



Business Vehicle Insurance

WHAT IS BUSINESS VEHICLE INSURANCE?

As a business owner, you need some of the same insurance coverages for the cars, trucks, vans or other vehicles you use in your business as you do for vehicles used for personal travel.

Your Business Owners Policy (BOP) does not provide any coverage for vehicles, so you must have a separate policy.

Most states require you to purchase liability insurance for bodily injury and property damage that may result from a vehicle accident occurring while you or someone from your organization is driving on business. Many states also require you to have uninsured/underinsured motorists' coverage and/or medical payments coverage (known as Personal Injury Protection (PIP) in some states). You can also purchase physical damage coverage for vehicles your business owns, leases or hires.

The Business Auto Coverage Form (BACF) is the most commonly used contract for providing business auto liability insurance. Although the form refers only to "autos," autos are defined to include cars, trucks, trailers, vans or other vehicles designed for use on public roads.

Each vehicle you use in your business can be separately "scheduled," or listed on your policy along with corresponding coverages. In other words, you can choose different coverages, for your various vehicles, depending on the vehicle's characteristics and the coverage you need for it.

Do I Need a Business Auto Policy?

Your insurance agent will ask in detail how you use vehicles in your business; who will be driving them; whether you own, rent or lease; and whether you and your employees are likely to be driving their own cars for your business. The answers to these questions will indicate the types of coverage you need.

In general, only a BACF can provide the level of liability protection—the recommended minimum is \$500,000—that even a small business needs to cover the potential damages in a serious accident.

Will My Personal Auto Policy Cover Business Use?

Your personal auto policy provides coverage for some business use of your vehicle. Similarly, your employees' personal auto policies cover some business use of their vehicles too.

A personal auto policy is unlikely to provide coverage, however, if the vehicle in question is used *primarily* in business. It will not provide coverage for any vehicle owned by a business. The personal auto policy you have in place, whether yours or your employee's, may not have enough coverage to protect your business.

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For example, imagine you are driving your car to a business meeting while having an intense conversation on your cell phone with one of your sales reps. By the time you notice a van ahead of you has stopped to make a left turn; it's too late to avoid a collision. The driver and five passengers are injured in the accident. They sue you and your company.

If you have only a personal auto policy, your insurer will probably defend you personally and pay the claim—up to the policy limit. Your personal auto policy insurer will not defend or pay damages on behalf of your business, however.

For a very serious accident or one with a number of injured people, your personal auto policy may not be enough to cover the damages. In that event, the injured parties would likely sue to collect damages from your business.

If you or your employees are driving personal vehicles on business and relying on your personal auto policies, be sure you and they have sufficient liability coverage to protect your business in the event of a serious auto accident.

Do not expect to rely on a personal umbrella policy for any claims that arise from business use of a vehicle. Typically, the personal umbrella excludes all claims occurring in the course of a business endeavor.

What Vehicles Are Covered?

The scope of coverage in the business auto policy can be either broad or narrow, depending on your choice of options. It could, for example, be written to apply only to one specifically described auto. Or, as an example of very broad coverage, the policy could be written to apply to the named insured's liability exposures arising out of the use of any auto.

In general, you have three options for which vehicles you choose to cover.

- Autos your business owns
- All autos your business owns, hires or leases
- All autos used for the business, including those that your business does not own, hire or lease

Most businesses should buy the third type, since that is the only coverage that protects the business from liability when an employee or owner is driving a personal vehicle on business.

Be Sure the Right Insured Is on the Policy

An insurance contract usually requires that the owner of a vehicle be named in the policy "Declarations" as the "principal insured." If you drive any of the same vehicles for both business and pleasure, make sure you tell



your insurance agent who holds the vehicle's title, you personally or your company. This will avoid problems if you need to file a claim or a claim is filed against you.

Physical Damage Coverage

The three types of physical damage coverage for motor vehicles are collision, comprehensive and specified perils.

