this section, you will understand how to place workers compensation insurance suitable for an employer.

Learning Objectives

1. Workers Compensation and Employers Liability

- *Identify the purpose of the workers compensation system.*
- *Distinguish between monopolistic and elective states.*

2. The Information Page

- *Identify the purpose of each of the four parts of the Information Page attached to a Workers Compensation and Employers Liability Insurance Policy.*
- *Explain the role of the experience modifier in premium calculation.*

3. Workers Compensation Benefits

- *Explain the purpose of the General Section in the Workers Compensation and Employers Liability Insurance Policy.*
- *Explain Parts One through Three in the Workers Compensation and Employers Liability Insurance Policy.*
- *Identify four different types of employee benefits provided by most workers compensation laws.*

4. Employers Liability Insurance

- *Identify four types of claims covered by Employers Liability Insurance.*

5. Other States Insurance

- *Explain the purpose of Other States Insurance.*

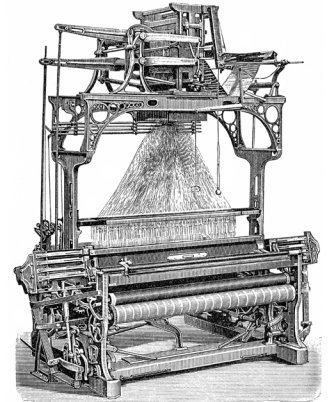
6. Workers Compensation Endorsements

- *Identify endorsements that respond to federal workers compensation laws.*

Introduction to Workers Compensation and Employers Liability Insurance

The Societal Need for Workers Compensation

The advancement of industrialization in the U.S. in the early 20th century led to rapid changes in the workplace. Businesses were expanding quickly and new technology was being deployed to increase production and improve efficiency. Public demands for worker protections grew as the number of workplace injuries increased. Traditional legal methods of resolving claims of negligent injury were seen as insufficient to address the needs of employees and employers. As a result, governmental leaders in every state began looking for solutions.

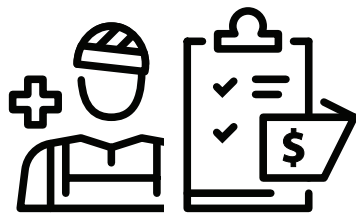


Workers Compensation and Employers Liability

Learning Objectives 1

- *Identify the purpose of the workers compensation system.*
- *Distinguish between monopolistic and elective states.*

The Workers Compensation System



Workers Compensation

After some experimentation, states began to write the first workers compensation laws that could pass constitutional review by the Supreme Court. The laws created a compromise between employee and employer.

Instead of relying on a negligence-based tort system to assign responsibility for injuries, new state laws created a no-fault system. Employees injured in the course and scope of their employment received benefits prescribed by law, while employers were protected from employee lawsuits. The only remedy for injured workers was workers compensation (WC) benefits. This system was contingent upon employers purchasing workers compensation insurance policies.

In time, every state passed its own workers compensation law and made most employers subject to it. With the exceptions of Texas and New Jersey, all states made employer purchase of workers compensation mandatory. (Currently, Texas remains an elective state; New Jersey has many requirements that as a practical matter make purchasing insurance compulsory; and Oklahoma has some exemptions for certain employers, but also other benefit requirements.)

Section 1: Workers Compensation and Employers Liability

Employee—Advantages of WC	Employer—Advantages of WC
<ul style="list-style-type: none">• Defined benefits if injured on the job• Benefits regardless of negligence• Some benefits last a lifetime	<ul style="list-style-type: none">• No lawsuits from injured employees• Cost of insurance is predictable• Tangible benefit to employees

An employer may face repercussions if they choose not to purchase workers compensation insurance. They can, for example, face administrative penalties in their state, and they can be subject to lawsuits from injured employees. Unless an employer purchases workers compensation insurance, most state workers compensation laws include language that denies employers the use of important legal arguments when making a defense against an employee lawsuit.

Check-in



Directions: Read each statement, then select True or False.

1. State workers compensation laws are no-fault systems.

True

False

2. Employer purchase of workers compensation insurance is voluntary in all states but Texas and New Jersey.

True

False

3. One advantage of workers compensation to employers is predictable costs.

True

False

Funding Workers Compensation Benefits

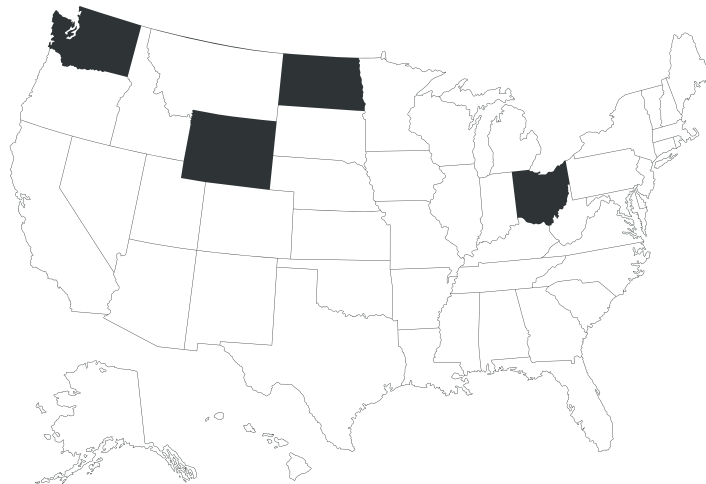
Every state has its own options for funding the workers compensation benefits payable to or for injured employees. The option used most often is the purchase of a Workers Compensation Policy from an insurance company.

Purchase options include:

- purchasing a policy from a private insurance company
- purchasing coverage from a competitive state fund
- allowing employers, or groups of employers, to self-insure (not permitted in North Dakota or Wyoming)
- purchasing a policy from the monopolistic state (North Dakota, Ohio, Washington and Wyoming)

Monopolistic States

A **monopolistic state fund** is a state-created, state-owned, and state-operated workers compensation insurance facility. A monopolistic fund writes all workers compensation insurance for the state. The state does not allow private workers compensation insurance.





Knowledge Check



Directions: List four states that are monopolistic. List two states where workers compensation is elective for employers.

Monopolistic States

1. _____
2. _____
3. _____
4. _____

Elective Workers Compensation

1. _____
2. _____

The Information Page

Learning Objectives 2

- *Identify the purpose of each of the four parts of the Information Page attached to a Workers Compensation and Employers Liability Insurance Policy.*
- *Explain the role of the experience modifier in premium calculation.*

The Workers Compensation Policy Information Page

Workers Compensation policies have a page of declaratory information called the **Information Page**. This page of the policy outlines the employer being insured, the policy period (when the coverage begins and ends), and the coverage provided by the policy. These details are shown in numbered sections on the Information Page.

Section 1: Workers Compensation and Employers Liability

Item 1: The Named Insured, the mailing address of the insured, and the type of organization

Item 2: The policy period—effective date and expiration date

Item 3: Coverage under workers compensation

Item 3.A.: applies to the state workers compensation law

Item 3.B.: provides employers liability coverage

Item 3.C.: applies to states where the insured does not have operations

Item 3.D: Endorsements

Item 4: Premium calculations

INFORMATION PAGE

ABC Insurance Company
Any Metropolis, USA

Policy Number: **123456789-05**
Prior Policy NO. **123456789-04**

NCCI Company No. _____ (assigned NCCI Number)

1. Name & Mailing Address of the Insured
Any Insured, Inc.
987 Main Street
Any Town, Indiana

Individual _____ Partnership _____
☒ Corporation

Other workplaces not shown above: **654 Avenue A, Any Town, California**

2. Policy Period
12:01 A.M. standard time at the insured's mailing address from January 1, 20XX to January 1, 20XX

3. A. Workers Compensation Insurance: Part One of the policy applies to the Workers' Compensation Law of the states listed here:
Indiana, California

B. Employers Liability Insurance: Part Two of the policy applies to work in each state listed in Item 3.A. The limits of our liability under Part Two are:

Bodily Injury by Accident	\$ <u>100,000</u>	each accident
Bodily Injury by Disease	\$ <u>500,000</u>	policy limit
Bodily Injury by Disease	\$ <u>100,000</u>	each employee

C. Other States Insurance: Part Three of the policy applies to the states, if any, listed here:
All states except the monopolistic states, and those listed in item 3.A.

D. This policy includes these endorsements and schedules: **see attached list of Endorsements and Schedules.**

4. The premium for this policy will be determined by our Manuals of Rules, Classifications, Rates and Rating Plan. All information required below is subject to verification and change by audit.

(Refer to Extension of Information Page)

Minimum Premium:	\$583	Total Estimated Premium	\$28,366
Minimum Premium State:	California	Total State Surcharges	\$ 21
Expense Constant:	(\$260 Ind)	Total Estimated Charge	\$28,387
Premium Adjustment Period:	At Expiration	Deposit Amount	\$28,387

Name of Producer _____ Countersigned by _____
Serving Office _____ Date _____

Form WC 00 00 01 A (Rev. 01/01/20XX)

© Compensation Rating and Inspection Bureau

Let's examine the numbered items on the Information Page one-by-one.

In item 1, the **Named Insured** and the insured's mailing address is shown and the type of organization holding the policy is identified. Note also that other workplaces not already mentioned are identified in this section.

1. Name & Mailing Address of the Insured

Any Insured, Inc.
987 Main Street
Any Town, Indiana

_____ Individual _____ Partnership _____
☒ Corporation or _____

Section 1: Workers Compensation and Employers Liability

Item **2** identifies a policy's effective and expiration dates. Policies are usually issued for one year. However, some insurance carriers may allow a policy to be issued up to, but not exceeding, three years.

Short-term policies can be issued so that the effective dates run concurrently with other insurance policies.

2. Policy Period

12:01 AM, standard time at the insured's mailing address from January 1, 20XX to January 1, 20XX

Item **3** indicates the state(s) where coverage applies and the policy limits under the Workers Compensation Policy.



Item **3.A.** lists the primary states in which the workers compensation insurance applies. Any state where the insured's employees are currently working or are expected to begin working during a given policy period should be listed in item 3.A. States in which an insured has ongoing or expected operations are listed in item 3.A. This activates the policy to respond to the workers compensation law in those states. It also triggers the workers compensation rates to be used for the employer's payroll in those states.

A Workers Compensation Insurance: Part One of the policy applies to the Workers' Compensation Law of the states listed here:
Indiana, California

Some companies anticipate they will start operations in other states sometime during the policy period and should list those states. Note, however, that monopolistic states cannot be listed. Coverage for these states can only be obtained through the states' monopolistic state funds.

Item **3.B.** indicates the limits for employers liability insurance. A **limit** is the most that will be paid for bodily injury by accident or disease. Limits named here are for employers liability insurance only, not workers compensation insurance.

Three limits of insurance apply:

Bodily injury by accident, each accident	
Bodily injury by disease, policy limit	
Bodily injury by disease, each employee	

Section 1: Workers Compensation and Employers Liability

The standard employers liability limits are:

- Bodily Injury by Accident \$100,000 each accident
- Bodily Injury by Disease \$500,000 policy limit
- Bodily Injury by Disease \$100,000 each employee

B. Employers Liability insurance: Part TWO of the policy applies to work in each state listed in Item 3.A. The limits of our liability under Part Two are:

Bodily Injury by Accident	\$ <u>100,000</u>	each accident
Bodily Injury by Disease	\$ <u>500,000</u>	policy limit
Bodily Injury by Disease	\$ <u>100,000</u>	each employee

However, limits can be increased either to provide more protection or to comply with an excess liability/commercial umbrella underlying policy requirement.

Employers liability claims are made in several extraordinary situations that will be discussed later in the course.

The purpose of listing states in item **3.C. Other States Insurance** is to activate coverage for unknown or unexpected operations that could develop during a policy period in a state not listed in 3.A. States can be listed in item 3.C. by name or by designation. However, the following states cannot be listed or designated:

- a state already listed in item 3.A.,
- a monopolistic state, or
- a state where the insurer will not agree to do so.

C. Other States Insurance: Part Three of the policy applies to the states, if any, listed here:

All states except the monopolistic states, and those listed in item 3.A.

It often happens that employees begin working after the effective date in states other than those listed in item 3.A. Or, the insured may have incidental exposures in other states. Sometimes insureds forget to notify insurance carriers of these new or incidental exposures. This explains the following phrase: "All states and U.S. territories, except monopolistic states and states designated in item 3.A. of the Information Page."

Note: Check state statutes for rules governing incidental or temporary exposures. Some states may require that the incidental or temporary exposures be listed under item 3.A. in lieu of Item 3.C.

Section 1: Workers Compensation and Employers Liability

The Difference Between Items 3.A. and 3.C.

Notice that both item 3.A. and item 3.C. list states that the policy covers.

A. Workers Compensation Insurance: Part One of the policy applies to the Workers' Compensation Law of the states listed here:
Indiana, California

C. Other States Insurance: Part Three of the policy applies to the states, if any, listed here:
All states except the monopolistic states, and those listed in item 3.A.

Under item 3.C., all the other states in the U.S., except those shown in item 3.A. and the monopolistic states, are shown or listed to trigger Other States coverage. For example, in item 3.C., a business located only in Oklahoma might have listed: "All states except OK, ND, OH, WA, WY."

Listing the states, or using the "All states except" approach, activates workers compensation and employers liability coverage in those states should an employee be able to make a claim in any of those states. Typically, these would be situations in which employees were working temporarily in those states when they were injured.

Item 3.D. of the Information Page lists any endorsements and/or schedules applicable to the policy. To provide the proper coverage for the insured, it is important to list all of the endorsements and schedules attached to the policy in the proper order. Otherwise, they will not be included in the contract.

D. This policy includes these endorsements and schedules: see attached list of Endorsements and Schedules.

Item 4 provides information used to calculate an estimated premium.

4. The premium for this policy will be determined by our Manuals of Rules, Classifications, Rates and Rating Plan. All information required below is subject to verification and change by audit.

(Refer to Extension of Information Page)

Minimum Premium: \$593	Total Estimated Premium	\$28,366
Minimum Premium State: California	Total State Surcharges	\$ 21
Expense Constant: (\$260 Incl)	Total Estimated Charge	\$28,387
Premium Adjustment Period: At Expiration	Deposit Amount	\$28,387

Check-In



Directions: Match each type of declarative information on the right to its Item location on an Information Page. Some items have more than one correct answer.

Item 1: _____

Item 2: _____

Item 3: _____

Item 4: _____

- A.** the policy's effective date
- B.** the employer's type of organization
- C.** the list of states in which an insured has or expects to have operations
- D.** provides information used to calculate an estimated premium
- E.** the policy's expiration date
- F.** details the limits of insurance for employer's liability
- G.** description of the employer's liability coverage

Location of Workers Compensation Claims

When an employee is injured on the job, she/he typically reports the injury to their employer and the employer reports the claim to the insurance company. If the insurance policy Information Page lists the state where the injury occurred, then coverage is in place for the employee to receive benefits. But what if the injury occurred in a state other than the employee's "home state"?

Can the employee make a claim in a state that is not the employee's home state? It depends.

If the employee has been in the non-home state for a sufficient length of time, that state might recognize the rights of the employee to make a claim there. If the workers compensation benefits are more generous in the "non-home state" than in the employee's home state, the employee may choose the non-home state. But the employee will have to decide. She/he can make a claim in either state if the coverage is in force there, but only in one state.

Finally, an employee covered by workers compensation in her/his home state can always "go home" to make a claim, no matter where the employee was injured while on the job.



Knowledge Check






Directions: Both item 3.A. and item 3.C. of the Information Page list the states the policy covers. Explain the difference between these two items.

Policy Premium

Note in item 4 of the Information Page, the language states that the premium for the Workers Compensation Policy “will be determined by our Manuals of Rules, Classifications, Rates, and Rating Plan.”

The **National Council on Compensation Insurance (NCCI)**, which is the private bureau that guides most of the regulation and administration of workers compensation in a majority of states, uses four-digit classification codes to classify exposures or businesses. That is, the classifications describe the types of work done by employees. There are both national and state-level classifications. Here are some examples of national classifications:

Classification Code	Type of Work	
9521	Advertising Display Installation Service	
5951	Antitoxin, Serum, or Virus Manufacturing and Drivers	
9534	Bell Installation—Tower and Drivers	

For each state listed in item 3.A. of the Information Page, classifications have specific rates that apply to each \$100 of employee payroll. These rates and payrolls are used to determine the premium paid by the employer for their workers compensation insurance.

Insurance companies report employers’ losses and payrolls to NCCI, which then uses the data and its NCCI **Experience Rating Plan** to calculate an **experience modifier**, or “e-mod.” The Experience Rating Plan measures accident frequency and severity (cost), producing a picture of an employer’s claims experience.

Section 1: Workers Compensation and Employers Liability



Premium computation includes the experience modifier, which is typically more or less than 1.00.

An experience modifier of more than 1.00 indicates a higher claims payment history than average for those classifications, while an experience modifier of less than 1.00 indicates the employer has lower claims payments than an average, similar employer.

This course does not examine the experience rating formula, nor the calculation of experience modifiers. It is enough for our purposes that you understand how an experience modifier affects an employer's workers compensation insurance costs. An employer with better than average loss experience receives a credit modifier, while an employer with worse than average loss experience receives a debit modifier.



Knowledge Check



Directions: What is the experience modifier? Explain its purpose.

The Workers Compensation and Employers Liability Policy

Learning Objectives 3

- Explain the purpose of the General Section in the Workers Compensation and Employers Liability Insurance Policy.
- Explain Parts One through Three in the Workers Compensation and Employers Liability Insurance Policy.
- Identify four different types of employee benefits provided by most workers compensation laws.

The General Section

The Workers Compensation Policy has six parts, all of which are preceded by a **General Section**. The General Section has parts of its own, Parts A through E.

Paragraph **A.** in the General Section explains the policy's role as a contract of insurance between the employer named in item 1 of the Information Page and the insurer, also identified on the Information Page.

GENERAL SECTION

A. The Policy

This policy includes at its effective date the Information Page and all endorsements and schedules listed there. It is a contract of insurance between you (the employer named in Item 1 of the Information Page) and us (the insurer named on the Information Page). The only agreements relating to this insurance are stated in this policy. The terms of this policy may not be changed or waived except by endorsement issued by us to be part of this policy.

Paragraph **B.** clarifies Who Is Insured. An employer is insured if named in item 1 of the Information Page.

B. Who Is Insured

You are insured if you are an employer named in Item 1 of the Information Page. If that employer is a partnership, and if you are one of its partners, you are insured, but only in your capacity as an employer of the partnership's employees.

Paragraph **C.** describes workers compensation law as "the workers or workmen's compensation law and occupational disease law of each state or territory named in item 3.A. of the Information Page."

C. Workers Compensation Law

Workers Compensation Law means the workers or workmen's compensation law and occupational disease law of each state or territory named in Item 3.A. of the Information Page. It includes any amendments to that law which are in effect during the policy period. It does not include any federal workers or workmen's compensation law, any federal occupational disease law or the provisions of any law that provide nonoccupational disability benefits.

Section 1: Workers Compensation and Employers Liability

Paragraphs D. and E. explain the states and locations in which the Workers Compensation Policy provides coverage. Paragraph **D.** explains that “a state” means any state of the U.S. and includes the District of Columbia.

D. State

State means any state of the United States of America, and the District of Columbia.

E. Locations

This policy covers all of your workplaces listed in Items 1 or 4 of the Information Page; and it covers all other workplaces in Item 3.A. states unless you have other insurance or are self-insured for such workplaces.

Paragraph **E.** identifies the workplace locations in which coverage applies. They are the workplaces listed in items 1 or 4 of the Information Page. It also includes other workplaces in item 3.A. states unless the employer has other insurance or is self-insured for those workplaces.

Check-In



Directions: Match each description on the right to the correct General Section part. Answers can be used more than once.

- | | |
|--------------------------------|--|
| _____ General Section A | 1. Describes workers compensation law |
| _____ General Section B | 2. Identifies workplace locations where coverage applies |
| _____ General Section C | 3. Clarifies Who Is An Insured |
| _____ General Section D | 4. Explains the policy's role as an insurance contract |
| _____ General Section E | 5. Explains in which states coverage applies |

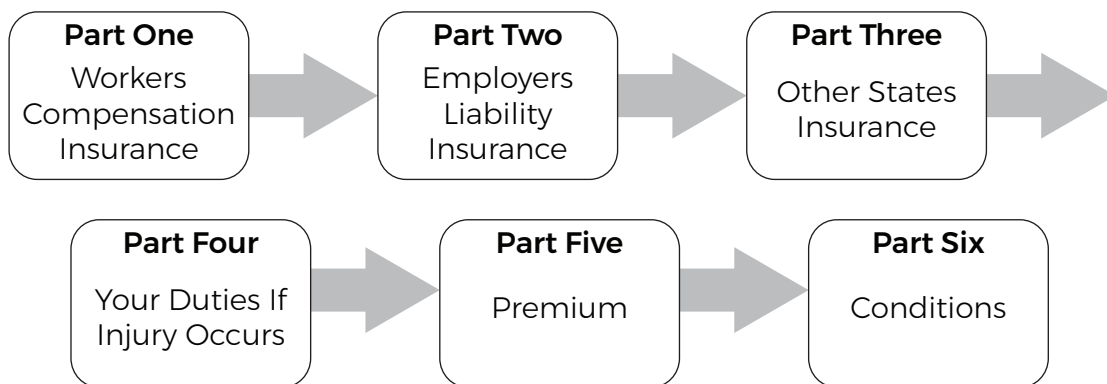
▶▶ Knowledge Check



Directions: Explain what paragraph C. in the General Section of the Workers Compensation and Employers Liability Insurance Policy does *not* apply to.

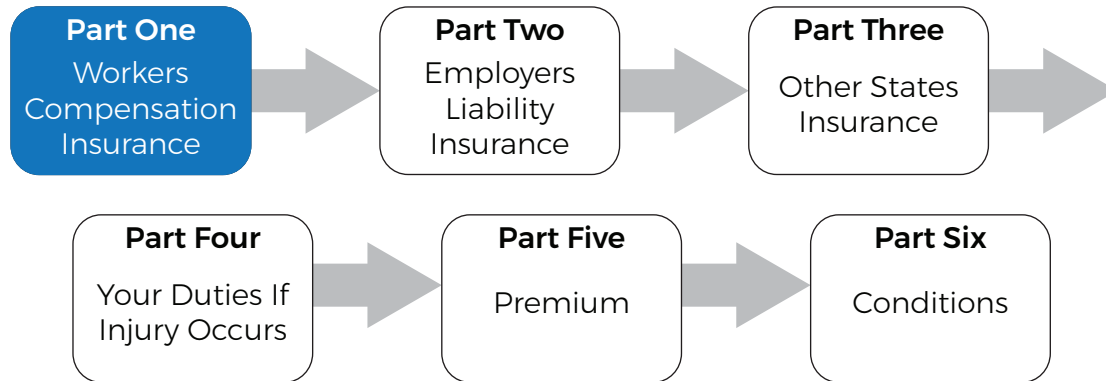
The Six Parts of the Workers Compensation and Employers Liability Insurance Policy

Six distinct parts follow the General Section in the Workers Compensation and Employers Liability Insurance Policy. This course focuses on Parts One through Three only, beginning with Part One.



Part One—Workers Compensation Insurance

Part One of the policy outlines how the insurance applies. This part has eight paragraphs:



- | | | |
|--------------------------------------|----------------------------------|--------------------------------|
| A. How This Insurance Applies | D. We Will Also Pay | G. Recovery From Others |
| B. We Will Pay | E. Other Insurance | H. Statutory Provisions |
| C. We Will Defend | F. Payments You Must Make | |

Paragraph **A.** in Part One applies to a bodily injury by accident or a bodily injury by disease that occurs during the policy period and was caused or aggravated by the conditions of employment. If a bodily injury is due to disease, the last exposure to the conditions that caused or aggravated the bodily injury must have taken place during the policy period.

PART ONE - WORKERS COMPENSATION INSURANCE

A. How This Insurance Applies

This workers compensation insurance applies to bodily injury by accident or bodily injury by disease. Bodily injury includes resulting death.

1. Bodily injury by accident must occur during the policy period.
2. Bodily injury by disease must be caused or aggravated by the conditions of your employment. The employee's last day of last exposure to the conditions causing or aggravating such bodily injury by disease must occur during the policy period.

Each state's workers compensation law outlines the criteria that make a claim compensable. It is possible to use questions to illustrate some of these criteria:

- Was the injured person an employee of the policyholder?
- Was the employee engaged in the course and scope of her/his employment at the time of the accident?
- Was the employee furthering the employer's interests?
- Was the employee engaged in activities specifically excluded under the law?

Check-in



Directions: Use the following terms to fill in the blanks.

One	Two	Three
endorsements	insurance	an employer's interests
negligence	accident	employment type
before	during	after
caused or aggravated	ignored	overlooked

Part _____ of the Workers Compensation Insurance Form outlines how the _____ applies. It applies to a bodily injury by _____, or a bodily injury by disease, that occurred _____ the policy period and which was _____ by the conditions of employment.

Categories of Compensation Benefits

Workers compensation benefits fall into four categories:

Workers Compensation BENEFITS (State statutes establish actual dollar amounts.)

Medical Benefits	Disability Benefits	Rehabilitation Benefits	Death Benefits

Medical Benefits

Typically, medical benefits cover any reasonable and necessary medical treatment related to an injury. These benefits usually have no dollar or time limit.



Disability Benefits



Disability benefits compensate an injured employee for their temporarily lost wages (typically a percentage of the employee's normal pay subject to a maximum) due to their inability to work. They can vary in length depending upon the state and the employee's physical abilities. There is usually a waiting period (a week, for example) before temporary disability benefits are payable. Sometimes these temporary benefits are described as "income" benefits.

Permanent disability as a result of an injury is also compensable and varies by state. In the case of specific types of lifetime disability such as blindness, deafness, and paralysis, payments can extend for the life of the employee.

Rehabilitation Benefits

Rehabilitation benefits typically include the costs to restore an injured employee's physical capacity and may include vocational rehabilitation costs.



Death Benefits



Death benefits typically include an amount for burial expenses and on-going support paid to qualifying beneficiaries, such as a spouse and dependent children. These benefits are typically conditional. Should the spouse remarry or when children reach a given age, benefits may be terminated.

Check-in



Directions: Match each benefit on the right to its correct compensation category on the left. A category may have more than one benefit.

_____ **Medical**

_____ **Disability**

_____ **Rehabilitation**

_____ **Death**

A. compensation for types of permanent injury

B. reasonable and necessary treatment for an injury

C. compensation for lost wages

D. financial support for beneficiaries

E. restoration of an employee's physical capacity



Knowledge Check



Directions: What are the medical and disability benefits that are associated with workers compensation based on? What are their time limits?

Other Part One Provisions

Let's examine other Part One provisions, described in paragraphs B. through F.

In paragraph **B.**, the insurance company obligates itself to promptly pay workers compensation benefits due and in accordance with the workers compensation law that applies.

B. We Will Pay

We will pay promptly when due the benefits required of you by the workers compensation law.

Paragraph **C.** explains that the insurer has the right and duty to defend against any claim, proceeding, or suit brought against the insured for benefits payable by the insurance.

C. We Will Defend

We have the right and duty to defend at our expense any claim, proceeding or suit against you for benefits payable by this insurance. We have the right to investigate and settle these claims, proceedings or suits.

We have no duty to defend a claim, proceeding or suit that is not covered by this insurance.

Paragraph **D.** states that the insurance carrier will also pay costs associated with any claim, proceeding, or suit the company defends.

D. We Will Also Pay

We will also pay these costs, in addition to other amounts payable under this insurance, as part of any claim, proceeding or suit we defend:

1. reasonable expenses incurred at our request, but not loss of earnings;
2. premiums for bonds to release attachments and for appeal bonds in bond amounts up to the amount payable under this insurance;
3. litigation costs taxed against you;
4. interest on a judgment as required by law until we offer the amount due under this insurance; and
5. expenses we incur.

Section 1: Workers Compensation and Employers Liability

Paragraph **E.** explains that the insurance carrier will not pay more than its share of benefits and costs covered by the insurance policy and other insurance or self-insurance. Once insurance or self-insurance is exhausted, the shares of the remaining insurance will be equal until the loss is paid.

E. Other Insurance

We will not pay more than our share of benefits and costs covered by this insurance and other insurance or self-insurance. Subject to any limits of liability that may apply, all shares will be equal until the loss is paid. If any insurance or self-insurance is exhausted, the shares of all remaining insurance will be equal until the loss is paid.

Paragraph **F.** makes it clear that the employer is responsible for any payments in excess of benefits prescribed by the law.

F. Payments You Must Make

You are responsible for any payments in excess of the benefits regularly provided by the workers compensation law including those required because:

1. of your serious and willful misconduct;
2. you knowingly employ an employee in violation of law;
3. you fail to comply with a health or safety law or regulation; or
4. you discharge, coerce or otherwise discriminate against any employee in violation of the workers compensation law.

If we make any payments in excess of the benefits regularly provided by the workers compensation law on your behalf, you will reimburse us promptly.

The employer is responsible for payments due because of:

- the employer's personal misconduct,
- employing an employee in violation of the law,
- failing to comply with health and safety laws or regulations, and/or
- discrimination against any employee in violation of workers compensation law.



Knowledge Check



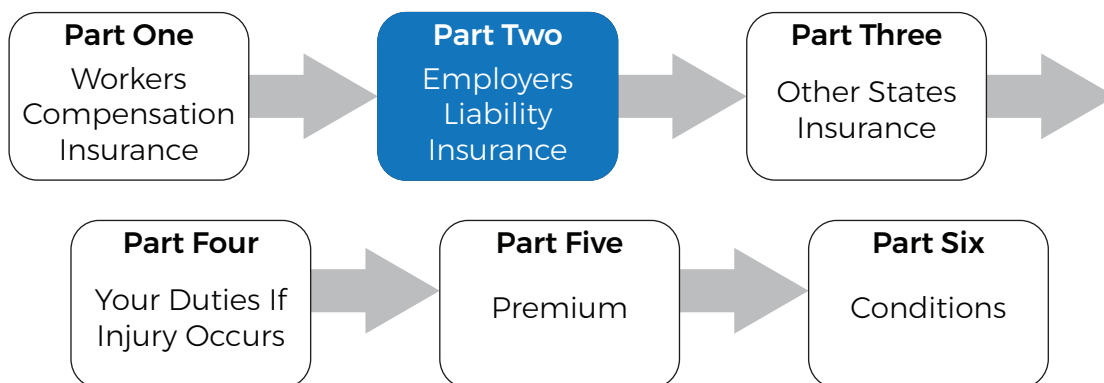
Directions: Summarize the purpose of paragraph B. in Part One of the Workers Compensation and Employers Liability Insurance Policy.

Employers Liability Insurance

Learning Objective 4

- Identify four types of claims covered by Employers Liability Insurance.

Part Two—Employers Liability Insurance



In addition to paying benefits required under the law, the Workers Compensation Policy pays sums that the employer must pay because of bodily injury to the employee, as long as coverage applies as outlined in the policy and is covered as described.

Paragraph **A.** coverage applies to:

- bodily injury arising out of the course and scope of employment
- employment that was necessary and incidental to work done in a state listed in item 3.A. of the Information Page
- an accident that occurred during the policy period
- an injury by disease caused by conditions of employment, and the last exposure occurred during the policy period
- a suit brought in the U.S., its territories, or Canada

Employers Liability Insurance pays damages the employer is legally responsible for as permitted by law.

Types of Employers liability Claims

Four of the most common liability claims specified in Part Two—Employers Liability Insurance are **third-party action over claim**, **care and loss of services**, **consequential bodily injury**, and **dual capacity claims**.

- If there is an “insured contract” between the third party and employer, look to the Commercial General Liability Policy for coverage.
- If there is no contract between the third party and the employer, then look to Workers Compensation and Employers Liability Insurance Policy, Part Two—Employers Liability Insurance, for coverage.

FYI

1. Third-Party Action Over Claim



An employee is injured by a piece of equipment. The employee sues the manufacturer. The manufacturer (the third party) files a claim against the employer when it is discovered the employer was aware that the employee removed a safety guard to speed up work or a cleaning process.



2. Care and Loss of Services Claim



Dependents need care and services an injured parent can no longer provide. Also, a spouse may sue for loss of consortium or harm to the marriage relationship due to injury.



3. Consequential Bodily Injury Claim



A spouse suffers a heart attack upon hearing of an injured employee.



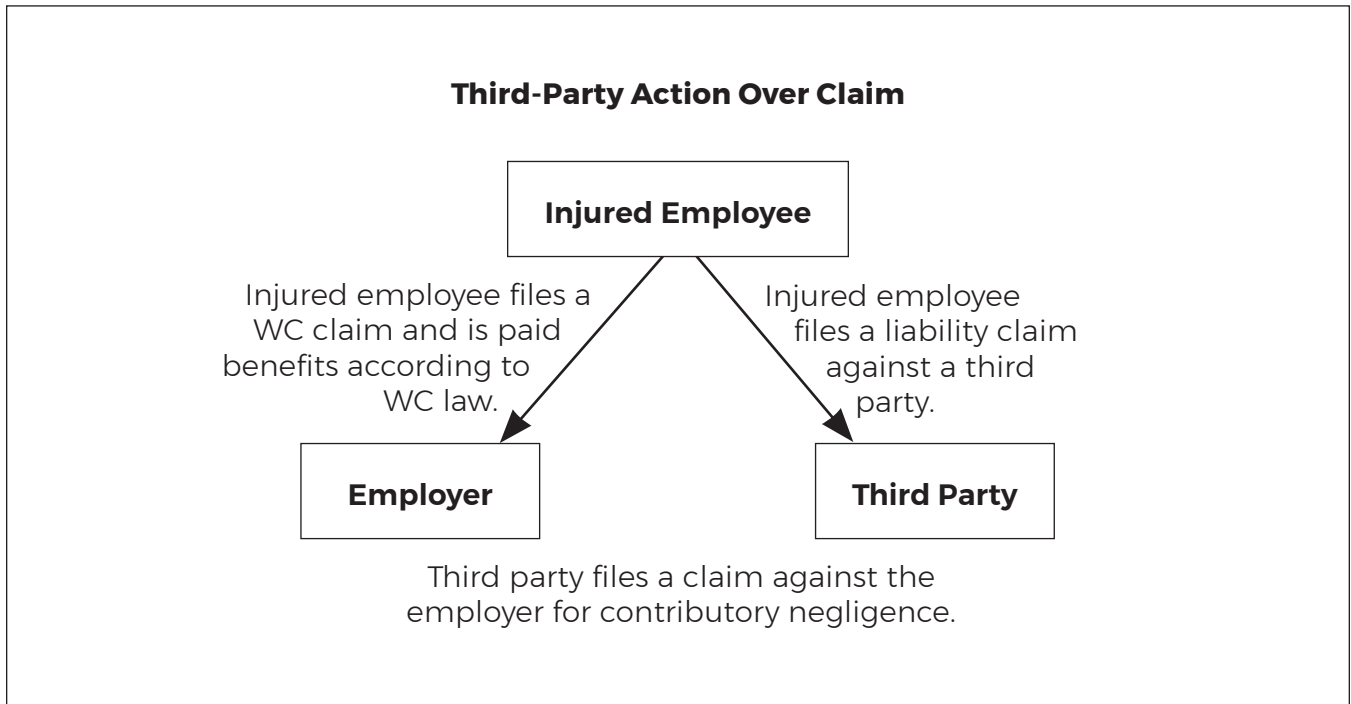
4. Dual Capacity Claim



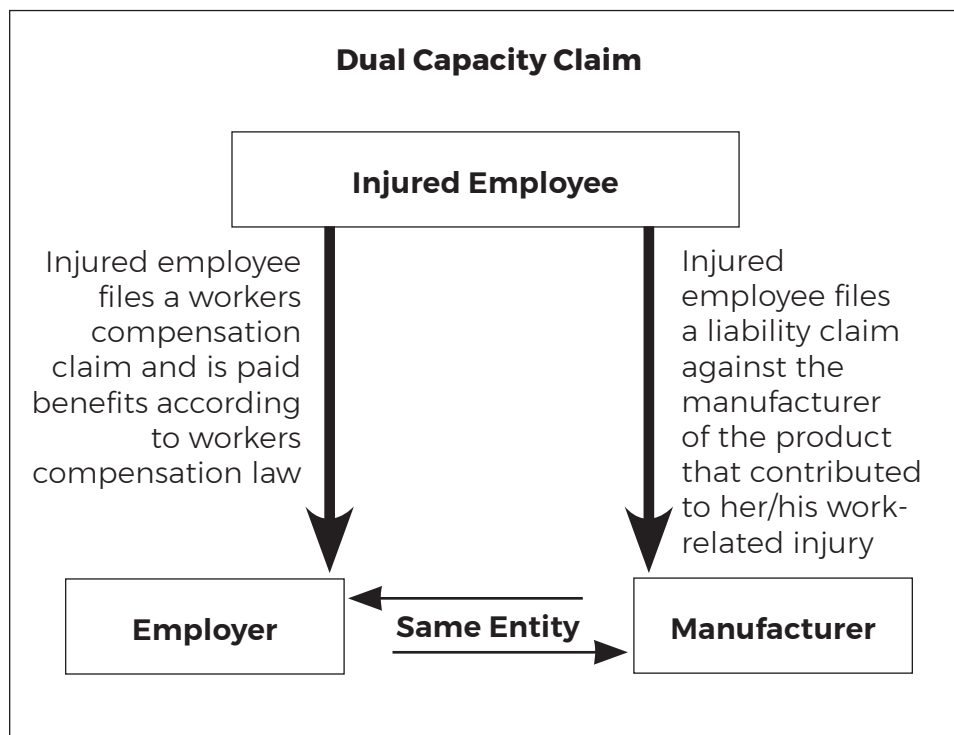
An employer, such as a ladder producer, acts as the manufacturer of a product that injures an employee while in the course of employment. In this case, the employer serves in two capacities—as employer and as product-maker, or manufacturer.

