Automobile

Property & Casualty Insurance

P.O. Box 22414

Louisville, KY 40252-0414

Telephone: 502.425.5987 **Fax: 502-429-0755**

Web Site: www.commonwealthschools.com Email: info@commonwealthschools.com

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Chapter 1
Introduction to Property & Casualty -- Auto

Auto insurance is one of the most important insurances that a consumer must think about because ***in the United States there is a traffic accident every 3 seconds***. Automobile insurance is also an insurance policy which provides insurance that covers against costs incurred by the insured due specifically to traffic accidents.

So it is very important to have an automobile insurance as it is mandatory in most states on any vehicle which an individual drives. It obviously falls under the category of property insurance, and one's automobile is often the most expensive and necessary pieces of property that one owns. Numerous insurance companies do offer auto insurance policies to individuals and also each insurance provider can offer a custom made policy to match today's industry needs. Increasingly, policies are being written in conjunction with a home owner's policy, as a package with a reduced premium for the combined exposures.

Underwriting is always a factor, and some companies may restrict the use of this concept based on property location and so on, even if the automobile portion is acceptable. Automobile policies are written in two sections. The liability portion includes bodily injury, property damage, medical payments, uninsured motorists, etc., and the cost of legal defense up to the limit of the policy. The second part of the policy covers loss to the owned automobiles themselves, and is usually written with a variety of deductibles.

The Need of Auto Insurance

Besides there being state laws about having auto insurance, there is a specific need for an owner and driver of an automobile to have insurance coverage. An auto owner puts himself or herself at risk and members of his or her household at risk also every day when there is no insurance coverage.

High Traffic Urban Areas Pay Higher Rates

The insured will find that he or she will pay more when it comes to driving and owning a vehicle in a high density urban area like many of the cities throughout the United States. Examples would be cities like Detroit, New York, and Newark - rated to have among some of the very highest auto insurance premiums in the country. Some statistics which came from the Insurance Institute for Highway Safety states that usually those crashes causing injuries and/or property damage usually occur at the highest rates in urban areas." Rural areas many times have a tendency to have an increased chance of vehicle theft. The top 10 metropolitan areas with the highest vehicle theft in 2006 were the following:

- Las Vegas/Paradise, NV
- Stockton, CA
- Visalia-Porterville, CA
- Phoenix/Mesa/Scottsdale, AZ
- Modesto, CA
- Seattle/ Tacoma/ Bellevue, WA
- Sacramento/Arden/Arcade/Roseville, CA
- Fresno, CA
- Yakima, WA
- Tuscon, AZ

Higher density traffic also affects the cost of premium rates on insurance for a vehicle. The top 10 most congested cities are as follows:

- Los Angeles, CA
- San Francisco, CA
- Denver, CO
- Miami, FL
- Phoenix, AZ
- Chicago, IL
- San Jose, CA
- Washington, DC
- Portland, OR
- Boston, MA

Considering The Type of Auto Coverage

Under normal circumstances, one of the key things to take into consideration on an auto insurance policy is the type of coverage that best covers an individual or individuals. The standard auto insurance policy is usually comprised of six different types of coverage. The fact is that most states only require the vehicle owner to buy some, not all, of the coverages. Which ever policy is chosen, an individual has to pay a certain amount of money depending on the type of coverage chosen for a vehicle.

Coverages on these policies extend to members of the household as well as someone occasionally driving with permission from the named insured. Also covered are rental autos for the same limits provided in the policy. This includes physical damage. A policy holder can usually tell if physical damage is a protected exposure because a premium will be indicated next to each covered auto, and a deductible will be shown as well. Most auto policies are for six months to a year.

Liability
With liability insurance being the most common type of auto insurance, it is normally considered to be the least coverage an individual can take. It is regarded as an important one to cover up to the stated amount if any accident has occurred. The auto insurance company agrees to pay the stated amount to the injured according to the insurance policy unless if injured or hurt in the accident, the individual will not get any coverage and will have to spend the entire amount of the money for medical expenses as well as any damage to the vehicle.

The liability portion can be written one of two ways, ***either as a split limit or a single limit***. As a split limit, bodily injury is written with a limit per person and limit per accident (in the case of multiple injuries), as well as a property-damage limit. These might look something like this, "100/300/100,000". Other limit amounts are also available. Then too, there is uninsured motorist and medical payments.

A single limit policy with “$300,000”, claims will be paid up to this amount regardless of whether it is bodily injury or property damage, or both. Premiums are based on a variety of considerations like, driving records, age of drivers, coverages, types of autos, garage locations, and so on.

Bodily Injury Liability provides coverage for the occurrence of an accident where the insured is at fault. This particular coverage pays for all the medical treatments, rehabilitation, or funeral costs that are incurred by another driver or the other driver's passengers or passengers in the insured's car, and pedestrians. The Bodily Injury liability coverage does protect against the financial loss when an individual is legally responsible for a car accident causing death or injury to another individual.

This coverage amount is a "Split Limit", such as $50,000/$100,000. The first number is the maximum limit provided for 1-injured person. The second number is the limit provided for two or more persons in any one accident or occurrence. In addition, BI also covers legal costs involved in the defense for a covered suit including bail bond expenses, court costs and settlements for non-monetary losses (pain and suffering.).

Property Damage Liability covers repair or replacement of other people's vehicles or property that someone covered by the insured's policy damages in an accident. Each state requires drivers to have property damage liability coverage up to certain specified limits, typically $15,000 per accident.

Comprehensive

The full insurance or the comprehensive auto insurance is a loss/damage-to-the-vehicle auto insurance. Comprehensive pays for replacement or repairs if the insured's car has been stolen or damaged as a result of events such as fire or windstorm. This coverage pays for loss or damage to the insured vehicle that does not occur in an auto accident. The types of damages comprehensive insurance covers include loss caused by fire, wind, hail, flood, vandalism or theft. It bases the monthly payments on the vehicle make and model.

The insuring company covers the insured person against loss or damage to the motor vehicle. This could result from a fire or an explosion or self ignition. The comprehensive auto insurance also covers the vehicle damage from riots, earthquakes or shock damage and other natural calamities like floods, typhoons, hurricanes and hailstorms. However, the package does not include coverage or insurance in the case of consequential loss or depreciation. It also does not cover wear and tear or mechanical and electrical breakdown. If using a highly expensive car then the monthly payments will be high for a standard car but the premium amount will be less. Full insurance covers both the parties involved in an accident.

Full insurance covers up to either the actual cost of repairs or the stated amount. This is, of course, less the stated deductible, when the insured vehicle is damaged in an accident. This auto insurance does not extend help to the insured person in event of accidental loss or damage suffered under the intoxicating influence of liquor and drugs.

Collision

This coverage pays for damages to a vehicle caused by collision with another vehicle or object. It also pays for the repair of the car or the replacement of its specific market value, and this is regardless of who is at fault. Auto insurance collision coverage comes into effect if a car is damaged by an accident. The term, “Accident”, covers anything from the collision with another car to single car accidents and even damage by potholes.

Uninsured Motorist and Underinsured Motorist

Uninsured Motorist *coverage pays for a car's damages when an auto accident is caused by a driver who does not have liability insurance*. This coverage also will reimburse an owner, a member of the family, or a designated driver if one of them is hit by an uninsured or hit-and-run driver. This pays the insured and members of their household for medical costs, rehabilitation, funeral costs, and losses from pain and suffering resulting from an accident caused by a hit-and-run driver, or by a driver who lacks sufficient insurance or who has no insurance at all.

This coverage pays the car's damages when an auto accident is caused by someone who has insufficient liability insurance. Uninsured Motorist Property Damage pays for damage to the insured's property by someone without insurance. Underinsured Motorist Coverage is to provide protection if there is an accident with an individual without enough insurance to reimburse the insured's costs.

Medical Coverage

This coverage pays medical expenses regardless of fault when the expenses are caused by an auto accident. Medical Payment (Coverage) pays physicians and hospital bills, rehabilitation costs, and some funeral expenses for the insured and the insured's passengers. It also pays limited compensation for services needed during convalescence.

PIP

Personal Injury Protection (PIP) is required in some states. This coverage pays medical expenses for the insured driver, regardless of fault, for treatment due to an auto accident. This is actually a broader form of Medical Payments coverage that can cover medical as well as the funeral costs for the insured and members of their household. It also pays a portion of lost wages and the costs of in-home assistance. PIP coverage typically includes expanded coverage of accident-related medical costs. In some states, PIP pays for lost wages and similar losses.

Rental Reimbursement

This type of coverage will pay for a rental car if a car is damaged due to an auto accident. Often this coverage has a daily allowance for a rental car. It also pays for towing the wrecked vehicle after an accident.

Summary

Many insurance policies combine a number of these types of coverage. The higher the coverage limits or lower the deductible amount, the higher the premium. However, an individual should not compromise liability and property damage coverage for a lower premium. Most insurance companies will recommend raising the comprehensive or collision deductible to lower the insurance premium. The laws in a state determine the minimum insurance that is needed for a car. However, extra coverage may be worth the expense. After all, no one wants to be stuck with thousands of dollars worth of bills because of an auto accident.

Types of Vehicles Covered

The types of vehicles covered under auto insurance include two wheelers like motor cycles and four-wheelers, both commercial and private. The latter category includes vehicles that carry goods, passengers and commercial material. The process of procuring auto insurance for one's vehicle begins with the estimated evaluation of the vehicle. This is handled by professional auto insurance evaluators who work with the insuring company. The value of the vehicle is calculated on the basis of the value at which the vehicle can be bought or sold in the current market. This 'market value' is the claimable amount, affected though by the value of the vehicle in the market at the time of the theft or accident.

The Importance of Auto Insurance

Auto insurance is a very important investment, considering the cost of vehicles today. Car insurance is never something to be taken lightly because it provides the safety umbrella of financial security that is required when driving a car. Often, people take the need for insurance for granted because they generally do not have problems driving. In the case of private vehicles, the benefits of the cover can be transferred to the next owner of the vehicle, if the same changes hands.

When the insured sells the vehicle, for whatever reasons, the 'no claim bonus' can be transferred to the new vehicle purchased. Also, on producing proof of sale, the insurance can substitute the new vehicle within the existing auto insurance policy. In the same way, when a second hand vehicle is purchased, the insurance cover can be transferred to the name of the new owner or a new policy can be generated.

Car Insurance and the Law

That little notion about the law is something that should never be overlooked either. Driving without car insurance could lead to suspension of driving privileges and, in some instances, heavy fines or even jail time. As one can see, the state and local governments take matters of properly maintaining one's insurance responsibility seriously. It is simply not an area that should be neglected. Maintaining proper car insurance requirements essentially is an act of protection.

Auto insurance is a contract between an individual and the insurance company. The individual agrees to pay the premium and the insurance company agrees to pay the vehicle owner losses as defined in the policy. Almost every state requires individuals to have auto liability insurance. *All states also have financial responsibility laws* meaning that even in a state that does not require liability insurance; the vehicle owner needs to have sufficient assets to pay claims if he or she causes an accident. If one does not have enough assets, he or she must purchase at least the state minimum amount of insurance.

But insurance exists to protect the insured’s assets. If an individual has financed his or her car, the lender may require comprehensive and collision insurance as part of the loan agreement. 20/40/10 means coverage up to $40,000 for all persons injured in an accident, subject to a limit of $20,000 for one individual and $10,000 coverage for property damage.

Legal Action Against The Insuring Company
The policy says that no legal action shall be brought against the insurance company until there has been full compliance with all the terms of the policy. In addition, under Part A, liability coverage, the policy states the following that no legal action may be brought against the company until:

- The insuring company agrees in writing that the “insured” has an obligation to pay;
- The amount of that obligation has been finally determined by judgment after trial.

Some states are allowing the claimant to sue both the insured and the company thereby disregarding this policy provision.

The Insured’s Right to Recover Payment
Any time the company makes a payment on behalf of the insured because of an accident where another party is at fault, the company assumes the legal rights of the insured to seek reimbursement to recover payment. This is commonly referred to as the “subrogation” clause. This section of a policy gives the insurer the right to take legal action against a third party responsible for losses to the insured's property. So if the claim has been paid, the insurer can sue the party responsible for the damages for that money.

Automobile Financial Responsibility Laws
Most states require car owners to buy a minimum amount of bodily injury and property damage liability insurance before they can legally drive their cars. All states have financial responsibility laws. This means that people involved in an automobile accident will be required to furnish proof of financial responsibility up to certain minimum dollar limits. To comply with financial responsibility laws, most drivers purchase automobile liability insurance. The insurance industry and consumer groups generally recommend a minimum of $100,000 of bodily injury protection per person and $300,000 per accident since accidents may cost far more than the minimum limits mandated by most states.

Financial Responsibility Requirements

To comply with the Financial Responsibility requirements, Individuals must maintain one (1) of the following:

- A motorist liability insurance policy. Insurance cards are issued by an insurer to the policy holder for each motor vehicle insured under a motor vehicle liability insurance policy;
- A $30,000 bond issued by an authorized surety or insurance company;
- A certificate of proof of financial responsibility signed by an insurance agent on a form prescribed by the state Bureau of Motor Vehicles (BMV);
- A certificate issued by the state BMV, after proper application and approval, indicating that money or government bonds in the amount of $30,000 is on deposit with the state Treasurer;
- A certificate of bond issued by the state BMV, after proper application and approval, in the amount of $30,000 signed by two (2) individuals who own real estate having equity of at least $60,000;
- A certificate of self-insurance issued by the state BMV, after proper application and approval, to those with more than 25 motor vehicles registered in their name or a company's name.

Providing Satisfactory Proof of Financial Responsibility

When law enforcement officer’s request Financial Responsibility proof and the motorist cannot provide satisfactory proof at such time, they are given a notice options:

- Sending a copy displaying satisfactory evidence of FR when paying the fine;
- Bringing FR proof when appearing in traffic court;
- Sending FR proof when requested by the BMV.

Failure to comply with proof of FR will initiate a suspension process through the state BMV. Failure to respond to a Notice of Suspension will result in an individual’s driving and registration privileges being suspended, even if the individual was properly insured at the time of the traffic stop.

Seat-Belt Laws

Seat belt legislation is a particular law or laws which are put in place to enforce or to require, the fitting of seat belts to motor vehicles. It may also be for the wearing of seat belts by motor vehicle occupants. Most western countries have some seat belt legislation. The legal requirement to fit seat belts began in Victoria and South Australia in 1964, with the compulsory fitting of seat belt anchorages at front outboard positions in new cars. In 1965 cars built in Europe were required to be fitted with front seat belts. This was followed in 1967, by the requirement in the UK to fit 3-point belts in the front outboard positions, and by the requirement in South Australia to fit belts to the front outboard positions, in all new passenger cars sold.

Seat belt laws can be divided into two separate categories -- primary and secondary. The states that have secondary enforcement average only about a 63% belt use. However, the states that sport primary enforcement belt laws do have a higher average at 78%. There are only some states that have a primary seat-belt enforcement law, which allows law enforcement officers to stop a car for noncompliance with seat-belt laws. The other states have secondary laws; officials can only issue seat-belt violations if they stop motorists for other infractions. Seat-belt use had finally reached a 82% nationwide in 2007, and their was a slight gain from 81% use in 2006. The states that have primary seat-belt laws had an average 87% usage rate, versus 73% in the states that have secondary laws.

Primary seat belt laws allow law enforcement officers to ticket a driver for not wearing a seat belt, without any other traffic offense having taken place. Secondary seat belt laws state that law enforcement officers may issue a ticket for not wearing a seat belt only when there is another citable traffic infraction.

- Primary seat belt laws exist in 26 states, the District of Columbia, Guam, Puerto Rico, the Northern Mariana Islands, American Samoa, and the Virgin Islands;
- Secondary seat belt laws exist in 23 states;
- One state has neither primary nor secondary seat belt laws. That state is New Hampshire. The state does have a primary child passenger safety law covering children under 18.

Affects of Increased National Seat Belt Use

To reduce the annual toll of highway deaths, more than 30 states have passed laws mandating the use of safety belts. All have been effective at raising safety belt use; equipped with different provisions and enforced with unequal care, however, they have done so to different degrees.

Increasing the national seat belt use rate to 90% would prevent an estimated 5,536 fatalities, as well as saving the nation $8.8 billion annually. The costs of hospital care for each driver who is unbelted is 50% higher than those for a driver who always wears a safety belt. This indicates that an increase in belt use from 14 to 40% averts about 13% of fatalities; a more pronounced increase to 50% averts about 18%. An increase from 50-75% averts about 16% of remaining fatalities.

Chapter 2
An Overview of Auto Exposure and Insurance

Automobile Loss Exposure
The ownership, maintenance, or use of automobiles creates both property and liability loss exposures. By and large, these automobile loss exposures are excluded in commercial auto insurance. The automobile loss exposures of most organizations can be insured under the business auto coverage form. In addition to the business auto coverage form, there are two coverage forms designed to meet specialized auto insurance needs.

The garage coverage form is used for “auto businesses” such as car and truck dealers, service stations, and repair shops. The trucker’s coverage form is used to insure businesses that transport the property of others by motor vehicle. Medical losses, property damage losses, lost income, and losses from legal costs, multiplies to billions of dollars annually for automobile mishaps. Automobile insurance protects consumers from serious financial losses resulting from these accidents. The basic types of auto insurance coverage include losses from:

- **Collision --** Pays for repairs of damage to a vehicle caused by a collision with another vehicle or any other object, regardless of responsibility.
- **Comprehensive Physical Damage --** Covers damages to a car resulting from theft, fire, hail, vandalism, or a variety of other causes.

There is a great exposure that a car owner has when owning and driving a vehicle. Below are some auto accident statistics reported by the National Highway Transportation Safety Association:

- 42,642 people were killed in car accidents;
- 5,973,000 (approx.) police reported motor vehicle traffic crashes;
- 2,575,000 people were injured;
- 4,189,000 crashes involved property damage only.

The Item Subject to Loss
The item subject to loss is one or more automobiles in which the owner has a financial interest. The property loss exposures posed by ownership of mobile equipment can be insured under inland marine policies.

The Cause of Loss

The mobility of automobiles means that they are more likely than fixed property to be damaged or destroyed by certain causes of loss. An example is the collision of automobiles with one another or with other objects. This is an exposure unique to motor vehicles. Also for the reason of self-propelling, autos are easier to steal than property of similar size and weight that does not move under its own power. But this factor can also make them less liable for other types of loss. Automobiles may also be subject to many of the same causes of loss that can damage property at a fixed location, such as hail, windstorm, fire, vandalism, and aircraft.

The Financial Impact of the Loss

The main consequences of damage to, or destruction of an automobile are decreases or losses of the automobile's value, and the loss of use of the automobile until it can be repaired or replaced. Auto Physical damage insurance, available under the business auto, garage, and trucker's forms, can be used to cover damage or destruction of an auto. Usually the insurer pays the cost of repairing the vehicle or its actual cash value, whichever is less. If a covered automobile is disabled by a covered cause of loss, the insurer will reimburse the insured, up to a stated limit, for the cost to rent a substitute vehicle. Consequently, the insured can continue operations and avoid loss of income.

No-Fault Automobile Insurance

Through the years, people have become dissatisfied with the law's treatment of negligence. To assume that the responsible party will pay for damages – or that the person causing the loss even has such resources – is not fair to the persons who were not at fault, because they may or may not be reimbursed. Studies have shown that only half of accident victims receive money from the person at fault. Those people who do receive compensation from the other party often receive less than their actual expenses.

To respond to this situation, a number of states have passed what is known as no-fault insurance laws. The laws differ from state to state, but the basic premise is the same. ***The purpose of no-fault insurance is to compensate automobile accident victims regardless of who is at fault***. Under no-fault insurance, injured people recover from their own insurance companies. Fault is not an issue for payment of a claim. When the insured receives compensation from their own insurance companies, however, they are not allowed to also recover from the other party's insurance although the two insurers may work out a settlement. No-fault insurance plans can have a number of benefits both to the insured and the insurer. Some of these are listed below:

- Injured persons probably receive more immediate medical care because they can be sure their expenses will be paid.
- The number of lawsuits is potentially reduced because recovery is easier when dealing with one's own insurance company.
- The dollar value of claims goes down if people are not as likely to inflate claims that might increase their own premium rates.
- The people who are truly injured will be paid and insurance costs may go down if insurance companies do not have to defend fraudulent lawsuits.

