

PERSONAL AUTO POLICY

6

SOURCE:
ISO PAP 2005

1 The Personal Auto policy we own and sell today did not simply fall, fully developed from the heavens. Like Homeowners, it evolved. The original Auto policy was a one-size-fits-all affair known as the Basic Auto policy. It was written to cover both the commercial lines and personal lines uses of an auto. It was a fairly good contract and dominated the commercial lines market into the 1970's. But in the 1950's, consumer demand for more specialized coverage in the personal lines uses of an automobile resulted in the development of the Family Auto policy.

2 The Family Auto policy revolutionized personal lines auto in much the same way as Homeowners revolutionized personal lines property insurance. Where the Basic Auto policy was written to insure an automobile, the Family Auto policy was written to cover the American family and the problems that can result from the family's use of an automobile. While a few companies offered a low budget cousin called the Special Auto policy (which discounted both price and coverage), the Family Auto policy dominated the personal lines auto market for nearly three decades.

3 In the late 1970's, three new policies were introduced: the Personal Auto policy, the Business Auto policy, and the Garagekeepers policies. All three were written in simplified language and streamlined format. They have largely replaced all previous auto policies. The Personal Auto policy was written to cover the exposures created by personal or family use of an auto. The Business Auto policy is the Commercial Auto module of the Commercial Package policy and is designed to cover the business uses of an automobile. The Garagekeepers policies are written for businesses that are in the automobile business – selling, leasing, repairing, storing, or parking. We will discuss both the Business Auto policy and the Garagekeepers policies in the commercial lines portion of this text. Therefore, in this chapter, we will only discuss the workings of the Personal Auto policy.

4 As a guide to your thinking in this chapter, we would suggest that you not worry too much about *what's covered*. Just about any reasonable loss resulting from the ownership or use of an auto is covered. **Your attention should be directed to answering the question, *Where is a loss covered?*** Knowing what coverage section covers which specific losses is the beginning of a solid understanding of the Personal Auto policy.



*"...come away
with me,
Lucille..."*

WHERE

Who can buy a Personal Auto Policy?

- An individual
- A husband and wife residing together
- Two non-related individuals who reside together and jointly own a car
- By endorsement, two related individuals are not husband and wife. Example: Mother and son, brother and sister etc., as long as they reside together

What can be insured under a Personal Auto Policy?

- Private passenger vehicles, with **four or more wheels**, owned or leased by the Insured for more than six months. Vehicles that can be covered include: Private passenger automobiles of all types, including SUVs, vans and pick-up trucks (under 10,000 pounds and not used as delivery vehicles).
- By endorsement, the Personal Auto Policy can cover motorcycles, RV's, and golf carts.

POLICY STRUCTURE

- 1 The Personal Auto policy has eight parts, four of which are the four coverage sections.

- Declarations
- Definitions
- **Part A – Liability**
- **Part B – Medical Payments**
- **Part C – Uninsured and Underinsured Motorists**
- **Part D – Coverage for Damage to Your Auto** (Physical Damage)
- Part E – Duties After an Accident or Loss
- Part F – General Provisions

- 2 The coverage sections (Parts A, B, C, and D) operate much like mini-policies. Each has its own insuring agreement, coverages, limits, and exclusions. While in reality each coverage section is one part of a single policy, thinking of each as a separate agreement working in harmony with the others is helpful in learning what each section does and in answering the question posed earlier, *Where is it covered?*

DECLARATIONS

- 3 The Declarations section does what it always does . . . fits the policy to the Insured and gives us a picture of the Insured's needs.

NOTE: As you can see by looking at the sample Dec Sheet following, we will work under the assumption that a family with more than one vehicle can insure all of their vehicles under one policy. Some companies prefer to issue a separate policy for each insured auto.

*Zeus Says,
"All Auto is
divided into
four parts"*



makes it fit

Personal Auto Policy Declarations

POLICYHOLDER: David M. and Joan G. Smith
(Named Insured) 216 Brookside Drive
 Anytown, USA 40000

POLICY NUMBER: 296 S 468211

POLICY PERIOD: **FROM:** January 3, 2010
TO: July 3, 2010

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

INSURED VEHICLES AND SCHEDULE OF COVERAGES

	VEHICLE	COVERAGES	LIMITS OF INSURANCE	PREMIUM
1	2008 Honda CRV B		ID #JT2AL21E8B3306553	
		Coverage A—Liability	\$ 300,000 Each Occurrence	\$
		Coverage B—Medical Payments	\$ 50,000 Each Person	\$
		Coverage C—Uninsured Motorists	\$ 300,000 Each Occurrence	\$
			TOTAL	\$
2	2010 Chevrolet Camaro		ID #1FABP3OU7GG212619	
		Coverage A—Liability	\$ 300,000 Each Occurrence	\$
		Coverage B—Medical Payments	\$ 50,000 Each Person	\$
		Coverage C—Uninsured Motorists	\$ 300,000 Each Occurrence	\$
		Coverage D—Other Than Collision	Actual Cash Value Less \$ 250	\$
		—Collision	Actual Cash Value Less \$ 500	\$
			TOTAL	\$

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

COUNTERSIGNATURE DATE: January 3, 2010

AGENT: Chris Toball

DEFINITIONS

- 1 Although the Auto policy defines a great many terms used in the contract, many of them, like bodily injury or property damage, are quite familiar to us already. We will, therefore, simply define the terms that are somewhat unique to auto insurance.

- 2 **Named Insured** – The person named on the Declarations. **A spouse**, if living at the same address, is given the same rights as the Named Insured. If a spouse moves out, they remain a named Insured for 90 days unless they obtain coverage elsewhere. In the simplified language of the Personal Auto policy, the named Insured is simply **You**.

- 3 **Family Member (or Relative)** – A person related to the named Insured by blood, marriage, or adoption (including a foster child) **and** living at the same address. A student, although away at school, is still considered a relative.

- 4 **Occupying** – This means more than just riding down the road. It can also mean being on, getting in, getting on, getting off of, or out of an automobile.

- 5 **Trailer** – A vehicle designed to be pulled by a private passenger vehicle. It can also mean a farm trailer or farm implement that is being towed.

- 6 **Covered Auto** – Any:

- vehicle named in the Declarations.
- trailer owned by the named Insured (liability only).
- newly acquired **additional** vehicle. You keep car #1 and purchase car #2. Without notification to the company, you get the same coverage on #2 as you had on #1, but **only for 14 days**. If you did not have physical damage on car #1, you get 4 days of physical damage coverage subject to a \$500 deductible.
- newly acquired **replacement** vehicle. Here, the company is a bit more generous when you trade in car #1 to acquire car #2. The broadest coverage you have on the policy will apply to car #2 (**except** Physical Damage) until the end of the policy period. If you have Physical Damage coverage on #1, you have it on #2, but only for 14 days without notification. If you did not have physical damage on car #1, you get 4 days of physical damage coverage subject to a \$500 deductible.
- a non owned vehicle or trailer being used as a **temporary substitute** due to the unavailability of the covered vehicle due to breakdown, repair, servicing, loss or destruction.



*Theory of
Relativity*



GENERAL AUTO POLICY EXCLUSIONS

- 7 While the Personal Auto policy does not contain a *General Exclusions* section, the authors of this text believe it should. As we pointed out already, each coverage section in the contract is set up as a mini-policy with its own insuring clause, coverages, and exclusions. However, many of the exclusions are repeated two or three times, and this can greatly complicate your study of the policy. Therefore, we will address the repetitive ones here – once – and talk about those that are truly unique to each coverage section in turn.



1 There is no coverage for:

- War
- Nuclear Energy or Radiation
- Intentional Acts
- Using a vehicle without a reasonable belief that you were entitled to do so
- Vehicles with less than four wheels
- Vehicles used as public or livery conveyances (car for hire / taxi / limo)

No "cycles"

GENERAL AUTO POLICY GUIDELINES

2 As with the exclusions we just outlined, there is no section in the policy called General Guidelines. However, once again, there are some concepts that come up over and over again.

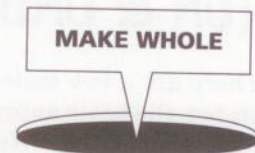
- **Primary coverage goes with the car** – Assume I have an auto policy and you have one as well. If I am driving your car, either policy can pay. Whose policy pays first? The rule is simple. The car's! It's your car; your policy is primary . . . for everything . . . damage done to the car or by the car . . . for bodily injury sustained by those in the car or outside of the car. If your limits are inadequate (or if your policy just expired), my policy can pay as excess coverage.
- Given the point that we just made, I should never ever drive my car nor should you ever drive yours. If you and I have equal policies, I have twice as much coverage (given the primary and excess discussion) driving your car as I do driving my own and vice versa. Obviously, insurance companies are not staffed with idiots. Therefore, I have coverage driving your car as long as it is **not provided for my regular and frequent use**. If I am putting 100,000 miles a year on your car, my policy provides no coverage. Nor would it provide coverage for a company car provided for my use.
- **We make you whole, not rich.** If circumstances are such that you could collect under more than one section of the policy, you only get paid once.
- The hired car exclusions do not generally apply to **car pooling**.

*Primary
coverage goes
with the car*

*Regular &
Frequent
Usage*

To Indemnify

MAKE WHOLE



COVERAGE OVERVIEW

3 As we pointed out in the beginning of this chapter, your primary task with the Personal Auto policy is to learn what each coverage section does. Before we get consumed in the detail of the four sections, let's get a quick overview of what each does and how they work together. Once again, we'll develop a chart to track the important points. The four coverage sections are:

A Liability	B Med Pay	C Un & Under Insured	D Damage to Your Auto
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COVERAGE A (LIABILITY)(BI & PD)

- 1 Coverage A (Liability) pays for damage you do to the Other Guy's body (BI) or to the Other Guy's property (PD). It doesn't cover you or your stuff. While it is possible for a passenger in your car to collect under Coverage A, the majority of claims stem from people and property outside of your auto. You hit a pedestrian in a crosswalk; you drive through my living room; you run a stop sign and collide with a passing vehicle – these are all Coverage A (Liability) claims. As you might guess, since we have liability coverage, we also provide Supplementary Payments (Defense Costs being the biggie) in addition to the dollar limits of the policy.



The Other Guy

COVERAGE B (MED PAY)

- 2 Coverage B (Med Pay) works a bit differently in Auto than it does in most other policies. In the Homeowners policy, for example, Med Pay never paid you. It paid the Other Guy to get his body repaired with the hope that a lawsuit could be avoided. In the Auto policy, **Med Pay will pay to you and your family if:**

- You're injured while occupying a vehicle.
- You sustain bodily injury as a pedestrian due to an automobile.



nsured

- 3 In addition, Med Pay will pay for injuries sustained by **anybody occupying your car**. Obviously, *occupying* is the key to this coverage.

- 4 Assuming that you and your family are the primary occupants of your vehicle, then we find in the Auto policy a situation where **Med Pay pays you and yours**. For the most part, Med Pay in Auto does not exist to avoid lawsuits since you cannot sue yourself anyway.

our guy

- 5 Most of the other things we've learned about Med Pay, however, remain true. Med Pay pays without regard to fault, and it only pays to fix your body – doctors, dentists, hospitals, funeral homes. It does not pay for *pain and suffering* or lost wages.

COVERAGE C (UN & UNDERINSURED MOTORISTS)

- 6 There are a few states with a no-fault auto system in place, but in the majority of states, the basic automobile liability rule is quite simple: **He who is at fault pays for everything**. Well, that rule can present a problem. What if the Other Guy cruises a stop sign and hits you broadside? He is legally liable, you suffered bodily injury and property damage, but he has no insurance . . . or not enough.

our guy. . .

- 7 Your first reaction might be that such a situation is impossible in your state because your state has mandatory auto liability insurance requirements. Well, here's a flash: in such mandatory environments, it is generally estimated that 25% of the population is without insurance and that this 25% is involved in 35% of the accidents. They can't afford insurance, and they can't drive.

- 8 **Uninsured Motorists coverage is essentially a policy you purchase for the Other Guy so that he will have the funds to pay you when he injures you with his auto.** It is primarily designed to cover your body and the bodies of your family and passengers. In some states, you can cover damage to your auto as well, Uninsured Motorists Property Damage (UMPD).

