

Illinois Supreme Court Holds That UIM Coverage Must Be Extended to Occupants of Covered Autos

Insurance Coverage Alert

Insights for Insurers Alert | 2 min read

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The Supreme Court of Illinois earlier this year considered whether “Illinois law permits insurers to issue motor vehicle liability policies in which occupants of a covered vehicle are afforded uninsured motorist (UM) coverage but excluded from underinsured (UIM) coverage.” *Schultz v. Ill. Farmers Insurance Company*, 930 N.E.2d 943, 945 (Ill. 2010). The combined action involved motor vehicle liability policies containing provisions that attempted to eliminate UIM coverage for occupants in a vehicle by defining “insureds” more narrowly under the policies’ UIM provisions than they did for purposes of liability and UM coverage. For purposes of UM coverage, the policy defined an “insured person” as the person to whom the policy was issued, a family member, or “[a]ny other person while occupying the car described in the policy.” However, for UIM coverage, the definition of “insured person” omitted occupants of the car.

The Supreme Court first examined the Illinois statutory requirement that automobile insurance policies must insure not only the persons named in the policy, but also “any other person using or responsible for the use” of the subject vehicle with the insured’s express or implied permission. The court interpreted the word “use” within the statute to extend to permissive passengers as well as permissive drivers. It then recognized that under Illinois law, a motor vehicle liability policy must include UM coverage, and that such coverage must extend to any person who qualifies as an insured under the policy’s liability provisions. When a policy provides UM coverage in excess of the statutory minimums required for liability coverage, it must also provide UIM coverage equal to the UM limit and extend that coverage to anyone insured under the policy’s liability provisions.

The high court concluded that “[o]nce a person qualifies as an insured for purposes of the policy’s bodily injury liability provisions, he or she must be treated as an insured for UM and UIM purposes as well.” Thus, the insurer was not permitted to exclude occupants of insured vehicles from UIM coverage.

Practice Note

When the limit of liability coverage in an auto policy exceeds the statutory minimums, insurance companies are prohibited from directly or indirectly denying UIM coverage to someone who qualifies as an insured under the policy's liability coverage part.

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