

CHAPTER 1: Module 1 (May 4, 2020)

Risk, Risk Management and Insurance

**** CATEGORIES or TYPE OF RISK**

EXOGENOUS RISKS are risks that we can not control. **Ex.** Earthquake, hurricanes and other “acts of God” outside human control.

ENDOGENOUS RISKS are risks that we can control. This type of risk is created by our actions. **Ex.** running across the street in traffic, smoking in bed, cutting in and out of heavy traffic.

OBJECTIVE RISK is risk that is based on experience of a population in a sample as a whole. **Ex.** Keep track of drivers over age of 50 calculate mean (average) of losses.

SUBJECTIVE RISK is based on a specific event or individual. **Ex.** driving accidents often occur because people fall asleep at the wheel. (**Smoking a cigarette while pumping gas is an example of a strong**)

Both risks are measured based on past performance/experience.

PURE RISK there is a chance of a loss or no loss, but no chance of a gain **Ex.** earthquake, home burns, die in an airplane crash

SPECULATIVE RISK are risks in which there is a probability of a net gain or a net loss. **Ex.** a stock that trades on the TSX (most instances, speculative risks are not insurable since they involve a voluntary acceptance of that risk)

DYNAMIC RISKS risk that is associated with the changes in business and the economy, can result in a loss or in a gain.

STATIC RISKS are not related to the economy and is a form of pure risk. **Ex.** small business owner who has a very large customer that go bankrupt.

FUNDAMENTAL RISKS are risks that affect a large group, or even an entire population. **Ex.** earthquake that causes major damage to an entire city – this natural disaster causes losses that affect the entire population of that city.

PARTICULAR RISKS affect only an individual. **Ex.** Lightening from a major thunderstorm may cause property damage to only one person’s home.

Perils and Hazards (page 13)

The Risk Management Process

Risk management is the process of IDENTIFYING and ASSESING RISKS or LOSS EXPOSURES and then TAKING STEPS to eliminate or reduce the financial impact of those risks using the appropriate tools available.

****The Six Steps in the Risk Management Process** (page 15-16)

1. Determine the objectives <Reduce, Avoid, or Control risk exposures>
2. Identify the risks <Determine the potential loss>
3. Evaluate the potential losses <Risk can be minor, critical, material, or insured>
4. Consider alternatives and the appropriate risk management technique < Identify the methods that will control the risk exposure>
5. Implement the technique
6. Ongoing evaluation and review <Evaluation and review the process>

Risk Management Tools (page 17-19)

Although risk can not be completely eliminated, there are ways it can be controlled. They are:

1. Avoid the risk
2. Control the Risk
3. Retain the Risk (**Ex.** Not purchasing additional liability coverage, over and above legal minimums, on an automobile is an example of which risk management technique)
4. Share the Risk
5. Insure the Risk

Rationale for Insuring and Insurance Rates (page 20-21)

DECISION THEORY, which chooses the minimum expected value or cost

MINIMAX REGRET THEORY, which states that one should always minimize the maximum possible loss or regret

Risk Classification and Expected Value (page 22-23)

Expected Value means expected loss

Law of Large numbers (page 23)

Compliance page 25

Types of Insurance Companies

There are two kinds of insurance operations and they operate differently due to the character of their respective liabilities.

- **Property and Casualty (P&C) Insurers** cover risk exposures to physical property as well as liability resulting from damage to other people (bodily harm or death and damage) to their property.
- **Life and Health Insurers** cover risks to one's own person that have financial implications. Ex. death, sickness or injury that makes a person unable to work and health cost not cover by provincial plans.

Ownership of Insurance Companies

There are two types of ownership of insurance companies:

1. **Stock insurance companies** - are companies that have shareholders – shareholders elect the board of directors to manage the company. They issue bonds and sell shares to raise new investment capital.
2. **Mutual insurance companies** – are companies owned by the policyholders. They pay out dividends and issue bonds to raise new capital.

