

Auto Insurance

# INTRODUCTION TO PERSONAL AUTO INSURANCE



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## INTRODUCTION TO PERSONAL AUTO INSURANCE

### What Is Personal Auto Insurance?

Auto insurance is one of the most important insurances that a consumer must think about. It obviously falls under the category of property insurance, and one's automobile is often the most expensive and necessary pieces of property that one owns.

Personal auto insurance provides coverage for only those vehicles that are acquired for private use. Any vehicle that is used for commercial purposes cannot be insured under personal auto insurance.

### Why Is Auto Insurance Mandated?

It is estimated that there are between 40,000 and 50,000 deaths each year due to automobile accidents. Then there are over 5 million additional injuries. These two statistics stem from more than 30 million auto accidents each year. Then of course there are the economic losses. This puts auto insurance in the number one position as the largest form of Property and Casualty coverage.

Most states require owners of automobiles to carry a minimum amount of bodily injury and property damage liability insurance. Owners are also required to show proof of financial responsibility when involved in an accident or ticketed. Proof of financial responsibility is now required for license renewal.



# The Basis of Legal Liability and How Personal Auto Insurance Protects Insureds From Its Financial Consequences

Whenever an accident occurs the owners of the vehicles involved are responsible for the resulting expenses. One part of personal auto insurance deals with liability coverage. All damages are paid for irrespective of who was operating the vehicle, provided that the operator had a driving license and was operating the vehicle with the owner's consent. It should be noted here that liability coverage is only valid for the vehicle for which it was issued.

**For Example:** Jerry owns a BMW insured under personal auto insurance. While Jerry was operating his neighbors insured black limousine, he had an accident. Jerry's auto insurance will not pay for any of the damages; the limousine owner is liable for loss.

## Who Does It Cover?

Any injuries sustained in an accident involving the insured vehicle are covered under auto insurance. Coverage is not only provided to the insured, but to any/all his/her family members who operate the vehicle with the owner's permission, or individuals who were riding in it at the time of the accident.

## What Does It Cover?

Personal auto insurance pays for medical expenses and for work lost due to injury. Auto insurance protects the insured's financial security in case of a lawsuit that results from loss or injuries to other parties, following an accident involving a member of the family, a friend or a relative that had been given permission, by the insured or the insured's spouse, to drive the car.

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## Eligible Vehicles

All four-wheel motor vehicles can be insured under personal auto insurance if they are:

- Owned by the insured.
- Leased by the insured for more than six months, including vans or pickups weighing less than 10,000 pounds that are not used in a freight or delivery business.



**Note:** The policy can be endorsed to cover motor homes, motorcycles, golf carts, and snowmobiles.

After an insured acquires an auto insurance policy, all of the following vehicles are covered.

- Any vehicle identified in the declarations.
- Any owned trailer.
- Any non-owned auto or trailer used as a temporary substitute vehicle for one that's broken down, lost, destroyed or being repaired or serviced.
- Any newly acquired auto, this includes:
  - Autos for which insurance is requested within 14 days of acquisition provided that the autos were acquired during the policy period. Till the time the specific auto is insured, the insurer should have insured the auto as broadly as any insured vehicle under the policy.
  - Any replacement auto acquired during the policy period receives the broadest coverage available to any insured vehicle.

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- The insured must notify the insurer within 14 days to continue physical damage coverage.
- If none of the insured vehicles are covered for physical damage the insurer must be notified, within 4 days, that physical damage coverage is required.

## What Is The Basic Provided Coverage?

Automobile liability addresses third party claims for bodily injury and property damage arising out of the insured's negligent operation of an automobile. In Illinois, motorists are required to have some minimum levels of coverage set forth by state statutes.

More than 150 million drivers and roughly 110 million private passenger cars are insured in the United States.

Coverage is basically provided in the following areas:

- Liability Coverage
- Medical Payments
- Uninsured Motorist Coverage
- Physical Damage to an Automobile

## What Is The Basic Structure Of The Personal Auto Policy?

The personal auto policy or PAP is designed for personal auto exposure, not commercial. It insures private passenger autos, such as cars, vans, SUVs, and pickup trucks. Motorcycles, golf carts, motorhomes, and snowmobiles *may* be added by endorsement.