Section 1: Workers Compensation and Employers Liability

The following diagram helps explain the third-party action over claim.





This diagram helps explain the dual capacity claim.



Employers Liability Insurance Limits

Recall from our discussion of the Information Page that three limits of insurance apply:

Bodily injury by accident, each accident	
Bodily injury by disease, policy limit	
Bodily injury by disease, each employee	

Also recall that the standard employers liability limits are:

- bodily injury by accident \$100,000 each accident
- bodily injury by disease \$500,000 policy limit
- bodily injury by disease \$100,000 each employee

The limits shown on the Information Page are the most that will be paid for each category of limit. They apply to Part Two—Employers Liability Insurance, and *not* to Part One—Workers Compensation Insurance.

Paragraph **B.** in Part Two of Employers Liability Insurance states that the insurance company will pay all sums the insured must legally pay as damages because of bodily injury to an employee, provided the bodily injury is covered by the insurance. Exclusions are described in Paragraph C., which is summarized below.

Employers Liability Insurance Exclusions

Workers Compensation Insurance has no exclusions. Workers compensation law defines what benefits *will* and *will not* be paid. Employers Liability Insurance, on the other hand, has 12 exclusions, which are described in paragraph **C**.

Employers Liability Insurance *does not* cover:

1. liability assumed under a contract
2. punitive or exemplary damages
3. bodily injury to an employee while employed in violation of law with the knowledge of the employer
4. any obligation imposed by a workers compensation or similar law
5. intentional bodily injury
6. bodily injury outside the U.S., its territories, or Canada, unless the trip is temporary
7. damages related to employment practices, such as discrimination and harassment
8. bodily injury to any person in work subject to a federal compensation act claim—such as a United States Longshore and Harbor Workers (USL&H) Act claim or a Defense Base Act claim
9. bodily injury to any person in work subject to the Federal Employers Liability Act and other federal laws
10. bodily injury to a master or member of a maritime crew or vessel
11. fines for violation of state or federal law
12. damages payable under the Migrant and Seasonal Agricultural Worker Protection Act and other related federal law

Check-in



Directions: Check each exclusion that applies to Employers Liability Insurance.

- ☐ an accident that occurs during a policy period
- ☐ intentional injury caused by an employer
- ☐ federal compensation act claims
- ☐ a legal suit
- ☐ maritime claims
- ☐ punitive damages

In paragraph **D.** of Part Two, the insurance company states it has the right and duty to defend a claim, proceeding, or suit against the insured for damages payable by the insurance.

Paragraph **E.** explains that the insurer will pay costs associated with a claim, proceeding, or suit it defends. It will also share with other insurance in place on an equal shares basis, similar to the terms of Workers Compensation Insurance—Part One.

Knowledge Check



Directions: Name the kind of claim this scenario represents.
Justify your answer.

A bakery employee was able to reduce the amount of time required to transfer dough from industrial mixers to baking pans by removing splatter shields around the mixers' bowls. The employee's supervisor was aware of the employee's decision to remove the shields and did not require the employee to restore them.

A mixing paddle snapped, sending debris toward the employee. A piece of the paddle struck him in the eye and the bodily injury by accident required medical attention. The employee was compensated for medical costs by the Workers Compensation Policy. The employee also sued the mixing bowl manufacturer for damages. The manufacturer, in turn, made a claim against the employer.

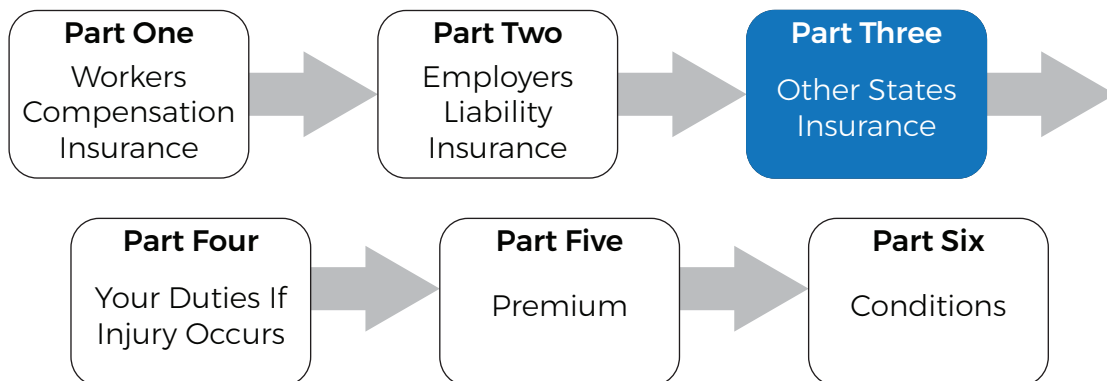
Other States Insurance

Learning Objective 5

- Explain the purpose of Other States Insurance.

Part Three—Other States Insurance

Part Three of the Workers Compensation Policy addresses **Other States Insurance**.



Section 1: Workers Compensation and Employers Liability

Employers may not always know where their incidental exposures may be. It's also possible that they may not know if and when they plan to have a new operation or a new workplace in another state. Consequently, the purpose of Part Three of the Workers Compensation Policy is to provide temporary, automatic coverage for incidental exposures and for new operations in other states that begin after a policy's effective date.

Other States Insurance coverage is triggered when an injured employee makes a claim for benefits in a state other than one listed in item 3.A. of the Information Page. Coverage is provided in states listed in section item 3.C. of the Information Page.



Say an employee who lives and works in Florida is injured while on a business trip to California. The employee would like to make a claim in California instead of Florida because he understands that the benefits are more generous there. The Other States coverage would open a claim and pay benefits required under California's workers compensation law.



Other States Insurance requires the policyholder to notify the insurance company at once if she/he begins work in any state listed in 3.C. of the Information Page. However, the term, "at once," is not defined by the form.



Work in a state not listed in 3.A. of the Information Page is covered by Other States (if listed in 3.C.) automatically during the policy period. But if a policyholder has ongoing work in a state upon the effective date or on a renewal date of the policy, coverage will not apply unless the policyholder reports it to the company within 30 days of the effective date. Another way of stating it—there is a 30-day grace period to move a state from 3.C. to 3.A. at the beginning of the policy year.

Other States Insurance

The policy language and rules regarding Other States Insurance are driven largely by premiums. Each state has its own rates for various classifications of work done. Sometimes the difference in rate from one state to another can be dramatic. In the past, that has led some employers/policyholders to attempt to game the system by not reporting payroll as being within a higher rated state in order to lower the premium. This potential abuse of the system is the reason for the reporting requirements for work done in a state.



▶▶ Knowledge Check



Directions: Read the following example and identify which of the following types of employers liability claim applies. Circle the type of claim that applies.

Some key safety rules are being ignored at Company XYZ, which is the insured. One of their employees is fatally injured in a job-site accident. The employee's widow and children sue the employer for loss of the care and companionship of their husband and father.

**Third-Party Action
Over Claim**

**Care and Loss of
Services Claim**

**Consequential
Bodily Injury
Claim**

**Dual Capacity
Claim**

Workers Compensation Endorsements

Learning Objective 6

- *Identify endorsements that respond to federal workers compensation laws.*

Policy Amendments

Workers Compensation Insurance policies can be amended to add coverage that responds to federal compensation laws, or to amend the application of coverage already provided. Because workers compensation laws are state-specific, the policy does not include coverage for unique situations that a policyholder may require.

Federal Compensation Laws

Longshore and Harbor Workers Compensation Act (LHWCA) Coverage Endorsement – WC 00 01 06 A



commerce.

The Longshore and Harbor Workers Compensation Act Coverage Endorsement provides workers compensation and employers liability coverage for work subject to the LHWCA. It applies to land-based workers involved in maritime employment on or next to navigable waterways. This includes longshore workers, harbor workers, shipbuilders, shipbreakers, and ship repairers. Navigable waters are typically defined as waterways that form a continuous highway for interstate or international

Maritime Coverage Endorsement – WC 00 02 01 B



The Maritime Coverage Endorsement provides employers liability coverage for the employer for bodily injury to masters and crews of vessels. It pays damages based upon negligence of the insured. Coverage applies to vessels sailing directly between ports of the continental U.S., Alaska, Hawaii, or Canada.

Outer Continental Shelf Lands Act (OCSLA) Coverage Endorsement – WC 00 01 09 C



This Outer Continental Shelf Lands Act Endorsement provides workers compensation and employers liability coverage for work subject to the OCSLA and applies to work exploring for natural resources on the continental shelf of the U.S. (as defined in the Act).

Offshore Coverage

A worker who is injured while working offshore has choices to make when making a claim for injury (assuming the employer purchased offshore coverage). For example, if the worker was on a fixed offshore drilling platform as part of an exploration crew, she/he could make a claim under the OCSLA (a federal statute) and have it adjudicated in the federal court system. Or, the worker could make a claim for workers compensation in her/his home state (under the state workers compensation law). Similar choices would apply to workers who are loading or unloading vessels offshore—file under the LHWCA, or file a state workers compensation claim.



Other Workers Compensation Endorsements

Foreign Workers Compensation Coverage Endorsement (not a standard endorsement)

The Foreign Workers Compensation Coverage Endorsement provides workers compensation and employers liability coverage for employees who were hired in the U.S. while traveling or temporarily residing (typically 90 days or less) outside the U.S., its territories, or Canada. The endorsement's coverage for bodily injury includes endemic disease or infectious illness that is restricted to a particular locality and is not caused by the conditions of employment.



An employee hired in the U.S. contracts malaria while on a temporary foreign assignment.

The endorsement usually also provides coverage for repatriation expenses (the cost of transporting an injured employee to a medical facility or back home).



These endorsements are valuable due to the nature of the limitations found in state workers compensation laws. Normal illnesses such as the flu are not generally considered compensable injuries in the U.S. When traveling abroad, employees can be exposed to illnesses that may be common in that country but are very uncommon back home. The repatriation coverage is valuable because state laws typically limit the reimbursement costs of travel for medical treatment to reasonable and necessary only.

Employers liability Coverage Endorsement – WC 00 03 03 C

The Employers liability Coverage Endorsement is used when workers compensation coverage has been obtained in a monopolistic state fund. It provides employers liability coverage only in states where the policy does not provide workers compensation insurance. In Ohio, for example, WC 34 03 01 C is used.



Stop Gap Endorsement for Employers liability Coverage

A Stop Gap Endorsement for employers liability coverage is an alternative to the WC 00 03 endorsement discussed above, that may be added to a Commercial General Liability (CGL) Policy or to a Businessowners Policy (BOP).

Sole Proprietors, Partners, Officers, and Others Coverage Endorsement – WC 00 03 10

Partners, sole proprietors, and officers may not be considered employees and may not be covered under a state's workers compensation law. This endorsement is used to include those persons who are excluded by law but elect to be covered (if permitted in that state).

Section 1: Workers Compensation and Employers Liability

Not every state's workers compensation law automatically covers sole proprietors, or partners, for example. This endorsement gives them coverage if it is allowed there.

Sole Proprietors, Partners, and Others Exclusion Endorsement – WC 00 03 08

The Sole Proprietors, Partners, and Others Exclusion Endorsement is used to exclude those individuals who are included as employees under the workers compensation law but are permitted (by law) to exclude themselves from coverage. Some employers choose to lower the premium for their workers compensation coverage by excluding owners or officers from coverage.

Voluntary Compensation Endorsement and Employers liability Coverage Endorsement – WC 00 03 11 A

The Voluntary Compensation Endorsement and Employers liability Coverage Endorsement is used to extend coverage to employees who may not be subject to a state's workers compensation law. For example, many state laws do not apply to domestic employees, certain farm or ranch employees, or certain casual employment.



Knowledge Check



Directions: Enter the endorsement you would use for each situation. Refer back to the endorsements you have just been introduced to.

Which endorsement would you use to:

1. cover employees who are the masters or crew of a vessel?

2. cover employees who load or unload ships?

3. cover employees who are not explicitly covered by the workers compensation law?

4. cover repatriation expenses of an employee injured overseas?

Summary

Workers Compensation Insurance policies are fairly simple, however, why and how they work is firmly rooted in our social and legal past.



Ultimately, state laws created a no-fault system. Workers compensation laws provide employees who are injured in the course and scope of their work with benefits. At the same time, those laws protect employers from employee lawsuits. In short, workers compensation laws established a compromise between employee and employer.

Employee—Advantages of WC	Employer—Advantages of WC
<ul style="list-style-type: none"> • Defined benefits if injured on the job • Benefits regardless of negligence • Some benefits last a lifetime 	<ul style="list-style-type: none"> • No lawsuits from injured employees • Cost of insurance is predictable • Tangible benefit to employees

States have options for funding workers compensation benefits payable to or for injured employees. Although several options exist, the most common option is the purchase of a Workers Compensation Policy.

A Workers Compensation Policy has a page of declaratory information called the Information Page. Details included on the page include a mailing address for the Named Insured, the organization type, the policy period, coverage under the Workers Compensation Policy, and information used to calculate an estimated premium.

Item 3.B. indicates the applicable limits for Employers Liability Insurance.

Bodily injury by accident, each accident	
Bodily injury by disease, policy limit	
Bodily injury by disease, each employee	

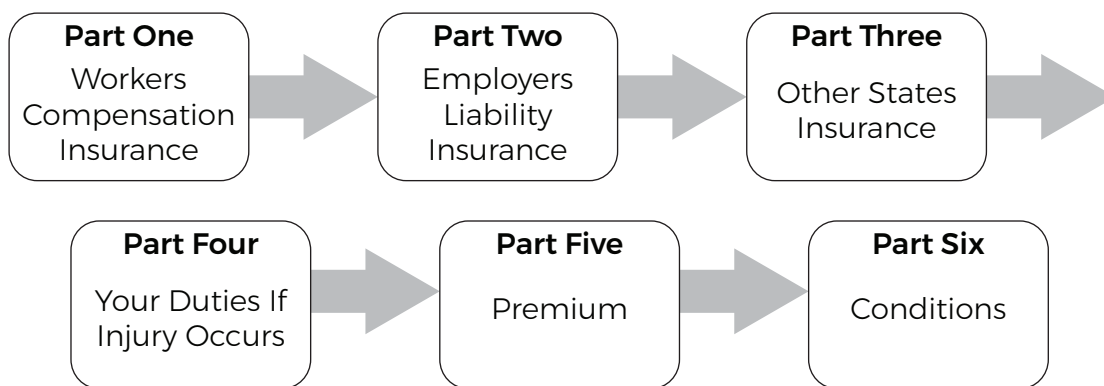
Section 1: Workers Compensation and Employers Liability

Standard employers liability limits are:

- bodily injury by accident \$100,000 each accident
- bodily injury by disease \$500,000 policy limit
- bodily injury by disease \$100,000 each employee

The Workers Compensation Policy has six parts, preceded by a General Section. The General Section explains Who Is An Insured, workers compensation law, the states and locations where coverage applies, and the workplace locations in which coverage applies.

Six distinct parts follow the General Section in the Workers Compensation Policy. This section focused on Parts One, Two, and Three.



Part One of the Workers Compensation Coverage Form outlines how the insurance applies.

Part Two explains the terms of Employers Liability Insurance. Four of the most common liability claims specified in Part Two—Employers Liability Insurance are third-party action over, care and loss of services, consequential bodily injury, and dual capacity.

Part Two also identifies 12 exclusions Employers Liability Insurance does not cover.

Part Three of the Workers Compensation Policy addresses Other States Insurance—coverage which is triggered when an injured employee makes a claim for benefits in a state other than one listed in item 3.A. of the Information Page.

The final three sections outline the duties of the employer to report claims, to pay premiums, and the conditions that apply to the policy.

Section 1: Workers Compensation and Employers Liability

Endorsements can be added to the Workers Compensation Policy. Endorsements often add coverage that responds to federal compensation laws, such as:

- Longshore and Harbor Workers Compensation Act (LHWCA) Coverage Endorsement
- Maritime Coverage Endorsement
- Outer Continental Shelf Lands Act (OCSLA) Coverage Endorsement

Additional endorsements include:






- Foreign Workers Compensation Coverage Endorsement
- Employers liability Coverage Endorsement
- Stop Gap Endorsement for Employers liability Coverage
- Sole Proprietors, Partners, Officers, and Others Coverage Endorsement
- Sole Proprietors, Partners, and Others Exclusion Endorsement
- Voluntary Compensation Endorsement and Employers liability Coverage

Resources

Video Clips

For valuable reinforcement, some important concepts related to the learning objectives in this section are summarized in video clips. Use the following link to access these helpful learning resources.

scic.com/2lCresources

	Who is NCCI?
	Disability Benefits
	Employers liability Claims
	How Other States Coverage Works
	Federal Compensation Laws

Policies and Forms

For your reference, a copy of the policies and forms discussed in this section are provided on the following pages.

Self-Quiz

After the forms and policies is a Self-Quiz that will help you test your knowledge of the material and prepare you for the Review Test and Final Exam.

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

WC 00 00 00 C

Effective January 1, 2015

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

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

GENERAL SECTION

A. The Policy

This policy includes at its effective date the Information Page and all endorsements and schedules listed there. It is a contract of insurance between you (the employer named in Item 1 of the Information Page) and us (the insurer named on the Information Page). The only agreements relating to this insurance are stated in this policy. The terms of this policy may not be changed or waived except by endorsement issued by us to be part of this policy.

B. Who Is Insured

You are insured if you are an employer named in Item 1 of the Information Page. If that employer is a partnership, and if you are one of its partners, you are insured, but only in your capacity as an employer of the partnership's employees.

C. Workers Compensation Law

Workers Compensation Law means the workers or workmen's compensation law and occupational disease law of each state or territory named in Item 3.A. of the Information Page. It includes any amendments to that law which are in effect during the policy period. It does not include any federal workers or workmen's compensation law, any federal occupational disease law or the provisions of any law that provide nonoccupational disability benefits.

D. State

State means any state of the United States of America, and the District of Columbia.

E. Locations

This policy covers all of your workplaces listed in Items 1 or 4 of the Information Page; and it covers all other workplaces in Item 3.A. states unless you have other insurance or are self-insured for such workplaces.

PART ONE - WORKERS COMPENSATION INSURANCE

A. How This Insurance Applies

This workers compensation insurance applies to bodily injury by accident or bodily injury by disease. Bodily injury includes resulting death.

1. Bodily injury by accident must occur during the policy period.
2. Bodily injury by disease must be caused or aggravated by the conditions of your employment. The employee's last day of last exposure to the conditions causing or aggravating such bodily injury by disease must occur during the policy period.

B. We Will Pay

We will pay promptly when due the benefits required of you by the workers compensation law.

C. We Will Defend

We have the right and duty to defend at our expense any claim, proceeding or suit against you for benefits payable by this insurance. We have the right to investigate and settle these claims, proceedings or suits.

We have no duty to defend a claim, proceeding or suit that is not covered by this insurance.

D. We Will Also Pay

We will also pay these costs, in addition to other amounts payable under this insurance, as part of any claim, proceeding or suit we defend:

1. reasonable expenses incurred at our request, but not loss of earnings;
2. premiums for bonds to release attachments and for appeal bonds in bond amounts up to the amount payable under this insurance;
3. litigation costs taxed against you;
4. interest on a judgment as required by law until we offer the amount due under this insurance; and
5. expenses we incur.

WC 00 00 00 C

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

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E. Other Insurance

We will not pay more than our share of benefits and costs covered by this insurance and other insurance or self-insurance. Subject to any limits of liability that may apply, all shares will be equal until the loss is paid. If any insurance or self-insurance is exhausted, the shares of all remaining insurance will be equal until the loss is paid.

F. Payments You Must Make

You are responsible for any payments in excess of the benefits regularly provided by the workers compensation law including those required because:

1. of your serious and willful misconduct;
2. you knowingly employ an employee in violation of law;
3. you fail to comply with a health or safety law or regulation; or
4. you discharge, coerce or otherwise discriminate against any employee in violation of the workers compensation law.

If we make any payments in excess of the benefits regularly provided by the workers compensation law on your behalf, you will reimburse us promptly.

G. Recovery From Others

We have your rights, and the rights of persons entitled to the benefits of this insurance, to recover our payments from anyone liable for the injury. You will do everything necessary to protect those rights for us and to help us enforce them.

H. Statutory Provisions

These statements apply where they are required by law.

1. As between an injured worker and us, we have notice of the injury when you have notice.
2. Your default or the bankruptcy or insolvency of you or your estate will not relieve us of our duties under this insurance after an injury occurs.
3. We are directly and primarily liable to any person entitled to the benefits payable by this insurance. Those persons may enforce our duties; so may an agency authorized by law. Enforcement may be against us or against you and us.
4. Jurisdiction over you is jurisdiction over us for purposes of the workers compensation law. We are bound by decisions against you under that law, subject to the provisions of this policy that are not in conflict with that law.
5. This insurance conforms to the parts of the workers compensation law that apply to:
 - a. benefits payable by this insurance;
 - b. special taxes, payments into security or other special funds, and assessments payable by us under that law.
6. Terms of this insurance that conflict with the workers compensation law are changed by this statement to conform to that law.

Nothing in these paragraphs relieves you of your duties under this policy.

PART TWO - EMPLOYERS LIABILITY INSURANCE

A. How This Insurance Applies

This employers liability insurance applies to bodily injury by accident or bodily injury by disease. Bodily injury includes resulting death.

1. The bodily injury must arise out of and in the course of the injured employee's employment by you.
2. The employment must be necessary or incidental to your work in a state or territory listed in Item 3.A. of the Information Page.
3. Bodily injury by accident must occur during the policy period.
4. Bodily injury by disease must be caused or aggravated by the conditions of your employment. The employee's last day of last exposure to the conditions causing or aggravating such bodily injury by disease must occur during the policy period.
5. If you are sued, the original suit and any related legal actions for damages for bodily injury by accident or by disease must be brought in the United States of America, its territories or possessions, or Canada.

B. We Will Pay

We will pay all sums that you legally must pay as damages because of bodily injury to your employees, provided the bodily injury is covered by this Employers Liability Insurance.

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The damages we will pay, where recovery is permitted by law, include damages:

1. For which you are liable to a third party by reason of a claim or suit against you by that third party to recover the damages claimed against such third party as a result of injury to your employee;
2. For care and loss of services; and
3. For consequential bodily injury to a spouse, child, parent, brother or sister of the injured employee; provided that these damages are the direct consequence of bodily injury that arises out of and in the course of the injured employee's employment by you; and
4. Because of bodily injury to your employee that arises out of and in the course of employment, claimed against you in a capacity other than as employer.

C. Exclusions

This insurance does not cover:

1. Liability assumed under a contract. This exclusion does not apply to a warranty that your work will be done in a workmanlike manner;
2. Punitive or exemplary damages because of bodily injury to an employee employed in violation of law;
3. Bodily injury to an employee while employed in violation of law with your actual knowledge or the actual knowledge of any of your executive officers;
4. Any obligation imposed by a workers compensation, occupational disease, unemployment compensation, or disability benefits law, or any similar law;
5. Bodily injury intentionally caused or aggravated by you;
6. Bodily injury occurring outside the United States of America, its territories or possessions, and Canada. This exclusion does not apply to bodily injury to a citizen or resident of the United States of America or Canada who is temporarily outside these countries;
7. Damages arising out of coercion, criticism, demotion, evaluation, reassignment, discipline, defamation, harassment, humiliation, discrimination against or termination of any employee, or any personnel practices, policies, acts or omissions;
8. Bodily injury to any person in work subject to the Longshore and Harbor Workers' Compensation Act (33 U.S.C. Sections 901 et seq.), the Nonappropriated Fund Instrumentalities Act (5 U.S.C. Sections 8171 et seq.), the Outer Continental Shelf Lands Act (43 U.S.C. Sections 1331 et seq.), the Defense Base Act (42 U.S.C. Sections 1651–1654), the Federal Mine Safety and Health Act (30 U.S.C. Sections 801 et seq. and 901–944), any other federal workers or workmen's compensation law or other federal occupational disease law, or any amendments to these laws;
9. Bodily injury to any person in work subject to the Federal Employers' Liability Act (45 U.S.C. Sections 51 et seq.), any other federal laws obligating an employer to pay damages to an employee due to bodily injury arising out of or in the course of employment, or any amendments to those laws;
10. Bodily injury to a master or member of the crew of any vessel, and does not cover punitive damages related to your duty or obligation to provide transportation, wages, maintenance, and cure under any applicable maritime law;
11. Fines or penalties imposed for violation of federal or state law; and
12. Damages payable under the Migrant and Seasonal Agricultural Worker Protection Act (29 U.S.C. Sections 1801 et seq.) and under any other federal law awarding damages for violation of those laws or regulations issued thereunder, and any amendments to those laws.

D. We Will Defend

We have the right and duty to defend, at our expense, any claim, proceeding or suit against you for damages payable by this insurance. We have the right to investigate and settle these claims, proceedings and suits.

We have no duty to defend a claim, proceeding or suit that is not covered by this insurance. We have no duty to defend or continue defending after we have paid our applicable limit of liability under this insurance.

E. We Will Also Pay

We will also pay these costs, in addition to other amounts payable under this insurance, as part of any claim, proceeding, or suit we defend:

1. Reasonable expenses incurred at our request, but not loss of earnings;
2. Premiums for bonds to release attachments and for appeal bonds in bond amounts up to the limit of our liability under this insurance;

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3. Litigation costs taxed against you;
4. Interest on a judgment as required by law until we offer the amount due under this insurance; and
5. Expenses we incur.

F. Other Insurance

We will not pay more than our share of damages and costs covered by this insurance and other insurance or self-insurance. Subject to any limits of liability that apply, all shares will be equal until the loss is paid. If any insurance or self-insurance is exhausted, the shares of all remaining insurance and self-insurance will be equal until the loss is paid.

G. Limits of Liability

Our liability to pay for damages is limited. Our limits of liability are shown in Item 3.B. of the Information Page. They apply as explained below.

1. Bodily Injury by Accident. The limit shown for "bodily injury by accident—each accident" is the most we will pay for all damages covered by this insurance because of bodily injury to one or more employees in any one accident.
A disease is not bodily injury by accident unless it results directly from bodily injury by accident.
2. Bodily Injury by Disease. The limit shown for "bodily injury by disease—policy limit" is the most we will pay for all damages covered by this insurance and arising out of bodily injury by disease, regardless of the number of employees who sustain bodily injury by disease. The limit shown for "bodily injury by disease—each employee" is the most we will pay for all damages because of bodily injury by disease to any one employee.
Bodily injury by disease does not include disease that results directly from a bodily injury by accident.
3. We will not pay any claims for damages after we have paid the applicable limit of our liability under this insurance.

H. Recovery From Others

We have your rights to recover our payment from anyone liable for an injury covered by this insurance. You will do everything necessary to protect those rights for us and to help us enforce them.

I. Actions Against Us

There will be no right of action against us under this insurance unless:

1. You have complied with all the terms of this policy; and
2. The amount you owe has been determined with our consent or by actual trial and final judgment.

This insurance does not give anyone the right to add us as a defendant in an action against you to determine your liability. The bankruptcy or insolvency of you or your estate will not relieve us of our obligations under this Part.

PART THREE - OTHER STATES INSURANCE

A. How This Insurance Applies

1. This other states insurance applies only if one or more states are shown in Item 3.C. of the Information Page.
2. If you begin work in any one of those states after the effective date of this policy and are not insured or are not self-insured for such work, all provisions of the policy will apply as though that state were listed in Item 3.A. of the Information Page.
3. We will reimburse you for the benefits required by the workers compensation law of that state if we are not permitted to pay the benefits directly to persons entitled to them.
4. If you have work on the effective date of this policy in any state not listed in Item 3.A. of the Information Page, coverage will not be afforded for that state unless we are notified within thirty days.

B. Notice

Tell us at once if you begin work in any state listed in Item 3.C. of the Information Page.

PART FOUR - YOUR DUTIES IF INJURY OCCURS

Tell us at once if injury occurs that may be covered by this policy. Your other duties are listed here.

1. Provide for immediate medical and other services required by the workers compensation law.
2. Give us or our agent the names and addresses of the injured persons and of witnesses, and other information we may need.
3. Promptly give us all notices, demands and legal papers related to the injury, claim, proceeding or suit.
4. Cooperate with us and assist us, as we may request, in the investigation, settlement or defense of any claim, proceeding or suit.

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

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5. Do nothing after an injury occurs that would interfere with our right to recover from others.
6. Do not voluntarily make payments, assume obligations or incur expenses, except at your own cost.

PART FIVE—PREMIUM

A. Our Manuals

All premium for this policy will be determined by our manuals of rules, rates, rating plans and classifications. We may change our manuals and apply the changes to this policy if authorized by law or a governmental agency regulating this insurance.

B. Classifications

Item 4 of the Information Page shows the rate and premium basis for certain business or work classifications. These classifications were assigned based on an estimate of the exposures you would have during the policy period. If your actual exposures are not properly described by those classifications, we will assign proper classifications, rates and premium basis by endorsement to this policy.

C. Remuneration

Premium for each work classification is determined by multiplying a rate times a premium basis. Remuneration is the most common premium basis. This premium basis includes payroll and all other remuneration paid or payable during the policy period for the services of:

1. All your officers and employees engaged in work covered by this policy; and
2. All other persons engaged in work that could make us liable under Part One (Workers Compensation Insurance) of this policy. If you do not have payroll records for these persons, the contract price for their services and materials may be used as the premium basis. This paragraph 2 will not apply if you give us proof that the employers of these persons lawfully secured their workers compensation obligations.

D. Premium Payments

You will pay all premium when due. You will pay the premium even if part or all of a workers compensation law is not valid.

E. Final Premium

The premium shown on the Information Page, schedules, and endorsements is an estimate. The final premium will be determined after this policy ends by using the actual, not the estimated, premium basis and the proper classifications and rates that lawfully apply to the business and work covered by this policy. If the final premium is more than the premium you paid to us, you must pay us the balance. If it is less, we will refund the balance to you. The final premium will not be less than the highest minimum premium for the classifications covered by this policy.

If this policy is canceled, final premium will be determined in the following way unless our manuals provide otherwise:

1. If we cancel, final premium will be calculated pro rata based on the time this policy was in force. Final premium will not be less than the pro rata share of the minimum premium.
2. If you cancel, final premium will be more than pro rata; it will be based on the time this policy was in force, and increased by our short-rate cancellation table and procedure. Final premium will not be less than the minimum premium.

F. Records

You will keep records of information needed to compute premium. You will provide us with copies of those records when we ask for them.

G. Audit

You will let us examine and audit all your records that relate to this policy. These records include ledgers, journals, registers, vouchers, contracts, tax reports, payroll and disbursement records, and programs for storing and retrieving data. We may conduct the audits during regular business hours during the policy period and within three years after the policy period ends. Information developed by audit will be used to determine final premium. Insurance rate service organizations have the same rights we have under this provision.

PART SIX—CONDITIONS

A. Inspection

We have the right, but are not obliged to inspect your workplaces at any time. Our inspections are not safety inspections. They relate only to the insurability of the workplaces and the premiums to be charged. We may give you reports on the conditions we find. We may also recommend changes. While they may help reduce losses, we do not undertake to perform the duty of any person to provide for the health or safety of your employees or the public. We do not warrant that

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your workplaces are safe or healthful or that they comply with laws, regulations, codes or standards. Insurance rate service organizations have the same rights we have under this provision.

B. Long Term Policy

If the policy period is longer than one year and sixteen days, all provisions of this policy will apply as though a new policy were issued on each annual anniversary that this policy is in force.

C. Transfer of Your Rights and Duties

Your rights or duties under this policy may not be transferred without our written consent.

If you die and we receive notice within thirty days after your death, we will cover your legal representative as insured.

D. Cancellation

1. You may cancel this policy. You must mail or deliver advance written notice to us stating when the cancellation is to take effect.
2. We may cancel this policy. We must mail or deliver to you not less than ten days advance written notice stating when the cancellation is to take effect. Mailing that notice to you at your mailing address shown in Item 1 of the Information Page will be sufficient to prove notice.
3. The policy period will end on the day and hour stated in the cancellation notice.
4. Any of these provisions that conflict with a law that controls the cancellation of the insurance in this policy is changed by this statement to comply with the law.

E. Sole Representative

The insured first named in Item 1 of the Information Page will act on behalf of all insureds to change this policy, receive return premium, and give or receive notice of cancellation.

Section 1 Self-Quiz

Directions: Use the following terms to fill in the blanks.

classification codes	higher	monopolistic	provisions
defined	Information Page	negligence	rehabilitation
disability	insurance company	no-fault system	severity
employee payroll	lawsuits	organization	tangible
exclusions	lifetime	period	workers compensation law
federal	mandatory	predictable	
frequency	manufacturer	premium	

- Workers compensation is a(n) _____ in which employees who incur workplace injuries receive benefits by law, while employers are protected from employee lawsuits.
- With the exceptions of Texas and New Jersey, all states have made employer purchase of workers compensation coverage _____.