Captive Insurers (page 34)

Consumer Protection is provided by three organizations: (page 35)

1. Canadian Life and Health Insurance Compensation Corporation (CompCorp) a federally incorporated private company.
2. The Property and Casualty Insurance Compensation Corporation (PACICC) provides up to \$250,000 per claim if not paid by a bankrupt insurer.
3. The Office of Superintendent of Financial Institutions (OSFI) is the federal government agency that oversees financial institutions.

Type of Insurance (page 35-36)

CHAPTER 2: Module 2 (May 9, 2020)

Backdrop to Insurance and Insurance Law

Two Fundamental Principles that explain how insurance works

1. Law of Large Numbers
2. An Insurance Policy is a Contract

Basic requirements of an **Insurable Risk**

1. Large number of exposure units – enough insureds to be able to have a large enough pool of subscribers
2. Accidental and unintentional loss
3. Determinable and measurable loss
4. No catastrophic loss
5. Calculable chance of chance
6. Economically feasible premium – premium has to be affordable

Basic Characteristics of Insurance

Insurance is a tool that is used in risk management to manage a variety of different risk exposures. Insurance is simple a way to transfer certain risk exposures from one entity to

another. The insurer (usually a company) will provide coverage/protection against a certain risk, based on rates and experience for a premium.

1. Pooling or sharing of losses – This is simply sharing/combining a certain risk exposure with others by spreading it across the group.
2. Losses must be fortuitous (accident) – Not deliberate (intentionally)
3. Transfer of Pure Risk
4. Indemnification of Losses – To restore a loss in full or in part.

****Principles of Insurance** (page 53-55)

1. **Principle of Indemnity** – The insured should not profit from the covered loss. The individual is restored to approximately the same financial position that existed prior to a loss.
 - **Valued policy:** insured and insurer agree on a value of something
 - **Replacement cost:** insurance on a home and contents will replace the lost or damaged item with a new one
 - **Life insurance:** policies pay the face value, which is based on the amount purchased at the inception (beginning) of the policy.
2. **Insurable interest** – You must be at risk to suffering financial loss. A loss must occur that will have a financial impact to the insured.
3. **Reasonable Expectations** – The person who takes out the policy must lose financially if a loss occur or must incur some other kind of harm if the loss takes place. The insured is entitled to the coverage he/she reasonably expects the policy to provide. An insurer will provide the agreed upon coverage for a stated loss.
4. **Subrogation** – The insurer will pay the insured for a loss caused by a third party, and the insurer is entitled to recover the loss from a negligent third party. If negligence has been determined to be the fault of a third party, the insurer has the right to recover its losses.
5. **Utmost Good Faith** – All information must be true. No absence of intent and the complete information.

Benefits and Costs of Insurance to Society (page 55-56)

- **Indemnification for loss**
- **Less worry and fear**
- **Source of investment funds**
- **Loss prevention**
- **Enhancement of credit**

- **Cost of doing business**
- **Fraudulent and inflated claims**

SYSTEM OF LAW there are 2 systems of law in the world (page 57)

- **Civil law** – bases on a comprehensive (complete) system of codes spell out all possible events that could come before a court, how the law should work, the way offenses are to be punished.
- **Common law** – based on precedent with the decision of higher level of courts, e.i Supreme Court of Canada

The Law in Canada (page 56 and 58)

1. Public Law – deals with relationship between individuals and the state or between jurisdiction, deals with **public wrongs**

- a) **Criminal Law**
- b) **Administrative Law**
- c) **Constitutional Law**

2. Private Law – deals with relationships between individuals, **private wrongs**. Ex. Property ownership, ownership, contracts, the rights and obligations of family members (**Family Law**), damage to one's person or property caused by another (**Tort Law**).

Contracts and Contract Law

Contract Law is based on several Latin legal principles, most important is *consensus ad idem* meaning a meeting of the minds between the parties or a clear understanding, offering, and acceptance of each participant's contribution.

Ex. An insurance policy is simply a contract between two parties; the insured and the insurer. In a life insurance contract, the insurer agrees to pay the insured's beneficiaries a predetermined lump sum payment in the event of death. In return, the insured, agrees to pay the insurer a monthly premium

A contract can be defined as an agreement between two or more parties that can be enforced in a court of law. In order for a contract to be valid and enforceable in a court of law all of the following elements must be present:

Elements of Valid Contract (page 59-61)

- 1. Offer and Acceptance** – contract starts with an **offer**, which is a promise by one person the **offeror**, to do something when requested to do so by another person, the **offeree**, the one receiving the offer.
An offer can also be defined as a promise by one party to undertake an obligation, subject to **acceptance** by the other party.
A **valid offer** includes the price and completion date.

