Chapter 10: Managing Property and Liability Risk: 10.4 Automobile Insurance
Book Title: Personal Finance
Printed By: Xzavier Shugars (xfshugars@eiu.edu)

10.4 Automobile Insurance

Learning Objective 4 - Design an automobile insurance program to meet your needs.

Driving a car is the largest single exposure to catastrophic losses for most Americans. A split-second error in driving judgment or bad luck can result in many tens of thousands of dollars of automobile-related property damage and personal injury losses. Automobile insurance combines the liability and property insurance coverages needed by automobile owners and drivers into a single-package policy. It is illegal to operate a motor vehicle without assuming financial responsibility for any losses you might cause; therefore, most states require automobile owners to purchase automobile insurance to meet this responsibility (although because of lack of enforcement there are millions of illegally uninsured drivers on the roads).

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Chapter 10: Managing Property and Liability Risk: 10.4a Losses Covered
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10.4a Losses Covered

Automobile insurance (Combines the liability and property insurance coverages that most car owners and drivers need into a single-package policy.) combines four distinct types of coverage:

(1) liability insurance,

(2) medical payments insurance,

(3) protection against uninsured and underinsured motorists, and

(4) insurance for physical damage to the insured automobile.

Each coverage has its own policy limits, conditions, and exclusions. Table 10-3 summarizes the coverage provided by automobile insurance policies for people not specifically excluded in the policy.

Table 10-3

Summary of Automobile Insurance Coverages

Section	Type of Coverage	People Covered	Property Covered	Recommended Limits
A	LIABILITY INSURANCE (1) Bodily injury liability	Relatives living in insured's household driving an owned or nonowned automobile	Not applicable	At least legally required minimums or \$250,000/\$500,000, whichever is greater
	(2) Property damage liability	Relatives living in insured's household driving an owned or nonowned automobile	Automobiles and other property damaged by insured driver while driving	At least legally required minimum or \$100,000, whichever is greater

Section	Type of Coverage	People Covered	Property Covered	Recommended Limits
B	MEDICAL PAYMENTS	Passengers in insured automobile or nonowned automobile driven by insured family member	Not applicable	$50,000 or higher
C	UNINSURED AND UNDERINSURED	Anyone driving insured car with permission and insured family members driving nonowned automobiles with permission	Not applicable	$50,000/$100,000 or higher, if available
D	PHYSICAL DAMAGE			
	(1) Collision	Anyone driving insured car with permission	Insured automobile	Actual cash value less deductible
	(2) Comprehensive	Not applicable	Insured automobile and its attached contents	Actual cash value less deductible

Coverage A—Liability Insurance

Liability insurance covers the insured when he or she is held responsible for losses suffered by others. Two types of liability can arise out of the ownership and operation of an automobile. **Automobile bodily injury liability** (Occurs when a driver or car owner is held legally responsible for bodily injury losses that other people, including pedestrians, suffer.) occurs when a driver or car owner is held legally responsible for bodily injury losses suffered by other people, including pedestrians. **Automobile property damage liability** (Occurs when a driver or car owner is held legally responsible for damage to others' property.) occurs when a driver or car owner is held legally responsible for damage to the property of others. Such damage can include damage to another vehicle, a building, or roadside signs and utility poles.

The most common type of automobile insurance policy is the **family auto policy (FAP)**. The policy limits for FAPs are quoted as **split liability limits**, usually three numbers such as 100/300/50, with each number representing a multiple of $1000 (Figure 10-2). The first number gives the maximum that will be paid for liability claims for *one* person's bodily injury losses resulting from an automobile accident ($100,000 in our example). The second number indicates the overall maximum that will be paid for bodily injury liability losses to *any number* of people resulting from an automobile accident ($300,000 in our example). The third number specifies the maximum that will be paid for property damage liability losses resulting from an accident ($50,000 in our example).