Employee—Advantages of WC (questions 3 through 5)

- _____ benefits if injured on the job
- Benefits regardless of _____
- Some benefits last a(n) _____

Employer—Advantages of WC (questions 6 through 8)

classification codes	higher	monopolistic	provisions
defined	Information Page	negligence	rehabilitation
disability	insurance company	no-fault system	severity
employee payroll	lawsuits	organization	tangible
exclusions	lifetime	period	workers compensation law
federal	mandatory	predictable	
frequency	manufacturer	premium	

6. No _____ from injured employees
7. Cost of insurance is _____
8. _____ benefit to employees
9. The most common funding option for the purchase of a Workers Compensation Policy is from a(n) _____ that sells the coverage.
10. A(n) _____ state fund is a state-created, state-owned, and state-operated workers compensation insurance facility that writes all workers compensation insurance in the state.
11. The _____ attached to a Workers Compensation Policy identifies Who Is An Insured, the type of _____, the policy period, the coverage provided by the _____, and where coverage exists.
12. Job _____ describe the types of works done by employees in those businesses or organizations.

Section 1: Workers Compensation and Employers Liability

13. Classifications in item 3.A. of the Information Page have specific rates that apply to each \$100 of _____.
14. Rates and payrolls are used to determine _____.
15. The Experience Rating Plan measures accident _____ and _____.
16. An experience modifier of greater than 1.00 indicates that an employer has a(n) _____ than average claims payment history among similar employers.
17. The General Section clarifies Who Is An Insured, _____, and locations in which coverage is provided.
18. Part One of the Workers Compensation and Employers Liability Insurance Policy explains how the insurance applies, as well as _____, such as the insurer's right and duty to defend against any claim.
19. The four categories of workers compensation benefits are medical benefits, _____ benefits, _____ benefits, and death benefits.
20. In a dual capacity claim, an employer is both the employer and the _____ of the product that injured an employee during the course of employment.
21. Employers Liability Insurance has twelve _____, including liability assumed under a contract and punitive or exemplary damages.
22. Endorsements can amend a Workers Compensation and Employers Liability Insurance Policy to add coverage that responds to _____ compensation laws or to amend the application of existing coverage.

Section 2: Introduction to Business Auto Coverage

Section 2: Introduction to Business Auto Coverage

Section Goal

In this section, you will acquire the knowledge required to properly trigger desired coverage under the Business Auto Policy (BAP).

Learning Objectives

1. The Parts of a Business Auto Policy

- *Name the parts of a Business Auto Policy (BAP).*

2. Definitions

- *Define the key terms found in Section V of the BAP.*

3. BAP Coverage Symbols

- *Identify which coverage symbols are used to trigger desired coverages under the BAP.*

4. Covered Persons

- *Distinguish between those who are and those who are not an insured on the BAP and what situations require specific endorsements to make a party an insured.*

5. Covered Autos Liability Coverage

- *Identify types of liability losses that are not covered by the BAP.*

6. Physical Damage Coverage

- *Describe types of physical damage coverage available under the BAP.*

7. Business Auto Conditions

- *Distinguish between the two types of conditions in Section IV of the BAP.*

Introduction to the Business Auto Policy (BAP)

The Business Auto Policy (BAP) provides coverage for most business exposures. It is designed to provide protection for a variety of business risks that are eligible to be written on this type of policy, including auto service and auto repair shops.

Before discussing the BAP, let's begin by eliminating business risks *not* covered by the BAP.

The BAP is *not* designed for auto and trailer dealers and similarly related dealerships. These should be written on an Auto Dealers Policy.

The BAP is also *not* designed for businesses that regularly transport materials or commodities and goods for themselves as well as for others. These business risks are best written on a Motor Carrier Policy.



Neither the previously mentioned Auto Dealers Policy nor the Motor Carrier Policy Coverage Forms will be discussed in this course. Instead, this course will focus entirely on the Business Auto Policy (the BAP), the Business Auto Coverage Form, and some commonly used endorsements.

The Parts of a Business Auto Policy

Learning Objective 1

- Name the parts of a Business Auto Policy (BAP).

Defining “Auto”

Let’s begin our discussion of the parts of a Business Auto Policy (BAP) by defining the term, “auto.” Then we’ll move to the beginning of the Coverage Form to examine the structure of the Business Auto Policy.

B. “Auto” means:

1. A land motor vehicle, “trailer” or semitrailer designed for travel on public roads; or
2. Any other land vehicle that is subject to a compulsory or financial responsibility law or other motor vehicle insurance law where it is licensed or principally garaged.

However, “auto” does not include “mobile equipment”.



The Business Auto Policy defines an “auto” as a land motor vehicle, “trailer,” or semitrailer that is designed for travel on public roads. It is also any other land

vehicle subject to compulsory financial responsibility, or other vehicle insurance laws wherever the “auto” is licensed or principally garaged.

Note that the term “auto” *does not* include “mobile equipment,” a term we will define later in this course.

Check-in



Directions: Check each definition of an “auto.”

- ☐ A land motor vehicle designed for travel on public roads
- ☐ A land motor vehicle designed for off-road travel
- ☐ A semitrailer
- ☐ Mobile equipment required for business operations
- ☐ A land vehicle subject to insurance laws wherever the vehicle is licensed
- ☐ A land vehicle subject to insurance laws in the states in which it travels for the sake of business

Section 2: Introduction to Business Auto Coverage

Now let's examine the parts of the BAP.

The Parts of a Policy

A Business Auto Policy has several parts: Declarations, the Business Auto Coverage Form, and Endorsements. Let's start the discussion of the parts of a policy by examining the Declarations.

Declarations	Business Auto Coverage Form	Endorsements
<p>POLICY NUMBER: COMMERCIAL AUTO CA 05 93 15 13</p> <p>BUSINESS AUTO DECLARATIONS</p> <p>ITEM ONE</p> <p>Company Name: Producer Name: Named Insured: Mailing Address: Policy Period: From: To: At 12:01 AM Standard Time at your mailing address shown above Previous Policy Number: Form Of Business: <input type="checkbox"/> Corporation <input type="checkbox"/> Limited Liability Company <input type="checkbox"/> Individual <input type="checkbox"/> Partnership <input type="checkbox"/> Other:</p>	<p>COMMERCIAL AUTO CA 00 01 11 20</p> <p>BUSINESS AUTO COVERAGE FORM</p> <p>Various provisions in this Policy restrict coverage. Read the entire policy carefully to determine rights, duties and what is and is not covered.</p> <p>Throughout this Policy, the words "you" and "your" refer to the Named Insured shown in the Declarations. The words "we", "us" and "our" refer to the company providing this insurance.</p> <p>Other words and phrases that appear in quotation marks have special meaning. Refer to Section V - Definitions.</p> <p>SECTION I - COVERED AUTOS</p> <p>Item Two of the Declarations shows the "autos" that are covered "autos" for each of your coverages. The following numerical symbols describe the "autos" that may be covered "autos". The symbols entered next to a coverage on the Declarations designate the only "autos" that are covered "autos".</p> <p>A. Description Of Covered Auto Designation Symbols</p>	<p>COMMERCIAL AUTO CA 00 33 15 13</p> <p>THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.</p> <p>EMPLOYEES AS INSURED</p> <p>This endorsement modifies insurance provided under the following:</p> <p>BUSINESS AUTO COVERAGE FORM MOTOR CARRIERS COVERAGE FORM</p> <p>With respect to coverage provided by this endorsement, the provisions of the Coverage Form apply unless modified by the endorsement.</p> <p>The following is added to the Section II - Covered Autos Liability Coverage, Paragraph A.1. Who Is An Insured provision:</p> <p>Any "employee" of yours is an "insured" while using a covered "auto" you don't own, hire or borrow in your business or your personal affairs.</p>

Declarations



You can summarize the purpose of the Items in the BAP's Declarations in four words. Those words are who, what, when, and where.

Who
the Named Insured, which may be an organization or person
What
the different coverages provided to the insured
When
the time span in which the policy is effective
Where
the address of the insured, including the state where vehicles are registered

Section 2: Introduction to Business Auto Coverage

POLICY NUMBER:	COMMERCIAL AUTO CA DS 03 10 13									
BUSINESS AUTO DECLARATIONS										
ITEM ONE										
<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td style="height: 20px;">Company Name:</td></tr><tr><td style="height: 20px;">Producer Name:</td></tr><tr><td style="height: 20px;">Named Insured:</td></tr><tr><td style="height: 40px;">Mailing Address:</td></tr><tr><td style="text-align: center;">Policy Period</td></tr><tr><td>From:</td></tr><tr><td>To: At 12:01 AM Standard Time at your mailing address shown above</td></tr><tr><td>Previous Policy Number:</td></tr></table>		Company Name:	Producer Name:	Named Insured:	Mailing Address:	Policy Period	From:	To: At 12:01 AM Standard Time at your mailing address shown above	Previous Policy Number:	
Company Name:										
Producer Name:										
Named Insured:										
Mailing Address:										
Policy Period										
From:										
To: At 12:01 AM Standard Time at your mailing address shown above										
Previous Policy Number:										
<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td colspan="3">Form Of Business:</td></tr><tr><td><input type="checkbox"/> Corporation</td><td><input type="checkbox"/> Limited Liability Company</td><td><input type="checkbox"/> Individual</td></tr><tr><td><input type="checkbox"/> Partnership</td><td><input type="checkbox"/> Other:</td><td></td></tr></table>		Form Of Business:			<input type="checkbox"/> Corporation	<input type="checkbox"/> Limited Liability Company	<input type="checkbox"/> Individual	<input type="checkbox"/> Partnership	<input type="checkbox"/> Other:	
Form Of Business:										
<input type="checkbox"/> Corporation	<input type="checkbox"/> Limited Liability Company	<input type="checkbox"/> Individual								
<input type="checkbox"/> Partnership	<input type="checkbox"/> Other:									
<small>In return for the payment of the premium, and subject to all the terms of this policy, we agree with you to provide the insurance as stated in this policy.</small>										
<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td>Premium Shown Is Payable At Inception: \$</td></tr><tr><td>Audit Period (if applicable): <input type="checkbox"/> Annually <input type="checkbox"/> Semiannually <input type="checkbox"/> Quarterly <input type="checkbox"/> Monthly</td></tr></table>		Premium Shown Is Payable At Inception: \$	Audit Period (if applicable): <input type="checkbox"/> Annually <input type="checkbox"/> Semiannually <input type="checkbox"/> Quarterly <input type="checkbox"/> Monthly							
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<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td style="text-align: center;">Endorsements Attached To This Policy</td></tr><tr><td>IL 00 17 – Common Policy Conditions (IL 01 46 in Washington)</td></tr><tr><td>IL 00 21 – Broad Form Nuclear Exclusion (not applicable in New York) (IL 01 98 in Washington)</td></tr><tr><td> </td></tr><tr><td> </td></tr></table>		Endorsements Attached To This Policy	IL 00 17 – Common Policy Conditions (IL 01 46 in Washington)	IL 00 21 – Broad Form Nuclear Exclusion (not applicable in New York) (IL 01 98 in Washington)						
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IL 00 17 – Common Policy Conditions (IL 01 46 in Washington)										
IL 00 21 – Broad Form Nuclear Exclusion (not applicable in New York) (IL 01 98 in Washington)										
CA DS 03 10 13	Page 1 of 18									

Altogether, there are six Items on the Declarations.

Item One includes the company name, producer name, Named Insured, mailing address, policy period, and form of business. It also includes the premium and list of endorsements attached to the policy.

The remaining Items in the Declarations are schedules.

- **Item Two** is the Schedule of Coverages and Covered Autos.
- **Item Three** is the Schedule of Covered Autos You Own.
- **Item Four** is the Schedule of Hired or Borrowed Covered Auto Coverage and Premiums.
- **Item Five** is the Schedule for Non-ownership Covered Autos Liability.
- **Item Six** is the Schedule for Gross Receipts or Mileage Basis.

Section 2: Introduction to Business Auto Coverage

Check-in



Directions: Read each statement about the Declarations. Select True or False.

- There are five items on the Declarations.

True

False

- Item One includes the policy period, form of business, premium, and endorsements.

True

False

- Item Four is the schedule of hired or borrowed covered auto coverage.

True

False

- The items on the Declarations answer four questions: Who? What? When? and Where?

True

False

The Business Auto Coverage Form

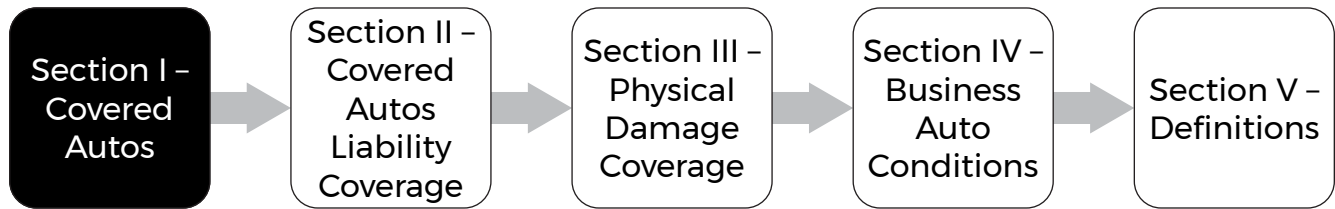
Now, let's move to an examination of the parts of the Business Auto Coverage Form.

Declarations	Business Auto Coverage Form	Endorsements
<p>POLICY NUMBER: <small>COMMERCIAL AUTO CA DS 03 10 13</small></p> <p>BUSINESS AUTO DECLARATIONS</p> <p>ITEM ONE</p> <p>Company Name: _____</p> <p>Producer Name: _____</p> <p>Named Insured: _____</p> <p>Mailing Address: _____</p> <p>Policy Period</p> <p>From: _____</p> <p>To: _____ At 12:01 AM Standard Time at your mailing address shown above</p> <p>Previous Policy Number: _____</p> <p>Form Of Business: <input type="checkbox"/> Corporation <input type="checkbox"/> Limited Liability Company <input type="checkbox"/> Individual <input type="checkbox"/> Partnership <input type="checkbox"/> Other</p>	<p><small>COMMERCIAL AUTO CA 00 01 11 20</small></p> <p>BUSINESS AUTO COVERAGE FORM</p> <p>Various provisions in this Policy restrict coverage. Read the entire policy carefully to determine rights, duties and what is and is not covered.</p> <p>Throughout this Policy, the words "you" and "your" refer to the Named Insured shown in the Declarations. The words "we", "us" and "our" refer to the company providing this insurance.</p> <p>Other words and phrases that appear in quotation marks have special meaning. Refer to Section V – Definitions.</p> <p>SECTION I – COVERED AUTOS</p> <p>Item Two of the Declarations shows the "autos" that are covered "autos" for each of your coverages. The following numerical symbols describe the "autos" that may be covered "autos". The symbols entered next to a coverage on the Declarations designate the only "autos" that are covered "autos".</p> <p>A. Description Of Covered Auto Designation Symbols</p>	<p><small>COMMERCIAL AUTO CA 99 33 10 13</small></p> <p>THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.</p> <p>EMPLOYEES AS INSURED</p> <p>This endorsement modifies insurance provided under the following:</p> <p>BUSINESS AUTO COVERAGE FORM MOTOR CARRIER COVERAGE FORM</p> <p>With respect to coverage provided by this endorsement, the provisions of the Coverage Form apply unless modified by the endorsement.</p> <p>The following is added to the Section II – Covered Autos Liability Coverage, Paragraph A.1. Who Is An Insured provision:</p> <p>Any "employee" of yours is an "insured" while using a covered "auto" you don't own, hire or borrow in your business or your personal affairs.</p>

The Business Auto Policy is an insurance contract between an insured and an insurer. The heart of this contract is the insurer's promises to the insured, and those promises are outlined in detail.

Section 2: Introduction to Business Auto Coverage

The Business Auto Coverage Form has five sections which we will review in detail later in the course. For now, let's look at the parts broadly to understand their purposes and locations in the policy. We'll begin with Section I.



SECTION I – COVERED AUTOS

Item Two of the Declarations shows the "autos" that are covered "autos" for each of your coverages. The following numerical symbols describe the "autos" that may be covered "autos". The symbols entered next to a coverage on the Declarations designate the only "autos" that are covered "autos".

Section I – Covered Autos, paragraph A., lists and explains the numerical symbols that describe the "autos" that may be covered "autos." These symbols are important, as they must be entered next to a coverage on the Declarations. We'll look more closely at these symbols later in the course.

B. Owned Autos

1. If Symbols **1, 2, 3, 4, 5, 6** or **19** are entered next to a coverage in Item Two of the Declarations, then you have coverage for "autos" that you acquire after the policy period begins of the type described for the remainder of the policy period.
2. But, if Symbol **7** is entered next to a coverage in Item Two of the Declarations, an "auto" you acquire after the policy period begins will be a covered "auto" for that coverage only if:
 - a. We already cover all "autos" that you own for that coverage or it replaces an "auto" you previously owned that had that coverage; and
 - b. You tell us within 30 days after you acquire it that you want us to cover it for that coverage.
3. An "auto" that is leased or rented to you without a driver, under a written agreement for a continuous period of at least six months that requires you to provide primary insurance covering such "auto", will be considered a covered "auto" you own.

Paragraph B. in Section I explains to the insured the conditions associated with owned autos the insured acquires after the policy's effective date.

Note that if Symbol 7 appears next to a coverage in Item Two of the Declarations, then an "auto" the insured acquires will be covered for coverage outlined in the policy only if the insurer already covers all "autos" that the insured owns for that coverage, or the newly acquired "auto" replaces a previously owned "auto" that had that coverage. Plus, the insured must alert the insurer within 30 days after acquisition of the "auto" that coverage is requested.

Autos leased to the insured for six months or more and where the insured is contractually required to provide primary insurance is considered an "owned auto."

7	Specifically Described "Autos"	Only those "autos" described in Item Three of the Declarations for which a premium charge is shown (and for Covered Autos Liability Coverage any "trailers" you don't own while attached to any power unit described in Item Three).
---	--------------------------------	--

C. Certain Trailers, Mobile Equipment And Temporary Substitute Autos

If Covered Autos Liability Coverage is provided by this Coverage Form, the following types of vehicles are also covered "autos" for Covered Autos Liability Coverage:

1. "Trailers" with a registered Gross Vehicle Weight Rating of 3,000 pounds or less designed primarily for travel on public roads.
2. "Mobile equipment" while being carried or towed by a covered "auto".
3. Any "auto" you do not own while used with the permission of its owner as a temporary substitute for a covered "auto" you own that is out of service because of its:
 - a. Breakdown;
 - b. Repair;
 - c. Servicing;
 - d. "Loss"; or
 - e. Destruction.

Paragraph C. of Section I focuses on coverage for certain trailers, mobile equipment, and temporary substitute autos. Mobile equipment will be examined more closely later in the course. For now, recognize that this topic concludes Section I in the BAP.



Check-in



Directions: Write a short response to the following question.

What does Symbol 7 indicate in Item Two of the Declarations?

Section 2: Introduction to Business Auto Coverage

Sections II and III focus on coverages important to this course. Once again, we'll take a cursory look at both Sections II and III before returning to specific topics within those sections.



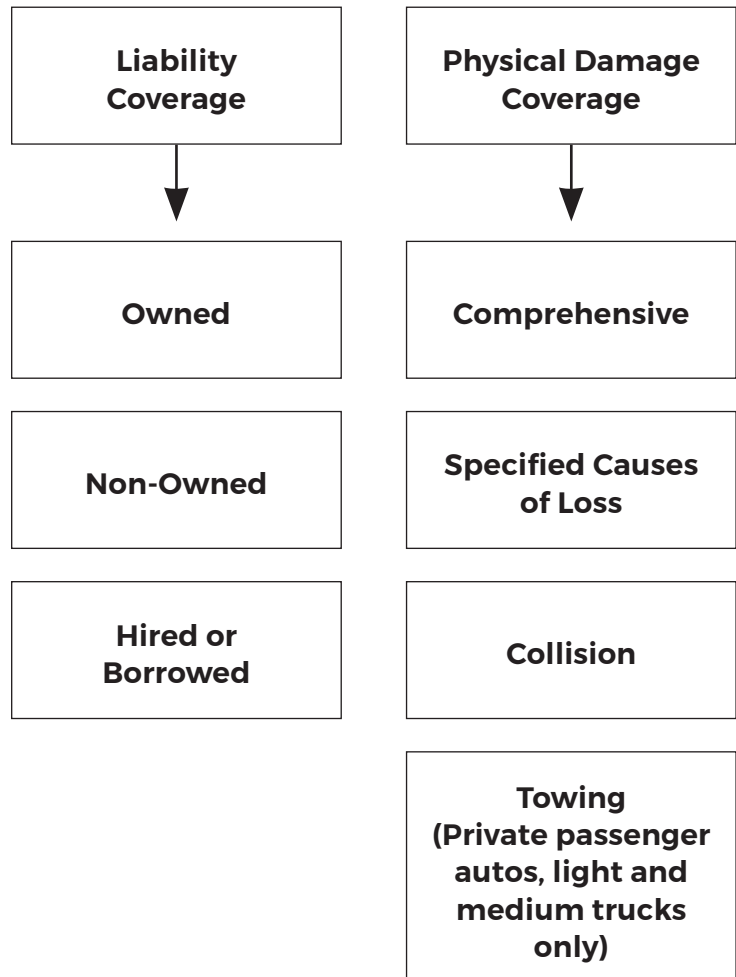
Section II's **Covered Autos Liability Coverage** provides protection from claims for bodily injury and property damage for which an insured is legally responsible.

Section III's **Physical Damage Coverage** provides coverage for damage to or loss of an insured's covered auto.

Medical Payments and/or Personal Injury Protection and coverage for Uninsured and/or Underinsured Motorist (UM/UIM) bodily injury and/or property damage losses can be added by endorsement.

Because these coverages vary from state to state, it's important to obtain copies of the forms for these coverages that apply in your state and keep them for reference.

Exposures Covered by the Business Auto Coverage Form

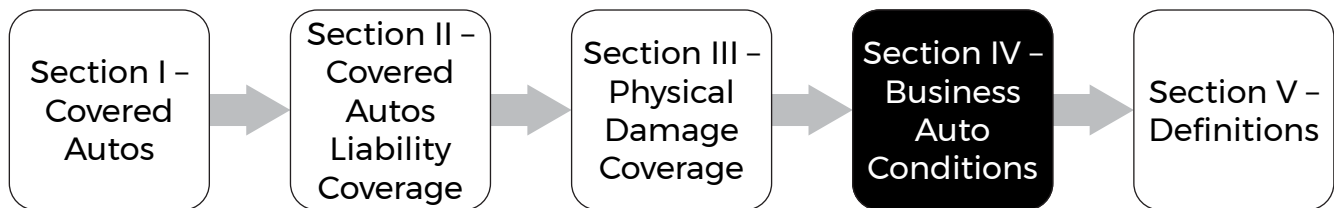


Check-in



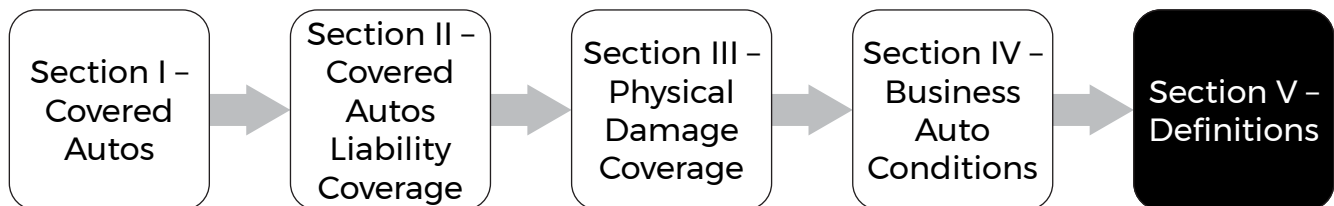
Directions: Explain the difference between Covered Autos Liability Coverage and Physical Damage Coverage. Write a short response below.

Conditions



Business Auto Conditions are explained in Section IV of the BAP. The Conditions section of the policy explains the rules for the insured and the insurance company under the terms of the contract. These conditions address loss situations, premium payment, behaviors of the parties, locations where the policy applies, and other issues.

Definitions



Definitions conclude the BAP. An insurance professional requires a thorough understanding of the terms defined in an insurance policy. To help develop that understanding, the terms are examined in detail later in this section.

Endorsements

Declarations	Business Auto Coverage Form	Endorsements
<p>POLICY NUMBER: COMMERCIAL AUTO CA 08 03 10 13</p> <p>BUSINESS AUTO DECLARATIONS</p> <p>ITEM ONE</p> <p>Company Name: _____</p> <p>Producer Name: _____</p> <p>Named Insured: _____</p> <p>Mailing Address: _____</p> <p>_____</p> <p>Policy Period</p> <p>From: _____ To: _____ At 12:01 AM Standard Time at your mailing address shown above.</p> <p>Previous Policy Number: _____</p> <p>Form Of Business: <input type="checkbox"/> Corporation <input type="checkbox"/> Limited Liability Company <input type="checkbox"/> Individual <input type="checkbox"/> Partnership <input type="checkbox"/> Other: _____</p>	<p>COMMERCIAL AUTO CA 08 01 11 20</p> <p>BUSINESS AUTO COVERAGE FORM</p> <p>Various provisions in this Policy restrict coverage. Read the entire policy carefully to determine rights, duties and what is and is not covered.</p> <p>Throughout this Policy, the words "you" and "your" refer to the Named Insured shown in the Declarations. The words "we," "us" and "our" refer to the company providing this insurance.</p> <p>Other words and phrases that appear in quotation marks have special meaning. Refer to Section V – Definitions.</p> <p>SECTION I – COVERED AUTOS</p> <p>Item Two of the Declarations shows the "autos" that are covered "autos" for each of your coverages. The following numerical symbols describe the "autos" that may be covered "autos". The symbols entered next to a coverage on the Declarations designate the only "autos" that are covered "autos".</p> <p>A. Description Of Covered Auto Designation Symbols</p>	<p>COMMERCIAL AUTO CA 99 33 10 13</p> <p>THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.</p> <p>EMPLOYEES AS INSURED</p> <p>This endorsement modifies insurance provided under the following:</p> <p>BUSINESS AUTO COVERAGE FORM MOTOR CARRIER COVERAGE FORM</p> <p>With respect to coverage provided by this endorsement, the provisions of the Coverage Form apply unless modified by the endorsement.</p> <p>The following is added to the Section II – Covered Autos Liability Coverage, Paragraph A.1, Who Is An Insured provision:</p> <p>Any "employee" of yours is an "insured" while using a covered "auto" you don't own, hire or borrow in your business or your personal affairs.</p>

Endorsements are additions to a policy that amend the coverage provided in the Coverage Form. Endorsements are designed for specific situations that may apply to one particular insured or group of insureds but not to every insured who purchases the coverage. Later in this course, we will review some commonly used endorsements that will be important to remember.

Two Additional Types of Auto Coverage Forms

We have examined the parts of the Business Auto Coverage Form, the focus of this course. The BAP is designed to provide coverage for most types of businesses.

However, it's important to be familiar with two additional coverage forms, as well.

The **Motor Carrier Coverage Form** is designed to insure businesses that transport goods for themselves or for others.

The **Auto Dealers Coverage Form** is designed to insure auto dealers and similar businesses.



Knowledge Check

Directions: Explain the following parts of a Business Auto Policy:

Declarations: _____

Coverage Form: _____

Conditions: _____

Definitions: _____

Endorsements: _____

Key Terms

Learning Objective 2

- Define the key terms found in Section V of the BAP.

There are key terms in the BAP Coverage Form that have specific meanings important to coverage. These are defined in the Definitions.

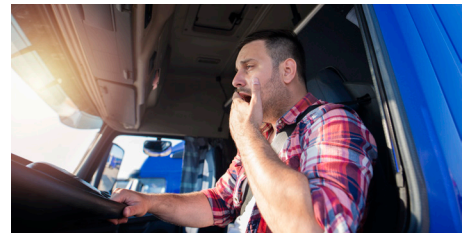
Remember that the final section in the Business Auto Policy Coverage Form is **Section V – Definitions**.

Because the BAP is an insurance contract, it uses words with very specific meanings. Section V defines 16 words. Learning these definitions is important to correctly reading and understanding the policy. Words in the policy that have specific definitions are shown in quotation marks.

The meanings of several words will be explored in greater depth as they appear in course discussions, but for now, let's take some time to introduce the 16 terms defined in the insurance contract.

- A.** An **"accident"** includes continuous or repeated exposure to the same conditions. This exposure results in "bodily injury" or "property damage."

A. "Accident" includes continuous or repeated exposure to the same conditions resulting in "bodily injury" or "property damage".



- B.** Recall that an **"auto"** is a land motor vehicle, "trailer," or semitrailer designed for travel on public roads, or other land vehicle that is subject to the laws where it is licensed and principally garaged.

B. "Auto" means:

1. A land motor vehicle, "trailer" or semitrailer designed for travel on public roads; or
2. Any other land vehicle that is subject to a compulsory or financial responsibility law or other motor vehicle insurance law where it is licensed or principally garaged.

However, "auto" does not include "mobile equipment".



Auto Ownership

Owned Autos are autos that are:

- owned (titled/leased for six months or more) in the name of a business or organization, or owned by a sole proprietor, and
- being used for business purposes. Business purposes can include permissive personal use by others.



A pickup truck, a van, a private passenger car, a box delivery truck, or a larger truck could all be “owned autos.”



Hired Autos are autos that a business organization or sole proprietor leases, hires, rents, or borrows. But hired autos *don't* include autos belonging to employees or partners or any of their family members.

Non-owned Autos are autos that a business organization or sole proprietor doesn't own, hire, rent, or borrow in connection to the business. But non-owned autos *do* include autos belonging to employees or partners or any of their family members.

We will examine these distinctions between hired autos, owned autos, and non-owned autos later in the course.

C. “**Bodily injury**” refers to bodily injury, sickness, or disease sustained by a person, including that resulting in death.

C. “Bodily injury” means bodily injury, sickness or disease sustained by a person, including death resulting from any of these.



- D.** A “**covered pollution cost or expense**” is any cost or expense arising out of circumstances in which an insured must monitor, clean up, remove, contain, treat, detoxify, or neutralize, or respond in some other way to “pollutants” or to assess their effects.

“Covered pollution cost or expense” does *not* include costs or expenses that arise from the actual, alleged, or threatened discharge, dispersal, seepage, migration, release, or escape of “pollutants.”

- D.** “Covered pollution cost or expense” means any cost or expense arising out of:

1. Any request, demand, order or statutory or regulatory requirement that any “insured” or others test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of, “pollutants”; or
2. Any claim or “suit” by or on behalf of a governmental authority for damages because of testing for, monitoring, cleaning up, removing, containing, treating, detoxifying or neutralizing, or in any way responding to, or assessing the effects of, “pollutants”.

“Covered pollution cost or expense” does not include any cost or expense arising out of the actual, alleged or threatened discharge, dispersal, seepage, migration, release or escape of “pollutants”:

- a. That are, or that are contained in any property that is:
 - (1) Being transported or towed by, handled or handled for movement into, onto or from the covered “auto”;
 - (2) Otherwise in the course of transit by or on behalf of the “insured”; or
 - (3) Being stored, disposed of, treated or processed in or upon the covered “auto”;
- b. Before the “pollutants” or any property in which the “pollutants” are contained are moved from the place where they are accepted by the “insured” for movement into or onto the covered “auto”; or
- c. After the “pollutants” or any property in which the “pollutants” are contained are moved from the covered “auto” to the place where they are finally delivered, disposed of or abandoned by the “insured”.

Paragraph **a.** above does not apply to fuels, lubricants, fluids, exhaust gases or other similar “pollutants” that are needed for or result from the normal electrical, hydraulic or mechanical functioning of the covered “auto” or its parts, if:

- (1) The “pollutants” escape, seep, migrate or are discharged, dispersed or released directly from an “auto” part designed by its manufacturer to hold, store, receive or dispose of such “pollutants”; and
- (2) The “bodily injury”, “property damage” or “covered pollution cost or expense” does not arise out of the operation of any equipment listed in Paragraph **6.b.** or **6.c.** of the definition of “mobile equipment”.

Paragraphs **b.** and **c.** above do not apply to “accidents” that occur away from premises owned by or rented to an “insured” with respect to “pollutants” not in or upon a covered “auto” if:

- (a) The “pollutants” or any property in which the “pollutants” are contained are upset, overturned or damaged as a result of the maintenance or use of a covered “auto”; and
- (b) The discharge, dispersal, seepage, migration, release or escape of the “pollutants” is caused directly by such upset, overturn or damage.

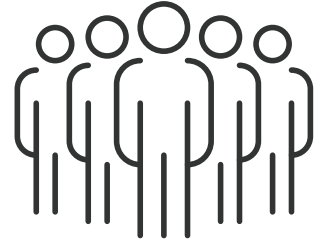
Section 2: Introduction to Business Auto Coverage

- E. The term, “**diminution in value**,” refers to perceived loss in market or resale value resulting from a direct and accidental “loss.”

E. "Diminution in value" means the actual or perceived loss in market value or resale value which results from a direct and accidental "loss".

- F. An “**employee**” includes a “leased worker” but not a “temporary worker.” The latter terms are defined later.

F. "Employee" includes a "leased worker". "Employee" does not include a "temporary worker".



- G. The term “**insured**” is examined more closely later in this section. For now, know that an “insured” is a person or organization qualifying as an insured in the Who Is An Insured provision of the coverage.

G. "Insured" means any person or organization qualifying as an insured in the Who Is An Insured provision of the applicable coverage. Except with respect to the Limit of Insurance, the coverage afforded applies separately to each insured who is seeking coverage or against whom a claim or "suit" is brought.



- H. An “**insured contract**” can take six different forms:

1. A lease of premises
2. A sidetrack agreement
3. Any easement or license agreement, except certain circumstances
4. An obligation required by ordinance to indemnify a municipality, except with respect to work for the municipality
5. That part of any other contract or agreement pertaining to the insured’s business under which the insured assumes the tort liability of another to pay for “bodily injury” or “property damage” to a third party or organization
6. That part of any contract or agreement entered into as part of the insured’s business pertaining to the rental or lease by the insured or by any of the insured’s “employees” of any “auto”



Section 2: Introduction to Business Auto Coverage

H. "Insured contract" means:

1. A lease of premises;
2. A sidetrack agreement;
3. Any easement or license agreement, except in connection with construction or demolition operations on or within 50 feet of a railroad;
4. An obligation, as required by ordinance, to indemnify a municipality, except in connection with work for a municipality;
5. That part of any other contract or agreement pertaining to your business (including an indemnification of a municipality in connection with work performed for a municipality) under which you assume the tort liability of another to pay for "bodily injury" or "property damage" to a third party or organization. Tort liability means a liability that would be imposed by law in the absence of any contract or agreement; or
6. That part of any contract or agreement entered into, as part of your business, pertaining to the rental or lease, by you or any of your "employees", of any "auto". However, such contract or agreement shall not be considered an "insured contract" to the extent that it obligates you or any of your "employees" to pay for "property damage" to any "auto" rented or leased by you or any of your "employees".

An "insured contract" does not include that part of any contract or agreement:

- a. That indemnifies a railroad for "bodily injury" or "property damage" arising out of construction or demolition operations, within 50 feet of any railroad property and affecting any railroad bridge or trestle, tracks, roadbeds, tunnel, underpass or crossing;
- b. That pertains to the loan, lease or rental of an "auto" to you or any of your "employees", if the "auto" is loaned, leased or rented with a driver; or
- c. That holds a person or organization engaged in the business of transporting property by "auto" for hire harmless for your use of a covered "auto" over a route or territory that person or organization is authorized to serve by public authority.

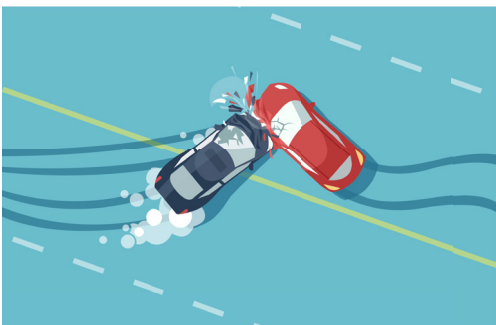
- I. A **"leased worker"** is someone leased to the insured by a labor leasing firm under the terms of a contractual agreement.

