

The Consumer's Independent Guide to AUTO INSURANCE

When the first U.S. automobile insurance policy was purchased in 1898, there were barely 100 cars nationwide. Horses and carriages ruled the roads and the main concern for both insurers and auto drivers was any injury those noisy new machines might do to horses.

Today, a motor vehicle accident occurs every second. Auto accidents cause an injury every 14 seconds, and every 13 minutes a car accident results in a fatality. More than 31 million accidents occur annually at a cost of more than \$100 billion. Theft and vandalism are other major perils, with a vehicle being stolen every 20 seconds.

With more than 150 million drivers and registered vehicles on the road today, auto insurance is the most widely purchased of all property-casualty insurance, yet few drivers are familiar with the details of their particular policy.

Trusted Choice[®] agents want to make it easier for you to know your insurance needs and the many options available to you. Though this guide does not represent the provisions of any particular policy, it should serve as a starting point on your road to finding the best policy for your needs.

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Why do I need auto insurance?

Your car is likely one of the most expensive things you own. Insurance protects your investment and guarantees you a way of coping with the expense of accidents, vandalism or theft. It also secures your financial responsibility to the institution lending you money to buy your vehicle.

When you drive you are responsible for the safety of your passengers, your fellow drivers, other people's property, pedestrians and yourself. Insurance helps ensure your ability to cover the costs of potential damages or injuries.

You are also required to be financially responsible by state laws, which are best satisfied through your insurance coverage. In most states insurance is a prerequisite to registering your car. So if you want to drive your own vehicle, you must be insured.

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What are the different types of policies and what do they cover?

Auto insurance is divided into several types of coverage:

- **Liability** covers damage you cause to other people's property and injuries to the people themselves.
- **Collision** covers damage to your own vehicle in an accident.
- **Comprehensive** covers losses other than collision, such as fire damage to your vehicle, break-ins, vandalism or theft, as well as natural disasters (earthquake, hail, hurricane, flood, etc.).
- **Medical payments** insurance, usually in the range of \$1,000 to \$5,000, covers medical expenses for injuries. This "good-faith" coverage guarantees immediate medical payments for you, and your passengers, regardless of who is at fault. It also covers you and members of your household as pedestrians if struck by an automobile.
- **Uninsured motorist (UM) and underinsured motorist (UIM)** coverage protects you if you are injured in an accident caused by others who carry insufficient or no liability insurance.
- **Extra coverages** include expenses for towing, labor, "no-fault" coverage, etc. These are generally provided as add-ons or "endorsements" to your policy.

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Why and how are policies priced for different drivers?

Drivers are grouped according to the level of risk each one poses—i.e., the amount of loss incurred by insurers within categories of policyholders. For various reasons, where permitted by law, drivers are often categorized by:

- **Sex**—Men have more accidents on the road than women.
- **Age**—Drivers under 25 (and, for some insurers, under 30) are considered at higher risk of having an accident.
- **Marital Status**—Married drivers tend to have fewer accidents than single drivers.
- **Personal Driving Record**—Years of driving experience, accidents, speeding tickets and drunk-driving offenses are all factors in determining how much of a risk you pose as a motorist.
- **How You Use Your Vehicle**—If you commute by car during rush hours, you're at greater risk of having an accident than if you only drive for errands and recreation on the weekends. Drivers who use their own vehicles for business also are considered to be at greater risk.
- **Type of Vehicle**—The value, size, weight, age of your vehicle, even the cost of replacement parts, are essential to determining the price of your insurance. The cost of your insurance policy is largely based on the average cost of covering actual losses, spread out over your particular "rating group" as a whole. Of course, you may rarely have an accident or have your car stolen, and therefore will rarely need to be compensated. But others in your category may not be so

lucky. Your premium will help to pay for their losses, just as their premiums would help to pay for yours.

For example, if you are a 23-year-old man and you park your new sports car on a downtown street in a large city, you will likely pay more for insurance than a 37-year-old woman who parks her four-wheel-drive in the suburbs, simply because, based on average losses, you have a greater chance of having an accident or being the victim of auto theft.

How does where I live affect my premium?

Where you live (or, more precisely, where you keep your car) has a bearing on your chances of having an accident or becoming a victim of theft or vandalism. That's why, all other things being equal, a vehicle owner in Brooklyn, New York, may pay a higher rate than the owner of an identical vehicle in Casper, Wyoming.