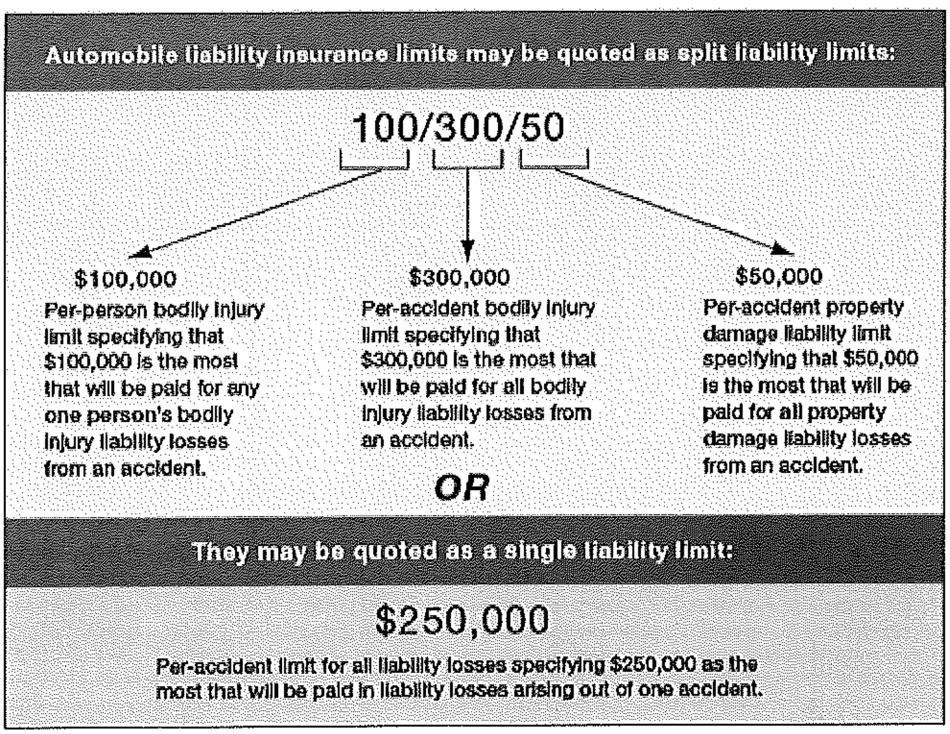
Financial Power Point

Bodily Injury Liability Losses Can Be Very High

A one-day stay in a hospital intensive care unit can cost more than $50,000. An accident with multiple injuries can result in liability losses in excess of $300,000. When buying auto insurance policy, always select very high liability limits.

Figure 10-2

Automobile Liability Insurance Policy Limits



In some auto insurance policies, the liability limits are stated as a **single liability limit** such as $250,000. Under such policies, all property and bodily injury liability losses resulting from an accident would be paid until the limit is reached. Liability insurance covers only the insured for losses suffered by others. It does not pay for bodily injury losses suffered by the insured or for property damage to the insured's car. Injured passengers of an at-fault driver may collect under the driver's liability coverage, but only after exhausting the coverage provided under medical payments (discussed below) and only after reimbursement is made to people injured in other vehicles or as pedestrians.

Driving a rental car exposes you to the same potential liabilities as driving your own vehicle. If you have automobile liability insurance, such liabilities will usually be covered while you drive a rented car. Check your coverage before you rent a car so you can avoid buying overpriced insurance from the rental agency.

Drivers need to make sure they have sufficient liability coverage in the event of an accident—the person at fault is typically responsible for all damages.

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Coverage B—Medical Payments Insurance

Automobile medical payments insurance (Insurance that covers bodily injury losses suffered by the driver of the insured vehicle and any passengers, regardless of who is at fault.) can help pay medical expenses no matter who's at fault. It covers you, your passengers, and any family members driving or riding in the insured vehicle at the time of the accident.

Medical payments coverage is subject to a single policy limit, which is applied per person, per accident. Medical payments also protect insured family members who are injured while passengers in any car or who are injured by a car when on foot or riding a bicycle.

Under medical payments, drivers and their injured passengers collect directly from the driver's insurance. If the driver was not at fault, then the driver's insurer pays the claims and subsequently may choose to exercise subrogation rights against the at-fault party. **Subrogation rights** (Allow an insurer to take action against a negligent third party (and that party's insurance company) to obtain reimbursement for payments made to an insured.)

allow an insurer to take action against a negligent third party (and that party's insurance company) to obtain reimbursement for payments made to an insured.

Some states have adopted a version of no-fault automobile insurance where insureds collect first (and possibly *only)* from their own insurance companies for bodily injury losses. In these states, the medical payments coverage is often referred to as **personal injury protection (PIP)** covers the driver and any passengers for bodily injury losses as well as possibly lost wages and rehabilitation expenses. Subrogation rights are limited in no-fault states.

Coverage C—Uninsured and Underinsured Motorist Insurance

What if you are injured in an accident caused by a driver who has no or insufficient auto liability insurance? You would first be covered by your own medical payments auto insurance but that almost surely will not cover all of the losses. **Uninsured motorist insurance** (Coverage that an insured can purchase as part of automobile insurance that covers the insured in an accident when an uninsured or underinsured driver is at fault.) protects you and your passengers from bodily injury losses (and, in a few states, property damage losses) resulting from an automobile accident caused by an uninsured motorist. **Underinsured motorist insurance** (Coverage that an insured can purchase as part of automobile insurance that covers the insured in an accident when an uninsured or underinsured driver is at fault.) protects the insured and his or her passengers from bodily injury losses (and, in some cases, property damage losses) when the at-fault driver has insurance but that coverage is insufficient to reimburse the losses. This insurance is a smart risk-management choice and carries a very low premium—often less than $75 per year.

Did You Know?