Auto Liability Insurance

Automobile liability insurance is designed to protect car owners or drivers when other people are injured or their property is damaged due to the negligence of the owner or driver**.** Liability Car Insurance Coverage provides a fixed dollar amount of coverage for damages that an insured driver becomes legally liable to pay due to an accident or other negligence.

If an insured driver drives into a telephone pole and damages the pole, liability coverage pays for the damage to the pole. In this example, the drivers insured may also become liable for other expenses related to damaging the telephone pole, such as loss of service claims (by the telephone company).The coverage is usually written as a series of three numbers, such as 25/50/10.

25/50/10

The first number above, the 25, indicates the maximum amount the insurer will pay to any one person injured in an accident. In this case, the amount would be $25,000. The second number is the total amount the insurance company will pay for all bodily injuries as a result of an accident. The second number in our equation is 50. This means that no matter how many people are injured, the insurer is limiting payment to no more than $50,000.

The third number tells the total amount the company will pay for property damage in an accident. Thus, the 10 indicated above would mean a payment toward property of $10,000. The amount of coverage can be considerably more than 25/10/10, or it can be less. Many states require car owners and drivers to carry a certain minimum of coverage and the minimum liability limit equation varies from state to state.

Single or Dual Limit Coverage

Automobile liability insurance is offered as single limit coverage or dual limit coverage. ***The single limit coverage provides a single limit of protection for the insured for all bodily injury and property damage*** losses suffered by another party. Examples of limits could be $400,000, $500,000, or $600,000. Dual limit coverage provides a separate limit for bodily injury per person, meaning that there is a separate limit for every bodily injury per accident regardless of the number of people injured or killed.

In addition to that coverage, there is a second limit for property damage resulting from the accident; hence, the name “dual” coverage. Equations are assigned to the policy which denotes the exact dispensation of coverage. For instance, in the equation $100,000/$300,000/$50,000, the insurer agrees to pay up to $100,000 to each person injured, but no more than a total of $300,000 to all injured individuals involved in that accident. The $50,000 refers to the limit agreed upon for the repair or replacement of the other party’s property damaged as a result of the insured’s negligence.

Agents should be sure that when an applicant is in the process of selecting the amount of automobile coverage for which he or she would like to apply, that the potential insured understands the relationship between a court judgment and the insurance sum available for satisfaction of that judgment. In other words, the difference between the amount awarded by the court to a person injured as the result of a driver’s negligence and the amount of insurance the driver carries will be transferred to the responsibility of the driver. If the driver or owner is underinsured, the injured person could seek a judgment against property or savings owned by the driver to pay the amount not covered by the insurance policy.

Combined Single Limit Car Insurance
Single limit auto insurance coverage allows an individual one single amount of coverage that can be used as needed, for either bodily injury or property damage. This one single amount is the most the insurance company will be obligated to pay for damages resulting from one single accident. It can also be termed combined single limit. A combined single limit car insurance policy combines property damage liability coverage and bodily injury coverage under one single combined limit.

An insured driver with a combine single liability limit strikes another vehicle and injures the driver and the passenger. Payments for the damages to the other driver’s car, as well as payments for injury claims for the driver and passenger, would be paid out under this same coverage. General liability policies may offer separate limits applying to bodily injury claims and also to claims for property damage. "50/100/25" is shorthand under such a policy for $50,000 per person/$100,000 per accident for bodily injury claims and $25,000 for property damage.

On the other hand, a combined single limits policy might cover for $100,000 per covered occurrence whether it is a bodily injury or property damage. There is no limit to the number of individuals.

Split Limit Liability Car Insurance Coverage

The split limit liability car insurance policy splits the coverages into 1) property damage coverage and 2) bodily injury coverage. In the example given above, payments for the other driver's vehicle would be paid out under property damage coverage, and payments for the injuries would be paid out under bodily injury coverage. Split-limit coverage uses three numbers to specify the limits for:

- Bodily injury liability for each person;
- Bodily injury liability for a single accident;
- Property damage liability

Split limit coverage splits the coverage amount into three limits, such as 25/50/10. Under the split limit coverage these numbers would mean that the insured has $25,000 of bodily injury coverage per person per accident, $50,000 total for all injuries per accident and a $10,000 limit for property damage done in one accident.

Defining the Difference Between Combined Single and Split Limit -- The difference between a combined single limit policy and a split limit policy is that the split limit requires multiple limitations to the policy while single limit coverage gives that individual one amount of coverage to use as needed for the expenses resulting from an auto accident.

Liability of Additional Drivers

Automobile insurance coverage usually applies to anyone driving the car with the permission of the owner. Drivers who carry automobile insurance are generally covered whether they are driving their own car or someone else's. Additionally, a person who loans his or her car to someone is generally not liable for the driver's negligence. Some exceptions to this would be a company car driven by an employee; a family car driven by a family member; and negligent entrustment, which means that the car was loaned to someone who is known to not drive well, is underage, or has a history of reckless driving.

In response to these laws, the insurance business as a whole provides policies that will meet clients' needs and protect them against claims arising out of an automobile accident. In fact, nearly half of all property-liability insurance written in the United States is in the area of automobile insurance.

Policies have provisions to cover damaged property, medical expenses to injured persons in an accident, and damage to the vehicle from fire or theft, to name a few. The premiums underwritten for these policies are determined by the amount of protection desired by the applicant and the risks or hazards which the potential insured presents. Another provision that an automobile policy might contain could be liability coverage for persons who have legal responsibility for the actions of a driver, as in the case of parents who are responsible for their children. Coverage usually includes legal defense costs, in addition to the policy liability limits. Many policies exclude coverage for the time an automobile may be driven in a foreign country.

Exclusions

Automobile liability insurance policies often include clauses which are designed to exclude coverage for specific persons or for classes of persons. Policies commonly state that the liability insurance does not apply to bodily injury to any insured or any member of the family of an insured residing in the same household as the insured. Sometimes, an exclusion may be included which specifically applies to the named insureds. The clause may state that coverage does not apply to bodily injury to or the death of any person who is a named insured.

In the absence of any contradictory statutory provisions, the courts usually uphold these provisions, restrictive though they may be. Legislation, which requires specific coverage to be provided, would be considered a contradictory statutory provision. Coverage terms are designed to exclude liability for insurers when tort claims are asserted against other named insureds or against additional insureds by a named insured or by any family member in the same household. These provisions sometimes exclude friends, as well.

Liability Exclusions

There are several liability exclusions that should be considered:

- Intentionally inflicted bodily injury or property damage is excluded. It would be bad public policy to allow persons who deliberately cause damage to be protected.
- Property owned by the insured, rented by the insured, or in the care and custody of the insured is usually excluded, primarily because it ought to be covered elsewhere.
- Business usage of the automobile is also usually excluded, including renting the vehicle out for hire or in use by employees for business reasons.
- The policy form excludes coverage for persons who use the car without the belief that they were authorized to do so.

Chapter 3
Declarations and Definitions of The Auto Policy

The Declarations Page

Every insurance policy is a separate contract between an insurance company and a customer. **.**. When a new insurance contract is considered by the insurance underwriters the "Declarations" page is issued to the insured. Every property and casualty policy has a declarations page that states the name of the insurance company; the name or names of the insureds; coverages; effective date; etc.

This is probably the only page of the policy the insured reads. Agents should keep this in mind as most insureds really do not fully understand insurance coverages and rely heavily on the agent or CSR to ask the right questions and properly set up the coverages. Certain options and gaps in coverage should be fully explained to the insured.

The First Page of The Policy

The first page of a new policy has listed the policy information such as conditions, exclusions, and endorsements attached. If a policy is renewed and no changes have been made the renewal will be a new declarations page customers should file or attach to the original policy paperwork. Each and every time when the policy renews, it is required that a new declarations page is generated. Declaration pages are very important for the insured, or soon to be insured, to review. The vital information regarding the insurance contract policy will always be listed in the declarations page. Important underwriting information is also often listed on the "dec" page.

Every policy of insurance should include a declarations page which will be, normally, the only part of the policy that is in and of itself unique or specific to the insured. The balance of the insurance policy paperwork most generally will be "forms" with specific company insurance information applying to all policy holders within the company in that particular state. The agent will have a hard or electronic copy of the declarations page. Normally, the typical auto policy declaration page includes:

- The year, make, and model of the insured car;
- The vehicle identification number, VIN for the insured car;
- The names of the insured drivers;
- The policy effective dates;
- The policy coverage types and limits;
- The policy premium.

With an auto policy other important information is usually included such as how the vehicle is used. An auto can be used for business or it can merely be used for pleasure? The lender who holds the loan and has a lien on the car is listed on the declaration as "loss payee" because in the event that the car is completely totaled that loan is always reimbursed first. An automobile policy declarations page has other items listed on it such as discounts or surcharges which are being applied to the policy. Some of these things are the distance to work and then home again or to school and home again may also be listed on the declaration page.

Defining The Declarations Page

Let’s consider the “declarations page”, or sometimes referred to “declarations sheet”, or “the declarations”. This page totally summarizes the coverage so that the insured does not have to go through multiple pages to find out what the coverage is. It is often abbreviated to “dec sheet”. More than likely, this particular page is specially prepared for the individual. When looking at the dec sheet, an individual is going to find all of the information regarding coverage limits for each of the vehicles he or she has insured and how much the premium is for each type of coverage. It specifically identifies the policy with a policy number.

This policy number is found on the declaration sheet in the policy information section at the top right corner. This section also includes the dates of a policy period, and when the policy was first processed. The declaration sheet lists the vehicles an individual is insuring and identifies them by their vehicle identification number (VIN), year, make, model and body type. On the sample declaration sheet, there may be one or two vehicles listed, depending on how many are being insured: one could be a 2004 Pontiac Grand AM 4-door sedan, and the other may be a 2000 Toyota Sion 2-door.

Defining Definitions

Definitions are in most personal auto policies and in homeowner policies. They are there to lend clarification to the terms used in the policy. In reading through the policy the defined words are put in “quotations” so one can go back and refer to the policy definitions for clarification. ***Probably the most important definition to fully understand is the definition of the named insured. It is a good idea to review all the forms that are included in the policy.***

The “named insured” is always shown in the policy declarations page; and the spouse is also shown if he or she is a resident of the same household. The coverage that an estranged spouse would lose if they moved out of the household would be the coverage for driving a non-owned auto. They could still be covered while driving one of the insured vehicles but not covered while driving a non-owned vehicle such as a rental or a friend’s car.

The estranged spouse could also lose uninsured motorist (UM) coverage if they were injured in another vehicle. Under the insuring agreement A of the policy, the definition of the insured is broadened to include any person using the “covered auto”. It is presumed that they have the insured’s permission. Thus a five year old would be covered as there is not an age restriction in the policy.

Personal Auto Form – Definitions Part A

Throughout the policy, the words, “you” and “your” refer to:

- The particular named insured that is shown in the Declarations;
- The spouse if he or she is a resident of the same household.

In the occasion of a spouse ceasing to be the resident of the same household as the policyholder during the policy period or even prior to the inception of the policy, the spouse referred to will be considered “you” and “your” under this particular policy but only until the event of one of these items at an earlier time:

- The ending of 90 days following the said spouse’s change of residency;
- The actual effective date of any other policy listing that the spouse as a named insured;
- The eventual ending of the policy period.

Other definitions that an agent should review are those dealing with the type of vehicle, its use and coverage for a newly acquired vehicle. Some insureds may have changed the use of a vehicle to delivery of food, mail using the vehicle as a livery and found that they had great coverage problems when they had an accident because they failed to advise their agent of this change of use.

Under newly acquired vehicles the policy provides coverage for a private passenger auto or a pickup or van that has a gross vehicle weight of 10,000 lbs. or less and is not used for the delivery or transportation of goods and materials unless such use is incidental to one’s “business” of installing, maintaining or repairing furnishings or equipment or for farming or ranching. In addition, the following should also be noted. If the newly acquired auto replaces a covered vehicle the insured will be covered for liability and has to do nothing.

The replacement vehicle is covered for the same liability coverages as the vehicle it replaced. Should the insured carry physical damage coverages on the vehicle being replaced, the replacement vehicle will only have physical damage for 14 days (some states have 30 days). Beyond this 14-day (or 30) period the insured must report the replacement vehicle to his agent or insuring company, or there would not be physical damage coverage on this vehicle.

If it is an additional vehicle, (a second or third vehicle) it will be covered for 14 days for liability coverage. Physical damage coverage would apply for 14 days if physical damage coverage was carried on another vehicle that is insured by the insurance company.

Let's assume that an additional vehicle has been acquired and no physical damage coverage exists for the other vehicle or vehicles. The insured has only four days to report the vehicle to the company to have physical damage coverage. Beyond the four-day period, the insured would be without physical damage coverage. Should he have a loss, before it's reported to the insuring company to add physical damage coverage, a $500.00 collision deductible would apply.

The same applies to comprehensive losses such as fire, theft, glass breakage etc. Again an individual can refer to the insurer's forms for coverage and clarification of newly acquired autos as many states and companies may differ.

Coverage Parts and Endorsements

Most agents realize that each coverage part in the policy is similar to a separate and distinct policy, each part having its own insuring agreement and exclusions. Each state also has certain modifying endorsements that change the meaning or application of some of the coverages. These endorsements usually modify the cancellation provisions as well as the non-renewal provisions. These are based on the insurance laws of the different states. Sometimes the endorsement changes a coverage part to comply with the law.

Under the uninsured motorist's coverage, which we will discuss in more detail later, there is a provision that requires that there be contact between the insured's vehicle and the uninsured vehicle. In some states this requirement is waived. If someone is run off the road, hits a tree and is injured, the insured could still collect for his injuries under uninsured motorist coverage. The insured would have to prove that the actions of the insured to avoid an accident were caused by a "phantom" driver.

Definitions of Terminology

Accident Forgiveness -- In most states, customers who have not had an at-fault accident in the previous five years qualify for this program. Accident forgiveness means that some insurance carriers will not add a surcharge to the premium after one’s next at-fault accident.

Agent – The agent is a representative out front who sells insurance to a vehicle owner in need of coverage. This agent may sell for one or more companies.

Application – The application is a formal request for insurance where the prospective policyholder gives information about himself or herself so that the insurance underwriter can write up the policy.

Bodily Injury Liability Coverage – BILC is the coverage that pays for another person's bodily injury or death in an accident in which the owner of the vehicle of the insured is one may be found legally liable to pay.

Cancellation – Cancellation or termination of a policy occurs when the insured makes a decision to cancel the policy for whatever reason before its normal expiration date.

Collision Coverage – This coverage pays for any damage to a vehicle in the event that it collides with another vehicle or object or even in the occasion that it overturns. The auto lender will probably not require this coverage even if there is a loan on the vehicle at the time.

Comprehensive Coverage – This refers to the coverage that will pay for damage to or the loss of a vehicle that occurred in a collision. The lender may also make it a requirement to have this coverage if there is a loan on the vehicle.

Covered Expenses – Covered Expenses refers to the losses or to the conditions for which the policy will pay for in the case of an accident.

Declarations Page ("Dec Page") – The insurance policy has various pages included in the document and the Declarations Page is a page which the insurance company sends to the insured in order to show the premium and specific coverage.

Deductible – The deductible is the dollar amount which the vehicle owner must pay out-of-pocket for the claim before the insurance company will pay what is due to the insured.

Endorsement – An endorsement is an amendment which is made to the policy which is being used in order to add, change, or delete coverage. It is also referred to as a policy "rider."

Exclusions –Exclusions are specific situations or circumstances which may be listed in one’s policy that describe when the benefits will not be paid or for which there are no benefits.

Grace Period – The grace period refers to a period of time after the due date in which an individual may pay a premium without accruing a penalty and the policy will remain in force during this period of time.

Insured – The insured refers to the policyholder or a person or persons who are protected in case of a an accident where there is a loss or a claim.

Insurer – The insurer refers to the insurance company which has provided insurance for an individual or family vehicle.

Lapsed Policy – A lapsed policy is one which has terminated because of non-payment beyond the grace period. At that point, the insured, or previously insured must pay another partial downpayment and the payment due in order to reactivate the account.

Liability Coverage – Liability Coverage is the insurance protection that an individual needs to purchase in order to pay for the claims or judgments which may be brought against the insured vehicle owner.

Medical Payment – The medical payment coverage is the part that pays for the limited medical expenses in the case that the insured or a member of the insured's family or even another individual who is a passenger in the insured's car. This coverage will apply if any one of them is hurt in a car accident.

Non-renewal – The non-renewal notice of the insurance company's is the refusal to renew the policy prior to the time of the end of the policy term.

Policy – The policy is the contract form which is issued by the company in order to explain the coverage that has been provided by the insurer. This is considered to be a legal document.

Premium – The premium is the price that is charged for insurance coverage and it is set by the underwriter of the insurance company dependent on various factors.

Property Damage Liability – Property Damage Liability pays for the damage to any other person's car or property. This property is not particular a vehicle as it may be fences, buildings, utility poles, signs, and trees.

Rental Reimbursement – This particular coverage is an optional policy benefit that will pay the rental fee if the owner must rent a vehicle for a reasonable time during the period in which a vehicle is in the repair shop.

Settlement – Settlement refers to the deal of negotiating on the price of repair, etc then reaching the same amount agreed upon that is to be accepted from the insurance company for the full payment for a loss.

Total Loss – Total loss refers to when the cost of repairing a vehicle that approaches or even exceeds the vehicle's actual cash value at the time of collision.

Towing and Labor Coverage – This particular coverage reimburses the insured in the occasion that his or her vehicle breaks down or may be damaged severely enough to be towed to a repair shop or to some other location such as a junk yard.

Underinsured Motorist Bodily Injury (UIM) Coverage – UMBI coverage pays for the differences that may occur between an individual UIM limits and also the liability limits of the at-fault driver. This is true if the limits are lower than the UIM limits. The law does require that this coverage in the case that one purchased higher limits of the uninsured motorist bodily injury coverage (UM).

Uninsured Motorist Bodily Injury (UM) Coverage – This type of insurance covers the bodily injury which may be caused by a hit-and-run driver or any at-fault driver who may not have auto liability insurance coverage.

Uninsured Motorist Property Damage Insurance (UMPD) – This type of insurance covers any particular damage to a vehicle that may be caused by any identified, at-fault, or an uninsured driver. Norma, this particular option is offered only in the occasion that one makes the choice not to purchase collision coverage.

Youthful Driver – When considering driving youth, most of the insurance companies charge higher rates for the young drivers who are the ages of 16 and 25.

Chapter 4
Medical Payments Coverage

The auto insurance medical payment coverage refers specifically to exactly what it sounds like. It is the claim covers hospital costs and continuing care. What percent that the insured can expect to be paid out on claims such as these depends on the policy he or she held.

Medical Payments Coverage

Medical payments coverage in an auto insurance policy pays for medical expenses (and sometimes funeral expenses) resulting from an accident for the vehicle owner and others riding in the car. It also pays for when injured while riding in another's car or while walking. It makes no difference if the accident was the insured's fault or not, nor does it matter whether the insured or the covered family members were struck while occupying a vehicle or while a pedestrian. The policy's basic unit of coverage is $1,000, but one can expand the coverage to $10,000 for a reasonable premium increase. It may also cover funeral costs. It also pays for the policy owner and family members injured while riding in another's car or while walking. The policy covers:

- the insured and family members of the insured
- injuries while occupying the covered auto, including getting into and out of the car
- the insured and named family members while pedestrians
- other persons while occupying the covered automobile

Medical payment coverage pays for the treatment of injuries to the driver and passengers of the policyholder's car. At its broadest, Personal Injury Protection (PIP) can cover medical payments, lost wages and the cost of replacing services normally performed by someone injured in an auto accident. It may also cover funeral costs.

Policy Part B--Medical Payments Coverage

Each coverage part in the Personal Auto Policy has its own insuring agreement with exclusions. Medical Payments coverage is no exception. This coverage is usually optional in most policies. Some agents suggest that it may be more prudent to carry higher liability limits than to carry Medical Payments Coverage since most people are covered under some form of health insurance plan. In today's world of litigation, taking the premium that would usually be spent on Medical Payments Coverage and purchasing higher liability limits may be the thing to do.