2. **Consideration** – Premiums: A life insurance policy is not valid and in effect until the insurer has received the first premium.
3. **Legal Objective** –
4. **Competent Parties** - A contract involves a meeting of the minds. All parties to a contract must be capable of consent. An individual must at least 16 years old to buy Life Insurance. A Life Insurance company must be licensed to sell insurance.
5. **Intention to Create a Legal Relationship** - Both parties to the contract must have the intention to willingly carry out the terms and conditions of the contract.

Once a contract has been created the parties to the contract are legally bounded to its terms. However, there are exceptions that can allow for the cancellation of a contract with no financial or legal penalties.

Discharge of a Contract (page 61) is the end of the rights and obligation of a contract. Contracts can be discharged by:

1. **Performance**
2. **Agreement**
3. **Frustration**
4. **Breach of contract**

Voidable or Unenforceable contracts (page 62-64) number of things might make the contract voidable or unenforceable:

1. **Mistake**
2. **Rectification**
3. **Misrepresentation**
4. **Concealment**
5. **Warranty**
6. **Duress**
7. **Undue Influence**

Special Treatment (page 65)

Characteristic of Insurance Contracts (page 66-67)

Aleatory vs. Commutative – Theoretically, in a commutative contract the goods and services exchanged at the beginning of the contract, are of equal value. **Ex.** payments made for legal or accounting services equal the value of the services. In an insurance contract, they are aleatory, the dollar amount exchanged may not be equal but depend on an uncertain event. **Ex.** the house or car never incurs damage.

Bargaining vs. Adhesion – bargaining contract, the applicant can make counterproposals or ask for changes. **Ex.** When you are hired you can generally negotiate, within limits, the start

date, the salary, etc. Adhesion contracts, the applicant must accept the entire contract, including terms and conditions. **Ex.** Insurance policies. There is no bargaining in a contract of adhesion. One party creates the terms and conditions of the contract and the other party can accept or decline.

Unilateral vs. Bilateral – Unilateral contract, only one party makes a legally enforceable promise. **Ex.** insured can cancel the contract by not paying premiums. However, the insurer cannot cancel the policy before the end of the policy term. Bilateral contract, each party makes a legally enforceable promise. **Ex.** your employer must continue to pay you as long as you continue to do your job. If you stop working, the employer can stop paying.

An **insurance policy** is simply a contract between the insurer and the insured. The insurer agrees to provide a predetermined amount of coverage to the insured, in the event of predetermined conditions, for a premium. For example, in a life insurance policy, the insurance company agrees to pay a lump sum amount to the insured's beneficiary, when the insured dies.

Parts of an Insurance Policy (page 67-69)

There are 6 basic parts to an insurance policy:

1. **Declarations:** identify and give info about what exposures are to be covered and for how much, who is insured, the premium, deductibles under that contract, and the term (the period of policy is in effect)
2. **Definitions:** definitions within an insurance contract are typically identified with quotation marks.
3. **Insuring Agreement:** an agreement that constitute a promise by the insurer to pay a specified sum upon the occurrence of a specific event in return for premiums paid by the insured.
4. **Exclusions and Restrictions:** there are specific conditions or circumstances listed in the policy for which the policy will not provide **benefit payments**.
5. **Conditions:** are provisions stated in an insurance contract that express the rights and duties of the insured, or the rights and duties of the insurer.
6. **Miscellaneous Provisions:** **Ex.** Grace periods, misstatement of smoking status, other things that may affect the contract.

