SHIFTING YOUR BUSINESS AUTO POLICY INTO OVERDRIVE

By: Carl Bloomfield & Shane Riccio, The Graham Company

Last year at a monthly claim strategy meeting with one of our clients, we reviewed an auto loss that on the surface appeared to be of minimal impact to the company’s overall auto loss experience. The accident was a fender bender in our client’s parking lot between a company car driven by an employee and an unrelated third-party vehicle. Sounds harmless, right? However, the third-party vehicle’s driver did not have insurance. Even though the injuries to the employee were minimal, we predicted to our client that within one year this claim would be valued at several hundred thousand dollars. Unfortunately, we were right, and the result of this claim was rate pressure placed on our client by the insurance company. Even worse, a year earlier, our client opted to provide Uninsured Motorist Coverage to their employees, against our advice. Then, when the aforementioned claim occurred, they regretted that decision. To prevent such scenarios, this article will focus on six areas that business owners should consider when it comes to electing coverage provided by their Business Auto Policy, including:

1. Personly Owned Autos
2. Employees as Insureds Endorsement
3. Broad Form Driver-Other-Car Coverage
4. Fellow Employee Coverage
5. Uninsured/Underinsured Motorists Coverage
6. Personal Injury Protection

1. Personly Owned Autos
Do you have any Personally Owned Autos included in your Business Auto Policy? Under the “Who is an Insured” section of your Business Auto Policy, employees are included as insureds except when the covered auto is owned by the employee or a member of his or her household. This means that if any of your employees (including executive officers) or their spouses personally own any of the vehicles included for coverage under the Business Auto Policy, and that vehicle is involved in an accident, the owner of the vehicle would be specifically excluded from coverage. In the absence of a specific endorsement adding the individual vehicle owner as an Additional Insured or Named Insured, your policy would not protect the employee’s liability arising out of the ownership of the personally owned vehicle. However, the corporation’s liability is still covered.

2. Employees as Insureds Endorsement
The Employees as Insureds Endorsement would add your employees as insureds while they are using their personal autos in your business. This endorsement extends the Business Auto Policy to provide excess liability protection to the individual employee in the event he or she is involved in an accident while driving his or her own auto for company business. Without this endorsement, the Business Auto Policy will only protect the company’s interests in the event of an automobile claim involving an employee’s vehicle. By adding the endorsement to your policy, you would be providing coverage for the individual employee while driving his or her own vehicle, which exposes your Business Automobile Liability loss experience to additional claims and higher rates.

3. Broad Form Drive-Other-Car Coverage
Are you given a company car? Do you rely on the Business Auto Policy to cover you and your family’s auto insurance? If so, you should purchase Broad Form Drive-Other-Car Coverage, which provides an individual named in the endorsement with the same
COVERAGES AND LIMITS WHILE DRIVING A NON-COMPANY-OWNED VEHICLE

This coverage is particularly important for individuals who are not covered by a Personal Auto Policy because they (or any of their family members) do not own personal vehicles. Key personnel who drive a company auto and don’t purchase their own auto insurance should be considered for this coverage.

4. Fellow Employee Coverage

Should I choose Fellow Employee Coverage or elect to exclude this coverage? On one hand, you can grant coverage for all employees suing each other as a result of an accident while driving a company vehicle on business, or you can exclude coverage for all fellow employee suits. The correct answer is not to agree to either because, if negotiated properly, you can have limited coverage for specific types of employees including executives, management and other key employees. Negotiating this limited coverage would eliminate the risk of fraudulent claims by two lower-ranking employees “staging an accident,” for example, while at the same time protecting your management employees from fellow employee suits.

5. Uninsured/Underinsured Motorists Coverage

What Uninsured/Underinsured Motorists Coverage limits should I purchase? Uninsured Motorist Insurance (UM) and Underinsured Motorist Insurance (UIM) pay for all sums that the insured is legally entitled to recover as damages from the owner or driver of an uninsured or underinsured vehicle. This coverage was designed to compensate for pain and suffering, emotional distress and wrongful death damages that should have been paid for by the UM/UIM driver. Keep in mind that your employees—will still be made whole by your Workers Compensation and/or Personal Injury Protection policies and that UM/UIM will only pay for severity-type situations where punitive damages are involved. The Financial Responsibility Laws in New Jersey require that Mandatory Uninsured/Underinsured Motorists Coverage be provided by your Automobile Policy. However, the insured does have the option to buy the coverage at minimum limits rather than the standard $1,000,000 limit. The decision to purchase the lower limits should reflect your risk management objectives. Note that claims against your UM/UIM limit directly impact your loss history, which can adjust your insurance costs from year to year.

6. Personal Injury Protection

Personal Injury Protection (PIP) insurance covers actual economic damages as a result of an auto accident. PIP claims provide for reimbursement of medical expenses, rehabilitation expenses, loss of income, loss of household services, death benefits and funeral expenses. Non-economic injuries such as pain and suffering would not be covered by your PIP or “no fault” coverage. Again, note that the large insureds should consider purchasing state minimum PIP limits in order to protect your Auto loss history.

After reviewing the multiple coverage options discussed above, you should have a strong understanding of what each type of coverage offers and some of the pros and cons to purchasing them. Most if not all of these coverages would come at a minimal cost to the insured in year one, however, each of the coverage choices you make will affect your loss history over time, which will ultimately be reflected in your rates over time. The key is to understand the decisions you make and build a risk tolerance that is the right fit for you and your company.

About the Authors: Carl Bloomfield, AAI is a Vice President at The Graham Company and can be reached at cbloomfield@grahamco.com; Shane Riccio is a Producer at The Graham Company and can be reached at sriccio@grahamco.com