# Auto Insurance

Personal Auto Policy consists of:

- A declaration page
- An agreement and definitions page
- Four coverage parts
- Two duties or provision parts
- Optional endorsements

The policy form contains four separate coverages, each with its own insuring agreement, exclusions, and conditions. They are:

**Part A**–Liability Coverage

**Part B**–Medical Payments Coverage

**Part C**–Uninsured Motorists Coverage

**Part D**–Coverage for Damage to Your Auto (Physical Damage)

## A Personal Umbrella Policy

A Personal Umbrella Policy provides excess coverage over underlying PAP and HO (homeowner) liability policies. The umbrella policy pays up to its limit after therequired underlying insurance is exhausted.

Umbrella policies have broad insuring agreements with few exclusions. When it provides coverage for which there is no underlying policy, the insured must absorb a deductible, usually \$250, which is known as a self-insured retention (SIR).





## Basic Definitions

**Jurisdiction** is the geographical area in which a court has power to hear a case.

**Concealment** occurs when an insured withholds or hides information an insurer is entitled to know.

### Three Legal Principles in Policy Interpretation:

- **Contract Of Adhesion**

Insurance policies are contracts of adhesion since they are drafted by one party (the insurer) and presented to the other party (the insured) on a 'take it or leave it' basis. Thus, courts interpret *every* ambiguity in favor of the insured. If a term is *not* specifically defined, courts use the term's common meaning.

- **Doctrine Of Reasonable Expectations**

Under certain, unusual circumstances, a court will interpret an insurance policy to include coverages that a reasonable person would expect it to include, even if the policy's specific provisions exclude the coverage.

- **Public Policy**

Because insurance is a business affected with the public interest, a court might impose coverage if a policy provision acts against the interests of the general public.

## Family Member

A "family member" is defined as anyone who is residing with the named insured and is related to him/her by blood, marriage, or adoption. Family members are considered as insureds.

### Four Factors Considered in Determining Residence

When determining residence, the court evaluates:

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- The person's actions and intentions.
- The duration and nature of the person's stays in the household.
- The person's permanency of attachment to the household.
- The closeness of the relationship between the person and the insured.

## "Claim Representative (CR) Solutions" For Determining Residence

The CR should ask the following questions:

- Does the person eat meals, receive mail, store personal belongings, and/or maintain a room in the residence?
- What is the frequency and duration of the person's presence in the residence?
- Does the person pay rent, utilities, or maintenance expenses for the residence?
- What is the address on the person's driver's license, tax return, and voter registration card?
- Where does the person garage his vehicle?



## Issues Concerning the Residency of Children

- Children away at school or in the military are considered to be residents of the parental household if they intend to return to the family home.
- Emancipated children are *not* usually considered residents of their parents' household if they are completely independent of parental support and control.
- Children of divorced parents may be considered residents of the non- custodial

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parent's household depending on the nature, duration, frequency, and regularity of their visits.

## “Claim Representative (CR) Solutions” For Determining Residency of Children

The CR should ask the following questions:

- Is the child financially dependent on the parent?
- What is the intent of the child and of the parent?
- What is the frequency and duration of visits?
- What is the relationship between the parent and the child?
- Does the child have a key?
- Does the child have his own room?
- Does the child store personal belongings in the residence?
- How old is the child?
- Does the parent have regular visitation rights?

## Occupying

The PAP defines occupying to mean “in, upon, getting in, on, out, or off.” Medical payment coverage under PAP covers all individuals who sustain injury while occupying the insured vehicle. It must be noted that the insured and his/her family members are covered irrespective of whether the vehicle they occupied was insured.

**NOTE:** The PAP excludes bodily injury sustained while “occupying” any vehicle with fewer than four wheels.

Questions of interpretation arise when injury occurs shortly after someone has exited a covered auto.

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## Physical Contact Test

The physical contact test requires the injured person to have physical contact with the vehicle at the time of injury. However, courts are often reluctant to impose coverage for accidents unrelated to the normal, intended use of the vehicle (example, using the car to steady a gun while deer hunting).

## Sufficient Proximity and Vehicle Orientation Test

The sufficient proximity and vehicle orientation test requires proximity (nearness) and orientation (relationship) to the insured vehicle.