Insuring Agreement

The insurance policy contains a general insuring agreement consisting of a broad statement listing the perils and risks covered under the contract. It also identifies exclusions, which are specific events and circumstances which the policy will not cover. It will contain definitions to help make the coverage clear and prevent misunderstandings. The insuring agreement is the section that identifies the promises or the guarantees that are coming on behalf of the insurer. The insurer will pay reasonable expenses incurred for necessary medical and funeral services because of "bodily injury":

- Caused by an accident;
- Sustained by an "insured";

"Insured" as used here means the Insured or any "family" member:

- While "occupying" it;
- As a pedestrian when struck by a motor vehicle designed for use mainly on public roads or a trailer of any type.
- Any other person while "occupying" "one's covered auto".

Part B 1, obviously covers the insured and any "family" member while occupying a vehicle or being struck as a pedestrian. The insured does not necessarily have to be in his vehicle. The insured and family members are covered in any vehicle except those that are not designed primarily for use on public roads such as an all terrain type vehicle designed for off road use as well as those with fewer than four wheels thus excluding injury on a motorcycle. This is the first exclusion.

Part B 2, provides coverage for any other person while occupying the vehicle such as a friend or other relative. Most adjusters like medical pay coverage because they consider it a "good will" type coverage since fault does not have to be established and they can immediately pay the medical expenses that could help avoid a lawsuit in the future.

Requirements

Not all states require the vehicle owner to have this type of coverage. ***Twelve states and Puerto Rico recognize "no fault" insurance***. These states have a form of medical expense coverage called Personal Injury Protection (PIP) which may cover medical bills and other losses like lost wages, child care, etc. Most people cull together help with their medical bills from a number of sources, including health insurance, auto insurance and personal savings. Serious accidents are often accompanied by a lack of income as well. Any state that has the laws on their books of being a "No-fault states" may allow one to make one's health insurance the primary medical coverage which will reduce premiums even further.

Considering Health Insurance and Medical Payment Coverage

If an individual already has sufficient health, life or short/long term disability insurance, he or she may consider eliminating or purchasing decreased amounts of medical coverage from the auto insurer. However, unlike one's healthcare coverage, medical payments coverage is not generally part of an HMO or PPO and may provide greater flexibility in care.

Limit Of Liability

The limits of liability for medical payments apply "per person" no matter how many people are injured in the same accident. Nor is there a limit for the number of accidents during the policy period. There is a clause in the policy regarding duplicate payments received under any other coverage parts of the policy such as liability, uninsured motorists and underinsured motorists coverage. So the insured can only collect once under the policy.

It is generally accepted that the state minimum policy limits are not enough. It is generally believed that for the average driver the best liability limits to have are 100/300/100. This means:

- 100,000 per person for bodily injury;
- 300,000 per accident for bodily injury;
- 100,000 per accident for property damage.

When considering most areas, the medical treatment is normally about the same range. The last limit, per accident for property damage, is probably the one that may be the best for the insured to take into account if someone is not, maybe the average driver. If one lives in an area where there is a high likelihood that if there was an accident, and property damage may exceed 100,000, it is a good idea for the individual to consider higher limits. Property damage is the other person's car and any other property damaged during the accident when at fault.

Bodily Injury Liability Insurance Needed

The different carriers may offer varying amounts of bodily liability insurance coverage for one individual vs. another individual. Some offer a choice between $100,000 and $500,000. The smaller amount covers one person per claim; the larger amount takes care of everyone injured in an accident. Other carriers are more specific, offering a cap per person and another cap per accident. For example, one may find a policy that stipulates $200,000/$500,000. This means that the most they will pay in the event of an accident is $200,000 per person with no more than $500,000 per accident. In the event of an accident, the possible offset costs make the monthly fee for this particular coverage a good investment.

Personal Injury Protection

Some states have enacted some form of "no fault" liability laws. New York and Florida are examples. The purpose is to reduce the number of lawsuits and pay the insureds for their loss in a timely fashion. Personal injury protection covers losses due to bodily injury. It pays for medical and funeral expenses as well as loss of income. The insureds collect from their own insurance company. Legal liability does not have to be established. Most no-fault laws have a threshold when once exceeded, the insured can sue the negligent party. Serious injury such as disability, loss of a limb, etc. can also allow the injured party to sue the negligent driver. Loss of income has its limits that vary by state with some allowing the insured to purchase additional coverage. Most pay 80% but subject to a maximum limit per month.

Bodily Injury Liability

Bodily injury liability insurance covers the insured in the event that he or she causes an accident that hurts someone else. The bodily injury liability insurance will cover the medical costs of any physical injury that may be incurred by passengers in the car or in other cars after any particular accident for which the insured is basically responsible. All individuals listed on the policy are also covered when driving someone else's car with their permission. It pays legal defense costs and claims against an individual or his or her car injures or kills someone. Covers family members living with the policyholder and others driving with permission. It's very important to have enough liability insurance, because if the policyholder is involved in a serious accident, he or she may be sued for a large sum of money. ***Nearly everyone on the road needs bodily injury liability insurance***. Besides this, most states require at least a minimal amount of coverage.

Exclusions

- Sustained while "occupying" any motorized vehicle with fewer than four wheels. Therefore, injury on a motorcycle is not covered.
- Sustained while "occupying" "a covered auto" when it is being used as public or livery conveyance. This exclusion does not apply to a share-the-expense car pool. This tracks with the previously discussed liability exclusion dealing with using the vehicle as a public or livery conveyance. The Personal Auto Policy is not designed to cover this type of exposure. Using the vehicle as a livery indicates no coverage if the vehicle is for hire by the public. If the insured were occasionally using the vehicle to deliver goods for his employer then this exclusion would not apply except where workers compensation coverage would pay.

- Sustained while "occupying" any vehicle located for use as a residence or premises. The intent is to exclude using a vehicle as a premise for an extended period of time. A camper used for a two-week vacation would not be excluded. The policy, however, does leave some gray area as to the length of time a camper type vehicle could be used as a residence. Some people have a permanent residence but may travel as much as nine months during the year with their camper or motor home. Clarification of coverage from the company should be obtained in writing before advising the insured as to their coverage.
- Occurring during the course of employment if workers' compensation benefits are required or available for the "bodily injury". This completely excludes work related injuries whether the employer carries workers compensation or not. The policy is not designed to cover these types of claims.
- Sustained while "occupying", or when struck by, any vehicle other than the "covered auto"):
  - Owned by the insured; or
  - Furnished or available for regular use.

  This is similar to the liability exclusion in that vehicles owned by the named insured are to be listed on the policy and coverage purchased for coverage to apply. If the vehicle is furnished or available for regular use then coverage does not apply.
- Sustained while "occupying", or when struck by, any vehicle (other than "the covered auto") which is:
  - Owned by any "family member"; or
  - It is furnished or even available for the regular use of each "family member". However, this exclusion does not apply to the insured. First, the policy excludes coverage if the insured owns other vehicles and does not provide medical payments on those vehicles and is injured in one of those vehicles. Part B excludes coverage if the family member is injured in a furnished vehicle but the exclusion does not apply to the "named insured". The same discussion stated in the liability section regarding "furnished or made available" also applies to medical payments. If permission must be granted each time the vehicle is being used then this exclusion would probably not apply.
- Sustained while "occupying" a vehicle without the reasonable belief that the "insured" is entitled to do so. This exclusion (7) does not apply to a "family member" using "the covered auto" which is owned by the. Should the insured drive or otherwise occupy a vehicle without obvious permission and is injured in an accident, coverage would not apply. However, should a "family member" drive an insured vehicle owned by the "named insured" without permission and is injured in an accident, then coverage would apply.

- Sustained while “occupying” a vehicle when it is being used in the “business” of an “insured”. This exclusion (8) does not apply to “bodily injury” sustained while “occupying” a:
  - Private passenger auto;
  - Pickup or van that an individual owns; or
  - “Trailer” used with a vehicle described in a. or b. above.

  The purpose of this exclusion is to eliminate coverage where the insured is operating a nonowned vehicle for business use. Should the insured be injured in a large truck, then coverage would not apply. The exclusion makes an exception for private passenger autos (whether owned or not), a pickup or van owned by the named insured and trailers being used being used either a private passenger auto or pickup truck or van. The remaining exclusions, 9, 10, and 11, deal with excluding coverage for nuclear weapons, war, nuclear reaction, radiation, and while competing in racing inside a facility designed for racing.

Summary

There are some coverages which are required either by law or some other entity. One ove these coverages is Bodily Injury Liability insurance. This is required in order to protect the individuals if their vehicles cause an injury or death to any other person. When an individual has Bodily Injury Liability coverage, he or she must select the specific limits, to determine the maximum amount that the insurance company will pay in the occasion that the insured must use this insurance coverage.

The limits in an insurance policy are described in one of two ways -- either as split limits or as a combined single limit (CSL). There are exceptions that the insured must consider in order to make an educated decision of what to have covered particular in regards to what is covered by Bodily Injury Liability coverage. These coverages are quite standard throughout the industry. For instance, no liability policy will protect one against intentional acts.

There are some of the specific types of claims that bodily injury liability coverage would cover. These may include items such as medical bills, loss of income or pain and suffering. When a serious accident occurs, it is important for the insured to have enough insurance to cover any judgment that may be a resulting factor from a lawsuit. The reason for this is so that personal assets will remain safe and secure.

Chapter 5
Auto Damage Coverage

Generally speaking Insurance is a promise of compensation to the insured from the insurer for any specific potential future losses which the insured may have in the exchange for an ongoing periodic payment. The design and purpose of insurance is to protect the financial well-being of an individual, of a company or any other entity in the case of unexpected loss.

Some forms of insurance are obviously required by law, while others may be optional. The process of agreeing to any or all of the terms of an insurance policy is what creates a contract between the insured and the insurer. In exchange for payments or sometimes called premiums, from the insured, the insurer agrees to pay the policy holder a sum of money upon the occurrence of a negative specific event involving the insured's vehicle. Generally speaking, the policy holder pays part of the loss which is called the deductible.

The insurer pays the rest of the costs of the loss. Comprehensive Coverage helps pay for losses to an insured car due to a fire, a theft event, or other losses that are not the result of a collision as may be stated in the insured's policy. A deductible can apply depending on the insured's requests at the start of the policy. In most states this is an optional coverage and is not usually a required coverage.

Auto Physical Damage

Coverage D can be defined as collision and/or comprehensive. The collision part of the coverage provides protection to the insured of damages up to the actual cash value of the vehicle if an individual is hit by another vehicle. Comprehensive covers all risks (other than collision), including fire and theft. Auto Physical Damage insurance, available under the business automobile, garage, and trucker's forms, can be used to cover damage or destruction of an auto.

Ordinarily, the insurer pays whichever is less the cost of repairing the vehicle and its actual cash value. If a covered auto is disabled by a covered cause of loss, the insurer will reimburse the insured, up to a stated limit, for the cost to rent a substitute vehicle. Consequently, the insured can continue operations and avoid loss of income. Some other auto exposures could be:

- Auto No-Fault;
- Uninsured Motorists;
- Auto Medical Payments.

Auto Physical Damage (APD) coverage does provide comprehensive and collision coverage vehicles.

Auto Physical Damage Coverage Limit
Auto Physical Damage Coverage Limit mean the Property Coverage Limit for the General Property Coverage Section which shall be applied in the manner set forth therein to all Covered Auto Physical Damage Claims and/or to all Covered Property Claims involving Property Loss (including Auto Loss) arising from a single Property Loss.

Duties After An Accident Or Loss
This is standard in most all property and casualty policies. The insured must promptly notify the company in case of a loss with full details. The insured must cooperate with the company in its investigation. The insured must protect the property from further damage. The company will pay these additional costs. For example, if the insured has an accident on the interstate, the company will pay the towing expense to take the vehicle to a safe place. Should the insured fail to report a claim, the insured may forfeit his coverage. The company deserves the right to obtain prompt notice to properly investigate the claim.

Often times there may occur a slight accident where no apparent damage is visible. The air bags did not deploy, which would indicate a minor impact. The operators exchange basic information and go on their way. The other party to the accident sues one year later. The company had no opportunity to gather the facts and will probably issue to the insured a "reservation of rights" letter. This tells the insured that the company will investigate the claim but reserves the right to withhold payment if its rights have been compromised because of the late reporting of the claim.

Policy Part - D- Coverage for Damage to an Auto
This section of the policy deals with the physical damage to an owned and\or, non-owned vehicle. Those vehicles shown on the declarations page are the only ones covered with the exception of some non-owned autos. On the declaration page the deductible applicable to collision and comprehensive coverage will be shown. Usually the deductibles will be different.

The higher the deductible, the lower the premiums will be for these coverages. An agent should point out that there is a point where the savings in premium is not worth increasing the deductible too high. Most agents do not suggest a deductible for collision of over $750.00 or a comprehensive deductible in excess of $100.00. In some cases the type of vehicle (like a Mercedes), might justify a higher deductible. It is good to understand when there are other applicable insurance coverage policies in affect by the other individuals involved in the accident. The policy coverage may be limited to only the insurance company's share of the loss.

Insuring Agreement

The agreement states that the company will pay losses that are direct and accidental to “your covered auto” or ***any “non-owned auto***,” including their equipment less the deductible. We will see later that certain types of equipment are not covered and that the basic coverage is designed to cover the equipment that comes in the vehicle from the factory. Another example would be where the insured has added a camper type body to a pick-up truck.

Perhaps the insured ***owns a van and has customized it with special decals, painting or other accessories***. If loss to one or more of the owned vehicles or non-owned vehicles are involved in the same loss, then only the highest deductible will apply to the loss. The agreement states that the company will pay for loss to “your covered auto” caused by the following:

- Other than “collision” only if the Declarations indicate that “Other Than Collision” coverage is provided for that auto.
- “Collision” only if the Declarations indicate that Collision Coverage is provided for that auto. If there is a loss to a “non-owned auto”, we will provide the broadest coverage applicable to any “your covered auto” shown in the Declarations.

The policy is discussing two situations where damage to an insured’s vehicle is to be covered -- one as a result of “other than collision” and “collision”. A very important coverage provision regarding a “non-owned auto” is that the policy will pay for damages to a vehicle used by the insured on which no physical damage coverage has been purchased. Perhaps the insured has borrowed a friend’s auto or trailer and causes damage to the vehicle.

If the friend does not have physical damage coverage, then coverage exists under the insured’s policy if the insured has physical damage coverage on his vehicle. The definition of “collision” in the policy is stated as follows: “Collision” means the upset of “your covered auto” or a “non-owned auto” or their impact with another object or vehicle.

If the vehicle rolls over a hill, or strikes a tree or other object, then “collision” coverage would apply. When an insured takes his or her pick-up truck to a building supply company to picks up a load of bricks for personal use and on the way home when he crosses a railroad track the truck drags and damages the rear-end of the truck. This too would be considered a collision loss.

Another type of loss is when an insured is traveling down a highway and a large rock rolls down the hill and stops, but the insured cannot stop in time and hits the rock causing severe damage. This is also a “collision” loss. However, if the rock is still moving, then the insured can claim that this was not a “collision” loss but rather an “other than collision” loss because it could be considered a falling object. The policy states what is not considered a “collision” loss and we call this, of course, comprehensive coverage. This coverage is “all risk” coverage with some exclusions applying. The policy reads as follows:

“Loss caused by the following is considered other than ‘collision’”:

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

The policy gives the insured a choice as to whether to cover the glass loss under the comprehensive coverage or “collision” coverage. Both coverages will have deductibles. In a “collision” loss it is conceivable that if glass is broken, both deductibles could apply. The policy eliminates this problem by giving the insured a choice. Let’s assume the insured has had a minor collision loss that also breaks the windshield. Assume that a relatively high deductible applies to the “collision” coverage and a minor deductible applies to comprehensive coverage.

The entire loss is less than the collision deductible. The insured may still collect for the broken windshield less the “other than collision” (comprehensive) smaller deductible. This coverage is basically “all risk” coverage or as “open perils.” This means that all losses are covered except those excluded. Tree sap, acid rain, scratching, marring, smoke from a factory and other such losses, while at times may seen controversial, are nevertheless in most cases covered because they are not excluded.

<u>The Insuring Agreement and Non-Owned Vehicles</u>

Under the main insuring agreement for physical damage coverage, is included coverage for "non-owned autos. "Non-owned auto" in the policy could be described as follows. Any private passenger auto, pickup, van or "trailer" not owned by or furnished or available for the regular use of an individual or a "family member" while in the custody of or being operated by the individual or any "family member."

Coverage for rental vehicles can be a problem for physical damage coverage. The rental car company holds the renter of the vehicle responsible for damage to the vehicle whether the insured's policy responds or not. Normally, there is very little standardization in their coverages or in their agreements. Unlicensed personnel sell their coverage but sometimes it's safer to purchase their coverage to avoid conflicts in coverage plus to avoid the deductible under the insured's policy in case of loss.

Another problem that could arise is from the length of time the vehicle is being rented. Remember the insuring agreement does not cover vehicles furnished or available for regular use by the insured. What is the permissible period of time before the insurance company considers the vehicle available for "regular use"? Is the fact that it is a rental (usually for a shorter period of time) versus a lease (usually for a longer period of time) a factor?

In the policy definitions it says that an owned vehicle is also one that is leased for a continuous period of at least 6 months. Is this the benchmark time? The policy is simply not clear and the company had every opportunity to avoid this confusion when the forms were drafted. Therefore, it is advisable for the agent to get some clarification from their respective companies on this important matter.

Lastly, under the definition of non-owned auto coverage, the policy continues as follows:

- Any auto or "trailer" the insured does not own while used as a temporary substitute for "your covered auto" which is out of normal use because of its:
  - Breakdown;
  - Repair
  - Servicing
  - Loss; or
  - Destruction

These are fairly self-explanatory and allow the insured to drive a "loaner" from a garage while his auto is being repaired.

Transportation Expenses

The policy provides a limited amount of coverage for the insured to use when his vehicle has been damaged either by a collision or an "other than collision loss" for transportation expenses. They are limited to only $20.00 per day and a maximum limit of $600.00. The insured may use these funds for a rental car, taxi, car pool, or other public transportation. In the case of a non-owned vehicle this could be a friend's vehicle or a rental car that the insured has damaged. The policy will pay those expenses for which the insured is held legally liable. Again, the limit is $20.00 per day with a maximum limit of $600.00.

If the loss is caused by a theft, the policy will not pay anything for a period of 48 hours after the theft. Coverage ends when the vehicle has been recovered or when the company pays for the theft loss. This applies to an owned auto as well as a non-owned auto. For losses from other than theft, the company will pay only expenses beginning when the auto is withdrawn from use for more than 24 hours.

Collision

The Collision Coverage pays for damage to a car resulting from a collision with another car, object or as a result of flipping over. It also covers damage caused by potholes. Collision coverage is generally sold with a deductible of $250 to $1,000—the higher a deductible, the lower the premium. A deductible can apply depending on the insured's requests at the start of the policy.

Even if the auto owner is at fault for the accident, the collision coverage will reimburse the owner for the costs of repairing the car, minus the deductible. If the policyholder is not at fault, his or her insurance company may try to recover the amount they paid him or her from the other driver's insurance company. If successful, the policyholder will also be reimbursed for the deductible. In most states this is an optional coverage and is not usually a required coverage.

The physical damage section of the policy insures the covered automobile for damages due to collision or any other peril, such as theft or weather. The policy can cover all the physical damage to the car. This is usually provided under comprehensive coverage, which is really coverage for all risks of physical damage. Collision is a separate coverage item that includes damage to the auto from a collision with another car or any other object. At that time, the comprehensive coverage covers the losses due to the fire, a theft, vandalism, storms, the act of hitting animals, and explosions. The collision coverage is normally scheduled separately because it will relate to the value of the car. This is important, because not all cars are worth enough to insure against collision.