- I. "Leased worker" means a person leased to you by a labor leasing firm under an agreement between you and the labor leasing firm to perform duties related to the conduct of your business. "Leased worker" does not include a "temporary worker".









- J. A **"loss"** is a direct or accidental loss or damage.

- J. "Loss" means direct and accidental loss or damage.



K. The definition of “**mobile equipment**” is extensive and discussed again later in this section. In summary, “mobile equipment” is any of the following kinds of land vehicles, including attached machinery or equipment:

1. Bulldozers, farm machinery, and forklifts 
2. Vehicles used solely on or next to premises owned or rented by the insured 
3. Vehicles that travel on crawler treads 
4. Vehicles maintained primarily to provide mobility to assorted permanently mounted equipment 
5. Vehicles not already described in paragraphs K.1. through K.4. that are not self-propelled and are maintained primarily to provide mobility to permanently attached equipment of specific types. 
6. Equipment designed primarily for purposes other than the transportation of persons or cargo. 

K. “Mobile equipment” means any of the following types of land vehicles, including any attached machinery or equipment:

1. Bulldozers, farm machinery, forklifts and other vehicles designed for use principally off public roads;
2. Vehicles maintained for use solely on or next to premises you own or rent;
3. Vehicles that travel on crawler treads;
4. Vehicles, whether self-propelled or not, maintained primarily to provide mobility to permanently mounted:
 - a. Power cranes, shovels, loaders, diggers or drills; or
 - b. Road construction or resurfacing equipment such as graders, scrapers or rollers;
5. Vehicles not described in Paragraph 1., 2., 3. or 4. above that are not self-propelled and are maintained primarily to provide mobility to permanently attached equipment of the following types:
 - a. Air compressors, pumps and generators, including spraying, welding, building cleaning, geophysical exploration, lighting and well-servicing equipment; or
 - b. Cherry pickers and similar devices used to raise or lower workers; or
6. Vehicles not described in Paragraph 1., 2., 3. or 4. above maintained primarily for purposes other than the transportation of persons or cargo. However, self-propelled vehicles with the following types of permanently attached equipment are not “mobile equipment” but will be considered “autos”:
 - a. Equipment designed primarily for:
 - (1) Snow removal;
 - (2) Road maintenance, but not construction or resurfacing; or
 - (3) Street cleaning;
 - b. Cherry pickers and similar devices mounted on automobile or truck chassis and used to raise or lower workers; and
 - c. Air compressors, pumps and generators, including spraying, welding, building cleaning, geophysical exploration, lighting or well-servicing equipment.

However, “mobile equipment” does not include land vehicles that are subject to a compulsory or financial responsibility law or other motor vehicle insurance law where it is licensed or principally garaged. Land vehicles subject to a compulsory or financial responsibility law or other motor vehicle insurance law are considered “autos”.

Section 2: Introduction to Business Auto Coverage

L. "Pollutants" are any solid, liquid, gaseous, or thermal irritant or contaminant.

L. "Pollutants" means any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acids, alkalis, chemicals and waste. Waste includes materials to be recycled, reconditioned or reclaimed.



M. Damage to or loss of use of tangible property is "property damage."

M. "Property damage" means damage to or loss of use of tangible property.



N. A "suit" is a civil proceeding in which damages because of "bodily injury" or "property damage," or a "covered pollution cost or expense" to which the insurance applies, is alleged. A "suit" includes arbitration proceedings and alternative dispute resolution proceedings.

N. "Suit" means a civil proceeding in which:

1. Damages because of "bodily injury" or "property damage"; or
2. A "covered pollution cost or expense"; to which this insurance applies, are alleged.

"Suit" includes:

- a. An arbitration proceeding in which such damages or "covered pollution costs or expenses" are claimed and to which the "insured" must submit or does submit with our consent; or
- b. Any other alternative dispute resolution proceeding in which such damages or "covered pollution costs or expenses" are claimed and to which the insured submits with our consent.



O. A "temporary worker" is one furnished to the insured as a substitute for a permanent "employee" who is on leave or someone who works for the insured to meet seasonal or short-term workload conditions.

O. "Temporary worker" means a person who is furnished to you to substitute for a permanent "employee" on leave or to meet seasonal or short-term workload conditions.



Section 2: Introduction to Business Auto Coverage

P. A “trailer” includes semitrailer.

P. "Trailer" includes semitrailer.



Check-in



Directions: Define each term.

1. “accident”

2. “auto”

3. “insured”



Knowledge Check



Directions: Explain each of the following terms:

1. owned auto

2. hired auto

3. non-owned auto

BAP Coverage Symbols

Learning Objective 3

- Identify which coverage symbols are used to trigger desired coverages under the BAP.

Coverages

The Business Auto Declarations displays several separate types of coverages.

- Covered Autos Liability
- Personal Injury Protection
- Auto Medical Payments
- Uninsured/Underinsured Motorists
- Physical Damage—Comprehensive
- Physical Damage—Specified Causes of Loss
- Physical Damage—Collision
- Physical Damage—Towing and Labor

The BAP uses a system of numerical symbols to designate which “autos” are covered for which coverages. These symbols must appear on the Declarations for any particular coverage to apply.

Coverages	Covered Autos	Limit or Deductible	Premium
Covered Autos Liability		\$	\$
Personal Injury Protection (Or Equivalent No-fault Coverage)		Separately Stated In Each Personal Injury Protection Endorsement Minus \$ Deductible	\$
Added Personal Injury Protection (Or Equivalent Added No-fault Coverage)		Separately Stated In Each Added Personal Injury Protection Endorsement	\$
Property Protection Insurance (Michigan Only)		Separately Stated In The Property Protection Insurance Endorsement Minus \$ Deductible For Each Accident	\$
Auto Medical Payments		\$ Each Insured	\$
Medical Expense And Income Loss Benefits (Virginia Only)		Separately Stated In The Medical Expense And Income Loss Benefits Endorsement	\$
Uninsured Motorists		\$	\$
Underinsured Motorists (When Not Included In Uninsured Motorists Coverage)		\$	\$
Physical Damage Comprehensive Coverage		\$ Deductible For Each Covered Auto For Loss Caused By Theft or Mischief or Vandalism (A maximum deductible may also apply. Refer to Coverage Form for details.) OR \$ Deductible For All Perils For Each Covered Auto (A maximum deductible may also apply. Refer to Coverage Form for details.) See Item Four For Hired or Borrowed Autos	\$
Physical Damage Specified Causes Of Loss Coverage		\$ Deductible For Loss Caused By Theft or Mischief or Vandalism (A maximum deductible may also apply. Refer to Coverage Form for details.) OR \$ Deductible For All Perils For Each Covered Auto (A maximum deductible may also apply. Refer to Coverage Form for details.) See Item Four For Hired or Borrowed Autos	\$
Physical Damage Collision Coverage		\$ Deductible For Each Covered Auto See Item Four for Hired or Borrowed Autos.	\$
Physical Damage Towing And Labor		\$ For Each Disablement Of A Private Passenger Auto, Light Or Medium Truck	\$
Premium For Endorsements			\$
Estimated Total Premium			\$
*This policy may be subject to final audit.			

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A System of Numerical Symbols

Symbol	Description Of Covered Auto Designation Symbols	
1	Any "Auto"	
2	Owned "Autos" Only	Only those "autos" you own (and for Covered Autos Liability Coverage any "trailers" you don't own while attached to power units you own). This includes those "autos" you acquire ownership of after the Policy begins.
3	Owned Private Passenger "Autos" Only	Only the private passenger "autos" you own. This includes those private passenger "autos" you acquire ownership of after the Policy begins.
4	Owned "Autos" Other Than Private Passenger "Autos" Only	Only those "autos" you own that are not of the private passenger type (and for Covered Autos Liability Coverage any "trailers" you don't own while attached to power units you own). This includes those "autos" not of the private passenger type you acquire ownership of after the Policy begins.
5	Owned "Autos" Subject To No-fault	Only those "autos" you own that are required to have no-fault benefits in the state where they are licensed or principally garaged. This includes those "autos" you acquire ownership of after the Policy begins provided they are required to have no-fault benefits in the state where they are licensed or principally garaged.
6	Owned "Autos" Subject To A Compulsory Uninsured Motorists Law	Only those "autos" you own that because of the law in the state where they are licensed or principally garaged are required to have and cannot reject Uninsured Motorists Coverage. This includes those "autos" you acquire ownership of after the Policy begins provided they are subject to the same state uninsured motorists requirement.
7	Specifically Described "Autos"	Only those "autos" described in Item Three of the Declarations for which a premium charge is shown (and for Covered Autos Liability Coverage any "trailers" you don't own while attached to any power unit described in Item Three).
8	Hired "Autos" Only	Only those "autos" you lease, hire, rent or borrow. This does not include any "auto" you lease, hire, rent or borrow from any of your "employees", partners (if you are a partnership), members (if you are a limited liability company) or members of their households.
9	Non-owned "Autos" Only	Only those "autos" you do not own, lease, hire, rent or borrow that are used in connection with your business. This includes "autos" owned by your "employees", partners (if you are a partnership), members (if you are a limited liability company) or members of their households but only while used in your business or your personal affairs.
19	Mobile Equipment Subject To Compulsory Or Financial Responsibility Or Other Motor Vehicle Insurance Law Only	Only those "autos" that are land vehicles and that would qualify under the definition of "mobile equipment" under this Policy if they were not subject to a compulsory or financial responsibility law or other motor vehicle insurance law where they are licensed or principally garaged.

Section 2: Introduction to Business Auto Coverage

1 Any “Auto” applies only to liability coverage.

2 Owned “Autos” Only triggers coverage for any “autos” that are owned by the insured and includes autos that are acquired during the policy period. Symbol 2 can be used for liability coverage, medical payments, UM/UIM, and physical damage coverage. It includes coverage for autos (of the same type) acquired during the policy period.

Symbol 2 applies to only those “autos” you own (and for Covered Autos Liability Coverage and any “trailers” you *don’t* own while attached to power units you *do* own.)

3 Owned Private Passenger “Autos” Only triggers coverage for private passenger “autos” owned by the insured. Symbol 3 can be used for liability, medical payments, UM/UIM, physical damage, and towing coverage.

Private passenger “autos” the insured owns include private passenger “autos” the insured acquires ownership of after the policy begins.

4 Owned “Autos” Other Than Private Passenger “Autos” Only triggers coverage for owned “autos” that are not private passenger type vehicles. It can be used for liability, medical payments, UM/UIM, and physical damage coverage.

Only those “autos” the insured owns that are not of the private passenger type (and for Covered Autos Liability Coverage, any “trailers” the insured *doesn’t* own while they are attached to power units the insured *does* own). This includes those “autos” not of the private passenger type the insured acquires ownership of after the policy begins.

5 Owned “Autos” Subject To No-fault triggers coverage for owned “autos” when the insured is required to have, and cannot reject, no-fault benefits because of the law in the state where the vehicles are licensed or garaged. It includes coverage for newly acquired “autos” if they are subject to the law.





6 Owned “Autos” Subject To A Compulsory Uninsured Motorists Law (UM) triggers coverage for owned “autos” when the insured is required to have, and cannot reject, the uninsured motorists’ law in the state where the “autos” are licensed or garaged. It includes coverage for newly acquired “autos” if the “autos” are subject to the law.

7 Specifically Described “Autos” triggers coverage for “autos” that are scheduled on the Declarations. It provides liability coverage for non-owned trailers attached to a covered “auto.”

Symbol 7 also provides automatic coverage for newly acquired “autos” with these conditions:

- If all the “autos” owned by the insured already have that coverage, then the new additional “auto” has that coverage;
- If the newly acquired “auto” is replacing an auto that the insured previously owned that had that coverage; and
- If the insured tells the company within 30 days.

Examples of Symbol 7 Liability and Coverage

Description		Liability	Comprehensive Coverage	Specified Causes of Loss Coverage	Collision Coverage
	Sedan	X	X		X
	SUV, such as a Chevrolet Suburban	X		X	X
	Pickup Truck	X		X	X
	Delivery Van	X			

Section 2: Introduction to Business Auto Coverage

The BAP is written with Symbol 7 in the following examples:



The Named Insured acquires an additional auto. This new auto will be covered for liability only AND *only* if the Named Insured reports within 30 days of purchase that coverage is desired.



The Named Insured replaces a pickup truck with a new auto. The new auto will be covered for liability, specified causes of loss (SCOL), and collision coverage only AND *only* if the Named Insured reports within 30 days of acquisition that such coverages are desired.



The Named Insured replaces the delivery van with a new auto. The new auto will be covered for liability only, AND *only* if the Named Insured reports within 30 days of acquisition that coverage is desired.

Warning: If Symbol 7 is used in a BAP, an insured has NO coverage if the insured fails to tell the company within 30 days of acquisition of an additional auto that the client wants the company to insure the newly acquired auto for that coverage.



- 8** **Hired “Autos” Only** is used for hired or borrowed “autos,” but doesn’t include those “autos” that are hired, rented, or borrowed from employees, partners, or members of LLCs or their family members.
- 9** Symbol 9 triggers coverage for **Non-owned “Autos” Only** that are not hired or borrowed by the insured and that are used in connection with the insured’s business. Symbol 9 also includes “autos” owned by the insured’s employees, partners, and members of LLCs and their family members.
- 19** **Mobile Equipment Subject To Compulsory Or Financial Responsibility Or Other Motor Vehicle Insurance Law Only** applies only to those “autos” that are land vehicles and which would qualify under the definition of “mobile equipment” under this policy if they were not subject to a compulsory or financial responsibility law or other motor vehicle insurance law where they are licensed or principally garaged.

Check-in



Directions: Match each symbol to its meaning.

- | | |
|-----------------|---|
| _____ Symbol 1 | A. Triggers coverage only for private passenger “autos” owned by the insured |
| _____ Symbol 2 | B. Triggers coverage for specifically described “autos” that are scheduled on the Declarations |
| _____ Symbol 3 | C. Applies only to those “autos” the insured leases, hires, rents, or borrows |
| _____ Symbol 4 | D. Triggers coverage for non-owned “autos” that are not hired or borrowed by the insured and that are used in connection with the insured’s business, including employee-owned autos. |
| _____ Symbol 5 | E. Triggers coverage only for owned “autos” that are not private passenger type vehicles |
| _____ Symbol 6 | F. Represents any “auto”; applies only to liability coverage |
| _____ Symbol 7 | G. Triggers coverage for owned “autos” when the insured is required to have, and cannot reject, no-fault benefits because of the law in the state where the vehicles are licensed or garaged |
| _____ Symbol 8 | H. Represents owned “autos”; triggers coverage for “autos” owned by the insured and “autos” acquired during a policy period |
| _____ Symbol 9 | I. Triggers coverage for any “auto” that would qualify as mobile equipment if it were not subject to compulsory or financial responsibility by state law where it is licensed or principally garaged |
| _____ Symbol 19 | J. Triggers coverage for owned “autos” when the insured is required to have, and cannot reject, an uninsured motorists’ law in the state where the “autos” are licensed or garaged |

What About Mobile Equipment?

The BAP clearly states that an “auto” is a vehicle designed for travel on public roads. But in some states, laws or regulations can require owners of some types of vehicles (mobile equipment) that are not obviously designed for travel on public roads to maintain an auto insurance policy. Ordinarily, liability insurance coverage for mobile equipment is provided by the insured’s Commercial General Liability Policy.



K. “Mobile equipment” means any of the following types of land vehicles, including any attached machinery or equipment:

1. Bulldozers, farm machinery, forklifts and other vehicles designed for use principally off public roads;
2. Vehicles maintained for use solely on or next to premises you own or rent;
3. Vehicles that travel on crawler treads;
4. Vehicles, whether self-propelled or not, maintained primarily to provide mobility to permanently mounted:
 - a. Power cranes, shovels, loaders, diggers or drills; or
 - b. Road construction or resurfacing equipment such as graders, scrapers or rollers;
5. Vehicles not described in Paragraph 1., 2., 3. or 4. above that are not self-propelled and are maintained primarily to provide mobility to permanently attached equipment of the following types:
 - a. Air compressors, pumps and generators, including spraying, welding, building cleaning, geophysical exploration, lighting and well-servicing equipment; or
 - b. Cherry pickers and similar devices used to raise or lower workers; or
6. Vehicles not described in Paragraph 1., 2., 3. or 4. above maintained primarily for purposes other than the transportation of persons or cargo. However, self-propelled vehicles with the following types of permanently attached equipment are not “mobile equipment” but will be considered “autos”:
 - a. Equipment designed primarily for:
 - (1) Snow removal;
 - (2) Road maintenance, but not construction or resurfacing; or
 - (3) Street cleaning;
 - b. Cherry pickers and similar devices mounted on automobile or truck chassis and used to raise or lower workers; and
 - c. Air compressors, pumps and generators, including spraying, welding, building cleaning, geophysical exploration, lighting or well-servicing equipment.

However, “mobile equipment” does not include land vehicles that are subject to a compulsory or financial responsibility law or other motor vehicle insurance law where it is licensed or principally garaged. Land vehicles subject to a compulsory or financial responsibility law or other motor vehicle insurance law are considered “autos”.

Mobile Equipment—What It Is and What It Isn’t

We examined the BAP’s definitions in the previous lesson. One of the defined terms is “mobile equipment.” But what is “mobile equipment,” and what isn’t?



“Mobile equipment” IS equipment that is:

- designed for travel off public roads
- maintained for use solely on or next to the insured’s premises
- travels on crawler treads
- provides mobility to permanently mounted power cranes, shovels, loaders, diggers, or drills, or road construction or resurfacing equipment (graders, scrapers, rollers)
- not self-propelled and that provides mobility to permanently mounted cherry pickers, air compressors, pumps, generators including spraying, welding, building cleaning, geophysical exploration, lighting, and well servicing equipment
- maintained for purposes other than transportation of persons or cargo



Section 2: Introduction to Business Auto Coverage

To clarify, mobile equipment IS also equipment that is NOT self-propelled (such as a trailer) and has permanently attached equipment, such as:

- air compressors
- pumps
- generators
- equipment used for spraying, welding, building cleaning, geophysical exploration, lighting, and well servicing equipment
- cherry pickers used to raise or lower workers

	
an air compressor	a generator

Mobile equipment IS NOT self-propelled equipment with the following types of permanently attached equipment:

		
snow removal	road maintenance (but not construction)	street cleaning

Also, mobile equipment DOES NOT include:

- a cherry picker on an auto or truck chassis
- vehicles providing mobility to equipment used for spraying, welding, building cleaning, geophysical exploration, lighting, and well servicing equipment
- land vehicles subject to financial responsibility laws in the states where they are licensed or garaged



An Additional Symbol

There is another symbol that is sometimes used on the BAP. It presents the opportunity for the insurance company, the agent, and the customer to customize a special symbol for a particular need.




- 10** Symbol 10, the **Covered Auto Designation**, can create or restrict coverage for types of autos described in the Endorsement CA 99 54. It is often used to provide differing coverages, or different physical damage deductibles, based upon the types or ages of owned autos.

1. If Symbols **1, 2, 3, 4, 5, 6** or **19** are entered next to a coverage in Item Two of the Declarations, then you have coverage for "autos" that you acquire after the policy period begins of the type described for the remainder of the policy period.
2. But, if Symbol **7** is entered next to a coverage in Item Two of the Declarations, an "auto" you acquire after the policy period begins will be a covered "auto" for that coverage only if:
 - a. We already cover all "autos" that you own for that coverage or it replaces an "auto" you previously owned that had that coverage; and
 - b. You tell us within 30 days after you acquire it that you want us to cover it for that coverage.

Recall our discussion of paragraph B. in Section I of the BAP. This paragraph explains to the insured the conditions associated with owned autos the insured acquires after the policy's effective date. Note the symbols in the explanation.

Certain Trailers, Mobile Equipment, and Temporary Substitute Autos

If the BAP provides liability coverage, it extends liability coverage automatically to:

	<p>Trailers with a gross vehicle weight rating of 3,000 pounds or less that are designed primarily for travel on public roads</p>
	<p>Mobile equipment being towed or carried by a covered auto</p>
	<p>A non-owned auto being used as a temporary substitute for an owned auto that is out of service because of breakdown, repair, servicing, loss, or destruction</p>

Check-In



Directions: Refer to the Description Of Covered Auto Designation Symbols on the facing page to identify the symbol that represents the following categories of autos:

- _____ Any owned auto
- _____ Hired autos
- _____ Any owned private passenger auto
- _____ Non-owned autos
- _____ Any auto

Section 2: Introduction to Business Auto Coverage

Symbol	Description Of Covered Auto Designation Symbols	
1	Any "Auto"	
2	Owned "Autos" Only	Only those "autos" you own (and for Covered Autos Liability Coverage any "trailers" you don't own while attached to power units you own). This includes those "autos" you acquire ownership of after the Policy begins.
3	Owned Private Passenger "Autos" Only	Only the private passenger "autos" you own. This includes those private passenger "autos" you acquire ownership of after the Policy begins.
4	Owned "Autos" Other Than Private Passenger "Autos" Only	Only those "autos" you own that are not of the private passenger type (and for Covered Autos Liability Coverage any "trailers" you don't own while attached to power units you own). This includes those "autos" not of the private passenger type you acquire ownership of after the Policy begins.
5	Owned "Autos" Subject To No-fault	Only those "autos" you own that are required to have no-fault benefits in the state where they are licensed or principally garaged. This includes those "autos" you acquire ownership of after the Policy begins provided they are required to have no-fault benefits in the state where they are licensed or principally garaged.
6	Owned "Autos" Subject To A Compulsory Uninsured Motorists Law	Only those "autos" you own that because of the law in the state where they are licensed or principally garaged are required to have and cannot reject Uninsured Motorists Coverage. This includes those "autos" you acquire ownership of after the Policy begins provided they are subject to the same state uninsured motorists requirement.
7	Specifically Described "Autos"	Only those "autos" described in Item Three of the Declarations for which a premium charge is shown (and for Covered Autos Liability Coverage any "trailers" you don't own while attached to any power unit described in Item Three).
8	Hired "Autos" Only	Only those "autos" you lease, hire, rent or borrow. This does not include any "auto" you lease, hire, rent or borrow from any of your "employees", partners (if you are a partnership), members (if you are a limited liability company) or members of their households.
9	Non-owned "Autos" Only	Only those "autos" you do not own, lease, hire, rent or borrow that are used in connection with your business. This includes "autos" owned by your "employees", partners (if you are a partnership), members (if you are a limited liability company) or members of their households but only while used in your business or your personal affairs.
19	Mobile Equipment Subject To Compulsory Or Financial Responsibility Or Other Motor Vehicle Insurance Law Only	Only those "autos" that are land vehicles and that would qualify under the definition of "mobile equipment" under this Policy if they were not subject to a compulsory or financial responsibility law or other motor vehicle insurance law where they are licensed or principally garaged.

Covered Persons

Learning Objective 4

- *Distinguish between those who are and those who are not an insured on the BAP and what situations require specific endorsements to make a party an insured.*

Insured Persons

Section II of the BAP specifically describes the persons who will be considered an “insured” on the policy. An insured receives important protections under the policy, such as payments on the insured’s behalf to cover financial obligations following an accident and providing a defense for the insured.

Within Coverage A of the policy, the BAP specifically outlines Who Is An Insured. Paragraph A.1. Who Is An Insured groups insureds into three groups: 1.a., 1.b., and 1.c.

II.A.1.a. The Named Insured

Section II, paragraph A.1.a., identifies the Named Insured for any covered “auto.” The Named Insured is the person or organization shown on the Declarations. This could be an individual (sole proprietor), a partnership, a limited liability company (LLC), a corporation, or another type of organization.



1. Who Is An Insured

The following are “insureds”:

- a. You for any covered “auto”.
- b. Anyone else while using with your permission a covered “auto” you own, hire or borrow except:
 - (1) The owner or anyone else from whom you hire or borrow a covered “auto”.

This exception does not apply if the covered “auto” is a “trailer” connected to a covered “auto” you own.
 - (2) Your “employee” if the covered “auto” is owned by that “employee” or a member of his or her household.
 - (3) Someone using a covered “auto” while he or she is working in a business of selling, servicing, repairing, parking or storing “autos” unless that business is yours.
 - (4) Anyone other than your “employees”, partners (if you are a partnership), members (if you are a limited liability company) or a lessee or borrower or any of their “employees”, while moving property to or from a covered “auto”.
 - (5) A partner (if you are a partnership) or a member (if you are a limited liability company) for a covered “auto” owned by him or her or a member of his or her household.
- c. Anyone liable for the conduct of an “insured” described above but only to the extent of that liability.

Section 2: Introduction to Business Auto Coverage

It's important to keep in mind the difference between a person who may own a business and the business itself.

- Partners are distinct from the partnership.
- One particular stockholder is not the same as the corporation, even if that individual owns all of the stock.
- Members of LLCs are not the same as the LLC themselves.
- Under the law, organizations are “non-natural persons” and may be the Named Insured. But they do not operate autos—their employees and others do. For organizations, the operators of autos fall into the next category.

II.A.1.b. Others Using Covered Auto

The BAP considers anyone else using a covered auto with permission to be an insured. But there are five exceptions.

1. The owner of a hired or borrowed covered auto is *not* an insured. However, this does not apply if the covered auto is a trailer connected to a covered auto.
2. An employee using a covered auto that she/he or a member of her/his household owns is *not* an insured. (See Symbol 9.)
3. Anyone using a covered auto in an auto-type business is *not* an insured unless the business is the Named Insured's business.
4. Non-employees engaged in the loading or unloading vehicles are *not* insureds.
5. Partners using a covered auto they or a member of their households own are *not* insureds.

II.A.1.c. Persons Held Vicariously Liable for an Insured

The BAP extends coverage as an insured to persons or organizations that are held liable for the conduct of the insured. This responsibility is called **vicarious liability**, a situation in which one party is held responsible for the actions of another party due to the nature of their relationship.

Vicarious Liability

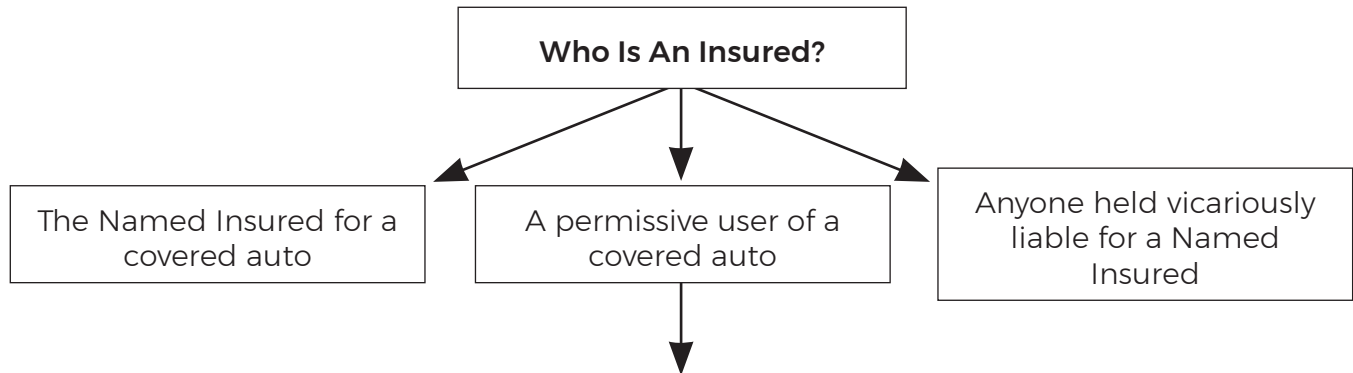
Sometimes, people are held responsible for other people's actions. For example, parents are often held responsible for the actions of their minor children. In the same way, businesses can be held responsible for the actions of other businesses due to the nature of their relationship.

For example, if Company A is in an accident while using its vehicles to do work on a project for Company B, Company B could be sued for damages because Company B hired Company A. This is vicarious liability.



Determining Who Is An Insured

The following chart summarizes Who Is An Insured.



Except:

- the owner or anyone else from whom an insured borrows a covered auto*
- an employee, if the covered auto is owned by the employee or a member of the employee's household*
- anyone using a covered auto while working in the auto business unless it is the Named Insured's business
- non-employees loading and unloading covered autos
- a partner/member, if the covered auto is owned by the partner/member or a member of her/his household*

* This coverage may be purchased by endorsement.

Check-In



Directions: Read each statement. Then select True or False.

- Members of LLCs are the same as the LLC themselves.

True

False

- An employee using a covered auto that she/he owns is an insured.

True

False

- A person using a covered auto in an auto-type business is insured if the business is the Named Insured's business.

True

False

- Non-employees loading or unloading vehicles are insureds.

True

False

- Partners are insureds while driving their own autos.

True

False

Endorsements Modifying Who Is An Insured

In the previous chart that summarizes Who Is An Insured, a special note (*) appeared. The note indicates that coverage may be purchased by endorsement. There are several endorsements to the BAP that can change Who Is An Insured.

The **Designated Insured for Covered Autos Liability Coverage CA 20 48** endorsement formalizes the vicarious liability coverage provided in the policy by naming in writing the person or organization. It does not provide any additional coverage, but instead gives assurances to others that the person or organization is an insured.

The **Employee Hired Auto CA 20 54** endorsement extends insured status to any employee operating an auto rented in the employee's name, with the Named Insured's permission, and for the Named Insured's purposes. This endorsement is helpful in situations in which an employee rents an auto in her/his name for the purpose of a business trip.

1. Who Is An Insured

The following are "insureds":

- a. You for any covered "auto".
- b. Anyone else while using with your permission a covered "auto" you own, hire or borrow except:
 - (1) The owner or anyone else from whom you hire or borrow a covered "auto".

This exception does not apply if the covered "auto" is a "trailer" connected to a covered "auto" you own.
 - (2) Your "employee" if the covered "auto" is owned by that "employee" or a member of his or her household.
 - (3) Someone using a covered "auto" while he or she is working in a business of selling, servicing, repairing, parking or storing "autos" unless that business is yours.
 - (4) Anyone other than your "employees", partners (if you are a partnership), members (if you are a limited liability company) or a lessee or borrower or any of their "employees", while moving property to or from a covered "auto".
 - (5) A partner (if you are a partnership) or a member (if you are a limited liability company) for a covered "auto" owned by him or her or a member of his or her household.
- c. Anyone liable for the conduct of an "insured" described above but only to the extent of that liability.

The **Employees As Insureds CA 99 33**

endorsement provides liability (on an excess basis) to employees using their personal autos to conduct business for the Named Insured. [See the exceptions (1) through (5) to permissive users in the Who Is An Insured section of the BAP.]

The **Lessor – Additional Insured and Loss Payee CA 20 01**

endorsement is used when the Named Insured leases autos and the leasing company requires the insured to protect the company's liability and physical damage interests.

The **Employee As Lessor CA 99 47**

endorsement is used to provide coverage to an employee who leases her/his auto to the Named Insured.



A business is hiring a new vice president of sales. The compensation package includes a company vehicle for the officer to drive for both business and personal use. The new hire prefers to use her personally owned car rather than a company-provided vehicle. In order to make up for the difference in compensation value of a company car, the company agrees to enter into a lease agreement with the new employee to compensate her for the value of the vehicle, as well as for insurance and registration costs.

The **Drive Other Car – Broadened Coverage for Named Individuals CA 99 10** endorsement is typically used when a key business employee who is provided a company-owned vehicle and does not have a personally owned auto needs protection while driving other autos, whether borrowed or hired. The employee may have a need to rent or borrow a vehicle and the insured wants to extend the BAP coverage to the employee in these situations. The coverage applies to the named individual and her/his resident spouse.

The **Individual Named Insured CA 99 17** endorsement is used when a sole proprietor or majority owner of a business has at least one personally owned private passenger auto scheduled on the BAP and needs coverage extended to family members for personal use of non-owned autos.



A business owner has all but one of his family vehicles titled in the name of his business for tax advantages. He keeps one vehicle titled in his name. The endorsement provides his family with coverage similar to what would be provided by a personal auto policy, particularly for non-owned autos.



Knowledge Check



Directions: Read each example and answer the questions.

1. A business employee has an accident in his personal auto on the way to the post office while running an errand for the business. The BAP does not cover the employee.

Why not?

What can be done?

2. A business owner has all but one of her family vehicles titled in the name of the business and all of them insured by the business. How can the insured and her family be protected for the use of other non-owned vehicles?

3. A valuable employee of the business is provided a company vehicle for business and personal use. What endorsement would provide him with additional personal protection?

Covered Autos Liability Coverage

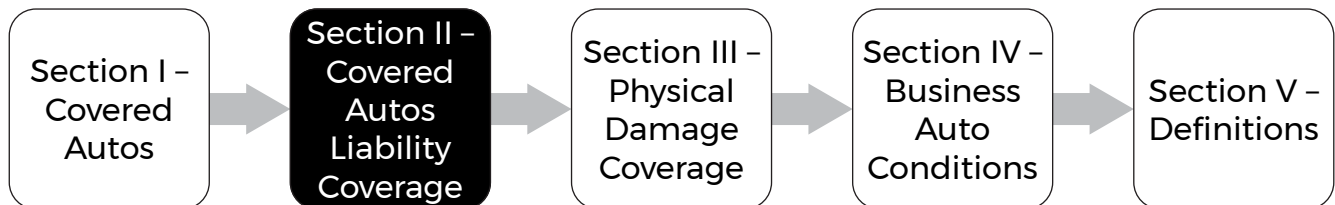
Learning Objective 5

- Identify types of liability losses that are not covered by the BAP.

BAP Coverage

Section II of the BAP provides coverage for liability, physical damage, medical payment, and uninsured motorists. As valuable as each kind of coverage is to an insured and others, liability coverage is widely considered the *most* important.

Liability Coverage

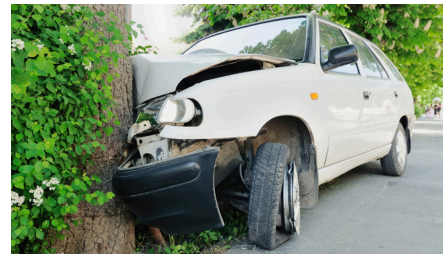


Liability insurance coverage is designed to pay others for the injuries and damage caused by an insured's ownership, maintenance, or use of a covered auto. Liability is created when an insured commits a **tort**, or a legal wrong, done to others. Ultimately, a court decides whether or not a tort has been committed. But in most cases, the insurance company adjuster judges how things would turn out if a claim were to go to trial. The adjuster then works with the other party to reach a compromise settlement based upon the evidence and the damage done.

The legal principle of **negligence** is used to determine whether the operator of an auto is responsible for an accident. Negligence has four elements:

The Four Parts of Negligence

- 1 A duty is owed to others.
- 2 That duty is breached.
- 3 Injury or damage results.
- 4 The breach of duty is the proximate cause of an injury or damage.



Negligence

What duties are owed to others while operating an auto?

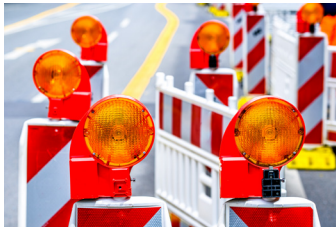
Many examples quickly come to mind. Let's consider these:



- operating an auto in a safe manner



- complying with laws and regulations regarding driving



- remaining alert to hazards on the roadway

These duties are easily breached. When a driver pays more attention to using a phone than driving, for example, they breach a duty owed. When someone fails to maintain a safe distance between their auto and the auto directly in front of them in traffic, they are said to be breaching a duty. However, if the breach this individual commits is not directly related to the damage caused in an accident, they aren't negligent. The breach of the duty *must* be the proximate cause of an injury or damage.