## “Claim Representative (CR) Solutions” For Determining Occupancy

- What was the person doing when injured?
- Was the pre-injury activity vehicle-orientated (example, the gun backfiring while hunting)?
- How close was the person to the vehicle?
- Does this jurisdiction use the physical contact test or the proximity and orientation test?

## Bodily Injury

The PAP defines bodily injury as bodily harm, sickness, or disease and resulting death. Courts are divided regarding whether emotional injury claims are considered “bodily injury.”

## Claims for Emotional Injury

Not all courts recognize a cause of action for emotional injury. They are more likely to recognize a purely emotional (nonphysical) injury claim *if* the claimant was within the zone of danger, or suffered physical symptoms resulting from emotional distress.



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## PAP Coverage for Emotional Injury

Majority of courts hold that a purely emotional injury is *not* “bodily injury” within the PAP definition.

## “Claim Representative (CR) Solutions” For Determining Coverage for Emotional Injury

- Do the courts in this jurisdiction recognize claims for nonphysical injury?
- Do the courts in this jurisdiction consider purely nonphysical claims to be “bodily injury” under the PAP?
- Did the person witness injury to a spouse or child?
- Was the person within the zone of danger?
- Did the person suffer physical manifestations of the emotional injury?

## Employees

The Business Auto Coverage Form (BAC) covers employees of the named insured.

## An Independent Contractor

An independent employee might be considered an employee, depending on the degree of control, the length of employment, and the manner of compensation.

## “Claim Representative (CR) Solutions” For Distinguishing Employees and Independent Contractors

- How much control does the employer exercise?
- Does the position require training or special skills not held by other employees?
- Does the employer provide tools, materials, and equipment?
- Is the work performed on the employer’s premises?
- How is the worker paid?

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- Are the services integrated into business operations?
- Is this an ongoing relationship?
- Does the employer impose time constraints?
- Does the worker work exclusively for this employer?
- Can the employer fire the worker? Can the worker quit?
- Can the worker hire assistants?
- Does the worker provide personal services?
- What reporting requirements exist?
- Does the employer pay business and travel expenses?
- Can the worker realize a profit or loss?



## Liability Coverage

### Insuring Agreement

The insurer will pay damages for bodily injury (BI) and property damage (PD) and defense costs for any legally responsible insured.

**NOTE:** Insured includes the named insured, family members, people reasonably believing they are entitled to use a covered auto, and any other person or organization for its vicarious liability arising from the named insured or other people using a covered auto. The named insured and family members are covered for use of **any** auto or trailer. Everyone else is only covered for the use of a **covered** auto and its trailer.

### Co-Owner and Co-Insured Liability

Unless the auto policy specifically excludes intra family claims, co-owner and co-insured liability is covered under the liability section. Some insurers try to exclude

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intra family claims, but many states consider such limitations invalid because they violate public policy.

## Auto

Any vehicle that has less than four wheels or is not designed for use on public roads is excluded from the liability insuring agreement. Such a vehicle will be covered IF it is used in a medical emergency.

## The Duty to Defend

When an accident occurs, the insurer may choose to either settle the issue with the injured party or defend its client (i.e. the insured), provided that the claim filed is covered under the policy. If the insurer opts to defend, all defense costs are borne by him/her. The limit of liability stated within the insurance policy is used to determine the duration for which the insured will be defended. The insurer's obligation to defend its client ends when the limit of liability is exhausted by payment of judgments or settlements.

**NOTEWORTHY:** The wording of the PAP with respect to when the insurer's duty to defend ends changed to clearly allow the insurer to simply pay the policy limit and then walk away from the suit.

### 1994 Edition

*"Our duty to defend ends when our limit of liability for this coverage has been exhausted."*



### 1998 Edition

*"Our duty to defend ends when our limit of liability for this coverage has been exhausted by payment of judgments or settlements."*

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## Six Exclusions in Liability Coverage

### Intentional Injury

Courts examine the insured's motivation. Occasionally a court might apply coverage if the insured intended the act, but did not intend to cause the resulting injury.

**CR Solutions:** In a case involving potentially intentional injuries, the Claim Representative should issue a reservation of rights letter, take detailed statements from the parties and witnesses, evaluate the insured's intent, determine if the accident involved 'use' of an auto, and consider how courts in the jurisdiction have defined 'accident'.

