

Manager/Supervisor Risk Management

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A twice weekly e-mail training for YCPARMIA members

TOPIC: PROPERTY – AUTO PHYSICAL DAMAGE

Another one of those technical semi-boring distinctions:

Physical damage to vehicles and mobile equipment is one of the components included in YCPARMIA's Property Program. It is a unique area in that the pool does not retain any of the risk. The excess group has a \$20,000 deductible per occurrence. Losses below that amount fall on the member entity; losses above that amount are handled by an independent adjusting company reporting to the excess group. YCPARMIA can assist the member in presenting their claim, but has no authority to settle.

The measure of property damage on an auto claim brought by a third party claimant is "actual cash value" (ACV); this means the depreciated value of the involved vehicle based on make, model, year, condition and mileage. If the damage to the vehicle exceeds its' value, the vehicle is a total loss, and payment is capped at that value. A damaged vehicle, regardless of condition, generally has a salvage value. When the amount of repairs plus the salvage value exceed the value of the vehicle it is a "constructive total loss." The insurer pays the value of the vehicle to the claimant, takes title, and recoups part of their payment by selling the salvage. The claimant is often given the option of taking a lesser amount (the salvage value), and keeping the vehicle.

An individual's private auto insurance usually includes coverage for collision (with another vehicle) or comprehensive (physical damage caused by some other mechanism). The measure of damages is usually the same as described above for third party liability claims. The YCPARMIA program is a bit different in that the coverage is "replacement." The distinction between ACV and replacement coverage is limited to total losses. If the vehicle or mobile equipment can be repaired within the ACV value, the excess group will pay for the repairs. Conversely, if the vehicle or mobile equipment is a total loss, the carrier will, at their option, pay to replace the unit with a new unit.

Adjusting a physical damage claim on vehicles or mobile equipment is a fairly simple process. The vehicle has to be identified and sufficiently described to create a value. Repair costs have to be estimated and agreed on. If the entity chooses to make their own repairs the value of those repairs will be limited to the amount that an independent reputable shop would charge. There is rental coverage for the temporary replacement of the unit while it is being repaired, but the entity has a duty to mitigate its damages by cooperating in expediting the process. The cost of any changes or upgrades to the unit during the course of repair would normally fall on the entity.

Next topic: The Adjustment Process