In addition, some policies may contain the following sections:

7. **Endorsements and Riders**
8. **Deductibles**
9. **Co-insurance Requirement**

Sample Term Life Policy (page 70-72)

Elements of a Valid Insurance Contract (page 72-73)

1. Offer and Acceptance
2. Consideration
3. Legal Objective

4. Competent Parties
5. Intention to Create a Legal Relationship

NEGLIGENCE AND TORT LAW

A careless act, by a reasonable person, that causes damage or injury to another individual or their property. It is the failure to exercise the standard of care required by the law to protect others from an unreasonable risk of harm, thereby increasing the risk of bodily harm to them or their property. **Standard of care** is simply the care required of a reasonable prudent person.

Elements of Negligence (page 74)

1. **Legal Duty of care** - legal duty to protect others from harm. **Ex.** to shovel their walkway after a snowstorm.
2. **Failure to perform that duty** - by an act (**positive act**) failure to act (**negative act**)
3. **Damages** -
4. **Proximate Cause** -

Defence against Negligence (page 75) there are 5 possible defences against negligence:

1. **Contributory Negligence**
2. **Comparative Negligence**
3. **Last Clear Chance Rule**
4. **Assumption of Risk**
5. **Inevitable Accident**

Imputed Negligence (page 76) some conditions, the negligence of one party can be imputed (attributed or assigned) to another.

1. **Employee-Employer Relationship**
2. **Vicarious Liability**
3. **Family Response Doctrine**
4. **Joint Business Ventures and Partnerships**
5. **Dram Shop Law**
6. **Res ipsa loquitur**

Tort Law (page 77)

Was established to compensate private individuals for the wrongs caused by others.

A tort is a civil wrong or inquiry that is cause by one person to another, either intentionally or by the acts of negligence. In court, a tort allows the person who suffered the loss or injury, to collect damages.

Negligence - Special Cases (page 79-81)

- Absolute and Strict Liability
- Charities
- Governments
- Parents and Children
- Property Owners

CHAPTER 3: Module 3 (May 16, 2020)

Automobile Insurance

The Automobile Insurance Policy

Automobile insurance, like all other forms of insurance, is used to protect against the risk of a financial loss. In the case of automobile insurance, that loss can come in the form of damage to your vehicle, theft of your vehicle, or personal injury in the event of an accident.

An automobile insurance policy is a contract between the insured (driver) and the insurer (the insurance company). The insurance company will provide the owner of the policy (with defined coverage in the event of a loss) for a predetermined amount of money, also known as the insurance premium.

LEGAL ASPECTS

- In Ontario, the provincial government has mandated the Financial Services Commission of Ontario (FSCO) to regulate automobile insurance.
- The FSCO has standardized automobile insurance coverage by enforcing the minimum standards of coverage that the owner of a vehicle must insure.
- Through FSCO, the Province of Ontario also controls the type of coverage that private insurers sell to drivers and the insurance rates they are allowed to charge.
- As well, they are the governing body that determines the type of benefits injured drivers are entitled to receive through insurance claims and they also oversee the wording and the terminology used by private insurers to define terms of policies.

o All THREE levels of government are involved in regulating the use of automobiles in Canada.

Government Regulation of Insurance		
FEDERAL LEVEL	PROVINCIAL LEVEL	MUNICIPAL LEVEL
CRIMINAL CODE OF CANADA	PROVINCIAL ACTS	MUNICIPAL BY-LAWS
The <i>Criminal Code</i> has several sections covering various auto related aspects, such as <u>impaired driving</u>, <u>dangerous operation of a vehicle</u>, <u>failure to stop at the scene of an accident</u>,	Each province sets out laws relating to <u>speed limit</u> , <u>age restriction on driving</u> , <u>testing requirements</u> , <u>different license classes (car, motorcycle, etc.)</u> , <u>seatbelt requirements</u> , and <u>defines</u>	Municipalities create by-law for municipal issues not covered by federal or provincial legislation. These by-laws cover issues such as <u>time limits on parking</u> , <u>permits for in-street parking</u>

<u>criminally negligent operation of a vehicle, and theft.</u>	<u>who has the right of way.</u>	<u>and crosswalks.</u>
<ul style="list-style-type: none"> • Conviction for violations AFFECT premiums and coverage and can include prison time. 	<ul style="list-style-type: none"> • Convictions for violations affect premiums and coverage 	<ul style="list-style-type: none"> • Convictions for violation DO NOT AFFECT premiums and coverage. However, municipal governments can impound vehicles and give fines that must be paid to renew a driving license
<ul style="list-style-type: none"> • Responsible for the <i>Insurance Companies Act</i> 	<ul style="list-style-type: none"> • Sets rate and guidelines and coverage requirements 	

The Criminal Code (page 100-101)

Provincial Laws (page 102-103)

Provincial law cover rules of the road, licensing requirements and other administrative issues. In Ontario, it is called the *Highway Traffic Act*. While in B.C. it is the *Motor Vehicle Act*.