### Property in the Insured's Care, Custody, or Control

This exclusion applies when the insured damages a borrowed car or damages furniture he/she is moving for a friend. A few states require insurers to cover damage to rental cars and/or damage to vehicles being test-driven by the insured.

### Business Use of a Personal Auto

The PAP does *not* provide coverage:

- For injury to any non-domestic employee.
- For liability arising out of livery (taxi) use of any vehicle. (Car-pooling is **not** livery use.)
- To any person while in the business of selling, repairing, servicing, storing, or parking vehicles. (You **are** covered when you work on your and your family's vehicles during your off-duty hours.)
- To any person using or working on any vehicle (except a private passenger auto, pickup, van, or its trailer) while working in any **other** business.



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The policy is void if the insured's application contains a material misrepresentation about the vehicle's use.

**NOTE:** A misrepresentation is material if it would affect the insured's premium or the insurer's decision to accept the insured.

## Unauthorized Use of an Insured Vehicle

The PAP excludes any person using a vehicle without being entitled to do so. Courts evaluate whether an ordinary, reasonable person would think he/she was entitled to use the vehicle under the circumstances.

**NOTE:** This exclusion does *not* apply to family members (including underage, unlicensed drivers).

## Vehicles Owned by the Insured or Available for His/Her Regular Use

Courts examine the availability of the vehicle and any restrictions on its use.

**CR Solutions:** Determine ownership.

Evaluate the duration and frequency of use and any restrictions on use.

## The Named Driver Exclusion (*Exclusion Only By Endorsement*)

This exclusion excludes coverage for a named driver (usually one with a tendency to cause accidents or collect tickets). The named driver exclusion excludes one driver so the rest of the family can get standard coverage at standard rates. Regulators *now* favor its use since it lets more families buy 'affordable' insurance.

## Limit of Liability

The *most* the insurer will pay for *all* injuries *and* damages resulting from *any* accident is the limit shown in the Declarations, irrespective of the number of persons covered, claims made, or vehicles insured. The insurer will *not* pay for medical

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expenses that have already been paid for by another coverage of PAP or its endorsements.

## Multiple Impact Accidents

Subsequent impacts are considered one accident because the first accident is the proximate cause of the subsequent impacts. Therefore, they are subject to one policy limit.



## Loss of Consortium Claims

Most courts do not consider loss of consortium a separate claim with separate per person limits. Many courts do not even consider it to be a 'bodily injury' claim.

## Pure Emotional Injury Claims

This type of claim is subject to separate per person limits **only if** the jurisdiction allows pure emotional injury claims, emotional injury constitutes 'bodily injury', and the claim is considered a separate claim rather than a **derivative claim**.

**NOTE:** A derivative claim is derived from the injured person's claim.

## Offset for Duplicate Payments

The policy prevents claimants from recovering duplicate payments under liability coverage (Part A), medical payments coverage (Part B), and uninsured motorists' coverage (Part C).

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## NOTEWORTHY:

Two problems arise when reducing liability settlements for medical payments settlements:

If the Part A (liability) limit is \$100,000 and the Part B (med pay) limit is \$5,000:

1.

Is the combined limit \$105,000 or \$100,000?

2.

And if the medical bills totaled \$6,000 and the total general damages were worth between \$40,000 and \$50,000, and the loss was settled for \$47,000, did the \$5,000 med pay coverage offset the liability coverage?

## Out-Of-State Coverage

If the insured has an accident in another state or in Canada where the nonresident is required to maintain specific insurance coverage, the policy will provide at least the required minimum amounts and types of coverage. Whether no fault coverage is required of nonresidents depends on the wording and intent of the state's no-fault statute. Some laws do **not** expressly require no-fault benefits for nonresidents.

**CR Solutions:** Determine if the insured meets the other state's minimum limits. Obtain copies of the no-fault statute to determine if coverage is required.

## Other Insurance

If more than one policy applies to an **owned** auto, the insurer uses proration by face amounts, in which the insured's policy contributes proportionately by limits. The policy covers **non-owned** autos on an excess basis.

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Mutually repugnant insurance clauses cancel each other out.

## 1. State Laws Contrary to Policy Wording

State statutes take precedence over policy wording in *all* cases for *all* policies. Some state statutes make the operator's policy primary rather than excess. Other statutes require apportionment by:

- Contribution by equal shares in which each insurer contributes equally up to its policy limits until the loss is paid.
- Pro rata contribution in which each policy contributes proportionately by its limits.

