CHAPTER 2- PERSONAL AUTO POLICY

Let's Begin….

Introduction

Every state in the U.S. has a law requiring people who drive to have a minimum level of auto insurance. But, even if the law didn't require it, you'd probably still want to have some auto coverage. Driving a car or truck is risky business. (And that doesn't even touch on the danger of driving a motorcycle.) Each year, more than 21 million motor vehicle accidents occur on our nation's roadways, according to the National Safety Council.

Even the safest car or truck driver runs some risk of getting in an accident. This means the insured will need some form of insurance to cover the cost of repairs to the insured's car—as well as the other person's car and injuries, if the insured is at fault. Then there are medical bills. There's also the chance that the insured will be sued for causing pain and suffering if someone is injured in an accident and the insured is at fault.

Another issue to consider: According to the Insurance Information Institute, nearly 2 million vehicles were reported stolen in the United States last year.

In other words, the insured's vehicle is at risk, even when it's parked. When it's moving, all of the insured's possessions are also at risk. The key to protecting the insured from these risks is to "transfer" them to someone else—and the way to do that is to buy insurance. It transfers the risk from the insured to the insurance company—for a small fee, of course.

Who is an Insured?

Under the Personal Auto Policy (PAP) an insured is:

1. A resident spouse and any family members residing with the insured for the ownership, maintenance, or use of any auto or trailer.
2. Anyone driving the car with permission or a responsible belief that they are entitled to drive the car.
3. Any organization the driver represents.

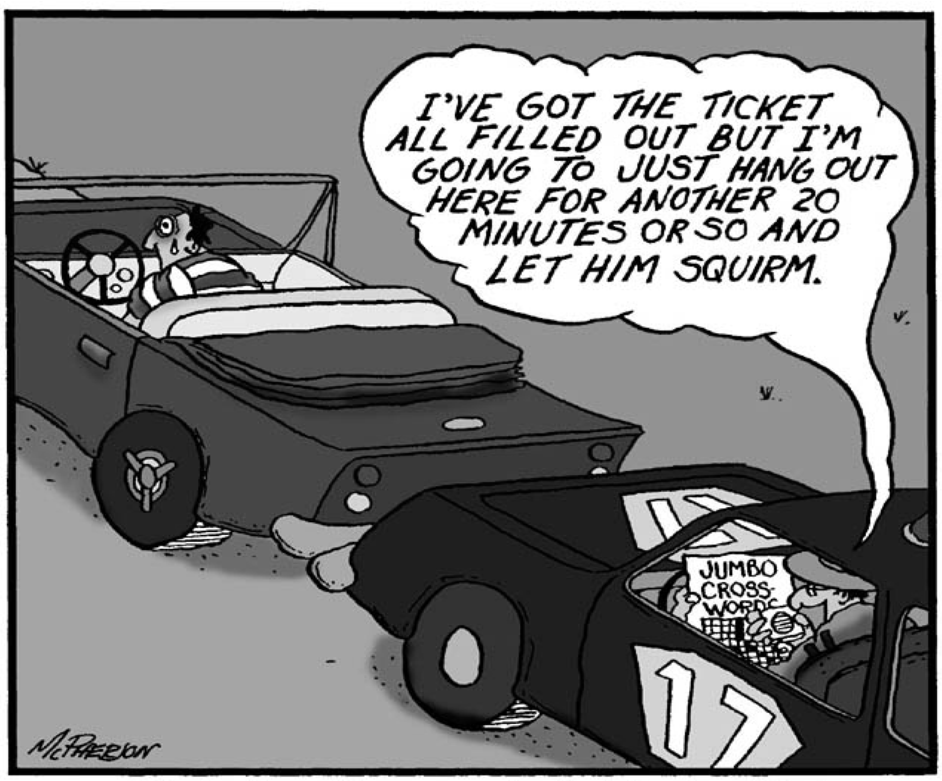
California Proof of Financial Responsibility Law

In accordance to the California Vehicle Code, all drivers and all owners of motor vehicle shall at all times be able to establish financial responsibility (16020). This law protects the parties involved in an automobile accident by establishing a method for repayment of any damage, including bodily injury or death, due to the accident. The proof must be in the vehicle and revealed to law enforcement or shown to the DMV when registering the vehicle. There are three ways to prove financial responsibility:

1. Purchase a "named operator policy", which includes California's law for minimum liability coverage: **a) $15,000 bodily injury per person and $30,000 per occurrence, b) $5,000 of property damage per occurrence.**
2. Self-insure by depositing $35,000 cash per vehicle with the DMV
3. Post a bond for $35,000 per vehicle

Some of the most common instances that the proof of financial responsibility is needed include:

1. Accidents causing more than $750 in property damage
2. Any accident causing bodily injury
3. Registering a vehicle or renewing registration
4. Failure to pay fines or judgments from a previous accident
5. Serious motor vehicle convictions (i.e. DUI, hit and run, etc.)



What police officers are actually doing for all that time when they've got you pulled over.

Eligibility for Personal Auto Coverage

Not every vehicle is eligible for coverage under a Personal Auto Policy (PAP). There are ownership rules, usage rules and rules that have to do with the size and shape of the vehicle.

Private Passenger Vehicles

Only **private passenger vehicles** are eligible for coverage under the Personal Auto Policy. To be considered a private passenger auto, the vehicle must, have four wheels. (Three-wheeled Morgans would be an exception to this rule, but they'd probably be covered by a classic car policy, anyway.)

Coupes, convertibles, sedans and station wagons qualify as *private passenger autos* for coverage under a Personal Auto Policy. Pickup trucks, panel trucks and vans also may be considered *private passenger autos* and may be eligible for coverage if they satisfy the following requirements:

- they must be **owned by insured persons**;
- they must have a Gross Vehicle Weight of **less than 10,000 pounds**; and
- they must **not** be used in a **freight or delivery** business.

So, vans, pickups and panel trucks are eligible when they're used only for personal transportation, or used in farming and ranching, or used in any business except a freight or delivery business.

However, the same restriction does not apply to other private passenger autos. **Coupes, convertibles, sedans and station wagons** are eligible for coverage as long as they are not:

- used as a public or livery conveyance for passengers for a fee (such as a taxi or limousine service); or
- rented to others.

In other words, cars can be used in a freight or delivery business, but only if they are transporting cargo (products, materials or packages)—not humans—for a fee. This is a **loophole** that's likely to be closed at some point.