Dangerous Driving vs. Careless Driving

- Dangerous driving is covered by the federal Criminal Code and is relevant if the driver operated the vehicle in a manner that a prudent driver would not in the given conditions.
- Careless driving is not paying close enough attention, while dangerous driving is wilfully ignoring traffic rules with no regard for the possible consequences to other's people property and lives.

Municipal Traffic By-Laws (page 104)

The province issues the permits but the municipality decides pay rates, maximum time, etc.

Legal Principles (page 104-106)

1. Absolute Liability: A person injured or killed by your vehicle (3rd parties) have the right to collect from your insurance company even if the coverage is denied to you because you have violated the terms of the contract.

Example. You've been drinking with friends. You have had several drinks but stopped drinking a couple of hours ago and believe you are not "impaired". You hit a pedestrian who runs out to catch a bus. The pedestrian has serious injuries and requires several months of physiotherapy which is covered by Accident Benefits Coverage. Your blood alcohol level is 85 mg which is over the legal limit of 80 mg. You will be charged and undoubtedly convicted of impaired driving.

The insurance company will pay for the pedestrian's treatment and has the right to be reimbursed by you since you have been convicted of impaired driving. Your own injuries will also be covered. Any damages your car sustains that would normally be covered by your policy will not be covered because you will be convicted for impaired driving under the Criminal Code of Canada.

2. Negligence: Third party liability covers damage or injury to an innocent 3rd party caused by your negligent operation of a motor vehicle – you are negligent in that you caused the accident that led to the damage or injury. To be negligent is to fail to do what is a reasonable and prudent person would do, or not do;

Example. You are driving home, tired, after work. As you are talking on your cell phone, you hit a pedestrian who runs out to catch a bus. The pedestrian has serious injuries and requires several months of physiotherapy which is covered in Accident Benefits Coverage. You were driving at the speed limit and were will not be charged with any criminal act.

You are negligent in that you were distracted by talking on the phone while driving (assuming your province does not have a law against using a cell phone while driving). All your coverage is in place since you were merely negligent, not criminally negligent.

3. Subrogation: no-fault or direct compensation insurance means that each person collects from his/her own insurance company and the victim's insurer cannot try to get compensation from the at-fault driver's insurer.

Example. You live in a province with no-fault insurance. You are driving home, tired, after work. As you slow down for a red light, you hit a pedestrian who runs out to catch a bus. The pedestrian has serious injuries and requires several months of physiotherapy which is covered in Accident Benefits Coverage. In addition, in attempting to avoid the pedestrian, you swerve and hit another car.

Your insurer will pay for the pedestrian's medical costs as well as any medical costs you might incur and for any repairs to your car. **The other motorist's insurer will pay for repairs to the car you hit.**

If you live in a province without no-fault, the other motorist's insurer has the right of subrogation – to be compensated by your insurance company for the costs of repairing the other car.

DETERMINING THE PREMIUM (page 106-111)

Insurance premiums

There are many factors involved in determining the insurance premium that an insurance company will charge an individual for insurance coverage. What insurance companies typically do to determine the premium they are going to charge a driver for coverage is class that driver into different categories of risks based on the company's previous claims experience. The following is a list of factors that an insurance company will use to evaluate the insurance premium they will charge for coverage.

Factors contribute to the amount of your insurance premium in most jurisdictions:

A. The probability of a loss

Probability of loss is the risk that the insurance company faces if it provides a driver with coverage. The key question to determine is what is the probability that we, the insurance company, will have to pay-out a claim?