Turn Bad Habits into Good Ones

Do You Do This?	***Do This Instead!***
Assume your parents' homeowner's policy covers you at school	Confirm that you are correct and, if not, buy your own renter's policy
Base your potential auto liability losses on your own financial status	Estimate the maximum loss others could suffer if you caused an accident
Base your insurance decisions on how much coverage will cost	Base your decisions on the potential losses you could suffer
Buy low limits on your liability coverages	Buy higher limits and or an umbrella liability policy

Do You Do This?	*Do This Instead!*
Buy policies with the lowest possible deductibles	Raise the deductibles on your policies and apply the savings toward higher limits

Coverage D—Physical Damage Insurance

Automobile physical damage insurance provides protection against losses caused by damage to your vehicle.

Did You Know?

Quick and Easy Steps Can Cut Your Auto and Homeowner's Insurance Bill

There is no point in paying more for insurance than necessary. Here are some suggestions for achieving this goal.

Select Appropriate Coverages and Limits. Buy only needed coverages but be certain to select policy limits appropriate for the largest potential losses. Choosing low limits is unwise, as you will be personally liable if an accident exceeds those limits. Elimination of some coverages, such as comprehensive or uninsured/underinsured motorist insurance, would yield little savings while sharply reducing protection.

Take Advantage of Discounts. Most insurance companies offer discounted premiums for policyholders who insure multiple vehicles or buy multiple policies (for example, both automobile and homeowner's insurance) from them.

Engage in Loss Control. Many companies charge lower premiums to policyholders who take steps to reduce the probability or severity of loss. For example, discounts are available if you install dead-bolt door locks or a fire extinguisher in your home. Ask your agent what you need to do to qualify.

Raise Your Deductible. Raising your deductible can save you hundreds of dollars per year. You may even wish to eliminate this coverage altogether for cars having a book value of less than $2000.

Shop Around for the Lowest-Cost Coverage. Insurance premiums from one company can be two or three times as much as those charged by another company for essentially the same coverage, so considerable savings can be realized by seeking quotes from multiple agents and direct sellers. To obtain a quote, go on the Internet and provide some companies your information. You can also telephone an agent or a direct seller. Also see a quote service such as www.insure.com or www.insweb.com. Make sure you provide sufficient accurate information in your request to obtain the best quote possible.

Become Insurance Wise. The insurance regulatory agency in your state (to find yours, visit www.naic.org/state_web_map.htm) may publish helpful insurance buyer's guides that discuss how to buy specific types of insurance, compare premiums, and rate the companies providing such insurance. In addition, *Consumer Reports* magazine periodically publishes feature articles that discuss insurance.

Collision insurance (Reimburses insureds for losses to their vehicles resulting from a collision with another car or object or from a rollover.) reimburses an insured for losses resulting from a collision with another car or object or from a rollover. The insurer pays the cost of repairing or replacing the insured's car, regardless of who is at fault. When the other driver is at fault, subrogation rights may allow the insurer to obtain reimbursement through that driver's property damage liability protection. Collision insurance is written with a deductible that usually ranges from $100 to $1000. If you carry collision insurance coverage on your own car, you are generally covered when you drive someone else's car with that person's permission. Most automobile insurance policies provide for collision coverage on rental cars if such coverage applies to your owned vehicle. Check with your agent before you rent a car.

Comprehensive automobile insurance (Protects against property damage losses to an insured vehicle caused by perils other than collision and rollover.) helps pay for damages that are not caused by a collision or rollover. Covered perils include fire, theft, vandalism, hail, and wind, among many others, and it typically carries a deductible ranging from $100 to $1000.

Did You Know?

You Can Change Insurers at Any Time

You do not have to wait until renewal time to change insurance companies. If shopping around reveals that you can save money and/or improve your coverage with a new company, consider doing so right away. Contact the new company first to ensure that you have been accepted and then contact the old company. You will receive a refund of the unused premium less a minor processing charge when you cancel.

When you have a loss that qualifies under collision or comprehensive insurance, an estimate of the repair cost will be made. If this estimate exceeds the value that the insurance company puts on the vehicle, the lower of the two figures is paid, less any deductible. Insurance companies set vehicle values based on the average current selling price of vehicles of the same make, model, and age. Insurance companies will not give you more money because your wrecked vehicle had very low mileage and was in near-perfect condition.

Other Valuable Protections

Two other low- or no-cost, but helpful, coverages are available to automobile insurance buyers. **Towing coverage** pays the cost of having a disabled vehicle transported for repairs. It usually pays only the first $25 or $50 per occurrence but will cover any towing need—not just assistance needed due to an accident. **Rental reimbursement** coverage provides a rental car when the insured's vehicle is being repaired after an accident or has been stolen. It often has a daily payout limit of $20 to $30 and, therefore, may provide only part of the funds needed to obtain replacement transportation.

Did You Know?