UN

UNDER

- 1 *Underinsured Motorists* coverage is for situations where the Other Guy has enough liability insurance to be legal, but not enough to pay for the damage he did. Again, you are buying him a liability policy so that he can pay for the damage to you for which he is legally liable.

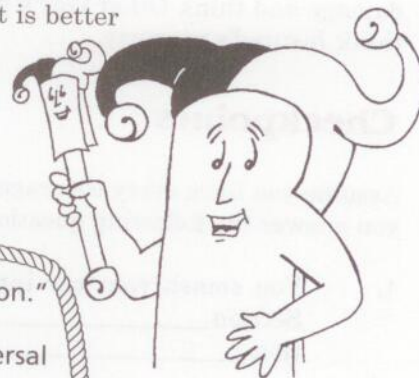
- 2 In this text, we will examine these two coverages together as they are both addressing different angles of the same problem – an at-fault driver who does damage he cannot pay for.

COVERAGE D (COVERAGE FOR DAMAGE TO YOUR AUTO)

- 3 Though many of the *Old Geezer* elements of the P&C industry still refer to this section as **Physical Damage**, the simplified language of the modern contract refers to this as **Coverage for Damage to Your Auto**. This coverage section insures your automobile . . . your property. Therefore, it works like most property policies. You must be concerned with the level of peril power (named perils or open perils), you expect to see exclusions, and you should anticipate a deductible.

our guy's car

- 4 There are two coverages in this section: **Collision** and **Other Than Collision**. **Collision** is a named peril – it covers nothing but collision. **Other Than Collision** coverage is **all risk** and essentially covers everything else. Again, the *Old Geezers* give themselves away by referring to Other Than Collision as Comprehensive coverage. The courts disliked the word *Comprehensive* as it implied that everything is covered against any peril. As you should certainly know by now, such is not the case, and the Open Perils protection provided by the Other Than Collision coverage certainly has exclusions. First on the exclusion list is Collision as it is better covered elsewhere.



INSURANCE LITE

"The other car collided with mine without giving warning of its intention."

"I was on my way to the doctor's with rear end trouble when my universal joint gave way, causing me to have an accident."

"The guy was all over the place. I had to swerve a number of times before I hit him."

"I was driving my car out of the driveway in the usual manner, when it was struck by the other car in the same place it had been struck several times before."

"Coming home, I drove into the wrong house and collided with a tree I don't have."

"The pedestrian had no idea which direction to go, so I ran him over."

- 1 At this stage, you should have a reasonably good feel for what each of the four coverage sections is designed to do. A reasonable summary in chart form follows.

A Liability	B Med Pay	C Un & Under Insured	D Damage to Your Auto (Physical Damage)
Other Guy's Bodily Injury (BI) Property Damage (PD) Supp Payments pays in addition to limits	Pays: 1) Those occupying your car 2) Your family occupying or as pedestrians 3) No fault	Other Guy legally at fault . . . Pays You & Yours for: • Bodily Injury (BI) • Maybe Property Damage (PD)	Collision Named Peril Other Than Collision (Comprehensive) <i>All Risk</i>

- NOTE: Until this point in the course, we could have used the words *physical damage and property damage* more or less interchangeably. In auto insurance, however, this is not the case. If you use the old-fashioned words *physical damage* to describe Coverage D, you must not confuse it with the *property damage* coverage found in Section A. An easy way to keep them separate is to see the *o* in property damage and think Other Guy's property. Then, see the *i* in physical damage and think Insured's property.
- 2

Checkpoints

- 3 Assume you have every coverage of the Personal Auto policy we have discussed as you answer the following questions.

- | | |
|---|---|
| 1. You smash your car into a tree. Damage to the auto is covered under Section _____. Injuries you sustain are covered under Section _____. | 1. D (Damage to Your Auto); B (Med Pay) |
| 2. You hit a pedestrian at a crosswalk. Your policy would pay for his injuries out of Section _____. | 2. A (Liability) |
| 3. A driver without insurance hits you in a pedestrian crosswalk. You suffer bodily injury, pain and suffering, and lost wages. Which of your coverages would pay for any or all of these losses? _____ | 3. B (Med Pay) – bodily injury; C (Uninsured Motorist) – bodily injury, pain and suffering and lost wages |
| 4. Your car is vandalized. Section _____ would pay for the damage. | 4. D (Damage to Your Auto) |
| 5. You drive your car through someone's living room. Section _____ of your auto policy would cover the damage to the house. | 5. A (Liability) |


PERSONAL AUTO COVERAGES – A CLOSER LOOK

- 1 Now that you have a handle on the generalities of the Personal Auto policy coverage sections, we can more closely examine each for the specifics of the coverage provided.

COVERAGE A (LIABILITY)

- 2 While the minimums vary from state to state, most jurisdictions require by law that you meet a minimum available cash requirement in order to drive legally in that state. Some states actually require insurance, and others give some alternatives. For most of us, Coverage A (Liability) is the only reasonable way for us to meet our financial responsibilities while operating a motor vehicle. Therefore, this section is generally considered mandatory in all states.
- 3 The insuring agreement consists of two parts:
 - The promise to pay claims – money
 - The promise to defend and settle claims – Supplementary Payments
- 4 In the insuring agreement, the company agrees to pay for **bodily injury or property damage**, up to the **policy limits**, for which an **insured person** is legally responsible because of an auto accident. Further, the company agrees to **settle or defend** any claims to which the **coverage applies**. These defense costs are **in addition to the policy limits**.
- 5 Let's take the company's promise apart phrase by phrase.
- 6 **Bodily Injury or Property Damage** – Whose body and whose property? The Other Guy's.
- 7 **Up to the Policy Limits** – The dollar limit to which the company will pay on your behalf is stated on the Dec Sheet in one of two ways:
 - **Single Limit** – This is a flat dollar amount, like \$60,000 or \$400,000, which is the most in damages that the company will pay for any one accident. The damage can be 100% bodily injury or 100% property damage or some combination of both. With a single limit of, say, \$100,000, it does not matter how badly someone is injured, how many were injured, nor the extent of the property damage – the company will not pay over \$100,000. If the total damage is \$150,000, then the company pays \$100,000 and you pay the \$50,000 difference.
 - **Split Limits** – Another way of defining limits is to put a maximum dollar amount upon each of the types of liability losses possible in any one accident:
 - Maximum BI per person
 - Maximum BI per accident (may be several persons)
 - Maximum PD per accident

*one body
all bodies
property*

- 1 Essentially, the split limit format creates three inside limits as well as a total policy limit. Split limits are written in the following manner:
- 2 BI per person/BI per accident/PD per accident
- 3 Assume the minimum limits of liability in State A were \$25,000 for BI to any one person, \$50,000 for BI for all the injured persons in any one accident and \$10,000 for PD in any one accident. We could express these limits in insurance shorthand as 25/50/10.
- 4 Assume that a person living in State A wants limits of \$100,000 BI for any one person, \$300,000 BI for any one accident and \$100,000 PD for any one accident. These limits would be expressed as 100/300/100.
- 5 Translating split limits into single limits is really quite simple. If a state had minimum limits of 25/50/10, the maximum the policy could possibly pay for BI losses is \$50,000, and the maximum it could pay for PD losses is \$10,000. The state would accept a \$60,000 single limit policy as an equivalent policy.
- 6 $25/50/10 = \$60,000$ single limit
- 7 For those of you who worship formulas, **DROP** the first number –  /50/10 – and **ADD** the last two.

- 8 You should be able to solve simple claims problems with what you know to this point. Assume you own a policy with limits of 25/50/10. Further assume that you run a stop sign and injure only the driver of the other car in the amount of \$32,000. You also destroy his car worth \$12,000. To calculate what the policy will pay, we suggest you follow this procedure: write down the limits we gave you to work with and then organize the damage under BI or PD.

25/50/10

BI
\$32,000

PD
\$12,000

- 9 Then, using the limits given, reduce the damage to what the policy will actually pay.

25/50/10

- 10

BI

~~\$32,000~~

\$25,000

+

PD

~~\$12,000~~

\$10,000

= \$35,000 Company will pay (+ defense costs)

- 1 Now let's illustrate a more complex problem involving several claimants, still assuming coverage of 25/50/10. We will start by solving it like most people do – the wrong way!



Bodily Injury

1st person	\$30,000
2nd person	14,000
3rd person	10,000

~~\$54,000~~

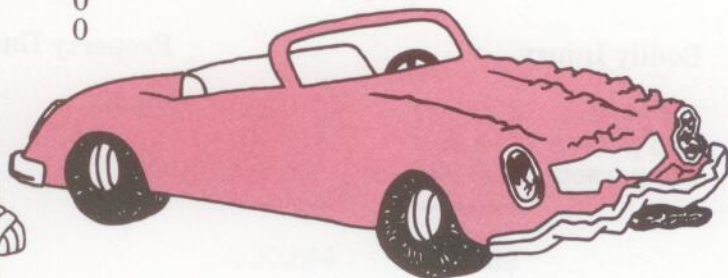
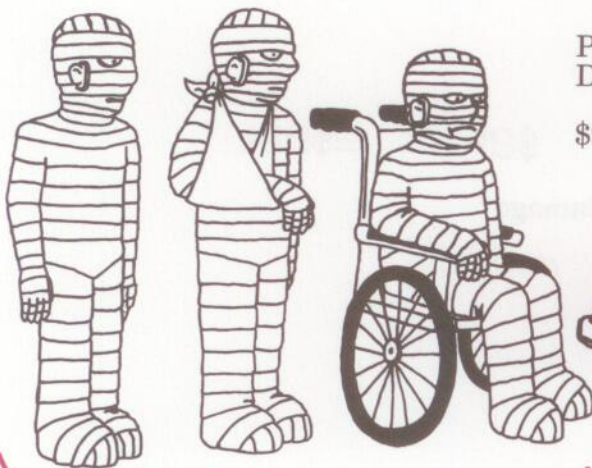
\$50,000