RV's are generally both designed as and used as private passenger vehicles, not commercial vehicles. ***Section 660(a)(1) of the CIC now states that , a six-wheel RV would be considered a private passenger vehicle***

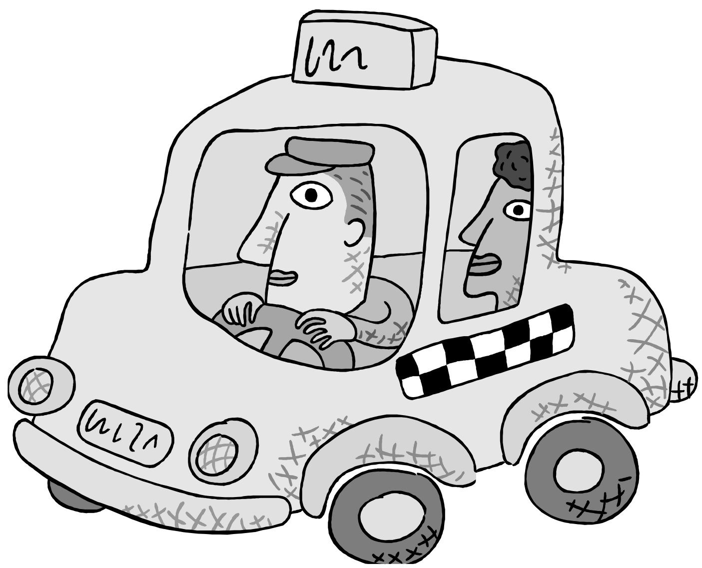
The insured can extend liability, medical payments, uninsured motorists, collision and other-than-collision coverage to motorhomes, motorcycles, golf carts, etc. To do so, the insured must add on a ***Miscellaneous Type Vehicle Endorsement,*** which will be discussed later in the chapter.

Ownership

Let's begin with the **ownership rules**. To be eligible, a vehicle must be owned by one of the following:

- an individual;
- a husband and wife who are residents of the same household;
- two or more relatives other than a husband and wife, or two or more unrelated people in the same household—as long as both names are listed on the registration (and some insurers may refuse to offer this type of coverage.);
- a farm family co-partnership or farm family corporation.

A leased auto usually is treated as if it were owned, and may be covered under a Personal Auto Policy.



Vehicles Not Covered by a PAP

As mentioned previously, not all vehicles are covered under the personal auto policy. Below are the most commonly known vehicles not covered by a PAP:

- Vehicles for-hire that transport people, the policy considers that as using the vehicle as a livery conveyance, and is NOT included in the policy. (i.e. A taxi driver with fare paying customers) However, if the insured is car-pooling with acquaintances and sharing the expense of the commute, this would then be covered by the policy (i.e. HOV lane, toll expenses, etc.)
- Motorcycles and other vehicles with fewer than 4 wheels and generally, cannot be added as an endorsement.

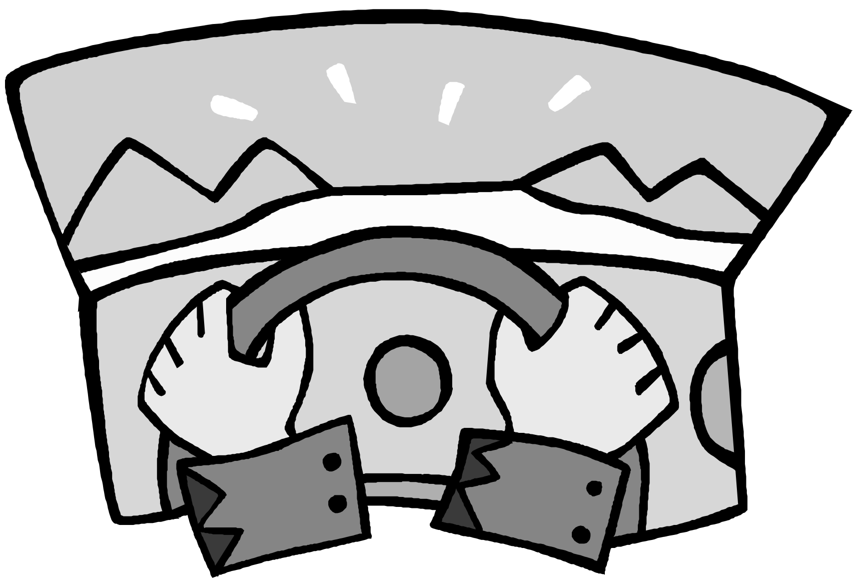
Good Driver Discount (CIC 1861.025)

As stipulated under Proposition 103 in 1988, individuals in California may qualify for 20% Good Driver Discount based on the following rating factors:

1. Driving Record
2. Annual Miles Driven
3. Years of Driving Experience
4. Other factors having a "significant relationship to the risk" (e.g. location, etc.)

A driver is eligible for the 20% Good Driver Discount, if they have not been involved with any of the following in the past 3 years:

1. More than one minor violation
2. Principally at fault in an accident that resulted in bodily injury or death
3. Conviction for driving with a blood alcohol level of .05 or more while under age 18
4. More than 1 dismissal of a traffic citation



Parts of the Policy

Declarations

The Declarations Page contains a lot of the specific information relating to a particular policy—and policyholder. It includes the names of the people covered by the policy, the dates it's in effect and the vehicles covered.

A policy is in effect beginning on the **effective date**. When coverage under a policy stops, the policy has expired—thus, the date on which coverage ends is called the expiration date.

A key thing to note: The time of day that appears along with the effective date and expiration date. This pinpoints the exact time at which coverage begins and ends. (If the insured's policy starts at midnight, and the insured gets in an accident at 11:55 p.m. the insured won't be covered.)

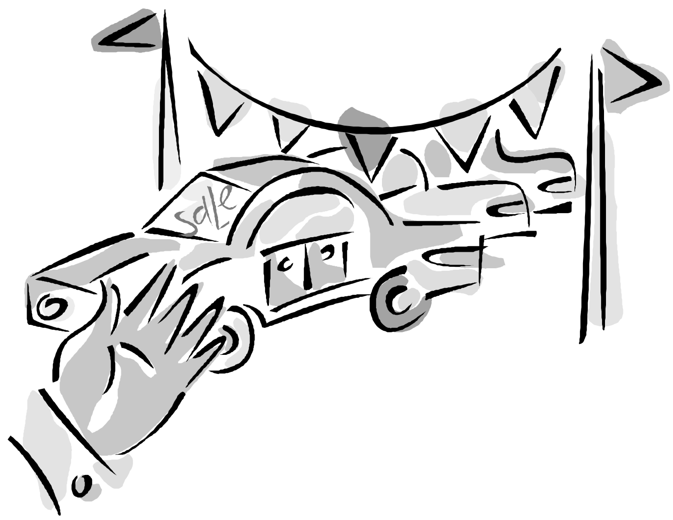
The Declarations Page also will mention any specific kinds of coverage added to or dropped from a standard policy. These are called **endorsements**. However, more detail on the endorsements usually will appear elsewhere in the insured's policy.

Definitions

After the Declarations Page, the next place to look for basic information is the **definitions** section of the standard policy. Here's a quick translation of the most important terms found there.

- **Loss**, as used in an insurance policy, does not generally mean *misplacement*. Loss means a direct financial loss of value as a result of situations that are covered by the policy.
- **Covered auto** is used throughout the policy to refer to the specific car or cars listed on the Declarations Page. A car has to be listed—usually by vehicle identification number—in order to be considered a "covered auto." (This is why it's important to actually read the Declarations Page—to be sure all the autos the insured thinks are covered really are.)
- The phrase **non-owned auto** is a new addition to some policy forms written. It relates to coverage for cars you've borrowed or rented. (Leased cars usually are treated as if the insure down them.)
- A **collision** does not have to involve smashing into something—damage caused by the upset or overturn of a covered auto is considered collision damage. And collisions don't necessarily involve multiple cars—if the insured hits a bridge or a tree or a mailbox, that's considered a collision, too.
- However, hitting an animal or bird is not considered a collision, according to standard policies, and the damage would be covered only if **other than collision** (OTC, also known as comprehensive) coverage has been purchased.