Comprehensive
This particular coverage will reimburse an individual (the insured) for loss due to theft or damage caused by something else that may have occurred other than a collision with another car or object, such as fire, falling objects, missiles, explosion, earthquake, windstorm, hail, flood, vandalism, riot, or contact with animals such as birds or deer. The fact is that comprehensive insurance normally is sold with a $100 to $300 deductible, even though an individual may want to opt for a higher deductible because that will yield a lower premium.

The part of the insurance policy which is referred to as comprehensive insurance also reimburses an individual in the case that a windshield is cracked or shattered. Insurance companies do have the option to offer windshield repair minus the deductible. States do not require that an automobile owner purchase collision or comprehensive coverage, but if he or she has a car loan, the lender may insist that the owner carry it until the loan is paid off.

Limits of Liability
The limits in the physical damage section of the policy set out how the loss will be adjusted when the insured's vehicle has been damaged. Coverage applies on an "actual cash" basis. Usually, this is the "Book" value of the vehicle, plus sales tax if the vehicle is a total loss. If damaged and can be repaired, then it's the amount necessary to repair the vehicle with like kind and quality parts plus labor.

As respects coverage for a "non-owned trailer" the limit is a mere $500.00. In addition, there is a limit of $1,000.00 for equipment designed solely for the reproduction of sound, including accessories, when installed in areas not designed by the vehicle manufacturer for such installations. The company can allow for depreciation and physical condition in determining actual cash value.

Perhaps there was previous damage to the vehicle. Maybe the insured was rather careless in the manner in which he maintained the vehicle. If a repair or replacement results in better than like quality, the insured, not the company, will pay the difference. Perhaps the insured has insisted on a higher grade of tires as an example.

Payment of Loss
This section deals with how the company will pay the loss. They can pay for the loss with cash. They can repair or replace the vehicle. If a stolen vehicle is recovered, it will be returned to the insured and the company will pay for any damages done to the vehicle as a result of the theft.

No Benefit to Bailee

The No Benefit to Bailee clause says that the insurance will not directly or indirectly benefit any carrier or other bailee for hire. Should the insured place his vehicle in a garage for repair and it is destroyed, the garage is not covered by the insured's policy. The insured and his company would have a right of subrogation against the garage for the damages. Both the insured and his company would want and expect the garage, acting as a bailee, to pay for the damages.

Appraisal Clause

Similar to the same clause in property insurance policies, the auto policy also contains an appraisal clause. When the insured and the company cannot agree on the value of the loss, each party will select an appraiser. They will select an umpire and submit their differences, if any, to the umpire who will determine the value of the claim.

Exclusions

There are 14 exclusions under this section of coverage. Many of these exclusions we have already reviewed in other sections of the policy so a very brief mention is all that is needed for those. Others will be discussed in more detail to add clarification plus some examples of controversial claims. The following are the exclusions:

- Using the vehicle as "public or livery conveyance" is merely a continuation of the same application of this exclusion seen in the other sections of the policy.
- Damage due to and confined to:
  - Wear and tear:
  - Freezing;
  - Mechanical or electrical breakdown or failure;
  - Road damage to tires.

Exclusion 2 does not apply if the damage results from the total theft of "your covered auto" or any non-owned auto".

The wear and tear exclusion has caused a great deal of controversy. The clause begins with "damage due and confined to". Many in the industry feel that only the part that failed, froze or otherwise broke is all that is excluded. In other words, the other parts of the engine would be covered if additional damage resulted. For example, the threads that hold the oil filter in the motor have worn out, the oil filter falls out and all the oil drains out of the motor. The actual loss is confined to the threads of the oil filter. It is felt by many (though not all) that the resulting damage is covered.

Time is apparently a factor as respects wear and tear but not so much as with mechanical breakdown and the road damage to tires. Assume an insured has gone off an icy road and becomes stuck and starts to rock the vehicle back and forth to extract himself. He puts the car in drive and then reverse. Finally, the transmission fails. Is this covered by "other than collision"? Some feel if the vehicle is relatively new then the loss could not have been caused by wear and tear or by mechanical breakdown. Even though the insured actually caused the loss it would have to be shown that it was his intent to cause the damage. Again, this is very argumentative.

- **3 --** This exclusion deals with war, nuclear hazards and risks etc.

- **4, 5, and 6. --** These deal with the exclusion of certain electronic equipment. Basically, the form excludes coverage for loss to electronic equipment used to reproduce sound and their accessories such as tapes, discs, etc. The form states these are excluded unless the equipment is "permanently installed". That is the key word. Items that are not "permanently installed" create an easy target for thieves. If permanently installed, then the accessories are also covered. Exclusion 5 lists several items that are excluded even if they are "permanently installed with the exception of a "permanently installed telephone". These are as follows: citizens band radio; telephones, two-way mobile radios; scanning monitor receivers; television monitor receivers; video cassette recorders; audio cassette recorders; and personal computers. Coverage can be purchased for many of these items by paying an additional premium.

- **7 --** A total loss to "your covered auto" or any "non-owned auto" due to destruction or confiscation by government or civil authorities. This exclusion does not apply to the interests of Loss Payees in "your covered auto". An example of an excluded loss would be one in which drugs were found in the insured's vehicle and the government seized the vehicle. The insured is not covered but any loss payee would be.

- **8 --** This exclusion deals with physical damage to trailers either owned or non-owned by the insured. The insured is not covered for damage to an owned trailer and its accessories unless the trailer is shown on the declarations page and a premium paid. We already know that coverage is automatic for liability coverage. The exclusion does not apply to non-owned trailers, but the policy limits coverage to only $500.00 so the agent and the insured should use caution when a non-owned trailer is involved for physical damage coverage.

- **9 --** This exclusion deals with the reasonable belief that the insured or family member has permission to operate a “non-owned” auto. We have already discussed the permission clause in other sections of the policy.

- **10 --** The policy excludes coverage to equipment designed or used as a radar detector.

- **11 --** This exclusion eliminates coverage for custom furnishings or other equipment the insured has added to the vehicle. Items such as special carpeting, furniture, murals or other type paintings or decals can be covered by paying an additional premium. An exception is made for pick-up truck liners and caps, so they are covered.

- **12 --** This exclusion eliminates physical damage to a “non-owned auto” being maintained or used in the business of selling. repairing, servicing, storing or parking such vehicle. This includes road testing or delivery. Insureds with this business exposure must be covered under a form of physical damage coverage for garage type operations called garage keepers liability. Should the insured be a mechanic working in a garage and has an accident with a customer’s vehicle, coverage would be excluded for the mechanic and garage.

- **13 --** This exclusion eliminates coverage for an insured vehicle being used in a facility designed for racing in a pre-arranged race or speed contest.

- **14 --** This exclusion eliminates coverage to a rental car company where the insured has purchased coverage with the rental car company. When a vehicle is rented, the insured has a choice to either choose the physical damage waiver and purchase the rental car company’s insurance or not purchase their insurance. In the rental agreement the rental car company has agreed to waive its right against the insured or family members for physical damage to the rental vehicle should the waiver coverage be purchased.

Definitions For Auto Damage Coverage

- “**Collision**” means collision of one’s insured car with another object or upset of one’s insured car. Loss caused by missiles, falling objects, fire, theft or larceny, explosion, earthquake, windstorm, hail, water, flood, malicious mischief or vandalism, riot or civil commotion, colliding with a bird or animal, or breakage of glass is not deemed loss caused by **collision**. If breakage of glass results from a collision, however, one may elect to have it treated as a **loss** caused by collision.

- “**Loss**” refers to the direct and/or accidental loss of the insured’s car or damage to an insured car, including its permanently attached equipment.
- “**Your insured car**” must include any other car or utility trailer not owned by or furnished or available for the regular use of “**you”, the insured,** or a relative, while used by “you” or a relative, provided the use is with the permission of the owner.
- “**Uninsured motor vehicle**” is any motor vehicle not insured by a property damage liability bond or policy at the time of the accident. On the positive side, it means:
    - a hit-and-run vehicle whose operator or owner is unknown; or
    - a vehicle owned by or furnished or available for regular use of you or a relative.

Chapter 6
Uninsured and Underinsured Motorist Coverage

Uninsured motorist insurance and Underinsured motorist coverage are types of insurance that protect an individual or individuals against damages and injuries caused in an automobile accident where the other driver's liability car insurance coverage is inadequate. In most states neither uninsured or underinsured motorist coverage is required. On the other hand some states require one or the other. Both uninsured and underinsured motorists coverage is often required in *"no fault"* auto insurance states. Because of the different requirements in the states, most insurance companies will automatically include both in their standard auto insurance policies.

Defining the Uninsured Motorist Insurance

Uninsured motorist insurance is now included in almost all automobile insurance policies. It is a first-party accident insurance. The insurance company pays insurance benefits to the persons who are identified as insureds in the policy terms. It is also a fault-based insurance, since the coverage for these insureds only applies when they are legally entitled to recover damages from an uninsured motorist or from a hit and run driver. Uninsured motorist insurance provides coverage for three classes of insureds:

- the named insured and members of his household;
- persons who are injured while occupying an insured vehicle;
- persons who sustain damages as a result of personal injuries sustained by persons who are class (1) or class (2) insureds.

Uninsured motorist coverage has generated an inordinate amount of litigation. The provision that spouses, relatives, or family members are covered only if they are residents of the same household as named insureds has been created countless court cases. The phrase “residents of the same household” really has no precise meaning. When residency is used in a provision that limits the scope of coverage, that is, when it is an exclusion, the courts generally interpret the phrase so narrowly that it restricts the scope of the coverage reduction. The courts interpret the term “resident” in favor of coverage and typically rule to provide indemnification to injured persons.

Insuring Agreement

The insuring agreement states that the company will pay compensatory damages which an “insured” is legally entitled to recover from the owner or operator of an “uninsured motor vehicle” involved in an accident and causing “bodily injury”. Any judgment for damages will not be binding on the insurance company without their consent.

So if an insured settles with the uninsured motorist, without the consent of the company, then coverage is voided. It is not clear as to the purpose of this provision since it is often the court and not the company that determines the award the insured, family members or other persons occupying the insured's vehicle at the time of the accident will receive. The coverage applies to the insured, family members and any other person occupying the covered auto.

An uninsured motorist is a driver who does not have liability coverage at the time of an auto accident. This includes a vehicle operated by a driver, often identified as, "an unidentified hit and run driver". This hit and run driver collides with an insured or family member or the insured's auto or any other automobile occupied by the insured or a family member. This can also include someone who is inadequately insured (not enough coverage) or someone who has invalid coverage at the time of the accident.

Exclusions

The definition just given does not, however, apply to vehicles owned by the insured or any family member, vehicles operated by a governmental agency, vehicles operated on rails or designed for off road use or vehicles used as a residence. Uninsured motorist coverage generally provides protection for the insured and his or her passengers if involved in a collision with an uninsured driver or if involved in a hit-and-run accident. It is a substitute for the other driver's policy and the insured's complete claim is settled with his or her own insurance company. Uninsured motorist bodily injury coverage often covers the following expenses:

- Medical;
- Lost wages;
- Other general damages;
- Injuries sustained in hit-and-run accidents.

If an individual has been involved in an accident with an uninsured driver, he or she may want to contact an attorney before file a claim with an insurance company to obtain all of the coverage available to not waive valuable legal rights.

Let's look at some exclusions which limit the Uninsured Motorist policy.

- If a family member has primary coverage on their own vehicle, they cannot collect under the insured's policy if injured in the vehicle the insured owns.
- Injuries sustained that are or should be covered by workers compensation coverage are excluded. So an employee using their vehicle in a job related manner would not be covered under his underinsured motorist coverage.

- No coverage for an insured that is struck by his own vehicle that is not insured even though he may have coverage on another vehicle.
- No UM coverage if the insured vehicle is being used as a public conveyance or a livery for hire except for car-pooling.
- Should the insured be injured in a non-owned vehicle, there must be reasonable belief that the insured had reasonable permission to use the vehicle. This limitation does not apply to family members.
- The insured cannot settle with an uninsured at-fault driver without the consent of the insured's insurance carrier. They would void their UM coverage.
- The uninsured motorist's coverage specifically excludes punitive damages on the part of the uninsured motorists and applies only to compensatory damages.

Policy Part C--Uninsured Motorists Coverage

Policy Part c – Uninsured Motorists Coverage has existed since the 1960s and was designed primarily to cover injuries to the insured and family members when struck by a driver that did not have insurance. Many states estimated that as many as 30% or higher of its drivers were without auto insurance and this caused a substantial unfair financial burden on its citizens when injured in an auto accident with an uninsured driver. Many states have now made this coverage mandatory with stated statutory limits of coverage. Some states still allow the insured to reject this coverage in writing, but, it must be a least offered to the insured.

Due to claim activity, because the problem of uninsured drivers still exists, premiums have been constantly increased. When an insured or family member is injured in an accident caused by an "at-fault" uninsured driver, the insured must collect from his own insurance carrier as if it were a liability claim. Sometimes the insured ends up in arbitration or a lawsuit against his insurance company.

Policy Part C. "uninsured motor vehicle means a land motor vehicle or trailer of any type:

- To which no bodily injury liability bond or policy applies at the time of the accident.
- To which a bodily injury bond or policy applies at the time of the accident. In this case its limit for bodily injury must be less than the minimum limit for bodily injury liability specified by the financial responsibility law of the state in which "the covered auto" is garaged.
- Which is a hit-and-run vehicle whose operator or owner not be identified and which hits:
  - The Insured or any "family member";
  - A vehicle which the insured or any "family member" are "occupying"; or
  - "your covered auto"

- To which a bodily injury liability bond or policy applies at the time of the accident but the bonding or insurance company:
    - o Denies coverage; or
    - o Is or becomes insolvent.

First, it can be observed that the first clause indicates that all land motor vehicles and trailers are covered. It does not have to be just another private passenger type vehicle. Secondly the coverage will apply should the at-fault operator carry less than the state required limit of coverage according to their financial responsibility law.

The one that causes the most problems is where there is a hit-and-run operator who cannot be identified. Some states have modified this to include a provision where a "hit" does not have to occur. In this situation the insured must prove that he was run off the road or forced into a line of traffic, for example, by a "phantom" driver and that no contact was made with the insured's vehicle and as a result the insured was injured. Coverage also applies to the insured and family members even if they are pedestrians.

There are six vehicles excluded from coverage. These vehicles are listed below:
- Vehicles owned by or furnished to the named insured or family members -- Vehicles owned by the insured and not insured are not covered. The named insured collect if injured in an uninsured vehicle owned by a family member.
- Owned or operated by a self-insurer, except for an insolvent self-insurer defined by the state.
- So if a self-insurer becomes insolvent and has no assets to honor a claim, the insured's policy would provide uninsured motorists coverage.
- Owned by a government unit or agency. (This is self-explanatory)
- Operated on rails or crawler treads. (Railroads and heavy earth movement type equipment
- would not be covered)
- Designed for use off public roads -- All terrain type recreational vehicles are not covered. All terrain vehicles does not mean SUVS like, Jeeps, Ford Broncos etc.
- Located for use as a residence or premises -- This type of vehicle does not meet the definition of uninsured vehicle. Thus if the insured is camping and is injured in another camper's trailer, coverage would not apply because the vehicle is being used as a residence.

Uninsured Motorist Property Damage

The coverages which were discussed under UM only involve "bodily injury" claims and not "property damage" for the insured. Each state has specific coverages and limits available, but Uninsured Motorist Property Damage coverage typically covers damage to the insured vehicle in an accident caused by a driver who has no insurance coverage. Some forms of this coverage, where filed, offer coverage to an insured's vehicle when struck by an uninsured motorist.

Usually the form will have a deductible in the range of $200.00. If the insured has collision coverage on his vehicle with a deductible of $500.00, he may wish to attempt to collect under the UM coverage instead. Uninsured Motorist Property Damage is not coverage that is sufficient to cover all eventualities including potential car repair/replacement costs and it cannot be considered a replacement for Collision coverage.

Uninsured Motorist Property Damage coverage applies only if an individual is involved in an accident caused by a driver without insurance coverage. Also, it does not handle all incidents that are not covered by Collision because some of the forms may not give the insured a choice to collect under his UM coverage regardless of the deductible difference.

Conditions Under Uninsured Motorist Coverage

This coverage is usually written on a split limit basis. There will be a per person limit and a per accident limit for the total amount the company is obligated to pay for all injuries. The "limit of liability" clause attempts to make it clear that this is the insurer's maximum limit per person and per accident. ***Some states do allow for the "stacking" of limits***. This is when the insured has more than one vehicle with UM coverage applying to each vehicle.

Since the insured has paid a premium per vehicle for the UM coverage, some courts have ruled that the insured is entitled to the UM limit per vehicle. Other limitations deny duplicate payment to the insured under medical payments, underinsured motorist's coverage, or for payments made by an at-fault driver. Lastly, the UM coverage will not apply if the insured is entitled to receive benefits from workers compensation or disability benefits law as previously mentioned.

Limiting the Amount of Recovery

The policy attempts to limit the amount of recovery by the injured parties by stating that if other collectible UM coverage, the injured party is only entitled to receive the highest limit shown on the other coverages. Should the insured be injured in a non-owned vehicle, the coverage under the insured's policy is "excess". If there is more than one policy covering on a primary basis, then the loss will be paid on a pro-rata basis between the carriers. If "company A" writes $100,000 in coverage and "company B" writes $200,000 in coverage and a loss of $50,000 occurs, “company A” would pay 33% of the loss since they have 33% of the total coverage. “Company B” would pay the rest.

Arbitration

Should the insured and the insurer disagree on the amount of payment to the insured, an arbitration clause exists to help settle disputes between the parties. Both parties must agree to arbitration. This only affects two recovery items (not coverage) with one being whether the insured is entitled to recover damages and the other the amount of damages. Each party selects an arbitrator and if they cannot agree then either may request a court to make the decision. Often times the parties end up going to trial.

Underinsured Motorist Insurance

The Underinsured Motorists Coverage protects the insured and the covered family members for the loss he or she sustained after the other drivers coverage has been exhausted. Underinsured motorist coverage (UIM) is not the same as uninsured motorist coverage (UM). So, when the other driver does not have enough auto insurance liability coverage to pay the full claim amount, the injured individual’s insurance takes over. The automobile policy option, covering the insured for property damage and bodily injury, may be, and very likely is caused by another motorist whose insufficient coverage cannot cover these damages. This policy compensates the injured party for the difference between the injury suffered and the liability covered by the insurance of the driver at fault.

UIM applies when the person who caused the accident has insurance but the limits are not high enough to fully compensate for the losses. Richard ran into Mary Louise and had insurance that pays only $25,000 for each person injured in an accident. Mary Louise’s losses are worth $100,000. If Mary Louise had underinsurance coverage, she would be able to collect the other person’s $25,000 and then look to her UIM coverage for the remainder of her damages.

Even if UIM coverage is available, each state has different rules about the way it works. Some states allow the individual’s to "add on" the full UIM limit to the other person’s insurance limit allowing Mary Louise, in the example above, to collect $125,000. It is a fact that other states have "difference in limits" rules requiring subtraction of the other person’s limits from one’s underinsured motorist claim.

This can very well result in a maximum benefit of only $100,000. States vary among themselves as to the rules affecting the manner in which UM and UIM claims are made. Some require UM and UIM claims to be made in court; others allow them to be resolved through arbitration.

The Underinsurance Motorist coverage covers the insured, the insured members of the household and the passengers for injuries, damages or death caused by the negligence of a person with insufficient insurance. If one has an accident with a person whose coverage cannot meet the damages, the policy will meet the difference-up to the limit of liability listed on the policy. The individuals who are covered are:

- The Policyholder;
- Other drivers covered by the policy;
- Passengers.

Summary
If the other driver involved in an accident is underinsured, this coverage typically pays any difference between what the other driver's insurance covers and what the insured's bodily injury coverage will pay. The coverage limits refer to the maximum amount that will be paid per person, per incident, respectively. When limits in the insurance policy which the individual has purchased are lower than an accident's costs, the insured will be responsible for paying the amounts over the limits, unless it may be covered by a health insurance policy. The individuals who should consider this insurance are the ones without health insurance, because if the limits are inadequate, the insured will be responsible for paying the additional amount.