Other factors affecting regional insurance rates include time and efficiency of police response and law enforcement, local road and traffic conditions and the quality of local medical services. Insurers even factor in the litigation rates in a given area, that is, how many lawsuits are filed, go to trial, are settled out of court and for how much.

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Why are rates different for different cars, even if the cars cost the same?

Vehicles are also grouped into categories according to their likelihood of being damaged, vandalized or stolen. Insurers generally consider the size and type of vehicle, as well as the value and the cost of repairs (which can vary greatly, even on vehicles that cost roughly the same). Thus, a new station wagon may be expected to hold up better in an accident than a sports car or a subcompact.

Putting insurance aside, safety is key when buying an automobile. Your life depends on it! Some cars are considered safer than others because of their performance record in safety tests and real accidents.

That's why you should research insurance coverage before you buy your car. It helps you to understand the actual cost and indicates those vehicles with good safety records. Your insurer will ultimately reward you for putting safety first.

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What is "no-fault" insurance?

No-fault insurance is a system adopted in some states that essentially bypasses the conventional legal procedure which finds fault in many accidents. (This is the procedure by which you hire a lawyer, file suit and possibly go to court to prove the accident was the other guy's fault.) No-fault simply does away with the concept of one party or the other being at fault. There are no lawyers, no court, no judge, no jury, no lengthy lawsuits against the other party. This is considered beneficial to taxpayers, because it eliminates costly legal proceedings that the state must manage, and to insurance policyholders, because it helps keep rates down.

If you are insured in a no-fault state and have an accident, in many instances you don't go after the other driver. You contact your own insurer and file a claim. Your own insurance policy compensates you for damages, medical expenses, lost wages, etc.

The type and range of no-fault coverage varies from state to state. What defines the limitations of no-fault policies can differ in two critical areas:

- **Threshold**—The type or cost of damage/injury that triggers the need for legal action.
- **Mandated Benefit Level**—The package of benefits (medical, wage loss, replacement services and other expenses) your state requires you to carry.

The details of no-fault insurance can be complicated. Contact your agent or your state's insurance department for further information.

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Do all states require some kind of liability insurance?

No. Some states, while not mandating auto insurance, have "financial responsibility laws" that require all drivers to be able to pay for any damage or injury they may cause. However, carrying liability insurance is still the best way for you to meet your state's financial responsibility requirements.

UM and UIM policies are offered by law in all states, including no-fault states. In fact, some states require all motorists to carry this coverage to gain protection from inadequate insurance coverage of other drivers.

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What happens if I have an accident with an uninsured driver?

First, call the police to the scene to be sure all pertinent information is properly recorded. Your nerves will be shaken right after an accident, and it helps to have a calm and knowledgeable person walking you through the necessary details.

Then, contact your agent immediately and ask about filing a claim. If you followed all the recommended guidelines when you bought your policy, you should be covered within the limitations of that policy. Remember, your insurance policy is designed to protect you.

If the cost of your damages or injuries exceed the amount your policy will pay out, it may be time to take legal action against the other party. Even if you have no-fault insurance, sometimes the only way to be compensated is to place blame and responsibility where it belongs.

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Why would my insurer cancel or not renew my policy?

Technically, in most states your insurer can cancel your policy only if:

- you fail to pay your premium;
- a driver loses his or her driver's license;

- you are guilty of material misrepresentation during the application process (e.g., you fail to notify your insurer of a recorded violation such as a drunk-driving offense)

However, your insurer can choose not to renew your policy for a variety of reasons, from driving citations to poor driving experience.

Where do you live? Has the neighborhood changed in the last few years? Have the accident or crime rates risen noticeably? As regions are reassessed periodically, their status could change and you could suddenly find yourself living in a high-risk area where your insurer's rates may not be adequate to cover losses.

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What do I do if my insurer cancels or refuses to renew my policy?

Even "good" drivers can be dropped by their carrier. Reasons range from a "drinking while driving" violation or other serious violations (that make you a high risk) to situations outside your control, such as when insurers in your state are suffering severe business losses. Overall rises in claims or losses can cause insurers to become highly selective in determining whom they can afford to insure.