For starters, the insured will need to know that the phrase *covered auto* applies to several sets of circumstances. If the insured sells a car and buy a replacement vehicle during the policy period, the replacement is automatically a covered auto for liability purposes until the end of the policy period. However, **physical damage coverage** will apply to newly acquired vehicles (whether they are replacement cars or additional vehicles) only if the insured requests the coverage within 30 days. The reason: Physical damage rates and premiums are more dependent upon the value of the vehicle than are rates and premiums for other coverages—like, say, liability. (While the insured may think a beat-up 1987 Toyota poses a greater liability threat than a new Bentley, insurance companies don't see it quite that way.)



Newly Acquired Autos

Newly Acquired auto is a private passenger auto, pickup or van that you become the owner of during the policy period. This might apply if the insured bought a new car, before he or she bought insurance specifically for that new car.

In California, some specific rules apply to coverage for newly acquired autos:

- a newly acquired auto will have the broadest coverage provided for any vehicle shown on the Declarations page, except for collision coverage;
- if the insured has collision coverage on at least one auto listed on the Declarations page, collision coverage on a newly acquired auto begins on the date the insured becomes the owner. The insured must notify the insurer within 14 days;
- if the insured does <u>not</u> have collision coverage on at least one auto listed on the Declarations page, collision coverage on a newly acquired auto begins on the date the insured becomes the owner, but the insured must request collision coverage within 4 days; and a $500 deductible applies.
- if a newly acquired auto is <u>in addition</u> to any vehicle shown on the Declarations page, the insured must notify the insurer within 14 days.

Liability Coverage- Part A

Liability is probably the most important kind of automobile insurance. It covers money owed when the insured causes **bodily injury** to another person or **damage to another person's property**.

Technically, liability coverage applies only when the insured is legally liable for injury or damage. The fact that injury or damage has occurred does not necessarily mean that you're legally liable. (However, proving who is either completely or partially liable can be one of the most time-consuming—and legal fee-generating—parts of the insurance claims process.)

If one driver is liable for a two-car accident, the other party may be entitled to compensation for injuries or damage or both. Compensation may be in the form of money paid to the injured party for **tangible damages** (such as a medical bill or the cost to repair a damaged vehicle) and/or money paid for **intangible damages** (such as pain and suffering).

The intangibles are the ones that get you, financially speaking. When the insured damages another car, the insured's liability is usually limited to the value of that vehicle. But, if the insured injures a person in that car, causing a permanent disability or pain and suffering that prevents that person from earning a living, courts can award millions of dollars. That's why the insured needs liability insurance.

Limitations – Damages are subject to the limit of liability shown in the declaration page. The duty to defend is limited to bodily injury and property damage covered under the policy. It ends when the limits have been exhausted. The insurer has no duty to settle a claim or defend a suit for injury or damage that is not covered by the policy

Defense Costs

Because defending a lawsuit in court can be very expensive, payment of legal defense costs is an important part of liability insurance coverage. In some cases, the cost of defense can be as much as—or more than—the amount ultimately awarded as damages.
It's important to remember that the insurance company pays unlimited defense costs in an automotive liability suit—and these defense costs are paid **in addition to the limit of liability**.

Supplementary Payments

Supplementary Payments are paid in addition to the policy liability limits and include the following:

1. $250 maximum for bail bonds
2. Post judgment interest
3. Premiums on appeal bonds or bonds to release attachments
4. Up to $200/day loss of earnings due to attendance at hearings or trials at the company's request
5. Other reasonable expenses incurred by the insured at the company's request.

Split Limits vs Single Limit Coverage

The difference between the "per accident" and "per person" limit in a split limit policy and a single limit policy has to do with how the coverage applies in a claims situation.

Split Limit – In split limit, coverage is divided into sections and can only be used as scheduled. For example 15/30/5 means that the maximum the policy will pay is $15,000 per person for BI, $30,000 for all BI per accident, and $5,000 for all PD per accident. The "per accident" limit only applies to bodily injury and property damage.

Single Limit – In single limit, coverage is a lump sum, which can be used for any or all bodily injury and personal damage in any one claim. This is similar to blanket coverage and is more flexible than split limit, but not usually available and more expensive.

Out of State Coverage

The odds are that you're going to drive into another state at some point. The insured may even work across state lines. Because liability laws vary from state to state, settling a claim can be complicated if an accident occurs when the insured is outside the insured's home state.

That's why insurance companies have **out-of-state coverage provisions** in a standard auto policy. The standard Personal Auto Policy will automatically provide the minimum amounts and types of coverage needed in the other state with no additional premium.

Excess Automobile Liability Coverage

Excess Automobile Liability Coverage is a policy that the insurer treats as additional insurance above and beyond the primary auto coverage, typically for catastrophic loss. The primary coverage is the first coverage required to make payment in the event of a claim.

In the case of excess automobile liability coverage, the underlying or primary coverage is the Bodily Injury (BI) and Property Damage (PD) liability that is purchased with the personal auto policy. (PAP) The excess automobile liability coverage is either a separate umbrella policy or the insurer extends the limits on the underlying coverage to cover catastrophic loss. For example, if an insured leaves his/her car in a facility (such as a garage, parking lot or valet), and the car is involved in an accident, the excess automobile liability coverage would cover this loss.

Other Insurance

This clause explains how coverage will apply if there is other insurance covering the same loss, preventing the claimants from "profiting" from an accident by collecting more than their actual loss. The vehicle's policy will be the primary when the owned auto is involved and the driver's policy will be excess when a non-owned auto is involved. Policies will pay on a pro-rata basis if both policies are primary, based on the proportion that the policy limit bears to the total of all applicable limits.

Exclusions to Liability Coverage

A. Intentional injury or damage – (only applies to the person who causes the injury)

B. Damage to property owned or being transported by that insured

C. Employee of the insured – bodily injury to an employee of the insured if the injury occurs during the course of employment. The exception is a domestic employee that is not covered by workers' compensation.

D. Damage to non-owned property rented to, used by, or in the care of that insured.

E. Public conveyance or Livery

F. Garage/Auto Business – excludes liability while employed or engaging in the business of selling, storing, parking, repairing or servicing vehicles – does not apply when using their own covered auto.

G. Racing or Speed contest.

H. Fewer than 4 wheels

I. Not designed for public roads – ATV's, dune buggies…

J. Other business use. – excludes liability while using commercial type vehicles

K. Stolen (using a vehicle without reasonable belief of being entitled to do so) – excludes family members.

L. Owned or available for regular use – Personal Auto Policy liability coverage does not apply to any vehicle, other than the covered auto that an insured owns or to which the insured has regular access/use.

M. Owned or available for regular use of family members

N. Nuclear energy liability

Medical Payments Coverage- Part B

Medical payments coverage is an optional part of auto insurance. The coverage pays **reasonable medical expenses** incurred by you, members of the insured's family and passengers for bodily injuries sustained while riding in the insured's car. (The insurance company will have its own ideas about what is or isn't *reasonable*.)

This coverage also applies to the insured and the insured's family members when you're riding in **another automobile**, or if you're injured as pedestrians by an automobile.

Medical payments coverage allows **immediate payment** to the insured or other covered persons, regardless of who was at fault in the accident.