## 2. Dealer And Repair Shop Autos

Many states make the driver's PAP primary *if* the driver is test-driving a dealer's car or driving a 'loaner' while his/her car is being repaired.

**CR Solutions:** Was the car owned by a dealer or repair shop? Was the insured's car being serviced? Does a statute make the insured's policy primary?

## 3. Rental Cars

The determination of primary vs. excess coverage varies among states. Most courts void rental contract escape clauses that are designed to avoid providing coverage if any other insurance is available.

**CR Solutions:** Did the insured buy additional insurance coverage in the rental contract? How does the rental contract address other insurance? How do courts interpret escape clauses? What type of insurance does the rental company carry? What are the terms of the rental company's policy?

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## Medical Payments Coverage Insuring Agreement

The insurer will pay reasonable medical and funeral expenses resulting from an auto accident and sustained by the insured and/or his/her family members (while occupying **any** vehicle or hit by **any** vehicle as a pedestrian) and by other persons while occupying the insured's covered auto. The expenses must be incurred within three years of the accident.

**NOTE:** Possible coverage issues arise from the definitions of 'family member' and 'occupy' and from potential conflicts with out-of-state coverage in no-fault states.



## Uninsured Motorists (UM) Coverage Insuring Agreement

The insurer will pay compensatory damages for bodily injury to which any insured is legally entitled caused by an accident with an uninsured motor vehicle.

### 1. Operation of a Vehicle:

Courts consider the extent of the role the uninsured vehicle played in the accident. The more significant the role, the more likely UM coverage applies.

### 2. Definition of Uninsured Vehicle – Uninsured Motor Vehicles *include* vehicles:

- Without security.
- Insured for less than the state's minimum bodily injury limits.
- Operated by hit-and-run drivers.
- Insured with an insolvent insurer or one which denies coverage.

None of the following are considered uninsured vehicles:

# Auto Insurance

- Available for regular use by the insured or family members.
- Owned or operated by solvent self-insurers.
- Owned by government.
- Operated on rails (trains) or crawler treads (bulldozers).
- Designed for use off public roads while off public roads.
- While used as residences.

### 3. Phantom Vehicles:

Over forty states require physical contact by a 'hit-and-run' vehicle. Many states allow an exception if corroborative evidence proves the existence of a phantom vehicle.

**NOTE:** A phantom vehicle is an alleged 'hit-and-run' vehicle that does *not* make contact.

**CR Solutions:** Does the state require physical contact? If the state allows coverage for phantom vehicles, what evidence supports the insured's allegations? Can the hit-and-run driver be identified?

## Limits of Liability; Uninsured Motorists Coverage

The most the insurer will pay for *all* damages resulting from *any* accident is the limit shown in the Declarations.

### Payments Made Under This Coverage Will Be Reduced By Sums

1. Collected from or on behalf of the responsible party *and*
2. Paid under WC or disability benefits laws.

The insurer will *not* pay for losses that have already been paid by another coverage of the PAP or by any other underinsured motorists coverage. A minority of states permit

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**stacking** of uninsured motorists coverage, in which insureds with more than one vehicle may combine the limits of liability to obtain a higher total limit.

## **Public Policy Arguments In Favor Of Stacking, Even If Contrary To the Policy Wording:**

- Coverage is required by law and policies can't reduce coverage required by statute.
- The insured paid more than one premium and should benefit from all the coverage that he/she paid for (the **premium rule**).
- The coverage applies per person injured, **not** per vehicle insured.

## **Arbitration of Uninsured Motorist Claims**

The arbitration clause states that insurer and insured will go through arbitration if they don't agree on the *amount* of damages or whether the insured is legally entitled to damages. Each party appoints an arbitrator at its own expense. Those two arbitrators then appoint a third. The decision of any two is binding.

## **States Vary Regarding What Constitutes**

1. **'Disputes of coverage'** (which are **not** appropriate for arbitration.)
2. **Disputes over whether "the insured is legally entitled to recover"**

(Which **are** appropriate for arbitration).

States also vary regarding whether arbitration is mandatory and binding.