In a number of states, underinsured and uninsured motorist bodily injury coverage are a bundled service. This type of dual-coverage may be mandatory in some states but more than likely it is optional coverage. Underinsured/Uninsured motorist bodily injury coverage pays for medical expenses, lost wage and other damages when one is in an accident caused by a driver who doesn't have enough car insurance or who completely lacks auto insurance coverage. One of the other benefits of this dual coverage is that it pays for injuries that are sustained during a hit and run accident. The individual retains the option to determine the limit for coverage in the underinsured/uninsured motorist bodily injury policy.

Chapter 7
Miscellaneous Coverages For Auto

Supplemental

The adding of supplemental insurance coverages to a basic auto insurance policy may save money the policy owner for a few dollars a month. Many types of insurance may be available today for a variety of vehicles such as a standard insurance and a supplemental auto insurance. Below are some of the supplemental policies which one can purchase.

- Umbrella Coverage
- Pet Injury Coverage;
- Personal Injury Protection;
- Rental, Towing, and More;
- Non-Owned Auto Insurance;
- Sound System Coverage;
- First Party Benefits - Medical (FPB or MEDEX);
- Scooter Insurance Coverage
- Gap Insurance;
- Underinsured Motorist Bodily Injury Coverage;
- Underinsured Motorist Property Damage Coverage;

Umbrella Coverage

Umbrella coverage provides an additional layer of protection above and beyond the limits of the liability covered under an auto. An Umbrella policy can be less expensive than merely raising the limits on each of the policies separately, and sometimes can be issued in higher amounts than the auto insurance company can provide. High coverage limits, such as an Umbrella policy provides, can be very important if the individual has significant assets (home, business, etc.) to protect.

The Umbrella policy protects the insured and others covered against the financial burdens of a catastrophic claim, lawsuit or judgment by (1) providing expanded liability coverage over and above primary liability protection and (2) by increasing the amount of coverage beyond that of the auto insurance and homeowners/renters insurance. An individual still needs auto and homeowners coverage, as insurance companies require certain minimum levels of underlying coverage before they will issue an Umbrella policy.

Pet Injury Coverage

Pet injury coverage is a new variety of supplemental auto insurance. There are many pet lover drivers who drive around with their pets going to the park, a pet store, the vet, or simply for a ride. Some auto companies believe that they should be treated as part of the family. Collision coverage can extend to the owner's dog or cat. If a dog or cat is injured in an accident while riding in a vehicle, the insurer will pay up to $500 to help with veterinary bills and medicine.

This coverage is usually offered with collision coverage and there is no extra charge for having it. Having pet insurance is like a health insurance program for a pet. The way that most plans work is that the owner initially pays the vet bill, and then the insurance company reimburses it. Even though each plan is different because some have deductibles or a maximum amount and other miscellaneous variables, it is important to get all the facts about any type of insurance. Pet insurance typically covers only dogs and cats riding in the vehicle, and is not available yet in all states. Usually the insurance coverage applies only to cats and dogs.

If the accident was not the pet owner's fault, the at-fault driver's insurance will cover the pet with its property damage liability coverage. Under most insurance policies, the pet's injuries will only be covered if the pet owner was not at fault in the accident.

Personal Injury Protection (PIP)

Personal Injury Protection (PIP) provides medical expense coverage in the case that the driver or another individual covered under this particular policy is injured in an automobile accident. PIP may be referred to as a no-fault coverage. No-fault refers to the fact that this policy will be a coverage no matter who caused the accident. PIP coverage pays trauma centers, doctors, hospitals, and a variety of other medical providers directly for treatment of injuries from automobile accidents.

PIP pays for medical equipment which may be needed as a result of an accident. PIP coverage is an optional coverage, not a mandatory coverage, for things which are not usually covered in general policies. The extra things that are covered here are lost wages and childcare expenses. The PIP coverage is effective specifically due to bodily injury that is caused by a covered accident.

While PIP covers medical expenses, it does not always cover costs associated with the injury, i.e. lost wages, costs and funeral expenses. So planning ahead can make a huge difference in the weeks and months following an accident where one is injured. Personal Injury Protection coverage covers reasonable and necessary medical and hospital expenses. But it also covers other things such as loss of services, even child-care expenses, income continuation, funeral expenses.

Rental, Towing and Labor Costs Coverage
This option will help reimburse for towing and other basic roadside-assistance expenses because accidents happen to anyone, at any time, anywhere, and under any condition. It is a good idea to have rental and towing reimbursement because it actually saves money for the insured.

The rental and towing reimbursement can be part of a supplemental auto insurance package. This can be for when the auto owner needs to have a broken down car towed or when there has been an accident and the car is disabled. Rental reimbursement covers the car rental fees when a vehicle is in the shop for repairs. A rent car can cost upwards of $20-$30 a day so a few dollars added to the monthly premium is a good investment. There may be a deductible to be paid before a rental reimbursement is authorized from the insurance company.

Non-Owned Auto Insurance
There is a special type of insurance which those individual who rent car frequently, called Non-owned auto insurance giving a person coverage that is necessary for a rental car. When an individual has to rent a car, he or she will be asked about purchasing the additional insurance. In the case that this individual has already had a collision and comprehension on a vehicle that he or she owns, then this typically will cover a rented vehicle also. But if person auto insurance does not, it will be necessary to purchase the rental company's insurance.

Purchasing non-owned auto insurance has various benefits, as well. An individual can get underinsured and uninsured coverage for accidents which occur where the other driver involved in the accident has little or, in some cases, no insurance. The underinsured and uninsured coverage also covers medical expenses which may be incurred to any of the passengers in the vehicle. There is another type of insurance referred to as non-owned insurance. Non-owned insurance can be defined as a type of supplemental auto insurance which could be purchased from most insurance companies.

Sound System Coverage
If an individual has put a high-end sound system in his or her car, it might be a good idea to consider this special option, which can help protect investment in case it's stolen or damaged.

First Party Benefits - Medical (FPB or MEDEX)
Looking at First Party Benefits, they can be defined as benefits that cover several areas of insurance coverage. It may be similar to medical payments coverage and Personal

Injury Protection, but FPB does help pay for the medical expenses of an individual if he or she or relatives living in the household are injured in an accident. Each state has specific limits and the coverages also vary by state. Generally speaking these services are typically include:

- Related medical and surgical treatment
- Essential rehabilitative services (physical therapy, speech pathology, etc.)
- Necessary dental, psychiatric, psychological, and optometric treatment
- Ambulance and nursing service
- Required medications, medical supplies, and prosthetic devices

Individuals Who Are Covered -- First Party Benefits Medical does provide coverage to the policyholder and also to drivers listed on the policy along with the relatives who may be living in the same household as the policyholder.

GAP Insurance

GAP insurance does have a lot of positive characteristics. One of them is the fact that ***GAP insurance may provide valuable protection during the years of one's car's when it is new particularly when the vehicle owner has a loan or a lease***. So here is the responsibility of the insurance company at the time of a loss.

A GAP insurance policy will pay the difference between what is considered to be the actual cash value of the vehicle and the existing outstanding balance that there may be on the loan or lease. The idea here is that gap insurance will protect the vehicle lease or loan. Some insurers include the benefits of gap insurance in their regular comprehensive automobile coverage. Some policies will actually replace a car for one year or the first 15,000 miles, without depreciation even if he or she did not finance it.

Sometimes a Gap Insurance policy will also pay the regular insurance deductible. If the vehicle has been totaled by some type of accident, flood, theft, fire, vandalism, tornado or hurricanes the insured typically pays, what is called, the actual cash value. That may be less than its actual retail value. It is often considerably less than the actual amount one still owes on a loan or the amount due for a lease payoff. The amount between the insurance deductible and the loss from this financial shortfall is the "gap" which the insured can be left owing.

Let's consider a sample "GAP" policy for Fred:

- Fred chooses a car that costs $25,000 and he drives it off the lot.

- After paying the down payment he owes $24,000 in car payments over 5 years (0% interest loan = $400 car payments).
- Fred purchases physical damage insurance (comprehensive and collision) with a $500 deductible to protect him against damages and loss.
- Then Fred has an accident while he is still upside down on his loan or lease;
- Fred's insurance company determines that the actual cash value of the car is only $22,000, but at the time of the loss he still owes $23,500.
- GAP insurance should pay the difference plus Fred's deductible totaling $2000.

The following items are classified as line items:

- Loan Payoff at the time of accident: $23,500;
- The vehicles actual value at the specific time of the accident: $22,000;
- The deductible: $500;
- Physical Damage Insurance Company pays: $21,500 ($22,000 minus $500 deductible)
- GAP insurance pays the difference between the amount of what is owed and what the Physical Damage Insurance Company pays (plus the deductible): $2000

This insurance is a must for someone who is considering purchasing a new vehicle since a new vehicle depreciates right after it is driven off the dealer's lot. If an individual made a small down payment when buying a car, a gap policy can be a lifesaver as well. Full coverage includes comprehensive and collision but an individual will only receive the market value of his or her vehicle could be as much as 20%-30% lower than the purchase price. In that case, the new car owner could very well be stuck paying the 20%-30%. For a $25,000 car, a 20% depreciation could be $5,000.

Generally speaking, a new car is worth approximately 30% less in 3 months after the day it was purchased. The assumption from car owners that if his or her car is totaled, it will be replaced at the amount that was paid, or perhaps the amount they owe. This is not so. A GAP option (Loan/Lease Gap Insurance) is offered by some car insurance companies to be offered as an optional coverage that may be available with physical damage coverage.

So it is not required by most lending companies who finance cars. They do require full coverage insurance but not Gap insurance, so the owner would have to pay the depreciation difference if they had a total loss of their vehicle and chose not to add Gap insurance to their policy. It is important to also consider these exclusions/policy rules:

- Maximum Limit of Loss of $50,000;
- It is possible that a GAP claim settlement very well may not cover the entire gap due, when the loan's Original Amount Financed exceeds 120% of MSRP on a new vehicle or even considering the NADA Retail Value on used vehicles, plus the 30% of Value which is indeed allowable for Additional Financed Items like Credit Life or Service Contracts;
- The claim settlement will not cover any late charges or other penalties which may be due to a lender;
- The loan amount financed is required to be less than or equal to $100,000.
- The loan term can not be made for a period greater than 84 months;
- The loan must not have a balloon payment due at the end of the term;
- The maximum APR is 12.5%.
- Some insurers consider selling a gap policy at anytime during the lease term;
- It is mandatory that the insured be in compliance with terms of the lease.
- It is true that the gap insurance policy is not honored if the vehicle owner does not have collision and comprehensive insurance coverage.

Even though gap insurance is important for people who buy cars, it is essential for those who lease and besides that gap insurance basically originated with leasing. A typical lease is more common of a purchase situation because the lessee most generally does not have trade-in and usually puts little or nothing down. Similar to a purchase, if the car is a total loss, the vehicle owner owes the difference between what he or she has paid and what is owed on the balance of the lease. Often gap insurance is included in the cost of a lease so the vehicle leaser does not have a choice of providers.

Gap Insurance probably can not be purchased for older vehicles as it is available only for new cars being financed. However, some insurers do provide this policy for older vehicles.

Teenage Auto Insurance

Even though the teenagers may have been a liability to insurance companies through the years because they are high risk and in fact cannot give cheap car insurance for them.

The young teen driver has a positive chance of getting in an accident before the age of 21. Since the insurance companies know this, it is necessary to raise premiums. Even if the premiums cannot be lower, a parent can prevent them from going up by making sure the child is a good driver. If the young driver does not get into any accidents then the premiums will remain at the premium originally set.

The parent can also make sure the son or daughter is a better driver by setting a good example and being a responsible driver himself or herself. Although they are not going to lower the premium considerably here are a few things that a parent should consider that can provide a discount.

- The parent should avoid buying the young driver a sports car;
- -The parent can ask the teen to help pay for part of the premiums;
- -The parent can encourage the student to get good grades because students with a 3.0 GPA actually get discounts of up to 10% in some cases;
- A parent can reduce their rates by purchasing insurance with a higher deductible.

These guidelines may enable a parent to save a little bit of money. Teens lack driving experience so the insurers automatically consider them a higher risk to insure so subsequent the premiums which are assigned are much higher. Statistics show that teenagers comprise one of the biggest percentages of today's drivers who are involved in accidents. The reason for this is that they are lacking driving experience and besides that they do not practice basic driving ethics because of naivety and also for the lack of proper judgments when driving.

They are only interested in joy of driving and never think of consequences when they decide to drive dangerously. The graduated licensing laws have come into effect in most states in the United States. The rules very well may vary from one state to another state and from one location to another location. However the basic underlying philosophy clearly is to restrict new drivers so that they are not as great a risk. The insured does this by limiting what their license will allow them to do.

Even though a full auto license, such as a class 5, will be issued, but there is some type of letter designation behind it to indicate that this individual is a new driver. These individual will various restrictions. The restrictions will be to have vehicle occupant restrictions, nighttime driving restrictions, and a 0 alcohol tolerance restriction. There may be some other restrictions also per case. There will be the need to take an additional test after a specific period of time in order to remove the restrictions from the new driver programmer.

Right or wrong, gender does play a role in insurance rates that are quoted. The teenage males are evaluated as having a greater driving risk than the teenage female components. Mom and Pop could see a double increase in insurance whereas the teen male could cause the family's auto insurance rate to triple.

It may be generally believed that it is less expensive to add a teen driver to the family insurance policy, we want to present some other alternatives. One of the alternatives is that in some occasions, a teen owning an old clunker and getting her own insurance policy for that car can be more cost effective than if she were driving the family's brand-new luxury car and placed on that car policy. Older, less expensive cars are lower risk for insurers because they are cheaper to repair. They also have been depreciated to a greater degree. Policyholders may be able to save money by carrying less collision and comprehensive coverages than on a new car.

Money-Saving Strategies Regarding Teen Drivers

To lower the auto insurance premium of having a teenager, one of the ideas for parents is to qualify for as many discounts as possible. Also the parent can speak with the insurance agent to have the teen classified as an "occasional" driver, rather than a primary driver. The teen needs to have completed a driver's education course. Besides this, parents can sign the kids up for Pass Plus Course after they have graduated form their driving school.

Pass Plus Course is different from normal driving courses because it gives real life experiences in driving which may include harsh weathers, night time, etc. Generally the insurance company will approve Pass Plus Course as one of the factors when offering cheaper car insurance for the teenagers of the family. There has been some advice against allowing teens to drive SUVs as they have a higher center of gravity. These particular type of vehicle also are more prone to rollovers than are lower-to-the-ground sedan style vehicles. It is always in order for parents to impress on the teen that his or her biggest responsibility behind the wheel is mature behavior and not taking risks.

Curfews can be imposed to reduce the teen's exposure to dangerous, late-at-night travel hours. A limit should be put on the numbers of friends who ride with the child when he or she is driving. A recent study indicated the greater the number of teens riding together, the more likely it is that a crash will occur. If a teenager leaves home to attend college and does not take the car along, the parents can drop the teen from the insurance policy. Insurers will be able to give information about any geographic restrictions on how far away the teen must now reside in order for the policy deletion to take effect.

Scooter Insurance

In today's environment of high per gallon gas prices, many people are turning to scooters. With high miles per gallon, the scooter is the solution for many Americans. The History of the Scooter is much longer than most would think with the first scooter. Scooters may have gone through a long succession of design upgrades and changes. However, the basic design premise has remained the same from those early days to the present time in order to provide the rider with a comfortable and economical ride.

The basic design of the scooter may have changed many times since the early days of is conceptional design. In today's world of high gas prices, almost every car sales lot also now includes scooters because they are among the most economical forms of transport. But these little gold mines do need insurance so let's look at the coverages that are available.

Cost of Scooter Insurance -- Scooter Insurers are always on the look out for new custom and as a result are normally willing to offer generous rates for new policy joiners. Its worth noting that most tend to stay with the same insurance company for multiple years because the belief is that there are no better rates elsewhere. When changing policies, also, the insured could lose the no claims bonus and besides this it is a hassle to shop around for a new insurer.

Discounts for Scooter Insurance Bought Online – There are many motorcycle insurers who may offer discounts for policies which are purchased online because administration costs are minimal. In some incidents insurers may offer as much as 10% to 15% discounts for these policies which were purchased online. It's always worth checking the long term benefits of a new scooter policy. Fairly substantial savings can be made over a period of years with favorable no claims bonus schemes.

Provisions of The Scooter Insurance Policy:

- **Accessory Coverage --** Add-on side bags, chrome, windshield are considered to be upgrades and can be insured additionally;
- **Bodily Injury (BI) –** This coverage protects one's liability when the insured accidentally injuries another person with his or her vehicle and is paid when the specific negligence is proven.
- **Collision Deductible --** The insurer retains the responsibility for in the event of a claim minus the deductible.
- **Comprehensive Deductible –** The insurer retains the responsibility for the damage to a vehicle but that is minus the deductible amount.
- **Lease/Gap Coverage --** Coverage that applies to the first, or primary owner of the vehicle only for the value of the vehicle versus the lease buyout.

- **Medical --** Medical expense insurance coverage for those individuals who are hurt “in”, “on” or “around” a vehicle regardless of fault provides funds for injury without the need to incur legal expenses.
- **Property Damage (PD) --** Protects liability when one accidentally damages another’s vehicle or property.
- **Rental Reimbursement --** As a result of a claim, the insurance company will pay for a rental in the amount of the coverage defined on a daily basis up-to 30 days.
- **Towing reimbursement --** Towing “reimbursement” is up to the level of the coverage. The towing company charges only for the remaining funds which may be due.
- **Uninsured-Underinsured PD --** Protects vehicles and property from an un-insured or underinsured motorist or, in other words, someone with too little insurance or no insurance. The insured’s policy provides protection.
- **Uninsured-Underinsured BI --** Bodily injury caused due to the negligence of an uninsured or under-insured motorist.

As with all insurance policies there may be differences between states and what they cover. The provisions listed above are some general items that may be in a scooter insurance policy.

Chapter 8
Provisions and Benefits of Auto Insurance

Auto insurance has many possibilities and varieties from basic collision insurance through comprehensive auto insurance. Probably the most important feature of any insurance policy is whether to expect to be compensated and how the insured will be compensated in the case of an injury.

Personal Auto Insurance

There are 6 different types of coverage for the auto insurance policy. Some of the coverages are mandatory and some are optional and besides this the states require some, but not all, of these coverages. If financing a car, the lender may also have requirements. Most auto policies are for six months to a year. The insurance company gives a notification by mail when it's time to renew the policy and to pay the premium. It is a contract between the owner and the insurance company. Part of the contract is that an individual agrees to pay the monthly premium and the insurance company at the same time agrees to pay losses as defined in a policy. Auto insurance provides property, liability and medical coverage:

- Property coverage pays for damage to or theft of a car;
- Liability coverage pays for legal responsibility which others may suffer in the form of bodily injury or property damage.
- Medical coverage pays for the cost of treating injuries, rehabilitation and sometimes also adds the benefit of payment for lost wages and funeral expenses.

Policy Period And Territory

The declarations page of the policy and any renewal certificates, contain the effective date of coverage and when coverage expires. The policy territory describes where the auto can be driven. These territories are: The United States, its territories or possessions; Puerto Rico; or Canada. Should the insured rent a vehicle in a foreign country other than those mentioned, no coverage would apply for a non-owned vehicle. This creates the need for a Personal Umbrella) policy where in many cases the coverage is worldwide.

Deductibles

To keep the cost of auto insurance premiums down and also to eliminate the need to file small claims because actually the individual can take the highest deductibles he or she is comfortable with. On an auto policy, two deductibles exist:

- **Collision** applies to claims arising from collisions;

- **Comprehensive** applies to other claims for damages not caused by collision.

As car ages and is worth less, the insured can eventually eliminate the comprehensive and collision coverages altogether. The point at which one does this is the insured's choice. The purpose of insurance is to compensate the vehicle owner for losses that are financially catastrophic. Insurers will not pay more than the book value of the car, regardless of what it costs to repair or replace it.

Cancellation and Non-Renewal

The policy contains these two clauses, which allow the insured or the insurer to terminate the coverage. The company reserves the right to cancel for certain reasons such as non-payment of premium. The insured can cancel at any time by surrounding the policy. The non-renewal clause in the policy allows the company to avoid the renewing of the risk for certain reasons.

