

Registering and insuring a car you don't own

I know people who have insured another person's car. Is it illegal to do this?

It is legal in New York to register and insure a vehicle in a name other than the name on the title. Although it is legal, it is not necessarily a prudent thing to do. Insurance problems can occur under circumstances where no legitimate reason exists to insure a vehicle owned by someone else. An insurer may refuse to pay a comprehensive or collision claim under such circumstances.



What would be a legitimate reason?

A legitimate reason would require that the registrant/insured have some insurable interest in the vehicle. In other words, the insured must have a legal interest in the vehicle which exposes the insured to financial harm. An example would be a lease. A lease is a legal contract which normally creates an insurance obligation upon the person leasing the vehicle. The executor of an estate is another example of someone having a legal interest in a non owned vehicle. The law of bailments also creates a legal liability resulting in an insurable interest.

Why would an insurer refuse to pay a claim?

The principle of indemnity, which is fundamental to insurance transactions, permits a person to benefit from a policy only to the extent that the person has sustained a loss. If the insured named on the policy has no exposure to financial harm, then there is no basis to make a claim payment. In order to receive a claim payment under an auto policy, a person must be an insured and have an insurable interest at the time of the loss.

What is not considered a legitimate reason?

Many of the requests to insure a vehicle in someone else's name are induced by fraud. The owner may have accidents or traffic violations which will impact his or her insurance premium. Consequently, the owner engages another person to register and insure the vehicle, so that the insurance company is blinded to the true nature of the risk.

Fraud is not necessarily involved in all situations. Thinking that they can benefit from the freedom to register a vehicle in the name of someone other than the owner, parents are motivated to help their children obtain a rate advantage by adding a child's vehicle to their policy. However, that advantage often just delays or reduces the chances of a claim payment when a loss occurs.

In legitimate situations, how can the interest of the owner be protected?

Anyone who has an interest in a vehicle in addition to the insured named on the policy should be designated under some type of Loss Payable Clause endorsement, which can be attached to the typical auto policy. This gives the designated person or entity certain rights to claims payable under the policy. Otherwise, the insured could cash the check and leave the owner out in the cold.

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