Who decides who is negligent? In a courtroom setting, the jury or the judge does. They use their judgment based upon the facts of the case (the evidence) and the testimony of those involved. They may hold multiple parties negligent; it is up to them. But, in most situations, the parties agree on who is responsible.

Check-In



Directions: Put a check (✓) next to each example of negligence.

- ☐ A driver fails to come to a complete stop at a stop sign and continues driving.
- ☐ A driver backs out of his driveway without looking in the car's rear-view mirror and strikes a pedestrian at the bottom of the driveway.
- ☐ A driver is using a hand-held phone to make a call while driving and is rear-ended by another driver.
- ☐ A driver swerves to avoid debris on the road, strikes a series of traffic cones, and regains control.

Liability Insuring Agreement

The BAP provides liability coverage for insureds by including a promise that is known as the **Liability Insuring Agreement**. This promise appears in Section II – Covered Autos Liability Coverage.

II.A. Coverage

The Liability Insuring Agreement makes several promises, but they are limited in scope in several ways. Note the language in the first paragraph:

We will pay all sums an “insured” legally must pay as damages...

- because of “**bodily injury**” or “**property damage**”...
- to which this insurance applies,...
- caused by an “**accident**” and...
- resulting from the ownership, maintenance, or use of a covered “auto.”

SECTION II – COVERED AUTOS LIABILITY COVERAGE

A. Coverage




We will pay all sums an “insured” legally must pay as damages because of “bodily injury” or “property damage” to which this insurance applies, caused by an “accident” and resulting from the ownership, maintenance or use of a covered “auto”.

We will also pay all sums an “insured” legally must pay as a “covered pollution cost or expense” to which this insurance applies, caused by an “accident” and resulting from the ownership, maintenance or use of covered “autos”. However, we will only pay for the “covered pollution cost or expense” if there is either “bodily injury” or “property damage” to which this insurance applies that is caused by the same “accident”.

We have the right and duty to defend any “insured” against a “suit” asking for such damages or a “covered pollution cost or expense”. However, we have no duty to defend any “insured” against a “suit” seeking damages for “bodily injury” or “property damage” or a “covered pollution cost or expense” to which this insurance does not apply. We may investigate and settle any claim or “suit” as we consider appropriate. Our duty to defend or settle ends when the Covered Autos Liability Coverage Limit of Insurance has been exhausted by payment of judgments or settlements.

Section 2: Introduction to Business Auto Coverage

The language relies on three specific definitions (found in Section V – Definitions):

<p>C. “Bodily injury” means bodily injury, sickness, or disease sustained by a person, including death resulting from any of these.</p>	
<p>M. “Property damage” means damage to or loss of tangible property.</p>	
<p>A. “Accident” includes continuous or repeated exposure to the same conditions resulting in “bodily injury” or “property damage.”</p>	

The broad promise to pay all sums is limited to those the insured is legally obligated to pay. And damages are restricted to bodily injury or property damage. They do not include other types of damages.

Also, the insurance must apply to the event, and the event must qualify as an accident. The accident results from the use of a covered auto.

The Liability Insuring Agreement also promises to pay sums the insured is legally obligated to pay for covered pollution costs or expenses that are also caused by an accident.

The Liability Insuring Agreement also outlines the responsibilities of defense the insurance company is assuming. The company takes on the obligation as both a right and a duty, meaning it can and must defend any insured against a suit asking for damages for bodily injury, property damage, or covered pollution costs if the policy applies. The duty to defend does not, however, apply to claims or suits for which the insurance does not apply.

In addition, the company outlines that it may investigate and settle any claim or suit against an insured that it considers appropriate. No permission is needed from the insured for that settlement.

Finally, the Liability Insuring Agreement says that the company’s obligations to defend an insured or settle a claim ends when the liability Limit of Insurance has been exhausted paying judgments or settlements.

Check-In

Directions: Use the following terms to fill in the blanks. Some terms may be used more than once.



accident	"covered pollution cost or expense"	investigate	ownership	to which this insurance applies
bodily injury	damages	legally	"property damage"	
caused by an "accident"	defend	maintenance	right and duty	
covered "auto"	ends	only pay	settle	

SECTION II – COVERED AUTOS LIABILITY COVERAGE

A. Coverage

We will pay all sums an "insured" _____ must pay as damages because of _____ or _____ to which this insurance applies, caused by an "accident" and resulting from the ownership, maintenance, or use of a(n) _____.

We will also pay all sums an "insured" _____ must pay as a(n) _____ to which this insurance applies, _____ and resulting from the _____, _____, or use of covered "autos." However, we will _____ for the "covered pollution cost or expense" if there is either "bodily injury" or "property damage" _____ that is caused by the same "accident."

We have the _____ to _____ any "insured" against a "suit" asking for such _____ or a(n) _____. However, we have no duty to defend any "insured" against a "suit" seeking damages for "bodily injury" or "property damage" or a "covered pollution cost or expense" to which this insurance does not apply.

We may _____ and _____ any claim or "suit" as we consider appropriate. Our duty to defend or settle _____ when the Covered Autos Liability Coverage Limit of Insurance has been exhausted by payment of judgments or settlements.

Settlements



When an insurance company receives a liability claim, it is obligated to defend any insureds against that claim, as long as the policy applies. That defense includes both an investigation into the facts and a gathering of testimony.



Once the company determines the likely result of a suit, should there be one, it may choose to make an offer of settlement to the injured party. The injured party, however, is under no obligation to accept an offered settlement.

If the injured party refuses to consider settlement within the limits of the policy, the company has no choice but to wait for a lawsuit to be filed and then mount a defense of the insured. If the verdict comes in below the Limit of Insurance, the company pays the amount. If the verdict exceeds the limit, the company pays the Limit of Insurance and looks to the insured to pay the balance owed.



Coverage Extensions

II.A.2.a. Supplementary Payments

In addition to paying what it is legally obligated to pay on behalf of an insured and providing a defense to the insured, there are additional things an insurance company agrees to pay. These include:

- all expenses of the company
- cost of bail bonds, up to \$2,000, for insureds
- cost of bonds for release of attachments (up to the limit of insurance)
- reasonable expenses of the insured to comply with requests of the company, including up to \$250 per day for lost earnings
- all court costs
- post-judgment interest

2. Coverage Extensions

a. Supplementary Payments

We will pay for the "insured":

- (1) All expenses we incur.
- (2) Up to \$2,000 for cost of bail bonds (including bonds for related traffic law violations) required because of an "accident" we cover. We do not have to furnish these bonds.
- (3) The cost of bonds to release attachments in any "suit" against the "insured" we defend, but only for bond amounts within our Limit of Insurance.
- (4) All reasonable expenses incurred by the "insured" at our request, including actual loss of earnings up to \$250 a day because of time off from work.
- (5) All court costs taxed against the "insured" in any "suit" against the "insured" we defend. However, these payments do not include attorneys' fees or attorneys' expenses taxed against the "insured".
- (6) All interest on the full amount of any judgment that accrues after entry of the judgment in any "suit" against the "insured" we defend, but our duty to pay interest ends when we have paid, offered to pay or deposited in court the part of the judgment that is within our Limit of Insurance.

These payments will not reduce the Limit of Insurance.

b. Out-of-state Coverage Extensions

While a covered "auto" is away from the state where it is licensed, we will:

- (1) Increase the Limit of Insurance for Covered Autos Liability Coverage to meet the limits specified by a compulsory or financial responsibility law of the jurisdiction where the covered "auto" is being used. This extension does not apply to the limit or limits specified by any law governing motor carriers of passengers or property.
- (2) Provide the minimum amounts and types of other coverages, such as no-fault, required of out-of-state vehicles by the jurisdiction where the covered "auto" is being used.

We will not pay anyone more than once for the same elements of loss because of these extensions.

II.A.2.b. Out-of-state Coverage Extensions

Should higher limits of insurance or other mandatory coverages (such as no-fault coverage) be required in order for an insured to comply with the financial responsibility laws of another state, the policy automatically is amended to comply with those requirements.

Exclusions

In addition to promises, the Business Auto Coverage Form specifically describes situations in which the specific coverage does *not* apply. These important provisions are called exclusions.

The liability coverage provided by the BAP depends upon the involvement of a covered auto and an insured being the operator. Exclusions are situations in which a covered auto and an insured may not have protection.

The BAP Coverage Form has 14 liability exclusions. Other exclusions may be added by endorsement.

B. Exclusions

This insurance does not apply to any of the following:

1. Expected Or Intended Injury

"Bodily injury" or "property damage" expected or intended from the standpoint of the "insured".

II.B.1. Expected Or Intended Injury

The Expected Or Intended Injury Exclusion applies only if, from the insured's perspective, the injury was expected or intended. If one insured intended the injury, but another insured did not, the exclusion would apply to the first insured but not to the other.



Road rage leads an employee of a business to intentionally ram a company vehicle into another car. The angry employee, who is the insured, expected or intended to injure. The company, his employer, who is also an insured, did *not* intend or expect it. The policy would defend and pay on behalf of the company but not the employee.



2. Contractual

Liability assumed under any contract or agreement.

But this exclusion does not apply to liability for damages:

- a. Assumed in a contract or agreement that is an "insured contract", provided the "bodily injury" or "property damage" occurs subsequent to the execution of the contract or agreement; or
- b. That the "insured" would have in the absence of the contract or agreement.

II.B.2. Contractual [Liability]

The Contractual Exclusion clearly states that contractual assumptions of liability by an insured are not included in liability coverage. But the exclusion makes exceptions for two situations: B.2.a. if the contractual assumption was part of an insured contract, as defined in the policy; or B.2.b. if the insured would have been liable anyway.



An insured entered into a contract to refill soft drink machines for a shopping center. The insured promised to assume the tort liability of the shopping center as it related to the insured's refilling operations (an insured contract). When making his deliveries to the shopping center, an insured employee driving a van runs over the foot of a shopper in the parking lot. The shopper sues the shopping center and the insured. The BAP would pay to indemnify the shopping center for amounts they owe related to the accident.



3. Workers' Compensation

Any obligation for which the "insured" or the "insured's" insurer may be held liable under any workers' compensation, disability benefits or unemployment compensation law or any similar law.

II.B.3. Workers Compensation

The Workers Compensation Exclusion makes it clear that the BAP never pays amounts that an insured is obligated to pay under any workers compensation, disability, or similar law.

4. Employee Indemnification And Employer's Liability

"Bodily injury" to:

- a. An "employee" of the "insured" arising out of and in the course of:
 - (1) Employment by the "insured"; or
 - (2) Performing the duties related to the conduct of the "insured's" business; or
- b. The spouse, child, parent, brother or sister of that "employee" as a consequence of Paragraph a. above.

This exclusion applies:

- (1) Whether the "insured" may be liable as an employer or in any other capacity; and
- (2) To any obligation to share damages with or repay someone else who must pay damages because of the injury.

But this exclusion does not apply to "bodily injury" to domestic "employees" not entitled to workers' compensation benefits or to liability assumed by the "insured" under an "insured contract". For the purposes of the Coverage Form, a domestic "employee" is a person engaged in household or domestic work performed principally in connection with a residence premises.

5. Fellow Employee

"Bodily injury" to:

- a. Any fellow "employee" of the "insured" arising out of and in the course of the fellow "employee's" employment or while performing duties related to the conduct of your business; or
- b. The spouse, child, parent, brother or sister of that fellow "employee" as a consequence of Paragraph a. above.

II.B.4. Employee Indemnification And Employers Liability

The Employee Indemnification And Employer's Liability Exclusion removes coverage for any obligation of the insured to pay for bodily injury to an employee injured in the course of her/his employment, even if the claim is made by a family member of the injured employee.

Two exceptions apply to the exclusion:

1) if the injured employee is a domestic employee who is not entitled to workers compensation benefits; or 2) if the liability arose from an insured contract, as defined in the policy.

II.B.5. Fellow Employee

The Fellow Employee Exclusion removes coverage for liability of one insured employee negligently injuring another insured employee. (This Exclusion may not apply in some states.)





Fred and Joe are driving a company truck to a job site. Fred is driving. Fred runs a red light, causing an accident. Joe is injured. Joe sues Fred for his injuries. The BAP will not pay for Fred's liability.

6. Care, Custody Or Control

"Property damage" to or "covered pollution cost or expense" involving property owned or transported by the "insured" or in the "insured's" care, custody or control. But this exclusion does not apply to liability assumed under a sidetrack agreement.

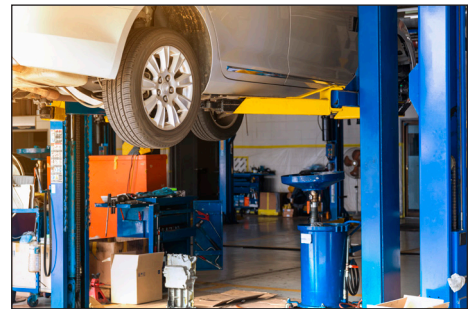
II.B.6. Care, Custody, Or Control

The Care, Custody, Or Control Exclusion eliminates liability coverage for damage to property that belongs to the insured, is being transported by the insured, or that the insured has in her/his custody, care, or control.*



A brake repair shop accidentally damages a customer's car during a test drive. The repair shop's BAP will not pay for the damage.

* This coverage may be purchased by endorsement of Garagekeepers Coverage CA 99 37.



7. Handling Of Property

"Bodily injury" or "property damage" resulting from the handling of property:

- a. Before it is moved from the place where it is accepted by the "insured" for movement into or onto the covered "auto"; or
- b. After it is moved from the covered "auto" to the place where it is finally delivered by the "insured".

II.B.7. Handling Of Property

The BAP is designed to provide liability coverage for injury or damage arising from the operation of covered autos. That liability includes loading and unloading of the covered autos. The Handling Of Property Exclusion clarifies that there is no coverage before the loading starts or after the unloading is completed.



8. Movement Of Property By Mechanical Device

"Bodily injury" or "property damage" resulting from the movement of property by a mechanical device (other than a hand truck) unless the device is attached to the covered "auto".



II.B.8. Movement Of Property By Mechanical Device

Since the BAP is designed to provide liability coverage for loading and unloading of vehicles, the Movement Of Property By A Mechanical Device Exclusion removes coverage if that loading or unloading is performed using a mechanical device other than a hand truck. A forklift is an example of an excluded form of movement. The exclusion *does not* apply if the device used was a hand truck or a mechanical device attached to the vehicle.

9. Operations

"Bodily injury" or "property damage" arising out of the operation of:

- a. Any equipment listed in Paragraphs **6.b.** and **6.c.** of the definition of "mobile equipment"; or
- b. Machinery or equipment that is on, attached to or part of a land vehicle that would qualify under the definition of "mobile equipment" if it were not subject to a compulsory or financial responsibility law or other motor vehicle insurance law where it is licensed or principally garaged.

II.B.9. Operations

The Operations Exclusion eliminates liability coverage for the operation of cherry pickers used to raise or lower workers and air compressors, pumps, generators, etc., and equipment that would be considered mobile equipment, if not for the fact that it is subject to the financial responsibility law of the state where it is licensed and principally garaged.



10. Completed Operations

"Bodily injury" or "property damage" arising out of your work after that work has been completed or abandoned.

In this exclusion, your work means:

- a. Work or operations performed by you or on your behalf; and
- b. Materials, parts or equipment furnished in connection with such work or operations.

Your work includes warranties or representations made at any time with respect to the fitness, quality, durability or performance of any of the items included in Paragraph a. or b. above.

Your work will be deemed completed at the earliest of the following times:

- (1) When all of the work called for in your contract has been completed;
- (2) When all of the work to be done at the site has been completed if your contract calls for work at more than one site; or
- (3) When that part of the work done at a job site has been put to its intended use by any person or organization other than another contractor or subcontractor working on the same project.

Work that may need service, maintenance, correction, repair or replacement, but which is otherwise complete, will be treated as completed.

II.B.10. Completed Operations

The Completed Operations Exclusion specifies that the BAP was not designed to provide coverage for liability arising out of the completed operations of an insured, even including when those completed operations are related to autos (such as auto repair and service). The Commercial General Liability Policy provides coverage for completed operations.



11. Pollution

"Bodily injury" or "property damage" arising out of the actual, alleged or threatened discharge, dispersal, seepage, migration, release or escape of "pollutants":

- a. That are, or that are contained in any property that is:
 - (1) Being transported or towed by, handled or handled for movement into, onto or from the covered "auto";
 - (2) Otherwise in the course of transit by or on behalf of the "insured"; or
 - (3) Being stored, disposed of, treated or processed in or upon the covered "auto";
- b. Before the "pollutants" or any property in which the "pollutants" are contained are moved from the place where they are accepted by the "insured" for movement into or onto the covered "auto"; or
- c. After the "pollutants" or any property in which the "pollutants" are contained are moved from the covered "auto" to the place where they are finally delivered, disposed of or abandoned by the "insured".

Paragraph **a.** above does not apply to fuels, lubricants, fluids, exhaust gases or other similar "pollutants" that are needed for or result from the normal electrical, hydraulic or mechanical functioning of the covered "auto" or its parts if:

- (1) The "pollutants" escape, seep, migrate or are discharged, dispersed or released directly from an "auto" part designed by its manufacturer to hold, store, receive or dispose of such "pollutants"; and
- (2) The "bodily injury", "property damage" or "covered pollution cost or expense" does not arise out of the operation of any equipment listed in Paragraphs **6.b.** and **6.c.** of the definition of "mobile equipment".

Paragraphs **b.** and **c.** above of this exclusion do not apply to "accidents" that occur away from premises owned by or rented to an "insured" with respect to "pollutants" not in or upon a covered "auto" if:

- (a) The "pollutants" or any property in which the "pollutants" are contained are upset, overturned or damaged as a result of the maintenance or use of a covered "auto"; and
- (b) The discharge, dispersal, seepage, migration, release or escape of the "pollutants" is caused directly by such upset, overturn or damage.

II.B.11. Pollution

The Pollution Exclusion eliminates any liability related to a pollution event involving a covered auto, with two exceptions.

Exception 1: If an accident occurs away from the insured's premises, the pollutants are not in or on a covered auto, and the discharge of pollutants was caused by the accident of the covered auto, then covered pollution costs apply.

Exception 2: If the pollutants come from the operational systems of the covered auto itself (fuel, oil, hydraulics) as a result of an accident, then coverage for bodily injury, property damage, and covered pollution costs apply.

Here is an excluded example: An insured's covered auto backs into a storage tank on the insured's own premises, causing a leak of chemicals into a neighboring creek.



And here is a covered example: An insured's covered auto strikes an oil tanker truck on the highway, puncturing its tank and dumping many barrels of oil onto a nearby property.



12. War

"Bodily injury" or "property damage" arising directly or indirectly out of:

- a. War, including undeclared or civil war;
- b. Warlike action by a military force, including action in hindering or defending against an actual or expected attack, by any government, sovereign or other authority using military personnel or other agents; or
- c. Insurrection, rebellion, revolution, usurped power or action taken by governmental authority in hindering or defending against any of these.

II.B.12. War

The War Exclusion eliminates coverage for "bodily injury" or "property damage" arising directly or indirectly from war, warlike action, insurrection, rebellion, revolution, usurped power, or defensive actions taken by governmental authority.



13. Racing

Covered "autos" while used in any professional or organized racing or demolition contest or stunting activity, or while practicing for such contest or activity. This insurance also does not apply while that covered "auto" is being prepared for such a contest or activity.

II.B.13. Racing

The Racing Exclusion applies to any organized racing or stunt activities, including any practice, or even preparation.



14. Unmanned Aircraft

"Bodily injury" or "property damage" arising out of the ownership, maintenance or use of "unmanned aircraft".

II.B.14. Unmanned Aircraft

The Unmanned Aircraft Exclusion removes all coverage for use or ownership of drones.



Check-In



Directions: Write the letter that matches each description to the correct exclusion. Then select Yes or No to indicate whether each example is covered.

Covered?		
Yes No	_____ Contractual Liability	A. An insured strikes a gasoline tanker truck on a local street and causes a spill.
Yes No	_____ Care, Custody, Or Control	B. An insured contracts with a shopping center to maintain lights in the parking lot. In the course of working on the lights, the insured is driving in the parking lot and injures a pedestrian. The pedestrian sues the shopping center.
Yes No	_____ Handling Of Property	C. An insured employee is unloading a truck and drops a box, injuring a customer.
Yes No	_____ Pollution	D. An insured agrees to pick up a customer's property for processing, and the property is damaged in an accident.

Limits of Liability

C. Limit Of Insurance

Regardless of the number of covered "autos", "insureds", premiums paid, claims made or vehicles involved in the "accident", the most we will pay for the total of all damages and "covered pollution cost or expense" combined resulting from any one "accident" is the Limit Of Insurance for Covered Autos Liability Coverage shown in the Declarations.

All "bodily injury", "property damage" and "covered pollution cost or expense" resulting from continuous or repeated exposure to substantially the same conditions will be considered as resulting from one "accident".

No one will be entitled to receive duplicate payments for the same elements of "loss" under this Coverage Form and any Medical Payments Coverage endorsement, Uninsured Motorists Coverage endorsement or Underinsured Motorists Coverage endorsement attached to this Coverage Part.

The BAP provides for a limit that applies to payments under liability coverage. The limit, which is shown in the Declarations, is the most that would be paid for any one accident, regardless of the number of covered autos involved, insureds, or claims made.

There is no duplication of payments for the same elements of the loss.



Knowledge Check



Directions: Give two examples of a driver breaching a duty owed. Then explain why a driver who breaches a duty owed might *not* be considered negligent.

Physical Damage Coverage

Learning Objective 6

- Describe types of physical damage coverage available under the BAP.

Physical Damage Coverage



The BAP can provide coverage for damage to covered autos in several ways. The coverage needs to be triggered on the Declarations, where symbols identify desired coverage.

SECTION III – PHYSICAL DAMAGE COVERAGE

A. Coverage

1. We will pay for "loss" to a covered "auto" or its equipment under:

- a. **Comprehensive Coverage**

From any cause except:

- (1) The covered "auto's" collision with another object; or
- (2) The covered "auto's" overturn.

- b. **Specified Causes Of Loss Coverage**

Caused by:

- (1) Fire, lightning or explosion;
- (2) Theft;
- (3) Windstorm, hail or earthquake;
- (4) Flood;
- (5) Mischief or vandalism; or
- (6) The sinking, burning, collision or derailment of any conveyance transporting the covered "auto".

- c. **Collision Coverage**

Caused by:

- (1) The covered "auto's" collision with another object; or
- (2) The covered "auto's" overturn.

Types of Physical Damage Coverage

Paragraph A. in Section III of the BAP describes three types of coverage.

III.A.1.a. Comprehensive Coverage means any type of damage to the vehicle or its equipment, *except* for collision or overturn.



Section 2: Introduction to Business Auto Coverage



III.A.1.b. Specified Causes Of Loss Coverage means damage caused by fire, lightning, explosion, theft, windstorm, hail, earthquake, flood, mischief, or vandalism. They also include the sinking, burning, collision, or derailment of any conveyance that is transporting a covered auto. The coverage can be modified by endorsement.

III.A.1.c. Collision Coverage includes damage caused by (1) the covered “auto’s” collision with another object, or (2) the covered “auto’s” overturn.



Coverage exists for towing and labor costs incurred each time a covered “auto” of the private passenger type is disabled. However, the labor must be performed at the place of disablement.

2. Towing And Labor

We will pay up to the limit shown in the Declarations for towing and labor costs incurred each time a covered “auto” that is a private passenger type, light truck or medium truck is disabled. However, the labor must be performed at the place of disablement.

Section 2: Introduction to Business Auto Coverage

If the covered auto is covered for Comprehensive, the BAP will pay for several types of "collisions" under the Comprehensive Coverage instead of Collision Coverage. These include glass breakage, loss caused by hitting a bird or other kind of animal, or loss caused by falling objects or missiles such as flying rocks or debris. The insured always has the option of having glass breakage considered a Collision loss.

3. Glass Breakage – Hitting A Bird Or Animal – Falling Objects Or Missiles

If you carry Comprehensive Coverage for the damaged covered "auto", we will pay for the following under Comprehensive Coverage:

- a. Glass breakage;
- b. "Loss" caused by hitting a bird or animal; and
- c. "Loss" caused by falling objects or missiles.

However, you have the option of having glass breakage caused by a covered "auto's" collision or overturn considered a "loss" under Collision Coverage.



Check-in



Directions: Check each peril that is covered by Specified Causes of Loss.

- ☐ theft
- ☐ hail
- ☐ flood
- ☐ vandalism
- ☐ glass breakage

4. Coverage Extensions

a. Transportation Expenses

We will pay up to \$30 per day, to a maximum of \$900, for temporary transportation expense incurred by you because of the total theft of a covered "auto" of the private passenger type. We will pay only for those covered "autos" for which you carry either Comprehensive or Specified Causes Of Loss Coverage. We will pay for temporary transportation expenses incurred during the period beginning 48 hours after the theft and ending, regardless of the Policy's expiration, when the covered "auto" is returned to use or we pay for its "loss".

b. Loss Of Use Expenses

For Hired Auto Physical Damage, we will pay expenses for which an "insured" becomes legally responsible to pay for loss of use of a vehicle rented or hired without a driver under a written rental contract or agreement. We will pay for loss of use expenses if caused by:

- (1) Other than collision only if the Declarations indicates that Comprehensive Coverage is provided for any covered "auto";
- (2) Specified Causes of Loss only if the Declarations indicates that Specified Causes Of Loss Coverage is provided for any covered "auto"; or
- (3) Collision only if the Declarations indicates that Collision Coverage is provided for any covered "auto".

However, the most we will pay for any expenses for loss of use is \$30 per day, to a maximum of \$900.

Physical Damage Extensions

In Section III.A.4., the BAP provides for two extensions of coverage for theft and rental situations.

III.A.4.a. Transportation Expenses

This extension pays up to \$30 per day, up to a maximum of \$900 per loss, for temporary transportation (i.e., rental car reimbursement). The extension applies only as a result of the total theft of a private passenger auto.

The BAP must have coverage for Comprehensive or Specified Causes of Loss on the auto. There is a 48-hour waiting period before coverage begins. The waiting period is included for the practical reason that many stolen vehicles are recovered within hours of the theft.

III.A.4.b. Loss Of Use Expenses

This extension applies to Hired Autos only. If the Declarations shows Symbol 8 next to a Physical Damage coverage applicable to the loss, the policy pays up to \$30 per day, up to \$900 per loss, for the legal responsibility of the insured to pay for loss of use damages resulting from physical damage to a rented auto or auto hired without a driver. The obligation to pay loss of use damages must be in a written agreement.

Physical Damage Exclusions

The Physical Damage section of the BAP contains several exclusions.

III.B.1.a. Nuclear Hazards

a. Nuclear Hazard

- (1) The explosion of any weapon employing atomic fission or fusion; or
- (2) Nuclear reaction or radiation, or radioactive contamination, however caused.



III.B.1.b. War Or Military Action

b. War Or Military Action

- (1) War, including undeclared or civil war;
- (2) Warlike action by a military force, including action in hindering or defending against an actual or expected attack, by any government, sovereign or other authority using military personnel or other agents; or
- (3) Insurrection, rebellion, revolution, usurped power or action taken by governmental authority in hindering or defending against any of these.



III.B.2. Racing

Professional or organized racing, demolition contests, and stunt activities, including preparation or practice for these activities, are excluded.

2. We will not pay for "loss" to any covered "auto" while used in any professional or organized racing or demolition contest or stunting activity, or while practicing for such contest or activity. We will also not pay for "loss" to any covered "auto" while that covered "auto" is being prepared for such a contest or activity.



III.B.3. Wear and Tear

Wear and tear, freezing, mechanical or electrical breakdown, blowouts, punctures, or other road damage to tires are excluded (Exclusion doesn't apply if the loss was from a total theft of the auto.)

- 3.** We will not pay for "loss" due and confined to:
- Wear and tear, freezing, mechanical or electrical breakdown.
 - Blowouts, punctures or other road damage to tires.

This exclusion does not apply to such "loss" resulting from the total theft of a covered "auto".



III.B.4. Electronic Equipment

Physical Damage exclusions include loss to electronic equipment, such as:

- tapes, records, CDs, or other audio-visual or data devices
- speed measuring or jamming equipment

Loss is also excluded for equipment that reproduces, receives, or transmits audio, visual, or data signals, as well as the equipment's accessories.

- 4.** We will not pay for "loss" to any of the following:
- Tapes, records, discs or other similar audio, visual or data electronic devices designed for use with audio, visual or data electronic equipment.
 - Any device designed or used to detect speed-measuring equipment, such as radar or laser detectors, and any jamming apparatus intended to elude or disrupt speed-measuring equipment.
 - Any electronic equipment, without regard to whether this equipment is permanently installed, that reproduces, receives or transmits audio, visual or data signals.
 - Any accessories used with the electronic equipment described in Paragraph c. above.



III.B.5. Exceptions

Section B.5. of the Physical Damage Exclusions addresses some exceptions built into exclusions 4.c. and 4.d. that provide coverage if the equipment is:

- 5.a.—permanently installed, or
- 5.b.—removable from a permanently installed housing unit, or
- 5.c.—an integral part of the same housing unit, or
- 5.d.—necessary for the auto's normal operation or monitoring of the operating system

5. Exclusions **4.c.** and **4.d.** do not apply to equipment designed to be operated solely by use of the power from the "auto's" electrical system that, at the time of "loss", is:

- Permanently installed in or upon the covered "auto";
- Removable from a housing unit which is permanently installed in or upon the covered "auto";
- An integral part of the same unit housing any electronic equipment described in Paragraphs **a.** and **b.** above; or
- Necessary for the normal operation of the covered "auto" or the monitoring of the covered "auto's" operating system.



III.B.6. Diminished Value

6. We will not pay for "loss" to a covered "auto" due to "diminution in value".



A private passenger vehicle is damaged in a collision and then repaired. Before the loss, the actual cash value of the auto was \$20,000. After the loss and the repair, because the vehicle has a record of being damaged, it has an actual cash value of \$16,000.



Physical Damage Limits of Insurance

The BAP contract outlines the limits of insurance, or how much will be paid, under Physical Damage coverage.

The policy will pay:

- the lesser of the actual cash value of the damaged or stolen property at the time of the loss, or
- the cost to repair or replace damaged or stolen property with other property of like kind and quality.

The insurance company will adjust for a covered "auto's" depreciation and physical condition to determine actual cash value in the event of a total "loss." **Depreciation** is the amount of value an auto has lost due to its age, mileage, or wear and tear.

An insurance company is not obligated to pay for betterment of the auto. For example, a company is not obligated to replace a vandalized convertible top with a new convertible top, unless there is no other option.

C. Limits Of Insurance

1. The most we will pay for:
 - a. "Loss" to any one covered "auto" is the lesser of:
 - (1) The actual cash value of the damaged or stolen property as of the time of the "loss"; or
 - (2) The cost of repairing or replacing the damaged or stolen property with other property of like kind and quality.
 - b. All electronic equipment that reproduces, receives or transmits audio, visual or data signals in any one "loss" is \$1,000, if, at the time of "loss", such electronic equipment is:
 - (1) Permanently installed in or upon the covered "auto" in a housing, opening or other location that is not normally used by the "auto" manufacturer for the installation of such equipment;
 - (2) Removable from a permanently installed housing unit as described in Paragraph **b.(1)** above; or
 - (3) An integral part of such equipment as described in Paragraphs **b.(1)** and **b.(2)** above.
2. An adjustment for depreciation and physical condition will be made in determining actual cash value in the event of a total "loss".
3. If a repair or replacement results in better than like kind or quality, we will not pay for the amount of the betterment.



Physical Damage Deductible

There is typically a deductible for each Physical Damage loss for each covered "auto" under the BAP. The **deductible** is the amount the insurance company reduces its payment for a loss, and it is shown in the Declarations for each coverage.



D. Deductible

For each covered "auto", our obligation to pay for, repair, return or replace damaged or stolen property will be reduced by the applicable deductible shown in the Declarations prior to the application of the Limit Of Insurance, provided that:

1. The Comprehensive or Specified Causes Of Loss Coverage deductible applies only to "loss" caused by:
 - a. Theft or mischief or vandalism; or
 - b. All perils.
2. Regardless of the number of covered "autos" damaged or stolen, the maximum deductible applicable for all "loss" in any one event caused by:

- a. Theft or mischief or vandalism; or
- b. All perils,

will be equal to five times the highest deductible applicable to any one covered "auto" on the Policy for Comprehensive or Specified Causes Of Loss Coverage. The application of the highest deductible used to calculate the maximum deductible will be made regardless of which covered "autos" were damaged or stolen in the "loss".



Say the actual cash value of a vehicle before a loss is \$5,000. Now let's say that repairing the vehicle will cost \$6,000. The value of the vehicle (as damaged) is \$1,500. The insurance company will either pay the insured \$5,000 (before the deductible) or let her/him keep the auto and pay them \$3,500 (before the deductible). The insured can keep the auto, take the payment, and repair the vehicle if she/he chooses. If the insured chooses to take the actual cash value, the company can pay the insured the \$5,000 and then sell the damaged auto for what they can get, or \$1,500.

To Repair or Not To Repair?

When a covered auto is damaged in an accident, it is either reparable or it is a total loss. That may seem obvious, but sometimes it's not. Sometimes a covered auto may be reparable, but the cost of the repair exceeds the actual cash value of the auto before the loss. This situation is called a "constructive total," meaning the insurance company will value the loss at the actual cash value. But the company may offer to let the insured keep the damaged auto by subtracting its damaged value from the actual cash value after loss.



▶▶ Knowledge Check



Directions: Describe a scenario that applies to each coverage type.

Comprehensive coverage:

Specified Causes of Loss coverage:

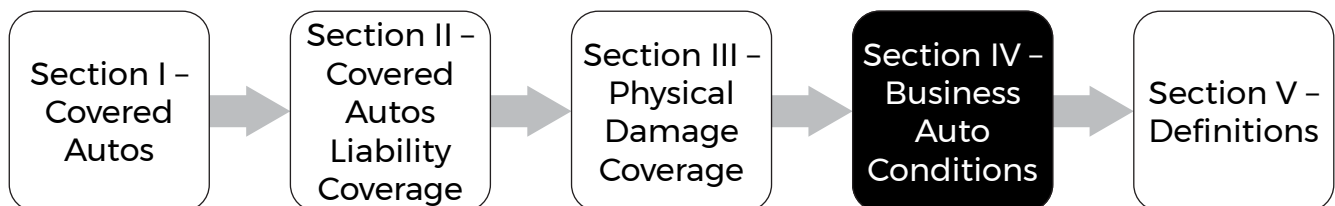
Collision coverage:

Business Auto Conditions

Learning Objective 7

- Distinguish between the two types of conditions in Section IV of the BAP.

Business Auto Conditions



In an insurance contract, the conditions outline the rules of how the contract works. Each condition describes the obligations of the parties, should there be a loss. Section IV – Business Auto Conditions, which has two parts, describes conditions that apply in addition to the common policy conditions.

Part A. Loss Conditions

Part A. describes five Loss Conditions:

IV.A.1. Appraisal For Physical Damage Loss

Paragraph IV.A.1. states the rules regarding appraisal of the loss and what the insured and the insurance company do if they disagree on the amount of "loss."

A. Loss Conditions

1. Appraisal For Physical Damage Loss

If you and we disagree on the amount of "loss", either may demand an appraisal of the "loss". In this event, each party will select a competent appraiser. The two appraisers will select a competent and impartial umpire. The appraisers will state separately the actual cash value and 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:

- a. Pay its chosen appraiser; and
- b. Bear the other expenses of the appraisal and umpire equally.