Almost every state has a mandatory endorsement that spells out the cancellation and non-renewal provisions applicable to that state. Nonrenewal simply means the insurer no longer wishes to provide one's insurance. This can be because the individual made too many claims for at-fault accidents, were convicted of driving under the influence, or received too many traffic citations during the last three to five years.

Two or More Auto Policies

Should there be more than one policy issued by the same insurance company covering the insured in an accident, the maximum the company will pay is the maximum limit under any one policy. This avoids the "stacking" of limits. Should the insured have policies with limits of $100,000, $200,000 and $300,000 and has an accident with claims made against all the policies, the most the company will pay is $300,000.

Endorsements to The Personal Auto Policy

An endorsement, a document attached to the policy, has the purpose of modifying or changing the original policy in some way. There are several endorsements available for the personal auto policy. These are used to alter coverage where the basic policy needs modifying. In addition to standard coverages, one may want to consider additional coverages called endorsements. Two of the most common are:

- *Extended Liability* -- This covers automobiles that are not legally owned by the insured, but an employer or other entity trusting a vehicle to another driver.
- *Miscellaneous Type Vehicle Endorsement* -- This covers other vehicles like motorcycles, campers, golf carts, snowmobiles, etc.

Individual Named Insured Endorsement

There are various endorsements with the potential policy holder can chose from to augment his or her policy. One endorsement protects individuals or sole proprietors owning vehicles used for commercial and personal travel but they are listed on the commercial policy. The endorsement is referred to as Individual Named Insured Endorsement.

If an individual needs to borrow, test drive, rent or lease a vehicle, an Individual Named Insured Endorsement will extend the liability portion of insurance and the Physical Damage portion of the insurance that one has for a regular vehicle to cover him or her while driving the non-owned vehicle. This particular endorsement placed onto the insurance policy will protect a spouse and/or relatives who are living with the insured in the case that they need to borrow, rent or lease a vehicle.

Reasons for Purchasing an Endorsement

Endorsements – sometimes called "riders" – are optional provisions that the insured can add to an auto insurance policy to expand his or her coverage. These additions or changes to a policy are made by the insurance company and can affect the cost of the premiums depending on what changes one is making. Some reasons an insured might want to add an endorsement to his or her policy are that some event has occurred that has changed the insured's status.

Car insurance endorsements will more than likely include coverage for emergencies. These emergencies can be things such as needing a car towed, needing immediate on-site work done to the car, and rental car insurance. These endorsements are great if they're needed, but there are many drivers who hardly ever need them. There are a multitude of car owners who will never rent a car, or never need on-site labor for the cars they own. But if it is needed and the insured has opted out of the endorsement, it may prove extremely costly.

Special Discounts

There are various discounts an individual can be eligible for on auto insurance. If the car has a security alarm, air bags, or antilock brakes, the individual is eligible for discounts. If the individual is older or has other policies or cars insured with the same insurer, he or she may also qualify for discounts. The "good driver" discount also applies for accident and ticket free drivers.

Automobile Death Indemnity And Total Disability Coverage

This endorsement provides death and disability coverage. An accidental death benefit covers death caused by either being in an auto or being struck by an auto. Death must occur within 90 days of the accident or within 52 weeks of the accident date during a period for which weekly disability benefits are payable. Available limits will vary by insurance company.

Joint Ownership Coverage

In 1993, ISO introduced a new form that is used to cover private passenger cars when owned by two or more relatives other than the husband or wife, or owned by unrelated people living together. This newer form provides broader coverage than was available in the past.

Optional Physical Damage Coverage

The physical damage section of the policy excludes certain types of property that are easily removed or those that were not part of the original equipment. Vans that are customized would need additional coverage for the added items as an example. This endorsement allows the insured to "buy-back" coverage for some of these items.

Chapter 9
Mechanics of Auto Insurance

The personal auto insurance policy always covers non-commercial vehicles. This coverage does include private passenger cars as well as any pickup truck or van. These vehicles must typically weigh less than 10,000 pounds if it is not used for freight or business deliveries. This policy is intended to cover vehicles that are for personal not commercial use. The personal auto insurance policy, with the right wording, will also cover a leased vehicle.

This is true so long as the lease term is for a greater period than six months. An automobile insurance policy is considered to be a binding legal contract and so consequently very important for the insured to understand. One's personal auto policy is generally divided into five distinct parts. Most likely in most personal auto policy documents, at least some of these parts will be combined.

Below are the five sections in the automobile insurance policy. Understanding Auto insurance is much more simply to understand once an individual knows what types of coverage are available, how an auto Insurance policy is organized and the coverage amounts and limits that are most appropriate for a particular situation.

The Insuring Agreement part of the policy will outline exactly what the insurance company is promising to provide in return for the payment of the premium. The exact type and the extent of each coverage that the individual has purchased is going to be described here. There is an explanation of who is covered under each provision and must be noted and understood even though it is a long and complicated section. It is the most important part of an auto insurance policy.

Parts of an Auto Policy
Vehicle insurance can cover some or all of the following items:

- The insured party;
- The insured vehicle;
- Third parties (car and people).

The many different policies will specify the specific circumstances under which each of the items may be covered. The following are the basic types of coverages which normally are common to the auto insurance policy. There are 9 coverages that the individual can choose from when getting coverage for his or her auto. Some of the coverages are mandatory and some are optional. Medical Payments Coverage is discussed extensively in Chapter 4. Collision and Comprehensive are discussed in Chapter 5 while Uninsured and Underinsured Motorist is discussed in Chapter 6.

- *Coverage A*-Liability -- The insurer promises to pay for damages which an insured becomes legally obligated. He or she may be legally obligated because of negligent acts or omissions which resulted in bodily injury and/or property damage to a third party and defends the insured against liability suits for damages caused to the third party, paying various expenses in this connection. The vehicles which are to be covered under this part include the insured's own cars or a newly acquired car or a temporary substitute car.

  Bodily Injury Liability (mandatory) **--** Provides coverage for injury or death claims made against the insured or any driver of the insured vehicle involved in an auto accident and the cost of legal defense. This protection pays up to the dollar limit one has purchased. Property Damage Liability (mandatory) **--** Provides coverage for damage to the property of others caused by the insured or any driver of the vehicle.

  This coverage pays up to the dollar limit that has been purchased and the cost of legal defense. Most commonly, auto policy liability insurance covers claims against the policy holder and also any other operator of the insured vehicles provided they do not live at the same address as the policy holder, and are not specifically excluded on the policy. In the case of those living at the same address, they must specifically be covered on the policy.

  Normally, it is necessary when a family member comes to the age where he or she can legally drive they must be added on to the policy. Liability insurance may not protect the policy holder if they are in the process of operating any vehicles other than their own. When an individual drives a vehicle owned by another party, he or she is covered under that party’s policy. The individual who has a non-owners policy may be offered what would cover an insured on any vehicle they drive. This coverage is will be made available only to those who may not own a vehicle and is sometimes required for drivers who have previously been found to be at fault in an accident.

- *Coverage B*-Medical Payments -- The insurer pays medical expenses for bodily injury incurred by the insured (including spouse and relatives) and any other person while they occupy the insured car along with the expense of funeral services for all persons injured in the vehicle, regardless of fault. This coverage pays up to the dollar limit that has been purchased.

- *Coverage C*-Uninsured Motorist Coverage -- The insurer pays damages for which the insured is legally entitled to collect from the owner of the car or the driver of an uninsured motor vehicle. Provides the insured driver(s) and passengers bodily injury coverage, up to the policy limits, for those involved in an accident caused by the owner or operator of an insured vehicle, a "hit-and-run" driver, or when the at-fault driver's policy limits are insufficient to cover losses.

- *Coverage D*-Comprehensive -- The insurer pays for the specific losses which occur to the insured's car. This would include all damages, in excess of a deductible amount, except due to collision. This coverage pays for vehicle damages other than those caused by a collision, overturn, depreciation and normal wear and tear. What is covered may very well include auto theft, fire, hail, windstorm, flooding and glass breakage. Covered perils are listed in the policy. This coverage is also available with a deductible.

- *Coverage E*-Collision -- The insurer pays for loss to the insured's car for all damages that may be in the excess of a deductible amount caused by collision. Regardless of fault, this coverage pays for damages to the insured's car as a result of an accident. This coverage is available with a deductible. The meaning of this is that at the time of a claim, the vehicle owner pays a specified amount before the insurance company pays for the remaining damages. That amount would be up to the current value of the vehicle. As a general rule, the greater the deductible is, the lower the premium.

- *Coverage F*-Car Rental Expense (optional) -- The insurer pays for car rental up to a daily dollar limit, when the insured's car cannot run due to a loss incurred. Rental reimbursement coverage usually pays up to $25 a day when the insured's vehicle is out of commission as a result of a loss covered under comprehensive or collision coverages.

- *Coverage G*-Death, Dismemberment, and Loss of Sight (optional) -- The insurer pays the insured or beneficiary for death or loss caused by an accident to the insured.

- *Coverage H*-Total Disability (optional) -- The insurer or insurance company pays the insured a monthly disability income benefit because of a bodily injury in an accident while occupying a motor vehicle or being struck by a motor vehicle.

- *Coverage I*-Loss of Earnings (optional) -- The insurer of the insurance company, pays the insured a percentage of the loss of monthly earnings because of bodily injury as the result of a motor vehicle accident while occupying it or when being struck by a motor vehicle.

The Contract Element of the Auto Insurance Policy

Insurance policies are legal contracts between the insurance company and the insured. There are many types of contract and generally they all have three basic elements: An offer, acceptance and consideration. The offer is originated by the prospect not the insurance company or agent and then the offer is in the form of an application. Then at that time when the application is completed and payment is made, the insurance company decides whether or not to accept the offer.

For definitions sake, the combination of two parts, the offer and the acceptance, is known as the agreement of the insurance policy. Another definition -- the consideration is the premium that is paid by the insured and the insurance company gives the promise to pay a covered claim – something called a unilateral contract. It is not possible to buy a policy with the intent to kill the insured so he or she can collect the proceeds. Both parties of the contract must also be competent and understand the terms of the contract.

A binder, a oral or written temporary insurance contract, issued before a policy is written. A good example could be when Tommy buys a new motorcycle Jim, his agent may tell Tommy that the motorcycle is covered immediately and for the next 60 days. This is known as a binder. It guarantees temporary coverage until a permanent policy can be issued but it does not guarantee that a permanent policy will be issued but rather that temporary coverage will be issued.

The Five Basic Parts of an Insurance Policy

- **Declarations --** This part personalizes the policy and makes it specific to the individual including such information as name and address, make and model of the automobile, vehicle identification number (VIN), policy period, policy number, other drivers covered, types of coverage purchased, policy limits and deductibles, premium and additional forms or endorsements.
- **Agreements** -- The insuring agreement section of the policy a description of the property and the perils against which it is insured.
- **Conditions --** This part outlines the duties and responsibilities of both the insurance company and the policyholder. It includes premium payment obligations, steps one must take in filing a claim, and disagreement resolution and policy cancellation notice procedures.

- **Exclusions --** This part states what is not covered by the policy explaining the policy's limitations. Coverage for the exclusions can usually be purchased with endorsements at an additional premium.
- **Definitions --** This part includes items such as definitions of terms and miscellaneous conditions regarding the rights of the policyholder and insurance company.

Limits Based on the State Minimums

Insurance companies must sell auto insurance at the state minimum requirements, but choosing just those minimums may leave an individual with the risk of large out-of-pocket expenses if he or she has ever had to use insurance for a claim. If the owner of a mid-size SUV hits another vehicle, the damage could be extensive or it may be minor. The state may only require a $10,000 minimum for property damage but if the driver causes $15,000 in damage to a Mercedes, guess who's responsible for the remaining $5,000? –yes, you're right, the underinsured is. The individual driving the car that hit the Mercedes is responsible, not the insurance company. All these must be considerations when looking at a policy.

Automobile Insurance Discounts

Insurance companies make certain discounts available when writing different automobile policies. Some discounts are associated with good driving records, state-of-the-art safety equipment on the car being insured, how much time the car is garaged, whether or not the insured has an anti-theft device on the car, etc. For teenagers in school, there are often "good student" discounts.

The plans vary according to companies, but there are several general considerations that affect discounts. Drivers should take advantage of all discounts that insurer's offer, that can significantly reduce the cost of car insurance. Understanding discounts and how they can affect auto insurance premiums can help save some money.

Each state has a variety of discounts which are offered to the policy holder. The discounts for Auto Safety features is important and can reduce the monthly premium for the insured. Then there are certain states that give discounts for anti-lock breaks. There is a difference in the discount between two or four wheel anti-lock break vehicle. Automatic seatbelts and airbags are normally discounted on the insurance premiums. Also, in most states, a defensive driver class discount may apply for some ages, anyway. When the principal driver is 55 years old or older and has previously completed an approved defensive driving class, at that point the discount could apply. Listed below are some of the auto insurance discounts which apply to most policies:

- *Airbag and Automatic Seatbelt Discount* – A 5% to 45% discount off the no-fault and medical payments premium is usually offered if the individual has air bags, automatic seatbelts, ABS brakes, etc.
- *Defensive Driver Discount* – A driver can receive up to a 10% discount if he or she has completed a state-approved defensive driving course within the past three years. With some companies, the insured must have successfully passed the course within the year.
- *Good Driver Discount* – A 5% to 15% discount is given if an individual has a three-year accident-free driving record. Some states give up to a 20% discount.
- *Good Student Discount* – Drivers who are students in high school or college may qualify for a good student discount. Requirements usually include such things as ranking in the top 20% of the class, maintaining a B average, Dean's List, or Honor Roll.
- *Home Insurance Discount* –When several policies, home and auto, are carried with one insurance company, there are often discounts up to 15%.
- *Limited Mileage Discount* – Some insurers offer a discount if the driver clocks under a certain specified number of annual miles.
- *Multi-car Discount* – A family may be given up to a 30% discount if they insure more than one automobile. Additionally, when another family member is only an "occasional" driver (such as a teenager using a parent's car,) rates can be lowered according to the percentage the occasional family member actually drives the car.
- ***Safe Vehicle Discount – An individual is eligible for a discount of up to 10% if he or she does not drive a high-performance automobile and is insuring an automobile that according to statistics is in the safest range.***
- *Safe Neighborhood Discount* – Insurance companies must of necessity consider the safety of the neighborhood in which a car is garaged so some vehicle owners who live in "safe" neighborhoods receive discounts. Urban living usually means higher premium costs because of a higher incidence of auto thefts and vandalism in the city so living in a suburb or outside city limits can sometimes mean a discounted premium for the car owner.

Many companies will reward an individual with staying with the same insurance company for many years without any accidents reported and on top of that they will offer a renewal discount. Some companies honor the insured with a discount if he or she had prior limits on a previous policy because they understand this individual is a better risk. Conversely, if an individual has decided to change insurers, then at that point, a proof of prior insurance discount may apply.

However, most insurers do request at least 6 months of consecutive insurance from the previous insurer. A full-time student who meets certain grade requirements and is unmarried under 25 years of age could be eligible for a good student discount. If owning a home, or a condominium or town home, or mobile home, and it is used as a principal residence, a discount could apply. Whether a military personnel is currently active or retired from any of the branch of the U.S. military, he or she could be eligible for a discount.

Calculating the Premium Rates

Insurance rate with various insurance companies do not all increase at the same time because they use different risk assessors or variables for deciding about rate increases and when they are going to happen. However, most companies typically use the same concept when factoring out rates. Many of the insurance companies have figured their own mathematical algorithm to set rates, decrease rates, or increase rates. Then at that point the company feeds the insured's information into a computer which checks it and spits out an answer.

The computer adds and subtracts various factors and points to determine the final number that matches a value. This value is what points to where the rate increases or decreases should be placed. The insurance companies do usually use the information or propositions found in the Insurance Services Office (ISO), a statistical and actuarial reporting group, has a manual that they use in order to determine the value. The manual is used by many insurers and agents help assign a certain point value to each infraction that a driver acquires. When the point values are acquired or assigned, it then becomes part of that company's algorithm.

This is a complex way in which to factor rates so that they can be understood by the individual who set it in place. In order to make sure that the insurance companies are rating people in a way that is accurate and proper they must file their rates with the insurance department of each state. Depending on the vehicle owner's jurisdiction, the insurance premium that is paid, can be either set by the government or determined by individual insurance companies, based on a framework of regulations that are set by the government.

Figuring out the insurance premium that a company will charge is determined by combining a number of different elements to arrive at the individual premium. All companies look at the various elements when determining the premium rates in a slightly different way thus producing a variation in prices between companies. The following is a brief explanation of how the different elements may affect the final insurance rate.

Type of Car One Drives

There are two standard methods of establishing premiums for an automobile. First the relative claims experience of the makes and models of automobiles is used to establish the insurance premium. This means that the repair costs, the rate of injury, and the likelihood that the particular car may be stolen, to establish their risk and then price it accordingly. An established current value of a vehicle is another factor that is used with a variety of methods to establish the current fair market value of a vehicle.

Purpose of the Vehicle

It stands to reason, the more an individual uses an auto, the higher the odds that he or she will be involved in an automobile accident at some time. So, all other factors being equal, people who do not do much driving tend to pay much lower premiums than those that have a long commute to work, or do extensive amounts of driving for other reasons. A major consideration is who is using the vehicle as the premium costs will also likely be higher if there are inexperienced drivers in a family or a number of different drivers using the car.

Location of Residence

Car insurance rates are determined by where in the city the insured lives. In metropolitan areas, the premiums are higher. However the other thing is that even in a high population city, such as Houston, there are many different rates in that city because some parts of the city are more populated than other places. Or the crime rate in one area of the city will have an impact on the rating also. Cities with higher density of traffic and people means that there is a higher likelihood of accidents, theft or vandalism claims.

The Driving Record

The driver's driving record is based on the number of years he or she has been licensed to drive, a previous insurance experience, and the number of at-fault accidents (usually up to the last 6 years or longer.) If the vehicle owner drives safely and defensively to avoid convictions and at-fault accidents, the premium on his or her vehicle will be lower than if there are convictions or accidents on his or her record. If the individual has a spotless driving record, it is highly unlikely that premiums will increase after an accident that was not his or her fault. However, if one has just one related traffic violation, or fender bender prior to this no-fault accident, then this insured driver will probably see an increase in his or her rates.

Another angle to this is that "fault" is determined by the authorities. The insured driver may feel that he or she was not at fault in an accident, or that the other driver was a maniac. But, the authorities make that decision, and the party that is ticketed during the incident is considered to be at fault. Insurance companies base their premiums on risk-factor.

The number of accidents the insured driver is in directly affects the premium. Sally Ann could be in six no-fault accidents, and her insurance company would still raise her rates. The authorities determined these accidents not to be Sally Ann’s fault, but there must be something wrong with her driving to be having so many crashes.

Insurance fraud may play a small factor in creating the equation. People who “stage” accidents to reap settlements from insurance companies will raise red flags. A high number of no-fault accidents might also raise a red-flag with an insurance company. Auto insurance fraud is one of the fastest growing crimes in America today, yet it is a silent crime. Between 8 and 10 cents of every dollar one pays in auto insurance premiums goes to pay a fraudulent claim.

Industry experts estimate that total costs can run as high as 25 cents in some states. Insurance fraud is the second most common white-collar crime after tax evasion. As a matter of fact, more dollars are involved in insurance claims fraud than in all armed robberies combined. The inflating legitimate claims or even fabricating claims for staged car accidents is a way of life for insurance criminals.

Optional Coverage Limits and Deductibles

When purchasing automobile insurance, there are several coverage limits and deductibles to choose from. Many of the states do require the purchase of at least a minimum amount of coverage for Third Party Liability. If a choice is made for a higher coverage limit, he or she can expect to pay a correspondingly higher premium or when selecting a lower deductible, the premium will also be higher because in both examples, the insurance company is assuming more financial risk when an accident occurs. However, when selecting a lower limit of coverage or a higher deductible, premium costs can be reduced. When not purchasing optional coverage, the vehicle owner will save on insurance premium costs.