wrong

Property Damage

\$9000 OK
0
0



\$50k

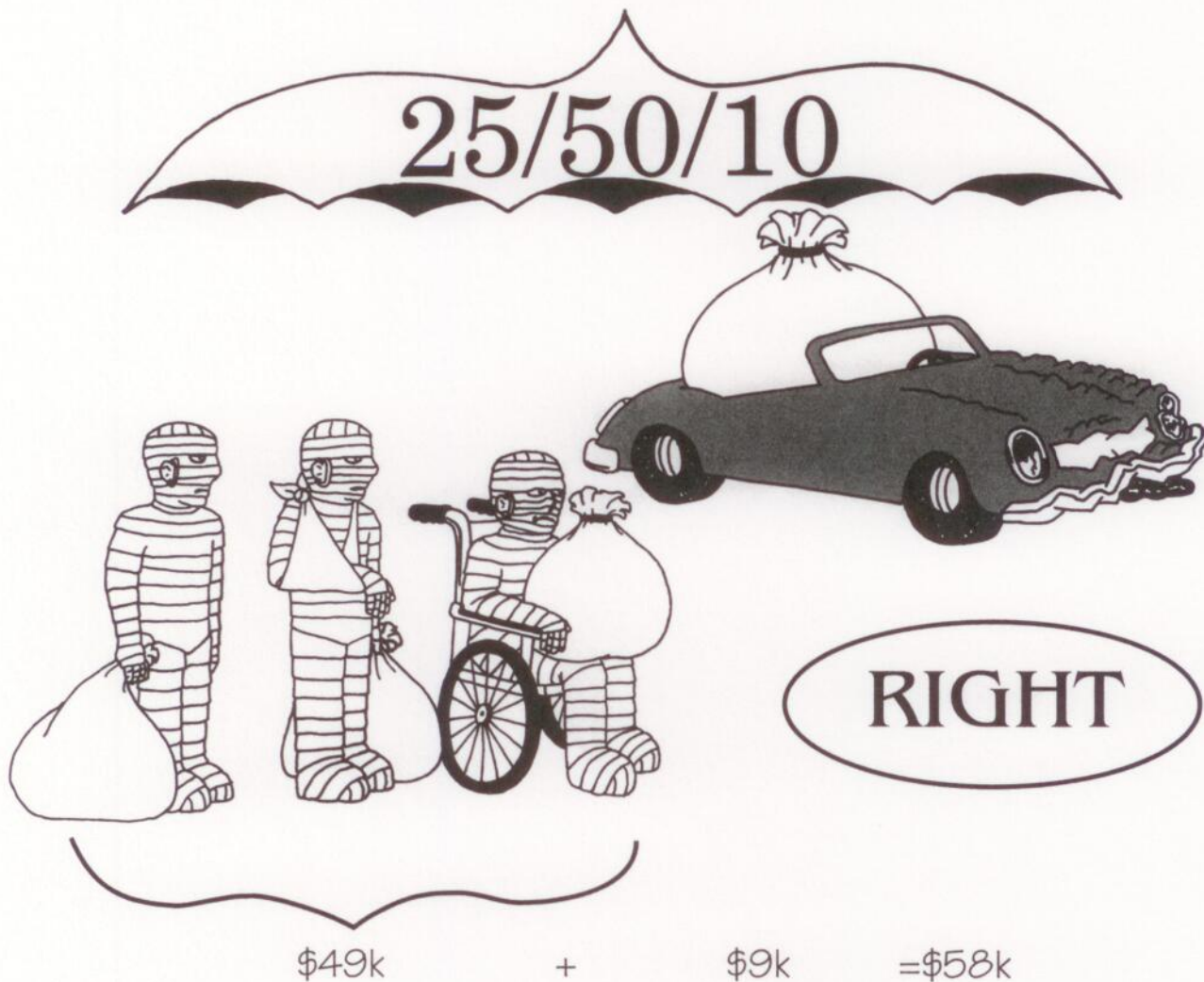
+

\$9k

= \$59k

- 2 There is a natural inclination to add the BI claims, get \$54,000, compare it to the second number in the limits and reduce the BI payment to \$50,000. But, like many natural inclinations, that is wrong!

- 1 We cannot ignore the first limit of \$25,000. We must first make certain that we pay no more than \$25,000 for any one body. Second, the total BI must not exceed \$50,000. Finally, we apply the \$10,000 limit to the total PD. See the following correction.

**Bodily Injury**

1st person	\$30,000	\$25,000
2nd person	14,000	14,000
3rd person	10,000	10,000
	<hr/>	<hr/>
	\$54,000	\$49,000

Property Damage

\$9000	OK
0	
0	

Total Paid = \$58,000 (+ defense costs)



- 1 **Insured Persons** – Up to this point, the insuring agreement has said that we will pay for BI and PD up to the policy limits caused by a legally responsible **insured person**. What do we mean by insured person? You will notice that the term is not limited to named Insureds, specific automobiles, or even licensed drivers. **Insured persons** include the following two important groups:

- The named Insureds and any family member using **any auto**.
- Any persons using the named Insured's covered auto.



A bunch of Insureds

- 2 Joe and his family members have coverage under Joe's policy using his car (primary coverage) or anyone else's vehicle (probably excess coverage). Anyone using Joe's car (with, of course, a reasonable belief they were entitled to) is covered under Joe's policy.

- 3 **Settle or Defend** – The second promise of the insuring agreement was settle or defend any claim. The major benefit here is **defense costs**. The other **Supplementary Payments** include:

- Bail bond premiums following an accident
- Premiums on appeal bonds and bonds to release attachments
- Interest accruing after a judgment (Prejudgment interest is part of the liability limits.)
- Loss of earnings to attend trial (\$200/day max.)
- Other reasonable expenses



- 4 **To Which This Coverage Applies** – Obviously, the company does not have to defend a suit (even involving an auto) if the policy does not apply to the circumstances of the loss. For instance, if Joe is intentionally running down pedestrians in his automobile, the company does not have to defend him for any resultant lawsuits.

- 5 **In Addition to the Limits of the Policy** – Defense costs and all other Supplementary Payments are paid by the company over and above the liability limits of the contract. For example, assume Joe has liability limits of 100/300/100 and hits a pedestrian. A jury awards the pedestrian \$100,000. The company spent \$25,000 in defense costs and another \$5,000 in miscellaneous Supplementary Payments expenses. The total bill for the company is \$130,000.

PART A (LIABILITY) EXCLUSIONS

- 6 The liability section of the Personal Auto policy has a number of exclusions, the majority of which were discussed earlier in the *General Auto Policy Exclusions* section. We need only to look at two additional exclusions.

- Liability coverage is not provided for your **employees injured on the job**. If Joe backs over his dishwasher who was carrying trash to the dumpster, Joe's employee is covered under **Workers Compensation**, not the liability coverage of Joe's automobile insurance.
- Even with permission, you **cannot extend your auto policy to cover a garage**. Suppose Joe's car is in Delbert's Garage for brake repair. If the chief mechanic, Roy Bob, takes it out for a test drive and hits a pedestrian, Joe's policy will not protect the garage, Delbert, or Roy Bob. This is a commercial exposure and **should** be covered under Delbert's Garage policy.

"WC"

In the business

COVERAGE B (MEDICAL PAYMENTS)

1 Since Coverage B generally covers you and your family – the most likely occupants of your automobile – it is not a requirement in the vast majority of states that the public buy this coverage or that you, the Agent, offer it.

2 The Coverage B insuring agreement tells us that the company will pay for reasonable and necessary **medical and funeral expenses** incurred by **an Insured** because of bodily injury caused by an automobile accident. Only expenses incurred within **three years** of the accident are covered. This coverage applies without regard to fault.

3 While most of this promise has been discussed already in this text, there are a few portions which merit a second look.

4 **Medical and Funeral Expenses** – This coverage is only designed to offset the costs of medical treatments or funeral expenses. Doctors, dentists, hospitals, and funeral homes are in; pain and suffering and lost wages are *out*.

5 **Incurred by an Insured** – In the Medical Payments section, an *Insured* can be anyone who fits into either of the following categories:

- Named Insured or family member *occupying* or, as a pedestrian, *struck* by **any motor vehicle** (including trailers) primarily designed for use on public roads.
- Any other person while occupying your covered auto.

6 Therefore, Joe's Med Pay coverage protects Joe and his family in his or any vehicle and as pedestrians struck by any vehicle. Joe's Med Pay coverage extends to other people only if they are *occupying* one of Joe's covered vehicles. Remember that *occupying* is in it, on it, getting into it, getting out of it, or getting off of it.

7 **Incurred Within Three Years** – The normal Med Pay rules hold – one year for Commercial Lines and three years in Personal Lines.

COVERAGE B (MEDICAL PAYMENTS) EXCLUSIONS

8 As with Liability, the Med Pay section has numerous exclusions, most of which were discussed earlier in the *General Auto Policy Exclusions* section. There is only one brand new one to discuss, but there is a different application of one we first encountered in Coverage A (Liability).

- Med Pay coverage does not apply if you are **using your vehicle as a residence**. Remember, we could endorse the policy to cover recreational vehicles. Therefore, if you are living in your RV, stumble and break an arm, Med Pay will not pay. If you are injured while living in your RV, health insurance can pay for medical bills. If someone is visiting you and is injured in your RV, Homeowner's can extend coverage. If you are living in your RV, it is not being used as an automobile, and therefore, Automobile Med Pay would not cover your medical bills.
- We saw earlier that there is no liability coverage for your employees injured on the job. Likewise, there is no coverage under Med Pay if you are the employee injured on the job. Assume that Joe is running his cash deposit to the bank when he backs into a tree. If his **Workers Comp** coverage will pay, then the Med Pay section of his Personal Auto policy will not pay.

No Fault

*Med Expenses
Only*

Us

occupiers

3
years



WC

COVERAGE B (MEDICAL PAYMENTS) LIMITS

- 1 Med Pay coverage is purchased on a **per person basis**. Suppose that Joe has limits of \$5000/person and he and Jolene are both injured in the same accident. The company could pay out as much as \$10,000. If Joe has five people in his five passenger sedan, the amount could be as much as \$25,000.

per/person

- 2 You should keep in mind one of our general auto policy guidelines. *We make you whole, not rich*. Suppose Joe is driving with liability limits of 100/300/100 and a Med Pay limit of \$5000/person. Assume Joe is driving recklessly when his passenger, Joe Kool, gets hurt. Kool collects \$5000 in Med Pay benefits, sues Joe for negligence in the amount of \$100,000 and wins. He will recover only \$95,000 from the liability section as he has already received \$5000.

*ours...
If*

COVERAGE C (UN & UNDERINSURED MOTORISTS)

- 3 In tort states where the responsible party is supposed to pay for all the damage in an auto accident, it is generally a requirement that UN and UNDER coverage be offered to every Insured. It can be declined by a written waiver, but it must be offered.

- 4 The insuring agreement in this section says that the company agrees to pay compensatory damages, **up to the stated limits** of the contract, for **bodily injury or property damage** that an **insured person** is **legally entitled to receive** from an **uninsured motorist** caused by an accident.

BI & PD

- 5 If we again take this promise apart phrase by phrase, we find that this section, like the previous two, has stated dollar limits. In most states, the law says that the amount of **UM coverage cannot be less than the state minimum limit nor more than the Coverage A (Liability) limit** selected under the same policy. Therefore, assume Joe lives in a state where the minimum legal limit is 25/50/10. Further assume his Coverage A limits are 100/300/100. Joe could purchase any coverage amount he wants between these two extremes. Because Joe values his body (and the bodies of his family) as highly as he values the Other Guy's, his first two numbers for his UM Bodily Injury coverage (UMBI) will likely be 100/300. The third number depends upon the **value of Joe's automobile**. Let's assume that he is adequately protected with UM limits of 100/300/20.

*the Other
Guy is at
fault AND
Uninsured*

What's UMBI?

- 6 Uninsured Motorists coverage is available nationwide for bodily injury and in most jurisdictions for property damage. The need for bodily injury coverage is fairly obvious. If Joe is injured through the negligence of an uninsured motorist, without this coverage, his policy can only pay medical bills. If Joe is off work for six months, his medical bills may pale in comparison to his lost wages. If Joe is very seriously injured, his Med Pay limits may be exhausted rather quickly.

- 7 The need for **property damage coverage** under UM is not so obvious. If Joe has collision coverage with a standard deductible, he probably doesn't need UMPD. On the other hand, if he has no collision coverage or has it with a very high deductible, UMPD could make sense for him. In some states, UMPD must be at least offered with no deductible at all, which makes it even more attractive.

UMPD

- 1 In all states where UMPD is available, the rules that regulate what you can buy under this section are fairly standard. Your choices are:

- Buy nothing
- Buy UMBI only
- Buy UMBI and UMPD

- 2 **You cannot purchase UMPD without UMBI.** A person who is unconcerned about his body but very concerned about his automobile is probably an accident waiting to happen.

- 3 An **insured person** in the UM section must fit into one of the following three groups:

- The named Insured and family members are covered if injured by an uninsured motorist while they are occupying any auto or if they are pedestrians.
- Any other person who is injured while occupying a covered auto.
- Any other person who is legally entitled to recover damages. This last group could include people not even involved in the accident. For example, if a passenger in your car is killed by an uninsured motorist, the spouse and family of the deceased could be entitled to damages and file a claim under your Uninsured Motorists coverage.

- 4 Obviously, no benefits can be paid from this section unless the Uninsured Motorist is legally responsible for the damage – settlement or judgment.

- 5 We have been using the term **Uninsured Motorist** for some time now without defining it. While it may seem self-evident, it is not. For UMBI claims, there are four ways in which the negligent party can be considered an Uninsured Motorist. Despite the way the word *uninsured* sounds to our ears, you should notice that in three of the four definitions, the uninsured motorists may actually have some insurance:

- Person with no insurance.
- Person with insurance but with liability limits less than the state minimum.
- Person with auto liability coverage but his company denies the claim or is insolvent.
- Hit-and-run driver. (**BI Only**)

UN
illegal

No Insurance

...or too little...

or won't or can't pay...

or, hit and run

- 6 For UMPD coverage, an uninsured motorist can be any of the above except the hit-and-run driver. The logic here is fairly straightforward. If an Insured chose not to buy collision coverage (which is pretty expensive), he might be tempted to claim that any collision loss is the result of a hit-and-run driver and file a UMPD (pretty cheap coverage) claim.