Both the insured and the insurance company benefit from this aspect of the coverage. A quick settlement of a claim for medical expenses resulting from an injury is a big help if you're paying the bills out of pocket, since the insured doesn't have to wait around until all the finger-pointing (and lawyer-calling) is done. The insurance company likes this quick-pay plan, too, because it hopes paying the insured right away will prevent the insured from filing a liability claim later for additional damages.

Extraordinary medical benefits. If the insured's medical and rehabilitation expenses exceed the limits on the insured's policy, this coverage kicks in and pays—up to $1 million.

<u>Part B – Medical Payment EXCLUSIONS</u>

The following is a sample of typical Part B Medical payment exclusions in the standard policy wording.

"We" do not provide Medical Payments Coverage for any person for "bodily injury":

1. Sustained while "occupying" any motorized vehicle having fewer than four wheels.

2. Sustained while "occupying" "your covered auto" when it is being used to carry persons or property for a fee.
   This exclusion (2.) does not apply to a share the expense car pool.

3. Sustained while "occupying" any vehicle located for use as a residence or premises.

4. Occurring during the course of employment if workers' compensation benefits are required or available for the "bodily injury".

5. Sustained while "occupying" or when struck by, any vehicle other than "your covered auto" which is:
   a. owned by "you"; or
   b. furnished or available for "your" regular use.

6. Sustained while "occupying" or when struck by, any vehicle other than "your covered auto" which is:
   a. owned by any "family member"; or
   b. furnished or available for the regular use of any "family member".
   However, this exclusion (6.) does not apply to "you".

7. Sustained while "occupying" a vehicle without a reasonable belief that a person is entitled do to so.

8. Arising out of the use of any vehicle in the operation of a business for the purpose of delivering property from the business to the consumer. By way of example, and not limitation, we do not cover food delivery, flower delivery, or document delivery.

9. Caused by or as a consequence of:
   a. discharge of a nuclear weapon (even if accidental);
   b. war (declared or undeclared);
   c. civil war;
   d. insurrection; or
   e. rebellion or revolution.

10. From, or as a consequence of, the following, whether controlled or uncontrolled or however caused:
    a. nuclear reaction;
    b. radiation; or
    c. radioactive contamination.

Uninsured/Underinsured Motorist Coverage- Part C

Uninsured motorist (UM) coverage is designed to protect the insured for bodily injuries when those injuries are caused by another driver who either has no liability insurance or has coverage that is less than the minimum requirements of state law. UM coverage also protects the insured for bodily injury when caused by a hit-and-run driver who cannot be identified.

Uninsured motorists are a bigger risk than many people think. According to the California Department of Insurance, in certain parts of Los Angeles County, fewer than seven in 10 drivers have auto insurance. The same study found that almost 28 percent of all California drivers are uninsured—a number that seems to apply to the states with the biggest populations.

Even in states that strictly enforce auto insurance rules, uninsured motorists go to great lengths to stay on the road. Some purchase temporary insurance to obtain license and inspection seals, then discontinue their payments. Others use counterfeit insurance cards.

UM coverage was conceived as a partial solution to the problem created by drivers who would not or could not obtain liability insurance. It benefits those who are covered by a Personal Auto Policy and who purchased UM coverage. It does *not* benefit the uninsured motorist who is responsible for an accident.

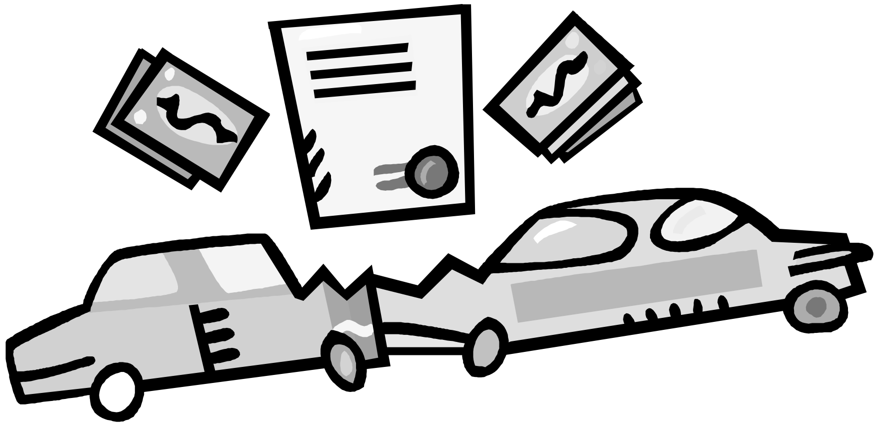
In California, policies that provided bodily injury liability are mandated to offer UM coverage; however, it is NOT required for the insured to purchase. (CIC 11580.2[a](1)) Only a handful of states allow this coverage to apply to property damage. (In many states, property damage caused by an uninsured motorist or a hit-and-run driver comes under the domain of the insured's collision coverage—an important point to consider before the insured turns down collision coverage.)

Uninsured motorists involved in a collision ***cannot sue*** an at-fault party for "general" (non-economic) damages.

Underinsured motorists coverage is slightly different. It applies when another driver who causes an accident has liability insurance, but the insurance is inadequate to cover resulting injuries.

For example: The insured carries $50,000 of underinsured motorists coverage. Another driver swerves onto the wrong side of the street and hits the insured's car head-on. The insured needs $45,000 to cover the insured's injuries. The other driver only has $30,000 of bodily injury liability coverage and cannot personally pay the additional damages. The other driver's insurance company would pay the insured $30,000, and the underinsured motorists component of the insured's coverage would pay the additional $15,000.

Underinsured motorists coverage is often linked directly with uninsured motorists coverage in a standard policy. Whether or not they're linked, it's usually a good idea to purchase coverage limits in line with the other personal property coverage in the policy.



Physical Damage Coverage – Part D

The insured has to carry insurance to cover damage to somebody else's car. But the insured doesn't have to carry insurance to cover damage to *his own* car. However, most people with newer vehicles choose to get it—and all people who "co-own" their cars with a bank or leasing company are usually contractually required to have it. Coverage for damage to the insured's car is divided into two categories.

Collision

Collision coverage refers to direct or accidental physical damage to the insured's car as the result of upset (flipping over) or impact with another vehicle or object (other than an animal).

Collision pays for traffic accident damages, and comprehensive pays for other types of damage, such as from hail or a tree falling on the insured's car. Collision coverage typically accounts for about 30 percent of the annual cost of an auto insurance policy, and comprehensive accounts for about 15 percent.

Auto policies are almost always written with **higher deductibles** for collision than for comprehensive losses. So, by treating an accident with an animal as a non-collision loss, the insurance company has done the insured a favor: It allows the lower deductible to apply. Why? Because insurance companies know that the insured will have greater opportunities to avoid contact with other cars or objects than with free-moving creatures that react unpredictably to lights, motion and sound.

Other Than Collision

The second loss category for damage to the insured's car is called, aptly enough, **other than collision** or OTC. Historically, this has also been known as **comprehensive** coverage. It is a broad category that includes many types of loss; however, it is still considered being a property loss. In fact, most types of auto insurance claims fall under OTC coverage.

If the insured's car is stolen and it isn't recovered—and the insured has other-than-collision coverage—the insurance company will pay the insured the actual cash value of the car, less the insured's deductible.