If we submit to an appraisal, we will still retain our right to deny the claim.

IV.A.2. Duties In The Event Of Accident, Claim, Suit, Or Loss

Paragraph IV.A.2. describes the duties the insured has in the event of a loss. Unless these duties are met, the insurance company has no duty to provide coverage under the policy.

The insured's obligations include notifying the insurance company representative promptly, cooperating with the insurance company's investigation of the loss, authorizing the insurance company to obtain important information, and submitting to examination by physicians of the company's choice.

The insured is also obligated to promptly notify the police, take reasonable steps to prevent further physical damage, permit the insurance company to inspect the covered "auto" and records, and to agree to examinations under oath.

2. Duties In The Event Of Accident, Claim, Suit Or Loss

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

- a. In the event of "accident", claim, "suit" or "loss", you must give us or our authorized representative prompt notice of the "accident" or "loss". Include:
 - (1) How, when and where the "accident" or "loss" occurred;
 - (2) The "insured's" name and address; and
 - (3) To the extent possible, the names and addresses of any injured persons and witnesses.
- b. Additionally, you and any other involved "insured" must:
 - (1) Assume no obligation, make no payment or incur no expense without our consent, except at the "insured's" own cost.
 - (2) Immediately send us copies of any request, demand, order, notice, summons or legal paper received concerning the claim or "suit".

- (3) Cooperate with us in the investigation or settlement of the claim or defense against the "suit".
- (4) Authorize us to obtain medical records or other pertinent information.
- (5) Submit to examination, at our expense, by physicians of our choice, as often as we reasonably require.
- c. If there is "loss" to a covered "auto" or its equipment, you must also do the following:
 - (1) Promptly notify the police if the covered "auto" or any of its equipment is stolen.
 - (2) Take all reasonable steps to protect the covered "auto" from further damage. Also keep a record of your expenses for consideration in the settlement of the claim.
 - (3) Permit us to inspect the covered "auto" and records proving the "loss" before its repair or disposition.
 - (4) Agree to examinations under oath at our request and give us a signed statement of your answers.

3. Legal Action Against Us

No one may bring a legal action against us under this Coverage Form until:

- a. There has been full compliance with all the terms of this Coverage Form; and
- b. Under Covered Autos Liability Coverage, we agree in writing that the "insured" has an obligation to pay or until the amount of that obligation has finally been determined by judgment after trial. No one has the right under this Policy to bring us into an action to determine the "insured's" liability.

IV.A.3. Legal Action Against Us

Paragraph IV.A.3. explains the conditions under which the insured can start legal proceedings against the company. There must have been full compliance with all the terms of the Coverage Form, and the insurance company must agree in writing that the insured has an obligation to pay, or the amount of the obligation has been determined by judgment after trial.

IV.A.4. Loss Payment – Physical Damage Coverages

Paragraph IV.A.4. explains the rules regarding the payment of physical damage losses.

4. Loss Payment – Physical Damage Coverages

At our option, we may:

- a. Pay for, repair or replace damaged or stolen property;
- b. Return the stolen property, at our expense. We will pay for any damage that results to the "auto" from the theft; or
- c. Take all or any part of the damaged or stolen property at an agreed or appraised value.

If we pay for the "loss", our payment will include the applicable sales tax for the damaged or stolen property.

IV.A.5. Transfer Of Rights Of Recovery Against Others To Us

Paragraph IV.A.5. states if any person or organization to or for whom the insurance company makes payment has rights to recover damages from another, those rights are transferred to the insurance company unless the insured has waived those rights prior to the loss.

5. Transfer Of Rights Of Recovery Against Others To Us

If any person or organization to or for whom we make payment under this Coverage Form has rights to recover damages from another, those rights are transferred to us. That person or organization must do everything necessary to secure our rights and must do nothing after "accident" or "loss" to impair them.

Check-in



Directions: Match each loss condition to its description.

_____ Appraisal For Physical
Damage Loss

_____ Duties In The Event Of
Accident, Claim, Suit,
Or Loss

_____ Legal Action Against Us

_____ Loss Payment – Physical
Damage Coverages

_____ Transfer Of Rights Of
Recovery Against Others
To Us

A. explains the rules regarding the payment of physical damage losses

B. states if any person or organization to or for whom the insurance company makes payment has rights to recover damages from another, those rights are transferred to the insurance company




C. states the rules regarding appraisal of the loss and what the insured and the insurance company do if they disagree on the amount of “loss”




D. explains the conditions under which the insured can start legal proceedings against the company

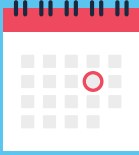

E. describes the duties the insured has in the event of a loss

Part B. General Conditions

Other rules contained in Section IV, paragraph B., outline what happens in the event of specific General Conditions. Those rules are summarized in the following tables.

IV.B.1. Bankruptcy	IV.B.2. Concealment, Misrepresentation, Or Fraud	IV.B.3. Liberalization
		
<p>The insurance company's obligations under the Coverage Form do not change should the insured declare bankruptcy or insolvency.</p>	<p>Fraud committed by the insured voids the Coverage Form.</p>	<p>The policy will automatically provide additional coverage if the insurance company revises the Coverage Form to provide more coverage without additional premium charge.</p>

IV.B.4. No Benefit To Bailee – Physical Damage Coverages	IV.B.5. Other Insurance	IV.B.6. Premium Audit
		
<p>The insurance company will not recognize or grant coverage for the benefit of a person or organization holding, storing, or transporting property for a fee.</p>	<ul style="list-style-type: none"> • If an auto is owned by the insured, the BAP coverage is primary (pays first). • If a trailer is attached to a covered owned auto, the BAP coverage is primary. • For a covered “auto” not owned by the insured, the BAP is excess (pays second). • If a trailer is attached to a covered non-owned auto, the BAP is excess. • For hired car physical damage, any hired auto is considered owned and the BAP is primary. • Any liability the insured assumed under an insured contract is primary. 	<p>The insurance company will compute the final premium due when it determines the insured’s actual exposures. The estimated total premium will be credited against the final premium due, and the Named Insured will be billed for the balance.</p>

IV.B.7. Policy Period, Coverage Territory	IV.B.8. Two Or More Coverage Forms Or Policies Issued By Us
	
<p>The policy period is described in the Declarations with a beginning date and an expiration date.</p> <p>The coverage territory of the policy is:</p> <ul style="list-style-type: none"> • The U.S. and its territories, including Puerto Rico and Canada • Anywhere else in the world if the auto is a private passenger type and it is hired, leased, or borrowed, without a driver, for 30 days or less • And if the insured's liability is determined by a suit in the U.S. and its territories, including Puerto Rico and Canada 	<p>If any coverage form or policy issued by the insurance company or an affiliate to the insured applies to the same "accident," then the aggregate maximum limit of insurance under all the coverage forms or policies shall not exceed the highest applicable limit of insurance under any one coverage form or policy.</p>

Knowledge Check



Directions: Explain primary and excess coverage under the General Conditions Other Insurance in the BAP.

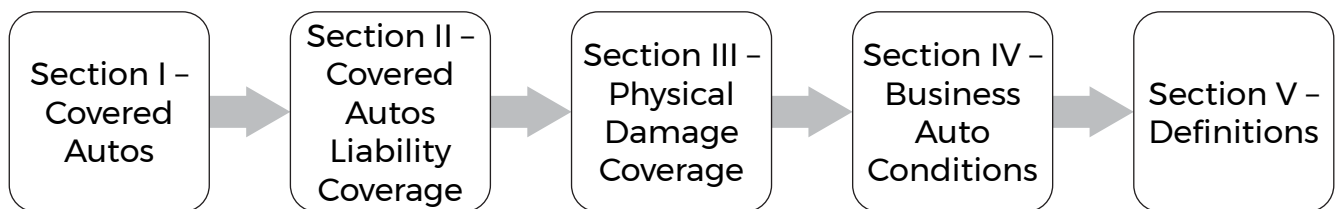
Summary

The Business Auto Policy (BAP) provides coverage for most business exposures. It provides protection for a variety of business risks that are eligible to be written on this type of policy.

An understanding of the term “auto” is critical to understanding the terms of the BAP. The BAP defines an “auto” as a land motor vehicle, “trailer,” or semitrailer designed for travel on public roads, as well as other land vehicles subject to compulsory financial responsibility, or other vehicle insurance laws wherever the “auto” is licensed or principally garaged. The term “auto” does *not* include “mobile equipment.”

A Business Auto Policy has three parts: (1) Items on the Declarations cover the who, what, when, and where of coverage; (2) the Business Auto Coverage Form is an insurance contract that outlines the insurer’s promises to the insured; and (3) endorsements, or additions to the policy, amend the coverage provided in the Coverage Form and are the final part of the Business Auto Policy.

The Business Auto Coverage Form has five sections.



- **Section I** lists and explains the numerical symbols that describe the “autos” that may be covered “autos;” explains the conditions associated with owned autos acquired after the policy’s effective date; and describes coverage for certain trailers, mobile equipment, and temporary substitute autos.
- **Section II** describes the protection given by the contract for claims for bodily injury and property damage for which an insured is legally responsible.
- **Section III** explains the coverage provided for damage to or the loss of an insured’s covered auto.
- **Section IV** outlines the conditions or rules for the insured and insurance company under the terms of the policy.
- **Section V** concludes the policy. It defines each of the terms that appear in quotation marks throughout the policy.

The BAP uses a system of numerical symbols to designate which “autos” are covered for which coverages. These symbols must appear on the Declarations for any particular coverage to apply.

Section 2: Introduction to Business Auto Coverage

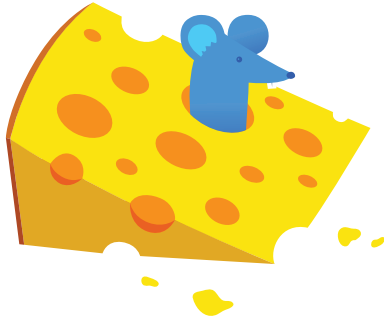
The BAP defines “Who Is An Insured” as:

- The Named Insured—the person or organization shown on the Declarations.
- Others using a covered auto, meaning anyone else using a covered auto with the insured’s permission (although with five exceptions).
- Persons held vicariously liable for an insured, meaning persons or organizations that are held liable for the conduct of the insured.

The BAP provides covered autos liability coverage designed to pay others for the injuries and damage caused by an insured operating a covered auto. However, fourteen liability exclusions are within the BAP, and others may be added by endorsement.

The BAP provides three primary types of Physical Damage Coverage: Comprehensive coverage, Specified Causes of Loss coverage, and Collision coverage. And just as there are exclusions associated with Covered Autos Liability Coverage, there are exclusions associated with Physical Damage Coverage.

Section IV states the BAP’s conditions, or rules, for how the contract works. Conditions are grouped into Loss Conditions and General Conditions.



Test Your Instincts

Using Endorsements to Fill Coverage Holes

There are many situations where the Business Auto Policy won't respond to a particular loss. These can be based upon who is an insured, in response to an exclusion, or upon whether a specific vehicle is a covered auto. Inadequate coverage can be sort of like Swiss cheese with lots of holes, leaving the insured open to uncovered losses. There are a variety of endorsements that can be used to fill those holes.

Consider these endorsements that can be added to BAP coverage to respond to the following situations. See endorsement examples provided after the activity page.

Endorsements to Fill Coverage Gaps	Form Number
Drive Other Car Coverage	CA 99 10 10 13
Individual Named Insured	CA 99 17 10 13
Employees As Insureds	CA 99 33 10 13
Garagekeepers Coverage	CA 99 37 10 13
Employee As Lessor	CA 99 47 10 13
Mobile Equipment	CA 20 15 11 20
Employee Hired Autos	CA 20 54 11 20
Auto Loan/Lease Gap Coverage	CA 20 71 11 20

Section 2: Introduction to Business Auto Coverage

Directions: Fill in the blanks with the form number of the appropriate endorsement for each situation.

1. When the Named Insured wants to be certain the Business Auto Policy will respond to employees renting vehicles in their own names while on business trips.

Use this endorsement to fill the gap: _____.

2. When the Named Insured on the Business Auto Policy has their family vehicles owned by and insured in the name of the business.

Use this Endorsement to fill the gap: _____.

3. When the Named Insured wants to extend liability coverage to employees driving their own vehicles for business purposes.

Use this Endorsement to fill the gap: _____.

4. When an organization wishes to extend liability coverage to an employee who doesn't own an auto and drives a company vehicle for their personal use.

Use this Endorsement to fill the gap: _____.

5. When the business wishes to provide physical damage protection to customers' autos while in the care and control of business employees.

Use this Endorsement to fill the gap: _____.

6. When the Named Insured wants to insure the gap in valuation between an auto loan or lease payoff and the actual cash value of a totaled auto.

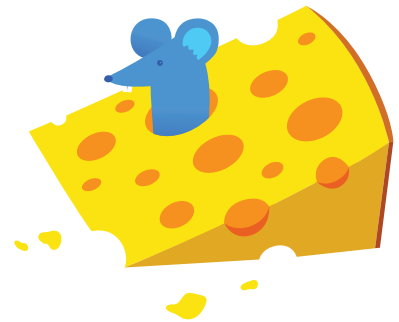
Use this Endorsement to fill the gap:

_____.

7. When an employee of the Named Insured is leasing their personal auto to the business in lieu of driving a company car.

Use this Endorsement to fill the gap:

_____.



Resources

Video Clips

For valuable reinforcement, some important concepts related to the learning objectives in this section are summarized in audio and video clips. Use the following link to access these helpful learning resources.

scic.com/2ICresources

	Mastering Business Auto Coverage
	Covered Pollution Cost or Expense
	What is an “Auto”?
	Diminution of Value
	Covered Auto Symbols
	Who is Covered on the BAP?
	What is Negligence?
	When the Insurance Company Settles a Claim
	Handling of Property
	The Operations Exclusion
	Why Specified Causes of Loss?
	Loss Conditions
	Premium Audits

Policies and Forms

For your reference, a copy of the policies and forms discussed in this section are provided on the following pages.

Section 2: Introduction to Business Auto Coverage

Self-Quiz

After the forms and policies is a Self-Quiz that will help you test your knowledge of the material and prepare you for the Review Test and Final Exam.

COMMERCIAL AUTO
CA 00 01 11 20

BUSINESS AUTO COVERAGE FORM

Various provisions in this Policy restrict coverage. Read the entire policy carefully to determine rights, duties and what is and is not covered.

Throughout this Policy, the words "you" and "your" refer to the Named Insured shown in the Declarations. The words "we", "us" and "our" refer to the company providing this insurance.

Other words and phrases that appear in quotation marks have special meaning. Refer to Section V – Definitions.

SECTION I – COVERED AUTOS

Item Two of the Declarations shows the "autos" that are covered "autos" for each of your coverages. The following numerical symbols describe the "autos" that may be covered "autos". The symbols entered next to a coverage on the Declarations designate the only "autos" that are covered "autos".

A. Description Of Covered Auto Designation Symbols

Symbol	Description Of Covered Auto Designation Symbols	
1	Any "Auto"	
2	Owned "Autos" Only	Only those "autos" you own (and for Covered Autos Liability Coverage any "trailers" you don't own while attached to power units you own). This includes those "autos" you acquire ownership of after the Policy begins.
3	Owned Private Passenger "Autos" Only	Only the private passenger "autos" you own. This includes those private passenger "autos" you acquire ownership of after the Policy begins.
4	Owned "Autos" Other Than Private Passenger "Autos" Only	Only those "autos" you own that are not of the private passenger type (and for Covered Autos Liability Coverage any "trailers" you don't own while attached to power units you own). This includes those "autos" not of the private passenger type you acquire ownership of after the Policy begins.
5	Owned "Autos" Subject To No-fault	Only those "autos" you own that are required to have no-fault benefits in the state where they are licensed or principally garaged. This includes those "autos" you acquire ownership of after the Policy begins provided they are required to have no-fault benefits in the state where they are licensed or principally garaged.
6	Owned "Autos" Subject To A Compulsory Uninsured Motorists Law	Only those "autos" you own that because of the law in the state where they are licensed or principally garaged are required to have and cannot reject Uninsured Motorists Coverage. This includes those "autos" you acquire ownership of after the Policy begins provided they are subject to the same state uninsured motorists requirement.
7	Specifically Described "Autos"	Only those "autos" described in Item Three of the Declarations for which a premium charge is shown (and for Covered Autos Liability Coverage any "trailers" you don't own while attached to any power unit described in Item Three).
8	Hired "Autos" Only	Only those "autos" you lease, hire, rent or borrow. This does not include any "auto" you lease, hire, rent or borrow from any of your "employees", partners (if you are a partnership), members (if you are a limited liability company) or members of their households.
9	Non-owned "Autos" Only	Only those "autos" you do not own, lease, hire, rent or borrow that are used in connection with your business. This includes "autos" owned by your "employees", partners (if you are a partnership), members (if you are a limited liability company) or members of their households but only while used in your business or your personal affairs.

19	Mobile Equipment Subject To Compulsory Or Financial Responsibility Or Other Motor Vehicle Insurance Law Only	Only those "autos" that are land vehicles and that would qualify under the definition of "mobile equipment" under this Policy if they were not subject to a compulsory or financial responsibility law or other motor vehicle insurance law where they are licensed or principally garaged.
----	--	---

B. Owned Autos

1. If Symbols **1, 2, 3, 4, 5, 6** or **19** are entered next to a coverage in Item Two of the Declarations, then you have coverage for "autos" that you acquire after the policy period begins of the type described for the remainder of the policy period.
2. But, if Symbol **7** is entered next to a coverage in Item Two of the Declarations, an "auto" you acquire after the policy period begins will be a covered "auto" for that coverage only if:
 - a. We already cover all "autos" that you own for that coverage or it replaces an "auto" you previously owned that had that coverage; and
 - b. You tell us within 30 days after you acquire it that you want us to cover it for that coverage.
3. An "auto" that is leased or rented to you without a driver, under a written agreement for a continuous period of at least six months that requires you to provide primary insurance covering such "auto", will be considered a covered "auto" you own.

C. Certain Trailers, Mobile Equipment And Temporary Substitute Autos

If Covered Autos Liability Coverage is provided by this Coverage Form, the following types of vehicles are also covered "autos" for Covered Autos Liability Coverage:

1. "Trailers" with a registered Gross Vehicle Weight Rating of 3,000 pounds or less designed primarily for travel on public roads.
2. "Mobile equipment" while being carried or towed by a covered "auto".
3. Any "auto" you do not own while used with the permission of its owner as a temporary substitute for a covered "auto" you own that is out of service because of its:
 - a. Breakdown;

- b. Repair;
- c. Servicing;
- d. "Loss"; or
- e. Destruction.

SECTION II – COVERED AUTOS LIABILITY COVERAGE

A. Coverage

We will pay all sums an "insured" legally must pay as damages because of "bodily injury" or "property damage" to which this insurance applies, caused by an "accident" and resulting from the ownership, maintenance or use of a covered "auto".

We will also pay all sums an "insured" legally must pay as a "covered pollution cost or expense" to which this insurance applies, caused by an "accident" and resulting from the ownership, maintenance or use of covered "autos". However, we will only pay for the "covered pollution cost or expense" if there is either "bodily injury" or "property damage" to which this insurance applies that is caused by the same "accident".

We have the right and duty to defend any "insured" against a "suit" asking for such damages or a "covered pollution cost or expense". However, we have no duty to defend any "insured" against a "suit" seeking damages for "bodily injury" or "property damage" or a "covered pollution cost or expense" to which this insurance does not apply. We may investigate and settle any claim or "suit" as we consider appropriate. Our duty to defend or settle ends when the Covered Autos Liability Coverage Limit of Insurance has been exhausted by payment of judgments or settlements.

1. Who Is An Insured

The following are "insureds":

- a. You for any covered "auto".
- b. Anyone else while using with your permission a covered "auto" you own, hire or borrow except:
 - (1) The owner or anyone else from whom you hire or borrow a covered "auto".

This exception does not apply if the covered "auto" is a "trailer" connected to a covered "auto" you own.

- (2) Your "employee" if the covered "auto" is owned by that "employee" or a member of his or her household.
- (3) Someone using a covered "auto" while he or she is working in a business of selling, servicing, repairing, parking or storing "autos" unless that business is yours.
- (4) Anyone other than your "employees", partners (if you are a partnership), members (if you are a limited liability company) or a lessee or borrower or any of their "employees", while moving property to or from a covered "auto".
- (5) A partner (if you are a partnership) or a member (if you are a limited liability company) for a covered "auto" owned by him or her or a member of his or her household.

c. Anyone liable for the conduct of an "insured" described above but only to the extent of that liability.

2. Coverage Extensions

a. Supplementary Payments

We will pay for the "insured":

- (1) All expenses we incur.
- (2) Up to \$2,000 for cost of bail bonds (including bonds for related traffic law violations) required because of an "accident" we cover. We do not have to furnish these bonds.
- (3) The cost of bonds to release attachments in any "suit" against the "insured" we defend, but only for bond amounts within our Limit of Insurance.
- (4) All reasonable expenses incurred by the "insured" at our request, including actual loss of earnings up to \$250 a day because of time off from work.
- (5) All court costs taxed against the "insured" in any "suit" against the "insured" we defend. However, these payments do not include attorneys' fees or attorneys' expenses taxed against the "insured".

- (6) All interest on the full amount of any judgment that accrues after entry of the judgment in any "suit" against the "insured" we defend, but our duty to pay interest ends when we have paid, offered to pay or deposited in court the part of the judgment that is within our Limit of Insurance.

These payments will not reduce the Limit of Insurance.

b. Out-of-state Coverage Extensions

While a covered "auto" is away from the state where it is licensed, we will:

- (1) Increase the Limit of Insurance for Covered Autos Liability Coverage to meet the limits specified by a compulsory or financial responsibility law of the jurisdiction where the covered "auto" is being used. This extension does not apply to the limit or limits specified by any law governing motor carriers of passengers or property.
- (2) Provide the minimum amounts and types of other coverages, such as no-fault, required of out-of-state vehicles by the jurisdiction where the covered "auto" is being used.

We will not pay anyone more than once for the same elements of loss because of these extensions.

B. Exclusions

This insurance does not apply to any of the following:

1. Expected Or Intended Injury

"Bodily injury" or "property damage" expected or intended from the standpoint of the "insured".

2. Contractual

Liability assumed under any contract or agreement.

But this exclusion does not apply to liability for damages:

- a. Assumed in a contract or agreement that is an "insured contract", provided the "bodily injury" or "property damage" occurs subsequent to the execution of the contract or agreement; or

- b. That the "insured" would have in the absence of the contract or agreement.

3. Workers' Compensation

Any obligation for which the "insured" or the "insured's" insurer may be held liable under any workers' compensation, disability benefits or unemployment compensation law or any similar law.

4. Employee Indemnification And Employer's Liability

"Bodily injury" to:

- a. An "employee" of the "insured" arising out of and in the course of:
 - (1) Employment by the "insured"; or
 - (2) Performing the duties related to the conduct of the "insured's" business; or
- b. The spouse, child, parent, brother or sister of that "employee" as a consequence of Paragraph a. above.

This exclusion applies:

- (1) Whether the "insured" may be liable as an employer or in any other capacity; and
- (2) To any obligation to share damages with or repay someone else who must pay damages because of the injury.

But this exclusion does not apply to "bodily injury" to domestic "employees" not entitled to workers' compensation benefits or to liability assumed by the "insured" under an "insured contract". For the purposes of the Coverage Form, a domestic "employee" is a person engaged in household or domestic work performed principally in connection with a residence premises.

5. Fellow Employee

"Bodily injury" to:

- a. Any fellow "employee" of the "insured" arising out of and in the course of the fellow "employee's" employment or while performing duties related to the conduct of your business; or
- b. The spouse, child, parent, brother or sister of that fellow "employee" as a consequence of Paragraph a. above.

6. Care, Custody Or Control

"Property damage" to or "covered pollution cost or expense" involving property owned or transported by the "insured" or in the "insured's" care, custody or control. But this exclusion does not apply to liability assumed under a sidetrack agreement.

7. Handling Of Property

"Bodily injury" or "property damage" resulting from the handling of property:

- a. Before it is moved from the place where it is accepted by the "insured" for movement into or onto the covered "auto"; or
- b. After it is moved from the covered "auto" to the place where it is finally delivered by the "insured".

8. Movement Of Property By Mechanical Device

"Bodily injury" or "property damage" resulting from the movement of property by a mechanical device (other than a hand truck) unless the device is attached to the covered "auto".

9. Operations

"Bodily injury" or "property damage" arising out of the operation of:

- a. Any equipment listed in Paragraphs 6.b. and 6.c. of the definition of "mobile equipment"; or
- b. Machinery or equipment that is on, attached to or part of a land vehicle that would qualify under the definition of "mobile equipment" if it were not subject to a compulsory or financial responsibility law or other motor vehicle insurance law where it is licensed or principally garaged.

10. Completed Operations

"Bodily injury" or "property damage" arising out of your work after that work has been completed or abandoned.

In this exclusion, your work means:

- a. Work or operations performed by you or on your behalf; and
- b. Materials, parts or equipment furnished in connection with such work or operations.

Your work includes warranties or representations made at any time with respect to the fitness, quality, durability or performance of any of the items included in Paragraph a. or b. above.

Your work will be deemed completed at the earliest of the following times:

- (1) When all of the work called for in your contract has been completed;
- (2) When all of the work to be done at the site has been completed if your contract calls for work at more than one site; or

- (3) When that part of the work done at a job site has been put to its intended use by any person or organization other than another contractor or subcontractor working on the same project.

Work that may need service, maintenance, correction, repair or replacement, but which is otherwise complete, will be treated as completed.

11. Pollution

"Bodily injury" or "property damage" arising out of the actual, alleged or threatened discharge, dispersal, seepage, migration, release or escape of "pollutants":

- a. That are, or that are contained in any property that is:
 - (1) Being transported or towed by, handled or handled for movement into, onto or from the covered "auto";
 - (2) Otherwise in the course of transit by or on behalf of the "insured"; or
 - (3) Being stored, disposed of, treated or processed in or upon the covered "auto";
- b. Before the "pollutants" or any property in which the "pollutants" are contained are moved from the place where they are accepted by the "insured" for movement into or onto the covered "auto"; or
- c. After the "pollutants" or any property in which the "pollutants" are contained are moved from the covered "auto" to the place where they are finally delivered, disposed of or abandoned by the "insured".

Paragraph a. above does not apply to fuels, lubricants, fluids, exhaust gases or other similar "pollutants" that are needed for or result from the normal electrical, hydraulic or mechanical functioning of the covered "auto" or its parts if:

- (1) The "pollutants" escape, seep, migrate or are discharged, dispersed or released directly from an "auto" part designed by its manufacturer to hold, store, receive or dispose of such "pollutants"; and
- (2) The "bodily injury", "property damage" or "covered pollution cost or expense" does not arise out of the operation of any equipment listed in Paragraphs 6.b. and 6.c. of the definition of "mobile equipment".

Paragraphs b. and c. above of this exclusion do not apply to "accidents" that occur away from premises owned by or rented to an "insured" with respect to "pollutants" not in or upon a covered "auto" if:

- (a) The "pollutants" or any property in which the "pollutants" are contained are upset, overturned or damaged as a result of the maintenance or use of a covered "auto"; and
- (b) The discharge, dispersal, seepage, migration, release or escape of the "pollutants" is caused directly by such upset, overturn or damage.

12. War

"Bodily injury" or "property damage" arising directly or indirectly out of:

- a. War, including undeclared or civil war;
- b. Warlike action by a military force, including action in hindering or defending against an actual or expected attack, by any government, sovereign or other authority using military personnel or other agents; or
- c. Insurrection, rebellion, revolution, usurped power or action taken by governmental authority in hindering or defending against any of these.

13. Racing

Covered "autos" while used in any professional or organized racing or demolition contest or stunting activity, or while practicing for such contest or activity. This insurance also does not apply while that covered "auto" is being prepared for such a contest or activity.

14. Unmanned Aircraft

"Bodily injury" or "property damage" arising out of the ownership, maintenance or use of "unmanned aircraft".

C. Limit Of Insurance

Regardless of the number of covered "autos", "insureds", premiums paid, claims made or vehicles involved in the "accident", the most we will pay for the total of all damages and "covered pollution cost or expense" combined resulting from any one "accident" is the Limit Of Insurance for Covered Autos Liability Coverage shown in the Declarations.

All "bodily injury", "property damage" and "covered pollution cost or expense" resulting from continuous or repeated exposure to substantially the same conditions will be considered as resulting from one "accident".

No one will be entitled to receive duplicate payments for the same elements of "loss" under this Coverage Form and any Medical Payments Coverage endorsement, Uninsured Motorists Coverage endorsement or Underinsured Motorists Coverage endorsement attached to this Coverage Part.

SECTION III – PHYSICAL DAMAGE COVERAGE

A. Coverage

1. We will pay for "loss" to a covered "auto" or its equipment under:

a. Comprehensive Coverage

From any cause except:

- (1) The covered "auto's" collision with another object; or
- (2) The covered "auto's" overturn.

b. Specified Causes Of Loss Coverage

Caused by:

- (1) Fire, lightning or explosion;
- (2) Theft;
- (3) Windstorm, hail or earthquake;
- (4) Flood;
- (5) Mischief or vandalism; or
- (6) The sinking, burning, collision or derailment of any conveyance transporting the covered "auto".

c. Collision Coverage

Caused by:

- (1) The covered "auto's" collision with another object; or
- (2) The covered "auto's" overturn.

2. Towing And Labor

We will pay up to the limit shown in the Declarations for towing and labor costs incurred each time a covered "auto" that is a private passenger type, light truck or medium truck is disabled. However, the labor must be performed at the place of disablement.

3. Glass Breakage – Hitting A Bird Or Animal – Falling Objects Or Missiles

If you carry Comprehensive Coverage for the damaged covered "auto", we will pay for the following under Comprehensive Coverage:

- a. Glass breakage;
- b. "Loss" caused by hitting a bird or animal; and
- c. "Loss" caused by falling objects or missiles.

However, you have the option of having glass breakage caused by a covered "auto's" collision or overturn considered a "loss" under Collision Coverage.

4. Coverage Extensions

a. Transportation Expenses

We will pay up to \$30 per day, to a maximum of \$900, for temporary transportation expense incurred by you because of the total theft of a covered "auto" of the private passenger type. We will pay only for those covered "autos" for which you carry either Comprehensive or Specified Causes Of Loss Coverage. We will pay for temporary transportation expenses incurred during the period beginning 48 hours after the theft and ending, regardless of the Policy's expiration, when the covered "auto" is returned to use or we pay for its "loss".

b. Loss Of Use Expenses

For Hired Auto Physical Damage, we will pay expenses for which an "insured" becomes legally responsible to pay for loss of use of a vehicle rented or hired without a driver under a written rental contract or agreement. We will pay for loss of use expenses if caused by:

- (1) Other than collision only if the Declarations indicates that Comprehensive Coverage is provided for any covered "auto";
- (2) Specified Causes of Loss only if the Declarations indicates that Specified Causes Of Loss Coverage is provided for any covered "auto"; or

- (3) Collision only if the Declarations indicates that Collision Coverage is provided for any covered "auto".

However, the most we will pay for any expenses for loss of use is \$30 per day, to a maximum of \$900.

B. Exclusions

1. We will not pay for "loss" caused by or resulting from any of the following. Such "loss" is excluded regardless of any other cause or event that contributes concurrently or in any sequence to the "loss".

a. Nuclear Hazard

- (1) The explosion of any weapon employing atomic fission or fusion; or
- (2) Nuclear reaction or radiation, or radioactive contamination, however caused.

b. War Or Military Action

- (1) War, including undeclared or civil war;
- (2) Warlike action by a military force, including action in hindering or defending against an actual or expected attack, by any government, sovereign or other authority using military personnel or other agents; or
- (3) Insurrection, rebellion, revolution, usurped power or action taken by governmental authority in hindering or defending against any of these.

2. We will not pay for "loss" to any covered "auto" while used in any professional or organized racing or demolition contest or stunting activity, or while practicing for such contest or activity. We will also not pay for "loss" to any covered "auto" while that covered "auto" is being prepared for such a contest or activity.

3. We will not pay for "loss" due and confined to:
 - a. Wear and tear, freezing, mechanical or electrical breakdown.
 - b. Blowouts, punctures or other road damage to tires.

This exclusion does not apply to such "loss" resulting from the total theft of a covered "auto".

4. We will not pay for "loss" to any of the following:

- a. Tapes, records, discs or other similar audio, visual or data electronic devices designed for use with audio, visual or data electronic equipment.
- b. Any device designed or used to detect speed-measuring equipment, such as radar or laser detectors, and any jamming apparatus intended to elude or disrupt speed-measuring equipment.
- c. Any electronic equipment, without regard to whether this equipment is permanently installed, that reproduces, receives or transmits audio, visual or data signals.
- d. Any accessories used with the electronic equipment described in Paragraph c. above.

5. Exclusions 4.c. and 4.d. do not apply to equipment designed to be operated solely by use of the power from the "auto's" electrical system that, at the time of "loss", is:

- a. Permanently installed in or upon the covered "auto";
- b. Removable from a housing unit which is permanently installed in or upon the covered "auto";
- c. An integral part of the same unit housing any electronic equipment described in Paragraphs a. and b. above; or
- d. Necessary for the normal operation of the covered "auto" or the monitoring of the covered "auto's" operating system.

6. We will not pay for "loss" to a covered "auto" due to "diminution in value".

C. Limits Of Insurance

1. The most we will pay for:

- a. "Loss" to any one covered "auto" is the lesser of:
 - (1) The actual cash value of the damaged or stolen property as of the time of the "loss"; or
 - (2) The cost of repairing or replacing the damaged or stolen property with other property of like kind and quality.

b. All electronic equipment that reproduces, receives or transmits audio, visual or data signals in any one "loss" is \$1,000, if, at the time of "loss", such electronic equipment is:

- (1) Permanently installed in or upon the covered "auto" in a housing, opening or other location that is not normally used by the "auto" manufacturer for the installation of such equipment;
- (2) Removable from a permanently installed housing unit as described in Paragraph b.(1) above; or
- (3) An integral part of such equipment as described in Paragraphs b.(1) and b.(2) above.

2. An adjustment for depreciation and physical condition will be made in determining actual cash value in the event of a total "loss".
3. If a repair or replacement results in better than like kind or quality, we will not pay for the amount of the betterment.

D. Deductible

For each covered "auto", our obligation to pay for, repair, return or replace damaged or stolen property will be reduced by the applicable deductible shown in the Declarations prior to the application of the Limit Of Insurance, provided that:

1. The Comprehensive or Specified Causes Of Loss Coverage deductible applies only to "loss" caused by:
 - a. Theft or mischief or vandalism; or
 - b. All perils.
2. Regardless of the number of covered "autos" damaged or stolen, the maximum deductible applicable for all "loss" in any one event caused by:
 - a. Theft or mischief or vandalism; or
 - b. All perils,

will be equal to five times the highest deductible applicable to any one covered "auto" on the Policy for Comprehensive or Specified Causes Of Loss Coverage. The application of the highest deductible used to calculate the maximum deductible will be made regardless of which covered "autos" were damaged or stolen in the "loss".

SECTION IV – BUSINESS AUTO CONDITIONS

The following conditions apply in addition to the Common Policy Conditions:

A. Loss Conditions

1. Appraisal For Physical Damage Loss

If you and we disagree on the amount of "loss", either may demand an appraisal of the "loss". In this event, each party will select a competent appraiser. The two appraisers will select a competent and impartial umpire. The appraisers will state separately the actual cash value and 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:

- a. Pay its chosen appraiser; and
- b. Bear the other expenses of the appraisal and umpire equally.