If you are licensed to drive, by law, you are probably eligible for insurance. However, your options for new coverage may be limited. Each state has created and regulates a market of last resort for those who cannot otherwise obtain coverage. These groups have various names, depending on the state you live in, such as "assigned risk" plans or the "residual market." Your independent agent will know more about the particulars in your state.

Regardless of the reason you were dropped, you need to act immediately to get a policy. Under no circumstance should you drive your vehicle without insurance. Call your agent to help you find new coverage. If you do find yourself in the residual market, the price may be higher but it may be your only alternative in maintaining your freedom to drive.

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How do I keep my insurance company from canceling my policy?

The most obvious way to maintain your low-risk status is to keep a clean driving record. If you've been in an accident, consider taking a defensive driving course. Even those of us who have been driving for years rarely know the simple tricks to preventing accidents through defensive driving.

Also, look into purchasing special safety and security features for your car, such as anti-lock brakes and an alarm system. Your insurance agent can give you further tips on how to convince your insurer you're a safe driver.

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What steps can I take to reduce my rates?

Insurers often discount their rates for good drivers and those who take safety and security precautions. Depending on the insurer, you can often lower your rates from 5 to 35 percent.

Sometimes the investment you make in your vehicle is worth the discount, and sometimes it's simply worth some peace of mind. For example, the purchase of anti-lock brakes merits a discount from nearly every insurer, but the discount probably will not pay for the brakes during the normal life of your vehicle.

Insurers generally offer discounts for:

- **Safety Features**—Anti-lock brakes, air bags and passive restraint systems (i.e., automatic seat belts).
- **Defensive Driving**—Clean violation record, driver's education courses for teenagers and defensive driving or accident prevention courses for adults (insurance discounts for the latter are required in some states).
- **Security Systems**—Alarms, electronic locks and disabling devices.
- **Changing Driving Habits**—Commuting by public transit, using a company vehicle for work-related travel and car-pooling.
- **Formal Agreements Not to Drink and Drive**—The availability of a discount for signing such an agreement varies among insurers and states.
- **Buying Homeowners and Auto Policies from the Same Company**—If you own a home and an automobile and you are insured by two different companies, check into the cost of carrying both policies by one insurer. Your agent can give you guidance as to which insurers offer discounts.

You can also lower your insurance rates by requesting higher deductibles (the amount of money you pay before you make a claim). Increasing your deductibles on collision and comprehensive coverage from \$100 to \$250, or even \$500, will bring your rates down. Moreover, you may not need collision and comprehensive coverage if you drive an older car. Ask your agent which discounts are available to you.

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How does adding drivers to my policy affect my rates?

The more people you allow to drive your vehicle on a regular basis, the greater the chances of your vehicle being in an accident. Teenagers are especially expensive to insure because they are the least experienced drivers.

A driver's education course can help ease the burden of insurance costs since it teaches your teenager defensive driving techniques. If your child's high school does not offer driver's education, try to find one offered by another school or a private firm in the area. After all, the cost of driver's education could be cheaper than the extra cost of your insurance. (Many insurers offer "good student" discounts as well.)

An adult's driving experience can also affect your rates significantly. Don't assume that every adult you know has been driving since age 16 or is a competent driver with a clean record. Again, taking a defensive driving course is a good way for adults to prove they are responsible drivers, thus lowering their risk and their insurance rates. (This is a great solution for new couples who are jointly insured but unmatched in their driving skills or experience.)

Who's watching the insurance companies?

With few exceptions, your insurance company does not set its own rates. It requests the right to charge appropriate rates from your state's insurance department, which responds with legal approval and authorization, provided the requested rates are fair.

Every state has some sort of department, administration or agency that regulates and monitors every insurer operating within the state's borders. In addition to approving rates, your state's insurance department is involved in all insurance matters on behalf of private citizens and businesses. It also issues operating licenses to insurance companies and agents, based on their ability to meet the state's requirements for conduct and knowledge about insurance issues.

Your insurance company works closely with your state's insurance department to make sure you are getting the best and fairest possible service within the state's guidelines. Contact your state's insurance department if you wish to know more about how it serves your interests.

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Do I always need to buy insurance when I rent a car? Am I not covered by my own policy?