Money Websites for Managing Property and Liability Risk

Informative websites for managing property and liability risk, including sites that compare policies and prices are:

Insure.com (www.insure.com/home-insurance/ and www.insure.com/car-insurance//)

Insurance Institute for Highway Safety (www.iihs.org/ratings/default.aspx)

Insweb (www.insweb.com)

Kiplinger's Personal Finance (www.kiplinger.com/fronts/channels/insurance/)

National Association of Insurance Commissioners (www.naic.org/store_home.htm)

National Flood Insurance Program (www.FloodSmart.gov)

New York Times (www.topics.nytimes.com/your-money/insurance/home-insurance/index.html)

MSN Money (www.money.msn.com/insurance/)

Did You Know?

The Best Way to Title Vehicles

Couples may be tempted to put major assets in both their names, and sometimes this is the best way to go. For automobiles, however, the decision is different because the owner of a vehicle is legally liable for accidents caused by the driver. If both partners own an automobile, both could be sued. Thus, it is smart to title an automobile in only one name. For couples with two vehicles, each could be owned separately.

Concept Check 10.4

1. Identify the four types of automobile insurance coverage.
2. Explain the meaning of the numbers 100/200/75.
3. Identify who is protected by medical payments coverage.
4. Distinguish between collision and comprehensive insurance.
5. Explain why selecting a policy with a high deductible and high liability limits is better than one with a low deductible and low liability limits.

Chapter 10: Managing Property and Liability Risk: 10.4a Losses Covered
Book Title: Personal Finance
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Chapter 10: Managing Property and Liability Risk: 10.5 Buy Specialized Protection for Other Loss Exposures
Book Title: Personal Finance
Printed By: Xzavier Shugars (xfshugars@eiu.edu)

10.5 Buy Specialized Protection for Other Loss Exposures

Some people need protection against property and liability losses that are not covered by or exceed the limits of the standard homeowner's or automobile insurance policies.

Learning Objective 5 - Describe other types of property and liability insurance.

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Chapter 10: Managing Property and Liability Risk: 10.5a Umbrella Liability Insurance
Book Title: Personal Finance
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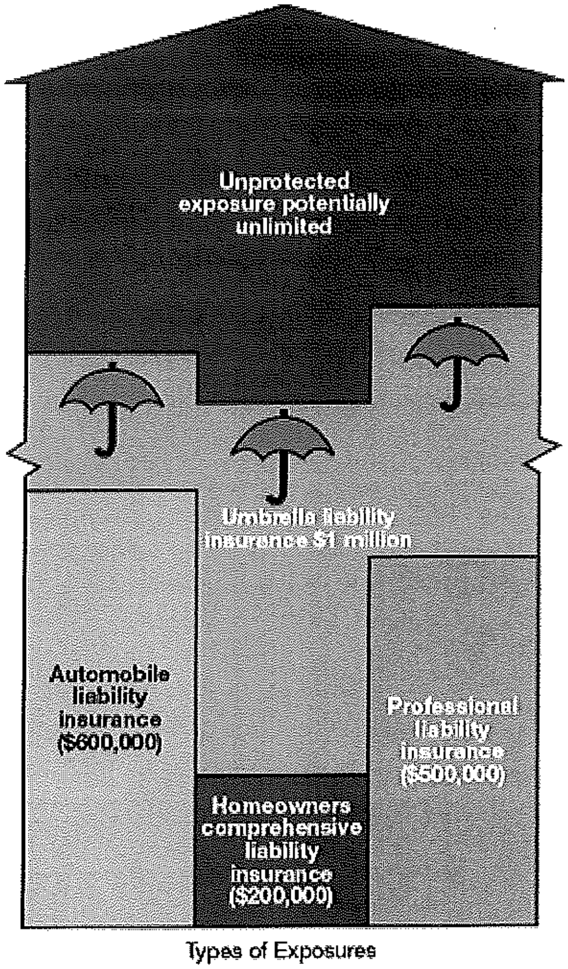
10.5a Umbrella Liability Insurance

Umbrella liability insurance (Catastrophic liability policy that covers liability losses in excess of those covered by any underlying homeowner's, automobile, or professional liability policy.) is a catastrophic liability policy that covers liability losses over and above those covered by any underlying homeowner's, automobile, or professional liability policy. Such policies provide two benefits. First, the types of losses covered are broader than those recognized by comprehensive personal liability insurance. Second, umbrella policies provide for high dollar amounts of coverage over and above the basic policies. To be covered for these higher limits, you must carry the basic coverages as well.

Figure 10-3 shows how umbrella policies work. In this example, the insured has an automobile insurance policy with total liability limits of $600,000 (the total liability coverage for one accident is $500,000 per accident plus $100,000 for property damage), a homeowner's insurance policy with liability protection of $200,000, and a $500,000 professional liability insurance policy. If the insured bought an umbrella policy with a $1 million limit and then experienced a $750,000 professional liability loss, the umbrella policy would provide protection of $250,000 after the professional liability policy limits were exceeded. Umbrella policies are relatively low in cost when purchased to supplement basic policies (perhaps $150 to $200 per year for an additional $1 million of protection) and protect against virtually all liability exposures that a person might face.