PD not hit and run

UNDERINSURED MOTORISTS

UNDER
legal, but
inadequate

- 1 We've made the point that an **uninsured motorist** is one without insurance or with insurance less than the state's minimum limits of liability. An underinsured motorist, on the other hand, is one with enough insurance to be driving legally, but not enough to cover the damage resulting from an accident he caused. The Other Guy, then, can be an uninsured or an underinsured motorist, but he cannot be both.

- 2 As we've pointed out, the ISO Auto policy requires that you add Underinsured coverage as an endorsement. However, a great many companies have already built Underinsured coverage directly into the Uninsured section. The companies that have not yet done so are preparing to do so. To accomplish this process easily, it is a requirement that the limits match the limits of the policy's Uninsured Motorists coverage. Therefore, if Joe is driving with Uninsured Motorists limits of 100/300/20, he should have Underinsured limits of 100/300/20.

- 3 The promise made to the policyowner by Underinsured Motorists coverage is one of the most commonly misunderstood concepts in Auto insurance. What is promised by limits of 100/300/20 with only one person injured is as follows:

- We will take the underinsured person's liability limits – say, \$25,000,
- And add enough dollars to cover your injury
- Up to a total of no more than \$100,000.

- 4 In other words, with the limits we've just used in our example, the most that could be paid by your Underinsured coverage is \$75,000.

$$\begin{array}{r} \$100,000 \text{ Limit} \\ - 25,000 \text{ from the Other Guy} \\ \hline \$75,000 \text{ from your Underinsured coverage} \end{array}$$

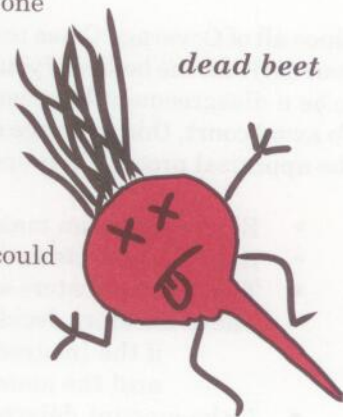
- 5 If the Other Guy has limits of \$50,000 per person, then the most your policy could pay is \$50,000.

$$\begin{array}{r} \$100,000 \text{ Limit} \\ - 50,000 \text{ Other Guy's} \\ \hline 50,000 \text{ Yours} \end{array}$$

- 6 If his limit equals yours, your policy could pay nothing.

$$\begin{array}{r} \$100,000 \text{ Limit} \\ - 100,000 \text{ Other Guy's} \\ \hline \$0 \text{ Yours} \end{array}$$

- 7 The mistake made by many people is in the event you are injured \$125,000 worth. They want to take his limit of \$25,000 and add to your limit of \$100,000 and pay a total of \$125,000. As we saw earlier, with these numbers, the most that could be paid is \$75,000 (\$100,000 – \$25,000). The rule is simple: with **Underinsured Motorist**, you never add The Other Guy's limits, you subtract them.



*Your Under
- His BI
= Most that
your policy
will pay*



COVERAGE C (UN AND UNDERINSURED MOTORISTS) EXCLUSIONS

1 In addition to the general exclusions discussed earlier, there is one new exclusion:

- We will not provide bodily injury coverage if the Insured settles the claim without company permission.

2 For example, suppose you are hit by an uninsured motorist. You apparently suffer minor injuries, and he offers you \$200 to forget it happened. If you accept, you have closed the door to future recovery if your injuries turn out to be more expensive than you first thought.

COVERAGE C (UN AND UNDERINSURED MOTORISTS) ARBITRATION

3 Since all of Coverage C has to do with your company paying for your body (or maybe your car) and the bodies of your family or passengers, it is certainly possible for there to be a disagreement between you and your company over the value of your body. To avoid court, this coverage outlines a system to resolve disputes that is similar to the appraisal process in property insurance.

- Either party can make a demand for arbitration.
- Each side selects and pays for a qualified arbitrator.
- The two arbitrators select a third and his cost is split 50/50
- The arbitrators decide:
 - if the Insured is entitled to damages
 - **and** the amount of the damages.
- If the amount determined is less than state minimum limits, the decision is binding.
- If the amount exceeds state minimum limits, either party can demand a trial.



Arbitration

COVERAGE C (UNINSURED MOTORISTS) SUBROGATION

4 As you've probably guessed by now, when you accept payment from your own company under Coverage C for injuries or damages for which the Other Guy has legal responsibility, you give your company the legal right to pursue the Other Guy to recover the damages. This process does two things:

- It allows your company to recover from the legally responsible party.
- It keeps you from recovering twice. When you give your company the right to go after the Other Guy, you give up the right to go after him yourself.
- Subrogation does not happen with Underinsured Motorists because you must release the Underinsured Motorist to recover the limits of his policy.

COVERAGE D (DAMAGE TO YOUR AUTO)

1 Making the somewhat unrealistic assumption that you own your car outright, this coverage is totally optional. There is no state law that says you must purchase Coverage D, and there is no waiver to sign if you don't want it.

2 Realistically, this is the only auto coverage that a policyowner should view as optional regardless of what the state law says about it. Trying to save money by cutting liability limits is very shortsighted in today's legal climate, and failing to adequately protect yourself and your family by scrimping on Coverages B and C would be a terrible mistake. Most of your premium dollars go into Coverage D and there are several ways to save significant dollars without setting yourself up for financial disaster.

- If you are extremely wealthy, don't buy Coverage D – you can afford to replace your car.
- If you are moderately wealthy, take very high deductibles.
- If you drive a beater worth \$800, you might bypass Coverage D altogether, or you could drop just the Collision coverage, which is by far the more expensive coverage in this section.

3 The Coverage D (Damage to Your Auto) insuring agreement is straightforward. It says that the company will pay for direct and accidental loss to **your covered auto** or any covered **non owned auto** caused by **Collision** or an **Other Than Collision** type loss. Obviously, if you have chosen not to buy either one or both coverages in this section, the company has no obligation in the event of such a loss.

4 **Covered auto** means the car listed on your Dec Sheet, a newly acquired additional or replacement vehicle, or a non owned auto. These coverages also apply (probably as excess insurance) to any non owned private passenger auto or trailer that is not available for your regular use. The coverage available for a non owned auto is simply the same as what you have on your own vehicle. **If Joe has Collision and Other Than Collision on his own car, then he has the same coverage driving his neighbor's car.** If Joe owns two automobiles, one with Collision and Other Than Collision coverage and the other with no Coverage D at all, the Auto policy applies the broadest coverage provided for any covered auto shown in the Declarations. In this case, Joe would have both Collision and Other Than Collision coverage driving a non owned auto.

5 In defining **Collision**, the policy says that it is the **upset of a covered auto** or non owned auto **or their impact with another vehicle or object**. Notice that the vehicle does not have to be moving to have a collision, nor does the collision have to be with another vehicle. If Joe's car is sideswiped in the parking lot – collision. If Joe runs into a tree – collision. If somebody rear-ends Joe – collision.

6 Collision losses are paid **without regard to fault**. If the accident is Joe's fault, the policy pays. Joe pays the deductible (and the rate increase upon renewal), but the policy pays without regard to fault. If the accident is the fault of the Other Guy, Joe's policy could pay to speed the settlement process and then subrogate against the Other Guy and his company.



Collision. . .

. . . or upset



- 1 As we have noted, the Dec Sheet will tell us what coverages (if any) Joe has purchased in this section. While the ISO forms do not specifically prohibit it, many companies have underwriting rules that forbid the purchase of collision only in Coverage D. Their reasoning is that to do so could be encouraging collision losses. For example, if Joe has collision only coverage and a neighborhood vandal keys his car, there is no legitimate coverage. Joe might be inclined to sideswipe a tree (a certifiable collision) simply to get coverage.
- 2 With most companies, your choices in Coverage D are as follows:
 - Buy nothing.
 - Buy both Collision and Other Than Collision.
 - Buy only Other Than Collision.

- 3 As we have pointed out, Collision is by far the more expensive coverage of the two and invariably carries the higher deductible. It would not be unusual to find a situation where the Collision deductible is \$250 and the Other Than Collision deductible is \$100. In every respect, the policyowner is better off with an Other Than Collision loss than with a Collision loss. A rate increase in the Other Than Collision section is less expensive and the deductible is lower. If a policyowner has any coverage at all in this section, he probably has Other Than Collision.

- 4 **Other Than Collision** coverage is open perils coverage. Any damage to a covered or non owned auto that is not excluded is covered. Unlike any other open perils contract we have examined, the Auto policy gives you a *for instance* list of specimen coverages. The contract does not say that **only** these perils are covered – it says that all of these fit under the Other Than Collision heading. The specimen coverages include:

- Missiles or falling objects
- Fire
- Explosion or earthquake
- Windstorm
- Hail, water, or flood
- Malicious mischief or vandalism
- Riot or civil commotion
- Theft or larceny
- Contact with a bird or animal
- Breakage of glass

- 5 Most of these sample coverages are self-explanatory, but the last three bear some discussion. **Theft** surely fits into the Other Than Collision category, but what if someone steals your car and then wrecks it? We still consider this to be an Other Than Collision loss as the theft started the chain of events leading to the loss.

- 6 **Contact with a bird or animal** is considered an Other Than Collision loss. Now, if you hit a deer, it may feel like Collision to you, but it is not. Even if you hit an elephant, it is not Collision.

- 7 **Glass breakage** is an Other Than Collision coverage, but if the glass breakage is the result of a collision, the Insured can elect to have the glass considered as part of the Collision coverage. Without this option, you could be hung for two deductibles on one loss – one for the collision damage and one for the glass.

Comprehensive



*Bumping
Bambi*

*Can you see
through it?*

- 1 Coverage D also provides **transportation expenses** for an Insured following the **loss or destruction** of a covered auto or non owned auto. The company will pay up to \$20 per day (to a maximum of \$600) to offset transportation expenses the Insured may incur or, in the case of a non owned auto, be legally responsible to pay. This coverage does not start until 24 hours following the loss. If the loss is due to **theft**, the waiting period is **48 hours**. Though one might argue that there is a **time deductible**, there is no dollar deductible in transportation expense coverage.



Good Stuff!

COVERAGE D (DAMAGE TO YOUR AUTO) EXCLUSIONS AND LIMITATIONS

- 2 The only unique exclusions found in this section are as follows:

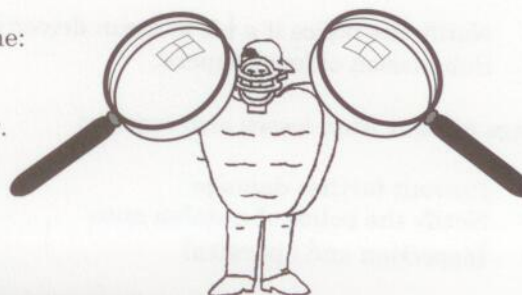
- **Wear and Tear** – We cover tires as part of the loss if a vehicle is *totaled* in a collision, but we won't replace them because you've worn them out or if they suffer road damage.
- **Mechanical or Electrical Breakdown**
- **Freezing** – If you put water in your radiator in the middle of winter, there will be no coverage when your engine cracks.
- **Electronic Equipment** – The Auto policy excludes just about all electronic equipment except equipment and accessories designed for the reproduction of sound if the equipment is permanently mounted in the auto. If not permanently mounted, the policy excludes radios, stereos, tape decks and CD players. Further excluded are CB radios, navigational systems (GPS) radar detectors, telephones, two-way mobile radios, scanning monitors, TV's, VCR's, personal computers, and radar detection equipment. In addition, the contract excludes tapes, discs, and records used with sound equipment. There is an endorsement available which can broaden the coverage to include most electronic equipment (permanently installed or not) and will cover CD's, tapes, and records up to a specified limit.
- **Government Confiscation** – If you are dealing cocaine out of your auto and the DEA takes it – no coverage.
- **Customized Equipment** – If your van has Lazy Boy chairs and a hot tub, those items are not covered.
- **Autos Used for Racing**
- **Nonowned Trailer** – Property damage limit is \$1500.