With historical data and information that insurance companies collect year after year, an underwriter can use this information to determine and then calculate the probability of a loss. For **example**, historical information shows that young males between the ages of 18 - 25, as a population in Ontario, have filed a higher number of auto claims versus females within the same age group, and therefore are a higher risk to insurance. That is, the insurance company has a higher probability of having to pay a claim when it insures a male in that age bracket.

C. Location

An insurance company's claims experience with policyholders in a particular geographic location, may affect the premiums that the insurer will charge for coverage.

D. Claim Experience

Claim experience is the number of claims an individual makes to the insurer where the insurer has actually paid out funds to the insured. Therefore, the more claims you make, the higher the insurance premium.

F. The Vehicle

The make, model, year and size of a vehicle all play an important role in determining your insurance premium. For example, historically, sports cars have been involved in more speeding accidents than sedans and minivans, and as a result, a person driving a sports car would have to pay a higher premium since the risk of having to pay out a claim is higher.

1. Probability of a Loss

- Age, Gender and Marital Status
- Driver Training
- Driving Record
- Number of Years Licensed
- Number of Claims
- Number of At-fault Accidents
- Make and Model of Car
- Location
- Vehicle Use and How Much You Drive
- Number of Operators

B. Particular Risks – Driving record and history with auto insurance

Insurance companies have different classes of risk. Depending on your driving record, and your history with a particular insurance company, an insurer may increase or decrease your premium, or it may choose not to provide coverage at all if the risk is too high.

2. Particular Risk

Usage-based insurance (UBI) (page 110)

E. The Deductible and Coverage

The purpose of the deductible is to protect the insurer by deterring individuals from making small claims. Coverage is the total amount of loss that you are covered for and it is also the maximum liability that the insurer could potentially have to pay out. The size of your deductible and your coverage greatly affect your insurance premium.

- 3. Size of the Deductible:** The size of the deductible also has an effect on the premium – increasing the deductible from \$300 to \$500 can reduce the premium by as much as 10%.
- 4. Coverage:** more or better coverage increases the premium.
- 5. Taxes on Premiums:** The taxes are charged to the insurance companies such as income taxes and are not necessarily charged to the insured directly.

Factors That Do Not Affect Premiums (page 111)

Some factors are not allowed to be used to determine premiums and these factors can vary a great deal by jurisdiction.

GETTING INSURANCE COVERAGE – UNDERWRITING RULES

Underwriting rules are used by insurance companies to assess the probability and size of a loss based on analysis of historical information.

Insurers of Last Resort

Most jurisdictions have **facilities associations**, which are the insurers of last resort. They will provide insurance when no private insurer will. Insurer provides the insured with an **inter-province motor vehicle liability insurance certificate** evidence of insurance and is honoured across Canada.

You Need Insurance But Do Not Own a Car (page 114)

The rental company's policy will cover the car but not the liability.

Direct Compensation or No-Fault Insurance

- New Brunswick, Nova Scotia, PEI, Quebec and Ontario have mandatory **direct compensation**, also referred to as **no-fault insurance**. It means each policyholder collects from his or her own insurance company regardless of who is at fault.

Pure no-fault insurance often comes at a price – the insured is compensated more quickly since it isn't necessary to go to court but he/she usually cannot sue.

Types of No-Fault Plans (1 pure no-fault plan and 3 modified no-fault plans) (page 115-116)

- **Pure No-fault Plans** – lawsuits are not permitted.
- **Modified No-fault Plan** – plans permit lawsuits if a certain threshold (min.) of damage or injury is met.
 - monetary threshold
 - verbal threshold
- **Add-on Plan**
- **Choice No-fault Plan**

No-Fault Insurance

What does No-Fault Insurance mean?

No-Fault insurance means that in the event of an accident in which there are injuries or damages to your vehicle, your insurance company is responsible for paying out any claims made by you or your passengers. No-Fault insurance does not mean that in the event of any accident no one is at fault, it simple means that you can only file claims against your automobile insurance policy. Some insurers will pay out your claims prior to completing an investigation to determine who caused the accident and who is a fault. No-Fault insurance prevents a driver from suing or making claims against another insurer (although in reality, this is not always correct).

How does No-Fault Insurance work?