Figure 10-3

How Umbrella Liability Policies Work



Did You Know?

How Automobile Insurance Would Apply to an Accident

Do It in Class

Just how the many provisions in an automobile insurance policy apply to a specific accident mystifies many people. As a result, the claims process may generate considerable dissatisfaction after an accident. The example given here and outlined in the following chart is intended to clarify the application of the multiple coverages and limits.

In September of last year, Olivia Redman, a college student from Itta Benna, Mississippi, caused a serious accident when she failed to yield to an approaching vehicle while attempting to make a left turn. Olivia suffered a broken arm and facial cuts, resulting in medical costs of $5254. Her passenger, Philip Windsor, was seriously injured with head and neck wounds requiring surgery, a two-week hospital stay, and rehabilitation. Philip's injuries generated medical costs of $137,650. The driver of the other car, Patrick Monk, suffered serious back and internal injuries and facial burns that resulted in some disfigurement. His medical care costs totaled $122,948. His passenger, Annette Monk, suffered cuts and bruises requiring minor medical care at a cost of $1423.

Both cars were completely destroyed in the accident. Olivia's 10-year-old Buick was valued at $2150. Patrick's Mazda Miata was valued at $19,350. The force of the impact spun Patrick's car around, causing it to destroy a traffic-signal control box (valued at $3650).

Both Olivia and Patrick were covered by family automobile policies with liability limits of $50,000/$10,000/$25,000 and medical payment limits of $10,000 per person and $100 collision coverage deductibles. In total, Olivia had to pay $11,048 out of her own pocket, as the policy limits were exceeded by Patrick's and Phillip's medical costs.

An additional point needs to be raised concerning situations in which an accident victim suffers serious, permanent injuries that are not fully reimbursed by the insurance policy protecting the driver at fault. In our example, Patrick suffered very painful injuries resulting in permanent disfigurement. He may wish to sue Olivia for his pain and suffering and for his unpaid medical expenses. If he were to file such a suit, Olivia would be provided with legal assistance by her insurance company. Any judgment that exceeds the policy limits (remember that Olivia's per-person policy limit has already been reached) will be Olivia's responsibility, however. Both Olivia and Patrick were terribly underinsured.

Olivia Redman's Accident: Who Pays What?

Coverage	**Olivia's Policy**	**Patrick's Policy**
Liability (limits)	(50/100/25)	(50/100/25)
Bodily injury:		
Patrick Monk	$50,000	
Annette Monk	1,423	
Philip Windsor	43,577 *	
Property damage:		
Patrick Monk's car	19,350	
Traffic-signal control box	3,650	

Coverage	Olivia's Policy	Patrick's Policy
Medical payments (limits):	($10,000)	($10,000)
Patrick Monk		10,000 *
Annette Monk		1,423
Olivia Redman	5,254	
Philip Windsor	10,000	
Collision coverage (limits):	(ACV, $100 deductible)	(ACV, $100 deductible)
Olivia's car	2,050	
Patrick's car		19,250 *
Olivia's out-of-pocket expenses:		
Patrick Monk's bodily injury	72,948	
Phillip Windsor's bodily injury	84,073	
Olivia's collision insurance deductible	100	
TOTAL	**$157,121**	

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Book Title: Personal Finance
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10.5b Flood and Earthquake Insurance

Standard homeowner's insurance policies exclude losses caused by flood, sinkholes, and earthquakes. This is because these types of losses are subject to **adverse selection**. This occurs when people who are most likely to suffer such losses will know that. And those that are least likely to suffer a loss will know that, too. As a result, those people with high probabilities of loss will want to buy the coverage and those will extremely low probabilities will not, thereby violating the law of large numbers. But if you live in a flood-prone area or earthquake zone, your risk of loss should be addressed. The **National Flood Insurance Program** is a federal government program that makes flood insurance available in counties where flood is common (see www.FloodSmart.gov).

Earthquake insurance can be purchased only from a private insurance company either as a separate policy or as an **endorsement** (An addition to a standard insurance policy designed to expand coverage for a special area of need.) (an addition to a standard policy) to an existing homeowner's or renter's insurance policy. **Sinkhole insurance** covers damage to your home due to ground collapse. Coverage and availability varies by state but is especially important consideration in Florida, Tennessee, and other states where sinkholes are possible.

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Chapter 10: Managing Property and Liability Risk: 10.5c Professional Liability Insurance
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10.5c Professional Liability Insurance

Professional liability insurance (Protects individuals and organizations that provide professional services when they are held liable for their clients' losses.) (sometimes called **Professional liability insurance** (Protects individuals and organizations that provide professional services when they are held liable for their clients' losses.) or **errors and omissions insurance**) protects individuals and organizations that provide professional services (physician, lawyers, psychologists, etc.) when they are held liable for the financial losses suffered by their clients due to professional mistakes or omissions. Policy limits, deductibles, premiums, and other characteristics of such policies vary widely depending on the profession involved. A $500 per year; in contrast, some surgeons pay $60,000 or more per year for professional liability insurance. In some state and for certain professions, professional liability insurance may be required by law.

