Insurance Education

www.insurance-education.org

Auto Insurance

The Basics

A project of Consumer Action

Auto insurance protects you and others from losses involving your car. It would pay medical bills if you injured yourself or someone else in an accident. It might also repair your car if it were damaged, or replace it if it were stolen. And it could provide other types of protection, as well.

If you own and drive a car, it is important that you have the best auto insurance protection to protect your health and your car and to defend yourself from lawsuits and other legal actions.

This guide will help you determine how much and what kinds of coverage you need, and how to get the right protection at the best price.

What coverage do I need?

Most (49) states require drivers to have at least a minimum amount of auto insurance. When deciding what to buy, start by finding out what your state's requirements are. You can get this information from your state's insurance department (*www.naic.org/state_web_map.htm*), or from an insurance company doing business in your state.

Drivers who purchase only the minimum required coverage might not have adequate protection. You should consider adding coverage based on your assets and how much risk you are willing to take.

If you're financing your car (making payments on a car loan or lease), your lender may have additional insurance requirements.

Liability. This coverage pays for injury and damages to other parties when you cause an accident. All states except New Hampshire and Florida require some liability coverage.

When buying liability insurance, coverage limits are indicated by three numbers—50/100/25, for example. The first number indicates the maximum bodily injury liability, in thousands of dollars, for one person injured in an accident. The second number is the maximum bodily injury liability for all injuries in an accident. And the third number is the maximum property damage liability in an accident.

Especially if you own significant assets, such as a home or savings and investments, you should consider buying more than the state-required minimum coverage and making sure than your coverage is enough to protect your assets. Otherwise, if you are sued and lose the case, you might be forced to use your assets to cover damages not paid by your policy.

Personal injury protection (PIP). This coverage pays a per-person benefit for your and your passengers' medical bills resulting from an accident. In some cases, it may also pay for lost wages, funeral expenses and other losses. The exact PIP benefits provided and limits required or allowed vary from state to state.

PIP is commonly referred to as "no-fault" coverage because it pays for bodily injury claims regardless of whose fault the accident is. This means that you would turn to your *own* insurance company for liability claims even if someone else caused the accident. Your ability to sue the other driver for additional damages above and beyond your PIP claim varies from state to state. Personal injury protection typically doesn't apply to vehicle damage—that claim would be covered by the party that caused the accident or by your own collision coverage.

There are a dozen or so no-fault states, where PIP is required coverage. Contact your state DMV or Department of Insurance (*www.naic.org/state_web_map.htm*) to find out if your state is one of them. In the other states, PIP coverage, if available, is optional. Learn more about PIP in general at *www.all-about-car-accidents.com/resources/auto-accident/car-accident-claims/no-fault-car-insu*, and learn about state-specific insurance laws at *www.all-about-car-accidents.com/topics/drivers-insurance-laws-regulations*.

Medical payments. Like PIP, this coverage pays your and your passengers' medical expenses, up to a predetermined limit, regardless of who was at fault in the accident. However, it does not cover other losses, such as lost wages or funeral expenses, the way PIP does.

Property damage liability. This coverage pays for damage you cause to someone else's property with your car. That could mean damage you cause to the other person's car in an accident. Or it could mean, for example, damage you cause to your neighbor's fence with your car.

Collision. This coverage pays for damage to your car resulting from an accident. When you purchase collision coverage, you will be asked to choose the amount of your deductible—the amount you will have to pay to repair any damage before the insurance kicks in. Standard deductible amounts are $250, $500 and $1,000, though the deductible you choose could be higher or lower. The higher your deductible, the lower your premium (the cost of the insurance).

Comprehensive. This coverage reimburses you if your car is stolen or if it is damaged by something other than an accident—flood or vandalism, for example. Like collision coverage, comprehensive coverage is sold with a deductible.

Uninsured and underinsured motorist. This coverage kicks in if an uninsured, underinsured or hit-and-run driver hits your car.

Commercial (business) auto insurance. Commercial auto policies cover losses incurred in the course of conducting your business. They have higher liability limits and can include coverage for when your employees use their cars for company business.