This *actual cash value* is an important term that we will see throughout this book. In short, it means the amount paid for a thing minus the depreciation which has occurred during the term of ownership. In the case of cars, it is often used interchangeably with the term *Blue Book value*. Whatever the term, this is a conservative way to value an asset—and one that doesn't guarantee the asset can be replaced.

If the insured's car is recovered and it wasn't totaled, the insurance company will pay to fix the damages caused by the theft.

However, OTC coverage will not pay for things that were in—but not of—the insured's car. This includes cellular phones, tapes and CDs, suitcases, cameras, purses and hundreds of other items. The good news is that these items probably will be covered by the insured's homeowners (or renters) insurance policy.

Transportation expenses are a part of the physical damage coverage, and expenses are reimbursed if an auto is inoperable because of a covered Comprehensive or Collision loss. Currently the limit is $20/day with a maximum of $600.

For theft, loss coverage begins 48 hours after the vehicle is stolen. For other covered losses, coverage begins 24 hours after the car is withdrawn service.

Part D- Settlement Options

Limits of Liability

The limit of liability for any coverage is simply the **maximum amount of money** that the insurance company is legally obligated to pay if a covered loss occurs. If a covered loss occurs for less than the limit of liability, the insurance company will pay the amount of the loss, minus any deductible that may apply. If the amount of a covered loss is more than the limit of liability, the insurance company will pay the limit of its coverage and *the insureds* are responsible for paying any additional costs.

If, for some reason, the insured choose to purchase or renew an insurance policy that does not satisfy the financial responsibility law of the insured's state, that policy must come with a clear, written warning that it does not meet the law.

The insured doesn't get to choose the limit of liability for physical damage coverage directly, because it is based on the actual cash value of the covered car, minus any deductible.

An important point: **Most cars depreciate in value rapidly**. If the insured paid $20,000 for a new car five years ago and it is totally destroyed today, it would not be worth its original cost—nor would it be worth the current cost for a new car. Instead, the insured's insurance company would pay the actual cash value, and the insured might receive $10,000 as a settlement.

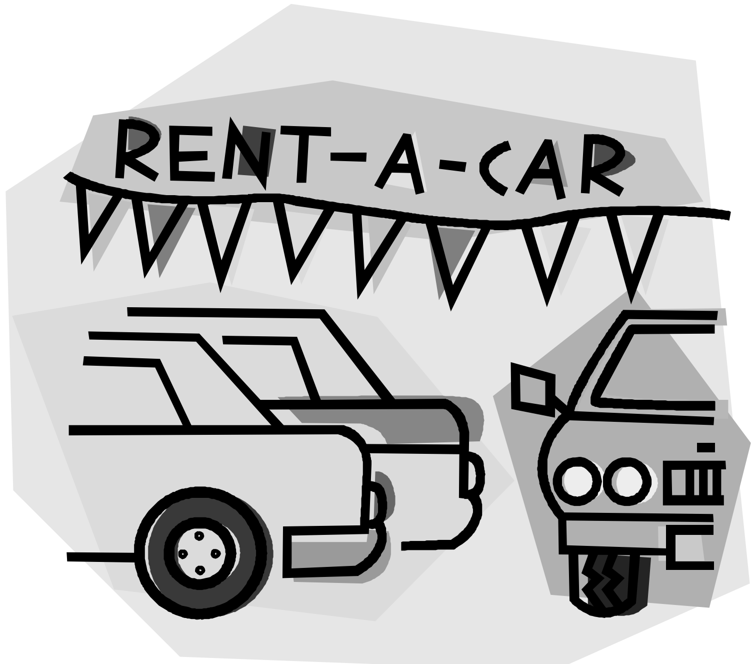
Generally, the actual cash value of a five-year-old car should be enough for the insured to purchase another five-year-old car of the same (or similar) make and model.
If the insured's car was not a total loss, the company would pay what it cost to repair the car with materials of like kind and quality (which may mean used or substitute parts). However, the insurance company does have the option of keeping all or part of any damaged or stolen property—and giving the insured a check for an agreed or appraised amount.

This is what people mean when they say a car has been "totaled." The insurance company pays out the total Actual Cash Value (ACV) of the car and takes possession of the title. It will then sell the wrecked car to an auto salvage company.

Special Policy Options

In addition to these typical components of a car insurance policy, there are a few special options that the insured may want to add—to customize the insured's insurance to suit the insured's needs, but not all insurance companies offer them, so be sure to ask. These include:

- **Funeral benefit**. If the insured or a family member die in an auto accident, this coverage pays up to $2,500. The cost is nominal. Nationwide, for instance, charges 40 cents per year for $1,500 worth of coverage (although it costs considerably more to be buried in most parts of the United States).
- **Gap insurance**. This coverage pays the difference between what the insured owes on a car and what the actual value is in the event that the value is lower than the pay off if the car is stolen or totaled. This coverage has become more common since leasing cars has become more popular.
- **Income loss**. If injuries from an accident keep the insured from working, this coverage pays the amount of the insured's take-home pay. Payments will usually last only a limited time. But they are made without regard to whether the insured has other disability insurance coverage—although any other disability insurance the insured has will probably not kick in until this coverage ends.
- **Rental car replacement**. This coverage pays a set amount (usually about $15 per day, to a maximum of $450) for a rental car if the insured's car is being repaired because of an accident.
- **Towing and labor costs**. This coverage pays for towing and road service, such as jump-starting the insured's car or changing a flat tire. It can be used any time the insured's car breaks down, not just when it's involved in an accident. This coverage shouldn't cost very much—usually less than $5 a year.
- **Stacking**. This coverage allows the insured to multiply the amount of uninsured or underinsured motorist coverage the insured has by the number of vehicles on the insured's policy—or by the number of vehicles in the insured's household, if they are covered under separate policies. Because people sometimes abuse stacking to inflate claims, some states don't allow this practice—and even the ones that do add a number of provisions.



Rental Car Coverage

One of the most common questions people ask about auto insurance is "Do I need to buy the insurance that car rental companies offer?" The answer is "no". If an insured rents a vehicle, all coverage is in force under the personal auto policy. However, the rental car company will offer other types of coverage.

When the insured rents a car, the insured usually will be offered several kinds of coverage. The most common is a **collision damage waiver**, or CDW. Some rental companies use the term loss damage waiver, or LDW, instead of CDW—but the protection is the same.

Another type of insurance car rental companies may try to sell is personal-effects coverage.

- **Personal-effects coverage**. This provides limited reimbursement for loss of baggage and other personal property during the rental period. (These items probably are covered by the insured's homeowners policy.)

Unlawful practices:

Additional standards applicable to Automobile Insurance

The **California Code of Regulations (2695.8 (e))** states that no insurer shall:

(1) require that an automobile be repaired at a specific repair shop
(2) suggest or recommend that an automobile be repaired at a specific repair shop
(3) require a claimant to travel an unreasonable distance either to inspect a replacement automobile, to conduct an inspection of the vehicle, to obtain a repair estimate or to have the automobile repaired at a specific repair shop

With regards to requirements, suggestions or recommendations by an insurer regarding repair shops:

(a) No insurer shall require that an automobile be repaired at a specific automotive repair dealer,
(b) No insurer shall suggest or recommend that an automobile be repaired at a specific automotive repair dealer unless either of the following applies:

- A referral is expressly requested by the claimant.

