Management

The Commercial Auto Policy ...

By Donald L. Brown

Every company owner should protect business operations with adequate insurance coverage. Yet the automobile liability requirements can be confusing because of seemingly overlapping coverages, and company managers sometimes do not recognize a particular exposure or the need to protect the company.

The following is a general discussion of the auto policy and the four types of coverages that are least understood. Loss examples and controls are included in each section to help illustrate the points being made. It is not intended to be a substitute for an in-depth discussion with your insurance agent.

Commercial Auto Policy

Your company will need to select which vehicles are to be considered for each kind of coverage. These selections are contained in the Declarations section of the policy, and are based on a numerical system described in the policy. The possible selections for types of vehicle that may be covered by your commercial auto insurance policy are these:

- Any vehicles.
- Owned vehicles only.
- Owned private passenger vehicles only,

Illustration by Jim Paterson

... It Need Not Be Confusing

- Owned vehicles other than private passenger.
- Specifically described vehicles.
- Hired vehicles.
- Non-owned vehicles (vehicles owned by employees but driven in the insured's business).

There also are symbols for vehicles subject to no-fault or compulsory uninsured motorists law. When you select "specifically described autos," an auto acquired during the policy period will be covered only if you already insure all autos for this coverage, or if it replaces a covered auto and you notify your insurance company within 30 days of acquisition. When any of the other symbols are selected, coverage for vehicles acquired during the policy period is automatic.

Employer Non-Ownership Liability

Coverage: Employers can be held liable for the negligent acts of their employees, volunteers and subcontractors if these employees are working within the scope of their duties at the time of loss. These acts include the negligent use of a vehicle. The company's commercial auto insurance policy is not a substitute for the employee's personal auto policy

Automobile non-ownership liability insurance protects your company against liability imposed upon it by your employees, volunteers and subcontractors as a result of the use of their automobiles in your company's business. The coverage provided through the company insurance policy is considered an excess policy, since coverage applies only when the vehicle is used for the employer's benefit.

Loss Example: Using her own car, a company secretary takes incoming checks to the bank each week One day, the secretary is involved in an accident on her way to the bank; it results in liability costs of $500,000. She carries $200,000 in liability on her personal auto policy The secretary's insurance carrier pays the first $200,000 of the claim. The employer, insured for $1 million, pays the remaining $300,000.

Controls: Employees should carry at least $300,000 in liability limits, verified by obtaining Certificates of Insurance.

Note: Many company insurance buyers need to give this coverage more consideration—at least more thought as to how and when their company's assets are at risk Whenever an employee uses his or her own vehicle on company business, a loss exposure exists. This can be as simple as running errands, picking up supplies, driving between jobsites or to and from the office and assigned work areas.

Hired Auto Liability and Physical Damage

Coverage: Hired auto liability coverage provides bodily injury and physical damage coverage when your company hires, rents, borrows or leases vehicles from another party The drivers of this type of vehicle also are covered.

Coverage is excess if other coverage is maintained, otherwise, the hired auto liability and physical damage coverage becomes primary

Coverage applies to both short-term leased vehicles (leased for less than six months), or long-term leased vehicles (leased for six months or more). However, long-term leased vehicles are specifically scheduled on the policy and treated as owned autos.

Loss Example: Your company hires a subcontractor to haul brush off of a jobsite. The subcontractor has a vehicle accident while performing the job, and it results in a $1 million bodily injury case.

The contractor maintains bodily injury coverage of only $300,000; your company maintains $1 million in coverage. Therefore, the subcontractor's insurance policy pays the first $300,000 (as primary coverage), and your insurance pays the remaining $700,000 of the total settlement (as excess coverage).

Controls: Verify that any hired contractors maintain auto liability coverage at least equal to your own.

This is done by requesting Certificates of Insurance from the other party. The certificate will indicate the other party's insurance. carrier, the policy's effective dates and the limits of liability

Uninsured Motorists Coverage

Coverage: The bodily injury coverage applies when you or your employee is injured by an uninsured motor vehicle whose owner or operator is legally liable for the accident.

Most states require the bodily injury coverage at limits at least equal to the financial responsibility limits, but also allow your company to purchase increased limits.

Uninsured motorists property damage also is available in several states and is usually subject to a deductible. This is written in conjunction with the uninsured motorists bodily injury coverage.

This type of coverage also protects your company when an accident involves a hit-and-run vehicle.

Loss Example: One of your company's vehicles is struck by a hit-and-run vehicle, leaving property damage of $10,000 to the company vehicle.

Your vehicle is protected with uninsured motorists coverage, both for bodily injury and property damage. Your company's insurance company pays for the damage, minus a deductible.

Controls: A driver involved in a hit-and-run accident should try to get a description of the vehicle involved and, if possible, witness information.

Underinsured Motorists Coverage

Coverage: Underinsured motorists coverage protects your company against vehicles that carry inadequate liability limits for today's serious injuries. In most states, this coverage is included under the uninsured motorists coverage, however, several states consider underinsured coverage to be a separate coverage.

This coverage allows your company to recover the difference between the amount you are legally entitled to collect, and the amount paid for by the at-fault driver. It applies only if the at-fault driver has liability limits at least at the financial responsibility level (otherwise it is an uninsured coverage), and if your underinsured coverage limit is higher than the at-fault driver's liability limit.

Loss Example: Your company's auto is involved in an accident with another vehicle. The bodily injury is evaluated at $300,000.

Your company's vehicle maintains auto liability coverage, including underinsured motorists coverage, with $1 million limits. The other vehicle is covered with $200,000 limits. The state financial responsibility limit also is $200,000.

The other vehicle's insurance company pays $200,000. Your insurance then pays the difference of $100,000 under the underinsured motorists coverage section of the policy

As stated earlier, this article is not intended to be a substitute for an in-depth discussion with your insurance agent. Contact your agent if you have any questions about any of your insurance coverage.

About the Author
With more than two decades of management experience in CNA field operations, Donald L. Brown is vice president for the CNA Insurance Companies' Commercial Lines Group. He manages loss-control services for 12 national associations, including The Association of the Wall and Ceiling Industries—International.