COVERAGE D (DAMAGE TO YOUR AUTO) SETTLEMENT

- 3 Damage to Your Auto losses are settled for the lower of the:
- ACV of the damaged or stolen property.
 - Amount necessary to repair or replace the property.

- 4 **Appraisal** may be necessary if you and your company disagree over the value of your auto. The process is the same as we have encountered before . . . two appraisers and one umpire.



- 1 This completes our discussion of the coverage sections of the Personal Auto policy. The following chart should serve as a good summary of the important information about Coverages A, B, C, and D of the contract.

A Liability	B Med Pay	C Un & Under Insured	D Damage to Your Auto (Physical Damage)
Other Guy's Bodily Injury (BI) Property Damage (PD)	Pays: 1) Those occupying your car 2) Your family occupying or as pedestrians	Other Guy legally at fault . . . Pays You & Yours for: • Bodily Injury (BI) • Maybe Property Damage (PD)	Collision Named Peril More expensive Higher deductible Other Than Collision (Comprehensive) <i>All Risk</i>
State Minimum* _____ Adequate** _____	3) No fault \$/person For instance, \$10,000/person	Un must be between <input type="checkbox"/> _____Un <input type="checkbox"/> Under match Un _____Under	Less expensive Lower deductible

*Minimum liability limits vary from state to state.

**Adequate limits can vary from client to client.

PART E – DUTIES AFTER AN ACCIDENT OR LOSS

- 2 Part E of the contract outlines the policyowner's responsibilities following an accident or a loss. The company has no obligation to pay a claim unless there is full compliance under this section. If there is an Uninsured Motorists loss or a Damage to Your Auto loss, there are additional duties imposed.

- Prompt notice
- Cooperation with the company
- Prompt submission of any legal papers
- Physical exam and examination under oath
- Authorization for medical records
- Proof of loss, if required

- 3 Uninsured Motorists losses also require:

- Notify the police if a hit and run driver is involved
- Submission of legal papers

*You might have to
call the police*

- 4 Damage to Your Auto losses also require:

- Prevent further damage
- Notify the police of a stolen auto
- Inspection and appraisal

PART F – GENERAL PROVISIONS

1 These are the general conditions that apply to the entire policy.

- **Bankruptcy of the Insured** does not relieve the company of its obligations.
- **Policy Changes** must take the form of a written endorsement.
- **Fraud** on the Insured's part eliminates coverage.
- **Legal Action** against the company cannot be taken until the Insured has fulfilled his obligations under the contract.
- **Insurer's Right to Recover** simply gives the company subrogation rights.
- **Policy Period and Territory** The policy period is typically six months and the policy territory is the U.S., its possessions, Puerto Rico, and Canada.
- **Termination**
 - Insured can cancel at any time with written notification
 - company must follow state laws concerning reasons for cancellation and notification periods
- **Transfer of Rights (Assignment)** – requires company's written consent
- **Two or More Policies** – maximum company limit of liability is the highest applicable under any one policy. Assume Joe has two policies with Company A. The limits on one are 25/50/10 and 100/300/100 on the other. While driving his neighbor's car, Joe has limits of 100/300/100. The two policies cannot be *stacked*.



PERSONAL AUTO POLICY ENDORSEMENTS

- **Extended Nonowner Coverage for Named Individuals** - Covers nonowned auto provided for the use of the Insured. Joe has only a company car. Since he has no car of his own, he has no Personal Auto policy. Therefore, he would have no coverage driving a neighbor's car. This endorsement allows him to buy a Personal Auto policy, even without a car, and provides coverage for Joe driving any non-owned auto. Notice, the coverage works for the named individual only, not his family members.
- **Joint Ownership** - Allows unrelated named Insureds who own a car together to buy an auto policy together (the sin surcharge).
- **Miscellaneous Type Vehicles** - Allows you to cover vehicles like snowmobiles, dune buggies, motor homes, and golf carts under your Personal Auto policy. Also incorporates the joint ownership modifications of the previous endorsement.
- **Towing and Labor** - Pays the cost of moving a stranded automobile to a *safe harbor*, either through towing or emergency roadside repair. Note that the coverage is not designed to solve the car's mechanical problems, merely enough to get the vehicle out of *harm's way*.



NO-FAULT INSURANCE

- 1 Throughout this century, it has been generally true that if you were involved in an automobile accident that resulted in damage to your body or your property, your primary avenue of recovery was through tort law and the establishment of legal liability. No award could be paid to you until the fault (legal liability) of the responsible party was established. Certainly, your own policy could have provided some limited benefits under the Medical Payments or Uninsured Motorists coverage, but claims for disability, lost wages, pain and suffering and major property damage generally required legal action against the person at fault for the accident.

*Like, you know,
if we, like, all
love one another,
and, like, didn't
argue about,
like, the blame,
you know. . .*

- 2 Since the early 1950's, the number of claims and the amounts of those claims have skyrocketed each year. Attorneys have taken a lot of the blame as they normally collect 30% to 40% of any award made to you (the accident victim), or if they defend the company, they are earning \$150 to \$200 an hour for their efforts. Of course, the cost of automobile insurance has gone up with every claim, has accelerated faster as the size of the claims has increased, and has picked up even more momentum as the costs of the legal processing have skyrocketed. By the late 1960's, numerous critics were charging the whole system with being too slow, too expensive, and too fat for everyone but the victim.



- 3 It was at this time that the idea of no-fault insurance developed. Under true no-fault insurance, fault is not a consideration. You simply collect under your own policy for any damages you suffer. Essentially, true no-fault auto insurance is a two party contract like property insurance – everything is between you and your company.

- 4 Partly because there is a strong belief by most Americans that the responsible party, not the victim, should pay for damages, there are no true no-fault auto plans operating in this country.

- 5 However, many states have adopted **modified no-fault** plans. These allow the injured party to collect damages from his own policy, like true no-fault, but they preserve his right to sue for certain damages or in instances where his injuries are so serious that they result in his death or disability. A few states have adopted optional no-fault plans which do not affect the victim's right to sue at all. These optional plans simply increase the immediate benefits a victim could claim under his own policy while the legal liability of the responsible party is being established.

Conclusion

1 In this chapter, we have taken a look at the Personal Automobile policy. Most any individual or individuals living in the same household can purchase a Personal Auto policy. This policy is primarily designed to cover a private passenger automobile operated for personal use. The policy structure, in addition to the Declarations, Definitions, General Provisions, and Duties After an Accident or Loss, is comprised of four main coverage parts:

- **Part A – Liability**
- **Part B – Medical Payments**
- **Part C – Uninsured and Underinsured Motorists**
- **Part D – Coverage for Damage to Your Auto** (Comprehensive and/or Collision)

2 **Coverage A (Liability)** pays for **bodily injury or property damage** you do to the **Other Guy** up to the policy limits. The policy limits may be stated as either a single limit or as split limits. A single limit is a flat dollar amount that is the most in damages that the company will pay for any one accident. A **split limit** is a format which sets three inside limits as well as a total policy limit. For example, a person with limits of 25/50/10 would have coverage for up to \$25,000 for bodily injury to any one person, up to \$50,000 of coverage for all bodily injury in any one accident, and up to \$10,000 of coverage for property damage in any one accident. In addition to paying for damage to the Other Guy, Coverage A provides **Supplementary Payments**, which include **defense costs** and various other legal expenses. The Supplementary Payments pay in addition to the limits of the policy.

3 **Coverage B (Medical Payments)** pays medical and funeral expenses incurred within **3 years** of the accident by an Insured because of bodily injury caused by an automobile accident. In other words, **Med Pay will pay to you, your family, or anybody occupying your car** if you're injured while occupying a vehicle, or to you and your family if you sustain bodily injury as a pedestrian due to an automobile. For anyone other than your family, *occupying* is the key to this coverage. This coverage pays without regard to fault. An *Insured* is not only the named Insureds, but also any family member using any auto and any persons using the named insured's covered auto.

4 **Coverage C (Un & Underinsured)** is primarily designed to pay you for your bodily injury in situations where the Other Guy is legally liable for the auto accident but doesn't have insurance or has inadequate insurance. An **uninsured motorist** is one without insurance or with insurance less than the state's minimum limits of liability. It could also be a person with auto liability coverage but whose company denies the claim or is insolvent, or a hit-and-run driver. An **underinsured motorist** is someone with enough insurance to be driving legally, but not enough to cover the damage resulting from an accident he caused. The Other Guy, then, can be uninsured or underinsured, **but he cannot be both**. Most states not using a no-fault system require that Coverage C be offered to every Insured. If not declined by a written waiver, you can choose **Uninsured Motorists Bodily Injury (UMBI)** limits up to your Coverage A limits, but not less than the state minimum limit. In most states, you can also cover damage to your auto – with Uninsured Motorists Property Damage (UMPD). However, **you cannot buy UMPD without UMBI**.

1 **Coverage D (Coverage for Damage to Your Auto)**, formerly known as *Physical Damage*, is property insurance coverage for your car. It has two coverage sections: **Collision**, which covers nothing but collision and is therefore a named peril coverage, and **Other Than Collision**, formerly known as *Comprehensive*, which essentially covers everything else and is therefore an open perils coverage. The insuring agreement of Coverage D says that the company will pay for direct and accidental loss to **your covered auto** or any covered **non owned auto** caused by Collision or an Other Than Collision type loss. **Covered auto** means the car listed on your Dec Sheet, a newly acquired additional or replacement vehicle, or a temporary substitute auto. A **non owned auto** is a private passenger auto or trailer that is not available for your regular use but which you happen to be driving. **Collision** is defined as the upset of a covered auto or non owned auto or their impact with another vehicle or object. Keep in mind that the vehicle does not have to be moving to have a collision, nor does the collision have to be with another vehicle. Also, Collision losses are paid without regard to fault. With most companies, you cannot buy Collision without also buying Other Than Collision. **Other Than Collision** coverage is open perils coverage, and would pay, for example, for damage to your car caused by:

- Missiles or falling objects
- Fire
- Explosion or earthquake
- Windstorm
- Hail, water, or flood
- Malicious mischief or vandalism
- Riot or civil commotion
- Theft or larceny
- Contact with a bird or animal
- Breakage of glass

2 A couple of overriding general guidelines in automobile insurance are that **coverage goes with the car**, and the company will make the Insured whole – not rich. For the details on the Personal Auto policy declarations, definitions, general provisions, exclusions, and duties after an accident or loss, please refer back to those sections of this chapter.

3 Finally, we took a brief look at no-fault. Under a pure **no-fault** plan, fault for who caused the automobile accident is not a consideration – you simply collect under your own policy for any damages you suffer. Although there are no true no-fault auto plans operating in this country, many states have adopted **modified no-fault** plans. These allow the injured party to collect damages from his own policy, like true no-fault, but they preserve his right to sue for certain damages or in instances where his injuries are so serious that they result in his death or disability.



SPECIALTY POLICIES

7

- 1 Upon examining the Homeowners policy, you may have noticed some coverages needed by some homeowners were not part of the contract. There was no coverage for flood, there was little coverage for boats and there was limited coverage for easily transportable items of high value such as jewelry, furs and guns.
- 2 In this chapter, we will show how these coverages can be obtained in our discussion of Flood insurance, Personal Watercraft coverage, and Marine insurance. Further, we will briefly address the methods through which a house which is ineligible for a Homeowners policy can qualify for coverage under the FAIR Plan.