Run the Numbers

Buying Automobile Insurance

Even though automobile insurance premiums can vary by hundreds of dollars annually among companies, only 40 percent of consumers shop around when they buy or renew coverage. It is especially important to re-shop for automobile insurance after you have had an accident or major ticket or before purchasing a vehicle. Insurance companies differ in how they handle these changes and a new company might be a better option for you.

You can use Worksheet 45 available in the *My Personal Financial Planner* workbook accompanying this text to record automobile insurance premium quotations obtained from insurers.

Did You Know?

Sean's Success Story

Sean's success as a personal financial manager is reflected in his tangible assets. He owns a two-year-old luxury vehicle and a motorcycle. He has all the latest home entertainment equipment in his condo in an upscale neighborhood. He also has substantial coin and stamp collections as both hobbies and investments. He recently undertook a thorough risk-management process to assess his exposures to risk and assess the ways to best address the risks he faces. As a result, he bought additional insurance to cover his personal property and stamps and coins. He also raised his automobile insurance deductible to $1000 and used the savings to raise his liability limits to 250/500/100. He also purchased a $2 million umbrella liability policy. Sean feels more secure now and plans to reassess his risk-management efforts every year.

Did You Know?

About Wedding Insurance

The cost of a large wedding can be $30,000 or more. Much of that amount must be paid up front. If either party backs out, there is nothing you can do. Except you can consider sending a bill to the bad person for the charges!

Wedding insurance generally pay whens:

(1) a member of the immediate families dies or becomes ill (pre-existing illness is excluded);

(2) a guest is injured;

(3) caterers fail to provide a service;

(4) clothing providers and photographers do not deliver their services; and

(5) gifts are stolen or damaged.

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Book Title: Personal Finance
Printed By: Xzavier Shugars (xfshugars@eiu.edu)

Chapter 10: Managing Property and Liability Risk: 10.5d Floater Policies
Book Title: Personal Finance
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10.5d Floater Policies

Floater policies (Provide all-risk protection for accident and theft losses to movable property regardless of where the loss occurs.) provide all-risk protection for accident and theft losses to movable property (such as cameras, sporting equipment, MP3 players, and clothing) regardless of where the loss occurs. Limited floater protection for personal property is part of the standard homeowner's insurance policy. Automobile insurance policies only cover portable personal property that is permanently installed in the vehicle. Property owned for business purposes is excluded from both types of insurance. This means that a mechanic's tools, a lawyer's books, and a karaoke DJ's equipment, for example, would not be covered. A separate floater policy would be required if you have extensive portable property whether for personal or business use.

Concept Check 10.5

1. Explain how purchasing an umbrella liability insurance policy applies the large-loss principle.
2. Are you preparing for a professional career that might expose you to liability losses? How might you protect yourself from such losses?
3. Give two examples of someone who might want to purchase a floater insurance policy.

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Chapter 10: Managing Property and Liability Risk: 10.6 How to Collect on Your Property and Liability Losses
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10.6 How to Collect on Your Property and Liability Losses

Learning Objective 6 - Summarize how to make an insurance claim.

The direct benefit of owning insurance becomes evident when a loss occurs and it is time to file a claim. Even when you have a legitimate claim, however, you may want to consider whether you should do so. A small claim might be best ignored as it may increase your rates, as one claim increases premiums, on average, 9 percent the following year. Of course, if you have a large claim, you would want to file for its recovery. Here are the four steps that you should take when you have a loss.

Advice from a Professional

Applying the Large-Loss Principle to Property and Liability Insurance

You should always select insurance coverage limits for the highest possible loss. Although rare, such losses can destroy your financial future. That thinking underlies the large-loss principle discussed earlier. Here is how to apply the principle to property and liability insurance.

For your personal property insurance, you should select limits that equal the value of the property involved. A $240,000 home should be insured for $240,000. Better yet, you can add **extended-replacement coverage**, which covers the difference if the price to rebuild exceeds your dwelling limit. Select all-risk policies rather than named-peril policies. Yes, the cost may be higher, but the loss of your property could be much worse.

The purchase of an umbrella liability policy is the best way to apply the large-loss principle to liability insurance. Never buy the legal minimums for auto insurance. Causing an accident that destroys one newer-model vehicle can exceed most state minimum limits.

You can afford to apply the large-loss principle through the use of higher deductibles. Ask yourself: "What is the largest loss I can afford to cover myself?" Then choose the highest deductible that does not exceed what you can afford to cover. The money saved by selecting a higher deductible can be used to pay for higher policy limits. For example, on a 100/300/50 auto policy with a $100 deductible, you can save as much as $300 per year by simply raising the deductibles to $1000! Then you can apply some of those savings to buy a $1,000,000 umbrella policy to protect yourself from a catastrophe.