- Collision coverage is for losses that result from the collision of a covered vehicle with any object or from the vehicle overturning.
- Comprehensive coverage is the broadest form of auto physical damage coverage, because it provides for losses from any cause except collision and overturn (insured under collision coverage) and a few policy exclusions, such as wear and tear, mechanical breakdown and acts of war. Among the causes of loss covered under comprehensive are flood, fire, theft, glass breakage, falling objects, explosion, earthquake or colliding with a wild bird or animal.
- Specified perils coverage covers many of the same perils as comprehensive, but because it covers only "named" perils—those specifically named in the policy—it has a lower premium. It is sometimes referred to as "fire, theft and Combined Additional Coverage (CAC)"

If your businesses have a large fleet of vehicles, over time, it may be costlier to insure the fleet for physical damage than it is to retain the risk, that is, pay for any physical damage directly rather than by insurance.

Regardless of how many vehicles your business has, it may be cost effective to carry physical damage coverage only on the newer or more valuable vehicles.

What Will the Insurer Pay for Physical Damage?

The amount an insurer will pay on an auto physical damage or theft claim depends on the market value, known as Actual Cash Value (ACV), of the vehicle at the time of the loss. The most that will be paid is the lesser of the ACV or the cost to repair or replace the vehicle with one of like kind and quality. In the event of a total loss, the ACV is adjusted for depreciation and the vehicle's physical condition. Thus, the older the vehicle and the worse its condition, the more its value has depreciated and the less the insurer will pay.

The insurance company may pay you the value of the loss in money or, at its choice; it may repair or replace the damaged or stolen vehicle. In case of a theft, it may return the stolen vehicle to you with payment for any damage caused by the theft.

Liability Coverage

The liability portion of the BACF obligates the insurer to pay all damages the business is legally obligated to pay because of bodily injury or property damage caused by a covered vehicle, up to the policy limits.

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When there is an auto liability lawsuit against the insured business, where the loss is covered by the policy, the insurer is obligated to defend the business or settle the lawsuit. The decision whether to contest or settle the case is entirely at the insurer's discretion.

The insurer's duty to defend or settle ends when the insurance policy limits are exhausted. By way of example, imagine that three people are injured in an accident in which you or one of your employees is at fault. The policy limit is exhausted in judgments or settlements for the first two claimants. That leaves your business liable to pay the award directly, should there be a judgment in favor of the third person.

Punitive damages may be awarded in cases of gross negligence, such as drunk or reckless driving. By law in a number of states, a BACF cannot cover any punitive damages for which you may be liable. Even in states where coverage for punitive damages is allowed, your policy may exclude them.

How Much Liability Coverage Does My Business Need?

Many insurers recommend a business auto coverage limit of \$1,000,000, with \$500,000 as the minimum. The higher limit does not add a great deal to the premium, considering the amount of additional protection it provides.

What is a Combined Single Limit (CSL)?

Unlike personal auto policies that have separate limits for bodily injury and property damage liability (split limits), the BACF commonly has a Combined Single Limit (CSL). This creates higher limits for both bodily injury and property damage coverages, including per occurrence limits. Although you can purchase other limits, the most common commercial automobile CSLs for a small business are \$500,000 and \$1,000,000.

Does a Business Umbrella Cover Autos?

If you have a business umbrella policy, it would provide protection for owned, hired and non-owned autos, if the umbrella shows the auto liability policy as an underlying policy for which it provides coverage.

What Coverage Do I Need if My Employees Use Company Vehicles for Personal Business?

Some businesses let employees drive company vehicles home and use them for personal purposes in the evenings or on weekends. So long as these vehicles are scheduled on your business auto policy and the appropriate "coverage auto symbols" are shown on the "Declarations" page, you have coverage for owned autos taken home by employees.

Employees' own personal auto policies will not cover their use of a company car unless the car has been specifically borrowed as a temporary replacement for the employee's own car while it is unavailable. In addition, employees who lease, hire, rent or borrow autos for their personal use are not covered by their employer's business auto policy.

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When Your Business Vehicle Is Also Your Personal Vehicle

Sometimes employees or executives of a company or other persons who are supplied with a vehicle owned by the company have only that vehicle. They do not own a personal vehicle nor do they obtain personal automobile coverage. The BACF does not cover personal use of the vehicle in this situation. To close this coverage gap, you need to add the Drive Other Car Coverage Endorsement to your BACF. This provides insurance while the named individual or a member of his or her family is driving a car borrowed from a third party.