Not all small business owners need commercial auto insurance. Depending on the type of use (driving to appointments occasionally vs. daily pizza delivery), who uses the car (just you, or employees or contractors, too) and other factors, you might only need a personal auto policy. But requirements and terms can vary from insurer to insurer, between states and even among products within the same insurance company.

Since a single uncovered accident could result in a financially devastating judgment against you, your smartest move is to let your insurance agent know how and when you plan to use your car for business so that he or she can advise you. Also ask about coverage if employees or independent contractors will be driving their own cars on your behalf.

Where can I buy auto insurance?

You can purchase auto insurance through any of these businesses:

- Independent brokers, who sell policies for more than one insurance company;
- Insurance company agents, who sell policies only for the company that employs them;
- Insurance companies that sell directly to consumers by phone or via the Internet; and
- Independent websites that provide quotes from a number

of insurers. (Do an online search for "auto insurance quotes.") ***Caution: Websites may not include all insurers in their comparisons.***

Auto insurance premiums can vary significantly from one source to another, so it pays to shop around.

What determines how much I'll pay for auto insurance?

When you purchase insurance, you pay a "premium"—this is the price of the policy. The price may be quoted as an annual premium, a semi-annual premium or a monthly premium. When comparing policies, be sure you are comparing premiums for the same period.

Auto insurance companies consider many factors when calculating your premium. These include:

Coverage. Buying more types of coverage or higher amounts of coverage will increase your premium.

Deductible. The higher your deductible, the lower your premium.

Driving record. Someone with a good driving record will pay a lower premium for the same coverage than someone with a history of accidents or tickets.

Car type. You will pay a higher premium if your car is a type that is statistically more likely to be stolen, vandalized or involved in an accident, or if it is more expensive to repair.

Age and gender. Drivers younger than 25 are statistically more likely to get into an accident, so they pay higher premiums than older drivers for the same coverage. Men typically pay higher rates than women.

Marital status. Being married reduces your premiums.

Address. A city-dweller typically pays a higher premium than someone who lives in a rural area, and may pay more than suburbanites, too. Living in a neighborhood with a higher crime rate may also increase the cost of insurance.

Miles driven. Since the more time you spend on the road, the greater your opportunity to get into an accident, premiums go up along with the number of miles driven.

Credit score. In all states except California, Hawaii and Massachusetts, drivers with higher credit scores will pay lower premiums.

How does my credit score factor into my insurance premium?

Many insurance companies use “credit-based” insurance scores to determine premiums (except in CA, HI and MA) because some studies have shown there is a correlation between credit score and risk—the higher the credit score, the lower the likelihood of an accident. (The studies do not prove that a low credit score will

Usage-based insurance

Many major insurance companies are now offering drivers the option of having their driving monitored in exchange for the possibility of lower premiums. Usage-based insurance programs—sometimes referred to as “pay as you drive” or “pay as you go”—require that you plug a “telematics” device into your vehicle’s computer so that it can gather data about such things as how often you brake hard, how fast you drive, how many miles you go and the times of day you travel (the very early morning hours are generally considered riskiest). Some of the devices (typically those that are also used as part of a roadside assistance program) use GPS, so they are monitoring where you drive, as well. Depending on your driving habits, you might qualify for a reduced premium. Concerns have been raised as to whether this violates the privacy of the insured.

Not every company offers usage-based insurance programs, and those that do offer them don’t necessarily do it in every state. Also, each insurer’s program differs, so ask the company for details—how long the device stays on the car, what is being tracked, whether your premium could go up, and if the company sells the data to anyone else.

In California, you can opt to have your premium tied to the verified number of miles you drive each year. Self-reporting of mileage is permitted; California law prohibits insurers from requiring the use of a device that tracks drivers.

increase the likelihood of an accident.)

Credit-based insurance scores are based on the information in your credit report, but they don't factor in your job or income history or certain other personal information. Factors that would increase your insurance score are a long credit history and open accounts in good standing (no late payments or past-due accounts). On the other hand, collection accounts, high debt, a short credit history and late payments all would lower your insurance score.

