

**Class 14 Outline**  
**Business Finance 640 - Insurance and Risk**  
**Autumn Quarter, 2007**

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This class focuses on the Personal Auto Policy (PAP). In reviewing the PAP, we will first discuss eligible vehicles and the definition of “your covered auto”. We will then examine Part A, including the Insuring Agreement, the definition of Insured, the difference between “split limits” and “combined single limit”, Supplementary Payments and Exclusions. We will conclude Part A discussion by touching on the “out of state coverage” and the “other insurance provisions”.

Next, we will discuss Part B of the PAP, Medical Payments Coverage. We will examine the Insuring Agreement, Definition of Insured and Exclusions provisions. Then, we will review Uninsured Motorists Coverage, Part C of the PAP. We will pay particular attention to the definition of “Uninsured motor vehicle” in Uninsured Motorists and see how this definition impacts the Insuring Agreement.

We will then turn to Part D, Coverage for Damage to Your Auto. We will see how physical damage coverage has two parts: Collision and Other than Collision, and we will clarify the meaning of each.

We will conclude by reviewing Part E, “Your Duties after an Accident or Loss”, and Part F, General Provisions. In the General Provisions review, we will look at Policy Period and Territory and the Termination provision.

**I. 2005 Personal Automobile Policy (PAP)**

A) Part A—Liability Coverage

1. Insuring agreement—insurer promises to pay damages for which an insured person is legally liable, to defend the insured, and to pay the costs of defense. The current PAP is usually written with split limits, but it can be written with a single limit that applies to both bodily injury and property damage.
2. Covered autos—coverage applies to include any vehicle listed in the declarations, newly acquired vehicles, trailers owned by the insured, and temporary substitute autos.
3. Insured persons—insured persons include the named insured and spouse, resident family members, any person using the named insured’s covered auto, with permission, and any person or organization for liability arising out of an insured person’s use of a covered auto on behalf of that person or organization.
4. Supplementary payments—in addition to the policy limits, the company will pay for a bail bond up to \$250, premiums on appeal and release of attachment bonds, interest on the judgment, loss of earnings up to \$200 daily when the insured must attend a hearing or trial, and other reasonable expenses incurred at the insurer’s request.

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5. Exclusions—some important exclusions are intentional injury, property owned or transported, property rented or in the insured’s care, workers compensation claims, using the vehicle as a public or livery conveyance, vehicles used in the auto business, other business vehicles, using a vehicle without a reasonable belief of permission, nuclear energy exclusion, and using vehicles with fewer than four wheels. In addition, vehicles furnished or available for the insured’s regular use or that of a family member are excluded. Finally, liability coverage does not apply to vehicles inside a racing facility and used for racing purposes.
  6. Out of state coverage—policy automatically adjusts to comply with the financial responsibility or “no-fault” law of another state.
  7. Other insurance—if two auto policies cover a loss to an owned automobile, each company pays its pro rata share of the loss. If the insured is driving someone else’s car and has an accident the insurance on the borrowed car is primary, and the insured’s policy is excess
- B) Medical Payments Coverage
1. All reasonable medical and funeral expenses incurred within three years of the date of the accident are paid.
  2. Insured persons are the named insured and family members while occupying a motor vehicle or when struck by a motor vehicle while walking. Also covered are other persons while occupying a covered auto.
  3. Exclusions—some important exclusions include injuries sustained while occupying a vehicle with fewer than four wheels, using the vehicle as a public or livery conveyance, using the vehicle as a residence, work injuries covered by workers compensation, vehicles furnished or made available for the named insured or family member’s regular use, using a vehicle without a reasonable belief of permission, and racing vehicles.
- C) Uninsured Motorists Coverage
1. Insuring agreement—coverage applies when the other person is at fault and has no liability insurance.
  2. Insured person—named insured and family members, other persons while occupying a covered auto, and anyone who is legally entitled to recover from the person or organization responsible for the accident.
  3. Uninsured vehicles—vehicles with no applicable bodily injury liability coverage, vehicles with coverage less than the amount of insurance required by the state’s financial responsibility or compulsory insurance law, hit-and-run vehicles, and vehicles where the bonding or insurance company is insolvent.
  4. Exclusions—no uninsured motorists coverage on the vehicle; settling a claim without the insurer’s consent, which prejudices the insurer’s right to recover a loss payment; using the vehicle as a public or livery conveyance; using a vehicle without a reasonable belief; no benefits to a workers compensation insurer or self-insurer, and no punitive damages.
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5. Other insurance—the familiar pro rata approach is used for an owned vehicle. Coverage is excess on a non-owned vehicle.
  6. Underinsured Motorists (UM) Coverage—allows you to recover from your insurer when the other driver's liability insurance limit is less than your actual damages
- D) Coverage for Damage to Your Auto (Part D)
1. Insuring agreement—coverage has two parts: Collision Loss as defined in the contract and Other-than-Collision Loss for certain listed perils
  2. Transportation expenses—pays up to \$20 daily (maximum of \$600) for temporary transportation expenses because of loss to a covered auto.
  3. Exclusions include use of the vehicle as a public or livery conveyance; ordinary wear and tear; radioactive contamination or war; contain electronic equipment unless permanently installed; tapes, records, and disks; government destruction or confiscation; loss to a trailer, camper body, or motor home not shown in the declarations; using a non-owned auto without a reasonable belief of permission; radar detection equipment; custom furnishings or equipment; non-owned auto used in the automobile business; using the vehicle in a racing facility; and loss to a rental car if a state law or rental agreement precludes the rental company from recovering from the insured.
  4. Limit of liability and payment of loss—company will pay the lesser of actual cash value or the cost to repair or replace less any applicable deductible. Loss to a non-owned trailer is limited to \$1,500.
  5. Other sources of recovery—for a covered auto, each company pays in proportion that its limit of liability bears to the total of all applicable limits. For a non-owned auto, any physical damage insurance on the borrowed car is primary and your physical damage insurance is excess.
- E) Your Duties After an Accident or Loss
1. You must notify your insurer promptly.
  2. You must cooperate with your insurer in the investigation of the accident and defense of any claim that might arise from it.
  3. If sued, you must immediately forward copies of the legal papers to your insurer.
  4. You must release medical information to your insurer to allow your injuries to be evaluated, and submit to a physical examination.
  5. Under the UM coverage, you must notify the insurer if a hit-and-run driver is involved. If you sue the other driver, you must send copies of the papers to your insurer.
  6. You must take reasonable steps to prevent further damage to your car and allow the insurer to inspect the damage before it is repaired.

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F) General Provisions

1. Policy period and territory—the PAP covers you only in the U.S., its territories and possessions, Puerto Rico, or Canada.
2. Termination—insured may cancel at any time. The insurer also has the right of cancellation under certain conditions: (1) when the policy has been in force for less than 60 days, the insurer must give 10 days' notice of cancellation, and (2) when the policy has been in force for more than 60 days, the insurer may cancel only if the premium is not paid, or the insured's driver's license has been suspended or revoked, or the policy was obtained by a material misrepresentation. If the insurer decides not to renew the policy, at least 20 days notice of nonrenewal must be given.