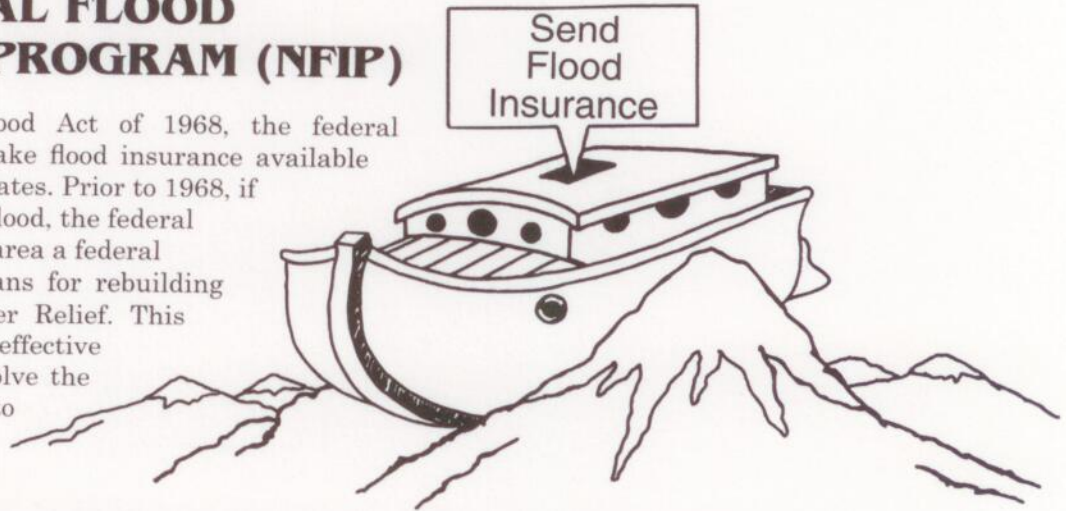
FLOOD INSURANCE

- 3 It is a fundamental principle of good underwriting for an insurance company to seek the **geographic dispersion** of exposure units. Simply, the company does not want all of its policyowners clustered together. The reason for this is that a peril, such as fire, could strike one policyowner and spread to many others before it could be stopped. With the peril of flood, this is an inherent problem. Flood, by its very definition, does not cause a loss to only one property. Flood damages hundreds or thousands of properties in one geographic area, which makes it very difficult for an insurance company to spread the risk.
- 4 Compounding this problem is the concept of **adverse selection**. Adverse selection is the tendency for people who have a high need for a particular coverage to buy, while those who have a lesser need do not buy. With respect to flood insurance, adverse selection means that people living in low elevations alongside rivers want to buy, whereas people living in high elevations and in dry areas are not interested. This makes it difficult for insurance companies to spread the risk, control their exposure, and keep their premiums affordable. Prior to 1968, very few companies accepted flood insurance risks. Flood insurance simply was not profitable.



THE NATIONAL FLOOD INSURANCE PROGRAM (NFIP)

- 1 Under the National Flood Act of 1968, the federal government sought to make flood insurance available nationally at reasonable rates. Prior to 1968, if an area suffered a major flood, the federal government declared the area a federal disaster and provided loans for rebuilding through National Disaster Relief. This program was rather ineffective because it didn't really solve the problem, which was to reduce the risk of future flooding by investing in flood control projects, such as canals, levees, dredging and building ordinances designed to control construction in flood prone areas.



- 2 The program introduced in 1968 is called the National Flood Insurance Program (NFIP). This program is administered by the Federal Emergency Management Agency (FEMA). Under the Flood insurance program, the **federal government is the insurer and takes all of the insurance risk**. But the program is as much about **the reduction of future flood risks** as it is about insurance.
- 3 For the first 15 years of the Flood program, the federal government also did the marketing and sales, which was not so successful. So in 1983 the federal government started the "Write-Your-Own" program which allows private insurance companies and their Agents to write and sell flood policies under their private insurance company names in order to take advantage of the insurance industry's marketing channels. Under NFIP about 90 private insurance companies market Flood insurance, collect the premiums, keep a certain percentage of the premium to cover their expenses, earn a small profit, and administer claim payments. If there is not enough money to pay the claims, the NFIP/federal government provides the difference. While the private insurance companies are not assuming the risk in the NFIP, they are responsible for adjusting losses and writing the claims checks.
- 4 The NFIP combines both insurance protection against Flood, and a floodplain management program aimed at the mitigation / reduction of flood risk, whereby the community and the federal government work together to rebuild the community in order to reduce the vulnerability to Flood damage. Both residential and commercial buildings and contents may be insured in those communities that agree to adopt and enforce floodplain management ordinances to reduce future flood damage. Nearly 20,000 communities across the USA participate in the NFIP in order to protect their homeowners and businesses against Flood.
- 5 **Flood is the most common natural disaster** in the United States. Yet only a very small percentage of U.S. homes and businesses are covered by Flood insurance.
- 6 In summary, the National Flood Insurance "Write-Your-Own" Program is a federal insurance program whereby private insurance companies sell the Flood policies, collect the premiums and administer the payment of claims, but ultimately the federal government assumes all of the risk.

Companies -sell

*Government -
takes the risk*

THE FLOODING RISK: A FLOOD FOR ALL SEASONS

- 1 Flooding can happen any time of year. Some of the more frequent causes are:
 1. Tropical Storms and Hurricanes
 2. Spring Thaws
 3. Heavy Rains
 4. West Coast Threats
 5. Levees & Dams breakage
 6. Flash Floods
 7. New Developments

VOLUNTARY OR MANDATORY?

- 2 As you know, the peril of Flood is **EXCLUDED** under all Homeowners and Commercial Property policies. So do you have to buy Flood insurance?

- 3 If you live in a NFIP designated community (see below for an explanation), and you do not have a mortgage on your home, purchasing Flood insurance is Voluntary/Optional. However, if you have a mortgage from a federally regulated or insured financial institution (which is almost all financial institutions), or federal financial assistance, such as a FHA or VA backed mortgage, and you live in the flood plain, then **purchasing Flood insurance is mandatory**. By federal law, lenders must notify borrowers, prior to the closing, that their property is located in a high-flood-risk area, and that purchasing Flood insurance is therefore required. It is your responsibility as an Agent to determine if your Insured Policyowner lives in a designated Floodplain. If so, you should recommend the purchase of Flood insurance. To determine if property is in a Floodplain, just go to WWW.FLOODSMART.GOV.

FLOOD DEFINED

- 4 NFIP Flood insurance covers only the direct physical loss caused by Flood. Indirect Loss coverage for Additional Living Expenses is **NOT** covered by Flood insurance.

- 5 In simple terms, a **Flood is an excess of water on normally dry land**. But the official definition is as follows.

- 6 The peril of FLOOD is defined by FEMA as: "A general and temporary condition of the partial or complete inundation (coverage by water) of **two or more acres of normally dry land**, or of **two or more properties** (including your own) from:

1. The unusual and rapid accumulation or run-off of surface waters from any source; or
2. The overflow of inland or tidal waters; or
3. A Mudflow (defined as "A river of liquid and flowing mud on the surface of a normally dry land area, as when earth is carried by a current of water" / a river of mud made fluid and mobile by heavy rain or a rapid snowmelt); or

Temporarily wet

4. The collapse or subsidence (sinking) of land along the shore (shoreline) of a lake or similar body of water (bay or ocean) as the result of erosion, or as the result of the undermining caused by waves or currents of water exceeding the anticipated cyclical levels (extra high tides), that result in a flood as defined above."

mudflow - yes

- 7 In simple terms, a Flood is an excess of water, accumulating through natural causes, covering normally dry land. Translation: Mother Nature's water in excess.

landslide - no

LOSSES NOT COVERED BY "FLOOD"

- 1 Coverage is EXCLUDED for:
 1. Landslides
 2. Mudslides
- 2 Note: **Mudflows are covered, but Mudslides are not.** A Mud FLOW is a river of mud. On the other hand, a Mud SLIDE is like a Land slide, but caused by excessive amounts of rain. The wet heavy earth just slides down the hillside.
3. Sewer Backup, unless the sewer backup is the direct result of flooding.
4. Flooding that is within the control of the Insured. For example, if a farmer drains his own lake and accidentally floods his own home, it would not be covered by his Flood policy.
5. Wind Driven Rain Is not covered by "Flood", but it IS covered under the Homeowners peril of Windstorm or Hail. However, to make matters even more confusing, please note that "Wind Driven Surface Water", known as **Storm Surge** (when the high winds of a storm blow the ocean waters onto the land, such as during Hurricane Katrina of 2005), IS covered by Flood insurance.
- 3 **Note:** Flood experts suggest that one way to think about the coverages under Homeowners as contrasted with Flood insurance is: If the water is coming DOWN, the coverage is Homeowners. If the water is coming UP, the coverage is Flood.
- 4 Memory device: If the rain is coming down, HO, HO, HO ! But if the river is coming up, run from the Flood!

KEY DEFINITIONS

1. SPECIAL FLOOD HAZARD AREA (SFHA) A Special Flood Hazard Area is an area of normally dry land that would be flooded/inundated in a "100 Year Flood". A Special Flood Hazard Area is the technical name for floodplain.
2. 100 YEAR FLOOD / 100 YEAR STORM The term "100 Year Flood" is confusing. The term infers that a flood will occur only once every 100 years, which is NOT the case. Rather the term is referring to water elevation, and the percentage chance that the water will rise above a certain level on an annual basis. So the definition is: "The flood water elevation that has a 1% chance of being equaled or exceeded in any given year."
- 5 A 100 Year Flood may also be referred to as a 100 Year Storm. The area of land inundated by water during a 100 Year Flood is called the Floodplain.
- 6 Translation: A Floodplain is land that has a 1% + chance of being flooded each year.

3. **FLOODWAY** A floodway is the part of the floodplain where the water is likely to be the deepest and run the fastest. It is the area of the floodplain that should be reserved/kept free of obstructions. This allows the floodwaters to move downstream with the least resistance which avoids the backup of excess water, thereby reducing flooding.
4. **BASEMENT** The area of a building, with a floor, that is below ground level on all sides. Therefore, a “walk out” “basement” is NOT a basement according to the NFIP.
- 1 NFIP does NOT consider a basement as “living quarters”, but instead merely as the place upon which the structure rests. Therefore, there is a major difference between how a Homeowners policy insures a finished “basement” and how NFIP insures it (which is minimal). For example, the NFIP flood coverage for a basement does NOT insure finished basement improvements, such as finished walls, floors, cabinets, home theaters, ceilings, etc. Also NOT covered by Flood insurance are any Personal Property/Contents in the basement. Translation: When the water level starts rising, grab the Big Screen TV(plus all of your other Personal Property), and head for higher ground!

ELIGIBLE COMMUNITIES

- 2 Flood insurance is only available in NFIP designated and approved communities, of which there are about 20,000 across the country. The NFIP accepts the communities into the Flood program, administers the plan, enforces the plan rules, and sets the premium rates. To qualify for NFIP, a community must agree to a **flood control program designed to significantly reduce future flood losses**. This includes constructing river dikes and levees, adding storm drain systems, and building “flood proof” buildings. In addition, there are numerous zoning and building code requirements that must be met. Thus, the flood program not only provides coverage for losses, but it also invests in future loss prevention.
- 3 To summarize, a community establishes its eligibility to participate in NFIP in two ways:
 1. By adopting and enforcing floodplain management measures to regulate new construction; and
 2. By ensuring that substantial improvements are made to existing buildings within the identified flood plain.

*Designated
area...*

- 4 Property owners in NFIP communities, but who DO NOT live in the flood plain, can still purchase flood insurance. In fact, 30% of all flood claims come from properties OUTSIDE the high-flood-risk (SFHA) areas.

...local plan

- 5 Before a community becomes a designated NFIP area, the community must apply to the NFIP. During the application stage, the community is said to have “Emergency” status, which is Phase One of the flood program. When the community has fulfilled its application requirements, it is accepted into the regular flood program. During the “Emergency” status, the community is eligible to purchase flood insurance, but the benefit limits are lower than when accepted in to the regular program.

ELIGIBLE PROPERTIES & BENEFIT LIMITS

1. Residential Dwellings & Contents \$250,000 & \$100,000
2. Commercial Buildings & Contents \$500,000 & \$500,000
- 1 **Note:** Dwelling coverage during the "Emergency" status phase is limited to \$35,000, and Contents coverage is limited to \$10,000.
- 2 **EXCLUSIONS – PROPERTY NOT COVERED BY "FLOOD"**
 1. Land
 2. Other Structures/Appurtenant Structures, UNLESS coverage is purchased. The Flood program offers coverage for one detached garage.
 3. Crops
 4. Vehicles
 5. Damage caused by moisture, mildew, or mold that the Insured could have avoided.
 6. Paper worth something.
 7. Living Expenses/ Consequential Losses
 8. Other Exclusions typically found in Homeowners policies, such as Better Covered Elsewhere.



