

Newly Acquired Autos

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Last week Bradley Bradey took \$40,000 out of his 401K to pay cash for a two-year-old Lexus he found on the Internet. He has already unloaded the old beater he was driving and is picking up his new car today at 2:00. Bradley wonders if there is any automatic coverage for the new vehicle under his Personal Auto Policy.

The Personal Auto Policy (PAP) provides interim coverage for some newly acquired vehicles. The coverage is designed as temporary coverage that begins when the policyholder becomes the owner of the vehicle and continues, with some significant limitations, until the insured notifies his agent or the company.

ISO has introduced a 1998 revision of the PAP. One of the significant changes, with that edition, is a revision of the coverage provided for newly acquired vehicles. This change is of particular importance to agents because they field a lot of questions in this area. During the transition to the new forms, agents will have to know both forms.

LOCATION IN POLICY

The extension of coverage for newly acquired vehicles is tucked away in the Definitions section found on the first page of the policy. With the 1994 form, the automatic coverage extended for the newly acquired vehicle is included in the definition of "your covered auto." Because this format is somewhat confusing, with the 1998 form, a new definition for "newly acquired" vehicles is added to the policy and the coverage particulars are shifted to this definition.

ELIGIBLE VEHICLES

Only certain newly acquired vehicles qualify for this automatic, interim coverage. To be covered, the vehicle must be acquired by the named insured or the resident spouse. The contract states "Newly acquired auto means any of the following types of vehicles you become the owner of during the policy period:"

If Sam and Sally's 19-year-old daughter, who is listed on the family policy as a driver, purchases a vehicle and titles it in her own name, there would be no automatic coverage under the family's auto policy. Only when the vehicle is purchased by "you," defined in the policy as the named insured and a resident spouse, is the coverage extended.

For a newly acquired vehicle that is acquired by "you" to be automatically covered it must be either:

- 1. A private-passenger auto, or*
- 2. A pickup or van that is lightweight (GVW less than 10,000 lbs.) and not used in delivery (There are exceptions for delivery in conjunction with farming or ranching and for delivery that is incidental to your 'business' of installing, maintaining, or repairing furnishings or equipment.)*

The vehicles that are eligible for automatic, interim coverage are the same in both the 1994 and 1998 editions of this policy.

CONDITIONS TO ACTIVATE

The contract specifies three conditions that must be met before the automatic, interim coverage will apply. First of all, the vehicle must have been acquired during the policy period. Strictly speaking, if the insured's policy renews five days after acquisition of a vehicle, all automatic coverage for that vehicle ceases at the time of renewal. When the policy renews, that vehicle is no longer a newly-acquired auto by the policy definition of that term.

In addition, the insured must request coverage for the newly acquired vehicle within a specified time period after becoming the owner. Also, if the newly acquired vehicle is a pickup or van, no other insurance policy can provide coverage.

COVERAGE PROVIDED UNDER THE 1994 FORM

When the PAP uses the term "newly-acquired" it is including both replacement and additional vehicles. The contract provides different automatic, interim coverage for a

replacement vehicle than it does for an additional vehicle. In addition, the notification requirements are different with these two types of vehicles.

** Replacement Vehicles: The coverage provided is the same coverage as on the vehicle it has replaced. The insured must notify the company within 30 days only if he/she wishes to add or continue physical damage coverage. An insured, who does not want physical damage coverage, must notify by the end of the current policy period.*

** Additional Vehicles: The coverage provided for an additional vehicle is the broadest coverage provided for any vehicle on the policy. If the insured does not notify the company, all coverage ceases after the 30 days mentioned in the conditions clause.*

Under the 1994 policy form, Bradley will not have any physical damage coverage on his new Lexus unless he has that coverage on the vehicle being replaced.

COVERAGE PROVIDED UNDER THE 1998 FORM

Under this new form, the replacement vehicle receives the same coverage as the automatic coverage provided for the additional vehicle; but the notification requirements are different. The coverage grant is divided into three sections:

** Coverage Other Than Physical Damage Coverage*

For any coverage other than physical damage, all newly acquired vehicles (both replacement and additional vehicles) receive the broadest coverage provided for any vehicle shown on the Declarations. The only difference between the replacement and the additional vehicle is the notification required:

With an additional vehicle, the insured must notify the company of the new acquisition within 14 days. With a replacement vehicle, the insured will have automatic coverage for the remainder of the policy period without any notification to the company.

** Collision Coverage*

Coverage begins on the date "you" becomes the owner. If there is collision coverage on at least one vehicle on the policy, the newly acquired vehicle will have the broadest coverage currently on the policy. The insured must notify the company within 14 days in order for the coverage to continue.

If the policy does not provide any collision coverage, the newly acquired vehicle receives collision coverage with a \$500 deductible, but only for 4 days. With this form, Bradley will have collision coverage on his newly acquired Lexus for four days, even though he did not carry that coverage on his previous vehicle.

** Other Than Collision*

The coverage provisions are the same as for collision coverage. With these revisions, each physical damage coverage has a separate policy provision, so coverage for Collision is applied independently of coverage for other than collision (OTC).

Assume Bradley carried OTC but not collision on his previous vehicle. He will now have two different time periods in which to give notice: 4 days for Collision and 14 days for OTC. If he does not notify his agent of the new Lexus and hits a tree 10 days after becoming the owner of the car, he will have coverage for OTC but not for collision.

THE BOTTOM LINE

For most agents, this change in the coverage provided for newly acquired vehicles is significant, especially with the cut back in the time to notify. Make certain that everyone in your agency is familiar with the revised coverage for newly acquired vehicles.

This article is excerpted from the book "Changes in Personal Auto."