If we submit to an appraisal, we will still retain our right to deny the claim.

2. Duties In The Event Of Accident, Claim, Suit Or Loss

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

- a. In the event of "accident", claim, "suit" or "loss", you must give us or our authorized representative prompt notice of the "accident" or "loss". Include:
 - (1) How, when and where the "accident" or "loss" occurred;
 - (2) The "insured's" name and address; and
 - (3) To the extent possible, the names and addresses of any injured persons and witnesses.
- b. Additionally, you and any other involved "insured" must:
 - (1) Assume no obligation, make no payment or incur no expense without our consent, except at the "insured's" own cost.
 - (2) Immediately send us copies of any request, demand, order, notice, summons or legal paper received concerning the claim or "suit".

- (3) Cooperate with us in the investigation or settlement of the claim or defense against the "suit".
- (4) Authorize us to obtain medical records or other pertinent information.
- (5) Submit to examination, at our expense, by physicians of our choice, as often as we reasonably require.

c. If there is "loss" to a covered "auto" or its equipment, you must also do the following:

- (1) Promptly notify the police if the covered "auto" or any of its equipment is stolen.
- (2) Take all reasonable steps to protect the covered "auto" from further damage. Also keep a record of your expenses for consideration in the settlement of the claim.
- (3) Permit us to inspect the covered "auto" and records proving the "loss" before its repair or disposition.
- (4) Agree to examinations under oath at our request and give us a signed statement of your answers.

3. Legal Action Against Us

No one may bring a legal action against us under this Coverage Form until:

- a. There has been full compliance with all the terms of this Coverage Form; and
- b. Under Covered Autos Liability Coverage, we agree in writing that the "insured" has an obligation to pay or until the amount of that obligation has finally been determined by judgment after trial. No one has the right under this Policy to bring us into an action to determine the "insured's" liability.

4. Loss Payment – Physical Damage Coverages

At our option, we may:

- a. Pay for, repair or replace damaged or stolen property;
- b. Return the stolen property, at our expense. We will pay for any damage that results to the "auto" from the theft; or
- c. Take all or any part of the damaged or stolen property at an agreed or appraised value.

If we pay for the "loss", our payment will include the applicable sales tax for the damaged or stolen property.

5. Transfer Of Rights Of Recovery Against Others To Us

If any person or organization to or for whom we make payment under this Coverage Form has rights to recover damages from another, those rights are transferred to us. That person or organization must do everything necessary to secure our rights and must do nothing after "accident" or "loss" to impair them.

B. General Conditions

1. Bankruptcy

Bankruptcy or insolvency of the "insured" or the "insured's" estate will not relieve us of any obligations under this Coverage Form.

2. Concealment, Misrepresentation Or Fraud

This Coverage Form is void in any case of fraud by you at any time as it relates to this Coverage Form. It is also void if you or any other "insured", at any time, intentionally conceals or misrepresents a material fact concerning:

- a. This Coverage Form;
- b. The covered "auto";
- c. Your interest in the covered "auto"; or
- d. A claim under this Coverage Form.

3. Liberalization

If we revise this Coverage Form to provide more coverage without additional premium charge, your policy will automatically provide the additional coverage as of the day the revision is effective in your state.

4. No Benefit To Bailee – Physical Damage Coverages

We will not recognize any assignment or grant any coverage for the benefit of any person or organization holding, storing or transporting property for a fee regardless of any other provision of this Coverage Form.

5. Other Insurance

a. For any covered "auto" you own, this Coverage Form provides primary insurance. For any covered "auto" you don't own, the insurance provided by this Coverage Form is excess over any other collectible insurance. However, while a covered "auto" which is a "trailer" is connected to another vehicle, the Covered Autos Liability Coverage this Coverage Form provides for the "trailer" is:

- (1) Excess while it is connected to a motor vehicle you do not own; or

- (2) Primary while it is connected to a covered "auto" you own.
- b. For Hired Auto Physical Damage Coverage, any covered "auto" you lease, hire, rent or borrow is deemed to be a covered "auto" you own. However, any "auto" that is leased, hired, rented or borrowed with a driver is not a covered "auto".
- c. Regardless of the provisions of Paragraph a. above, this Coverage Form's Covered Autos Liability Coverage is primary for any liability assumed under an "insured contract".
- d. When this Coverage Form and any other Coverage Form or policy covers on the same basis, either excess or primary, we will pay only our share. Our share is the proportion that the Limit of Insurance of our Coverage Form bears to the total of the limits of all the Coverage Forms and policies covering on the same basis.

6. Premium Audit

- a. The estimated premium for this Coverage Form is based on the exposures you told us you would have when this Policy began. We will compute the final premium due when we determine your actual exposures. The estimated total premium will be credited against the final premium due and the first Named Insured will be billed for the balance, if any. The due date for the final premium or retrospective premium is the date shown as the due date on the bill. If the estimated total premium exceeds the final premium due, the first Named Insured will get a refund.
- b. If this Policy is issued for more than one year, the premium for this Coverage Form will be computed annually based on our rates or premiums in effect at the beginning of each year of the Policy.

7. Policy Period, Coverage Territory

Under this Coverage Form, we cover "accidents" and "losses" occurring:

- a. During the policy period shown in the Declarations; and
- b. Within the coverage territory.

The coverage territory is:

- (1) The United States of America;
- (2) The territories and possessions of the United States of America;
- (3) Puerto Rico;
- (4) Canada; and

- (5) Anywhere else in the world if a covered "auto" of the private passenger type is leased, hired, rented or borrowed without a driver for a period of 30 days or less,

provided that the "insured's" responsibility to pay damages is determined in a "suit" on the merits, in the United States of America, the territories and possessions of the United States of America, Puerto Rico or Canada, or in a settlement we agree to.

We also cover "loss" to, or "accidents" involving, a covered "auto" while being transported between any of these places.

8. Two Or More Coverage Forms Or Policies Issued By Us

If this Coverage Form and any other Coverage Form or policy issued to you by us or any company affiliated with us applies to the same "accident", the aggregate maximum Limit of Insurance under all the Coverage Forms or policies shall not exceed the highest applicable Limit of Insurance under any one Coverage Form or policy. This condition does not apply to any Coverage Form or policy issued by us or an affiliated company specifically to apply as excess insurance over this Coverage Form.

SECTION V – DEFINITIONS

- A. "Accident" includes continuous or repeated exposure to the same conditions resulting in "bodily injury" or "property damage".

- B. "Auto" means:

- 1. A land motor vehicle, "trailer" or semitrailer designed for travel on public roads; or
- 2. Any other land vehicle that is subject to a compulsory or financial responsibility law or other motor vehicle insurance law where it is licensed or principally garaged.

However, "auto" does not include "mobile equipment".

- C. "Bodily injury" means bodily injury, sickness or disease sustained by a person, including death resulting from any of these.

- D. "Covered pollution cost or expense" means any cost or expense arising out of:

- 1. Any request, demand, order or statutory or regulatory requirement that any "insured" or others test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of, "pollutants"; or

2. Any claim or "suit" by or on behalf of a governmental authority for damages because of testing for, monitoring, cleaning up, removing, containing, treating, detoxifying or neutralizing, or in any way responding to, or assessing the effects of, "pollutants".

"Covered pollution cost or expense" does not include any cost or expense arising out of the actual, alleged or threatened discharge, dispersal, seepage, migration, release or escape of "pollutants":

- a. That are, or that are contained in any property that is:
 - (1) Being transported or towed by, handled or handled for movement into, onto or from the covered "auto";
 - (2) Otherwise in the course of transit by or on behalf of the "insured"; or
 - (3) Being stored, disposed of, treated or processed in or upon the covered "auto";
- b. Before the "pollutants" or any property in which the "pollutants" are contained are moved from the place where they are accepted by the "insured" for movement into or onto the covered "auto"; or
- c. After the "pollutants" or any property in which the "pollutants" are contained are moved from the covered "auto" to the place where they are finally delivered, disposed of or abandoned by the "insured".

Paragraph **a.** above does not apply to fuels, lubricants, fluids, exhaust gases or other similar "pollutants" that are needed for or result from the normal electrical, hydraulic or mechanical functioning of the covered "auto" or its parts, if:

- (1) The "pollutants" escape, seep, migrate or are discharged, dispersed or released directly from an "auto" part designed by its manufacturer to hold, store, receive or dispose of such "pollutants"; and
- (2) The "bodily injury", "property damage" or "covered pollution cost or expense" does not arise out of the operation of any equipment listed in Paragraph **6.b.** or **6.c.** of the definition of "mobile equipment".

Paragraphs **b.** and **c.** above do not apply to "accidents" that occur away from premises owned by or rented to an "insured" with respect to "pollutants" not in or upon a covered "auto" if:

- (a) The "pollutants" or any property in which the "pollutants" are contained are upset, overturned or damaged as a result of the maintenance or use of a covered "auto"; and
- (b) The discharge, dispersal, seepage, migration, release or escape of the "pollutants" is caused directly by such upset, overturn or damage.

- E. "Diminution in value" means the actual or perceived loss in market value or resale value which results from a direct and accidental "loss".
- F. "Employee" includes a "leased worker". "Employee" does not include a "temporary worker".
- G. "Insured" means any person or organization qualifying as an insured in the Who Is An Insured provision of the applicable coverage. Except with respect to the Limit of Insurance, the coverage afforded applies separately to each insured who is seeking coverage or against whom a claim or "suit" is brought.
- H. "Insured contract" means:
 - 1. A lease of premises;
 - 2. A sidetrack agreement;
 - 3. Any easement or license agreement, except in connection with construction or demolition operations on or within 50 feet of a railroad;
 - 4. An obligation, as required by ordinance, to indemnify a municipality, except in connection with work for a municipality;
 - 5. That part of any other contract or agreement pertaining to your business (including an indemnification of a municipality in connection with work performed for a municipality) under which you assume the tort liability of another to pay for "bodily injury" or "property damage" to a third party or organization. Tort liability means a liability that would be imposed by law in the absence of any contract or agreement; or

6. That part of any contract or agreement entered into, as part of your business, pertaining to the rental or lease, by you or any of your "employees", of any "auto". However, such contract or agreement shall not be considered an "insured contract" to the extent that it obligates you or any of your "employees" to pay for "property damage" to any "auto" rented or leased by you or any of your "employees".

An "insured contract" does not include that part of any contract or agreement:

- a. That indemnifies a railroad for "bodily injury" or "property damage" arising out of construction or demolition operations, within 50 feet of any railroad property and affecting any railroad bridge or trestle, tracks, roadbeds, tunnel, underpass or crossing;
 - b. That pertains to the loan, lease or rental of an "auto" to you or any of your "employees", if the "auto" is loaned, leased or rented with a driver; or
 - c. That holds a person or organization engaged in the business of transporting property by "auto" for hire harmless for your use of a covered "auto" over a route or territory that person or organization is authorized to serve by public authority.
- I. "Leased worker" means a person leased to you by a labor leasing firm under an agreement between you and the labor leasing firm to perform duties related to the conduct of your business. "Leased worker" does not include a "temporary worker".
- J. "Loss" means direct and accidental loss or damage.
- K. "Mobile equipment" means any of the following types of land vehicles, including any attached machinery or equipment:
- 1. Bulldozers, farm machinery, forklifts and other vehicles designed for use principally off public roads;
 - 2. Vehicles maintained for use solely on or next to premises you own or rent;
 - 3. Vehicles that travel on crawler treads;
 - 4. Vehicles, whether self-propelled or not, maintained primarily to provide mobility to permanently mounted:
 - a. Power cranes, shovels, loaders, diggers or drills; or
 - b. Road construction or resurfacing equipment such as graders, scrapers or rollers;

5. Vehicles not described in Paragraph 1., 2., 3. or 4. above that are not self-propelled and are maintained primarily to provide mobility to permanently attached equipment of the following types:

- a. Air compressors, pumps and generators, including spraying, welding, building cleaning, geophysical exploration, lighting and well-servicing equipment; or
- b. Cherry pickers and similar devices used to raise or lower workers; or

6. Vehicles not described in Paragraph 1., 2., 3. or 4. above maintained primarily for purposes other than the transportation of persons or cargo. However, self-propelled vehicles with the following types of permanently attached equipment are not "mobile equipment" but will be considered "autos":

- a. Equipment designed primarily for:
 - (1) Snow removal;
 - (2) Road maintenance, but not construction or resurfacing; or
 - (3) Street cleaning;
- b. Cherry pickers and similar devices mounted on automobile or truck chassis and used to raise or lower workers; and
- c. Air compressors, pumps and generators, including spraying, welding, building cleaning, geophysical exploration, lighting or well-servicing equipment.

However, "mobile equipment" does not include land vehicles that are subject to a compulsory or financial responsibility law or other motor vehicle insurance law where it is licensed or principally garaged. Land vehicles subject to a compulsory or financial responsibility law or other motor vehicle insurance law are considered "autos".

- L. "Pollutants" means any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acids, alkalis, chemicals and waste. Waste includes materials to be recycled, reconditioned or reclaimed.
- M. "Property damage" means damage to or loss of use of tangible property.
- N. "Suit" means a civil proceeding in which:
- 1. Damages because of "bodily injury" or "property damage"; or
 - 2. A "covered pollution cost or expense";
- to which this insurance applies, are alleged.

"Suit" includes:

- a. An arbitration proceeding in which such damages or "covered pollution costs or expenses" are claimed and to which the "insured" must submit or does submit with our consent; or
 - b. Any other alternative dispute resolution proceeding in which such damages or "covered pollution costs or expenses" are claimed and to which the insured submits with our consent.
- O. "Temporary worker" means a person who is furnished to you to substitute for a permanent "employee" on leave or to meet seasonal or short-term workload conditions.
 - P. "Trailer" includes semitrailer.
 - Q. "Unmanned aircraft" means an aircraft that is not:
 - 1. Designed;
 - 2. Manufactured; or
 - 3. Modified after manufacture;to be controlled directly by a person from within or on the aircraft.

CA 99 10 10 13

POLICY NUMBER:

COMMERCIAL AUTO
CA 99 10 10 13**THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.****DRIVE OTHER CAR COVERAGE –
BROADENED COVERAGE FOR NAMED INDIVIDUALS**

This endorsement modifies insurance provided under the following:

AUTO DEALERS COVERAGE FORM
BUSINESS AUTO COVERAGE FORM
MOTOR CARRIER COVERAGE FORM

With respect to coverage provided by this endorsement, the provisions of the Coverage Form apply unless modified by the endorsement.

This endorsement changes the policy effective on the inception date of the policy unless another date is indicated below.

Named Insured:**Endorsement Effective Date:****SCHEDULE**

Name Of Individual:			
Covered Autos Liability Coverage	Limit:	\$	Premium: \$
Auto Medical Payments	Limit:	\$	Premium: \$
Comprehensive	Deductible:	\$	Premium: \$
Collision	Deductible:	\$	Premium: \$
Uninsured Motorists	Limit:	\$	Premium: \$
Underinsured Motorists	Limit:	\$	Premium: \$
Information required to complete this Schedule, if not shown above, will be shown in the Declarations.			

Note: When Uninsured Motorists Coverage is provided at limits higher than the basic limits required by a financial responsibility law, Underinsured Motorists Coverage is included, unless otherwise noted. If Underinsured Motorists Coverage is provided as a separate coverage, make appropriate entry in the Schedule above.

CA 99 17 10 13

COMMERCIAL AUTO
CA 99 17 10 13

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

INDIVIDUAL NAMED INSURED

This endorsement modifies insurance provided under the following:

BUSINESS AUTO COVERAGE FORM
MOTOR CARRIER COVERAGE FORM

With respect to coverage provided by this endorsement, the provisions of the Coverage Form apply unless modified by the endorsement.

If you are an individual, the policy is changed as follows:

A. Changes In Covered Autos Liability Coverage

1. The Fellow Employee Exclusion does not apply to "bodily injury" to your or any "family member's" fellow "employees".

2. Personal Auto Coverage

If any "auto" you own of the "private passenger type" is a covered "auto" under **Covered Autos Liability Coverage**:

- a. The following is added to the **Who Is An Insured** provision:

"Family members" are "insureds" for any covered "auto" you own of the "private passenger type" and any other "auto" described in Paragraph **2.b.** of this endorsement.

- b. Any "auto" you don't own is a covered "auto" while being used by you or by any "family member" except:

- (1) Any "auto" owned by any "family members".
- (2) Any "auto" furnished or available for your or any "family member's" regular use.
- (3) Any "auto" used by you or by any of your "family members" while working in a business of selling, servicing, repairing or parking "autos".
- (4) Any "auto", other than an "auto" of the "private passenger type", used by you or any of your "family members" while working in any other business or occupation.

- c. The Pollution Exclusion and, if forming a part of the policy, the Nuclear Energy Liability Exclusion (Broad Form), do not apply to any covered "auto" of the "private passenger type".

- d. The following exclusion is added and applies only to "private passenger type" covered "autos":

This insurance does not apply to:

"Bodily injury" or "property damage" for which an "insured" under the policy is also an "insured" under a nuclear energy liability policy or would be an "insured" but for its termination upon its exhaustion of its limit of liability. A nuclear energy liability policy is a policy issued by the Nuclear Energy Liability Insurance Association, Mutual Atomic Energy Liability Underwriters or any of their successors. This exclusion does not apply to "autos" registered or principally garaged in New York.

B. Changes In Physical Damage Coverage

Personal Auto Coverage

If any "auto" you own of the "private passenger type" is a covered "auto" under Physical Damage Coverage, a "non-owned auto" will also be considered a covered "auto". However, the most we will pay for "loss" to a "non-owned auto" which is a "trailer" is \$500.

C. Additional Definitions

As used in this endorsement:

1. "Family member" means a person related to you by blood, marriage or adoption who is a resident of your household, including a ward or foster child.

Section 2: Introduction to Business Auto Coverage

2. The words "you" and "your" include your spouse if a resident of the same household except for notice of cancellation.
3. When the phrase "private passenger type" appears in quotation marks it includes any covered "auto" you own of the pickup or van type not used for business purposes, other than farming or ranching.
4. "Non-owned auto" means any "private passenger type" "auto", pickup, van or "trailer" not owned by or furnished or available for the regular use of you or any "family member", while it is in the custody of or being operated by you or any "family member".

CA 99 33 10 13

COMMERCIAL AUTO
CA 99 33 10 13

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

EMPLOYEES AS INSUREDS

This endorsement modifies insurance provided under the following:

BUSINESS AUTO COVERAGE FORM
MOTOR CARRIER COVERAGE FORM

With respect to coverage provided by this endorsement, the provisions of the Coverage Form apply unless modified by the endorsement.

The following is added to the **Section II – Covered Autos Liability Coverage**, Paragraph **A.1. Who Is An Insured** provision:

Any "employee" of yours is an "insured" while using a covered "auto" you don't own, hire or borrow in your business or your personal affairs.

CA 99 37 10 13

POLICY NUMBER:

COMMERCIAL AUTO
CA 99 37 10 13**THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.****GARAGEKEEPERS COVERAGE**

This endorsement modifies insurance provided under the following:

BUSINESS AUTO COVERAGE FORM
MOTOR CARRIER COVERAGE FORM

With respect to coverage provided by this endorsement, the provisions of the Coverage Form apply unless modified by the endorsement.

This endorsement changes the policy effective on the inception date of the policy unless another date is indicated below.

Named Insured:

Endorsement Effective Date:

SCHEDULE

Location Number	Address Where You Conduct Garage Operations (Main Location)	
Coverages	Limit Of Insurance And Deductible	Premium
Comprehensive	\$ Limit Of Insurance	\$
	\$ Deductible For Each Customer's Auto For Loss Caused By Theft Or Mischief Or Vandalism	
	\$ Maximum Deductible For Loss Caused By Theft Or Mischief Or Vandalism In Any One Event	
	OR	
	\$ Limit Of Insurance	
	\$ Deductible For All Perils For Each Customer's Auto	
	\$ Maximum Deductible For All Loss In Any One Event	

Section 2: Introduction to Business Auto Coverage

Specified Causes Of Loss	\$	Limit Of Insurance	\$
	\$	Deductible For Each Customer's Auto For Loss Caused By Theft Or Mischief Or Vandalism	
	\$	Maximum Deductible For Loss Caused By Theft Or Mischief Or Vandalism In Any One Event	
		OR	
	\$	Limit Of Insurance	
	\$	Deductible For All Perils For Each Customer's Auto	
	\$	Maximum Deductible For All Loss In Any One Event	
Collision	\$	Limit Of Insurance	\$
	\$	Deductible For Each Customer's Auto	

Location Number	Address Where You Conduct Garage Operations	
Coverages	Limit Of Insurance And Deductible	Premium
Comprehensive	\$ Limit Of Insurance	\$
	\$ Deductible For Each Customer's Auto For Loss Caused By Theft Or Mischief Or Vandalism	
	\$ Maximum Deductible For Loss Caused By Theft Or Mischief Or Vandalism In Any One Event	
	OR	
	\$ Limit Of Insurance	
	\$ Deductible For All Perils For Each Customer's Auto	
	\$ Maximum Deductible For All Loss In Any One Event	
Specified Causes Of Loss	\$ Limit Of Insurance	\$
	\$ Deductible For Each Customer's Auto For Loss Caused By Theft Or Mischief Or Vandalism	
	\$ Maximum Deductible For Loss Caused By Theft Or Mischief Or Vandalism In Any One Event	
	OR	
	\$ Limit Of Insurance	
	\$ Deductible For All Perils For Each Customer's Auto	
	\$ Maximum Deductible For All Loss In Any One Event	

Section 2: Introduction to Business Auto Coverage

Collision	\$	Limit Of Insurance	\$
	\$	Deductible For Each Customer's Auto	

Location Number	Address Where You Conduct Garage Operations	
Coverages	Limit Of Insurance And Deductible	Premium
Comprehensive	\$ Limit Of Insurance	\$
	\$ Deductible For Each Customer's Auto For Loss Caused By Theft Or Mischief Or Vandalism	
	\$ Maximum Deductible For Loss Caused By Theft Or Mischief Or Vandalism In Any One Event	
	OR	
	\$ Limit Of Insurance	
	\$ Deductible For All Perils For Each Customer's Auto	
	\$ Maximum Deductible For All Loss In Any One Event	
Specified Causes Of Loss	\$ Limit Of Insurance	\$
	\$ Deductible For Each Customer's Auto For Loss Caused By Theft Or Mischief Or Vandalism	
	\$ Maximum Deductible For Loss Caused By Theft Or Mischief Or Vandalism In Any One Event	
	OR	
	\$ Limit Of Insurance	
	\$ Deductible For All Perils For Each Customer's Auto	
	\$ Maximum Deductible For All Loss In Any One Event	
Collision	\$ Limit Of Insurance	\$
	\$ Deductible For Each Customer's Auto	

Total Garagekeepers Premium For All Locations	\$
Information required to complete this Schedule, if not shown above, will be shown in the Declarations.	

Direct Coverage Options

Indicate below with an "X" which, if any, Direct Coverage Option is selected.

☐ Excess Insurance

If this box is checked, Garagekeepers Coverage remains applicable on a legal liability basis. However, coverage also applies without regard to your or any other "insured's" legal liability for "loss" to a "customer's auto" on an excess basis over any other collectible insurance regardless of whether the other insurance covers your or any other "insured's" interest or the interest of the "customer's auto's" owner.

☐ Primary Insurance

If this box is checked, Garagekeepers Coverage is changed to apply without regard to your or any other "insured's" legal liability for "loss" to a "customer's auto" and is primary insurance.

A. This endorsement provides only those coverages:

1. Where a Limit Of Insurance and a premium are shown for that coverage in the Schedule; and
2. For the location shown in the Schedule.

B. Coverage

1. We will pay all sums the "insured" legally must pay as damages for "loss" to a "customer's auto" or "customer's auto" equipment left in the "insured's" care while the "insured" is attending, servicing, repairing, parking or storing it in your "garage operations" under:

a. Comprehensive Coverage

From any cause except:

- (1) The "customer's auto's" collision with another object; or
- (2) The "customer's auto's" overturn.

b. Specified Causes Of Loss Coverage

Caused by:

- (1) Fire, lightning or explosion;
- (2) Theft; or
- (3) Mischief or vandalism.

c. Collision Coverage

Caused by:

- (1) The "customer's auto's" collision with another object; or
- (2) The "customer's auto's" overturn.

2. We will have the right and duty to defend any "insured" against a "suit" asking for these damages. However, we have no duty to defend any "insured" against a "suit" seeking damages for "loss" to which this insurance does not apply. We may investigate and settle any claim or "suit" as we consider appropriate. Our duty to defend or settle ends for a coverage when the Limit of Insurance for that coverage has been exhausted by payment of judgments or settlements.

3. Who Is An Insured

The following are "insureds" for "loss" to "customer's autos" and "customer's auto" equipment:

- a. You.
- b. Your partners and their spouses, if you are a partnership, but only with respect to the conduct of your "garage operations".
- c. Your members, if you are a limited liability company, but only with respect to the conduct of your "garage operations". Your managers are also "insureds", but only with respect to their duties as your managers.
- d. Your "executive officers" and directors, if you are an organization other than a partnership or limited liability company, but only with respect to their duties as your officers or directors. Your stockholders are also "insureds", but only with respect to their liability as stockholders.

- e. Your "employees", other than either your "executive officers" (if you are an organization other than a partnership or limited liability company) or your managers (if you are a limited liability company), but only for acts within the scope of employment by you or while performing their duties related to the conduct of your "garage operations".

4. Coverage Extensions

The following applies as **Supplementary Payments**. We will pay for the "insured":

- a. All expenses we incur.
- b. The costs of bonds to release attachments in any "suit" against an "insured" we defend, but only for bond amounts within our Limit of Insurance.
- c. All reasonable expenses incurred by the "insured" at our request, including actual loss of earnings up to \$250 a day because of time off from work.
- d. All court costs taxed against the "insured" in any "suit" against an "insured" we defend. However, these payments do not include attorneys' fees or attorneys' expenses taxed against the "insured".
- e. All interest on the full amount of any judgment that accrues after entry of the judgment in any "suit" against an "insured" we defend; but our duty to pay interest ends when we have paid, offered to pay, or deposited in court the part of the judgment that is within our Limit of Insurance.

These payments will not reduce the Limit of Insurance.

C. Exclusions

1. This insurance does not apply to any of the following:
 - a. **Contractual**
Liability resulting from any contract or agreement by which the "insured" accepts responsibility for "loss". But this exclusion does not apply to liability for "loss" that the "insured" would have in the absence of the contract or agreement.
 - b. **Theft**
"Loss" due to theft or conversion caused in any way by you, your "employees" or by your stockholders.
 - c. **Defective Parts**
Defective parts or materials.

d. Faulty Work

Faulty "work you performed".

2. We will not pay for "loss" to any of the following:
 - a. Tape decks or other sound-reproducing equipment unless permanently installed in a "customer's auto".
 - b. Tapes, records or other sound-reproducing devices designed for use with sound-reproducing equipment.
 - c. Sound-receiving equipment designed for use as a citizens band radio, two-way mobile radio or telephone or scanning monitor receiver, including its antennas and other accessories, unless permanently installed in the dash or console opening normally used by the "customer's auto" manufacturer for the installation of a radio.
 - d. Any device designed or used to detect speed-measuring equipment, such as radar or laser detectors and any jamming apparatus intended to elude or disrupt speed-measuring equipment.
3. We will not pay for "loss" caused by or resulting from the following. Such "loss" is excluded regardless of any other cause or event that contributes concurrently or in any sequence to the "loss":
 - a. War, including undeclared or civil war;
 - b. Warlike action by a military force, including action in hindering or defending against an actual or expected attack, by any government, sovereign or other authority using military personnel or other agents; or
 - c. Insurrection, rebellion, revolution, usurped power or action taken by governmental authority in hindering or defending against any of these.

D. Limits Of Insurance And Deductibles

1. Regardless of the number of "customer's autos", "insureds", premiums paid, claims made or "suits" brought, the most we will pay for each "loss" at each location is the Garagekeepers Coverage Limit Of Insurance shown in the Schedule for that location. Prior to the application of this limit, the damages for "loss" that would otherwise be payable will be reduced by the applicable deductibles for "loss" caused by:
 - a. Collision; or

- b. With respect to Garagekeepers Coverage Comprehensive or Specified Causes Of Loss Coverage:
 - (1) Theft or mischief or vandalism; or
 - (2) All perils.
- 2. The maximum deductible stated in the Schedule for Garagekeepers Coverage Comprehensive or Specified Causes Of Loss Coverage is the most that will be deducted for all "loss" in any one event caused by:
 - a. Theft or mischief or vandalism; or
 - b. All perils.
- 3. To settle a claim or "suit", we may pay all or any part of the deductible. If this happens you must reimburse us for the deductible or that part of the deductible that we paid.

E. Additional Definitions

As used in this endorsement:

- 1. "Customer's auto" means a land motor vehicle, "trailer" or semitrailer lawfully within your possession for service, repair, storage or safekeeping, with or without the vehicle owner's knowledge or consent. A "customer's auto" also includes any such vehicle left in your care by your "employees" and members of their households who pay for services performed.

- 2. "Loss" means direct and accidental loss or damage and includes any resulting loss of use.
- 3. "Garage operations" means the ownership, maintenance or use of locations for the purpose of a business of selling, servicing, repairing, parking or storing "customer's autos" and that portion of the roads or other accesses that adjoin these locations. "Garage operations" also includes all operations necessary or incidental to the performance of garage operations.
- 4. "Work you performed" includes:
 - a. Work that someone performed on your behalf; and
 - b. The providing of or failure to provide warnings or instructions.

CA 99 47 10 13

POLICY NUMBER:

**COMMERCIAL AUTO
CA 99 47 10 13**

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

EMPLOYEE AS LESSOR

This endorsement modifies insurance provided under the following:

AUTO DEALERS COVERAGE FORM
BUSINESS AUTO COVERAGE FORM
MOTOR CARRIER COVERAGE FORM

With respect to coverage provided by this endorsement, the provisions of the Coverage Form apply unless modified by the endorsement.

This endorsement changes the policy effective on the inception date of the policy unless another date is indicated below.

Named Insured:

Endorsement Effective Date:

SCHEDULE

Description Of "Auto":

Information required to complete this Schedule, if not shown above, will be shown in the Declarations.

A. Any "auto" described in the Schedule will be considered a covered "auto" you own and not a covered "auto" you hire, borrow or lease.

B. While any covered "auto" described in the Schedule is leased to you by one of your "employees", the **Who Is An Insured** provision under **Covered Autos Liability Coverage** is changed to include that "employee" as an "insured".

CA 20 15 11 20

POLICY NUMBER:

COMMERCIAL AUTO
CA 20 15 11 20**THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.****MOBILE EQUIPMENT**

This endorsement modifies insurance provided under the following:

BUSINESS AUTO COVERAGE FORM
MOTOR CARRIER COVERAGE FORM

With respect to coverage provided by this endorsement, the provisions of the Coverage Form apply unless modified by the endorsement.

This endorsement changes the Policy effective on the inception date of the Policy unless another date is indicated below.

Named Insured:

Endorsement Effective Date:

SCHEDULE

Coverages	Covered "Auto" Vehicle Numbers	Limit Of Insurance	Premium
Covered Autos Liability		\$ Each Accident	\$
Auto Medical Payments		\$ Each Person	\$
Personal Injury Protection Or Equivalent No-fault Coverage		Separately Stated In Each P.I.P. Endorsement	\$
Uninsured Motorists		\$ Each Accident	\$
Underinsured Motorists (Indicate only when coverage is not included in Uninsured Motorists Coverage.)		\$ Each Accident	\$
Comprehensive		\$ Deductible	\$
		For Each Covered Auto, For Loss Caused By Theft Or Mischief Or Vandalism (A maximum deductible may also apply. Refer to Coverage Form for details.) OR	

Section 2: Introduction to Business Auto Coverage

		\$ Deductible For All Perils For Each Covered Auto (A maximum deductible may also apply. Refer to Coverage Form for details.)	
Collision		\$ Deductible For Each Covered Auto	\$
Specified Causes Of Loss		\$ Deductible For Each Covered Auto For Loss Caused By Theft Or Mischief Or Vandalism A maximum deductible may also apply. Refer to Coverage Form for details.) OR \$ Deductible For All Perils For Each Covered Auto (A maximum deductible may also apply. Refer to Coverage Form for details.)	\$

Vehicle Number	Description Of Vehicles That Are Covered "Autos"

Information required to complete this Schedule, if not shown above, will be shown in the Declarations.

- A.** This endorsement provides only those coverages where a premium is shown in the Schedule. Each of these coverages applies only to the vehicles shown as covered "autos".

B. The vehicles described in the Schedule will be considered covered "autos" and not "mobile equipment".

C. Covered Autos Liability Coverage does not apply to "bodily injury", "property damage" or "covered pollution cost or expense" resulting from the operation of any machinery or equipment that is on, attached to or part of any of these vehicles.

CA 20 54 11 20

COMMERCIAL AUTO
CA 20 54 11 20

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

EMPLOYEE HIRED AUTOS

This endorsement modifies insurance provided under the following:

AUTO DEALERS COVERAGE FORM
BUSINESS AUTO COVERAGE FORM
MOTOR CARRIER COVERAGE FORM

With respect to coverage provided by this endorsement, the provisions of the Coverage Form apply unless modified by the endorsement.

A. Changes In Covered Autos Liability Coverage

The following is added to the **Who Is An Insured** provision:

An "employee" of yours is an "insured" while operating an "auto" hired or rented under a contract or agreement in an "employee's" name, with your permission, while performing duties related to the conduct of your business.

For Hired Auto Physical Damage Coverage, any covered "auto" hired or rented by your "employee" under a contract in an "employee's" name, with your permission, while performing duties related to the conduct of your business is deemed to be a covered "auto" you own.

B. Changes In General Conditions

Paragraph **5.b.** of the **Other Insurance** Condition in the Business Auto and Auto Dealers Coverage Forms and Paragraph **5.f.** of the **Other Insurance – Primary And Excess Insurance Provisions** Condition in the Motor Carrier Coverage Form are amended by the addition of the following:

CA 20 71 11 20

POLICY NUMBER:

COMMERCIAL AUTO
CA 20 71 11 20**THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.****AUTO LOAN/LEASE GAP COVERAGE**

This endorsement modifies insurance provided under the following:

AUTO DEALERS COVERAGE FORM
 BUSINESS AUTO COVERAGE FORM
 MOTOR CARRIER COVERAGE FORM

With respect to coverage provided by this endorsement, the provisions of the Coverage Form apply unless modified by the endorsement.

This endorsement changes the Policy effective on the inception date of the Policy unless another date is indicated below.

Named Insured:**Endorsement Effective Date:****SCHEDULE**

Vehicle Number	Description Of Loan/Lease "Auto(s)" Which Are Covered "Autos"	Other Than Collision Additional Premium	Collision Additional Premium
		\$	\$
		\$	\$
		\$	\$
Information required to complete this Schedule, if not shown above, will be shown in the Declarations.			

A. Physical Damage Coverage is amended by the addition of the following:

In the event of a total "loss" to a covered "auto" shown in the Schedule or Declarations for which a specific premium charge indicates that Auto Loan/Lease GAP Coverage applies, we will pay any unpaid amount due on the lease or loan for a covered "auto", less:

1. The amount paid under the Policy's Physical Damage Coverage; and
2. Any:
 - a. Overdue or any deferred lease/loan payments at the time of the "loss";
 - b. Financial penalties imposed under a lease for excessive use, abnormal wear and tear or high mileage;
 - c. Security deposits not returned by the lessor;

d. Costs for extended warranties, Credit Life Insurance, Health, Accident or Disability Insurance purchased with the loan or lease; and

e. Carry-over balances from previous loans or leases.