- The claimant has been informed in writing of the right to select the automotive repair dealer

- If the recommendation is accepted by the claimant, the insurer shall cause the damaged vehicle to be restored to its condition prior to the loss at no additional cost to the claimant other than as stated in the policy or as is otherwise allowed by law.

If the recommendation of an automotive repair dealer is done orally, and if the oral recommendation is accepted by the claimant, the insurer shall provide the information contained in this paragraph, as noted in the statement below, to the claimant at the time the recommendation is made. The insurer shall send the written notice required by this paragraph within five calendar days from the oral recommendation. The written notice required by this paragraph shall include the following statement plainly printed in no less than 10-point type:

"WE ARE PROHIBITED BY LAW FROM REQUIRING THAT REPAIRS BE DONE AT A SPECIFIC AUTOMOTIVE REPAIR DEALER. YOU ARE ENTITLED TO SELECT THE AUTO BODY REPAIR SHOP TO REPAIR DAMAGE COVERED BY US. WE HAVE RECOMMENDED AN AUTOMOTIVE REPAIR DEALER THAT WILL REPAIR YOUR DAMAGED VEHICLE. IF YOU AGREE TO USE OUR RECOMMENDED AUTOMOTIVE REPAIR DEALER, WE WILL CAUSE THE DAMAGED VEHICLE TO BE RESTORED TO ITS CONDITION PRIOR TO THE LOSS AT NO ADDITIONAL COST TO YOU OTHER THAN AS STATED IN THE INSURANCE POLICY OR AS OTHERWISE ALLOWED BY LAW. IF YOU EXPERIENCE A PROBLEM WITH THE REPAIR OF YOUR VEHICLE, PLEASE CONTACT US IMMEDIATELY FOR ASSISTANCE."

After a claimant has chosen a repair dealer, the insurer may not suggest or recommend that the claimant select a different repair dealer

Additionally, (per CIC 753) It is unlawful for any insurance agent or broker, or any insurance solicitor, to receive any financial benefit from an automobile repair facility or any other form of direct or indirect consideration from any person for referring insureds to that person or that person's designee for vehicle repairs covered under the automobile comprehensive coverage, property damage coverage, or automobile collision coverage, of an insurance policy issued through the insurance agent or broker or by an insurer represented by the insurance agent

Insured's Duties After a Loss- Part E

After a loss has occurred, the insured is required to do the following:

- Promptly notify the insurer
- Submit a proof of loss when required by the company
- Cooperate with the insurer in the investigation and settlement of any claim
- Submit to medical exams (at the company's expense)
- Notify the police if a hit and run driver is involved or if the auto is stolen
- Allow the company to inspect and appraise the damage before repairs are made
- After the loss, protect the vehicle from further damage

The insurer must be notified of all the details regarding the accident, including the names and addresses of witnesses, if any.

General Provisions- Part F

Coverage Territory

Generally, the policy territory is limited to the United States, its territories and possessions, Puerto Rico and Canada. If the insured drives into Mexico, the insured must have valid liability insurance from a Mexican insurer. (If the insured doesn't and you're involved in an accident, the insured could wind up doing jail time, having the insured's car impounded and suffering other penalties.)

Cancellation

One of the most common complaints about car insurance companies is how quick they are to cancel the insured's policy if the insured has an accident or get too many tickets. Fortunately, state regulators have taken a great interest in how, when and why insurance companies **cancel** policies.

In California, the insurer must give advance notice before canceling a policy, according to the following guidelines (CIC 662, 663)

- 10 days= nonpayment
- 20 days= any other reason for mid-term cancellation
- 20 days= renewal
- 30 days= nonrenewal

There are certain permitted reasons for an insurer to cancel or non-renew an auto policy. These reasons are as follows:

- Nonpayment of premium
- Fraud or material misrepresentation affecting the policy or the insured
- A substantial increase in the hazard insured against
- The insured's driver's license or registration is suspended or revoked.

No insurer shall fail to renew a policy solely based on the insured's age. Any insurer who willfully violates any provisions of Section 663, is guilty of a misdemeanor an is punishable by a fine of not exceeding $1000 for each violation. (CIC 663.5, 669)

Policy Endorsements

Since an insurance policy is a legal contract, the insured or the insured's insurance company can't just take a pen and make changes to the policy. To change any portion of the policy (whether it is the information on the Declarations Page or any of the policy terms and conditions), the insurance company must issue a form that identifies the change being made. The form is then attached to the policy, and the change becomes binding on both parties. Forms such as this—and changes such as this—are called **endorsements**.

Additional forms also are attached to a policy to add optional coverages that are not included in the standard policy form. These forms may be attached when a policy is first issued, or at a later date.

Mexico Coverage Endorsement covers accidents that occur in Mexico within 25 miles of the United States border. It is excess of Liability coverage purchased through a Mexican insurer and applies only if Mexican coverage has been purchased. It applies only when the insured will be in Mexico for 10 days or less. It only applies to any suit brought by an American citizen. If a Mexican citizen sues, the coverage does not apply.

Miscellaneous Type Vehicle Endorsement waives the standard 4-wheel vehicle and/or vehicle weight less than 10,000 pound limitation and allows the policy to cover motorhomes, dune buggies, golf carts, motorcycles, or all-terrain vehicles (ATV's). The coverage provided is the broadest coverage contained in the insured's PAP.

Named Non-owner Policy Endorsement provides coverage for a person who doesn't own a vehicle, but drives borrowed or rented cars.

Extended Non-owner Liability Coverage Endorsement deletes the exclusions for driving non-owned autos that are furnished or available for the insured's regular use. (i.e. company car)

Optional Physical Damage Endorsement. Coverage for Audio, Visual and Data Electronic Equipment and Tapes, Records, Discs, and Other Media Endorsement allows equipment normally excluded, including radios, CD players, tape decks not permanently installed, car phones, and CB radios, etc. to be covered. The maximum coverage is $200.

Towing and Labor Coverage Endorsement is shown on the Declarations Page and applies toward towing and labor costs when a covered auto is disabled. However, the labor costs are covered only when the labor is performed at the **place of disablement** (such as on the side of the road where the car stopped running—not later at a garage). This coverage usually is written for a prearranged, limited amount.

Extended Transportation Endorsement increases the limits of coverage for transportation expenses claims from $20/day and $600 total to $30/day and $900 total for a vehicle stated in the Declarations.

Customizing and Modifications of the vehicle if an insured makes modifications to the auto, these modifications will not always automatically be covered. If an insured is in an accident or has the vehicle stolen, the insurer will not cover the excess cost to cover modifications or customizations. The insured in many cases may purchase additional coverages for certain customizations or modifications. Common modifications and customizations that an insured may cover for an additional fee would include; custom paint job, graphics, decals, custom stereo equipment and other electronics, custom tires, wheels or spinners, and additional chrome. It is important to note that each insurer has certain regulations pertaining to what they will or will not cover, so the insured should contact their agent/broker or insurer to find out exactly what options are available when it comes to modifications and customizations.