## THE PERSONAL AUTO POLICY

### Standard Coverage: ISO 1998 Personal Auto Policy Form (PP 00 01)

The Personal Auto Policy (Pap) provides the following coverages:

- **Auto Liability Coverage** that protects insureds against claims for Bodily Injury and Property Damage arising out of use of an auto.
- **Auto Medical Payments Coverage** which pays reasonable medical expenses of:
  - The insured and family members (occupying *any car*) and
  - Other persons occupying an *insured car*.
- **Uninsured Motorists Coverage** protects insureds hit by uninsured drivers, hit and run drivers, and drivers insured by insolvent insurers.
- **Auto Physical Damage Coverage** covers physical damage to the insured's car. Collision coverage includes upset and impact with another object.
- Other than collision (aka comprehensive) coverage covers damage from non-excluded perils other than collision.



#### The PAP gives three coverage options:

1. **Collision and comprehensive:** This gives the most protection, but at the highest premium.
2. **Comprehensive only** covers all non-excluded perils other than collision.
3. **No physical damage coverage**



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**NOTE:** Lenders require buyers with auto loans to carry **both** collision **and** comprehensive.

## NOTEWORTHY:

No-fault auto insurance requires insurers to pay their own insureds for small bodily injury losses regardless of fault and restricts the rights of accident victims to sue. It reduces insurance costs by reducing the number of lawsuits.

## Declarations

The following information is contained on the pap declarations page:

- **Named insured** (and mailing address)
- **Policy period** (from 12:01 A.M. at the policyholder's address on the policy's effective date until 12:01 A.M. on the policy's expiration date)
- **Description of insured automobile(s)** (age, make, model, body type, vehicle identification number (**VIN**), annual mileage, use, and date of purchase)

## NOTE:

VIN number means **V**ehicle **I**dentification **N**umber number.

- **Premium amount** (per coverage, per vehicle, and total)
- **Limits of liability** (for each vehicle)
- **Schedule of coverages** (and deductibles)
- **Lienholder** (the secured interest, if any)

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- **Garage location** (where the car is parked)
- **Rating information** (rating class and discounts, if any, for multiple cars, driver training, good student, passive restraints, anti-theft devices)
- **Applicable endorsements**
- **Signatures** (representing the insurer)

## The Four Insuring Agreements

There are different agreements for all the four coverages offered under PAP. They are as follow.

### Part A-Liability Coverage; Insuring Agreement

The insurer will pay damages for bodily injury (BI), property damage (PD), defense costs *and* pre-judgment interest for any legally responsible insured. The insurer may choose to settle or to defend. The duty to defend ends when the insurer has paid the policy limit. Coverage is written with split limits (separate amounts apply to BI per person/per accident and to PD,) but can be endorsed to provide coverage with a single limit (one total amount applies to both BI and PD liability). The insurer's limit of liability from any single accident is the declaration's limit irrespective of the number of individuals insured, claims made, or vehicles insured. If the insured has an accident in a state where higher limits are required, the policy automatically provides those higher limits.

### Part B-Medical Payments Coverage; Insuring Agreement

The insurer pays an insured's reasonable medical and funeral expenses incurred within three years and resulting from an auto accident. Benefits are paid regardless of fault. The benefit limit applies separately to each injured person.

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## Part C-Uninsured Motorist Coverage (UM); Insuring Agreement

The policy pays for bodily injury damages (medical expenses, lost wages, pain, and suffering) to which an insured is legally entitled following an accident caused by an uninsured vehicle.

## Part D-Coverage for Damage to Your Auto; Insuring Agreement

The insurer will pay for direct accidental loss to a covered auto and its equipment, less the deductible. Collision and other than collision (OTC) are insured separately, usually with a lower deductible chosen for OTC. Collision includes upset and impact with another object but ***excludes:***

- Missiles
- Falling objects
- Fire
- Theft
- Explosion
- Earthquake
- Windstorm
- Hail
- Flood
- Vandalism
- Riot
- Contact with an animal

The insured may choose to have glass breakage by collision considered a collision loss (so he/she has only one deductible) or OTC loss (in case he/she didn't buy collision). Collision losses are paid regardless of fault. Coverage applies ***only*** if indicated in the

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declarations. The policy pays for loss to an auto while in the custody of or used by, but **not** owned or regularly used by, the insured or a resident relative as broadly as any of the covered autos, **but** on an excess basis.