*Emergency...
doesn't mean
the water is
rising*

FLOOD POLICY FORMS

- 3 There are three Flood policy forms provided by FEMA.
 1. Dwelling Form for Homeowners, Renters & Condo Owners
 2. General Property Form for commercial properties
 3. Condominium Form for Condo Associations

COVERAGES: BUILDING AND CONTENTS

- 4 All residential dwellings, farms and commercial buildings are eligible for Flood insurance. Contents/Personal Property coverage is also available. However, the contents must be located inside the insured building to have coverage.

*If you don't
buy flood...
...you might
be all wet*

FLOOD DETAILS

1. **STANDARD DEDUCTIBLE** - Is \$1000. The Deductible is applied twice: once on the Building loss, and again on the Personal Property/Contents loss.
2. **30 DAY WAITING PERIOD** - There is a 30 Day Waiting Period from the date of application and premium payment to the beginning of Flood coverage. (Different rules apply in situations of refinancing a home.)
3. **NO BINDING COVERAGES** - The NFIP Flood program does NOT allow Agents to bind Flood coverage. Actual policies must be issued in order to have Flood coverage.
4. **ADDITIONAL LIVING EXPENSES** - If a flood makes an insured residence uninhabitable, the additional living expenses incurred by the Insured Policyowner are not covered, as there are NO Loss of Use benefits in Flood insurance.
5. **LOSS SETTLEMENT**
 - a. **Building** - Is settled on a Replacement Cost basis IF the building is insured for at least 80% of the Replacement Value, or is the maximum available for the property under NFIP. Otherwise, settlement is on an ACV basis. (Different rules apply for "Second Homes").
 - b. **Personal Property/Contents** - Is always settled on an Actual Cast Value (ACV) basis.
6. **POLICY PERIOD** - The Flood insurance Policy Period is one year. Policy renewal does not require a new Application.
- 1 For more Flood details, changes in the Flood program, and to determine if your Insureds are in Floodplains, please go to the FEMA website @

WWW.FLOODSMART.GOV

Or call FEMA @ 888. 379. 9531

PERSONAL WATERCRAFT

- 2 Joe and Jolene have reached a point in their lives where they have some discretionary income, a little free time, and a yen for the great outdoors. Like so many Americans, they have chosen to do some boating. They start out with a simple boat – like a small outboard or a small sailboat. Insurance coverage for these basic boats is usually available in a Homeowners policy. If not, the Homeowners policy can be endorsed to cover the risk.

- 3 A couple years later, Joe and Jolene trade up to the next level – they buy a runabout, ski boat, or bass boat. Their coverages need to be upgraded to a Boatowners policy, which is an automobile-type policy for boats.

- 4 Then, one day, Joe and Jolene win the lottery and become instant millionaires. They buy a **BIG** boat . . . a yacht. Another upgrade in their insurance coverage is necessary. They now need a Yacht policy.

BOAT:
*A hole in the
water into
which you pour
money*

- 1 In this section, we are going to discuss watercraft – privately owned boats used for pleasure purposes only. (This text will not address coverages for commercial marine risks, such as ocean-going ships on the high seas, or boats operated for profit.)

DWELLING POLICIES

- 2 The Dwelling Policies (DP's) provide almost no coverage for boats. There is a small amount of **property** coverage for rowboats and canoes, but only up to \$1000. If the boat has a motor or a sail, there is no coverage. Keep in mind also that the Dwelling Policies have **no liability coverage** and **no theft coverage**.

paddles...

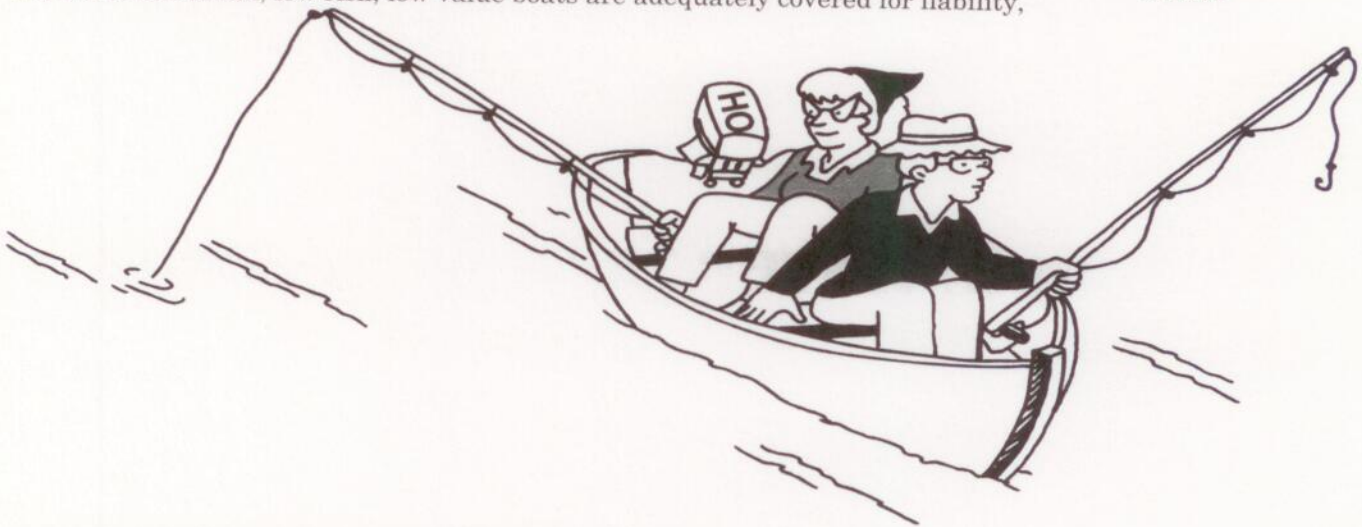
... oars



HOMEOWNERS

- 3 Homeowners policies provide somewhat more coverage for boats than do the DP's – but not much. Small, low risk, low value boats are adequately covered for liability,

*Big Boy
"Toy"
Boats*



- 4 but there is only limited property coverage of up to \$1500. Section I (Property) of a Homeowners policy covers all of your watercraft, including your trailers, equipment, and outboard motors, but only up to the policy limit of \$1500. Also, there is no coverage for the most frequent (and high risk) perils:

- Theft away from premises
- Wind damage (unless the boat is inside of an enclosed building)

- 1 Personal Liability (Section II) of a Homeowners policy provides **very limited liability coverage** for watercraft. A Homeowners policy generally provides adequate liability coverage only for the following low risk (*slow*) boats:

- Sailboats up to 26 feet in length
- Outboard powerboats owned by the Insured under 25 horsepower
- Inboard (or inboard/outboard) powerboats under 50 horsepower *that the Insured rents*

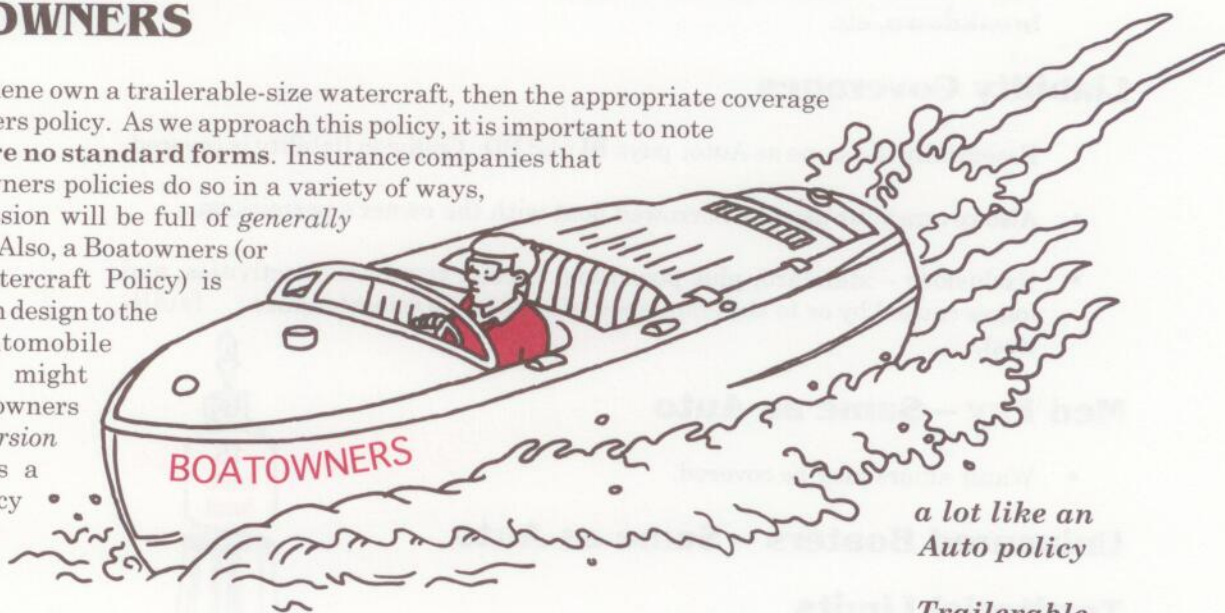
small...

...slow

- 2 You should notice that all of the above boats are **small** and **slow**. Homeowners has such limited liability coverage for boats that as a general rule, the only way it's covered is if Joe and Jolene can outrun the boat. In other words, Homeowners will provide adequate liability coverage only if your boat is powered by paddles, oars, sails, or a mini-outboard and you and your spouse can throw it on top of your van. If you have a more serious boat, then you have two policies to choose from: Boatowners or a Yacht policy.

BOATOWNERS

- 3 If Joe and Jolene own a trailerable-size watercraft, then the appropriate coverage is a Boatowners policy. As we approach this policy, it is important to note that **there are no standard forms**. Insurance companies that write Boatowners policies do so in a variety of ways, so our discussion will be full of *generally* and *usually*. Also, a Boatowners (or Personal Watercraft Policy) is very similar in design to the Personal Automobile Policy. You might think of Boatowners as a *marine version of Auto*. It's a package policy that includes property, liability, medical pay, uninsured boaters, and collision coverages.



a lot like an Auto policy

Trailerable Boats

4 Eligibility

Generally, Boatowners policies are written to cover trailerable boats, such as sailboats, bass boats, runabouts, and other open cockpit boats that are less than 26 feet long. These types of boats are normally stored on a trailer and can be towed behind the family automobile.

Property Coverages

- Includes boat, motor(s), trailer, equipment, and accessories as specified on the Dec Sheet. Values for each will probably be stated on the Dec Sheet.
- Excludes cameras, personal property and all sporting and fishing equipment.
- Excludes any loss arising out of the use of the boat for commercial purposes or racing of powerboats. (Sailboat racing is okay.)
- "All Risk" (including collision damage to the boat)
- Loss settlement is ACV, but better policies often use Replacement Cost.
- Some policies pay for the cost to recover a sunken or stranded boat.
- The normal exclusions still apply - war, nuclear, **mechanical breakdown**, etc.

Liability Coverages

- Essentially the same as Auto: pays BI and PD. Collision liability is covered.
- Also covers your use of a borrowed boat with the owner's permission.
- Exclusions – standard, plus powerboat racing, commercial activities, and losses caused by or to the employees of boat yards (maintenance facilities).

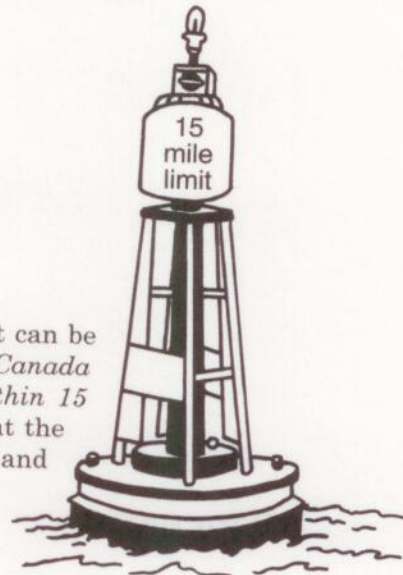
Med Pay – Same as Auto

- Water-skiers may be covered.

Uninsured Boaters – Same as Auto

Territorial Limits

- The policy will limit the waters in which the boat can be operated, such as the *inland waters of the U.S. and Canada only*. Others will also include *coastal waters within 15 miles of shore*. The policyowner can **warrant** that the boat will only be operated in a more restricted area and be rewarded by a reduction in premium.