Joint Ownership Endorsement. An endorsement attached to a standard personal auto policy that insures vehicles normally ineligible under the standard ownership rules. Joint ownership is defined as an auto owned by relatives other than husband and wife, or an auto owned by unrelated individuals who reside together,

Trust Endorsement. An endorsement attached to a standard personal auto policy that insures vehicles normally ineligible under the standard ownership rules. A trust is defined as A legal arrangement whereby property is held and managed by a trustee for the benefit of beneficiaries.

Policy Cancellation, Non-Renewal, and California Amendatory Endorsement

The Cancellation and Non-Renewal Condition found in your policy form states the circumstances under which a policy may be terminated. The reasons for cancellation, the time notices required, the procedures to be followed, and the computation of return premium will all be outlined for your use. After having read the Condition you now turn to the California Amendatory Endorsement regarding policy termination. Here you may find that important parts of the Policy Condition have been deleted or expanded to be brought in line with the California Insurance Code. The point is that you must read both the policy condition and the Amendatory Endorsement to have a clear understanding of your rights and obligations. An example of such an endorsement would be **Limited Mexico Coverage** which was previously discussed.

Transportation Network Companies (TNC)

A **transportation network company** (**TNC**) connects paying passengers with drivers who provide the transportation on their own non-commercial vehicles. All parties connect to the service via website and mobile apps. TNCs include Lyft, Uber, Via, Ola Cabs, GrabCar etc.

An early definition of a TNC was created by the California Public Utilities Commission in 2013, as a result of a rulemaking process around new and previously unregulated forms of transportation. Prior to the definition, the commission had attempted to group TNC services in the same category as limousines. Taxi industry groups opposed the creation of the new category, arguing that TNCs, as illegal taxicab operations are taking away their business. The commission established regulations for TNC services at the same time as the definition. These included driver background checks, driver training, drug and alcohol policies, minimum insurance coverage of $1 million, and company licensing through the Public Utilities Commission under AB 2293, which will do 4 main things:

1) Require TNCs to disclose to drivers upfront that their personal insurance may not apply when engaging in commercial TNC activities.

2) Define in statute that TNC activities begins once the “app” is turned on and the TNC services end when the “app” is turned off.

3) AB 2293 clarifies that TNC insurance is primary coverage.
4) Require TNC’s liability insurance to defend and indemnify their drivers when they have a claim or accident

California Automobile Assigned Risk Plan (CAARP)

The CALIFORNIA AUTOMOBILE ASSIGNED RISK PLAN (CAARP) was created in 1947 by the state legislature with the essential purpose to provide automobile liability insurance to those who "in good faith" are entitled to but are unable to procure such insurance through ordinary methods. The statute indicates a legislative intent to encourage drivers to seek insurance in the voluntary market using the assigned risk plan only as a last resort.

The assigned risk plan is not an insurance company. Its rates are recommended by CAARP's Advisory Committee and approved by the Department of Insurance.

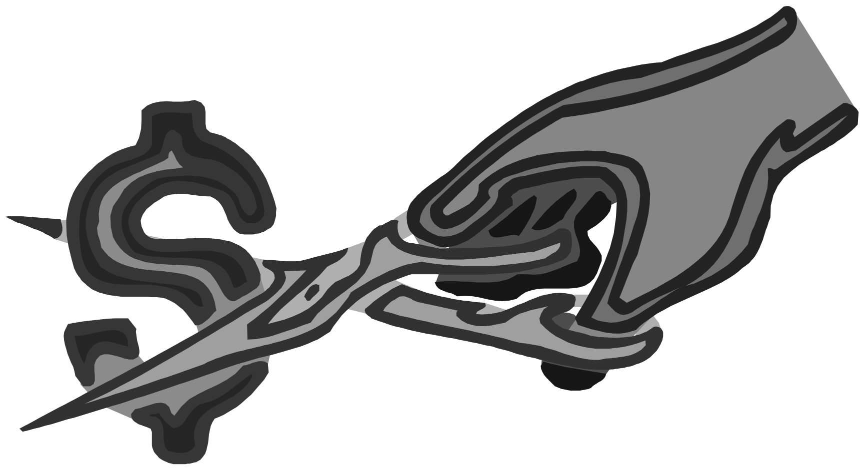
- **Who is Eligible**: To be eligible for CAARP, an applicant must have tried and failed to obtain insurance through voluntary markets in the 60 days before their application to CAARP. Applicants who failed to pay auto premiums in the year before or do not have a drivers' license are ineligible for CAARP.
- **Eligibility Requirements**: CAARP eligibility requirements include (1) California residents, (2) nonresidents who own a vehicle registered in California, or (3) members of the military stationed in California.
- **Coverages and Limits**: CAARP must provide the following minimum limits of coverage:
    - $15,000/$30,000 for Bodily Injury Liability and Uninsured Motorists
    - $5,000 Property Damage Liability
    - $1,000 Medical Payments
- **Whether Coverage May Be Bound**: Coverage may be bound by CAARP, but not an agent or broker. CAARP will normally bind coverage at 12:01 a.m. on the day following receipt of an application.
- **Commercial Vehicles**: Commercial risks that have not been able to obtain liability insurance are also eligible for coverage through CAARP. These risks purchase the amount necessary to meet their financial responsibility limit required by law (which can exceed $1,000,000) depending on their ICC or PUC filings. The CAARP established the Commercial Automobile Insurance Procedure or CAIP to make coverage for risks common to commercial operations. It is a pooling agreement run by CAARP, which most big commercial risks are assigned to an insurance company for management and all insurance companies share the losses and expenses.

NOTE: Only certified producers can submit applications to the California Automobile Assigned Risk Plan. Any agent/broker with a California fire & casualty license can become a certified producer with CAARP. Agents/brokers must complete an application for CAARP certification and include a copy of their current California fire & casualty license.

Non-Standard Physical Damage Coverage

Non-Standard physical damage coverage applies to insureds that are considered a higher risk by the insurer due to driving record, age, etc. This coverage may provide for higher deductibles, require that only individuals specifically named in the policy declarations are insured drivers, and generally be less liberal in policy coverage. It is often used when the insured purchases liability coverage through the California Automobile Assigned Risk Plan (CAARP) and needs a separate policy for physical damage. CAARP coverage is discussed in detail, later in the chapter.

Low-Cost Automobile Insurance



What is Low Cost Automobile Insurance?

Low cost automobile insurance is an outreach program devised in 1999, to focus on the California counties in which have the highest number of uninsured drivers or the highest percentage of uninsured drivers or the highest percentage of low-income individuals. (CIC 11629.7b)

What is the Cost?

The annual rate offered under the program shall be established by the commissioner. A surcharge, as a percentage of the base rate, shall be added to the base rate and that percentage shall also be determined by discretion of the commissioner.

Who is Eligible?

To be eligible for the program a person:

1. shall be in a household with a **gross annual household income that does not exceed 250% of the federal poverty level**
2. shall be **no less than 19 years of age** and has been continuously licensed to drive an automobile for the previous 3 years
3. shall **not have had a) "at-fault" property damage accident or b) a point for a moving violation**
4. shall **not have felony or misdemeanor conviction** for a violation of the Vehicle Code
5. shall **not be a college student** claimed as a dependent

Cancellation and Renewal Procedures

Insurers may refuse to renew low cost policies for the same reasons that insurers are permitted to non-renew other auto policies under California Insurance Code Sections 671 and 1861.03 (c). **You may be refused renewal only if:**

- **There is a substantial increase in the hazard insured against, or**
- **You no longer meet the program's eligibility requirements**. Under the law, CAARP will certify your eligibility the first year; your carrier must re-certify you annually after that.

