AmTrust North America
An AmTrust Financial Company

HNOA: Hired Nonowned Automobile Exposure Guidelines and Controls

HNOA is the use of a vehicle not owned by an insured, but used by an employee on behalf of the insured. Examples of hired and nonowned auto exposures include, but are not limited to, the use of personal autos by employees on behalf of their employers and the use of rental of vehicles.

Necessity of Exposure

It may be necessary to transport employees, clients, materials and guests. Liability generally resides with the owner of the vehicle. Therefore, two questions should be asked: Is it necessary to use a vehicle and, which vehicle presents the least liability exposure for the risk? The insured's limits for hired and nonowned auto liability should be in excess of the limits for an owned automobile.

It is incumbent upon risks who allow employees to use personal vehicles to make sure this insurance is in place and carried in sufficient limits.

Driver Selection

Regardless of which vehicle is selected for use, the driver ultimately controls the outcome of the trip. Drivers, like airline pilots, have "instant accountability." But unlike pilots, employee drivers may be the least trained and lowest paid. It is incumbent upon management to select and assign the best drivers possible, just as management selects and assigns the best staff for all other duties.

Company Vehicles

A company owned vehicle is generally preferred to an employee owned vehicle because the model of the company vehicle is typically more appropriate for the trip. In addition, a company vehicle's maintenance record and condition are known.

Use of Employee Owned Vehicles for Employee Transportation

It may be a matter of practicality for employees to use their own vehicles in the course of company business. It may be impractical for a company to provide as many vehicles as there are employee drivers or scheduled trips. In such cases, the company may benefit from the practice of employees using their own vehicles. Furthermore, the trip outcome is more likely to be favorable, as employees presumably know their own vehicles better than they know company vehicles.

However, while the liability continues to travel with the vehicle and the responsibility lies with the driver, the company automatically shares in both, as the driver is traveling on behalf of and for the benefit of the company.

Use of Employee Owned Vehicles for Client Transportation

Of all the inherent exposures associated with vehicle usage, this is the most severe because clients under the company's care are exposed to auto accidents in a vehicle maintained, controlled and operated by an employee. Effective risk management is crucial to help limit the company's liability. In order to control hired and nonowned auto exposure, the company should require and confirm the vehicle of the employee or a volunteer is fully insured and the company is listed as an additional insured on the vehicle's liability policy. "Fully insured" is taken to mean purchase of coverage beyond the State minimum (in Illinois, for example, $20,000 bodily injury/$40,000 uninsured motorist/$15,000 property damage).

It is suggested limits in excess of the State minimum be carried when employees use their own vehicles for business. If they are transporting clients, then higher minimum limits should be carried (in Illinois, for example, $100,000/$300,000 bodily injury). Liability insurance can be purchased in monthly, quarterly or, more commonly, six-month policies. All such policies may lapse for nonpayment. The agency should arrange to be advised by the insurance company should coverage lapse. In addition, it is absolutely necessary for the employer to monitor the effective dates of employee owned vehicle liability policies.

A simple procedure will help agencies monitor this coverage. Make a photocopy of each employee's identification card for personal automobile liability insurance. (Most states require this card be carried in the vehicle.) File it in a master folder divided into slots for the months of the year. Keep the photocopy in the month the policy expires. At the beginning of each month, check the master folder to learn which policies are about to expire and request the employee present a new insurance identification card.

Additional insured status can be achieved by making a request directly to the employee or contacting the employee's insurance agent in writing.

Companies are encouraged to compile a list of approved drivers who are screened, trained and, perhaps, even tested. A policy for driver approval may include these steps:

1. Create a list of approved drivers. Only these drivers may operate a company vehicle or drive their own vehicle on company business.
2. Update the list on a regular basis by department. (Twice yearly is recommended.)
3. Institute age requirements. Approved drivers should be at least 21. If the vehicle is a van, the driver should be at least 25.
4. Obtain a motor vehicle report (MVR) on each driver and update it annually. Each MVR should be graded according to a point system so there are defined acceptability guidelines for the agency.
5. Obtain a copy of each driver's insurance card (if an employee drives his own vehicle for business) and maintain it in his personnel file. This requirement also applies to volunteers.

HNOA can represent a significant exposure for a company. It is essential to put controls in place that minimize any possible negative outcome. Having a good risk management procedure will help minimize agency exposure.

For additional information and resources on this topic and other safety and risk management subjects be sure to visit the Loss Control section on our website:

https://www.amtrustgroup.com/small-business-insurance/claims/prevention

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