

INSURANCE BULLETIN

BULLETIN #12

Non-Owned Automobile Exposures

CNA and the PLANET Safety and Risk Management Committee are proud to provide you with this information. We trust that you will find it useful in understanding the insurance and risk management issues associated with your business.

Did you know that your company could be liable for accidents and injuries caused by your employees while driving their own vehicles? Consider these examples:

- Your employee is “off the clock” driving his own vehicle but decides to pick up supplies for the next day’s work. Along the way, he crosses the center line and strikes an on-coming vehicle, resulting in severe injuries to the other driver. Your company may be liable for any damages above the employee’s personal auto liability insurance limit if it is determined that the employee was driving in the course and scope of employment.
- Your office manager heads out for lunch driving her own vehicle and decides to stop to make a deposit into your company bank account. Along the way, she strikes another vehicle backing out of a parking spot and three occupants of that vehicle suffer severe back and neck injuries. Combined medical and indemnity costs will be in excess of \$100,000. Her personal automobile policy’s liability limit is only \$10,000. Here again, your company may be liable for the injuries and damages above the employees \$10,000 liability limit.

When employees are involved in accidents while driving their personally owned vehicles on company business, your company’s automobile policy can be triggered to pay damages if a claim or lawsuit is filed. In the insurance world, this exposure is called “Non-Owned Auto” Liability, and it can contribute to large losses and increased expenses for your business

Non-Owned Auto

The meaning of the term is as it sounds. Under the Insurance Services Office (ISO) business automobile policy, “non-owned auto” refers to automobiles that you or your company does not own, lease, hire, rent or borrow, but that are used in connection with your business. The automobiles that most commonly fall into this category are employee-owned vehicles, driven by the employee on company business. Any time an employee uses their personal vehicle to conduct a business activity, your company may be liable. The examples above illustrate that many contractors may have some degree of non-owned automobile exposure.

Be sure your Business Auto Policy includes coverage for Non-Owned Autos

Arranging liability coverage for non-owned automobiles is simple under ISO’s Business Auto Coverage Form (the most commonly used form in the industry). It’s simply a matter of making sure the appropriate covered auto designation symbol is used for Liability coverage on the Declarations page. Using either symbol ‘1’ or symbol ‘9’ provides coverage for non-owned autos. Your insurance carrier will want to know how many of your employees use their vehicles on company business to develop a premium charge, which is usually very inexpensive. Check with your insurance agent to be sure your company’s coverage is properly arranged.

What about the employee’s own insurance?

If your employee has their own personal automobile insurance policy, it will generally respond to any claims or lawsuits as the primary coverage, and your company’s automobile policy will probably be above the limits of your employee’s personal auto policy. As a result, your company’s exposure to loss increases if your employees carry inadequate auto liability limits on their personal policies. Many employees elect to carry the state required minimum liability limit, which can be as low as \$10,000.

Another consideration is that personal auto policies usually exclude coverage for business delivery, potentially putting your company’s auto policy on the hook for the entire claim!



Why worry if I'm insured?

It is true that many contractors purchase insurance coverage for non-owned auto liability exposures, just as they do for property, workers' compensation and general liability exposures. However, forward-thinking contractors also use simple risk management procedures to control and reduce their loss exposures. For instance, you probably mandate the use of personal protective equipment to prevent and reduce employee injuries, right? Why not take the same pro-active attitude towards controlling your company's non-owned auto exposure? Ultimately, the cost of non-owned automobile accidents comes back to your company in the form of higher business auto insurance premiums.

What can you do to reduce the potential for non-owned auto losses?

The most effective way to reduce the potential for non-owned auto losses is to establish and enforce a policy that employees do not operate their own vehicles for business purposes. However, since this approach might not always be practical, it pays to implement additional measures:

- First, don't let employees drive their own cars for business if you are not comfortable allowing them to drive a company vehicle. Review the motor vehicle records (MVR) of employees that use their own vehicles for business purposes — just as you review the MVR's of employees assigned to drive company-owned vehicles. If you knowingly allow a driver with a bad driving record to drive his or her own car for company business and a serious accident occurs, your company may be held liable for negligent entrustment. In a worst case scenario, your company could be liable and held responsible for all damages, including punitive damages which may not be insurable.
- Maintain a copy of the employee's valid driver's license in their driver file.
- Require that employees carry adequate liability limits on their personal automobile policies. Consult with your insurance agent and legal counsel who can advise you of what limits should be required of employees.
- Require that a Certificate of Insurance or a photocopy of the employee's personal automobile insurance policy declarations page be kept in the employee's driver file showing that these limits are in place.
- Be sure to include these employees in all driver training and safety meetings.
- Require that any operation of employee-owned vehicles for company business follow the same guidelines for driving company-owned vehicles. You should require that the vehicles be regularly inspected to assure road readiness.

These simple procedures as part of a comprehensive Driver & Fleet Safety Program (see Insurance Bulletin #11) can help you manage your company's driver and fleet risks, and ultimately help control your business auto insurance costs.

Since 1983, CNA has partnered with PLANET to provide a business insurance program that offers comprehensive risk control (safety) services, expert claim handling and property/liability insurance coverages designed specifically for landcare professionals. So when your business is insured with the CNA/PLANET program, you'll have peace of mind knowing it's a program your association helped develop. Give us an opportunity to earn your business — ask your insurance agent to obtain a quote from CNA and discover how you can benefit from this partnership.

For more information, contact your local independent agent or visit www.cna.com.

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