Three other possible **reasons for cancellation** apply only to low cost policies.

- **Under the new law, low cost auto policyholders are not allowed to purchase additional automobile liability insurance coverage** (buying additional, non-liability coverage – such as collision or uninsured motorist – at additional cost outside the program is allowed).
- In addition, a low cost auto policyholder cannot purchase liability insurance from outside the program to cover any additional vehicle in the same household.
- **Qualified households are limited to no more than two policies.**

Coverages and Limits Available

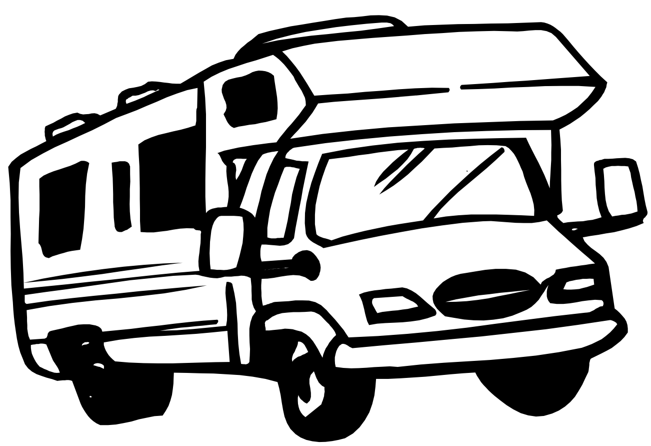
The policy shall offer coverage in the amounts of:

- $10,000 for bodily injury per person
- $20,000 bodily injury per occurrence
- $3,000 for damaged property

Specialty Insurance

There are all sorts of land-bound motorized vehicles that typically aren't thought of as cars—and that may not be best insured (or even possible to insure) under a personal automobile policy. Insurance companies use the terms specialty vehicles and recreational vehicles to refer to these machines, which include motorcycles, mini-bikes, dirt bikes, mopeds, motorhomes, camper trailers, three- or four-wheeled all-terrain vehicles (ATVs), electric or gas-powered golf carts, snowmobiles and dune buggies.

For the most part, these vehicles are **not covered under a homeowners policy**. In fact, a homeowners policy pretty thoroughly excludes liability and medical payments coverage for anything to do with any type of motorized vehicle. It may provide coverage for a boat that is stored on the insured's premises, and it may provide coverage for a golf cart or ATV used to service the insured's property. But if the insured is going to be using any of these vehicles off-site, the insured really needs to insure them properly.
This can be as simple as adding an endorsement to the insured's homeowners policy—or to the insured's automobile policy. But, more likely, the insured will want to get special stand-alone coverage just for the type of vehicle the insured needs to insure. In this chapter, we'll look at each type of vehicle and the type of coverage offered, along with appropriate coverage issues.



Insuring a Motorhome or RV

The insured can insure a motorhome or recreational vehicle (RV) by adding an endorsement to the insured's homeowners or auto insurance policy. However, these policies weren't designed to cover motorhomes; and the endorsements do not give the insured the complete coverage the insured can get by purchasing an RV policy.

Insuring Motorcycles

Motorcycles generally are not covered by a Personal Auto Policy and generally cannot be added as an endorsement.

Coverage

In addition to standard motorcycle coverage, coverage is also available for Uninsured/Underinsured Motorist, Medical Coverage, Roadside Assistance, Custom Parts and Equipment. Special policy options are also available for Custom Bikes and Collector Bikes

Medical Payments, Expenses and/or Benefits

Medical Payments Coverage covers the cost of necessary medical care provided to you as a result of a motorcycle accident and applies no matter who is at fault. The coverage is often limited to medical care you get in the first one, two, or three years after the accident and is limited to a specific dollar amount. In some states, this coverage only applies after other medical insurance is exhausted.

One final point worth mentioning: Most insurance companies exclude coverage for any form of racing.

Personal Lines New Developments

Fire and Casualty Broker-Agent legislation and laws are subject to change at any time. Fire and Casualty Broker-Agents are strongly recommended to check with the California Department of Insurance often, as new developments may be present. The California Department of Insurance website is:

www.insurance.ca.gov

Proposition 103

This proposition did many things. The major points are:

1. Rolled back premiums on all auto, homeowner, business and other property/casualty lines
2. Required **prior approval** of rate increases
3. Required auto premiums to be based on (1) driving safety record (2) number of miles driven annually, and (3) number of years of driving experience
4. Required insurers to offer a **20%** good driver discount
5. Required the commissioner to be elected by the voters for a 4-year term
6. Insurers may only cancel or refuse to re-new auto insurance based on (1) non-payment of premium (2) fraud (3) a substantial increases in the hazard insured against and (4) suspension of license
7. Repealed the law prohibiting rebating
8. Permitted banks and other financial institutions to offer insurance policies
9. Gave consumers the right to challenge rates or practices of insurance companies or decisions of the insurance commissioner
10. Gave individuals, clubs, and other associations the right to unite to negotiate lower cost group rates

Chapter 2 - "From the Insurance Code"

The following text is taken directly from the California Insurance Code (CIC) and relates to topics/areas covered in this chapter. As per Department of Insurance requirements this some of this material will be repeated in other sections of your course(s), especially in the "Code & Ethics" portion.

For you convenience we have cross-referenced the Chapter and page number of the "Code & Ethics" portion that the material also appears.

Limited Lines Automobile Insurance Agent
– (Cross-reference) – Code – Page 8,9

1625.55. (a) A limited lines automobile insurance agent is a person authorized to transact automobile insurance, as defined in Section 660. A limited lines automobile insurance agent license is a license to so act.

(b) A license under this section shall be applied for and renewed, following successful completion of a qualifying examination on this code, ethics, and products sold under the license, in the same manner as provided in this chapter for a license to act as a property broker-agent and/or casualty broker-agent.

(c) The commissioner shall require in advance a fee for filing any applications, renewals thereof, or changes in outstanding licenses, or for the filing of other required documents at an amount designated in this chapter for a personal lines licensee, and for filing any notice of appointment or notice of termination at an amount specified in Section 1751.3.

(d) A person licensed as a limited lines automobile insurance agent who makes an application to the commissioner to become a property broker-agent and/or casualty broker-agent pursuant to Section 1625 or a personal lines agent pursuant to Section 1625.5 shall do all of the following:

(1) Submit an application on a form provided by the commissioner.
(2) Complete prelicensing education as specified in Section 1749.
(3) Take and pass a qualifying examination pursuant to Section 1676.

<u>1625.56.</u> "License year" for a limited lines automobile insurance agent shall be determined as follows:

(a) Upon initial licensing, the license year starts on the date the license is issued.
(b) Subsequently, each license year starts the first day of the month following the month in which the initial license was issued.
(c) A license year ends the following calendar year on the last calendar day of the month in which the initial license was issued.

<u>1625.57.</u> "License term" for a limited lines automobile insurance agent means all of that two-year period beginning as described in subdivision (a) or (b) of Section 1625.56, as applicable, and ending the second succeeding year on the last calendar day of the month in which the initial license was issued.