B. For the purposes of this endorsement, the following is added to the **Other Insurance** Condition in the Business Auto and Auto Dealers Coverage Forms and the **Other Insurance – Primary And Excess Insurance Provisions** Condition in the Motor Carrier Coverage Form:

The insurance provided by this Auto Loan/Lease GAP Coverage is excess over any other collectible insurance including but not limited to any coverage provided by or purchased from the lessor or any financial institution.

Section 2 Self-Quiz

Directions: Use the following terms to fill in the blanks. Some terms may be used more than once.

accident	insured contract	mobile equipment	temporary worker	2
actual cash value	leased worker	Motor Carrier	tort	4
Auto Dealers	liability coverage	negligence	cost to repair or replace	7
bodily injury	Limit of Insurance	property damage		8

- The three types of auto coverage forms are the Business Auto Coverage Form, the _____ Coverage Form, and the _____ Coverage Form.
- A(n) _____ includes continuous or repeated exposure to the same condition.
- The part of a contract that pertains to an insured's business under which the insured assumes tort liability of another to pay for "bodily injury" or "property damage" to a third party is a(n) _____.
- A(n) _____ works for an insured under the terms of a contractual agreement between a labor leasing firm and the insured.
- _____ includes vehicles and equipment designed for purposes other than the transportation of persons or cargo.
- Damage to or loss of use of tangible property is _____.
- A(n) _____ substitutes for a permanent employee who is on leave or fulfills an insured's short-term or seasonal workforce need.

Section 2: Introduction to Business Auto Coverage

accident	insured contract	mobile equipment	temporary worker	2
actual cash value	leased worker	Motor Carrier	tort	4
Auto Dealers	liability coverage	negligence	cost to repair or replace	7
bodily injury	Limit of Insurance	property damage		8

8. Symbol _____ on the Declarations triggers coverage for “autos” described in Item Three for which a premium charge is shown (and for Covered Autos Liability Coverage, any “trailers” the insured doesn’t own while attached to any power unit described in Item Three).
9. Symbol _____ on the Declarations triggers coverage for “autos” owned by the insured that are not of the private passenger type.
10. Symbol _____ on the Declarations triggers coverage for “autos” the insured leases, hires, rents, or borrows, but not “autos” the insured leases, hires, rents, or borrows from “employees,” partners, members, or someone in members’ households.
11. Symbol _____ applies to “autos” the insured owns (and for Covered Autos Liability Coverage, any “trailers” the insured doesn’t own while attached to power units the insured does own). This coverage includes owned “autos” acquired after the policy begins.
12. A vehicle that travels on crawler treads is classified as _____.
13. Liability is created when an insured commits a(n) _____, or a legal wrong done to others.
14. The legal principle of negligence is used to determine whether the operator of an auto is responsible for a(n) _____.
15. The insurer’s broad promise to pay damages is restricted only to bodily injury or property damage and must apply to an event that qualifies as a(n) _____.

Section 2: Introduction to Business Auto Coverage

16. The Care, Custody, Or Control Exclusion eliminates _____ for damage to property that belongs to the insured, is being transported by the insured, or that the insured has in her/his custody, care, or control.
17. The Limit of Insurance shown in the Declarations is the most that would be paid for any one _____, regardless of the number of covered autos involved, insureds, or claims made.
18. Under the Physical Damage Limits of Insurance, the BAP will pay the lesser of the _____ or the _____ of the damaged or stolen property at the time of a loss.

Directions: Read each statement. Select True or False.

1. A “covered pollution cost or expense” includes costs or expenses arising from the actual, alleged, or threatened release of “pollutants” in the course of transit by the insured.

True

False

2. If the BAP provides liability coverage, it extends liability coverage automatically to a non-owned auto being used as a temporary substitute for an owned auto that is out of service because of breakdown, repair, servicing, loss, or destruction.

True

False

3. The BAP considers anyone other than the insured using a covered auto with the permission of the insured to be an insured, with some exceptions.

True

False

4. The BAP extends coverage as an insured to persons or organizations that are held liable for the conduct of the insured.

True

False

5. In addition to paying what it is legally obligated to pay on behalf of an insured, the insurer agrees to pay all court costs and post-judgment interest.

True

False

6. The Business Auto Coverage Form has 15 liability exclusions, and others may be added by endorsement.

True

False

Section 2: Introduction to Business Auto Coverage

7. The Fellow Employee Exclusion removes coverage for liability of one insured employee negligently injuring another insured employee.

True

False

8. The Movement Of Property By A Mechanical Device Exclusion removes coverage if loading or unloading of vehicles is performed using a mechanical device other than a hand truck.

True

False

9. One condition of the BAP is that the insured must notify the insurer of a loss within the policy period if the insurer is to meet its promise to defend and pay.

True

False

Directions: Name the four parts of negligence.

1. _____

2. _____

3. _____

4. _____

Directions: List the three main types of physical damage coverage.

1. _____

2. _____

3. _____

Section 3: Excess Liability and Commercial Umbrella Policies

Section Goal

In the previous section, you focused on the parts of a Business Auto Policy (BAP), including three types of coverage forms and definitions. You also became acquainted with coverage symbols that trigger the desired coverage and distinguished between those who are those who are not an insured on the BAP. Finally, you examined types of liability losses not covered by the BAP.

In this section, you will acquire the knowledge required to recognize the need for excess liability insurance and how Excess Liability and Commercial Umbrella Policies apply.

Learning Objectives

1. Excess Liability and Commercial Umbrella Policies

- *Identify the primary functions of a Commercial Umbrella Policy.*

2. Excess Coverage Forms

- *Describe the functions of four types of Excess Liability Coverage Forms.*

3. Self-Insured Retention (SIR)

- *Explain the role of self-insured retention (SIR) in a given loss situation.*

4. Key Terms and Conditions

- *Describe how the underlying insurance requirement works and the dangers of non-concurrent policies.*

Introduction to Excess Liability and Commercial Umbrella Policies

Imagine a vacationer who carries an “emergency” credit card should something unexpected happen. The vacationer has what he believes is sufficient cash to cover expenses, but the credit card is a “just in case” form of protection. However, some unexpected events are catastrophic, and the emergency credit card may be the only solution to the problem. Excess liability insurance is that “just in case” solution to a catastrophic liability claim.



Accidents leading to liability claims for damages that exceed the limits of the Commercial General Liability Policy, Business Auto Policy, or the Employers Liability coverage found in a Workers Compensation Policy are all too common today. Insurance professionals should be equipped with an understanding of how Excess and Umbrella Liability Policies work.

Excess Liability and Commercial Umbrella Policies

Learning Objective 1

- *Identify the primary functions of a Commercial Umbrella Policy.*

The Purpose of Excess/Umbrella Insurance

Excess Liability Policies and Umbrella Liability Policies share common functions, but Umbrella Liability Policies frequently provide broader coverage.

Excess Liability Policies	Umbrella Liability Policies
<p>Excess Liability policies have two primary functions:</p> <ul style="list-style-type: none"> • To provide excess limits above underlying liability insurance limits • To replace underlying insurance limits as aggregate limits are exhausted 	<p>Umbrella Liability Policies have three primary functions:</p> <ul style="list-style-type: none"> • To provide excess limits above underlying liability insurance limits • To replace underlying insurance limits as aggregate limits are exhausted • To provide broader insurance protection than the underlying insurance

More About Umbrella Policies

Umbrella Policies can provide broader liability protection in several ways. First, the coverage territory of the Umbrella Policy is typically broader than that of the underlying policy. In fact, it is often worldwide. This could provide coverage, for example, when operating autos outside the coverage territory found in the Business Auto Policy.



An Umbrella Policy may provide liability coverage differently for certain activities. For example, coverage for non-owned watercraft operation may be provided by expanding the length of covered vessels from 26 feet to 50 feet.

Also, Umbrella Policies may expand provided coverage by defining key terms differently.

For example, the definition of the term “bodily injury” could be broadened to include mental anguish or mental injury.

When covered Umbrella claims are not covered by the underlying policy, the loss is subject to the self-insured retention (SIR).



Section 3: Excess Liability and Commercial Umbrella Policies




In the event of a covered liability claim, the Excess Liability/Commercial Umbrella Liability Policy will provide excess limits.

\$2 Million	Provides excess limits over underlying insurance		
	Commercial General Liability	Business Auto	Employers liability



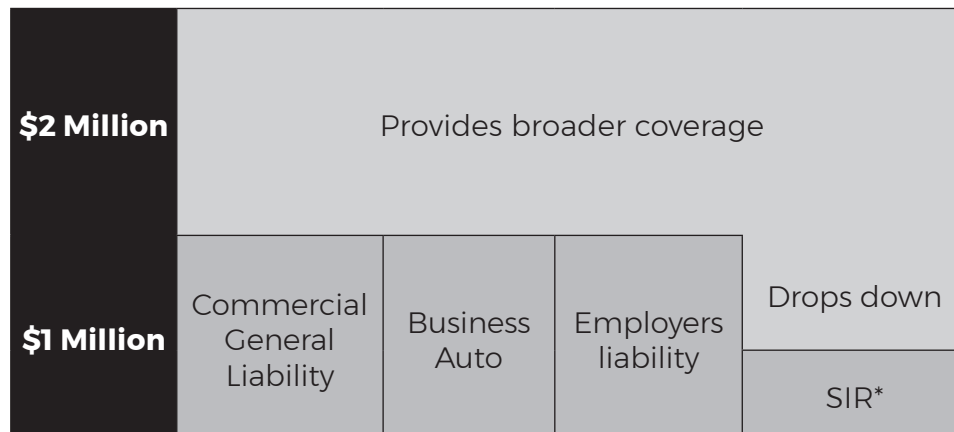
In the event of a covered liability claim, the Excess Liability/Commercial Umbrella Liability Policy will drop down and provide primary coverage when aggregate limits are exhausted by a prior liability claim(s).

\$2 Million			
		Excess	
\$1 Million	Drops down and replaces exhausted CGL limits	Business Auto	Employers liability

Section 3: Excess Liability and Commercial Umbrella Policies



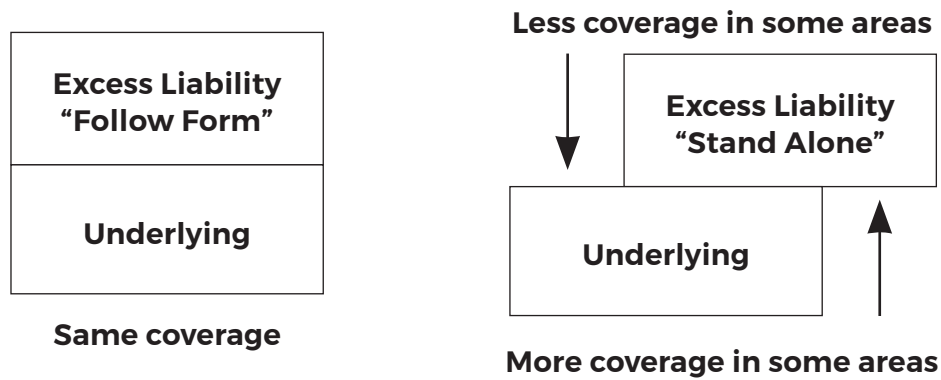
In the event of a liability claim that is *not* covered by any of the underlying policies but *is* covered under a Commercial Umbrella, the Commercial Umbrella Policy will drop down and provide coverage subject to a SIR (self-insured retention).



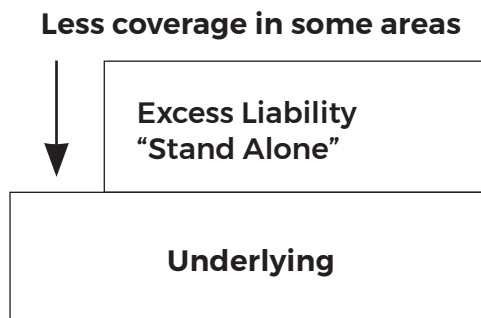
* The Umbrella Policy drops down when there is no underlying coverage, but is subject to a SIR.

Excess Liability and Commercial Umbrella Coverage

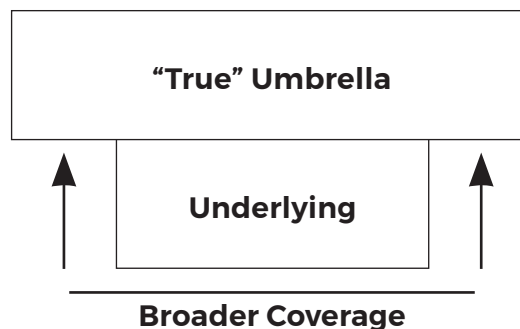
Excess Liability and Commercial Umbrella Liability Policies are not standard.



Some Excess Liability Policies may not provide broader coverage and may actually be more restrictive in some areas.



A "true" Umbrella typically has broader coverage with fewer exclusions.



Follow Form Versus Stand-Alone Versus True Umbrella

Excess Liability Policies can come in three forms: a Follow Form, a Stand-Alone Form, or as a True Umbrella Form.

- A Follow Form Excess Policy provides exactly the same coverage as the underlying policies, but at higher limits.
- A Stand-Alone Excess Policy has its own terms and conditions and may or may not cover losses that are covered by the underlying policies.
- A True Umbrella Policy provides broader coverage than the underlying policies, often with fewer exclusions.

It is important to review all endorsement that are added to an Excess/Umbrella Policy in order to understand the true scope of coverage.



An Umbrella Policy typically has a coverage territory that is worldwide. This could mean that an accident arising from auto use in Europe could be covered by the Umbrella Policy but not covered by the underlying Business Auto Policy.



Knowledge Check



Directions: Identify the three functions of a Commercial Umbrella Policy.

1. _____
2. _____
3. _____

Excess Coverage Forms

Learning Objective 2

- Describe the functions of four types of Excess Liability Coverage Forms.

Four Types of Excess Coverage Forms

Let's take a look at some examples of the structure of Excess Coverage Forms.

1. A **Monoline Excess Policy** covers one type of underlying insurance, such as Business Auto.

Monoline Excess
Business Auto



A business enters a contractual relationship with a vendor where the vendor requires the business to carry higher limits of business auto liability coverage than the business currently has on their Business Auto Policy.

2. A **Multiline Excess Policy** covers more than one type of insurance, such as Commercial General Liability, Business Auto, and Employers liability.

Multiline Excess		
Commercial General Liability	Business Auto	Employers liability



A business has a \$1 million liability limit on their Business Auto Policy. A catastrophic loss involving a vehicle owned by the business occurs, leaving others seriously injured. If the value of the claims totaled \$1.5 million, the Business Auto Policy would pay \$1 million and the Excess Umbrella Policy would pay \$500,000 for the loss.

3. A **Buffer Layer Excess Policy** exists between primary underlying insurance and the Excess Policy layer. In the diagram, for example, a Buffer Layer resides between the underlying Business Auto Policy and the Buffer Layer Excess Policy.

Buffer Layer Excess		
Commercial General Liability	Company A Buffer Layer	Employers liability
	Business Auto	



A business has a Business Auto Policy with a limit of \$500,000 through insurance Company A. The business requested a limit of \$1 million, but the company wouldn't go any higher than \$500,000. The business also needs a \$5 million Excess Policy, but the company that will provide it—Company B—requires that the business carry \$1 million dollars of underlying insurance. The business then would need to find an insurance company that would fill the gap. Next, the business gets a quote from Company C to provide \$500,000 dollars of business auto liability coverage above their business auto underlying insurance and beneath the \$5 million dollars of excess insurance provided by Company B.

4. The **“Lead” Umbrella Policy** resides between primary underlying policies and the overlying Excess Umbrella Policy. The Excess Umbrella Policy typically contains “follow form” provisions, meaning it follows the terms and conditions found in the “Lead” policy below it.

Excess Umbrella—Company B \$20 Million		
“Lead” Umbrella—Company A \$5 Million		
Commercial General Liability	Business Auto	Employers liability



A business needs to carry a liability limit of \$26 million dollars. Their CGL Policy provides an underlying \$1 million limit. The business owner then acquires a \$5 million lead Umbrella Policy with Company B. Next, he turns to Company C, which agrees to provide \$20 million excess umbrella coverage above Company B.

Knowledge Check



Directions: Define the term “buffer layer” as it applies to an insured.

Self-Insured Retention (SIR)

Learning Objective 3

- Explain the role of self-insured retention (SIR) in a given loss situation.

A self-insured retention, or SIR, is the amount an insured must pay before an insurance policy will respond to a loss. The SIR is shown on a policy's Declarations.

The SIR represents the amount a Named Insured pays when the insured's Commercial Umbrella Policy provides broader coverage than the underlying policy. A SIR is not the same as a deductible in that it does *not* always apply. The SIR does not apply when the Umbrella Policy drops down over exhausted limits or when it is excess over underlying limits.



A Named Insured has a Commercial Umbrella Policy with a \$5,000,000 occurrence and aggregate limit. It has the following requirements:

The Named Insured suffers a liability claim of \$500,000. The claim is not covered by any of the underlying policies, but it *is* covered by the Commercial Umbrella Policy.

Self-insured retention (SIR)	\$	25,000
Schedule of underlying insurance:		
<u>Commercial General Liability</u>		
General aggregate	\$	2,000,000
Products-completed operations aggregate	\$	2,000,000
Each occurrence	\$	1,000,000
<u>Business Auto Liability</u>		
Each accident	\$	1,000,000
<u>Employers liability</u>		
Bodily injury by accident	\$	500,000 each accident
Bodily injury by disease	\$	500,000 each employee
Bodily injury by disease	\$	500,000 policy limit

The insured pays \$25,000 SIR and the Umbrella Policy pays \$475,000. The SIR plus \$475,000 equals \$500,000.

Check-In



Directions: Use the example to explain what happens if a Named Insured suffers a liability auto policy claim of \$1.5 million that is covered by the underlying policy.

Self-insured retention (SIR) \$ 10,000

Schedule of underlying insurance:

Commercial General Liability

General aggregate \$ 2,000,000

Products-completed operations aggregate \$ 2,000,000

Each occurrence \$ 1,000,000

Business Auto Liability

Each accident \$ 1,000,000

Employers liability

Bodily injury by accident \$ 500,000 each accident

Bodily injury by disease \$ 500,000 each employee

Bodily injury by disease \$ 500,000 policy limit

Underlying policies pay: \$ _____

Umbrella Policy pays: \$ _____

Named Insured pays: \$ _____

Key Terms and Conditions

Learning Objective 4

- Describe how the underlying insurance requirement works and the dangers of non-concurrent policies.

Although there is a standardized Commercial Umbrella Liability Policy published by ISO (Insurance Services Office, Inc.), many insurance companies use their own forms. Those forms may define terms differently and have different conditions and exclusions.

Variations

Insuring Agreement



Some Umbrella Policies “pay on behalf” of an insured those sums the insured is obligated to pay as damages for a covered claim.

Other Umbrella Policies may state they will **indemnify** an insured, meaning the insured pays for the covered claim and then asks for reimbursement from the insurance company.



Defense



Most Umbrella Policies state that they have a duty to defend. The insurance company accepts an obligation to defend an insured for any covered claim. The company takes responsibility for investigating and legally defending the insured.

The costs of the defense may be *in addition* to the limits of insurance, or they may be paid *from within* the limits.

Coverage Territory



The coverage territory is the geographic area in which insurance applies. The coverage territory of most Commercial Umbrella Policies is typically far wider than underlying policies. It may be worldwide, limited worldwide, or the policy may have no coverage territory statement at all, meaning it applies anywhere.

Who Is An Insured

Excess/Umbrella Policies vary widely in who is insured under the form. The policy may “follow form” with the underlying policy, meaning follow its terms and conditions. It may expand the definition of Who Is An Insured, or it may give automatic coverage when required in contracts for additional insureds.

Damages

The description of covered damages also varies in Excess/Umbrella Policies. A policy may “follow form” with underlying coverage, or it may expand coverage in the areas of personal injury, property damage, or advertising injury.



The definition of “personal and advertising injury” in the CGL Policy is very specific, listing allegations that are covered and leaving out other allegations that can be commonly made. For example, “humiliation” is not included in the CGL definition, but in some umbrella forms, the definition of personal injury may include it.

Ultimate Net Loss

The term “**ultimate net loss**” describes the total of amounts paid or payable in the settlement of claims or suits. The total can include the cost of defense if no separate defense costs provisions apply. It can also exclude the cost of defense if the policy has separate defense cost provisions.

Exclusions

The exclusions found in Excess/Umbrella Policies vary widely. Common exclusions include:

- Expected or intended injury
- Contractual liability
- Liquor liability
- Injury to a fellow employee
- Employment related practices
- Pollution
- Aircraft or watercraft
- Property in the care, custody, or control of the insured
- Racing activities
- Damage to property, damage to impaired property
- Damage to your product or work
- Recall of products
- Professional services
- Damage to electronic data
- Distribution of material in violation of statutes
- ERISA obligations/Employee benefits liability
- Punitive damages
- Uninsured and Underinsured Motorists
- Asbestos

Claims Involving Excess Policies

How does it work if a claim is made that would likely exceed underlying limits? The claim is reported to both the underlying and the excess insurers. Typically, the underlying insurance company would take on the primary role of investigating and defending the insured, with the insured or the underlying insurer keeping the excess insurer aware of claim developments. Because the excess insurer has a right and a duty to defend the insured, it is in the umbrella insurer's interest to remain vigilant to protect the insured.



The Underlying Insurance Condition

The **underlying insurance condition** described on the Declarations outlines the obligations of an insured regarding the underlying insurance policies. The limits required on the underlying policies may vary from insurer to insurer. Let's look at an example of how the underlying insurance condition works.



The most important aspect of this requirement is what is shown as the underlying insurance limits on the Declarations of the Umbrella Policy because it is what is assumed to exist. If the underlying insurance is not what is represented on the Schedule or Declarations, the Umbrella Policy will respond as though it was.

Schedule of Underlying Insurance:

Commercial General Liability

General aggregate	\$ 2,000,000
Products-completed operations aggregate	\$ 2,000,000
Each occurrence	\$ 1,000,000

Business Auto Liability

Each accident	\$ 1,000,000
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Employers liability

Bodily injury by accident	\$ 500,000	each accident
Bodily injury by disease	\$ 500,000	each employee
Bodily injury by disease	\$ 500,000	policy limit

The Excess/Commercial Umbrella Policy assumes the underlying insurance was in full effect unless the limit was reduced by covered claims after the effective date of the policy.

If the insured fails to keep the underlying policy limits in effect, there can be a gap in the Excess/Umbrella coverage.

Gap in Coverage



A Named Insured's Business Auto Policy liability limit is erroneously reduced during the policy year to a \$500,000 limit rather than the required \$1,000,000 limit. A covered auto loss of \$1,250,000 dollars occurs. This results in a \$500,000 gap in coverage. A SIR does *not* apply in this example.

\$1 million limit Excess/Umbrella Policy	\$250,000	Paid by the Excess Liability/Commercial Umbrella Policy
\$ 1 million underlying BAP requirement	\$500,000	↕ Gap in coverage insured is responsible for paying
	\$500,000	Paid by the BAP

In the example, the Excess Liability/Commercial Umbrella Policy responded as if the required underlying insurance were in full effect.

Concurrency

It is important that the Excess/Umbrella Policy has the same policy period as the underlying policy or policies. When the policy periods are the same, or concurrent, then **concurrency** exists.

The Excess/Umbrella Form may require that the underlying limit be “unimpaired,” meaning that it has not been reduced or exhausted by claims prior to the effective date of the Excess Policy. Non-concurrent dates could result in a coverage gap due to impaired limits.

CGL with \$2M aggregate	Excess/Commercial Umbrella with \$2M underlying insurance requirement
Effective Jan. 1	Effective June 1
<p>March 1 loss April 1 loss \$700,000 & \$800,000 in loss payments reduce underlying aggregate to \$500,000</p>	<p>July 1 \$1,000,000 loss</p>
<p>How will the July 1 loss will be paid? The CGL pays \$500,000—the remaining aggregate limit. Because the insured is responsible for any coverage gap, the insured will pay \$500,000. The Excess Liability/Commercial Umbrella Policy pays nothing.</p> <p>Note: The Excess Liability/Commercial Umbrella Policy will only respond to any claim as if the required underlying insurance was in full effect.</p>	

There are several ways to solve a non-concurrency problem if claims on the underlying policy prior to the effective date of the Excess Policy have reduced the underlying limits, such as:

- increase the underlying limits following a loss
- cancel and rewrite the underlying policy
- endorse the Excess/Umbrella Policy to resolve the non-concurrency issue



Knowledge Check



Directions: Describe how the underlying insurance requirement works and the dangers of non-concurrent policies.

Summary

In today's business environment, insurance with high limits of liability is practically a necessity. That's because accidents leading to liability claims for damages often exceed the limits of underlying policies, such as a Commercial General Liability Policy, a Business Auto Policy, or the Employers Liability found in a Workers Compensation Policy. Consequently, insurance professionals must understand the purpose of Excess and Umbrella Liability Policies.

While Umbrella Liability Policies frequently provide broader coverage than Excess Liability Policies, both share common functions.

Excess Liability Policies	Umbrella Liability Policies
<p>Excess Liability Policies have two primary functions:</p> <ul style="list-style-type: none"> • To provide excess limits above underlying liability insurance limits • To replace underlying insurance limits as aggregate limits are exhausted 	<p>Umbrella Liability Policies have three primary functions:</p> <ul style="list-style-type: none"> • To provide excess limits above underlying liability insurance limits • To replace underlying insurance limits as aggregate limits are exhausted • To provide broader insurance protection than the underlying insurance

There are four types of Excess Coverage Forms, and each serves a specific purpose. (1) A Monoline Excess Policy covers a single type of underlying insurance, while (2) a Multiline Excess Policy covers more than one type of underlying insurance. (3) A Buffer Liability Policy fills a coverage gap, residing between a primary underlying insurance and an overlying Excess Policy layer. Finally, (4) a "Lead" Umbrella Policy resides between primary underlying policies and the overlying Excess Umbrella Policy. The Excess Policy is normally a "follow form," meaning it follows the terms and conditions found in the underlying "Lead" Umbrella Policy.

A self-insured retention, or SIR, is the dollar amount a Named Insured pays when the insured's Commercial Umbrella Policy provides broader coverage than the underlying policy. Unlike a deductible, a SIR does not always apply, as in circumstances when the Umbrella Policy drops down over exhausted limits or when the policy is excess over underlying limits.

The Insurance Services Office publishes a standardized Commercial Umbrella Liability Policy. However, many insurance companies use their own forms, causing variations. Variations exist, for example, in the language of the Insuring Agreement, the cost of defense, coverage territory, and underlying insurance conditions. Limits required on an insured's underlying policies may differ from insurer to insurer. Variations also reside in the Exclusions section of an Excess Policy.

Section 3: Excess Liability and Commercial Umbrella Policies

Any underlying policies and Excess Policies should be concurrent, meaning their policy periods should be identical. Non-concurrent dates can result in coverage gaps in circumstances where Excess Policies require that underlying limits be “unimpaired,” meaning they have not been reduced or exhausted by claims prior to an Excess Policy’s effective date.

Resources

For valuable reinforcement, some important concepts related to the learning objectives in this section are summarized in video clips. Use the following link to access these helpful learning resources.

scic.com/2lCresources



How much liability insurance is enough?



Maintenance of Underlying Limits

(continued)

Section 3 Self-Quiz

Directions: Check each item that describes a function of an Excess Liability Policy.

- ☐ To provide excess limits above underlying liability insurance limits
- ☐ To replace underlying insurance limits as aggregate limits are exhausted
- ☐ To provide broader insurance protection than the underlying insurance

Directions: Read each statement. Select True or False.

1. The coverage territory of an Umbrella Policy is typically broader than the territory in an underlying policy.

True

False

2. Umbrella policies may change the definitions in underlying policies.

True

False

3. A “true” Umbrella Policy tends to be more restrictive than Excess Liability policies.

True

False

4. A Follow Form Excess Policy provides the same coverage as the underlying policies but at higher limits.

True

False

5. A Stand-Alone Excess Policy has its own terms and conditions and may or may not cover losses that are covered by the underlying policies.

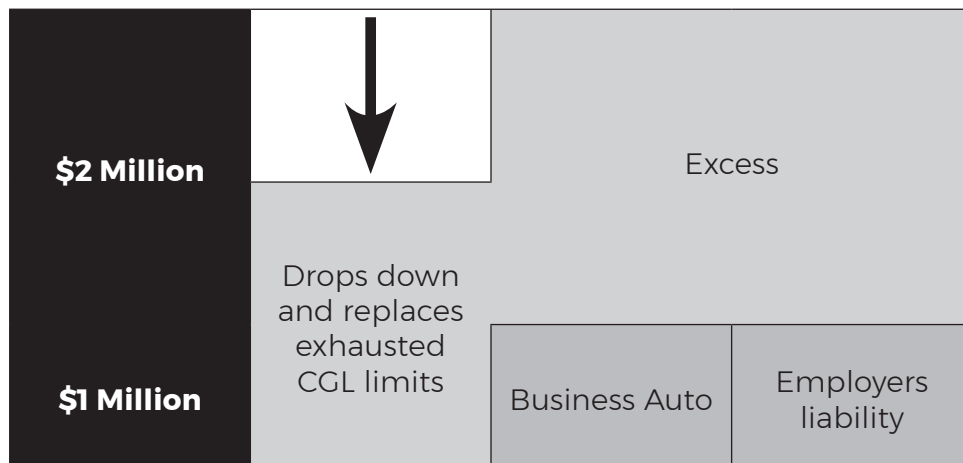
True

False

Section 3: Excess Liability and Commercial Umbrella Policies

Directions: Answer the following questions.

1. Explain what an Excess/Umbrella Policy will do in the event of a covered liability claim.



2. Explain the difference between Monoline and Multiline Coverage Forms.

Section 3: Excess Liability and Commercial Umbrella Policies

Directions: Use the following terms to fill in the blanks.

Buffer Liability	coverage territory	ultimate net loss
Excess	indemnify	underlying insurance condition
concurrency	self-insured retention	unimpaired

3. A(n) _____ Policy exists between primary underlying insurance and the _____ Policy layer.
4. A(n) _____ is the amount an insured must pay before an excess insurance policy will respond to a loss that is not covered by an underlying policy.
5. Umbrella Policies may state they will _____ an insured, meaning the insured pays for the covered claim and then asks for reimbursement from the insurance company.
6. The _____ is the geographic area in which insurance applies.
7. The _____ describes the total of amounts paid or amounts payable in the settlement of claims or suits.
8. The _____ described on the Declarations outlines the obligations of an insured regarding the underlying insurance policies.
9. When the policy periods of underlying and Excess policies are the same, _____ exists.
10. An underlying, _____ limit is one that has not been reduced or exhausted by claims prior to the effective date of the Excess Policy.

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.
9. Review any comments, highlights, or notes you made in each section.

Appendix

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 Exam Questions

The Final Exam has a variety of questions similar to the ones you see below. Correct answers have been provided.

The Douglas Insurance Agency provides their producers with agency-owned autos which are insured on a Business Auto Policy for liability and physical damage.

1. **A Douglas Agency producer takes his company car to a local brake repair shop to get new brakes. After replacing the brakes, the brake shop employee takes the car for a brief test drive. The brakes fail, resulting in an accident that causes property damage and bodily injury. The injured third party sues the agency, the brake shop, and the brake shop employee. For whom would the BAP provide coverage and defense?**
 - A) the agency and the brake shop, but not the brake shop employee
 - B) the agency, the brake shop, and the brake shop employee
 - C) the agency and the brake shop employee only
 - D) the agency only
2. **Assume the brake failure didn't occur until after the employee took delivery of the car and was driving away. Who would be covered under the BAP for the accident?**
 - A) the agency and the agency producer
 - B) the agency and the brake shop only
 - C) the agency producer only
 - D) the agency only

Sample 1: The correct answer is D, the agency only.

Sample 2: The correct answer is A, the agency and the agency producer.

Glossary of Terms

accident an event or continuous or repeated exposure to the same conditions resulting in bodily injury or property damage

auto a land motor vehicle; “trailer” or semitrailer designed for travel on public roads; or any other land vehicle that is subject to a compulsory or financial responsibility law or other motor vehicle insurance law where it is licensed or principally garaged. An auto does not include “mobile equipment.”

bodily injury injury, sickness, or death sustained by a person

concurrency when the dates of an Excess/Umbrella Policy and an underlying policy or policies are the same

conditions the rules of a contract for an insured and insurance company

coverage territory the geographic area where insurance applies

Declarations the part of a policy that shows the who, what, when, and where

deductible the amount the insurance company reduces its payment for a loss, and it is shown in the Declarations for each coverage

depreciation the amount of value an auto has lost due to its age, mileage, or wear and tear

diminution perceived loss in market or resale value resulting from a direct and accidental “loss”

duty to defend an insurance company’s assumed obligation to defend an insured for any covered claim

employee includes a “leased worker;” does not include a “temporary worker”

endorsements additions to a policy that amend the coverage provided in the coverage form

exclusions provisions that specify situations where coverage does not apply

experience modifier an indicator of an employer’s claims experience; a factor used in premium computation

hired autos autos that a business organization or sole proprietor leases, hires, rents, or borrows; does not include autos belonging to employees or partners or any of their family members

indemnify when the insured pays for the covered claim and then asks for reimbursement from the insurance company

Appendix

Information Page a page of declaratory information found in Workers Compensation policies. The page outlines the employer being insured, the policy period (when the coverage begins and ends), and the coverage provided by the policy.

insured a person or organization qualifying as an insured in the Who Is An Insured provision of the coverage

insurance coverage form the part of a policy in which the promises an insurance company makes to an insured are outlined in detail

insured contract a contract where the insured has assumed tort liabilities of another party, subject to the limits of the insurance policy

Insuring Agreement a promise the insurance company makes to pay sums the insured is obligated to pay as damages and to defend the insured

leased worker someone leased to the insured by a labor leasing firm under the terms of a contractual agreement

limit the most that would be paid for any one accident or loss; the limit is shown in the declarations

loss a direct or accidental loss or damage

mobile equipment equipment that is designed for travel off public roads, including specific types of equipment and vehicles as described in the policy

monopolistic state fund a state-created, state-owned, and state-operated workers compensation insurance facility; it writes all workers compensation insurance for the state

Named Insured the person or organization shown on the Declarations

negligence used to determine whether the operator of an auto is responsible for an accident. Negligence has four elements: 1) a duty is owed to others; 2) that duty is breached; 3) injury or damage results; 4) the breach of the duty is the proximate cause of the injury or damage.

non-owned auto autos that a business organization or sole proprietor doesn't own, hire, rent, or borrow in connection to the business; includes autos belonging to employees or partners or any of their family members

owned autos autos that are owned (titled/leased) in the name of a business or organization, or owned by a sole proprietor, and being used for business purposes

pollutant any solid, liquid, gaseous, or thermal irritant or contaminant

property damage damage to or loss of use of tangible property

SIR (self-insured retention) the amount an insured must pay before an insurance policy will respond to a loss; the SIR is shown on a policy's Declarations

Appendix

temporary worker one furnished to the insured as a substitute for a permanent “employee” who is on leave or someone who works for the insured to meet seasonal or short-term workload conditions

tort a legal wrong done to others

underlying insurance condition a requirement in Excess and Umbrella Policies where the insured must maintain underlying insurance as described in the declarations during the policy period of the Excess or Umbrella Policy

ultimate net loss the total of amounts paid or payable in the settlement of claims or suits

vicarious liability when one party is held responsible for the actions of another party due to the nature of their relationship