Insurance companies seek to get a fair representation of a driver, doing so by rating and evaluating the risk of insurance claims that are presented to them. With a bevy of statistics and analysis at their side, insurers group individuals according to how they check out for a variety of factors. Other factors, besides the ones listed above, that may weigh-in when calculating the rate premium could include:

- Age;
- Gender;
- Marital status;
- Credit Rating;
- Driving History.

Rates and Auto Accidents

Accidents may almost always make insurance rates increase the premium whether or not the accident was one's fault or not. The reason for this is because the insurance company may have to pay for the insured's involvement in it. The amount is "going to vary from state to state and from one insurer to another and a lot depends on the nature and severity of the auto accident or who is found to be at fault.

For sure, the "at fault" accidents will result in an increase in premium, because that one accident will get rated against all of the coverages and past history. When supply decreases and demand increases, costs get more expensive. If an individual has not been carrying enough insurance at the time of the accident the insurance company may require the insured to carry more insurance which equals higher premiums.

If the insured is "at fault" for the accident, theses types of coverage apply to the incident - Personal Injury Protection, Property Damage Liability, Bodily Injury Liability, Medical Payments, Collision, and Other than collision to all individuals and parties included. Now, if the insured is "at fault" for the accident, here are reasons why the rates will increase. The first will be that the current insurance coverage premiums reflect the charge for the accident. Insurance companies usually charge "points" to the policy at its renewal -- points which will be charged to the policy for three, five, or even seven years.

The next more expensive rate will be if the insured's state requires that that the insured carry an SR-22. This insured individual will need to carry this form and its necessary coverages if he or she did not have enough insurance at the time of the accident. Getting an SR-22 will cause the expenditure of more money and even more aggravation by spending time getting the offense taken care of. At this point, the insured will need to carry this form and its required coverages for three years - whether or NOT this particular individual owns a vehicle.

Drunk Drivers and Increased Rates

If an individual was driving drunk, he or she is going to be in deep trouble with the insurance company and the law and very likely find the policy non-renewable. The results will vary from state to state, and may depend on such factors as how long the individual has been insured with the company and his or her past driving record. If an individual is dropped because of drunk driving, he or she will have rates sky-high. The increase in insurance rates can constitute the single biggest financial cost of being convicted for drunk driving.

Cancellation vs. Non-Renewal

An insurance company has the authority to cancel a policy and the insured can choose not to renew it. Actually the insurance company can also choose not to renew a policy. The insurance cannot cancel a policy that has been in force for more than 60 days except when:

- An individual fails to pay the premium;
- An individual has committed fraud or serious misrepresentations on an application;
- An individual's driver's license has been revoked or suspended.

Cancellation

Late premium payments can, and might, result in policy cancellation even if the insured is only one day late. The truth is, unlike homeowners policies which generally allow for a "30 day grace period" to make premium payments, most insurers can cancel auto policies immediately for lack of payment if allowed by state law. Each state sets the grace periods which they allow. The National Association of Insurance Commissioner's (NAIC) website (http://www.naic.org/state_web_map.htm) provides links to state insurance departments. Most insurers will not cancel a policy for non-payment if it is a one-time occurrence.

However, if the insured is chronically late, the insurer may cancel the policy. It is also important to realize that many insurers may require one to pay the entire term balance before reinstating the coverage if the insured passed the cancellation date on the policy.

Being cancelled for non-payment of premiums may also earn the insured individual a bad credit score and cost more on future policies with other insurers. Most insurers use credit scores to assess their risk. The lower the credit score, the more one will pay for insurance.

Non-Renewal

Non-renewal of an automobile insurance policy results in the loss of coverage. It can only occur at the normal expiration of a policy and must be preceded by at least a forty-five day advance notice to the insured of the insurer's election not to renew the policy and include the specific reason for nonrenewal. Either the insured or the insurance company can decide not to renew the policy when it expires. Depending on the state, the insurance company must give a certain number of days notice and explain the reason for not renewing before it drops a policy.

There are a variety of reasons that an insurance company may decide to now renew a policy. They may have decided to drop that particular line of insurance or they may have decided to write fewer policies where a certain individual lives. Now, if the insured does something raised the insurance company’s risk considerably, like driving drunk, the premium may rise or it is possible that the insurance company will not renew the policy.

The two methods of non-renewal an insurer may choose to elect are:

- An insurer may not fail to renew an outstanding automobile liability or physical damage insurance policy which has been in existence for two consecutive years or longer except for the following reasons:
    - The named insured fails to pay the premium for the policy or any installment.
    - The policy is obtained through material misrepresentation.
    - The insured violates any of the material terms and conditions of the policy.
    - The named insured or any other operator, either residing in the same household or who customarily operates an automobile insured under the policy:
        - ✓ Has had his or her operator’s license suspended or revoked during the policy period.
        - ✓ Is or becomes subject to a physical or mental condition that prevents the insured from operating a motor vehicle, and the individual cannot produce a certificate from a physician testifying to his or her ability to operate a motor vehicle.
    - The named insured or any other operator, either residing in the same household or who customarily operates an automobile insured under the policy, in convicted of or forfeits bail during the policy period for any of the following reasons:
        - ✓ Any felony or assault involving the use of a motor vehicle.
        - ✓ Negligent homicide arising out of the operation of a motor vehicle.
        - ✓ Operating a motor vehicle while under the influence of intoxicating liquor or of any narcotic drug.
        - ✓ Leaving the scene of a motor vehicle accident in which the insured is involved without reporting it as required by law.
        - ✓ Theft of a motor vehicle or the unlawful taking of a motor vehicle.
        - ✓ Making false statements on application for a motor vehicle operator’s license.

The named insured or any other operator, either residing in the same household or who customarily operates an automobile insured under the policy, is convicted of or forfeits bail during the policy period for two or more moving traffic violations committed within a period of twenty-four months, each of which results in three or more points being assessed on the driver's record by the division of motor vehicles. The named insured or any other operator either residing in the same household or who customarily operates an automobile insured under the policy has had a second at-fault motor vehicle accident within a period of thirty-six months and results in a claim paid by the insurer for each accident.

The insurer ceases writing automobile liability or physical damage insurance policies throughout the state or discontinues operations within the state. An insurer may non-renew an automobile liability or physical damage insurance policy for any reason which is consistent with its underwriting standards up to one percent of their in force policies within any given county in the state.

Renewal of the Auto Insurance Policy

When an insurance policy comes up for renewal, the insured individual may realize that some things in his or her situation have changed. What this means is that the insurance policy should change also. The first thing that is important to explore is payment options. Payments are always at the top of the list for most Americans. There are various ways that insured individuals can pay off payments of the insurance premium.

These options are normally monthly, yearly or on a biannual basis. While monthly payments may not be the most affordable but it may be simpler for the insured individual to pay monthly rather than saving up a large amount to pay on an annual basis or a semi-annual basis. When looking for changes to make that will reduce the premium for the auto insurance, insured individuals can save money and time by authorizing electronic funds transfer. The insured must evaluate the type of car he or she is driving and how much it has depreciated in value.

When these things are evaluated, the insured will understand what he or she would need in the worst case collision scenario. The individual looking to insure his or her vehicle must be made aware of all the options in coverage at the time of renewal so that the policy can work for him or her in the most effective way that is possible. Every individual must be made aware of all parts of an insurance plan and the options that may be available at the time of renewal.

88% of insured individual said they "definitely would" renew their policy with their auto insurance provider if they've indicate high levels of satisfaction with their carrier overall,. Only 16% of customers who report low levels of satisfaction said they would definitely renew their policy. The key to the success of every carrier is to maximize renewal rates, Examples of auto insurance business practices that drive higher customer satisfaction include offering annual policy reviews, loyalty discounts, proactively providing customers with helpful information pertaining to their policy. When considering auto insurance renewals the following patterns were found:

- Normally, the auto insurance policy holder stays with a carrier for more than 10 years;
- If the customer reviews personal insurance needs with their insurer for at least 12 months, tend to be more satisfied with the choice;
- One in three policy holders report to insurance companies that they have not reviewed their policies after selecting their current insurer even though this causes them to be less satisfied;
- Nine out of ten customers say that they have receives some kind of discount on their premium;
- The insured who was receiving dividends, accident forgiveness, ticket forgiveness, or credit for being a member in a professional organization tend to be the most satisfied with their insurer.

Vehicle Valuation

Insurers need to know the estimate of the value of the vehicle before insuring. This is normally determined by the value at which it can be bought or sold in the market, or in other words, the market value. This market value should be re-determined at the time of renewal of the claim. When the insured has to report a claim, it is the market value at the time of the accident or theft or sum insured whichever is less.

Mandatory Auto Insurance

Unlicensed and uninsured drivers are involved in more than 20% of the fatal crashes on America's highways thus comprising a significant traffic safety concern across the country. According to the Property Casualty Insurers Association of America (PCI), the solution to the problem is not compulsory automobile liability insurance.

Uninsured drivers continue to be a problem in many states despite the mandatory liability insurance law. It is a known fact that auto liability coverage is mandatory in 47 states. Of these 47 states, 23 have state reporting systems. Even with this mandatory requirement, the uninsured motorists still comprise anywhere from 4% to 34% of all drivers in these states. All governments and auto insurers are forced to allocate and expend precious resources to enforce laws that apply to all motor vehicle owners and operators, most of whom are insured.

Remedies should not pose an undue financial burden on insurance consumers or encroach on the freedom of local drivers. Most states mandate coverage, penalize those without insurance, and then lean on insurers to keep the rates low. This causes all sorts of pressure to refrain from rating based on risk and, in general, turns the automobile insurance system into a socialized risk program.

Mandatory Auto Insurance started because too many people who did not have insurance were getting into wrecks and not paying for the damages, so in effect were causing the people with insurance to pay more and the insurance companies to dish out extra cash to pay for attorney's fees to collect on the money they had to pay to their insured drivers. So of course, because insurance companies convinced the government that it would be better if everyone had insurance and to get a law passed.

Some major insurance companies oppose mandatory auto insurance and on the other hand some suggest that enforcing mandatory automobile insurance laws has the favorable impact of reducing auto insurance rates. Every study on compulsory auto liability insurance has demonstrated that such laws accelerate the cost of such insurance. Enforcement increases the cost of administration to taxpayers and is ineffective.

The main purpose of liability insurance is, obviously, to protect the assets of the offending party. It is not to solely provide solace for the injured. For that purpose, liability insurance is inefficient. A Department of Transportation study shows that only 44% of the dollars paid in reaches the injured victim. The best way to have a beneficial impact on liability insurance rates is to repeal the compulsory liability insurance laws. Only those who need liability insurance would buy it, and with their better loss experience, rates would be lower besides the fact that states would save on administrative costs.

Accountability and Mandatory Auto Insurance

One state’s mandatory auto insurance law will be stiffened if a new state House of Representatives' bill passes the Senate and goes into law. One House Bill was passed which would close loopholes that allow scofflaws to get an insurance identification card with a minimum down payment, only to let the policy lapse during ensuing months. At the heart of the bill is a requirement for auto insurers to maintain an electronic database of insured drivers that would be shared with regulators and police. That way, police could verify insurance coverage at the roadside with an updated database; lapsed ID cards would no longer fool anyone.

As an example of Mandatory Auto Insurance laws, one state's Personal Injury Protection (PIP) law, effective January 1, 2008, will require motorists to carry mandatory personal injury and property damage liability insurance. Now the law requires that every owner or registrant of a motor vehicle will be required to carry not only the Property Damage Liability insurance but also $10,000 insurance coverage for Personal Injury Protection (PIP).

Therefore, as a consumer, the Department encourages the insured to be informed and make sure that he or she purchases the mandatory PIP, and make sure to also add the mandatory $10,000 in Property Damage Liability. In some states, during the period October 1 through December 31, only the property damage liability insurance was required to be carried by motor vehicle owners and registrants but not PIP. The insured motorist had the option of cancelling PIP coverage during that time.

If an individual does not, the law requires that the insurance carrier cancel the policy and inform the Department of Highway Safety and Motor Vehicles, who will then suspend his or her driver's license and registration. To avoid expensive reinstatement fees for license suspensions and registration which could range from $150 up to $500, so the insured must be proactive and make sure he or she has the proper auto insurance coverage prior to January 1, 2008.

Definitions for the Mechanics of Auto Insurance

- **Collision --** Collision coverage pays to repair or replace a vehicle and is usually the most expensive portion of the car insurance premium. The insured must call the insurer after an accident so that they can start a claim and do evaluation of the damages done. Sometime it make more sense to replace the vehicle than to repair it. In the event that a car is totaled or, in other words was heavily damaged or destroyed, insurers may pay the actual cash value (ACV) of the car. The way that the ACV is calculated is by taking the replacement cost of the car and subtracting the amount of depreciation on a car's value.

- **Comprehensive --** Comprehensive coverage that also includes a deductible, pays for damages that were not caused by an accident such as fire, theft or hitting an animal. In the case that it is not cost effective to have collision or comprehensive coverages on cars worth less than $1,000, that part can be cancelled.

- **Liability ---** Liability coverage, which covers an individual for the damage he or she does to others for both bodily and property damage, are represented by three numbers. For example, 30/40/10 means that one has $30,000 for bodily injury coverage “per person”, $40,000 in bodily injury coverage “per accident” (when more than one person is injured) and $10,000 in property damage coverage “per accident”. Liability coverage is a required coverage by most of the states, however, each state will probably have different “minimum” required amounts. This coverage pays for legal defense costs, suffering, medical bills, pain, lost wages, and repairing or replacing another person’s vehicle.

Chapter 10
Understanding Commercial Auto Insurance Policy

Many people may associate commercial auto insurance only with businesses. This is true when considering companies insuring a fleet of vehicles used for business. Commercial auto insurance is not strictly for businesses as many think because it can be for individuals needing a commercial policy to insure their vehicles in the occasion that they are using it for a commercial purpose or if there is a “commercial person” driving it.

Defining Commercial Auto Insurance

The Commercial auto policy gives coverage for a fleet of vehicles and also their drivers against injury, against loss or damage to vehicles or cargo, and also, in addition, other damage to other property. The commercial auto insurance policy will offer convenient, unified billing and other optional coverage in order to meet a firm’s expectations and vehicle characteristics. The driver of a semi, a tow truck or a dump truck does need commercial auto insurance. Some types of vehicles such as double-decker buses, monster trucks, emergency vehicles and unique vehicles even though they are doing a particular type of commercial work cannot be insured under a commercial auto policy.

When the typical American family car is also used for purposes that could be considered commercial use, he or she must make sure he or she is covered properly. It is important for clients to consider buying a commercial policy to cover a vehicle which is used for business use. Whether or not one needs a commercial policy depends on how one uses the vehicle and what company it is insured with. Every company may have varying guidelines and may even surcharge for business-use coverage on a personal auto policy. Ask four questions to find out if a vehicle is coverage being used for business:

- Generally, a commercial auto policy may offer higher limits of liability, but make the adjustment in areas that are typically not associated with commercial auto risks.
- Again the commercial auto policies usually offer coverages where they are normally not available in personal auto policies.
- Commercial auto policies allow the insured to list anyone that he or she employs. This individual does not have that option with a personal auto policy. In general, one will need commercial auto coverage if the vehicle he or she uses is owned by a corporate partnership or driven by employees, or if it's used to haul tools or equipment weighing more than 500 pounds, make deliveries or heavy enough to require state or federal filings.

- One definition of commercial use could include transporting goods for compensation or a fee including catering, pizza or newspaper delivery, landscaping or snowplowing services, door-to-door consulting services, logging business, day care/church van services or farm-to-market delivery. There may be a need to purchase a commercial vehicle insurance policy.

Use of The Vehicle

If an individual simply moves a family from place to place in a van or drives a truck for normal daily use, without conducing business, there is no need to purchase a commercial insurance policy. When the individual uses the vehicle for a business purpose, that is a different story.

When an individual is conducting business in a vehicle insured with a personal auto policy and has an accident, he or she may not be covered because that is a specific exclusion from the coverage. Any type of business such as sales, consulting, delivery are considered to be commercial in nature so the vehicle insurance has to be commercial rather than a personal auto policy. When a taxi driver is considering insurance, he or she should be considering commercial rather than persona.

When renting or leases or otherwise providing a vehicle to someone for compensation, the personal auto policy will, more than likely not be sufficient coverage in the case that it is damaged in an accident. Also, the vehicle owner must consider who is riding as a passenger. If the passenger to going to meet clients and to drive to worksites every day, that may come under commercial business. Or perhaps a coworker is riding in a car while doing some business and there happens to be an accident where the vehicle owner is at fault. If the coworker is injured in the accident the personal auto insurance most likely would not cover that co-worker’s friend's injuries. A commercial auto policy would cover this type of accident and the injuries or damages that resulted from this auto accident.

Generally speaking, the business owner should have the same kind of coverages for the such as liability, collision and comprehensive, and medical payments. In some states this is known as personal injury protection and also as coverage for uninsured motorists. There are many business people who use the same vehicle for both business and pleasure if the vehicle is being supplied by the company that they work for. If the vehicle is owned by the business, the name of the business must appear on the policy as the “principal insured”. The policy cannot have the driver’s name on it. This will be a good thing in the case there is ever an accident and there needs to be a claim made against the insured and/or the vehicle owner.

Symbols of the Commercial Auto Policy

Commercial auto insurance policies have the option to specify the extent of the coverage by the use of symbols to indicate what vehicles are included in the coverage. The declarations page of the business automobile insurance policy outlines coverage areas which would include the liability, the uninsured motorist, the medical payments, etc.) with coverage symbols that apply to this particular type of insurance. The applicable symbols are numbers 1 through 9. Here are all the symbols and their meanings:

1) ***Any "Auto"*** -- The broadest symbol designation covering any "auto" including borrowed, hired, owned, leased.
2) ***Owned "Autos" Only*** -- The symbol covering any "auto" owned by an insured applying to any "trailer" while it is towed by an owned vehicle.
3) ***Owned Private Passenger "Autos" Only*** -- The symbol covers only private passenger type "autos" owned by the insured, including any private passenger type acquired after the policy begins.
4) ***Owned "Autos" Other Than Private Passenger "Autos" Only*** – The symbol covers all "autos" other than private passenger type "autos" owned by an insured, including such vehicles that may be acquired after the policy begins and is applicable also any "trailer" while it is towed by an owned vehicle.
5) ***Owned "Autos" Subject To No-Fault*** – The symbol for any “auto” owned by an insured that is garaged or licensed in a state where no-fault benefit laws exists and applicable also to any "auto" acquired after the policy begins.
6) ***Owned "Autos" Subject To A Compulsory Uninsured Motorist Law*** – The symbol for any "auto" owned by an insured that is garaged or licensed in a state where drivers are required to carry uninsured motorist coverage applicable also for any "auto" acquired after the policy begins.
7) ***Specifically Described "Autos"*** – The symbol for those covered "autos" that are specifically listed on the policy and applicable also for any "trailer" while it is towed by a listed vehicle.
8) ***Hired "Autos" Only*** -- The symbol for only those "autos" that an insured leases, hires, rents, or borrows but it does not include "autos" leased, hired, rented, or borrowed from an employee, partner, or member of an insured’s household.
9) ***Non-Owned "Autos" Only*** -- The symbol covers only those "autos" an insured does not own, lease, hire, rent, or borrow that are used in the insured’s business, including "autos" owned by employees, partners, or members of an insured’s household, but only while those non-owned "autos" are used in the insured’s business.

A Range of Coverages

A company's commercial vehicles keep a business moving forward. Choosing the right commercial auto insurance carrier is crucial to the company's success. The commercial auto insurance policy usually has a full range of auto/fleet coverage, including:

- Commercial auto;
- Motor carriers and truckers;
- Garage keepers;
- Excess auto liability for self-insured companies.

Commercial Heavy Truck Insurance

Truck insurance, designed to protect heavy vehicles, has liability Insurance options from minimum limits up to $1 million combined single limit (CSL). Common vehicle types covered under truck insurance include:

- Box trucks;
- Dump trucks;
- Flatbed trucks;
- Express delivery trucks;
- Refrigerated trucks;
- Tanker trucks;
- Tractors.

