

PRINCIPLES OF RISK MANAGEMENT AND INSURANCE

CLASS NOTES

Chapter 10 Auto Insurance

- Personal Auto Policy (PAP)
- Insuring Motorcycles and Other Vehicles

- Eligible vehicles include:
 - A four-wheeled motor vehicle owned or leased by the insured for at least six consecutive months
 - A pick-up or van with a gross vehicle weight rating of 10,000 pounds or less
- Autos covered by the policy include:
 - Any auto shown in the declarations
 - A newly acquired auto
 - A trailer owned by the named insured
 - A temporary substitute vehicle, which is a nonowned auto or trailer used temporarily because of mechanical breakdown, repair, servicing, loss, or destruction of a covered vehicle
- The PAP consists of a declarations page, a definition page, and the following six parts:

Part A: Liability coverage

Part B: Medical payment coverage

Part C: Uninsured Motorists coverage

Part D: Coverage for damage to your auto

Part E: Duties after an accident or loss

Part F: General provisions

○ PART A

Liability coverage (Part A) is the most important part of the PAP

- It protects a covered person against a suit or claim arising out of the ownership or operation of a covered vehicle
- The coverage is usually written in split limits, where the amounts of insurance for bodily injury liability and property damage liability are stated separately

Liability coverage applies to:

- The named insured and any resident family member
- Any person using the named insured's covered auto
- Any person or organization legally responsible for any insured's use of a covered auto on behalf of that person or organization
- Any person or organization legally responsible for the named insured's or family members' use of any auto or trailer (other than a covered auto or one owned by the person or organization)
- The insurer also agrees to provide defense and pay all legal defense costs for claims covered by the policy
- The policy also allows for certain supplementary payments including:
- The cost of a bail bond

- Premiums on appeals bonds
- Interest accruing after a judgment
- Exclusions to the coverage include:
 - Intentional injury or damage
 - Property owned or transported
 - Property rented, used, or in the insured's care
 - Bodily injury to an employee
 - Use as a public livery or conveyance
 - Vehicles used in the auto business
 - Vehicles with fewer than four wheels
 - Vehicle furnished for the insured's regular use

Part B: Medical Payments

- Medical payments coverage covers all reasonable medical and funeral expenses incurred by an insured in an accident
- The named insured and family members are covered:
 - While occupying any motor vehicle, or
 - As pedestrians when struck by a motor vehicle
- Other persons occupying a covered auto are covered
 - But not covered in a nonowned vehicle
- Covers medical services rendered within three years from the date of the accident
- Coverage is not based on fault
- Exclusions to the coverage include injuries sustained:
 - While occupying a vehicle with fewer than four wheels
 - While operating the vehicle as a public livery or conveyance
 - When the vehicle is used as a residence
 - When the vehicle is used without a reasonable belief of permission
 - When the vehicle is competing in a race
- If more than one auto policy covers a loss:
 - The insurer pays its pro rata share of the loss for an owned vehicle
 - The insurance coverage is excess over any other insurance for a nonowned vehicle

Part C: Uninsured Motorists Coverage

- An uninsured motorist is someone who is irresponsible and drive without liability insurance.
- According to Insurance Research Council(IRC) one in six drivers may be driving without liability insurance by 2010(Exhibit 10.1)
- Uninsured motorists coverage pays for the bodily injury caused by an uninsured motorist, by a hit-and-run driver, or by a negligent driver whose insurance company is insolvent
 - In some states, property damage is also covered
 - The uninsured motorist must be legally liable

Insuring Agreement for Uninsured Motorist Coverage (Part C)

The insurer agrees to pay compensatory damages that an insured is entitled to receive from an uninsured motor vehicle included in medical bills, lost wages, and compensation for a permanent disfigurement resulting from the accident.

➤ Important points must be emphasized with respect to this coverage:

1-The coverage applies only if the uninsured motorist is not liable, the insurer will not pay for the bodily injury.

- 2- The insurer's maximum limit of liability for any single accident is the amount shown in the declarations.
- 3- The claim is subject to arbitration if the insured and insurer disagree over the amount of damages or whether the insured is entitled to receive any damages.
- Some states also include coverage for property damage from an uninsured law. In these states, if an uninsured driver runs a red light and smashes into your car, the property damage to the car would be covered under the uninsured motorist coverage.
- The property damage if it is paid in some states under the uninsured driver coverage is subject to a deductible.

Uninsured Vehicles

Four Groups of vehicles are considered to be uninsured vehicles:

- 1- An uninsured vehicle is a motor vehicle or trailer for which no bodily injury liability insurance policy applies at the time of the accident.
- 2- A bodily injury liability policy may be in force on a vehicle. However, the amount of insurance on that vehicle may be less than the amount required by the state's financial responsibility law in the state where the named insured's covered auto is garaged.
- 3- A hit-and-run vehicle is also considered to be an uninsured vehicle.
- 4- Another uninsured vehicle is one to which a bodily injury liability policy applies at the time of the accident, but the insurer denies coverage or becomes insolvent.

Part D: Coverage for Damage to Your Auto

- Under the coverage for damage to your auto, the insurer agrees to pay for any direct and accidental loss to a covered auto or any nonowned auto
- A collision is defined as the upset of your covered auto or nonowned auto or its impact with another vehicle or object
- Collision losses are paid regardless of fault
- An other-than-collision loss is a loss due to the following perils:
 - Missiles or falling objects
 - Hail, water, flood, fire, windstorm
 - Riot or civil commotion
 - Malicious mischief or vandalism
 - Contact with a bird or animal
 - Theft
 - Glass breakage
 - Explosion or earthquake
- A nonowned auto is also covered under the Part D coverages

- A nonowned auto is a private passenger auto, pickup, van, or trailer not owned by or furnished or made available for regular use of the named insured or family member, while it is in the custody of or being operated by the named insured or family member.
- Part D coverages do not apply to nonowned car (borrowed) vehicle if the vehicle is driven on a regular basis or is furnished or made available for your regular use.

Part E: Duties After an Accident or Loss

- After an accident, the insured is required to perform certain duties, such as:
 - Promptly notify the insurance company or agent
 - Cooperate with the insurer in the investigation
 - Send the insurer copies of any legal notices received in connection with an accident
 - Take a physical exam, if required
- The police must be notified if a hit-and-run driver is involved
- The insurer is allowed to inspect your vehicle if you are seeking coverage under Part D
- The insurer can deny coverage only if failure to comply is prejudicial to the insurer

Part F: General Provisions

- All states restrict the insurer's right to cancel or nonrenew coverage
- Cancellation provision: The named insured can cancel at any time by returning the policy to the insurer or providing written notice. If a policy has been in force for more than 60 days, the insurer can cancel only if:
 - The premium has not been paid
 - The driver's license of any insured has been suspended, or
 - The policy was obtained through material misrepresentation
- Nonrenewal: if an insurer decides to discontinue coverage, the insured must be given notice at least 20 days before the end of the policy period
- Automatic termination: a policy is automatically terminated if the insured declines the insurer's offer to renew
- The PAP provides coverage in the US, US territories, Puerto Rico, and Canada

Insuring Motorcycles and Other Vehicles

- A miscellaneous-type vehicle endorsement can be added to the PAP to insure motorcycles, mopeds, motorscooters, golf carts, motor homes, dune buggies, etc.
 - Does not cover snowmobiles
 - The liability coverage does not apply to a nonowned vehicle
 - A passenger hazard exclusion can be elected, which excludes liability for bodily injury to any passenger on a motorcycle

Assignment: Discuss the status of Autoinsurance in Rwanda

End.