
Automobile Insurance

Why Automobile Insurance?

For most Americans, the automobile is an essential part of modern life. Owning or operating a car, however, can also be a source of serious financial risk. Personal liability arising from losses suffered by others, or the cost of repairing or replacing a damaged or stolen vehicle, can be very high.



Also, most states have auto liability insurance laws, requiring auto owners to maintain liability insurance as a condition of licensing or use on public roadways. Other states require owners to show proof of financial responsibility before and after an accident.

Coverage Under the Policy

Automobile insurance usually covers a number of risks in one package policy. The most frequently used policy is the personal automobile policy (PAP).¹ The PAP is designed primarily for private passenger automobiles, but protection can be extended to cover other types of vehicles. Typical coverage includes the following:

- **Liability:** This coverage protects the owner against losses from legal liability arising from bodily injury or property damage resulting from an auto accident. The coverage can be a split limit, such as \$50,000/\$100,000/\$25,000 (per person/per accident for bodily injury/property damage) or a single limit (\$100,000 for each accident).
- **Medical payments:** This provision pays medical and funeral expenses because of bodily injury. Coverage is provided on a “no-fault” basis.
- **Uninsured/underinsured motorist:** Although many states have financial responsibility laws, not all drivers comply. *Uninsured* motorist coverage pays for injuries (in some states property damage is also included) sustained in an accident with an uninsured (or a hit-and-run) driver. *Underinsured* motorist insurance covers the difference between actual losses sustained and what an insured can collect from an at-fault uninsured (or underinsured) driver, up to policy limits.

¹ The specific coverage and terms of a policy can vary from company to company, and from state to state.

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- **Physical damage:** This section is designed to cover physical damage to the insured auto. *Collision*, as the name implies, covers collision losses. *Comprehensive*, also known as “other than collision,” covers losses from non-collision incidents such as theft, fire, or storm damage. Payment is generally based on the lower of actual cash value, or the cost to repair or replace the damaged or stolen vehicle.

Adding Additional Coverage

There are a number of additional coverages that can be added (by endorsement) to a basic policy to provide insurance for unusual situations or to protect other types of vehicles. Two of the most common endorsements include:

- **Extended liability:** Used to cover automobiles that are not legally owned by the insured, such as an auto furnished by an employer for the regular use of the insured and/or the family. Extends the policy coverage to situations involving non-owned vehicles, which standard policy provisions would otherwise exclude.
- **Miscellaneous type vehicle endorsements:** Allows the insured to cover vehicles such as snowmobiles, motorcycles, motor scooters, go-carts, golf carts, antique and classic cars, motor homes, and campers. In some states, a separate policy is used to cover these vehicles.

Understand the Policy

An insurance policy is a written contract between the insured and the insurance company. The protection provided by the policy typically represents a significant part of an individual’s overall risk management program. Thus, it is important for an insured individual to read and understand key policy provisions such as:

- **What perils are covered in the policy?** A basic policy may not provide as much protection as is necessary.
- **What perils are not covered?** For an additional premium, coverage for excluded perils or situations can often be added to a policy.
- **What are the limits of coverage?** The maximum dollar amount the insurance company will pay in the event of a covered loss.

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- **What are the deductible amounts?** A deductible is a dollar amount the insured must pay before the insurance company pays its portion.
- **In the event of a loss, what are the duties of the insured?** A policy will usually list the steps that must be taken in the event of a loss.

Seek Professional Guidance

Insurance agents and brokers, insurance counselors, and other trained financial consultants can help provide answers to detailed questions about a particular policy. These professionals are also helpful in selecting the right policy and the appropriate amount of coverage.