The Commercial Auto Insurance Policy

Commercial auto insurance policy sometimes is treated as six-in-one policy as it appears to offer six separate policies at one time. While, some types of coverage are mandatory because of the state law, depending on where one lives. Other types of coverage may be optional but one thing for sure, is that the insured has a responsibility to analyze each one of them and at that time to come to a decision how much is need. Three facts for the insured to remember is that each type of coverage has its own premium; the commercial auto insurance policy is a legal contract and the insurance policy has three main components: (1) Declaration page, (2) Insuring Agreement and (3) Terms and Conditions of the policy.

New Business Insurance

The definition of a new business is any type of business that is in the infancy of its life of new business could be any time in the first year of operations. Insurance companies do have a range of commercial auto insurance products which are designed to meet the specific needs of new ventures.

Seasonal Business Vehicle Insurance

A seasonal business could be considered as any business operating only during specific times of the year. This may be operation during specific months or for one entire season. Seasonal businesses can be trucking business or small businesses that might need commercial insurance include:

- Ice cream trucks;
- Fishing charters;
- Landscaping;
- Snowplowing;
- Tax consultants;
- Truck Farming.

Garage Insurance

Also referred to as motor trade insurance, the purpose of garage insurance is liability insurance for garage owners and car dealerships. Generally defined, garage liability insurance is insurance coverage which is purchased by a business owner who has a repair shop, or some other type of auto service center. The purpose of a garage insurance policy is to protect businesses and business owners from claims involving the customer's automobiles while those vehicles are on the business premises. Garage insurance applies to liabilities involving "garage buildings, contents, stock and equipment, and automobile liability." It typically covers liability for the premises and operations, products and completed operations. Let's consider the limitations that are in garage insurance.

- The business or business owners who are purchasing garage insurance need to decide if they want the option of the auto dealer's liability coverage over the customers while they are driving garage-owned vehicles;
- Since garage insurance will not cover liabilities unless it is directly related to the garage or to the vehicles themselves other services may not be protected either;
- Large dealerships should make it a top priority to select the appropriate coverage limit for the liabilities that they could experience and also to cover storage at new lots.

There is another aspect of garage liability insurance which covers automobiles owned by the business, but it does not cover the customers' cars if they are that are left in the care of the shop. This policy is known as garage keepers' insurance. Garage keepers' insurance will probably be sold to different types of business owners. The Garage keepers' policy is usually sold with garage liability policies, but the difference is that it is still a separate contract. There are variants to the cost of garage liability insurance and it depends on the limits and deductibles selected. It may vary also according to the location and size of the business that is to be insured or the number of employees. Another thing that is taken into consideration is the locations that a business maintains employees and insurable items.

It also depends on any pre-existing history of loss that the company may have. The Garage Coverage Form has a purpose for the method in which the form is designed in order to provide both general liability and automobile liability coverages in only one form for insureds who may be operating a garage. However, it does combine premises liability with products and completed operations liability. There are exclusions and limitations that cause a disparity in coverage.

Chapter 11
Auto Insurance Fraud

Auto Insurance Fraud

The Insurance Research Council estimated that in 1996, 21% to 36% of auto-insurance claims contained elements of suspected fraud. There is a wide variety of schemes used to defraud automobile insurance providers. These ploys can differ greatly in complexity and severity. At the end of 2004, the Coalition Against Insurance Fraud said that auto insurance fraud amounts to $14 billion in false claims a year. Many studies have been done on insurance fraud but one is considered a ground breaking study by the Insurance Research Council in 1996.

This group found that one-third of all the bodily injury claims that were issued for auto accidents contained some amount, small or large of fraud. It was determined that 33 out of 100 bodily injury claims that were identified as fraudulent included a fraud activity referred to as "padding" or “build-up.” In essence this is an exaggeration of injuries based on actual accidents.

Some of auto insurance fraud includes staged accidents, inflated medical bills, phony injuries, owner give-ups, false auto repair bills and claim padding. Millions of people fall victim to staged accidents every year without realizing it. These apparently simple fender benders are actually premeditated crimes, involving organized rings of doctors, lawyers and body shop owners. Claim padding is when car owners increase the amount of an otherwise legitimate claim to receive more money. It’s estimated that 10% of all claims are at least partially fraudulent.

Major Categories of Auto Fraud

The dictionary defines fraud as the intentional perversion of something called the “truth”. The purpose of this is to induce another individual to part with something that is of value to him or her or to surrender a legal right. One area of auto insurance fraud is when someone intentionally lies to his or her insurance company about a claim involving their car insurance. In one western state, it’s a felony to submit a false auto insurance claim. It’s also a criminal act to use untrue or misleading documentation to support a false claim.

This includes faked, falsified or exaggerated receipts, bills, estimates, test results, or any evidence of injury, loss or expense. It’s even a crime to assist someone else in submitting or documenting a false claim. Insurance fraud is any act committed with the intent to fraudulently obtain payment from an insurer. Insurance fraud has existed ever since the beginning of insurance as a commercial enterprise. Insurance fraud can be classified as one of two types: hard fraud or soft fraud.

Hard Fraud

Hard fraud occurs when someone deliberately plans or invents a loss, such as a collision, auto theft, or fire that is covered by their insurance policy in order to receive payment for damages that may or may not be real. This type of fraud can often receive more media attention and that makes it easier to detect. Hard fraud does often involve criminal activity and that must be prosecuted. Hard fraud also includes the intention of squeezing millions of dollars out of many different insurance companies. But, the average person can also be found guilty of hard fraud. Criminal rings that are involved in hard fraud schemes can steal millions of dollars.

Hard auto-insurance fraud can include activities such as staging automobile collisions, filing claims when the claimant was not actually involved in the accident, submitting claims for medical treatments that were not received, or inventing injuries. Hard fraud can also occur when claimants falsely report their vehicle as stolen. Another example is that a person may illegally register their car to a location that would net them cheaper insurance rates than where they actually live, sometimes called "rate evasion". What is a sad poll is that recent surveys show that more than 25% of respondents thought it acceptable to pad insurance claims. Fraud and ethics has got to be included in the education that all professionals and lay people need so they know fraud is not acceptable.

Soft Fraud

Soft fraud may be far more common than hard fraud but the problem is that it hides and is often referred to as opportunistic fraud. Soft fraud is much more difficult to detect. Soft fraud accounts for the majority of fraudulent auto-insurance claims. It happens when a person pads insurance claim by telling “white lies”, such as, they’re feeling too ill to come to work, so they can receive higher benefits for the bodily injury received. This type of fraud consists of policyholders exaggerating otherwise legitimate claims or filing more than one claim for a single injury.

Soft fraud can also occur when an individual misreporting previous or existing conditions in order to obtain a lower premium on their insurance policy or filing claims for injuries not related to an automobile accident, misreporting wage losses due to injuries, or reporting higher costs for car repairs than those that were actually paid.

Staged Accidents

Today one of the most popular insurance fraud scams involves auto insurance and auto accidents. Many dishonest drivers will maneuver innocent motorists into auto accidents. The cars may only suffer a small dent, but the crooks still make large — and illegal — claims for fake injuries and car damage against the victim's auto insurance company, or their own. These have actually become quite complex to the point where they involve multiple participants.

Swoop and Squat Scam

The swoop and squat scam involves three vehicles. A conspirator's car pulls in front of an innocent driver's car and stops suddenly, causing the innocent driver to rear-end the conspirator's car. Sometimes a second conspirator's car cuts in front of the first conspirator's car, providing the "excuse" for the sudden stop. Typical victims of this trap are usually driving alone in late model or expensive cars. Often a large, older sedan is used by the criminal driver, and two or three passengers will be riding along.

The victim is later contacted by the criminal driver's lawyer, and the victim's insurance company is expected to pay large, fraudulent medical bills for the driver and all passengers in the car. The victim tells police that the swoop vehicle caused the accident, but because that vehicle cannot be located the victim has to pay for the damage and personal injury.

Panic Stop

The Panic Stop refers to an incident when a criminal drives a late model car filled with passengers. The criminal scammer positions himself or herself in front of the victim. Then one of the passengers look out the back window watching to see for any signs of distraction such as answering a cell phone call or changing a station on the radio. Any sign that the victim is taking his eyes off the road. Once this happens, the passenger signals the driver who then slams on the brakes thus causing an accident. The victim will claim that the criminal stopped short for no apparent reason but usually to no avail. In the meantime the victim has to pay for all damages and injuries reported.

Owner Give-Up

Car owners who arrange to have their cars "stolen" and disposed of so they can collect insurance money. It is estimated that about 15% of all vehicle theft claims fall into this category.

Side Swipe

This type of accident, the side swipe, usually happens at busy intersections with the dual left hand turn lanes. The criminal defrauder now positions his or her vehicle in the outer left turn lane so that when the victim's vehicle drifts into the outer turn lane the criminal immediately side swipes him. Preliminary surveillance is done to make sure the scheme works and to make sure that the intersection is so busy so that drifting will occur because of the amount of traffic.

Title Washing

The general vehicle documentation laws in various states across the country do lack uniformity. This has a tendency to result in a practice known as title washing. Title washing is a process that allows cars to lose their salvaged and/or flood-damaged branding. Flooded vehicles may appear in used car lots and auction sales following hurricanes and storms. The process of title washing conceals the history of a vehicle that has been salvaged. Salvage titles are assigned to cars that are deemed a total loss by insurance companies. Consumers unwittingly purchase these vehicles which may not seem damaged, but eventually will have expensive electrical and air bag problems.

In some states, vehicles that have been flooded bear the words “salvage only” on their titles, usually indicating that damage to the vehicle has reached about 75% of its value. No mention of flood damage is included in the title. Unscrupulous sellers may switch or clone manufacturers’ serial number plates and put them on a flooded vehicle that has been cleaned up. They may also resell a car that has a salvage title in a state that has more lax standards for salvage titles. Title washing enables a vehicle to obtain a regular title.

The process of title washing allows dealers as well as individuals to remove salvage branding from the car titles in order to minimize their losses. The standardized state rules for the purpose of titling vehicles is absolutely necessary to combat this particular type of fraud because strict rules in any number of states in any region do have a tendency to make it attractive for unscrupulous sellers to dump flood vehicles which have been cleaned up in a nearby state with lax rules.

At the point that the state issues a new title, it is very possible that it may no longer show that it had been salvaged. If not, the seller will then move the vehicle from state to state with lax laws until the entire branding is gone. Then the vehicle's history will have been "washed" clean, supposedly and some innocent buyer will fall prey to this scam.

Many states in each of the hurricane-prone section of the United States have adopted a variety of rules that creates mandates that the words “flood vehicle” must be included on the every title of vehicles that have been water damaged and then totaled out by the insurer and subsequently rebuilt. In the case the one state in any one region does not have as strict of laws as is necessary, it can become a dumping ground for undeclared flooded vehicles from a variety of state.

Reported Vehicle Thefts

Reported vehicle thefts that are actually Hit and Run Accidents involving impaired drivers or other criminal acts is another form of fraud. An owner who wants to get rid of a vehicle because he or she does not have the money to have a major mechanical failure repaired, destroys or burns the vehicle then reports it stolen**.** *30-Day Special* ***Fraud refers to incidents when an individual is the owner of a vehicle needing extensive repairs often perpetrates the 30-day Special scam.***

This scammer reports the vehicle stolen and then hides it in a garage or storage unit somewhere for 30 days which is long enough for the insurance company to settle this fraudulent claim. Then once the claim has been paid, the vehicle may be found abandoned. *Export Fraud* occurs after securing a bank loan for a new vehicle, an owner obtains an insurance policy for it. The owner reports the vehicle stolen to a U.S. law enforcement agency, but in reality illegally ships it overseas to be sold on the black market.

It is at that time that the owner can collect from the insurance policy and also any illegal profits that may have been earned through overseas conspirators who are going to sell the vehicle. *Phantom Vehicles* is what happens when an individual creates a phony title or registration in order to secure insurance simply on a non-existent vehicle. The next step is that the insured reports the vehicle stolen then fraudulently files an insurance claim. Antique or luxury vehicles may be used in this scheme because they bring in a larger insurance settlement.

Fake Helpers or Scam Helpers will often make a wave to the innocent driver into traffic, but then crashes into this innocent driver. However, when it comes to the time to file the claim, the scam driver will deny that he or she waved anyone in. There are other ways fake helpers try to scam people. Some of these ways are by offering to help an innocent driver find an auto repair shop, a doctor, or even an attorney. The body shop that the scammer chose charges an enormous rate for the repair.

The doctor and lawyer will also lie to collect more from an insurance policy. Identity theft also involves the act of stealing someone else's personal identifying information. This information can include a name, a social security number, a credit card number, a birth date, a driver's license number, or an address. Criminals who desire to steal this personal information may use it fraudulently to obtain a great many things including credit, money, goods, services and other property. The identity theft scams use a tactic where they select luxury vehicles from dealerships and load them with options.

The criminal completes the ownership paperwork using a stolen identity, leaves the dealership with the stolen vehicle and makes the first payment using a stolen or bogus credit card that contains another person's identity. Because of the high sales commissions that come with luxury vehicle transactions, an unscrupulous dealership salesperson or owner could be involved in such a scam as well.

Malingering

Malingering, "the intentional production of false or grossly exaggerated physical or psychological symptoms, motivated by external incentives", may be rather ambiguous and actually mimic other disorders or behaviors. Malingering has been on the records from early Roman times defined and explained by the physician Galen. One patient simulated colic to avoid a public meeting he or she did not want to attend, whilst the other feigned an injured knee to avoid accompanying his master on a journey.

Many times bodily injury claims from Motor Vehicle Accidents are grossly exaggerated or they may even be non-existent. Disability fraud is extensive and is facilitated by the medical profession in many instances because they are naïve or complacent. They do not want to do the research to find out the truth and believe what they are being told. It is difficult to do a confrontation with the patient or they do not want to lose the patient's business.

After bringing in psychologists to evaluate the driving force behind malingering, it was determined that it is not a form of mental illness or psychopathology. The other side of the coin is that it may occur in the context of other mental illnesses. Malingering is often demonstrated in several forms where the individual may have the exact symptoms but this individual exaggerates the impact upon daily functioning.

Let's look at another form of malingering which is sometimes referred to as simulation where the person emulates symptoms of a specific disability or dissimulation when the patient himself or herself denies the existence of problems which would account for the symptoms. An example could be in the case of drug abuse. Malingering is false imputation in which the individual has valid symptoms but is dishonest as to the source of the problems. The individual would often attribute them, perhaps, to an automobile accident when the cause was, in fact, an injury occurring in the home

Organized Crime

Organized Crime is defined as when there is a theft of a vehicle and the VIN tag is replaced on the dash with one that is from a similar model vehicle. The similar model vehicle could be one that has been written off previous and subsequently salvaged as the result of an accident. The next used car purchase that Richard makes could be a stolen vehicle. Organized Crime may also be involved in the staging of motor vehicle accidents and then making false bodily injury claims. This can involve everyone from car thieves to lawyers, physiotherapists, doctors, chiropractors, and various other medical professions which may be giving expert treatment to the victims as well as treatment for physical injuries and post-traumatic stress syndrome.

Preventing and Detecting Auto Insurance Fraud

Fraud in insurance has existed in many forms and in many industries since the 1700 beginnings, but it continues to receive little attention. Then in the 1980s the law enforcement agencies were reluctant to provide the training needed to investigate and prosecute cases of insurance fraud. Why? Fraudulent activity is a crime isn't it? Other insurers were afraid that a concerted effort to eradicate fraud might be perceived as an anti-consumer move. What? Who thinks up these things? Eradicating fraud is anti-consumer? No, fraud in the end hurts everybody. The insured who participates in fraud should be prosecuted, end of story.

Another thing that made it more difficult to adequately investigate suspicious claims is the requirement to comply with the time limits to pay claims which may be imposed by fair claim practice regulations in some states. Talking about fraud hurting everybody, this is one example because by the mid-1980s the rising price of insurance—yes, why did it go up? It was the growth in fraud committed by organized criminals. This is what prompted many insurers to reexamine the issue. Too slowly, the insureds began to see the benefit of strengthening anti-fraud laws and more stringent enforcement as a means of controlling escalating costs. Now it's called a "pro-consumer action" and the insurer found ready allies among those who been adversely affected by fraud.

The ready allies included consumers, who had to pay for the fraud that others committed through their insurance premiums or the people who used fraud groups to file false claims and with that finding themselves very quickly on the wrong side of the law.

Antifraud Activity

On the part of state fraud bureaus and also the special investigative unit has increased the antifraud activity since 1990s because of heightened antifraud activity along with growth in the actual funding for fraud-fighting personnel. This is what resulted in increased prosecutions of individuals participating in fraudulent activities. Successful prosecution blocks future fraudulent activities by individuals who could be repeat offenders, but the news of prosecutions also acts as a deterrent to other individual who may be contemplating the committing of fraudulent acts.

The federal government may be more actively involved in the pursuit and the prosecution of some insurance fraud cases than previously. It is the state insurance departments or the state attorneys general and county district attorneys offices who actually do most of the investigation process, enforcement and prosecution of insurance fraud because most of the anti-fraud laws are state statutes rather than federal statutes.

The fight against soft fraud may be in its early stages very much unlike the battle against hard fraud. That has been going on for a long time so has been honed in on. The battle against soft fraud fails to be as precise and actually has the potential to lead to false positives which can be very frustrating to those who are pursuing it.

The number of false positives which emerge may represent an imperfect solution that is, no doubt, intellectually uncomfortable for some those actuaries or the legal staff along with insurance executives. However, another way to look at it is that an imperfect solution that's balanced with careful business rules and other operational processes that are non-confrontational and non-intrusive do offer immense value to an insurance company.

With these approaches combined with the law of large numbers which can provide valuable insight into some particular consumer behavior and also to some of the reasons why and how people do things. But it is equally important to consider the financial benefit to insurers, because they have the potential to reduce the overall claim costs by as much as 5% through a broad soft fraud management strategy.

Complications of Modeling and Detecting Soft Fraud

There are various methods to address the complications of modeling and thus detecting soft fraud. Normally, it is recommended that the targeted claims management be employed to increase the touch points with any particular insured. However, if "customer service" can be increased, it is a way to allow the insurance company to let customers know that the insurer is paying close attention to each of the claims being submitted.

They are also being aware of how the claims proceed through the management levels and on through the settlement process. Sometimes it is a good idea to record the customer's conversations because they'll be less likely to embellish or exaggerate a claim. Hopefully this is a way to report more correct information to the insurer or the claims processor. These may be considered non-confrontational and non-intrusive techniques, but they can work without alienating customers.

Besides this, a case can also be made that improved customer service, particularly on “high touch” claims which can actually reduce the specific number of soft fraud cases. This is because it’s less likely for customers to take advantage of a company that is treating them fairly.

The predictive modeling applications which are applicable for soft fraud include the process of targeting the claims duration and the severity management in order to identify potential claim abuse. The early identification of soft fraud does help the insurer to better allocate customer service and also to claim triage resources in order to claim the highest potential for fraud. At the same time it is important to balance the need to maintain the highest quality of care and accurate service to all customers.

Summarizing Auto Insurance Fraud

Auto insurance fraud is an enormous problem in the United States, one that costs many states millions of dollars each and every year. ***In one state, approximately 45% of all suspected fraudulent automobile insurance claims are from one county***. It is a county that has a high population for one thing. In total, it is estimated that automobile insurance fraud results in losses in excess of $8 billion a year. Because losses are passed to consumers in the form of higher insurance premiums, everyone bears the financial burden. The elderly couple in Florida pays the price for all the fraud in one county in, say, Utah, or New Mexico. When fraud artists resort to staged accidents or other dangerous tactics, the safety of everyone on the road can be jeopardized by their crimes. There exists a mistaken perception that this type of fraud is somehow harmless and acceptable but in reality, all Americans are the victims of this illegal activity and all Americans are more at risk when they are in their vehicles on the highways. Fraud can come in many different sizes and varieties, all of which are costly to drivers in every state of the union in every county of every state.

It can be as simple as misrepresenting facts on insurance applications and inflating insurance claims or as serious as staging accidents and submitting claim forms for injuries or damage that never occurred. Insurance fraud is big business, costing Americans an estimated $20 to $30 billion annually. For the insured, that translates into $200 to $300 in additional insurance premiums each year, according to The National Insurance Crime Prevention Bureau statistics.

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