## General Provisions

### Nine General Provisions in the Pap: Part F:

#### Bankruptcy

An insured's insolvency does not lessen the insurer's obligations towards him/her.

#### Changes

The personal auto policy constitutes the entire agreement. Changes can be made to the policy only by endorsement issued by the insurer. Premium will be revised if exposure changes. For example, the premium will be adjusted to reflect changes in the number, type, or use of insured vehicles; the operators of insured vehicles; the place of principal garaging; or the coverage, deductibles, or limits of liability.

#### Fraud

The policy will be void if the insured is found guilty of fraudulent actions or statements.

#### Legal Action against the Insurer

The insurer cannot be sued until the insured complies with all the policy terms and until judgment after trial (Part A- Liability).

#### Insurer's Right to Recover Payment

The insurer has the right to pay an individual who, under the insurance policy, has the right to recover damages from another person. Though, if the insured is able to recover payment without the insurer's help, he/she must reimburse the insurer.

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**NOTE:** The insurer cannot subrogate against anyone, under Part D, who reasonably believed that he/she was entitled to use the insured's auto.

## Policy Period and Territory

The policy period is shown in the Declarations.  
The policy territory is:

- U.S.A.
- Puerto Rico
- Canada
- Shipping routes between the ports of the above stated



## Policy Termination

The insured may cancel the insurance policy by returning it to the insurer or by giving advance written notice.

The insurer can cancel a newly issued policy, for any reason, within the first 60 days of the issuance. Otherwise, the policy can **only** be cancelled for

- Nonpayment of premiums
- Suspension of a driver's license
- Material misrepresentation

The insurer may terminate or refuse to renew a policy for the above stated reasons or State laws. The policy automatically terminates upon failure to pay the premium.

## Assignment of the Policy

The insured must obtain the insurers written consent before assigning his/her insurance policy to another (It must be noted that such permission is seldom granted.)

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If the insured dies, coverage continues for the insured's spouse and legal representative for the rest of the policy period.

## Two or More Policies Covering the Same Auto

If the insured is covered under more than one applicable policy, the highest limit under any one policy will be the maximum amount that the insurer is liable to pay.

## Key Policy Definitions

Following are definitions of terms commonly used in PAP.

**You:** The named insured (and spouse if a resident of the same household).

A spouse who leaves the household is covered for the first 90 days after leaving.

**We:** The insurer.

**Owned Auto:** Owned autos include any vehicle leased for at least six months under a written agreement.

**Bodily Injury:** Bodily injury includes bodily harm, sickness, disease, and death.

**Business:** Any trade, profession, or occupation is considered to be a business.

**Family Member:** A family member is any relative living with the insured related by blood, marriage, or adoption.

**Occupying:** The term "occupying" includes being in, upon, getting in, on, out, or off the motor vehicle.

**Property Damage:** Physical damage to, destruction of, or loss of use of any tangible property (such as autos, bridges, houses, and signs) is considered as property damage.

**Trailer:** A trailer is a vehicle designed to be pulled by a PAP-eligible vehicle, including farm implements.

# Auto Insurance

**Your Covered Auto:** This includes:

- Any vehicle identified in the declarations.
- Any trailer owned by the insured.
- Any temporary substitute vehicle (auto or trailer used as a substitute for a vehicle that's broken down, being repaired, serviced, lost, or destroyed. This does not include out-of-town rentals).
- Any newly acquired auto.

**Newly Acquired Auto:** A newly acquired auto is an eligible private passenger auto, pickup, or van that becomes an owned vehicle during the policy period.

## Conclusion

Personal automobile insurance is essential for any auto owner. Personal automobile insurance protects an auto owner from the various injuries or damages that may occur as a result of an automobile accident. Most states require drivers to purchase this form of insurance in order to protect themselves and the other drivers on the road.

This course provided a basic introduction to personal auto insurance and personal auto policies. For more information on the different sections of the personal auto policy, please see the course entitled "The Six Parts of the Personal Auto Insurance Policy." For in-depth coverage of advanced topics in this subject, please refer to the course entitled "Advanced Personal Auto Insurance: Endorsements, 'No Fault' Insurance, Premiums, and Underwriters."