



Top considerations prior to purchasing auto insurance

Auto insurance is broken out into various coverage categories.

- Liability/Property Damage
- Uninsured and underinsured
- Collision
- Comprehensive
- Medical Pay
- Rental or Travel expense
- New car replacement
- Accident forgiveness
- Life insurance

Each category has a risk factor, an actuarial history as well as a cost to the insurance carrier associated to that particular risk. A risk is defined as any component that creates a possibility for loss. For example, a drivers age, the type of vehicle, prior driving record, the area the vehicle is garaged etc. The reason a person purchases insurance is to transfer the risk of loss to a third party (the insurance company) for a fee (the premium). The chance of an incident occurring is the risk factor.

The actuarial factor is the history of all of a particular incident having occurred over a time span, and then averaged to create a predictable loss ratio. The cost to the insurance company is cost experiences for prior repairs, liability payouts for personal injury etc. The insurance companies have become very good at estimating future cost of doing business. It doesn't matter how much a claim cost (theoretically), the insurance company passes on higher cost to its policy holders through increases in premium. If they're cost rise, so do your premiums!

Liability and Property Damage:

This is a coverage that covers any person or property of persons other than the owner of the insurance policy. Liability is for those who get hurt in a car accident and property damage is for the damage the policy owner creates by fault of an accident to the other auto or a building etc.

These coverage's come in tandem amounts- i.e. 100/300/100; which stand for 100 thousand, 300 hundred thousand, 100 hundred thousand. The first 100 thousand is to pay for a claim on for any person hurt in a car accident when the policyholder is at fault. The 300 thousand dollar amount is to cover multiple people in the event of an accident cause by the policyholder. The second 100 thousand dollar amount will pay for any property

damage created at the fault of the policyholder. This includes damage to auto (other), buildings, trees, telephone posts, signs etc.

Uninsured and Underinsured:

This coverage protects the policy owner against loss that might occur if you are in a not at fault accident and the other party who is at fault does not have enough insurance. It is illegal in most states to drive without a driver license and auto insurance. It is not illegal to not be insured enough to cover losses. Underinsured/ uninsured coverage's are usually the same as liability coverage's and do not have a deductible as part of the claims settlement process.

Collision:

This is a coverage that pays for any damage done to the policyholders auto in the case of an at fault accident. It usually has a deductible of anywhere from \$100 to \$2500. The extent of this coverage varies between insurance companies. For example one company might offer this coverage only in the USA. While a competitive company might offer this coverage extended to Canada and Mexico, the variations are many, and it might be wise to have an agent discuss all of the available coverage's under the collision coverage. Many times when a premium is less, it is because the coverage is less.

Comprehensive:

Comprehensive coverage insures against losses incurred by the policyholder when something happens to their auto other than collision. For example, fire, theft, something falling on the auto, break in's, windshield among many others. The only exception in some states will be a deer hit. It is a type of collision but would be paid from the comprehensive sector of a policy. Once again this coverage varies from insurance companies. Comprehensive coverage also as a deductible 100 – 2500 generally associated with it.

Car Rental or Travel:

If you have an "at fault" accident and your auto is out of commission, this coverage will pay to rent a car for the time it takes to fix your car. Please note that this coverage varies between insurance companies, but also varies in premium depending on how much daily rental amount a policyholder is willing to accept. Additionally, the amount of days allowed for the rental is limited in many policies.

Even though your policy is for a limit of 30 days for example, some policies will only pay the amount of time the repair shop has estimated to repair your car.

Medical Pay:

Medical Pay pays when someone gets hurt and the treatment is not covered by his or her personal insurance. For example if a person is hurt because of an "at fault" accident and they have to go to a chiropractor, the Medical Pay portion of your policy would pay.

These coverage's listed above constitute the majority of all auto insurance policies. Additional coverage's such as:

New car replacement:

Will cover your auto if it is totaled in an accident, or stolen and not retrieved. The policy will purchase in some cases an auto one year newer than your old auto or in some cases a brand new auto. Please note that this coverage is an additional premium to the policy, and has a time limit. Many companies will not purchase the new car if the old auto is more than 2 years old.

Accident Forgiveness:

Insurance companies profit from less pay out of claims. The less they pay out the more profit they make. Normally a policyholder in many cases would receive a premium increase if they had an accident. The insurance company needs to make a profit. Accident forgiveness is a way that the insurance companies can collect premiums prior to the accident. This coverage is an additional premium fee on the policy and a marketing tool to sell insurance.

Price comparison:

Comparing prices for insurance policies is a great idea, unless you forget to consider the following:

Does the lower premium pricing have less coverage's? This is the most common mistake consumers make when purchasing insurance. Usually the insured will find out when it is too late (once a claim happens), that there is not sufficient coverage to pay the claim. Usually the appropriate coverage's is never much more than that "great price" from the competitor. One uncovered claim could cost hundreds or thousands of dollars that once divided out increase a yearly premium much more than the smaller additional premium to be insured properly.

Is the insurance company top rated? Each company is rated by "Standards & Poors" for their financial solvency. Just because you pay your premium, the insurance carrier does not have to pay. It is very uncommon but an insurance company is a business like any other and can go out of business.

What is the "breath" of the coverage's? For example a policy that offers a travel expense on top of car rental might have a couple of dollar increase in premium, but if you travel a lot, this would be a worthwhile coverage. It pays for unexpected expenses like hotel, and food, if you were to have an accident and have to stay overnight while your car is repaired. Some companies won't cover your cars if you hit your own car. Very expensive lack of coverage!!!!

Not all categories like collision or comprehensive has the same level of coverage. There are mandated state and federal limits, but many companies offer extended coverage's for those who need it and are willing to pay for it.

Be smart and talk to your agent about your travel habits such as yearly mileage, what type of traffic, what times of day you drive. Don't make the mistake of letting the agent you are shopping with quote your existing policy without a conversation. If your existing policy has errors, you will just carry them forward.

Be smart, talk to a seasoned agent, get educated on insurance and coverage, search for your "risk factors and don't make your decision primarily on price. It takes much more than 15 minutes to get insured properly. Don't cheat yourself!