The Fair Credit Reporting Act (FCRA) gives you the right to obtain one credit report for free from each of the three major credit bureaus (Equifax, Experian and TransUnion) every 12 months. Request your report at AnnualCreditReport.com (*www.annualcreditreport.com*). Follow the instructions that come with the reports to correct any errors or request that outdated derogatory (negative) information be removed. This could increase your credit score and, therefore, your insurance score, and ultimately reduce your premiums.

The FCRA also gives you the right to obtain at no charge, once a year or whenever an "adverse action" has been taken against you, the other "specialty" consumer reports that insurance companies use to determine whether to sell you coverage and how much to charge for it. The LexisNexis C.L.U.E. auto report (*https://personalreports.lexisnexis.com/fact_act_claims_bundle/landing.jsp*) lists your past auto insurance coverage and claims. The Insurance Information Exchange report (*www.iix.com/reports_consumers.htm*) lists traffic violations and other motor vehicle records. Correcting errors in these reports could help you obtain insurance or pay a lower premium.

How can I reduce my premiums?

The goal when shopping for auto insurance is to buy adequate coverage without overspending. When trying to save money, don't cut coverage you need. Instead, try these strategies:

Shop around. Get at least three price quotes for the same type of coverage. Find out if your state insurance department provides comparative pricing information.

Choose your vehicle carefully. Some cars are much less expensive to insure than others. You can get information about the cost to insure specific vehicles from an insurer or from the

Insurance Institute for Highway Safety (*www.iihs.org*).

Increase your deductible. But be sure you have enough in savings to pay the deductible if you have a claim.

Cancel your collision and comprehensive coverage. If you drive a car that is old or in bad shape, consider dropping the coverage that repairs or replaces it. Be aware that this means you would have to repair or replace your car out of your own pocket.

Buy all your insurance through one company. Many insurers give a multi-policy discount to customers who insure more than one car with them or who also insure their home.

Improve your credit record. Correct any errors that are damaging your credit score. Pay your bills on time and keep your debt relatively low.

Drive less. Driving fewer miles each year could reduce your premium. You'll save money on gas and maintenance, too.

Ask your insurer for other ways to reduce your premium.

How do I choose an insurer?

Don't choose an auto insurance policy based on price alone. It's just as important that the insurer you choose is financially stable and has an excellent record of customer service, including the processing of claims.

You can check the financial health of any insurance company you are considering by referring to one of the independent rating agencies. A.M. Best (*www.ambest.com*) and Standard & Poor's (*www.standardandpoors.com*) are two such agencies.

Contact your state insurance department to check consumer complaint statistics. You can also check J.D. Power and Associates' consumer satisfaction surveys (*www.jdpower.com*).

How do I buy a policy?

Be prepared to provide a copy of your driver's license and car registration, and all other information the insurer requires. This typically includes car make and model, year, vehicle identification number (VIN), odometer reading (miles), home address, the individuals who will be driving the vehicle, and how many miles

Californians benefit from strong insurance laws

The Consumer Federation of America (CFA), in its 2013 report *What Works* (*www.consumerfed.org/pdfs/whatworks-report_nov2013_hunter-feltner-heller.pdf*), dubbed California's auto insurance industry the most consumer-friendly in the U.S. That same report revealed that California is the only state where the average cost of auto insurance has *decreased* since 1989. That's largely because Proposition 103, passed in 1988, requires insurers to justify rate increases and have them approved by the state insurance commissioner.

Prop. 103 also changed the way insurers set their rates, requiring that they be based primarily on the customer's driving record, miles driven per year and length of driving experience rather than on the customer's ZIP code or other factors (credit score, employment, education, etc.). And it requires companies to insure any good driver who wants a policy—some states allow insurers to reject applicants if they don't meet their credit score or address requirements—and offer good drivers a 20 percent discount.