Most personal auto policies extend whatever coverage you have on your own vehicle to the rental vehicle if the rental vehicle is a private passenger car, pickup truck, van, or trailer. However, with regard to damage to the rental auto, the rental car company might be able to charge fees for losses or damages to the vehicle that are not covered by your insurance policy. Therefore, it is often a wise idea to purchase the rental company's "collision damage waiver." Be sure to check with your independent insurance agent on coverage prior to renting a vehicle.

If you do not have your own insurance, be aware that many car rental liability policies cover you, at best, only at the state's required minimum. Also, you should buy the collision and comprehensive coverage offered by the rental company for your own protection. Plus, do not buy a collision damage waiver (CDW) from the rental company assuming it is insurance. A CDW simply releases you from financial responsibility if you damage the vehicle you are renting, provided you comply with the terms of the rental contract. But those terms can vary considerably, and CDWs are not state-regulated, which means they are technically not insurance.

It's always a good idea to review your policy before renting a vehicle and, if necessary, contact your agent for clarification.

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What happens when I loan my car to someone? Is that person covered by my policy? Am I still covered?

Yes. Liability and coverage for physical damage (i.e., comprehensive and collision) follows your car. So, if a friend borrows your car and has an accident, you're still protected against the cost of damages or injuries. Plus, if the driver of your car is insured, his/her policy may also be available to cover the cost of damages and injuries.

The same rules apply when you borrow someone else's vehicle. Your own insurance follows you no matter whose car you are driving. But the vehicle owner's policy is the key coverage if you have an

accident.

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Am I covered for natural disasters or "Acts of God?"

Comprehensive insurance, which covers you for fire and theft, generally covers you against damage by flood, earthquake, hail and other natural perils. If you have special concerns about the safety of your vehicle in the face of Mother Nature's wrath, contact your agent for information on catastrophic coverage.

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What should I make sure my policy includes? Do I really need to read all the fine print?

While you don't need a law degree or an agent's license to understand your policy, you should read it thoroughly. After all, it is a binding legal contract. If there is anything you don't understand, ask your agent to explain it to you. You have the right to know what's in your policy.

If you wish clarification beyond your agent's explanation, or if you want to be certain that the policy is completely valid, contact your state's insurance department.

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How can I challenge my insurers if they refuse to cover a claim?

Usually, insurers that refuse to cover a claim have a strong legal reason for doing so—even if you disagree. First, contact your independent agent if you feel you are being treated unfairly because your independent agent is your strongest advocate in insurance matters. But if it is a legal problem, you may have to hire a lawyer.

Talk to your agent if you have a problem with your insurer, and talk to your state insurance department if you want more specific information on state regulations and legal precedents.

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What actually happens when I report an accident?

When you received your insurance policy, included should have been instructions on who to contact to report an accident. If you are unsure, call your agent as quickly as possible. While compensating you for auto repairs or medical expenses is easy and immediate, determining liability is more complicated. The adjuster will begin the settlement process, the length of which will depend on the cooperation of the other party.

The amount of compensation for your loss can vary according to the adjuster's analysis of the damage. You do not have to accept the first amount of money you are offered, if it is lower than the cost of your repair or recovery. While you may have to do some homework to prove your reported loss is valid, it's worth it to be certain your insurer lives up to the provisions of your policy.

Remember, negotiating with an adjuster is just business. Insurers simply want to settle claims fairly in light of possible fraud. While it is your insurer's responsibility to root out false claims, you pay the price in the end. In fact, you spend nearly a dime on every dollar of your premium to cover the false claims of others. So, try to keep an open mind when working with your adjuster to settle on a price that's fair to both you and your insurer.

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Do I need special insurance for a classic car?

You should always talk to your agent about coverage of rare and valuable property. Since a classic car usually cannot be replaced, you'll probably want ample compensation if it is lost. A classic car, because it is rare or unique, may indeed require a special insurance policy.

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Under what circumstance do I not need certain types of auto insurance?

While most drivers today are generally insured for collision and theft, this coverage may not be necessary for every vehicle.

Liability insurance, as mentioned earlier, is essential and in many states required. But if you drive a clunker—an older car that isn't worth much money—you may be able to do without collision insurance. If you have an accident, repair costs could easily be higher than the value of your vehicle, thus "totaling" it. This means your insurer will pay you the total book value of your vehicle, and that could be far less than the cost of your vehicle's repair. So, collision insurance may not cover your loss adequately.

Since it depends on special circumstances, ask your Trusted Choice[®] independent insurance agent for guidance.