

Chapter 11: Automobile Insurance

In four provinces (Quebec, Manitoba, Saskatchewan and Ontario), compensation for losses arising from auto accidents is provided by **no-fault** insurance. In Manitoba and Quebec, where there is pure no-fault insurance, drivers cannot sue for bodily injury losses; instead, the government insurer provides generous injury benefits to affected parties. Ontario has a partial no-fault system where the insurer pays for relatively small losses, but the injured party can sue the at-fault party for losses above a certain amount.

Standard auto policy coverages

- (1) coverage for liability to third parties harmed by the negligence of an insured person
- (2) accident benefits or personal injury protection coverage for death benefits, medical expenses, loss of income and uninsured motorist coverage
- (3) optional coverage for physical damage to and theft of insured autos

See Table 11.1 for different types of automobile loss exposures and insurance for losses.

The **Absolute Liability Law** gives third parties a direct right of action against the insurer to have the insurance money under the policy paid directly to them.

Personal auto insurers generally use rate classification systems that reflect driver characteristics such as years of driving, whether the car is driven to work or for business, driving record, and the geographic territory in which the auto is located. Rates are lower for insurers with more stringent underwriting criteria.

All provinces/territories have made auto liability insurance compulsory. These have been criticized for weak enforcement in some jurisdictions, and for having a regressive impact on the distribution of income.

The **residual insurance market** exists to serve drivers with characteristics that suggest significantly above-average expected claim and/or administrative costs.

Questions

What is meant by the absolute liability law provision of the automobile policy? Who is protected under this provision?

Ans: The liability of a wrongdoer's automobile insurance company to pay someone harmed by the wrongdoer, even if the wrongdoer has violated the terms of the insurance policy, for example, by driving with an expired license. This is subject to a limit, usually \$200,000, and the requirement that the wrongdoer is in violation of the contract must reimburse the insurer.

**What are the three major loss exposures that arise out of ownership and operation of an automobile?
Provide an example of each.**

ANS:

Types of Losses

- 3rd party liability; the injured's legal liability for negligently causing bodily injury to others or property damage to others
- the insured's economic losses from bodily injury
- the insured's pain and suffering
- collision damage to the insured's vehicle
- theft of the insured's vehicle

S/A: Auto insurance is compulsory in all jurisdictions in Canada.

- 2 arguments for compulsory auto insurance?
- 2 arguments against compulsory auto insurance?

S/A: "Loss of or damage to insured automobile" is not a compulsory coverage but liability & accident benefits are. Why is this reasonable?

M/C theory questions.

Which of the following coverages does not provide protection for bodily injury arising out of an automobile accident in Ontario?

- a. Third party liability (BI/PD).
- b. DC / PD coverage.
- c. Uninsured motorist coverage.
- d. First party accident benefits.
- e. Underinsured motorist coverage.