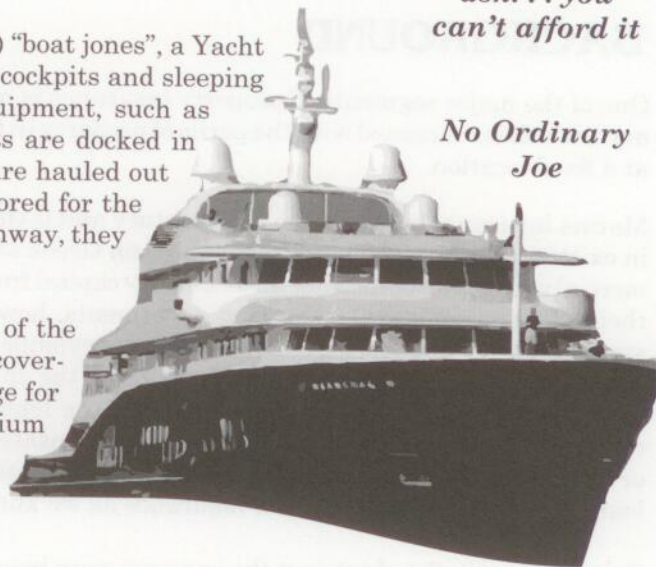
*if you have to
ask... you
can't afford it*

YACHT POLICY

- 1 For the serious boater with a serious (and expensive) "boat jones", a Yacht policy is appropriate. Yachts usually have enclosed cockpits and sleeping and cooking facilities. They must carry safety equipment, such as **lifeboats, fire extinguishers, and flares**. Yachts are docked in marinas when it is warm. When it gets cold, they are hauled out of the water by large mechanized cranes and are stored for the winter on land in boat yards. If they travel on the highway, they do so on specialized trailers towed by trucks.

*No Ordinary
Joe*

- 2 A Yacht policy is a package policy that includes all of the Boatowners coverages, plus some additional special coverages, such as Workers Comp for a paid crew, coverage for the *tenders* (dinghies), and a discount on the premium while the boat is in dry dock (storage).



Differences

- Settlement is generally **Agreed Value** on total losses and **Replacement Cost** on partial losses.
- Deductibles are usually a percentage of the hull amount, like 1% or 2%.
- **Workers Comp** is included for a paid captain or crew (called **Longshore and Harbor Workers Compensation**).
- Navigation/cruising limits are stated as **warranties** on the Dec Sheet.
- Tenders are usually covered.
- Hull (boat) values may be in the hundreds of thousands of dollars.

OCEAN AND INLAND MARINE

BACKGROUND

1 One of the major segments of property insurance is marine (transportation) insurance, which is concerned with the perils of property **in transit** as opposed to property at a fixed location.

2 Marine insurance began in the 14th century and is the oldest type of insurance still in existence today. The process began when Greek shipowners financed their commercial voyages by borrowing the necessary capital from moneylenders and pledging their ships as collateral. The loan agreements, however, contained a clause that stated that if a ship were lost at sea, the moneylenders would give up any rights to collect their loan. Since this provision shifted the entire risk of the loss of the ship from the shipowners to the moneylenders, the lenders insisted on being heavily compensated for taking on this risk. As compensation, they charged a **premium**, or a higher amount, for taking on this risk in addition to the normal interest on the loan. This was the beginning of insurance as we know it today.

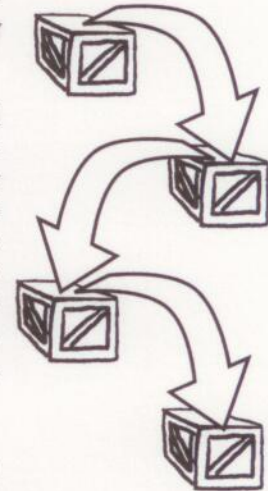
3 Originally, only the ships (not the cargoes) were insured. By the 15th century, the concept of ocean marine insurance spread west to Spain and England, and for the next 300 years it was just about the only type of insurance available.

4 The marine underwriters then got involved with insuring land-based items that were related to marine activities, such as cargo storage, warehouses, piers, docks, bridges, tunnels and eventually the shipment of cargo over land to its final destination. **These land-based, or dry, risks were classified as inland marine as opposed to ocean marine, or wet, insurance.**

5 By the 18th century, the concept of insurance was being applied to buildings (real property) that were not mobile. This was the beginning of what we usually think of as property insurance — coverage for real property at a fixed location. The nature of this insurance is very different from that of marine insurance. Fire is the main peril in property insurance. Marine (transportation) perils include such risks as pirates, assailing thieves and sinking. **The Standard Fire Policy was designed to cover property at a fixed location while marine insurance was designed to protect property that is either moving, capable of being moved or that aids in movement.**

6 Land-based movable property was naturally passed on to marine underwriters because such risks were more closely related to transportation than to fire insurance.

7 At the turn of the 20th century, the marine insurers became more directly involved with the American public by offering marine floater policies that covered the personal effects of traveling salesmen. Then, they expanded their markets by insuring *fixed location* storage buildings at low rates by merging these storage risks with the related transportation risks. The fire and casualty insurers became alarmed by the rapid growth of marine insurance and its infringement into their sacred fixed location field. The marine underwriters, free from control by the rate bureaus, could adjust rates at will and were thus more competitive than the fire and casualty companies. The 1929 economic crash aggravated the situation, and by 1933, the fire and casualty companies sought to legally restrict the encroachment of the marine insurers by supporting the issuance of the first nationwide definition of marine insurance. The definition was revised in 1953 and again in 1976.



goods in transit

*wet – ocean
dry – inland*

1976 NATIONWIDE MARINE DEFINITION

- 1 The purpose of this definition is to restrict the areas in which marine underwriters can write coverages. Today marine underwriters are limited to six categories:

- Imports
- Exports
- Domestic Shipments
- Bridges, Tunnels, Docks, and other Instruments of Transportation and Communication
- Personal Property Floaters
- Commercial Property Floaters

- 2 **IMPORTS** – Property being shipped from another country for delivery in the United States. When the import reaches its destination, it ceases to be a proper subject for marine insurance.

coming...

- 3 **EXPORTS** – Property being shipped from the U.S. for delivery in another country. An export becomes a proper subject for marine insurance once it is designated as an export or is being prepared for export.

...going...

- 4 **DOMESTIC SHIPMENTS** – Property being shipped from one location to another within the U.S. Trip Transit, Motor Truck Cargo and Parcel Post are typical policies. After a limited period of time specified in the contract, the domestic shipment is no longer considered “in course of transportation” and therefore is no longer a proper subject for marine insurance.

...staying

- 5 **BRIDGES, TUNNELS, DOCKS, and other INSTRUMENTS OF TRANSPORTATION and COMMUNICATION** – Includes piers, marine railways, pipelines and pumping equipment, power transmission lines, telephone lines, radio and TV broadcasts (the theory being that they “transport” words and messages), and outdoor cranes/loading bridges used to load and unload ships. These are classified as marine insurance in recognition of a long standing practice in the business. Such coverages had been written by marine underwriters for years, mainly since fire underwriters did not want to give broad protection on this type of property.

things that help movement

- 6 Excluded are buildings used in connection with bridges and other instruments of transportation or communication. **Neither ships nor boats are mentioned specifically in the definition since tradition made it obvious that they are eligible for marine coverage.**

- 7 **PERSONAL PROPERTY FLOATER RISKS** – Mobile property that is excluded, limited or inadequately covered under a Homeowners or Dwelling policy can be covered with a Personal Property Inland Marine Floater.

- 8 **COMMERCIAL PROPERTY FLOATER RISKS** – *All Risk* policies covering mobile property pertaining to a business, profession, or occupation.

FAIR PLAN COVERAGE

- 1 **FAIR (Fair Access to Insurance Requirements) Plans** are designed to make **property insurance available to individuals living in high risk urban areas.** FAIR Plan coverage is available in the vast majority of states. Over thirty five states offer some form of FAIR Plan Coverage.
- 2 **How does it work?**

FAIR Plan policies are **issued by a servicing insurer**, but the risk is underwritten by a **pool of the property insurers** doing business in a particular state. Some states pass the additional costs of FAIR Plan coverage to the other property owners in the state by means of a surcharge.
- 4 **Is the FAIR Plan available to everyone?**

In short, no. Some states require that the property be located in certain geographic areas. Some states will not cover commercial risks or farms. Some states require that the applicant be turned down by private insurance companies, while others require that the insurance merely be too expensive through normal channels. With almost all FAIR Plans, coverage is **unavailable if the property fails to meet basic underwriting requirements**, is vacant, or has a property tax bill which has not been paid.
- 6 **NOTE: No applicant may be turned down, however, simply because the property is located in a high risk location.**
- 7 **What Coverage is available under the FAIR Plan?**

Most FAIR Plans provide only two party (property coverages); a few state's FAIR Plans offer full blown HO policies. In most cases, the Cause of Loss Form used is similar to a Standard Fire Policy with what are known as Extended Coverages. This is similar to an DP-1. Most FAIR Plans **do not cover theft.**

*Aha! . . .
another use
for DPs.*

Conclusion

Flood Insurance

- 1 Both Personal Lines and Commercial Lines Property policies **exclude the peril of flood**. This is due to the fact that flood losses are geographically concentrated, and the people that purchase flood coverage typically need it very badly. To cover flood under a standard property policy would be to encourage **adverse selection** at its worst.
- 2 Under the **National Flood Insurance Program**, your company can sell flood insurance, collect the premiums, retain some monies for profit and expenses, and utilize the balance to pay claims. If claims exceed this surplus, the NFIP will provide the difference. Essentially, private companies **sell the policies for a fee, but the Federal government assumes all the risk**.
- 3 Buildings and contents coverage is available in qualified communities across the country. To qualify, a community must implement a flood control program designed to reduce further flood losses. **The effective date of coverage is 30 days after the application.**
- 4 **The standard deductible is \$1000, which is applied twice – once on the building, and again to the contents.**
- 5 The NFIP's Dwelling Form offers:
 - Building coverage of up to **\$250,000**, and
 - Personal Property (Contents) coverage up to **\$100,000**.

Personal Watercraft

- 6 Personal watercraft can be covered under any of four policies. As an overview, if you:
 - Take the boat to the lake on top of your car, a **Dwelling policy** or **Homeowners policy** may be adequate.
 - Haul the boat to the lake on a trailer, you probably need a **Boatowners policy**.
 - If your boat is too big to haul and lives at the marina, you need a **Yacht policy**.
- 7 DP's – Property only, boats and canoes up to **\$1000**
- 8 HO's – Property: **\$1500** limit; no theft away from premises, no wind damage unless boat is in an enclosed building.
Casualty – Sailboats under **26 feet**, outboards under **25 horsepower**, rental boats with engines under 50 horsepower.
- 9 Boatowners – Trailerable boats up to 26 feet in length.
Property – Boats, motors and accessories as spelled out on the Dec Sheet.
Settlement – ACV or RC
Exclusions – powerboat racing, mechanical breakdown.
Casualty – Similar to Personal Auto – BI, PD and Med Pay.

Yacht policy – Boats with enclosed cabins, usually with sleeping and cooking facilities.

Property – settlement is Agreed Value or total losses, and RC on partial losses.

Casualty – Includes Longshore and Harbor Workers Compensation.

Ocean and Inland Marine

Ocean and Inland Marine contracts are principally written to cover goods in transit. If moved by water (ship, boat or barge), an Ocean Marine contract is used. If moved by air or land (airplane, truck or train), an Inland Marine contract is appropriate. The 1976 Nationwide Marine definition includes six categories:

- Imports
- Exports
- Domestic shipments
- Bridges, tunnels and docks
- Personal property floaters
- Commercial property floaters

FAIR Plans

Plans operate in most states to provide property coverage for risks uninsurable (at reasonable rates) through the private insurance market. Typically, all companies writing property insurance in a given state must proportionately underwrite this pool in that same state. While some states exclude commercial buildings and farms, most do include homes. The mandated coverage may be at the Dwelling policy, or, in other states, the required coverage may be at the level of an HO-1 or HO-2.