People often confuse no-fault insurance with the notion of no liability in an accident. This is not the case, as someone is always at fault when an accident or injury occurs. After benefits are paid out, it is up to the insurance companies to determine between each other who is at fault and what percentage of fault will be assigned to each driver. Once this is complete, the insurance companies will then compensate each other for their corresponding losses.

The below example illustrates the mechanics of No-Fault insurance.

John arrives at the local grocery store. While driving around the parking lot, he collides with another shopper, Sarah, and damage is caused, totaling \$1,000 to each vehicle. Assuming that there are no deductibles, each insurer will pay out the claim to its insured party for the corresponding \$1,000 prior to determining fault. Once both insurance companies complete their investigation, and assuming they conclude that John is 75% responsible for the accident, then John's insurer will be required to pay out 75% (\$1,500) of the total claim(\$2,000) and Mary's insurer will pay out the remaining 25% (\$500). The two insurance companies will settle the claim between each other without involving the insured parties. In this example, John's insurance company will pay Sarah's insurance company \$500.

THE INSURANCE POLICY Since automobile insurance coverage is mandatory in all provinces and territories, the policy itself is legislated. However, since requirements are different in each jurisdiction, the policies are also different although much of the same material is covered. It is important to know what the coverage is in your own province and where to find it since insureds are often covered when they don't know they are and, conversely, are not covered when they think they are. We will use actual policy wordings from several policies to illustrate the coverages in order to encourage an in-depth reading of the policy for your own province.

Type of Coverage (page 116-117)

There are several levels of coverage for automobile insurance, but they can be classified into two main categories: **compulsory coverage** and **optional coverage**.

1. Compulsory insurance coverage represents the minimum level of coverage the owner of a vehicle must retain in order to operate a vehicle. Compulsory coverage includes:
 - o Liability coverage to a third party
 - o Accident benefits coverage if an injury results to an individual involved in an accident
 - o Uninsured automobile coverage if an injury or damage is caused by an uninsured vehicle
 - o Direct Compensation-Property Damage
2. Optional insurance coverage represents the additional level of coverage the owner of a vehicle can purchase above the compulsory level which is not required by law. Optional coverage includes:
 - o Additional accident benefits coverage
 - o Additional liability benefits coverage
 - o Additional loss and theft coverage

Overview of All Policies (page 117-120)

All provinces and territories have a standard auto policy for their jurisdictions.

There are six standard policies called **Standard Policy Form (SPF) No. x**:

- SPF No. **1 Automobile Policy** for owners of automobiles.
- SPF No. **2 Drivers Automobile Policy** provides additional liability coverage for people who drive vehicles they don't own and do not have their own insurance that could extend to another vehicle. This can include limousine drivers and taxi drivers. It is not required in Ontario and Quebec where coverage is provided in their version of SPF No. 1.
- SPF No. **4 Garage Policy** for owned, non-owned and customer's automobiles.
- SPF No. **6 Non-owned Automobile** provides coverage for damage to a vehicle for drivers who do not own the auto but who have the auto in their care and have agreed to be responsible for any damage for which they may be found legally liable. This would apply to a rented vehicle but not to a "temporary substitute vehicle" which is covered under SPF No. 1 (and is defined below).
- SPF No. **7 Excess Automobile Liability** in connection with No. 1, 2, 4 and 6 for drivers of rented or leased vehicles
- SPF No. **8 Lessors Contingent Automobile Policy** for businesses that lease vehicles long-term.

Many of the Provinces and Territories use SPF No. 1 except government plans and jurisdictions that have developed their own plan.

Certificate of Automobile Insurance/Declarations (page 120)

Introduction to the Auto Policy

Who is Covered

When Not Covered

Cancelling Your Insurance

What Automobiles Are Covered?

Third Party Liability (126)

Right of Subrogation

Limitations on Your Third Party Liability Coverage

Accident Benefits Coverage (128)

Mandatory Accident Benefits

Uninsured and Unidentified Motorist/Driver/Automobile Coverage

(page 131-135)

Direct Compensation – Property Damage Coverage (135)

Optional Property Loss or Damage Coverage (137-140)

Statutory Conditions