Low-income Californians who might not otherwise be able to afford auto insurance can protect themselves through the Low Cost Automobile Insurance Program (*www.mylowcostauto.com*). Coverage meets the state's minimum liability limits and is available to good drivers age 19 or older who are within the maximum income limits and do not drive an expensive car. By law, California insurance agents must tell customers about the Low Cost Program if they request a "basic" or "minimum" auto insurance policy.

you drive each year. Answer all questions truthfully. Providing false information can be cause for an insurer to refuse to pay your claim.

Be prepared to make at least the minimum required payment to establish the policy. Before paying for the policy, read it. Understand what is covered and what is excluded.

How do I file a claim?

Contact your insurance company as soon as possible after an accident or other loss (personal or property) involving your vehicle. You can find your insurer's contact information on your "proof of insurance" card, in your policy documents or online.

Be prepared to provide information about the loss, including the contact information for anyone else involved. If an accident involved another car, get that driver's and/or vehicle owner's insurance information. It's important to try to remember as much as possible about the incident. If you have a camera with you, take photos. Never admit fault at the scene of the accident.

Your insurance company will interview you about the incident and, in many cases, inspect the damage to your vehicle. If you are at fault, it will decide if the loss is covered by your policy. If so, it will pay your and others' related claims, less your deductible. If someone else is at fault, it is that party's insurance that would cover your losses (unless you live in a no-fault state). The other driver's insurance may challenge your claim. If so, that company will probably interview you, too. If the two insurance companies disagree as to who was at fault, your claim may go to arbitration. If the other driver is uninsured, and you have uninsured motorist coverage, your insurance would cover your claim.

If your insurer denies your claim or pays you an unsatisfactory amount to cover your damages and you do not agree with its decision, you can request a reconsideration of your claim (file an appeal). It is important to understand why your claim was denied so that you can formulate an effective case for why you think the decision was unjustified. If the insurance company still denies your claim or will not increase the settlement amount, you may want to hire an attorney who specializes in insurance claims. (United Policyholders offers advice (*http://uphelp.org/library/resource/hiring-attorney-insurance-claim*).) You can also contact your state's department of insurance for assistance (*www.naic.org/state_web_map.htm*).

What if I can't get coverage?

If you do not have a good driving record, you could have difficulty finding a company that will insure you. If this is the case, you may be able to get insurance through a special state program under which insurers must provide coverage to high-risk drivers assigned to them. You also may be able to get insurance through an insurance company that specializes in selling non-standard policies.

If you are a good driver but can't afford standard auto insurance premiums, you may qualify for a special program offered by some states, such as California, that make coverage available at reduced rates for low-income residents.

Driving without insurance could lead to a variety of penalties, including having your license suspended or your car impounded. If you have financed your car, your lender could repossess it (take it back) if you are not adequately insured. So, if you're having difficulty getting coverage for any reason, contact your state's insurance department for guidance.

Assistance and Information

Visit the National Association of Insurance Commissioners (*www.naic.org/state_web_map.htm*) to find contact information for your state's department of insurance, or check the state section of your telephone directory.

Your state's motor vehicle department may be able to provide you with the information you need. The California DMV website provides links to all the other states' sites (*https://www.dmv.ca.gov/portal/dmv/detail/vehindustry/otherdmvs*). You can also check the state section of your telephone directory.

The non-profit Insurance Information Institute (*www.iii.org/insurance-topics/auto-insurance*) provides consumer education on a wide range of insurance topics.

United Policyholders (*www.uphelp.org/*) is a non-profit consumer insurance education and advocacy organization providing online tips and guidance for insurance customers.

Learn more about auto and other types of insurance at *www.insurance-education.org*, Consumer Action's online insurance education center.

Consumer Action

www.consumer-action.org

Consumer advice and referral hotline

415-777-9635

Chinese, English and Spanish spoken

Submit your complaints online:

www.consumer-action.org/hotline/complaint_form/

Presente su queja (for Spanish speakers):

www.consumer-action.org/hotline/complaint_form_es/

Consumer Action's Insurance Education Project provides educational materials to consumers and training materials and curricula to community-based organizations (CBOs) nationwide. Visit our website at *www.insurance-education.org*.

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