

Auto Insurance FAQ

Why is auto insurance sometimes referred to as a packaged policy? What are the parts of the package?

Before the 1950's, if you wanted to purchase all the coverage today's auto insurance policy provides, you would have had to purchase at least four separate policies. Changes in the laws that regulate the sale of insurance now allow the insurance industry to sell policies that combine the separate parts into one all-encompassing policy. The main advantages of combining the parts are lower expenses, and therefore a lower cost to consumers, and the convenience of being able to purchase property, auto liability and other types of coverage in a single policy.

Part A of an auto policy is liability coverage that protects you from lawsuits arising from either negligent operation or ownership of a covered automobile. There are two types of coverage in Part A - bodily injury liability (BIL) and property damage liability (PDL).

1. BIL covers the bodily injury claims of people you negligently injure in an accident.
2. PDL covers any third party property damage claims the courts determine you must pay.

Part B provides medical payments to you and any other passengers in the car in an accident.

Part C provides uninsured motorist and underinsured motorist protection for the policy owner.

Both B and C are designed to compensate you when the negligent driver doesn't have enough liability insurance under his/her policy. Typically, Part C covers only bodily injury losses, but property damage losses are included in some states.

Part D covers damages to your car when it is involved in an accident.

I have an older car whose current market value is very low - do I really need to purchase automobile insurance?

Most states have enacted compulsory insurance laws that require drivers to have at least some auto liability insurance (Part A). These laws were enacted to ensure that victims of accidents are compensated when their losses are caused by someone else being negligent. Except for the minimum liability you may be required to buy, many people with older cars decide not to purchase physical damage coverage. Often, the cost of repairing an older car is greater than its value. In these cases, your insurer will usually just "total" the car and give you a check for the car's market value less the deductible. Many people forgo the Part D coverage because of the relatively low value of their autos.

Suppose I lend my car to a friend; is that covered under my auto insurance policy?

Whenever you knowingly loan your car to a friend or an associate, he or she will be covered under your policy. In fact, even if you don't give explicit permission each time a person borrows your car, someone is still covered under your policy as long as he or she had a reasonable belief that you would have given permission to borrow the car.

What does my auto insurance policy cover when I rent a car?

The answer to this question is not simple. In the not-too-distant past, most auto insurance policies would extend coverage to rental cars whenever you rented one. This is not quite true anymore. In most cases, your personal auto insurance policy will cover only vacation car rentals. Many insurance companies no longer extend personal auto insurance coverage for business travel. Find out what rental car coverage you have under your policy is by calling your insurance agent/company.

What is the difference between collision physical damage coverage and comprehensive physical damage coverage?

Both collision and comprehensive coverage are in Part D. Collision is defined as losses you incur when your

auto collides with another car or object. For example, if you hit a car in a parking lot, damages to your car will be paid under your collision coverage. Comprehensive covers most other direct physical damage losses. For example, damage to your car from a hailstorm will be covered under comprehensive coverage. It's important to know the differences between collision and comprehensive coverage to make an informed buying decision. Also keep in mind that your deductibles in these two categories are often different.

What should I do if I have an accident?

Your responsibilities after you have an accident are proscribed both by state law and by your insurance contract.

- Obviously, the first thing you should do is be sure everyone is all right and call an ambulance if needed.
- Second, for most accidents in most states, the police should be notified.
- Third, give the other driver(s) involved your name, address, telephone number, and the name of your insurance company and/or your insurance agent. Get this same information from the other driver(s).
- Fourth, as soon as possible, contact either your insurance agent or your insurance company to notify them that you have been in an accident.
- Finally, there are conditions in the insurance contract you must satisfy to receive compensation from your insurer. For example, you must cooperate with your insurer during any investigation during the claims settlement process. Not completing any of these actions can result in nonpayment by your insurance company for losses that otherwise would have been covered.

Why does the premium for my auto insurance go up if I have an accident or get a ticket?

Actuaries and statisticians who have studied the behavior of people involved in accidents have shown that people who have either had an accident or received a ticket recently are more likely to have another accident in the next couple of years than people whose recent driving record has been incident-free.

Insurance companies use this information not to punish people, but to charge them a premium that reflects their likelihood of having an accident. People who are more likely to have accidents should expect to pay higher premiums.

What factors affect the cost of my auto insurance?

The type of car you drive, what you use it for, your driving record, where you live and even your marital status can all affect how much your policy will cost. It's all based on numbers; for example, statistics show that married people have fewer and less costly accidents than single people.

What should I consider when buying auto insurance? Things you should consider when purchasing automobile insurance include:

- Decide how much liability coverage you want to carry. This is highly subjective. The liability levels you have on your other policies can serve as a guideline. Consult a financial professional if you need more advice.
- Determine which optional coverage you will need to feel protected. For example, do you want the optional physical damage coverage in Part D, or is the market value of your car too low to warrant purchasing them?
- Once you have decided what you want, you can now choose from which type of company you want to buy a policy.