Gerard J. Mellnick

Schoolcraft College, Livonia, Michigan

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Book Title: Personal Finance
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Chapter 10: Managing Property and Liability Risk: 10.6a 1. Contact Your Insurance Agent about Your Loss
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10.6a 1. Contact Your Insurance Agent about Your Loss

If you decide to file a claim, the first step —contacting your agent—should be taken as soon as possible. Follow the agent's instructions regarding who to contact next (including filing a written police report) and what to do to minimize the loss. Then keep the company informed of everything relevant to the loss in a timely manner until the claim is settled. The tenacious claimant is more likely to collect fully on a loss.

Financial Power Point

Check Your Home's Claims History Because It Affects Your Rates

Much like an individual's credit history, a home has a history, too, of its insurance claims. Claims that have occurred in the last seven years are included. You can check your home's claims history at www.personalreports.lexisnexis.com/homesellers_disclosure_report/landing.jsp.

Did You Know?

Your Worst Financial Blunders in Managing Property and Liability Risk

Based on others' financial woes, you will make mistakes in personal finance when you:

1. Buy only the legally required minimum liability coverage on your vehicle.
2. Pay high premiums because you select low deductibles on property insurance for your home and car.
3. Fail to keep good records (e.g., lists, photos, videos, receipts) that could serve to document insured property losses.

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Chapter 10: Managing Property and Liability Risk: 10.6b 2. Document Your Loss
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10.6b 2. Document Your Loss

You carry the burden of proof whenever a property or liability loss occurs. Adequate documentation of the circumstances and the amount of the loss is essential. In the absence of such documentation, the insurance company will generally interpret the situation in the manner most favorable to its interests, not yours.

> Financial Power Point
>
> **Use Your Company's Claims Phone App**
>
> Many insurance companies have developed mobile device apps for the reporting of losses covered by their policies. Contact your agent to see if such an app is available. A similar app is available from the National Association of Insurance Commissioners at www.insureuonline.org/auto_page.htm.

The best way to document a theft, fire, or other personal property loss is with a visual inventory. Photographs or videotapes of all valuable property including a written record of the date of purchase, price paid, description, model name and number, and serial number (if any) is very helpful. Keep such records in a safe-deposit box, in a file cabinet at work, or with a relative. If a loss occurs, present a *copy* of your documentation to the agent or insurance company.

You should always file a police report if you become involved in an automobile accident. Make a written record of the accident giving the time and place of the accident, the direction of travel and estimated speed of the cars involved, the road and weather conditions, the behavior of all parties involved and a diagram of the accident scene. Also, obtain the names, driver's license numbers and contact information for witnesses. Police reports are also advisable (and often required) when filing a theft claim of any type.

Chapter 10: Managing Property and Liability Risk: 10.6b 2. Document Your Loss
Book Title: Personal Finance
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Chapter 10: Managing Property and Liability Risk: 10.6c 3. File Your Claim
Book Title: Personal Finance
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10.6c 3. File Your Claim

An **insurance claim** (Formal request to the insurance company for reimbursement for a covered loss.) is a formal request to the insurance company for reimbursement for a covered loss. All of the documentation and information will be requested by the insurance agent or a **claims adjuster** (Person designated by the insurance company to assess whether the loss is covered and to determine the dollar amount that the company will pay.) (the person designated by the insurance company to assess whether the loss is covered and to determine the dollar amount that the company will pay). Insurance companies require that claims be made in writing, although the adjuster may assist you in completing the necessary forms.

Do It Now!

You know more about personal finance after reading this chapter, so get started right now by:

1. Identifying your exposures to risk and the magnitude of the losses that could occur.
2. Assessing your automobile insurance coverage and making changes as necessary.
3. Buying renter's insurance if you rent your housing.

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Chapter 10: Managing Property and Liability Risk: 10.6d 4. Sign a Release
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10.6d 4. Sign a Release

Part of the final step in the claims-settlement process is to sign the **release** (Insurance document affirming that the dollar amount of the loss settlement is accepted as full and complete reimbursement.) which is an insurance document affirming that the dollar amount of the loss settlement is accepted as full and complete reimbursement and that the insured will make no additional claims for the loss against the insurance company. Signing the release absolves the insurance company of any further responsibility for the loss. Resist the temptation to sign a release until you are sure that the full magnitude of the loss has become evident.

Concept Check 10.6

1. What is the best way to establish documentation for potential losses to your personal property?
2. Describe what you should do to file a claim most effectively when involved in an automobile accident.
3. Describe the term *release* and explain why signing a release too soon might work to your disadvantage.

What Do You Recommend *Now?*

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Now that you have read the chapter on risk management and property liability insurance, what would you recommend to Nick and Amber in the case at the beginning of the chapter regarding:

1. The risk-management steps they should take to update their insurance coverages?
2. The relationship between severity and frequency of loss when deciding whether to buy insurance?
3. Adequately insuring their home?
4. The use of deductibles and policy limits to keep their automobile insurance premiums at a manageable level while still maintaining vital coverage?

Chapter 10: Managing Property and Liability Risk: 10.6d 4. Sign a Release
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Chapter 10: Managing Property and Liability Risk Do the Math
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Chapter Review

Do the Math

Do It in Class and Do It in Class

1. **How Much of Fire Loss Will Be Covered?** Toula and Ian Miller of Lincoln, Nebraska, recently suffered a fire in their home. The fire, which began in a crawl space at the back of the house, caused $24,000 of damage to the dwelling. The garage, valued at $18,400, was totally destroyed but did not contain a car at the time of the fire. Replacement of the Millers' personal property damaged in the home and garage amounted to $18,500. In addition, $350 in cash and a stamp collection valued at $3215 were destroyed. While the damage was being repaired, the Millers stayed in a motel for one week and spent $1350 on food and lodging. The house had a value of $195,000 and was insured for $150,000 under an HO-3 policy with a $250 deductible. Use Table 10-1 to answer the following questions. (Hint: You must first determine whether the Millers have adequate dwelling replacement coverage and, if not, what percentage of the necessary 80 percent coverage they do have. The resulting answer will determine the percentage of the loss to the dwelling covered, and consequently the amount to be reimbursed by the insurance company.)

    (a) Assuming that the deductible was applied to the damage to the dwelling, calculate the amount covered by insurance and the amount that the Millers must pay for each loss listed: the dwelling, the garage, the cash and stamp collection, and the extra living expenses.

    (b) How much of the amount of the personal property loss would be covered by the insurance policy? Paid for by the Millers?

    (c) Assuming that they have contents replacement-cost protection on the personal property, what amount and percentage of the total loss must be paid by the Millers?

2. **Sufficient Dwelling Coverage?** Colton Gentry of Atlanta, Georgia, has owned his home for ten years. When he purchased it for $178,000, Colton bought a $160,000

homeowner's insurance policy. He still owns that policy, even though the replacement cost of the home is now $300,000.

(a) If Colton suffered a $20,000 fire loss to the home, what percentage and dollar amount of the loss would be covered by his policy?

Do It in Class

(b) How much insurance on the home should Colton carry now to be fully reimbursed for a fire loss?

3. **Coverage on a One-Vehicle Accident.** Bill Converse of Birmingham, Alabama, recently had his truck slide off a gravel road and strike a tree. Bill's vehicle suffered $17,500 in damage. The truck has a book value of $40,000. Bill carried collision insurance with a $500 deductible. How much will Bill be reimbursed by his policy?

4. **How Much of a Major Auto Accident Loss Will Be Covered?** Ashley Diamond of Griffin, Georgia, drives an eight-year-old Toyota valued at $5600. She has a $75,000 personal automobile policy with $10,000 per-person medical payments coverage and both collision ($200 deductible) and comprehensive coverage. David Smith of Bristol Virginia, drives a four-year-old Chevrolet Malibu valued at $9500. He has a 25/50/15 family automobile policy with $20,000 in medical payments coverage and both collision ($100 deductible) and comprehensive insurance. Late one evening, while he was driving back from Rocky Mountain National Park, David's car crossed the centerline of the road, striking Ashley's car and forcing it into a ditch. David's car also left the road and did extensive damage to the front of a roadside store. The following table indicates the damages and their dollar amounts.

Do It in Class

Item	Amount
Bodily injuries suffered by Ashley	$ 6,800

Item	Amount
Bodily injuries suffered by Fran, a passenger in Ashley's car	28,634
Ashley's car	9,600
Bodily injuries suffered by David	2,700
Bodily injuries suffered by Cecilia, a passenger in David's car	12,845
David's car	9,500
Damage to the roadside store	14,123

Complete the following chart and use the information to answer these questions:

(a) How much will Ashley's policy pay Ashley and Fran?

(b) Will subrogation rights come into play? In what way?

(c) How much will David's bodily injury liability protection pay?

(d) To whom and how much will David's property damage liability protection pay?

(e) To whom and how much will David's medical protection pay?

(f) How much reimbursement will David receive for his car?

(g) How much will David be required to pay out of his own pocket?

David Smith's Accident: Who Pays What?

Coverage	David's Policy	Ashley's Policy
Liability (limits)	____	____
Bodily injury	____	____
• Ashley	____	____

Coverage	David's Policy	Ashley's Policy
• Fran	____	____
• Cecilia	____	____
Medical payments (limits)	____	____
• David	____	____
• Ashley	____	____
• Fran	____	____
• Cecilia	____	____
Collision coverage (limits)	____	____
• David's car	____	____
• Ashley's car	____	____
• David's out-of-pocket expenses	____	____
• Fran's bodily injury	____	____
Excess property damage losses	____	____
Collision insurance deductible	____	____
TOTAL	____	____

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